

Initiating Coverage | Sector: BPO/KPO
 Date: 27/10/2014

Rating	BUY
CMP	₹184
Recommended Price	₹132
Target Price	₹200
View	1 Year & Above

Share Holding	%
Promoters	71.12
FII	-
FI/MF/Insurance Co.	0.33
Bodies Corporate	10.85
Public & Others	17.7

StockData	
Market Cap	₹500
52 Week High/Low	₹188.70/37.60
Sector	BPO/KPO
Bloomberg Code	AXET IN
Reuters Code	AXIT.BO
Bse Code	532395
Nse Code	AXISCADES
Outstanding Shares	27,189,593
Face Value	₹5

AXISCADES Engineering Technology Ltd (earlier known as Axis IT&T Ltd) is one of India's leading technology solutions providers, catering to the futuristic needs of Aerospace, Defense, Heavy Engineering, Automotive and Industrial Production sectors. The company is headquartered in Bangalore and has 12 offices worldwide.

AXISCADES is promoted by Axis Aerospace & Technologies (AAT) one of the largest is one of India's leading and vertically integrated private company offering services to Aerospace, Defense, Automotive and Heavy Engineering industries.

AxisCades provides cutting edge technology solutions, addressing the business needs across domains at every stage of product life-cycle development with specialization on Defence/Aviation space.

No dividends have been declared for FY13-14 as the Company redeployed all internal accruals for the expansion and consolidation of the business.

In FY14 in Engineering Services the company continued to focus on the Mechanical Engineering domain and saw excellent growth in revenues & profitability. The manpower strength of the company on consolidated basis grew from 1229 employees to 1468 employees.

Axiscades has further strengthened its relationship with one of the World's Largest Aircraft manufacturer namely Airbus, based out of Europe and this will help business show continuous growth. The Company has also Started a major engagement with a Canada based global aircraft manufacturer.

Net Sales rose 2.70% to ₹79.cr in 2QFY15 as against ₹77.07cr during 2QFY14. Net profit of AxisCades rose 89.24% to ₹4.22cr in 2QFY15 as against in 2.23cr during 2QFY14.

FINANCIAL SNAPSHOT: P&L
Y/E MARCH (₹CR)

Particulars	2Q FY15	1Q FY15	2Q FY14	H1 FY15	H1 FY14	FY13	FY14	FY 15E	FY16E
Net Sales	79.15	71.82	77.07	150.97	145.24	286.00	306.81	349.76	473.13
EBITDA	10.45	7.70	8.63	18.15	14.65	26.19	31.67	39.48	59.48
PBT	8.23	5.19	5.61	13.42	8.81	14.98	19.90	27.78	48.13
Rep.PAT	6.37	3.74	3.94	10.11	6.01	14.62	16.33	22.22	38.50
Adj. PAT after Exp* & MI*	4.22	3.65	2.24	7.87	4.24	12.07	15.07	22.89	37.00
EPS after Exp* & MI*	1.55	1.83	1.12	2.89	2.12	6.03	7.53	8.42	13.59

