**ITEMS MARKED IN YELLOW ARE PART OF THE TEMPLATE, with Notes available in each section to support the information marked in Yellow**

**Company: AXTEL Industries**

|  |
| --- |
| **Customer Industry Trend/Outlook** |
| Industry R Tailwinds [ ]  Headwinds*NOTES:**Tailwinds: Moderate Secular like FMCG* |
| **Business Slotting** |
| R B2B 🞏 B2C 🞏 Asset Heavy R Asset Light 🞏 Intellectual Prop R Price Taker 🞏Price Setter 🞏Oligopoly R Monopoly/ Duopoly R Customer Capex LedNOTES: Monopoly/Duopoly -> *(Soft, no other domestic player)* |
| **Elevator Pitch** |
| 1. For such a small business 100 Cr seems like a differentiated business model
	1. Import Substitution
	2. Prestigious Global Clients like Nestle, Mondolez, ITC, Kraft, Hersheys
	3. Exports
2. Invited by customer for competitive bidding
3. Technocrat promoters
4. Supportive Factors
	1. Food industry Not cyclical -> DMF Foods, Balaji, Pratap Snacks
	2. Food industry is stable and growing (More Urbanization, More consumption)
	3. 10-15% growth of customer industry
	4. Nestle – New Product introduction, ITC – 10,000 Cr. Capex
 |
| **BUSINESS ATTRACTIVNESS – <RATING>** |
|

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Business Attractiveness | CS | H | M | L |
| Strongly differentiated business model |  | ✓ |  |  |
| Competitive Position getting stronger/weaker | ✓ |  |  |  |
| Next level of the business |  | ✓ |  |  |
| Value Migration curve | ✓ |  |  |  |
| Quality of Earnings |  |  |  | ✓ |
| Control over variables |  |  |  |  |

NOTES:*Strongly differentiated business model** *Import Substitution*
* *Difficult to dislodge*
* *Reputed clients (talking to other mkts)*
* *No other players*

Competitive Position getting stronger/weaker* *Comp to domestic suppliers*

Next level of the business* *Default choice for STD*
* *Suppliers to Ford Ind*

*Quality of Earnings** Lumpy, No bargaining power

GM at 50% not high, and there has been recent spurt in GM, seems incidental (due to steel?) not structural |

| Key Growth Drivers | CS | H | M | L |
| --- | --- | --- | --- | --- |
| 1. Big Capex in Food
2. Big Export Order
3. Indian Snack Manufacture order
 |  | ✓ | ✓✓ |  |
| Key Profitability Drivers |  |  |  |  |
| 1. Operating Leverage
2. RM cycle
3. Employee Driven (design driven competency)
 | ✓ | ✓✓ |  |  |
| Capital Intensity |  |  |  |  |
| 1. FA Turnover 6.5 (High)
 |  |  |  | ✓ |

NOTES: |
| **MANAGEMENT QUALITY – <RATING>** |
|

|  |  |  |  |
| --- | --- | --- | --- |
|  | H | M | L |
| R Special DNA of Business |  |  |  |
| Cost Efficiency Focus |  |  | ✓ |
| Production Efficiency | ✓ |  |  |
| Capital Efficiency/Allocation |  |  | ✓ |
| Innovation |  | ✓ |  |
| New Revenue Stream/Geography |  |  | ✓ |
| Value Chain Migration |  | ✓ |  |
| Strategic Thinking |  |  | ✓ |
| Ability to manage downturns |  | ✓ |  |
| Walking the Talk |  |  |  |

*NOTES:** Good at import substitution
* Customer asks them to do custom design
* Core Technology guys
* Have met every demand/opportunity
* Track record for Nestle hasn’t been good fiasco (20/4/15)
* FA: 6.5x TA 1.3x 22 cr investment
 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | H | M | L |
| 🞏Execution Skills |  |  |  |
| Workforce Handling |  | ✓ |  |
| Customer Trust Win | ✓ |  |  |
| Deeper/Broader customer penetration |  | ✓ |  |
| Successful Project | ✓ |  |  |
| 🞏Reputation |  |  |  |
| Family Business | ✓ |  |  |
| Minority Shareholder Treatment |  | ✓ |  |
| Corp. Governance perceived |  | ✓ |  |

NOTES:* Multiple wins with global customer is exciting but also lost Amul to EU competitor
* WHO will again post tough compliance for new bids
 |
| **GROWTH/SCALABILITY – <RATING>** | **Business Model Vulnerability – <RATING>** |
|

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Growth/Scalability | CS | H | M | L |
| Linear |  |  |  | ✓ |
| R Industry R Mkt. Share QMargin QPrice Increase |  |  |  |  |
| Expansionary |  |  |  | ✓ |
| R Value Migration R New Geography Q New Revenue Stream |  |  |  |  |

 | 1. Nature of business – people driven, difficult to scale
2. B2B – No bargaining power
3. Domestic snack food customers could be higher margin sales
 |
| **VALUATIONS – <RATING>** |
| Valuation Led by R Earning Trajectory Q Value Migration Q Re-rating *NOTES: B2B – Not a high quality earning & lumpy in nature* | Operating Leverage led byR Gross Margin R Asset Turns R Product Mix Q Technology *NOTES:* * *Employee costs grows at slower pace than sales*
* *Operating leverage: 3.42 very high*
* *Product mix impact is slight*
* *Hershey’s 13-15 CV order*
 |
| Overhang: Q PSU Q Not Understood Q Sector Apathy Q Regulatory Q Political Q Corp. Governance Q Succession Planning R High SalariesNOTES:* High salaries on small base
* Growth XXX is not material
 | SupportQ Dividend Yield R Low FloatNOTES:* Dividend Yield: 1.65%
* Low Float: 50% Promoter
 |
| **RISK and MITIGATION – <RATING>** |
| Risk Covered in MultiplesQ Everything R 20% Downside Q 2-3x upside in 2-3 years*NOTES:** *15% growth today, not even 20%*
* *No growth clarity (should grow at 20-25% there is no IF question, but question in when)*

