

Mahindra CIE Automotive (MAHAUT) ₹ 248

Operating performance continues to improve!

- Mahindra CIE's Q2CY17 consolidated net sales were at ₹ 1449 crore (up 13.3% YoY) vs. our estimate of ₹ 1,532 crore. The revenue is not comparable YoY as it includes integration of Bill Forge (BFL). Revenue from Indian operation (standalone + BFL + gears business) grew 50.6% YoY to ₹ 636 crore supported by production growth in UVs, tractors and 2-W. Revenue from European operation declined 2.1% YoY to ₹ 894 crore mainly due to currency translation
- Consolidated EBITDA margins came in at 14.2% (up 248 bps YoY & 81 bps QoQ) vs. our estimate of 13.4% attributable to 1) integration of high margin BFL business (recovered post demonetisation) & 2) yielded benefit of the clean up made in European operations in CY16. Consolidated PBT was at ₹ 123 crore (vs. PAT estimate of ₹ 101.6 crore)
- On a standalone basis, revenues increased 11.1% YoY to ₹ 449.5 crore, (vs. estimate of ₹ 425 crore). At 9.5%, EBITDA margins declined 33 bps YoY, (up 21 bps QoQ), vs. estimate of 10.4%. Higher other income & exceptional expense (VRS worth ₹ 9 crore last year) boosted PAT that was up 56.1% YoY to ₹ 17.7 crore
- BFL's business has recovered from demonetisation and is likely to support growth. The clean-up in Europe will continue to expand its margins. MCI is also likely to de-bottleneck its capacity thereby resulting in higher vacuum to execute new orders from its customers, going forward

Phase 2 growth strategy focuses on profitability

Mahindra CIE (MCI) embarked on its Phase 2 (2017-20) strategy that focuses on growth & profitability. The strategy can be broadly divided into two with a) focus on business development & growth (including organic growth, new acquisitions (like Bill Forge – BFL), entry into new products & customer development in India & optimising its utilisation & b) focus on profitability (through transfer of technology, better efficiency & increase exports). The first step of the second phase has already been taken with acquisition of BFL & appointment of CEO. The clean-up done in the past (2014-16) includes turnaround of Mahindra Forging Europe (MFE) where margins improved from single low digit to double digit and Metalcastello business that is helping MCI in terms of margin expansion, going forward.

BFL business on its way for recovery; post impact by demonetisation!

With the acquisition of BFL, MCI started to diversify its client risk with revenue contribution from top two clients reduced to ~45% in CY16 vs. 55% in CY15. The acquisition not only helps MCI explore the 4W & 2W space but also diversify its customer concentration mix coupled with rising exports share. BFL operations, however, were impacted by demonetisation in Q1CY17, which now recovered thereby supporting overall growth. The integration of higher margin BFL business further lifts MCI's overall margins. MCI may also think of using its Chakan plant (that currently is under utilised), for manufacturing BFL's products thereby addressing its capacity need and avoiding any major capacity addition.

Turnaround story intact; reiterate BUY!

MCI has a **global footprint with global promoters** and is a unique case of valuation considering its massive turnaround possibilities. It has a presence across CV & PV with complementary strengths of dual parents. It is also planning an inorganic expansion via partners/acquisitions and wishes to cater to Japanese OEMs. Its consistent focus on cost rationalisation would improve EBIT margins ~10% & RoCE to ~13% in CY18E. Thus, we continue to value MCI at 12x CY18E EV/EBITDA multiple & maintain our target price of ₹ 280 with **BUY** recommendation.

Rating matrix		
Rating	:	Buy
Target	:	₹ 279
Target Period	:	12 months
Potential Upside	:	14%

What's Changed?		
Target		Unchanged
EPS CY17E	Changed from ₹ 10.3 to ₹ 9.7	
EPS CY18E	Changed from ₹ 13.5 to ₹ 12.9	
Rating		Unchanged

Standalone Quarterly Performance					
(₹ Crore)	Q2CY17	Q2CY16	YoY	Q1CY17	QoQ
Revenues	449.5	404.5	11.1	464.1	-3.1
EBITDA	42.7	39.8	7.4	43.1	-1.0
EBITDA (%)	9.5	9.8	-33 bps	9.3	21 bps
Reported PAT	17.7	11.3	56.1	16.7	5.9

Key Financials				
₹ Crore	CY15	CY16	CY17E	CY18E
Net Sales	3,677	5,287	5,841	6,313
EBITDA	378.0	531.1	789.1	934.3
Net Profit	87.2	169.0	368.2	486.5
EPS (₹)	2.3	4.5	9.7	12.9

All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15 is a nine months period

Valuation summary				
	CY15	CY16	CY17E	CY18E
P/E (x)	107.5	55.5	25.5	19.3
EV/EBITDA (x)	27.3	20.0	13.3	11.0
P/BV (x)	4.7	2.9	2.6	2.3
RoNW (%)	7.5	5.4	10.3	12.1
RoCE (%)	7.4	6.9	10.7	12.9

All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15 is a nine months period

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	₹ 9224.7
Total Debt (CY16)	₹ 1362.06 Crore
Cash & Investments (CY16)	₹ 137 Crore
EV	₹ 10449.7 Crore
52 week H/L (₹)	260/170
Equity capital (₹ crore)	₹ 378.1 Crore
Face value (₹)	₹ 5

