

CMP: INR 351

Rating: Accumulate

Target Price: INR 394

Stock Info

BSE	532395
NSE	AXISCADES
Bloomberg	AXET IN
Reuters	AXIT.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR mn)	189
Mkt Cap (INR mn)	14,008
52w H/L (INR)	368 / 74
Avg Yearly Vol (in 000')	179

Shareholding Pattern %

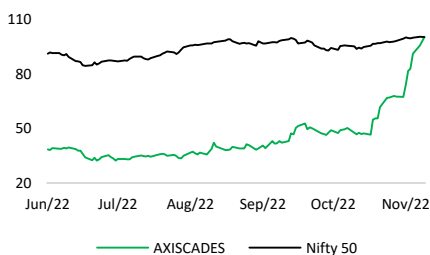
(As on Sept, 2022)

Promoters	66.5
Public & Others	33.4

Stock Performance (%)

	1m	3m	12m
AxisCades	119.6	168.7	317.7
Nifty	4.4	2.6	-0.1

AxisCades Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

AXISCADES Technologies reported a good set of numbers in Q2FY23, driven by strong growth across the segment and geography.

Revenue ahead of estimates driven by double-digit growth across verticals: Reported consolidated revenue of INR 1,957 Mn (up 6.2% QoQ/44.4% YoY) above our estimate of INR 1,879 Mn. The growth was broad-based led by substantial revenue from strategic technology solutions of 129.8% YoY/-1.8% QoQ and Technology services & solutions of 28% YoY/9.3% QoQ. Revenue USD stood at \$24 Mn against \$18 Mn in Q2FY22.

Expansion in EBITDA Margin; the strong growth in key markets: Reported EBITDA stood at INR 250 mn against INR 114 mn in the corresponding quarter of the previous year. On a sequential basis, EBITDA saw a growth of +14.7%. EBITDA margin expanded by 728bps QoQ/1166bps YoY at 20.1% against our estimates of 12% helped by operational rigor and growth in key accounts. All geographies except Canada have shown double-digit growth. Canada is expected to show growth in coming quarters

Strong segmental performance; Increase traction from the new clients as well as existing client: Engineering Design has grown by 28.0% YoY mainly due to growing contribution from existing customers in Aerospace and recently added clients in AIP and Energy verticals. Strategic Technology Solutions has delivered a strong growth on account of strong recovery in sub-segments. Aerospace continues to grow and is up by 44.2% YoY. The growth is attributable to recovery in the sector and increased business from new clients. HEG grew by 16.2% YoY driven by new service offering to existing clients. AIP grew by 27.4% driven by ramp up in recently added clients.

Outlook & Valuation

AxisCades Technologies reported good set of numbers in Q2FY23 and order book expected to grow >20% in FY23 against 20% in FY22. Also during FY22, the company is focusing on the Mistral solution acquisition, which is expected to complete by end of the year. 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 parties the impetus to create IP's, broadening service offerings leading to substantial business growth. This acquisition is EPS accretive. **We value the stock on a P/E (x) multiple of 13x to its FY25E EPS INR 30, which yields a target price of INR 394per share (Earlier target price of INR 194 per share). We maintain our Accumulate rating on the stock.**

Exhibit 1: Financial Performance

Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
Revenues	6,103	7,320	8,561	9,415
EBITDA	706	1,135	1,370	1,601
EBITDA Margin	11.57%	15.50%	16.00%	17.00%
PAT	227	715	949	1,151
EPS	5.9	18.7	24.8	30.1
ROE	6.7%	7.5%	7.5%	7.5%
PE	59.9	18.8	14.1	11.7

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

Exhibit 2: Q2FY23 - Quarterly Performance (Consolidated)

