

MAHINDRA CIE AUTOMOTIVE

AUTO

BUY

Target Price: Rs 270

Stable quarter

Q2CY17 results were 6% ahead of estimates at operational level driven by margin improvement in Bill Forge (BFL) and Europe. Consolidated EBITDA margin at 13.2% benefitted from closure of the Jeco (Germany) plant and merger of Bill Forge. The management maintained its guidance of further improvement in profitability to global CIE levels driven by superior product mix and process improvements.

The company is focused on: (1) introducing new products and technology (aluminium, plastic); (2) increasing exports; (3) capitalizing on synergies from Bill Forge's acquisition. We turned positive on the company after the recent acquisition of Bill Forge (a strategic fit) and the stock's underperformance over the past 2 years. We maintain estimates and **BUY** rating with TP of Rs 270 (1.1x CY18E EV/E).

CMP : Rs 245
Potential Upside : 10%

MARKET DATA

No. of Shares : 378 mn
Free Float : 30%
Market Cap : Rs 93 bn
52-week High / Low : Rs 260 / Rs 170
Avg. Daily vol. (6mth) : 195,930 shares
Bloomberg Code : MACA IB Equity
Promoters Holding : 70%
FII / DII : 5% / 6%

Takeaways from concall

Mahindra CIE (MACA) India (40% of CY17E revenue)

- ◆ **Operational performance:** Standalone operations' sales posted strong growth on Bill Forge (BFL) merger and robust growth in LCV and tractor segments. EBITDA margin at 9.5% was driven by productivity improvement and operating leverage benefits
- ◆ **Bill Forge:** BFL (merged in Q4CY16) has commissioned new plant in Mexico for supplies to GKN (in NAFTA region) and is ramping up as per schedule (peak revenue of Rs 1.5 bn p.a.)
- ◆ **New growth capex:** The company is planning to increase capacity at its gear operations (Pune plant) and Zaheerabad plant to increase supplies to tractors

(...continued to page 2)

Financial summary (Consolidated)

Y/E December	CY15#	CY16	CY17E	CY18E
Sales (Rs mn)	38,612	53,198	62,797	68,131
Adj PAT (Rs mn)	1,651	1,780	3,897	4,959
Con. EPS* (Rs)	-	-	9.3	12.3
EPS (Rs)	5.1	4.7	10.3	13.1
Change YOY (%)	(8.6)	(30.8)	118.9	27.3
P/E (x)	48.0	52.1	23.8	18.7
RoE (%)	11.3	6.7	11.3	12.8
RoCE (%)	9.8	8.8	13.4	16.2
EV/E (x)	27.0	22.3	13.9	11.4
DPS (Rs)	-	-	0.5	1.0

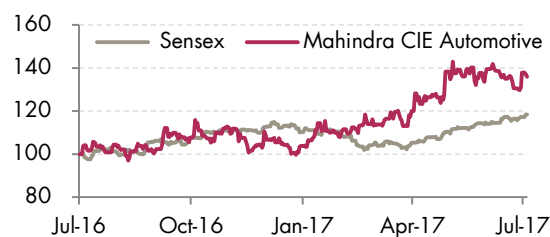
Source: *Consensus broker estimates, Company, Axis Capital

9 months ended

Key drivers (%)

	CY16	CY17E	CY18E
India EBITDA margin	9.0	10.1	11.2
Europe EBITDA margin	10.4	13.9	15.1
Consol EBITDA margin	10.0	12.8	13.9

Price performance



(...continued from page 1)

MACA Europe (60% of CY17 Revenue)

- ◆ **Revenue growth robust:** The European operations posted 9% YoY growth on strong production growth and new order wins
- ◆ **EBITDA margin robust:** The management indicated that the one-off expenses relating to Jeco (Germany) plant closure are behind; this has driven the margin up a sharp 40 bps QoQ to 12.5%. The target remains to reach profitability of CIE Spain and Lithuania plants
- ◆ **Capacity expansion:** The company is undergoing new capex to increase capacity at CIE forging units in Spain and Lithuania, and at Matelcastello plant (for new order win with Caterpillar)

Exhibit 1: Quarterly table

(Rs mn)	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	YoY (%)	QoQ (%)
Revenue							
Standalone	4,045	4,009	4,011	4,266	4,495	11.1	5.4
Subsidiaries	9,676	8,486	8,949	11,515	10,600	9.5	(7.9)
Consolidated	13,721	12,495	12,960	15,781	15,095	10.0	(4.3)
EBITDA							
Standalone	398	349	280	431	427	7.4	(1.0)
Subsidiaries	1,135	1,036	842	1,468	1,568	38.1	6.8
Consolidated	1,533	1,385	1,123	1,899	1,995	30.1	5.1
EBITDA margin (%)							
Standalone	9.8	8.7	7.0	10.1	9.5	(33)	(61)
Subsidiaries	11.7	12.2	9.4	12.7	14.8	306	205
Consolidated	11.2	11.1	8.7	12.0	13.2	204	118