All financial numbers incorporate merger assumption completed

Price performance (%)				
	1M	3M	6M	12M
Mahindra CIE Automotive Ltd	22.4	26.2	23.2	22.3
Motherson Sumi Systems Ltd	7.9	16.5	21.2	55.3
Bharat Forge Ltd	9.4	21.0	29.4	44.4

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Variance analysis- Standalone

	Q2CY17	Q4CY16E	Q2CY16	YoY(%)	Q1CY17	QoQ(%)	Comments
Total Operating Income	449.5	424.8	404.5	11.1	464.1	-3.1	Standalone revenue growth was supported by demand traction from its top two client (M&M and TML)
Raw Material Expenses	229.6	216.3	197.4	16.3	252.6	-9.1	
Employee Expenses	56.6	54.3	59.1	-4.1	56.6	0.0	
Other expenses	120.6	110.1	108.2	11.4	111.7	7.9	
Operating Profit (EBITDA)	42.7	44.0	39.8	7.4	43.1	-1.0	
EBITDA Margin (%)	9.5	10.4	9.8	-33 bps	9.3	21 bps	Margins contract YoY ; primarily due to higher raw material cost
Other Income	4.3	1.0	1.0	325.8	1.0	325.8	
Depreciation	18.2	17.1	17.2	6.0	17.1	6.5	
Interest	1.8	0.5	0.8	121.9	2.6	-27.8	
PAT	17.7	18.5	11.3	56.1	16.7	5.9	PAT looks higher YoY; as Q2CY16 (last year) it had exceptional expense of ₹ 9 crore
EPS	0.3	0.5	0.3	13.3	0.4	-23.1	
Key Metrics (₹ crore)*							
MCIE India	635.6		422.1	50.6	623.4	2.0	Revenue up 50.6% YoY mainly due to 1) acquisition of BFL supported the India business and 2) decent growth in UVs, tractor and 2-W production during Q2CY17
EBITDA Margins %	13.8		9.9	390 bps	12.7	110 bps	Margin expansion was primarily due integration of high margin business (BFL)
MCIE Europe	894.3		913.9	-2.1	904.1	-1.1	Revenue growth witnessed steady improvement but currency translation impacted the overall topline
EBITDA Margins %	13.2		12.3	90 bps	12.8	40 bps	The clean off completed last year is yielding positive results in terms of margin expansion on a YoY basis. The management expects margins to sustain & further move upwards, going forward
MCIE Consolidated	1,524.8		1,326.6	14.9	1,521.2	0.2	BFL integration and standalone business supported overall growth
EBITDA Margins %	13.5		11.3	220 bps	12.8	70 bps	Higher margins from both (India + Europe) led consolidated margins to move upwards

Source: Company, ICICIdirect.com Research; *As reported in company presentation

Change in estimates

(₹ Crore)	CY17E			CY18E			Comments
	Old	New	% change	Old	New	% change	
Revenue	5,996.9	6,096.5	1.7	6,597.6	6,597.2	0.0	Revenue estimate largely remained unchanged
EBITDA	763.2	789.1	3.4	934.4	934.3	0.0	
EBITDA Margin (%)	12.7	12.9	22 bps	14.2	14.2	0 bps	The turnaround in European business is largely complete in addition to higher margin business (Bill Forge) and is expected to drive margin higher in CY17E
PAT	390.6	368.2	-5.7	512.2	486.5	-5.0	Revision in tax & interest outgo estimates for CY18E; resulted into lowr PAT
EPS (₹)	10.3	9.7	-5.7	13.5	12.9	-5.0	

Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed.

