

FY23 Expected to be better led by Mistral Solution acquisition

CMP: INR 164

Rating: Accumulate

Target Price: INR 194

Stock Info

BSE	532395
NSE	AXISCADES
Bloomberg	AXET IN
Reuters	AXIT.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR mn)	190
Mkt Cap (INR mn)	6,262
52w H/L (INR)	195/ 69
Avg Yearly Vol (in 000')	123

Shareholding Pattern %

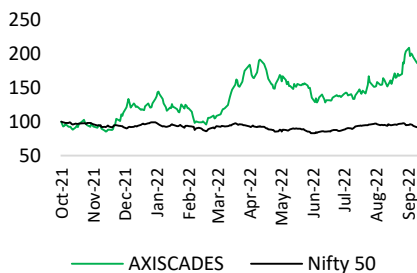
(As on June, 2022)

Promoters	66.53
Public & Others	33.47

Stock Performance (%) 3m 6m 12m

AxisCades	15.7	-6.15	-17.0
Nifty	21.2	34.7	24.8

AxisCades Vs Nifty



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AXISCADES is India's leading technology solutions company catering to the futuristic needs of aerospace (26% of revenue mix), defence aerospace (23% of revenue mix), heavy engineering aerospace (46% of revenue mix), automotive, energy, medical & healthcare devices (5% of revenue mix). The company owns 17 offices and operates mainly in India, Europe, and North America.

Investment Rationale:

- **Digital Transformation:** The company's aim is to Automation and productivity improvements with Embedded Electronics, Avionics and Digital. The company is working for a Heavy Engineering client, also working on Autonomous Vehicle Technology which contains a significant amount of embedded electronics. The company is witnessing increased activity and based on interactions with customers and available information, FY23 is expected to be better compared to FY22.
- **Sector Diversification:** Axiscades, believes that sector diversification helps to reduce dependence on any one vertical thus reducing seasonality as Present Skill sets of employees are transferrable to other sectors. So with this support, the company will focus on Product Lifecycle Management, which is similar across all industries. Onboarded Auto as a sector by leveraging Heavy Engineering capabilities. Onboarded one of the world's largest Energy tier 1 service companies.
- **Client Diversification:** The company's focus is on the work with marquee logos & the best in the industry with increased geographical presence, coverage and an Increase the number of strategic clients. AXISCADES has utilized its Design Authority credentials to make inroads into subsidiaries of an existing European client and is in the process of onboarding a new client in the defence sector.

Outlook & Valuation

AxisCades during the quarter added one of the world's largest Energy tier 1 service companies. Also during FY22, the company is focusing on the Mistral solution acquisition, which is expected to complete by November-December FY22. We believe, this acquisition of Mistral helps axiscades to be a significant player in the Defence Offset and digital technologies. The synergy between AXISCADES and Mistral offers both the parties, the impetus to create IP's, broadening service offerings leading to substantial business growth. This acquisition is EPS accretive. Management has guided for the Margin to reach 17.5%-18%. At CMP of INR 164, AXISCADES Engineering Technologies Ltd., is trading at FY24 P/E of 7.6x. **We value the stock on a P/E (x) multiple of 9x its FY24E earnings, which yields a target price of INR 194 per share. We upgrade our rating from reduce to an Accumulate on the stock.**

Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
Revenues	5,238	6,103	7,320	8,561
EBITDA	640	706	1,025	1,370
EBITDA Margin	12.2%	11.6%	14.0%	16.0%
PAT	-212	227	539	822
EPS	-5.5	5.9	14.1	21.6
ROE	-7.0%	6.7%	7.5%	7.5%
PE	-29.9	27.9	11.6	7.6

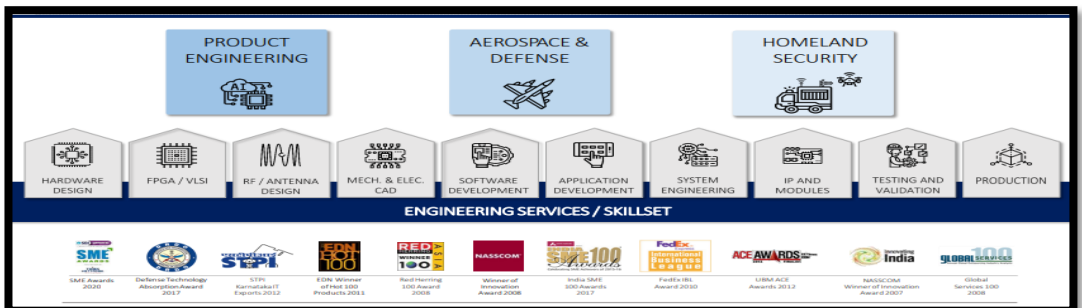
Source: Arihant Research, Company Filings, Ace Equity