Particulars (INR Mn)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Revenue USD \$ Mn	24	24	18	3.0%	32.8%
Net Revenue	1,957	1,842	1,355	6.2%	44.4%
Raw Material Cost	336	430	162.369	-21.9%	106.7%
Employee cost	899	878	792	6.7%	-19.2%
Other Expenses	328	297	286	10.4%	14.7%
EBITDA	394	237	115	66.4%	242.8%
EBITDA margin %	20.1%	12.9%	8.5%	728bps	1166bps
Other Income	42	27	33	58.8%	28.2%
Depreciation	71	64	59	11.4%	19.9%
EBIT	366	200	89	82.9%	-25.7%
Margin	19%	11%	7%	783bps	1213bps
Finance cost	85	18	42	372.3%	103.9%
Exceptional Item	-	-444	-	-	-
PBT	281	-263	47	-207.0%	494.3%
Tax Expense	70	54	20	30.0%	257.7%
Effective tax rate %	25.0%	-20.5%	41.5%	4549bps	-1650bps
PAT	211	-316	28	-	661.8%
MI & Associates non-controlling	1	1	1	-7.3%	-10.7%
Consolidated PAT	210	-317	27	-	-164.2%
PAT margin %	10.8%	-17.2%	2.0%	2795bps	873bps
EPS (INR)	5.52	-8.38	0.70	-	688.6%

Segment revenue

Particulars (INR Mn)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Technology Services and Solutions	1,455	1,331	1,137	9.3%	28.0%
Strategic technology solutions	502	512	218.533	-1.8%	129.8%
Total	1,957	1,842	1,355	6.2%	44.4%

Source: Aриhant Research, Company Filings

Exhibit 3: Revenue Matrix

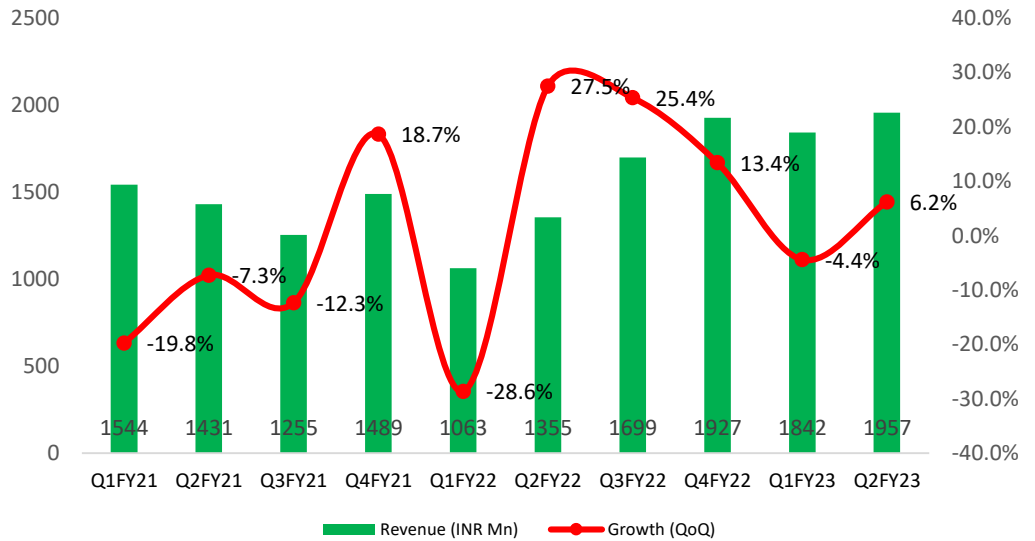
Revenue by Vertical	Q2FY22	Q1FY23	Q2FY23	QoQ	YoY
Engineering Design Services	84.20%	72.20%	74.30%	9.30%	28.00%
Strategic Technology Solutions	16.20%	27.80%	25.70%	-1.80%	129.80%
Revenue by Industry	Q2FY22	Q1FY23	Q2FY23	QoQ	YoY
Aerospace	27.20%	26.90%	27.30%	7.50%	44.20%
HEG & Others	50.40%	39.90%	40.80%	7.90%	16.20%
AIP	4.00%	3.20%	3.60%	19.10%	27.40%
Energy	2.20%	2.20%	2.40%	16.40%	58.40%
Products and Solutions	16.20%	27.80%	25.90%	-1.80%	129.50%
Revenue By Geography	Q2FY22	Q1FY23	Q2FY23	QoQ	YoY
Europe	29.30%	40.10%	36.00%	-5.30%	76.10%
USA	45.50%	34.40%	36.50%	12.00%	15.10%
APAC	17.20%	21.40%	22.80%	12.60%	89.90%
Canada	7.90%	4.10%	4.70%	23.30%	-14.10%
Revenue by Location	Q2FY22	Q1FY23	Q2FY23		
Offshore	66.20%	74.90%	75.10%		
Onsite	33.80%	25.10%	24.90%		
Revenue by Project	Q2FY22	Q1FY23	Q2FY23		
Fixed Price	48.20%	60.10%	58.70%		
Time & Material	51.80%	39.90%	41.30%		