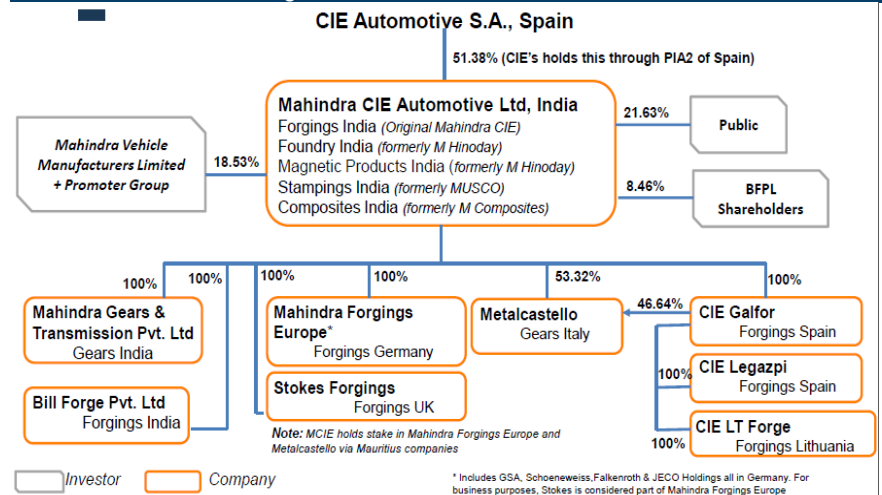
Key conference call takeaways

- According to the management, for Q2CY17, revenue from Indian operations was supported by the acquisition of Bill Forge (BFL) and higher production of segments like UVs, tractors, and 2-W. BFL's operations were impacted by demonetisation in the past, which has now improved thereby supporting its overall growth. European operations were largely impacted by the currency translation thereby registering negative growth
- With August traditionally being considered a holiday month in Europe, MCI believes Q3CY17 European operations may remain subdued
- The management expects the debt level for CY17 to be maintained at a level similar to CY16
- Overall capex for H1CY17 was at ₹ 162.2 crore. The management has guided for an overall capex in the range of 5-6% of sales over the next couple of years
- The tractor segment currently accounts for ~10% of the consolidated business (including BFL) and is expected to register good growth, going forward
- BFL's India plant is almost running at 100% utilisation levels. Hence, the management may commence BFL's production at MCI's plants (Pune - Chakan), which is under-utilised
- The group has decided that Mr Pedro will again be moving back to Spain (CIE representative earlier in India) taking up new responsibility

Company Analysis

MCI's standalone business consists of Mahindra Forging India, casting & magnet business, composites & stamping division while at the consolidated level, it includes Mahindra Forging Europe, CIE's forging business and Mahindra's gears & Bill Forge business. The standalone business accounts for ~32% of overall revenue for CY16 while the remaining 68% is from its subsidiary. The newly acquired BFL is also its subsidiary and comes under the consolidated performance of the company.

Exhibit 1: Mahindra CIE – Legal Structure



Source: Company, ICICIdirect.com Research.

MCI's phase 1 (2014-17) strategy of consolidation made good progress in areas of optimising operations, turnaround of various segments, controlling capex, reducing debt, among others. It first targeted Mahindra Forging Europe (MFE) as its potential turnaround candidate where its margins significantly improved from low single digits to double digits. MCI also discontinued its unprofitable production, impacting Q4CY16 revenue. However, the same will be margin accretive, going forward. A turnaround will further lift its Metalcastello business while CIE's European business continues its stable operations. Also, with Phase 1 strategy largely complete, the group has decided that Mr Pedro will again be moving back to Spain (CIE representative earlier in India) taking up new responsibility.

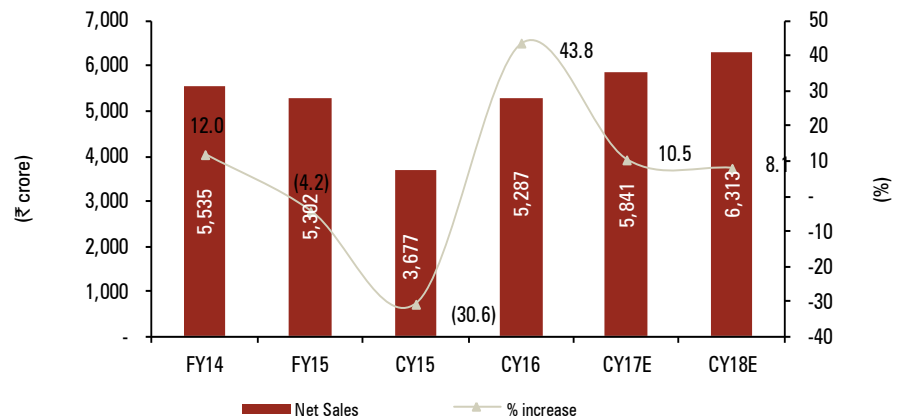
MCI has embarked on its Phase 2 (2017-20) strategy, which focuses on growth & profitability. The strategy can be broadly divided into two with a) focusing on business development & growth [which includes organic growth, new acquisitions (like Bill Forge – BFL)], entry into new products & customers development in India and optimise its utilisation and b) focusing on profitability (through transfer of technology, improvement in efficiency and increase exports. The first step of the second phase has already been taken with the acquisition of BFL & appointment of Ander Arenara Alvarez as CEO, which will optimise the synergy within the company.

Revenue growth to be modest (Europe + India faces growth challenges)

Mahindra CIE’s geography wise revenue mix is at 62:38 for outside/within India. Segment wise, the forgings entity currently accounts for 66% of revenue and would continue to dominate the overall pie of the consolidated revenue. Other segments viz. stampings, gears, castings account for 13%, 9% and 7%, respectively, of revenue. Composite and magnetic products account for a small portion of 2% & 3%, respectively, of revenue for the company.

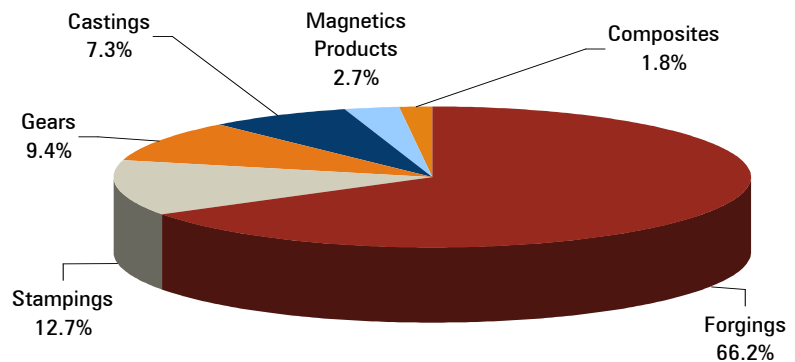
According to the management, the European market has decent demand and growth is expected to recover gradually, going forward. However, we believe Brexit may impact the company’s performance to some extent, going forward. On a standalone business, apart from new launches by its top two clients (M&M and Tata Motors), its tie-up with other domestic OEMs (namely Maruti Suzuki, Hyundai, Renault and Ford) would support growth. On an overall basis, we expect revenue CAGR of ~9% over CY16-18E (as BFL acquisition will increase the overall revenue but a subdued demand environment & discontinuance of unprofitable business will impact its performance).