*Picture can change dramatically on big ticket sales* | Liquidity Stress TestCan sit tight for 1-2 years, despiteR Execution DelayR Business Temporary Issue*NOTES:** *If current run rate of Rs. 25 Cr. Is maintained then can stay for future potential*

*Exit if run rate is below 25 Cr. For two quarters* |
| Risk / Mitigation

|  |  |  |  |
| --- | --- | --- | --- |
|  | H | M | L |
|  |  |  |  |
| Supply/demand disruption | ✓ |  |  |
| Single point of failure | ✓ |  |  |
| Environmental |  |  |  |
| Regulatory |  |  |  |
| Buyer | ✓ |  |  |
| Competition |  | ✓ |  |
| Sustainability |  | ✓ |  |

*NOTES:** Able to compete and win
* Haven’t opened up
* 100 Cr to 200 Cr can happen, sustaining 200 Cr Sales in lumpy based project business will be tough
* Dependent completely on project sales
* Service AMC very low
* Individual comp. expert sales
 |
| **Medium Term Visibility – NOT HIGH** |
| EarningQ Capex CompletionQ Order Book/SalesR Mgmt Guidance for 2X from 100Cr to 200 Cr | MarginsQ PricingQ Raw MaterialR Employee Cost lower than sales | EfficiencyR Asset TurnsQ Capital Turns |
| *NOTES:** *Baked by consumer industry and therefore secular growth*
 | *NOTES:** *Margin expansion not expected in general*
* *Bargaining power of customer is high*
 | *NOTES:** *Asset Turns High*
 |
| INVESTMENT RATIONALE |
| Allocation: Q Strategic Q 2-3x in 2-3 years Q 10x in 10 years R Opportunistic (50-100% pop)*NOTES:** Mgmt. guidance of 200 cr sales in 2-3 year
 |

**Financial Ratios:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **TTM Sales** | **TTM Net Profit** | **TTM EBIT** | **ROIC** | **Invested Cp** | **EPA/ Sales** | **Mkt. Cap** | **P/B** | **P/S** | **P/E** | **P/CFO** | **Div Yield** | **EV / EBITDA** | **Earning Yield** |
| 106.34 | 12.31 | 17.66 | 35% | 38.32 | 7.85% | 146.2 | 2.81 | 1.37 | 11.88 | 9.00 | 1.66% | 9.33 | 8.42% |
| **10 Yr FA Invest Rate** | **Dividend Payout** | **5 Yr Avg. Sust. Growth** | **Retained Earning/ TA** | **RoE** | **WCap/ TA** | **Total Asset Turn** | **Fixed Asset Turn** | **Cash Eqv** | **Investments** | **Net Profit** | **CFO** | **FCF/Sales** | **Op Leverage** |
| 11.35% | 18.67% | 7.73% | 13% | 25% | 26% | 1.31 | 6.99 | 5.5 | 14.9 | 12.96 | 9.15 | 7% | 3.42 |
| **10 Yr Incr WCap Invest Rate** | **Industry FA turns** | **Industry WCap/TA** | **Industry RE/TA** | **Industry RoE** | **5 Yr Avg. WCap/TA** | **5 Yr Avg. TA turns** | **5 Yr Avg. FA turn** | **Steady State Value** | **Future Earning Value** | **SState Value / MCap** | **Future Value / MCap** |  |  |
| 13.84% |  |  |  |  | 28% | 1.02 | 4.35 | 233 | 0 | 159% | 59% |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **FY 10** | **FY 11** | **FY 12** | **FY 13** | **FY 14** | **FY 15** | **FY 16** | **FY 17** | **FY 18** | **FY 19** |  |  |  |
| RoE | 4% | 13% | 14% | 14% | 10% | -29% | 16% | 19% | 14% | 25% |  |  |  |
| CC Cycle | 87 | 162 | 105 | 34 | -69 | -65 | 34 | 55 | 12 | -11 |  |  |  |
| Gr Margin | 25% | 32% | 37% | 49% | 51% | 32% | 57% | 56% | 47% | 50% |  |  |  |
| Eq. Dilution | 0 | 0 | 0 | 0 | 0 | .615 | 0 | 0 | 0 | 0 |  |  |  |

*NOTES:*

* ***10 Yr FA Invest Rate and 10 Yr Incr WCap Invest Rate*** *-> Reflect low capital intensity*
* ***Retained Earning/ TA*** *-> Low?*
* ***Total Assets Turns*** *-> Low*
* ***EPA/Sales*** *-> High*
* ***RoIC*** *-> High RoIC looks sustainable*
* *Sustaining GM at 50% level, but not high*
* ***P/S*** *-> Very attractive to acquirers?*
* ***If Axtel manages to grow then the business will throw cash***
* ***Cash + investment = 21 Crore over 100 Cr ->*** *Capital Allocation Suspect*
* ***Margin not consistent with Quality business positioning?***