Source: Aриhant Research, Company Filings

Conference Call Highlights

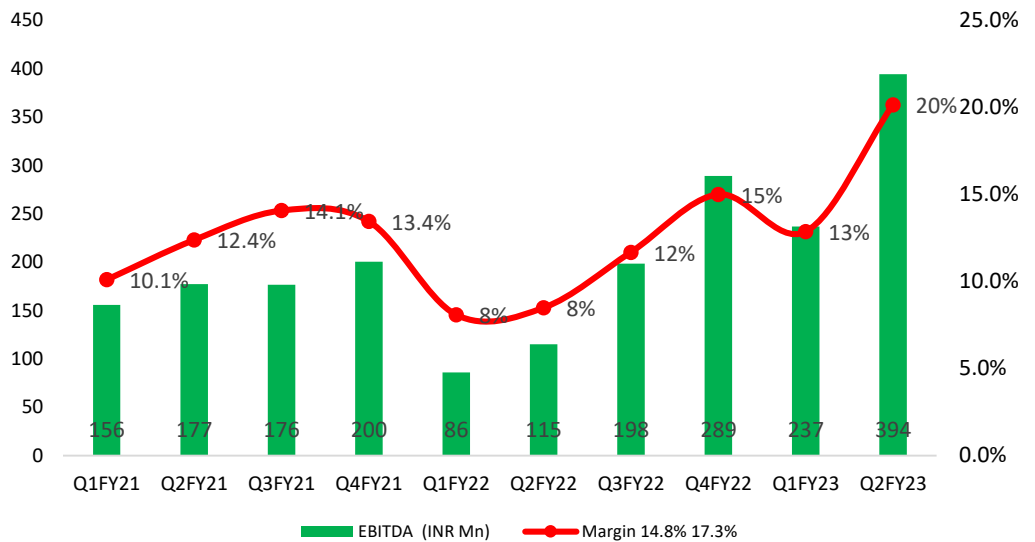
- **Double digit revenue growth:** The company focused on the aerospace & heavy engineering space. The company derives the majority of its revenue of the biggest global client in this space been a valued client for over A decade. While these verticals continue to sustain and expand registering double digits' revenue growth.
- **Business transformation with 3 strategic areas;** 1) Vertical diversification, 2) Customer diversification & 3) Digital first to diversified revenue and expand client base.
- The company is seeing very good traction in the new verticals and logo such as Energy, Automotive, Payment solution, and Medical.
- **Deal:** The company focused on the Automotive area and that vertical witnessed growth of 27.4% y/y. The company has signed a long term deal with a Tier-1 automotive company and will undertake projects in the areas of embedded, mechanical & hardware.
- **New Segment:** The company also making relationships in the global energy space, and payment solution space, and hope strategic vendors for each of the customers in the coming periods.
- **Acquisition of GMBH (100%):** Board Considered and approved the 100% acquisition, in a phased manner, of add solution, GMBH, Germany, specializing in Automotive Solutions to Global OEMs. This company provides services in the wiring system and automation to global automotive OEMs. The proposed acquisition will provide a strategic foothold to AXISCADDES in the Automotive space, besides a firm contract with marquee automotive OEMs. This will give Axiscades presence in Germany which is the biggest market for automotive. This is subject to completion of all regulatory compliances.
- Despite global headwinds across multiple sectors, Axiscade's relentless efforts are paying off with robust growth across all the verticals.
- **Acquisition Mistral:** The acquisition of mistral is on the verge of completion. Mistral is a leading global player in system engineering and product design. They focused on the embedded space because successful track record over two decades with marquee customer product space, home & securities, and the growing area of defence. This acquisition strengthens embedded technology practice and will provide further growth with cross-selling opportunity across the client.
- **Mistral details:** Commenced in 2017 and purchased INR 292 cr and right now phased 2 has to acquire 40% as the rest already been acquired. Out of 292 cr, the company already paid the cash consideration, and the rest INR 72 cr is required to pay in the form of a share swap. Cash valuation for the INR 72 cr is 207 per share and supposed to issue 3.5 mn shares so, almost 9% of dilution. The merger process is expected to be completed by the end of the year. Mistral has 50% revenue from defence and 50% revenue from the semiconductor
- **Balance sheet:** The company has total debt of INR 200 cr including short and long-term. Other financial assets are unbilled revenue. Purchase consideration of INR 132 cr that the company paid to Mistral and the remaining INR 65 cr is a bank guarantee for this period.
- **Dilution:** The company is planning for a preferential offer. The company will be going to use this cash to add more people to the system to fulfill the lag in people of 3-4 month to find the lag, second is on the automation side and the company is hiring senior-level people on the higher level to support this growth. The company trying to do the INR 100 cr.
- **Revenue mix:** The company is want to diversify the sector and avoid losses due to being in one segment. A lot of investment is going on in the auto and energy segments. Going forward, the company is looking more diversifying. Aerospace and engineering where the company will continue to focus. Auto, medical, and energy faster growth. The automotive area has faster growth and wants to grow ahead of the industry. Overall, the industry has grown between 15-18% and Axiscades technologies will do better than the industry. The company is expecting 25% revenue growth from the new vertical in 3 years.
- **order book:** The company hopes to grow much faster pace as last year grew 20% and is likely to grow more than that. The company got an order for the 100 Anti-Drone and out of that 50 units have already delivered and the rest will be delivered in the next 3-6 months. Also, the company has good orders in hand.
- **Defence and auto:** The defence has a huge opportunity and Atmanirbhar Bharat- a discretionary budget of up to INR 300cr that government can spend. The company has a lot of interest in this space and 20 years of experience that Axiscades has in defence with a good relationship. Automotive doing extremely well and the management has good connections in this segment.

