



Company Name : **AXISCADES Engg. TECH.**

BSE Code : **532395**

Time Duration : **1 year**

CMP : **₹214 (as on 10 August, 2016)**

Target Price : **₹272**

The value pick for month of August is Axiscades, a Bengaluru based company providing specialised engineering technological solutions for Aerospace, Heavy Engineering, Automotive and Industrial Production sectors. The key levers for company are its investment in technology, new customer acquisition, diversification in high margin medical devices and aggressive plans to grow in North America (32.8% of revenue). Company has consistently maintained an ROE of 13-14% over the last five years, and has grown revenue from Rs 77 crore to Rs 375.4 crore in a span of 5 years; and is trading at P/E of 20x vs highs of 56x historically. We expect an upside of 32.7% from the current levels to reach the target price of Rs 272 over a year's time.

Customer gains and buoyancy in end markets to lead to revenue growth of 15%.

We expect the company to grow its revenue at 15% over next couple of years due to pick up in capex in US, commercial vehicles, automobile and defence spending. With the acquisition of CADES in April 2014, it gained entry into high margin Aerospace industry and derives 51% of revenue from it followed by Heavy engineering (37%), Automotive (7.5%) and Renewable Energy (4.5%). In the Aerospace industry, it has expertise in commercial, business and military aircrafts, both in fixed wing and rotary aircraft segments. It has a tie up with OEMs; has gained 2 heavy weights during Q4FY16; and is a leading partner to Airbus. In a tough environment it has been gaining customers across aerospace and heavy engineering. With pick up in construction and sales of commercial vehicles, we expect heavy engineering to see a turnaround vs a tough environment in FY16. In this segment, company has upstream capability, good product realisation, robust design automation and a well facilitated integration of acquired product line to OEMs prime product line. Company is also certified for defence manufacturing in India, which can be a potential high growth area. Company also plans to foray into medical devices, which like aerospace is a regulated industry and hence enjoys higher margins.

Geographical breadth:

Company derives 53.7% of revenue from Europe and has a strong customer base from Aerospace industry. However, with stressed macro conditions in Europe and revival of US economy,

company is strengthening its base in North America and plans higher contribution to revenue vs current of 32.8%. Company's existing tie-ups with OEMs will also help it to ride on "Make in India" wave to expand operations in India.

Resilient business model:

Company's business model is getting more resilient with shift towards fixed price contracts of 36% vs 28% in FY15. This might contract the margins in the short term but provides stability to revenue stream and leads to higher utilisation of resources.

Financial performance:

Company has grown its topline at 18% yoy in 2016 and by 23% in Q1FY17. Company has been however feeling margin pressure with margins dipping from 15.4% in Q4FY16 to 10.8% in Q1FY17. This was because of higher project consultancy cost and investment in sales team. We believe, company is expanding and investing in people to build new capabilities and enhance its customer reach. We see it reaping benefits in H2FY17. Also with company's constant focus on improving operational efficiency we see company will be able to maintain its margin around 12% going forward.

Valuation:

Company's share price has recently undergone correction and is currently trading at P/E of 20x vs the highs of 50s in 2015. We believe company is undervalued given the growth potential has remained intact for all its end markets and OEMs, improving its capex cycle. Hence, we recommend a **BUY**.

| Inc/Exp Statement(Consolidated) (Rs in Crore) | | | | | |
|---|--------|--------|--------|--------|--------|
| Description | 201603 | 201503 | 201403 | 201303 | 201203 |
| Net Sales | 375.39 | 317.59 | 306.81 | 286.00 | 228.59 |
| Total Income | 379.31 | 319.24 | 309.89 | 286.70 | 230.46 |
| Total Expenditure | 321.94 | 275.62 | 277.87 | 260.08 | 205.96 |
| PBIDT | 57.36 | 43.63 | 32.02 | 26.62 | 24.50 |
| PAT | 28.99 | 19.81 | 15.98 | 14.62 | 12.22 |
| Adj. EPS (Rs) | 10.50 | 7.14 | 7.55 | 6.05 | 6.04 |

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