Source: Company, Axis Capital

Exhibit 2: Consolidated summary financials (Rs mn)

	FY14	FY15	CY15 #	CY16	CY17E	CY18E
Revenues	25,907	55,699	38,612	53,198	62,797	68,131
- Growth %	17%	115%	-31%	38%	18%	8%
EBITDA	1,086	5,328	3,780	5,311	8,055	9,498
- Growth %	153%	391%	-29%	41%	52%	18%
EBITDA margin (%)	4.2%	9.6%	9.8%	10.0%	12.8%	13.9%
Depreciation	1,200	2,375	1,637	2,325	2,437	2,543
- Growth %	9%	98%	-31%	42%	5%	4%
Interest	628	1,197	471	594	446	355
- Growth %	27%	90%	-61%	26%	-25%	-20%
Adjusted PAT	(732)	2,405	1,651	1,780	3,897	4,959
- Growth %	-35%	-429%	-31%	8%	119%	27%
Adjusted EPS (Rs)	(7.9)	7.4	5.1	4.7	10.3	13.1

Source: Company, Axis Capital # 9 months ended

Exhibit 3: Standalone summary financials(Rs mn)

	FY14	FY15	CY15 #	CY16	CY17E	CY18E
Revenues	3,865	16,425	12,035	15,981	17,752	20,258
- Growth %	-12%	325%	-27%	33%	11%	14%
EBITDA	523	1,412	1,008	1,443	1,801	2,273
- Growth %	-21%	170%	-29%	43%	25%	26%
EBITDA margin (%)	13.5%	8.6%	8.4%	9.0%	10.1%	11.2%
Depreciation	283	689	544	710	732	762
- Growth %	3%	143%	-21%	31%	3%	4%
Adjusted PAT	180	857	309	605	865	1,200
- Growth %	-56%	377%	-64%	96%	43%	39%
Adjusted EPS (Rs)	1.9	2.7	1.0	1.6	2.3	3.2

Source: Company, Axis Capital# 9 months ended

Exhibit 4: Subsidiary summary financials(Rs mn)

	FY14	FY15	CY15 #	CY16	CY17E	CY18E
Revenues	22,042	39,274	26,577	37,217	45,045	47,874
- Growth %	24%	78%	-32%	40%	21%	6%
EBITDA	562	3,916	2,772	3,869	6,254	7,226
- Growth %	-339%	596%	-29%	40%	62%	16%
EBITDA margin (%)	2.6%	10.0%	10.4%	10.4%	13.9%	15.1%
Depreciation	917	1,686	1,093	1,615	1,706	1,782
- Growth %	11%	84%	-35%	48%	6%	4%
Adjusted PAT	(911)	1,549	1,342	1,216	3,032	3,759
- Growth %	-41%	-270%	-13%	-9%	149%	24%
Adjusted EPS (Rs)	(2.8)	4.8	3.6	3.2	8.0	11.6

Source: Company, Axis Capital# 9 months ended

Financial summary (Consolidated)
Profit & loss (Rs mn)

Y/E December	CY15#	CY16	CY17E	CY18E
Net sales	38,612	53,198	62,797	68,131
Other operating income	-	-	-	-
Total operating income	38,612	53,198	62,797	68,131
Cost of goods sold	(17,263)	(21,443)	(26,722)	(29,195)
Gross profit	21,349	31,755	36,075	38,936
<i>Gross margin (%)</i>	<i>55.3</i>	<i>59.7</i>	<i>57.4</i>	<i>57.1</i>
Total operating expenses	(17,569)	(26,444)	(28,020)	(29,438)
EBITDA	3,780	5,311	8,055	9,498
<i>EBITDA margin (%)</i>	<i>9.8</i>	<i>10.0</i>	<i>12.8</i>	<i>13.9</i>
Depreciation	(1,637)	(2,325)	(2,437)	(2,543)
EBIT	2,144	2,986	5,618	6,955
Net interest	(471)	(594)	(446)	(355)
Other income	174	314	458	562
Profit before tax	1,846	2,706	5,630	7,162
Total taxation	(195)	(926)	(1,733)	(2,203)
<i>Tax rate (%)</i>	<i>10.6</i>	<i>34.2</i>	<i>30.8</i>	<i>30.8</i>
Profit after tax	1,651	1,780	3,897	4,959
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,651	1,780	3,897	4,959
<i>Adj. PAT margin (%)</i>	<i>4.3</i>	<i>3.3</i>	<i>6.2</i>	<i>7.3</i>
Net non-recurring items	(779)	(90)	-	-
Reported net profit	872	1,690	3,897	4,959