Exhibit 2: Modest revenue growth



Source: Company, ICICIdirect.com Research. All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15 is a nine months period

Exhibit 3: Consolidated segment mix (%) – CY2016



Source: Company, ICICIdirect.com Research.

Exhibit 4: Revenue mix (segment, geography and product wise break up) ₹ crore

Segment	Geography	Product	Focus Area	Customers	FY15 (12M)	CY15 (9M)	CY16 (12M)
Standalone business							
Forging	India	Crankshafts, Stub Axles	PV, UV and Tractors	M&M, MSIL and TML	370	275	430
Stamping	India	Sheet metal stamping, Component & Assemblies	PV & UV	M&M and TML	665	482	705
Casting	India	Turbocharger Housing, Axles & Transmission Parts	PV, UV, Construction Equipment, Earthmoving, Tractors & export	M&M, Hyundai, John Deere, JCB, Cummins Turbo	411	285	406
Magnetic Product	India	Soft & Hard Magnets, Induction lighting	Tier 1 of PV, UV & 2-W and export	Denso, Varroc, Lucas TVS, Nippon Electric, Bajaj Auto	121	98	149
Composite	India	Compound & Component	Electrical, Switchgear, Auto Component	L&T switchgear, M&M, Volvo Eicher	75	64	98
Total Standalone Revenue					1643	1204	1787
Subsidiaries							
Mahindra Forging Europe	Europe	Forged & Machined parts, Front Axles beams & Steel Piston	HCV	Diamler AG, Scania, Man, DAF, KS, Mahle, ZF, KION, Linde, AGCO	1,951	1,271	1,584
CIE Forging	Europe	Forged steel parts for Industrial, Crankshafts, Common rail, Stubs, Tulips	PV	VW, BMW, Mercedes, Audi, Renault, Fiat	1,489	1,037	1,486
Mahindra Gears	India	Gears (Engine, Timing, Transmission)	PV & UV, Tractors & Export	M&M, Tumer, Eaton, NHFI, Truck Tractor CNH	138	106	159
Metallcastello	Europe	Gears (Engine, Timing, Transmission), Crown wheel Pinion	Tractors, Construction Equipment, Earthmoving, Exports	John Deere, Eaton CNH	349	249	364
Bill Forge*	India	2-W : Steering races & engine valve retainers. For PV - constant velocity joints, tulips, steering shafts & yokes & wheel hubs	2-W & PV	Hero, Bajaj, HMSI, TVS, Ford, GKN, NTN, Nexteer, RaneNSK	NA	NA	175
Total Subsidiary Revenue					3927	2662	3768
Consolidated Revenue					5570	3866	5555

Source: Company, ICICIdirect.com Research; All financial numbers incorporate merger assumption completed; *Bill Forge revenue is only for the period Oct- Dec 2016 (3M)

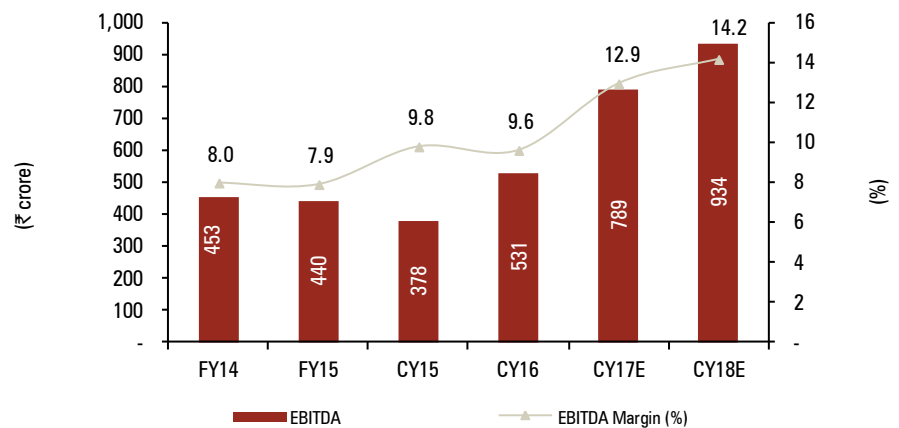
Bill Forge acquisition = to diversify its segment + customers + reach

The BFL acquisition will help MCI diversify its segment, customer & reach thus benefiting it. It acquired a 100% stake in BFL for ₹ 1331 crore, through a mix of equity (₹ 1,090 crore) & cash (₹ 241 crore). BFL has a presence across segments with 4W (accounting ~50% of its revenue), 2W (~30% of revenue) and exports & 3W account for ~20% of revenue. Export revenue has grown >2.5x in the last two years & mainly supplies to Thailand, China, Mexico, Europe & US. BFL has key customers viz. HMCL, BAL, HMSI, TVS, MSIL, Hyundai, Honda, Ford, etc, with top 10 clients accounting for 72% of its revenue. Thus, the acquisition not only helps MCI further explore the 4W & 2W space but also diversify its customer concentration. Further, MCI will have a largely pan-India access vs. past exposure, which is mainly to the western region of India (Pune cluster). BFL has higher machining content, thereby deriving higher value addition of its products.