Exhibit 4: Strong growth in top line lead by good growth across the segments



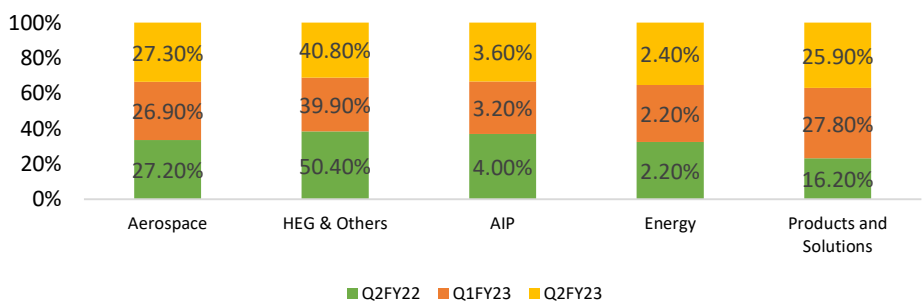
Source: Arianth Research, Company Filings

Exhibit 5: Margin expansion lead by margin expansion



Source: Arianth Research, Company Filings

Exhibit 6: Robust growth across the segment



Source: Arianth Research, Company Filings

Key Financials

Income Statement				
Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
Revenues	6,103	7,320	8,561	9,415
<i>Change (%)</i>	16.5%	20.0%	17.0%	10.0%
Raw materials	1,167	1,098	1,284	1,412
Employee costs	3,121	3,989	4,623	4,990
Other expenses	1,109	1,098	1,284	1,412
Total Expenses	5,397	6,185	7,191	7,815
EBITDA	706	1,135	1,370	1,601
Other Income	91	109	128	140
Depreciation	251	240	196	182
Interest	158	93	93	93
PBT	389	911	1,208	1,466
Extra-ordinary	-17	0	0	0
PBT after ext-ord.	368	905	1,201	1,457
Tax	141	190	252	306
<i>Rate (%)</i>	21.0%	21.0%	21.0%	21.0%
PAT	227	715	949	1,151
MI & Associates	-5	-6	-7	-9
Consolidated PAT	222	709	942	1,142
<i>Change (%)</i>	0.0%	219.1%	32.8%	21.3%