Management Meeting Highlights on Business Updates

We interacted with Axiscades management. Below are the key highlights of the meeting

- AXISCADES is a leading technology solutions company collaborating with top global OEM's and adding value at every stage of their products' lifecycle. With engineering centers spanning across the globe.
- **Segments:** The company is doing well in the Automotive segment recently they have added JLR in this segment in the product & platform front, and earlier customer Bosch in R&D, Ford, Daimler and a couple of startup OEMs in this.
- **Competitor:** The major competitor in the automotive segment is KPIT & Tata Elxsi.
- **Acquisition:** Mistral is a leader in Product Engineering space with strong Embedded System capabilities. Mistral 50% revenue comes from defence and another 50% from semiconductors.
- **Mistral acquisition:** The company entered into a Share Purchase Agreement (SPA) with Mistral to acquire 100% stake in Mistral Solutions Private Limited along with its subsidiaries in a phased manner - 1) During Phase-I, ACET has acquired a 43.38% stake in Mistral at cost of ~INR.70 crore which was entirely funded by term debt. 2) In Phase II, ACET would acquire a 44.62% equity stake through shares allotment and the balance stake in Phase-III and IV and this is expected to complete by November-December 2022. The phase-II acquisition has been delayed due to a delay in approval of the merger application filed Explosoft Tech Solutions Private Ltd (one of the shareholders of Mistral) with NCLT Mumbai.
- **Mistral:** The company CAGR revenue growth 20% and before FY21, it was INR 145 cr and 21.4% Margin and FY22 revenue INR141 cr, EBITDA INR 22 Cr and EBITDA margin 15%. The company revenue were INR 196 cr in FY22 EBITDA INR 40 cr and PAT is INR 25 crs (from Nov-dec onward it will be 100% acquired by Axiscades)
- **Margin:** 12% margin during FY22 and targeting to reach 17.5%-18%. The key margin levers are 1) Business Mix and 2) Automation which, will help to boost productivity and enhance performance.
- **Segment:** The Axiscades cater to four industry-1) Aerospace with the revenue contribution of INR 26% , Defense & Homeland security (revenue contribution of 23%), Heavy Engineering (revenue contribution of 46%) and Automotive contribute 5% and target to reach 30% going forward.
- The company strategy is to pivot AXISCADES to a digital-first company with a focus on Embedded software, AI / ML, PLM on the cloud, and Industry.
- AXISCADES has no impact on Europe and UK of cross currency as mostly transaction in US Dollar.
- **Guidance:** The company has an aggressive growth plan going forward. The company is more focused on the Automotive segment. The defense sector is also important but decision-making is slow in this segment. Strong deal wins in aerospace. On the digital, the company is also focusing on this segment. Going forward we will see more acquisitions and development in the company. The company is focused to make \$1 bn company going forward.
- **Acquisition:** This acquisition of Mistral helps us to be a significant player in the defense offset and digital technologies. This acquisition is EPS accretive.
- AXISCADES is providing support in the conception and development of all 3 embedded stacks in multi industries. Embedded systems are composed by 3 distinct stacks: hardware, core software and application. AXISCADES is specialized in the early stages of conception and testing of these embedded systems (vs. validation and integration of the systems)

Synergies with Mistral Integration: Mistral is a leader in the Product Engineering space with strong Embedded System capabilities



Source: Arihant Research, Company Filings, Ace Equity

Mistral acquisition has strengthened AXISCADES strategic positioning on various growth levers