EBITDA margins to rise as CIE philosophy takes over!

Looking at the history of CIE's acquisitions, it is evident that CIE's management has a very strong focus on all kinds of costs ranging from contribution of products to corporate overheads. CIE focuses on the decentralised management of various plants, which are independently given targets of RoCEs and EBIT margins. The overall group turnaround is gradually progressing. The integration of the acquired higher margin BFL business will drive the blended margins of Indian operations while the clean up made in the European operations (Mahindra Forging Europe (MFE) & Metalcastello, Italy) will drive European margins, going forward. The management's EBIT margin target of ~10% would be achieved over the next couple of years. Thus, we estimate the progression of EBITDA margins will be smooth on the way (12.9% in CY17E and 14.2% in CY18E).

Exhibit 5: EBITDA margin to grow strongly

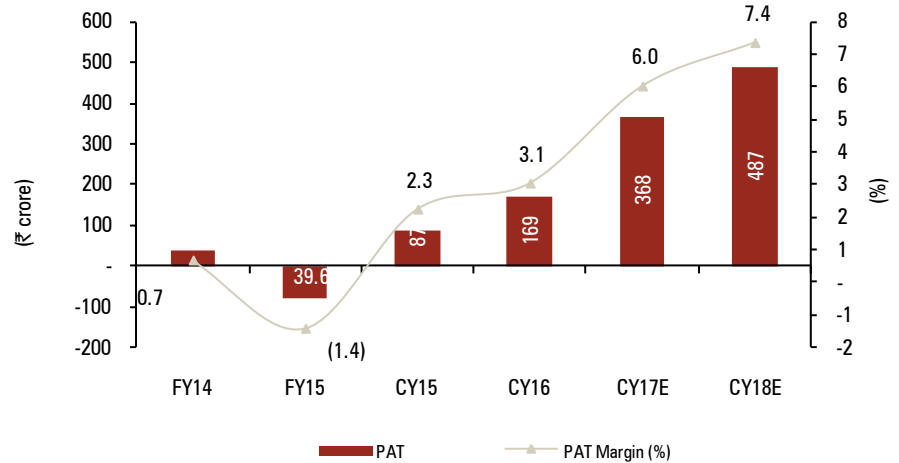


Source: Company, ICICIdirect.com Research. All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15 is a nine months period

Large room for non-linear profit growth!

The operating and financial revival of hotspots like MFE can have a significant impact on the profitability of the overall business. We expect this to happen, albeit at a pace slower than that targeted by CIE's management. We expect profits after MI (PE stake in Metalcastello) to gallop to ~₹ 487 crore in CY18E with PAT margins improving ~670 bps from FY14-CY18E to 7.4%. The path to this improvement has been started since CY15. We may see a significant improvement in CY17E & CY18E with PAT margins likely to come in at 6%, 7.4%, respectively.

Exhibit 6: Profit to start getting pumped up as operational improvement kicks in!!!



Source: Company, ICICIdirect.com Research. All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15 is a nine months period

Outlook and valuation

We feel MCI provides a rare, unique Indian auto component play, which has a global footprint with global promoters. The company is a unique case of valuation considering the massive turnaround possibilities. Hence, we are factoring in the same. We expect the turnaround to be significant, as, according to our estimates, there will be non-linear profit growth from ~₹ 40 crore in FY14 to ₹ 487 core in CY18E. MCI would find a way to increase efficient and profitable utilisation with no major capex (only maintenance capex of ₹ 250-₹ 300 crore) over the next two or three years.

We expect strong business prospects to fructify into a turnaround, further resulting into net debt ~₹ 1233 crore till CY18E (CY18E-debt/EBITDA: 1.3x, debt/equity: 0.3x FY13- debt/EBITDA: ~3.7x, debt/equity: 0.7). We also expect MCI to pay dividends, going forward. We continue to value the stock on EV/EBITDA multiple of 12x its CY18E, considering it is a turnaround company. Hence, we maintain **BUY** rating with a target price of ₹ 280/share.