Balance sheet (Rs mn)

Y/E December	CY15#	CY16	CY17E	CY18E
Paid-up capital	3,233	3,781	3,781	3,781
Reserves & surplus	16,874	28,881	32,557	37,074
Net worth	20,107	32,662	36,338	40,855
Borrowing	10,556	13,936	10,391	8,277
Other non-current liabilities	(843)	(1,435)	(1,435)	(1,435)
Total liabilities	29,821	45,164	45,294	47,697
Gross fixed assets	51,350	55,826	58,326	60,826
Less: Depreciation	(35,666)	(37,991)	(40,428)	(42,971)
Net fixed assets	15,685	17,835	17,898	17,854
Add: Capital WIP	559	966	1,534	2,101
Total fixed assets	16,244	18,801	19,431	19,955
Total Investment	722	389	389	389
Inventory	7,189	8,352	10,582	11,418
Debtors	3,724	5,219	5,386	5,953
Cash & bank	502	981	3,710	5,705
Loans & advances	2,856	2,439	2,586	2,744
Current liabilities	20,610	21,080	27,170	29,194
Net current assets	(4,877)	(927)	(1,426)	452
Other non-current assets	17,732	26,901	26,901	26,901
Total assets	29,821	45,164	45,294	47,697

Source: Company, Axis Capital

9 months ended

Cash flow (Rs mn)

Y/E December	CY15#	CY16	CY17E	CY18E
Profit before tax	1,846	2,706	5,630	7,162
Depreciation & Amortisation	1,637	2,325	2,437	2,543
<i>Chg in working capital</i>	<i>3,663</i>	<i>(4,593)</i>	<i>3,229</i>	<i>116</i>
Cash flow from operations	6,661	169	9,551	7,411
<i>Capital expenditure</i>	<i>(2,006)</i>	<i>(992)</i>	<i>(3,067)</i>	<i>(3,067)</i>
Cash flow from investing	(2,275)	(13,136)	(2,610)	(2,505)
<i>Equity raised/ (repaid)</i>	<i>28</i>	<i>10,950</i>	-	-
<i>Debt raised/ (repaid)</i>	<i>(4,627)</i>	<i>3,075</i>	<i>(3,545)</i>	<i>(2,114)</i>
<i>Dividend paid</i>	-	-	-	-
Cash flow from financing	(4,903)	13,447	(4,212)	(2,912)
Net chg in cash	(517)	480	2,729	1,994

Key ratios

Y/E December	CY15#	CY16	CY17E	CY18E
OPERATIONAL				
FDEPS (Rs)	5.1	4.7	10.3	13.1
CEPS (Rs)	10.3	10.6	16.8	19.8
DPS (Rs)	-	-	0.5	1.0
Dividend payout ratio (%)	-	-	4.9	7.6
GROWTH				
Net sales (%)	(7.6)	3.3	18.0	8.5
EBITDA (%)	(5.4)	5.4	51.7	17.9
Adj net profit (%)	(8.5)	(19.1)	118.9	27.3
FDEPS (%)	(8.6)	(30.8)	118.9	27.3
PERFORMANCE				
RoE (%)	11.3	6.7	11.3	12.8
RoCE (%)	9.8	8.8	13.4	16.2
EFFICIENCY				
Asset turnover (x)	1.6	1.2	1.1	1.2
Sales/ total assets (x)	1.0	0.9	0.9	0.9
Working capital/ sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Receivable days	46.9	35.8	31.3	31.9
Inventory days	100.4	63.7	70.6	71.1
Payable days	203.2	116.3	140.0	140.9
FINANCIAL STABILITY				
Total debt/ equity (x)	0.5	0.5	0.3	0.2
Net debt/ equity (x)	0.5	1.0	0.6	0.4
Current ratio (x)	0.8	1.0	0.9	1.0
Interest cover (x)	4.5	5.0	12.6	19.6
VALUATION				
PE (x)	48.0	52.1	23.8	18.7
EV/ EBITDA (x)	27.0	22.3	13.9	11.4
EV/ Net sales (x)	2.6	2.2	1.8	1.6
PB (x)	3.9	2.8	2.6	2.3
Dividend yield (%)	-	-	0.2	0.4
Free cash flow yield (%)	0.1	-	0.1	-

Source: Company, Axis Capital

9 months ended

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Research Team

Sr. No	Name	Designation	E-mail
1	Poonam Darade	Research Associate	poonam.darade@axissecurities.in
2	Pankaj Bobade	Research Analyst	pankaj.bobade@axissecurities.in

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