Exhibit 1: Revenue growth expected to do better during FY23

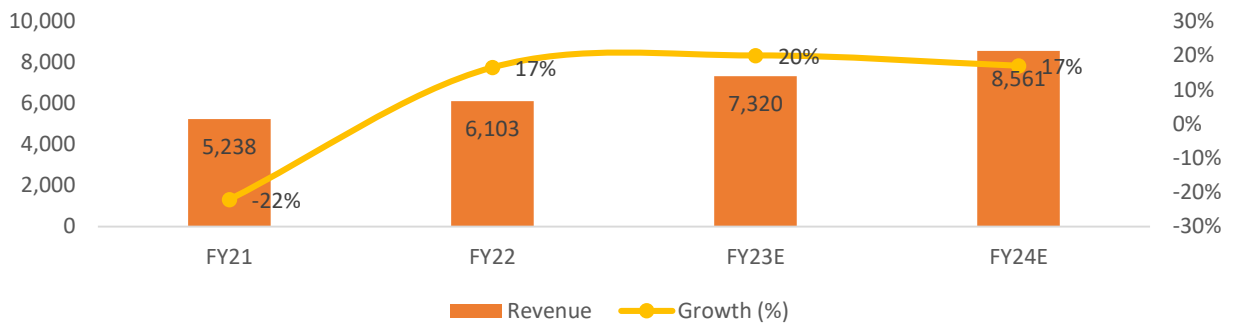


Exhibit 2: EBITDA margin expected to be in the range of 17.5%-18%

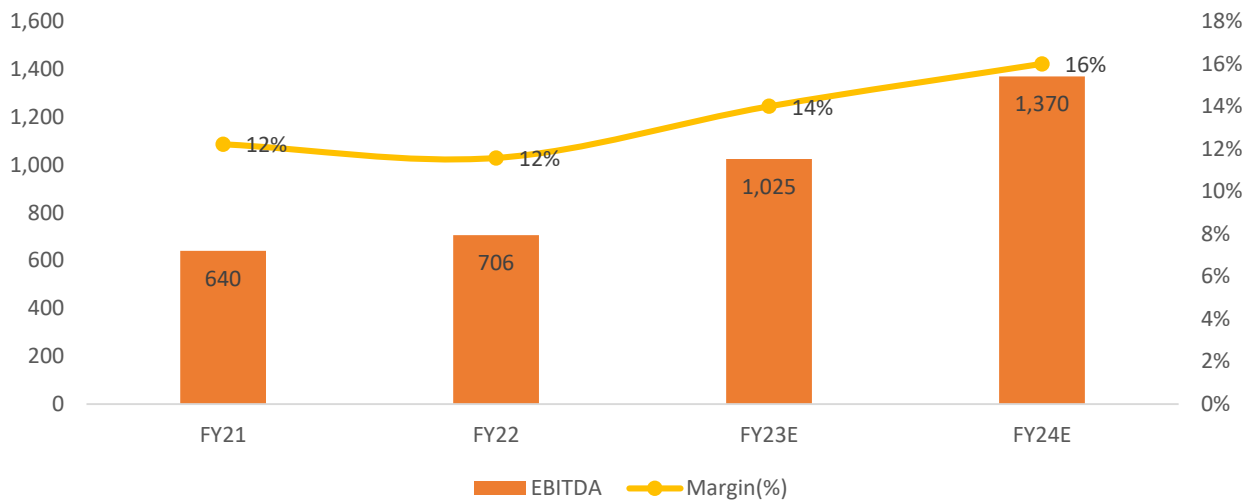
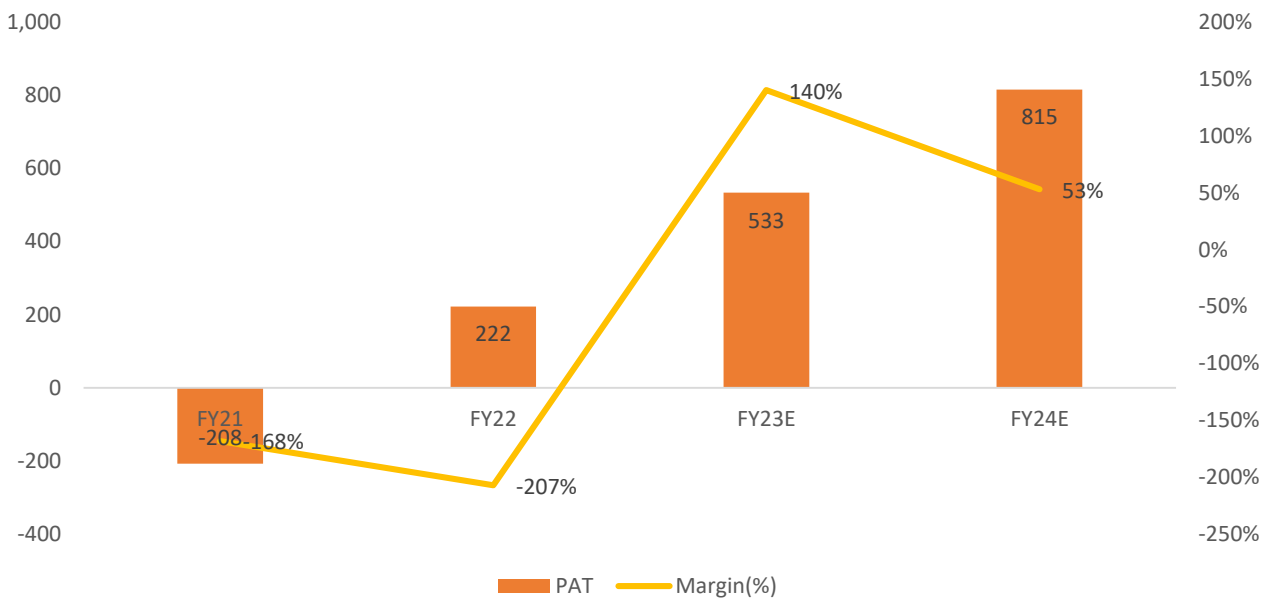