Exhibit 7: Valuation

Particulars	
CY18E EBITDA (₹ crore)	934.3
Implied target EV/EBITDA (x)	12
EV (₹ crore)	11483.1
CY18E Net Debt (₹ crore)	935
Mcap (₹ crore)	10548
No. of shares (crore)	37.8
Target Price (₹ per share)	279

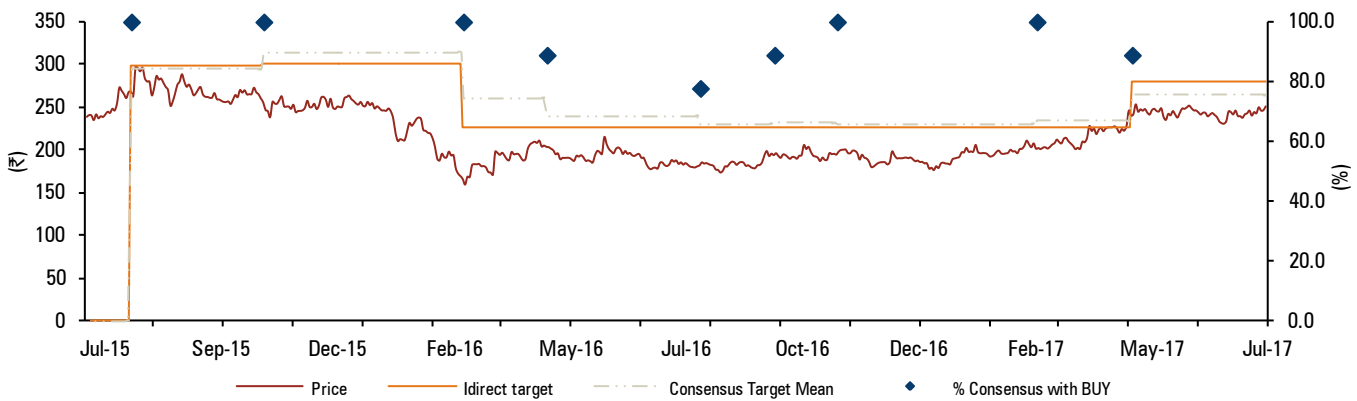
Source: Company, ICICIdirect.com Research

Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY15	5,301.9	12.0	(2.1)	NA	(118.1)	24.1	5.2	7.1
CY15	3,677.5	(30.6)	2.3	NA	105.8	26.9	7.5	7.4
CY16	5,286.7	43.8	4.5	93.8	54.6	19.7	5.4	6.9
CY17E	5,841.2	10.5	9.7	117.9	25.1	13.1	10.3	10.7
CY18E	6,313.1	8.1	12.9	32.1	19.0	10.8	12.1	12.9

Source: Company, ICICIdirect.com Research. All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15E is a nine months period

Recommended history vs. consensus estimates



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Jun-08	Mahindra Forging's acquisitions in Europe, including Schöneweiss, start to integrate into the business
Apr-09	The company reports annual losses on the back of sudden downturn in the European business
Oct-09	Domestic business also suffers on the back of Lehmann crisis
Nov-09	Mahindra Forgings invests in doubling installed capacity in the forgings entity in India to 80,000 MT
Mar-10	Receives best supplier awards from Volvo Eicher, Kirloskar Oil Engines
Jul-10	Company starts to report better financials compared to previous years
Sep-11	Third crankshaft machining line installed, new makino installed for tool room in die production
Sep-13	CIE Automotive Spain and M&M agree to a merger between Mahindra Systech and CIE Forgings Europe. M&M acquires 13.5% stake in CIE SPA for €6 while retaining 20% direct ownership in new company Mahindra CIE automotive. CIE post merger will have ~51% stake in the company
Jan-14	CIE's efforts in turning around Mahindra Forgings Europe start to reflect fruitfully as MFE starts to clock ~6-8% EBITDA
Jun-14	All parties ranging from shareholders to creditors give approval to the merger. Final court approval pending
Oct-14	Management indicates completion of the merger process likely by early December
Dec-14	Merger of Mahindra CIE companies formally completed on December 10, 2014
Jul-16	To optimise the synergy within companies, the board of directors have appointed Ander Arenara Alvarez as Chief Executive Officer of MCI
Sep-16	MCI acquires Bill Forge (which is into forging capabilities) which is into 4-W, 2-W and exports markets thereby diversifying its segment, customer & geography mix going forward. It will acquire 100% stake for ₹ 1331 crore, through a mix of equity (value ₹ 1,090 crore) & cash (₹ 241 crore).
Oct-16	The Board of Directors appoints K Jayaprakash as Chief Financial Officer of the company

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Participaciones Internacionales Autometal DOS, S. L.	31-Mar-17	0.51	194.3	0.00
2	Mahindra Group	31-Mar-17	0.17	65.3	0.00
3	Ainos Holdings Ltd.	31-Mar-17	0.04	13.8	0.00
4	GIC Private Limited	31-Mar-17	0.02	6.6	-0.01
5	Sundaram Asset Management Company Limited	31-Mar-17	0.02	5.8	0.00
6	Haridass (Anjali Powar)	31-Mar-17	0.02	5.7	0.00
7	Haridass (Anil)	31-Mar-17	0.01	5.6	0.00
8	Prudential Management & Services Pvt. Ltd.	31-Mar-17	0.01	4.8	0.00
9	Haridass (Sunil)	31-Mar-17	0.01	4.6	0.00
10	Life Insurance Corporation of India	31-Mar-17	0.01	4.4	0.00

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	74.7	74.7	69.9	69.9	69.9
FII	6.2	6.1	5.6	5.7	5.5
DII	9.5	9.1	11.5	11.3	11.5
Others	9.6	10.1	13.0	13.1	13.2

