



Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
1,758	1,935	10%

MARKET DATA

No. of Shares	1.5 Cr
Market Cap	2,669 Cr
52-week High / Low	1,986/1,520
BSE Code	505010
NSE Code	AUTOAXLES

Why Automotive Axles Ltd

- ✓ **Targeted Capex for Modernisation**
- ✓ **Export Growth Leveraging Meritor Platform**
- ✓ **EV Opportunity Pipeline**

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About the Company

Automotive Axles Limited (AAL), established in 1981 as a joint venture between the Kalyani Group (India) and Meritor (USA), is a leading manufacturer of axles and braking systems for commercial vehicles, defence, and off-highway applications. Headquartered in Mysore with plants in Mysore, Pantnagar, and Jamshedpur, the company employs over 2,000 people and offers a comprehensive range of drive and non-drive axles, gears, and brakes backed by advanced heat treatment, welding, and NVH testing capabilities. Supplying marquee OEMs, including Tata Motors, Ashok Leyland, Daimler India, Volvo Eicher, and Mahindra Trucks, AAL also exports to the US, Europe, and Asia, leveraging Meritor's global technology access.

Investment Rationale

- Industry Outlook:** We expect the MHCV production volumes to see mid-single-digit YoY growth post H2FY26 (~400 MHCV volumes). As per the management, a gradual recovery in Europe and the US is expected to improve CV volumes CY27 onwards.
- EBITDA Improvement:** Industry registered 8.6 Mn tonnage in FY25 vs 8.7 Mn tonnage in FY18-19 (peak); however, only 10.3 Lc units were produced in FY25 vs 11.1 Lc units in the respective periods. This clearly indicates a shift to higher tonnage per vehicle, resulting in better EBITDA/axle realisation by up to 25% from FY19. The company has entered into a new business model and a Service Agreement with Meritor HVS (India) Limited, wherein Auto Axles will sell the products directly to original equipment manufacturers with effect from 1st April, 2025. We believe this to be margin accretive and improve cash flows for the company.
- Long-term Growth Drivers:** (1) Product diversification into new bus axles, with commercial production of axles for 13.5/15 mt buses expected to commence by the end of FY26, subject to finalization of commercial agreements with end-user OEMs; (2) Electric vehicle (EV) axles; (3) Increased export share following plant modernisation, with parent company Meritor is expected to play a vital role; (4) Expansion of the aftermarket business.
- Outlook & Valuation:** The CV industry has experienced higher tonnage growth over the last two years despite production volumes remaining below the peaks of FY19. Looking ahead, we anticipate positive volumes in the goods carrier segment in H2FY26E, while the passenger carrier CV segment is expected to achieve mid-single-digit growth. We forecast an EBITDA CAGR of 19% for FY25–27E, supported by direct sales to OEMs (earlier via Meritor), new product launches, and cost control efforts, assuming similar commodity price levels.
- Recommendation:** We recommend a **BUY** on the stock with a TP of Rs 1,935/share, implying an upside of 10% from the CMP.

Financial Summary (Consolidated)

Y/E March	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBITDA (x)	P/BV (x)	RoE (%)
FY24	2,229	246	165	110.0	16.1	10.5	3.0	19.6
FY25	2,078	220	154	102.9	15.8	10.9	2.5	16.2
FY26E	2,159	248	161	107.1	15.8	9.2	2.4	15.2
FY27E	2,252	298	210	139.3	12.1	7.2	2.1	17.7

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