Source: Arihant Research, Company Filings

Cash Flow Statement				
Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
PBT	368	905	1,201	1,457
Depreciation	251	240	196	182
Interest & others	62	-22	-42	-56
Cash flow before WC changes	680	1,123	1,355	1,583
(Inc)/dec in working capital	1,087	794	457	315
Operating CF after WC changes	1,767	1,917	1,812	1,897
Less: Taxes	-141	-190	-252	-306
Operating cash flow	1,626	1,727	1,560	1,591
(Inc)/dec in F.A + CWIP	139	200	200	200
(Pur)/sale of investment	44	0	0	0
Cash flow from investing	183	200	200	200
Free cash flow (FCF)	1,826	1,927	1,760	1,791
Loan raised/(repaid)	-26	-200	0	0
Equity raised	1	0	0	0
Interest & others	-154	5,739	2,194	1,576
Dividend	0	0	0	0
Cash flow from financing activities	-180	5,539	2,194	1,576
Net inc / (dec) in cash	1,630	7,466	3,955	3,367
Opening balance of cash	848	1,054	8,519	12,474
Closing balance of cash	2,478	8,519	12,474	15,841

Balance Sheet				
Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share Capital	190	190	190	190
Reserves & Surplus	3,123	9,265	12,366	15,037
Net Worth	3,313	9,455	12,556	15,226
Loan Funds	488	288	288	288
Deferred Tax & other liabilities	-	-	-	-
Capital Employed	3,854	9,796	12,898	15,568
Application of Funds				
Gross Block	3,001	2,801	2,601	2,401
Less: Accumulated Depreciation	1,326	1,567	1,763	1,945
Net Block	1,675	1,235	839	457
CWIP	-	-	-	-
Other non current assets	350	350	350	350
Deferred tax assets	280	280	280	280
Net fixed assets	2,305	1,865	1,469	1,087
Investments	838	838	838	838
Debtors	1,452	1,745	2,041	2,244
Inventories	516	484	566	623
Cash & bank balance	1,054	8,519	12,474	15,841
Loans & advances & other CA	391	391	391	391
Total current assets	3,412	11,139	15,472	19,099
Current liabilities	3,869	4,925	5,760	6,334
Provisions	237	237	237	237
Net current assets	-694	5,978	9,475	12,528
Total Assets	3,854	9,796	12,898	15,568

Key Ratios				
Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
Per share (INR)				
EPS	5.9	18.7	24.8	30.1
CEPS	12.5	25.0	30.0	34.9
BVPS	87.3	249.2	330.9	401.3
DPS	-	-	-	-
Payout (%)	0.0%	0.0%	0.0%	0.0%
Valuation (x)				
P/E	59.9	18.8	14.1	11.7
P/CEPS	28.2	14.0	11.7	10.1
P/BV	4.0	1.4	1.1	0.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Return Ratio (%)				
EBITDA Margin	11.6%	15.5%	16.0%	17.0%
PAT Margin	3.6%	9.7%	11.0%	12.1%
ROE	6.7%	7.5%	7.5%	7.5%
ROCE	11.8%	9.1%	9.1%	9.1%
Leverage Ratio (%)				
Total D/E	0.15	0.03	0.02	0.02
Net D/E	-0.2	-0.9	-1.0	-1.0
Turnover Ratios				
Asset Turnover (x)	1.6	0.7	0.7	0.6
Inventory Days	161	161	161	161
Receivable Days	87	87	87	87
Payable days	246	246	246	246

Source: Arihant Research, Company Filings

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880