Source: Reuters, ICICIdirect.com Research

Recent Activity

Buys				Sells			
Investor name	Value	Shares		Investor name	Value	Shares	
UTI Asset Management Co. Ltd.	2.82	0.74		ICICI Prudential Asset Management Co. Ltd.	-1.64	-0.44	
L&T Investment Management Limited	1.53	0.40		Tata Asset Management Limited	-0.91	-0.24	
State Street Global Advisors (US)	0.32	0.08		Luthra (Hemant)	-0.38	-0.10	
Dimensional Fund Advisors, L.P.	0.02	0.01		Birla Sun Life Asset Management Company Ltd.	-0.38	-0.10	
BlackRock Asset Management North Asia Limited	0.01	0.00		Baillie Gifford & Co.	-0.22	-0.06	

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	CY15	CY16	CY17E	CY18E	
Total operating Income	3,861.2	5,524.6	6,096.5	6,597.2	
Growth (%)	-30.7	43.1	10.4	8.2	
Raw Material Expenses	1,726.3	2,144.4	2,704.5	2,935.6	
Employee Expenses	783.5	1,102.5	1,133.2	1,167.9	
Other Expenses	973.4	1,746.6	1,469.6	1,559.3	
Total Operating Expenditure	3,483.2	4,993.5	5,307.3	5,662.9	
EBITDA	378.0	531.1	789.1	934.3	
Growth (%)		40.5	48.6	18.4	
Other Income	17.4	31.4	26.3	31.6	
Interest	47.1	59.4	59.4	53.4	
Depreciation	163.7	232.5	265.2	263.9	
PBT	106.7	261.5	490.9	648.7	
Total Tax	19.6	92.6	122.7	162.2	
PAT before Minority Interest	87.2	169.0	368.2	486.5	
Minority Interest	0.0	0.0	0.0	0.0	
PAT after Minority Interest	87.2	169.0	368.2	486.5	
EPS (₹)	2.3	4.5	9.7	12.9	

Source: Company, ICICIdirect.com Research. All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15 is a nine months period

Balance sheet		₹ Crore			
(Year-end March)	CY15	CY16	CY17E	CY18E	
Liabilities					
Equity Capital	323.3	378.1	378.1	378.1	
Reserve and Surplus	1,687.4	2,888.1	3,213.3	3,646.7	
Total Shareholders funds	2,010.7	3,266.2	3,591.4	4,024.8	
Total Debt	1,055.6	1,362.1	1,361.9	1,233.0	
Minority Interest	0.0	0.0	0.0	0.0	
Total Liabilities	3,387.2	5,056.3	5,533.4	5,872.0	
Assets					
Gross Block	5,322.7	5,628.6	5,812.0	6,062.0	
Less: Acc Depreciation	3,752.4	3,985.0	4,250.2	4,514.0	
Net Block	1,570.3	1,783.5	2,033.5	2,283.5	
Capital WIP	55.9	96.6	30.0	30.0	
Total Fixed Assets	1,626.2	1,880.1	2,063.5	2,313.5	
Investments	72.2	38.9	42.9	46.5	
Goodwill	1,771.4	2,690.1	2,690	2,690	
Inventory	718.8	835.2	952.0	1,030.3	
Debtors	372.4	521.9	668.1	686.8	
Other current assets	128.4	183.9	202.9	219.5	
Cash	50.1	98.1	221.6	298.3	
Total Current Assets	1,269.7	1,639.0	2,044.6	2,234.9	
Creditors	1,454.6	1,526.0	1,670.3	1,807.5	
Provisions	47.0	19.3	30.5	33.0	
Other Current Liabilities	304.5	241.6	266.6	288.5	
Total Current Liabilities	1,806.2	1,786.9	1,967.4	2,129.0	
Net Current Assets	-536.5	-147.9	77.2	105.9	
Application of Funds	3,387.2	5,056.3	5,533.4	5,872.0	

Source: Company, ICICIdirect.com Research. All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15 is a nine months period

Cash flow statement		₹ Crore			
(Year-end March)	CY15	CY16	CY17E	CY18E	
Profit after Tax	87.2	169.0	368.2	486.5	
Add: Depreciation	163.7	232.5	265.2	263.9	
(Inc)/dec in Current Assets	-39.2	-495.6	-307.2	-135.6	
Inc/(dec) in CL and Provisions	407.3	2.3	180.5	161.6	
CF from operating activities	666.1	-32.4	566.0	829.8	
(Inc)/dec in Investments	-19.5	-90.1	-24.9	-21.8	
(Inc)/dec in Fixed Assets	-311.1	-250.0	-250.0	-250.0	
Others	115.4	-914.3	-61.7	-238.1	
CF from investing activities	-215.2	-1,254.3	-336.5	-509.8	
Interest Paid	-47.1	-59.4	-59.4	-53.4	
Inc/(dec) in loan funds	-462.7	306.4	-0.1	-128.9	
Dividend paid & dividend tax	0.0	0.0	-46.5	-61.0	
Others	19.8	1,087.7	0.0	0.0	
CF from financing activities	-490.0	1,334.8	-106.0	-243.2	
Net Cash flow	-39.1	48.0	123.5	76.7	
Opening Cash	89.2	50.1	98.1	221.6	
Closing Cash	50.1	98.1	221.6	298.3	

Source: Company, ICICIdirect.com Research. All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15 is a nine months period