* Exp =Exceptional Item

* MI= Minority Interest

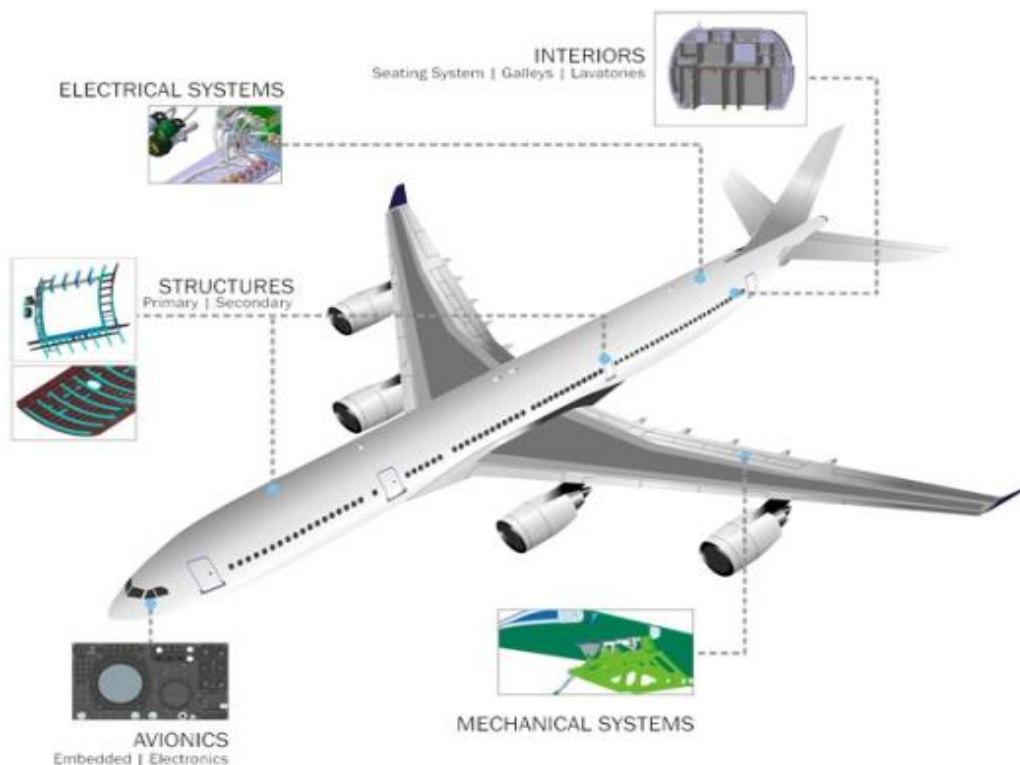
Source: Company, Our Research

BUSINESS SEGMENTS:**AEROSPACE:**

AXISCADES offers solution that range from concept generation phase to manufacturing support and certification, making them the preferred choice of engineering partner for Aerospace OEMs and Tier 1 suppliers. Their deep domain expertise across commercial, business and military aircraft both in fixed wing and rotary aircraft segments has enabled them to adopt customer centric approach and an ability to co-create innovative solutions resulting in AXISCADES becoming a trusted value addition partner.

Strengths of AXISCADES:

- Deep aerospace domain expertise and vast technical knowledge in handling complex programs
- Best practices and processes knowledge acquired working with multiple global OEMs
- Flexible business models including Risk Reward partnership
- Certifications and key design signatory approvals from OEMs and industry regulatory authorities
- Reliable ecosystem to deliver turnkey projects
- Ability to meet Offset obligations of OEMs and Tier 1 suppliers both from commercial and defence programs



AUTOMOTIVE:

The key parameters which have led to the rapid transition in the Automotive Industry include rapidly growing economies, regulatory and competitive pressure requiring advances in areas of safety, emissions, engine technology and increasingly diminishing development windows and stringent cost reductions. Along with the mentioned parameters and increasing competition there is a great need for collaboration between OEMs and suppliers for better product, technology process and business innovations.

AXISCADES has successfully executed several developmental and turnkey (Art to Part) projects for global and Indian Automotive OEMs. These solutions address every phase in automotive design and development lifecycle. AXISCADES helps customer in localization of products and provide support from benchmarking to concept through production support, enabling OEMs and Suppliers to design and develop high quality and performance driven products with lower cost and shorter development cycle.

Leveraging the experience of working on global automotive programs, AXISCADES has established engineering Center of Competencies for System and Sub-System including Automotive Interiors, Seating Systems, BIW, Chassis, Technical Publications and Advanced Engineering Analysis

Strengths of AXISCADES

- Integrated solutions offering across design, manufacturing and supply chain.
- Efficient delivery process integrated solutions offering across design, manufacturing and supply chain.
- Efficient delivery process and quality procedures for regulatory and safety compliance.
- Strong program management practices and capability in terms of technology and scalability.
- Flexible engagement and cost models for offshore and onsite development.
- Reliable eco system for sourcing, prototyping and manufacturing

DEFENCE:

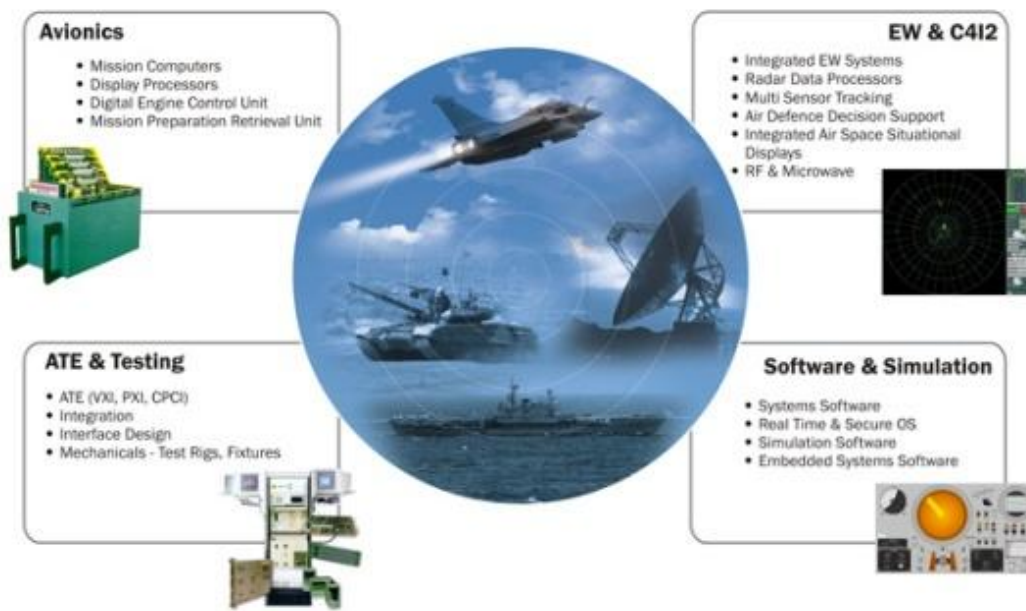
AXISCADES is recognized as the leading partner to the global aerospace & Defence industry and has proven its leadership addressing the strategic needs across air, ground and marine systems by having developed and deployed Defence solutions. Drawing on the vast experience from armed forces, AXISCADES continues to evolve its capabilities to counter emerging threats to protect and meet the civil and military security needs of India and globe.