Exhibit 3: Bottom line will perform in the FY23



Source: Company, Arianth Research

Key Financials

Income Statement				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
Revenues	5,238	6,103	7,320	8,561
Change (%)	-22.1%	16.5%	20.0%	17.0%
Raw materials	985	1,167	1,098	1,284
Stock Adjustments	0	0	0	0
Employee costs	2,666	3,121	4,099	4,623
Other expenses	947	1,109	1,098	1,284
Total Expenses	4,598	5,397	6,295	7,191
EBITDA	640	706	1,025	1,370
Other Income	145	91	109	128
Depreciation	260	251	240	196
Interest	225	158	206	254
PBT	300	389	688	1,047
Extra-ordinary	-408	-17	0	1
PBT after ext-ord.	-104	368	682	1,041
Tax	108	141	143	219
Rate (%)	-104.3%	21.0%	21.0%	21.0%
PAT	-212	227	539	822
MI & Associates	4	-5	-6	-7
Consolidated PAT	-208	222	533	815
Change (%)	-168.2%	-207.0%	139.9%	52.9%

Balance Sheet				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
Sources of Funds				
Share Capital	189	190	190	190
Reserves & Surplus	2,797	3,123	6,918	10,678
Net Worth	2,986	3,313	7,108	10,868
Loan Funds				
Deferred Tax & other liabilities	514	488	638	788
Capital Employed	4,259	3,854	7,800	11,709
Application of Funds				
Gross Block	2,581	3,001	2,801	2,601
Less: Accumulated Depreciation	1,076	1,326	1,567	1,763
Net Block	1,505	1,675	1,235	839
CWIP	0	0	0	0
Other non current assets	357	350	350	350
Deferred tax assets	281	280	280	280
Net fixed assets	2,143	2,305	1,865	1,469
Investments				
Debtors	882	838	838	838
Inventories	1,275	1,452	1,745	2,041
Cash & bank balance	233	516	484	566
Loans & advances & other CA	848	1,054	6,523	11,286
Total current assets	3,381	3,412	9,143	14,283
Current liabilities	2,999	3,869	4,925	5,760
Provisions	195	237	237	237
Net current assets	187	-694	3,981	8,287
Total Assets	4,259	3,854	7,800	11,709

Cash Flow Statement				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
PBT	-104	368	682	1,041
Depreciation	260	251	240	196
Interest & others	85	62	91	120
Cash flow before WC changes	241	680	1,013	1,356
(Inc)/dec in working capital	464	1,087	794	457
Operating CF after WC changes	705	1,767	1,807	1,813
Less: Taxes	-108	-141	-143	-219
Operating cash flow	597	1,626	1,664	1,595
(Inc)/dec in F.A + CWIP	1,153	139	200	200
(Pur)/sale of investment	-538	44	0	0
Cash flow from investing	615	183	200	200
Free cash flow (FCF)	962	1,826	1,864	1,795
Loan raised/(repaid)	-707	-26	150	150
Equity raised	0	1	0	0
Interest & others	-321	-154	3,455	2,818
Cash flow from financing activities	-1,029	-180	3,605	2,968
Net inc/(dec) in cash	183	1,630	5,469	4,763
Opening balance of cash	702	848	1,054	6,523
Closing balance of cash	884	2,478	6,523	11,286

Key Ratios				
Y/E March (INR Mn)	FY21	FY22	FY23E	FY24E
Per share (Rs)				
EPS	-5.5	5.9	14.1	21.6
CEPS	1.4	12.5	20.5	26.8
Valuation (x)				
P/E	-29.9	27.9	11.6	7.6
P/CEPS	118.7	13.1	8.0	6.1
P/BV	2.1	1.9	0.9	0.6
EV/EBITDA	2.6	2.1	-3.7	-6.1
Return Ratio (%)				
EBIDTA Margin	12.2%	11.6%	14.0%	16.0%
PAT Margin	-4.0%	3.6%	7.3%	9.5%
ROE	-7.0%	6.7%	7.5%	7.5%
ROCE	8.9%	11.8%	10.1%	10.0%
Leverage Ratio (%)				
Total D/E	0.2	0.1	0.1	0.1
Net D/E	-0.1	-0.2	-0.8	-1.0
Turnover Ratios				
Asset Turnover (x)	1.2	1.6	0.9	0.7
Inventory Days	86	161	161	161
Receivable Days	89	87	87	87
Payable days	223	246	246	246

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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