Key ratios		₹ Crore			
(Year-end March)	CY15	CY16	CY17E	CY18E	
Per share data (₹)					
EPS	2.3	4.5	9.7	12.9	
Cash EPS	6.6	10.6	16.8	19.8	
BV	53.2	86.4	95.0	106.5	
DPS	0.0	0.0	1.0	1.2	
Cash Per Share	1.3	2.6	5.9	7.9	
Operating Ratios (%)					
EBITDA Margin	9.8	9.6	12.9	14.2	
PAT Margin	3.9	3.2	6.0	7.4	
Inventory days	68.0	55.2	57.0	57.0	
Debtor days	35.2	34.5	40.0	38.0	
Creditor days	137.5	100.8	100.0	100.0	
Return Ratios (%)					
RoE	7.5	5.4	10.3	12.1	
RoCE	7.4	6.9	10.7	12.9	
RoIC	19.1	17.8	30.3	39.6	
Valuation Ratios (x)					
P/E	105.8	54.6	25.1	19.0	
EV / EBITDA	26.9	19.7	13.1	10.8	
EV / Net Sales	2.6	1.9	1.7	1.5	
Market Cap / Sales	2.4	1.7	1.5	1.4	
Price to Book Value	4.6	2.8	2.6	2.3	
Solvency Ratios					
Debt/Equity	0.5	0.4	0.4	0.3	
Current Ratio	0.7	1.0	1.1	1.0	
Quick Ratio	0.3	0.5	0.6	0.6	

Source: Company, ICICIdirect.com Research. All financial numbers incorporate merger assumption completed & company has changed its accounting year from FY to CY; hence CY15 is a nine months period

ICICIdirect.com coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Amara Raja (AMARAJ)	843	930	Hold	14404	28.0	33.2	40.4	30.1	25.4	20.9	17.3	14.9	12.4	25.8	27.4	28.0	18.5	19.3	19.6
Apollo Tyre (APOTYR)	254	280	Buy	12789	21.8	19.7	23.3	11.6	12.9	10.9	8.6	8.6	7.5	13.6	11.0	12.0	15.0	12.2	12.9
Ashok Leyland (ASHLEY)	104	12	Buy	29380	2.5	4.3	-0.2	41.0	24.2	-566.6	12.3	11.6	53.8	22.8	21.2	1.3	17.4	21.2	-0.6
Bajaj Auto (BAAUTO)	2827	2780	Hold	81798	132.3	136.6	164.7	21.3	20.6	17.1	17.0	16.5	13.3	30.3	29.0	30.9	22.5	21.1	22.2
Balkrishna Ind. (BALIND)	1616	1670	Buy	15622	74.0	81.4	104.4	19.9	18.1	14.1	12.8	10.6	7.9	23.0	24.0	25.8	20.2	24.0	25.8
Bharat Forge (BHAFOR)	1130	1300	Buy	26339	29.9	40.1	47.6	37.8	28.2	23.7	20.8	13.9	11.7	16.1	22.2	26.9	14.6	17.9	21.2
Bosch (MICO)	24042	26400	Buy	75491	570.5	564.0	658.9	41.5	42.0	35.9	35.8	30.1	25.0	16.9	16.4	17.0	24.8	24.1	25.4
Eicher Motors (EICMOT)	28844	30500	Buy	77907	655.9	833.2	1019.4	44.0	34.6	28.3	24.8	18.4	14.7	39.2	41.1	39.1	36.0	33.6	30.9
Exide Industries (EXIIND)	215	270	Buy	18301	8.2	9.4	11.1	26.4	22.8	19.4	17.7	14.4	12.1	18.7	20.4	21.5	14.1	14.8	15.6
Hero Mototcorp (HERHON)	3692	3975	Buy	73735	156.9	169.1	199.6	23.5	21.8	18.5	15.2	14.3	11.9	53.6	43.5	49.0	39.4	33.0	36.3
JK Tyre & Ind (JKIND)	161	215	Buy	3646	16.6	18.1	31.0	9.7	8.9	5.2	8.1	6.5	4.6	11.2	11.8	16.7	15.8	18.2	24.4
Mahindra CIE (MAHAUT)	250	280	Buy	8065	4.5	9.7	12.9	55.9	25.6	19.4	20.0	13.3	11.0	5.4	10.3	12.1	6.9	10.7	12.9
Maruti Suzuki (MARUTI)	7555	7200	Buy	228299	151.3	242.9	280.1	49.9	31.1	27.0	21.4	18.6	15.8	23.9	26.3	26.5	16.9	20.3	20.4
Motherson (MOTSUM)	325	450	Hold	45623	11.1	16.7	22.9	29.3	19.4	14.2	15.1	10.5	7.8	16.0	22.2	28.4	19.6	23.1	25.0
Tata Motors (TELCO)	464	560	Buy	140174	22.3	42.9	52.6	21.5	11.2	9.1	6.6	4.8	4.2	11.6	16.8	17.1	15.0	22.0	21.1
Wabco India (WABTVS)	5376	6610	Buy	10215	112.5	144.7	178.7	47.8	37.1	30.1	31.8	25.5	20.6	16.9	18.2	18.6	23.6	25.2	25.7

Source: Company, ICICIdirect.com Research * All financial numbers incorporate merger assumption completed

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