AXISCADES end-to-end solution in Mil-Aero electronics domain, Software and Simulation, Product Development, Test Solutions, Obsolescence management and Manufacturing uniquely position it as a core Defence and system integration partner. AXISCADES is an authorized India Offset Partner (IOP) for various global OEM's and have successfully established strategic partnerships for executing the Offset obligations. They are also certified for Defence manufacturing in India.

AXISCADES is uniquely positioned to offer strategic advantage to meet global Defence, Aerospace and Homeland Security needs; and has developed an extensive portfolio of Defence products and solutions.

Among these solutions are:

- Aircraft Recognition Training System, a realistic training process used to enable personnel to effectively identify aircraft as friend or foe for intelligence gathering and quicker responses.
- Bird Detection and Monitoring Radar System, a robust system used to effectively prevent Bird Airstrike Hazards, both Military and Civil and Air Defence Training Simulator to create life like combat air situations that can only be experienced on the Battlefield.



HEAVY ENGINEERING:

AXISCADES is a leading product engineering global partner with deep domain expertise which can provide the upstream capability, product realization, design automation and integration of acquired product line to OEMs prime product line. It has developed the requisite ecosystem of partners to deliver turnkey projects to enable customers act as final integrators and support them with flexibility, manage peaks and valley to improve the margins and mitigate the risk. The certifications coupled with center of excellence positions AXISCADES as the innovation and design partner for global product development programs

The Engineering Services Offered by the company are:

- Design Services (CAD)
- Computer Aided Analysis (CAA)
- Manufacturing Engineering
- Technical Publications (Tech Pub)
- Value Analysis/ Value Engineering (VAVE)

AxisCades deep domain expertise in construction, agricultural, mining, material handling equipment's has enabled them to understand the major challenges of the industry and how to address them. The System and Sub-System level experience across engine components, Power train, CAB engineering, hydraulic and electrical control systems has led into creation of Engineering Center of Excellence for Structures, Lube system, Hydraulic / Electrical, Manufacturing Engineering, Advance Engineering Analysis.

AxisCades is focused primarily on exports of its Engineering Design Services. The company has delivery centers in Bangalore, Noida, Chennai & Hyderabad of which Bangalore, Noida & Hyderabad are registered with Software Technology Park Unit. They serve customers in UK, USA, Europe, Canada, Korea & Japan. AxisCades markets its services in the US & UK through Axis Inc. & Axis EU Ltd. respectively.

INDUSTRIAL PRODUCTS:

AXISCADES has more than a decade experience working across Energy & Utilities, Appliances, Hi-Tech and Plant Engineering. The team has successfully executed and participated in several developmental programs for global OEMs. AXISCADES has domain competency and vast experience in supporting the product development activities starting from concept design to manufacturing support phase including PLM and Engineering customization activities.

AXISCADES partners with the OEM's in designing intelligent products through innovation and re-engineering to offset rising customer demand and competitive marketplace. Our ability to provide reliable and robust product design helps to create product differentiation and improve cost margins for OEMs. The domain experts help to engineer next gen product conforming application and industry regulation.

SUBSIDIARIES:

As of 31st March 2014 had 4 Overseas Subsidiaries and 1 Indian Subsidiary

- AXIS Inc: Wholly Owned Subsidiary incorporated in the US
- AXIS EU Ltd: Wholly Owned Subsidiary incorporated the UK
- Cades Technology Canada Inc: Wholly owned Subsidiary incorporated in CANADA
- Axis Mechanical Engineering Design (Wuxi) Co.Ltd: Wholly owned Subsidiary incorporated in CHINA.
- Cades Studec Technologies (India) Pvt. Ltd: AxisCades has a majority stake in this subsidiary incorporated in India.

KEY ACHIEVEMENTS:

April 2014: AXISCADES was reselected as Airbus E2S partner effective April 2014. They have the E2S Certification for Engineering and Technical Publications along with their strategic partner STUDEC. The selection was based on extensive review by Airbus over the last one year. The review was strategically important as Airbus had decided to reduce their supplier base to 16 from 21.

Their selection as 'E2S' partner by Airbus is a testimony of their strategy and work capabilities in delivering value to Airbus.

February 2014: They launched their first ever Bird Detection & Monitoring Radar System (BDMRS) at the Defexpo 2014. This unique system has been developed to address the bird menace faced by aircrafts both civil and military. The BDRMS is one such technology developed to prevent Bird Airstrike Hazards (BASH) in India. The system operates in the S Band and has a detection range of 15km for large birds and 8km for small birds. It can be deployed upto altitudes of 3000m. It is maintenance free and easily transportable by road.

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FINANCIAL SUMMARY: P&L CONSOLIDATED					
Y/E MARCH (₹CR)					
Particulars	2Q FY15	1Q FY15	2Q FY14	H1 FY 15	H1 FY14
Sales	79.15	71.82	77.07	150.97	145.24
Other Operating Income	0.24	0.00	1.94	0.06	2.53
Other Income	0.48	0.28	0.22	0.76	0.30
Total Income	79.87	72.10	79.22	151.78	148.06
Total Expenditure	69.42	64.40	70.59	133.63	133.41
PBIDT	10.45	7.70	8.63	18.15	14.65
Interest	0.39	0.56	1.02	0.95	1.85
PBDT	10.06	7.14	7.61	17.20	12.80
Depreciation	1.83	1.95	2.00	3.78	3.99
PBT	8.23	5.19	5.61	13.42	8.81
Tax	1.87	1.45	1.67	3.32	2.80
Reported Profit After Tax	6.37	3.74	3.94	10.11	6.01
Minority Interest After NP	0.12	0.09	1.70	0.21	1.77
Net Profit after Minority Interest	6.24	3.65	2.24	9.90	4.24
Exceptional Item	2.02	0.00	0.00	2.03	0.00
Adjusted Profit After Extra-ordinary item	4.22	3.65	2.24	7.87	4.24
Equity	13.61	10.00	10.00	13.61	10.00
EPS After Minority Interest & Exceptional items	1.55	1.83	1.12	2.89	2.12
Source: Company, Our Research					

FINANCIAL SUMMARY: P&L CONSOLIDATED				
Y/E MARCH (₹CR)				
Particulars	FY13	FY 14	FY 15E	FY 16E
Sales	286.00	306.81	349.76	473.13
Other Operating Income	0.00	1.37	1.30	1.30
Other Income	0.70	1.70	1.40	1.40
Total Income	286.70	309.88	352.46	475.83
Total Expenditure	260.51	278.21	312.99	416.35
PBIDT	26.19	31.67	39.48	59.48
Interest	3.48	3.61	3.75	3.75
PBDT	22.71	28.07	35.73	55.73
Depreciation	7.73	8.16	7.95	7.60
PBT	14.98	19.90	27.78	48.13
Tax	0.36	3.58	5.56	9.63
Reported Profit After Tax	14.62	16.33	22.22	38.50
Minority Interest After NP	2.55	0.91	1.35	1.50
Net Profit after Minority Interest	12.07	15.42	20.87	37.00
Exceptional Item	0.00	0.35	2.02	0.00
Adjusted Profit After Exceptional Item & Minority Interest	12.07	15.07	22.89	37.00
Equity	10.00	10.00	13.59	13.61
EPS After Minority Interest & Exceptional items	6.03	7.53	8.42	13.59
Valuation Ratios				
EBITDA Margins (%)	9.16	10.32	11.29	12.57
EV/EBITDA	4.45	3.53	1.58	1.39
MKT CAP/SALES	0.31	0.29	1.47	1.29
Source: Company, Our Research				

Investment Rationale:

- At the recommended price of ₹132 AxisCades is quoting at a P/E of 9.7 times for FY16 earnings of ₹13.59.
- Considering the niche area of business(aviation/defence), decent order book and fantastic management team, we expect in future many long term multimillion \$ deals are going to take place for Axis.
- We expect the EBIDTA margins to improve drastically after the consolidation of AxisIT&T and CADES. The advantages of consolidation will be evident from FY16 onwards (being first full year of operations after merger/consolidation).
- Considering decent order book, niche area of business, strong and well experienced management (high promoter stake of 71.15%) and with MANY CLIENT CERTIFICATIONS, the future of AXISCADES is very bright and all this will translate in to robust financials going forward. Hence, we recommend a strong BUY to AXISCADES for a minimum target price of ₹200.

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