

MAHINDRA CIE AUTOMOTIVE

AUTO

28 FEB 2018

Quarterly Update

BUY

Target Price: Rs 274

Strong quarter, bright outlook

Q4CY17 results were 6% ahead of estimates at operational level, as both India and Europe operations continued to deliver on both topline and EBITDA margin fronts. Consolidated EBITDA margin at 14.3% (+560 bps YoY) benefitted from price hikes received (in Europe) and merger of Bill Forge. New orders won across India and European operations will aid revenue growth.

Management maintained guidance of further improvement in profitability to global CIE levels driven by superior product mix and process improvement. Introduction of new technologies and inorganic opportunity remain an upside. We upgrade CY18/19 estimates by 4-7% on strong operational performance and roll forward to CY19. Maintain **BUY** with TP of Rs 274 (9x CY19E EV/EBITDA).

CMP : Rs 228
Potential Upside : 20%

MARKET DATA

No. of Shares : 378 mn
Free Float : 30%
Market Cap : Rs 86 bn
52-week High / Low : Rs 270 / Rs 198
Avg. Daily vol. (6mth) : 345,772 shares
Bloomberg Code : MACA IB Equity
Promoters Holding : 70%
FII / DII : 6% / 7%

Takeaways from concall

Mahindra CIE (MACA) India (42% of CY17 revenue)

- ♦ **Operational performance:** Standalone operations' sales grew strong on merger of gears business and full impact of Bill Forge (BFL) consolidation. Ex-Bill Forge, India operations grew 16% YoY on robust growth in key customers (M&M and Tata Motors)
- ♦ **New order wins:** (1) stamping business – supplies to Ashok Leyland and (2) gears – supplies to TBK India. BFL also has won new machining order for supply of heavy duty flanges to Ford F-150
- ♦ **Bill Forge – ramping up new Mexico plant** for supplies to GKN and has achieved 60% utilization (peak revenue of Rs 1.5 bn p.a.). BFL is adding a new press line to meet new order win

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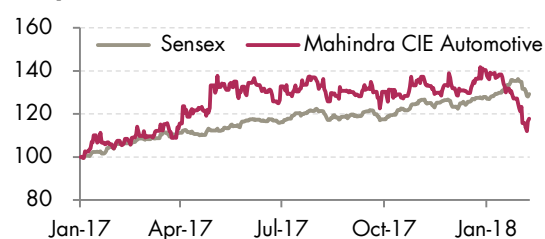
Financial summary (Consolidated)

Y/E December	CY16	CY17	CY18E	CY19E
Sales (Rs mn)	53,198	65,200	71,713	77,495
Adj PAT (Rs mn)	1,780	3,654	4,695	5,536
Con. EPS* (Rs)	-	-	11.9	15.1
EPS (Rs)	4.7	9.7	12.4	14.6
Change YOY (%)	(19.1)	105.1	28.5	17.9
P/E (x)	48.5	23.6	18.4	15.6
RoE (%)	6.7	10.5	12.0	12.6
RoCE (%)	8.8	12.2	14.5	15.9
EV/E (x)	21.1	13.5	10.2	8.6
DPS (Rs)	-	0.5	1.0	1.0

Key drivers (%)

	CY17	CY18E	CY19E
Consol topline growth	22.6	10.0	8.1
Consol EBITDA margin	12.6	13.5	14.0

Price performance



Source: *Consensus broker estimates, Company, Axis Capital, CMP as on 21 Feb 2018

9 months ended

(...continued from page 1)

MACA Europe (58% of CY17 revenue)

- ♦ **Revenue growth robust:** European operations posted 24% YoY INR revenue growth and 19% YoY Euro revenue growth driven by Metalcastello and Forgings Lithuania. For full year, topline grew 10%/11% in INR/EUR terms
- ♦ **EBITDA margin strong:** Price increases received from OEMs amounting to Rs 68 mn and reversal of certain provisions bumped up Q4 EBITDA margin to 15.5% (+850 bps YoY, +350 bps QoQ). Management reiterated the target remains to reach profitability of CIE Spain and Lithuania plants
- ♦ **New order wins:** (1) Caterpillar order at Metalcastello and (2) crankshaft order at Lithuania
- ♦ **Capacity expansion:** Incurring new capex to increase capacity at CIE forging units in Spain and Lithuania and at Metalcastello plant (for new order win with Caterpillar)

Others

- ♦ **Capex** for CY17 at Rs 3 bn was spent largely towards capacity expansion at Bill Forge (Rs 620 mn), European operations (Rs 840 mn), and Indian operations (Rs 300 mn)
- ♦ **Key ratios:** For CY17 on consolidated basis, the company has achieved EBIT margin of 9.0% (vs. 6.3% YoY); RoCE (including goodwill) 12% (vs. 9% YoY); ND/E at 0.2x (vs. 0.3x)

Exhibit 1: Quarterly table

(Rs mn)	4QCY16	1QCY17	2QCY17	3QCY17	4QCY17	YoY (%)	QoQ (%)
Revenue							
Standalone	4,011	4,266	4,495	4,842	5,615	40.0	16.0
Subsidiaries	8,949	11,515	10,600	11,061	10,569	18.1	(4.4)
Consolidated	12,960	15,781	15,095	15,903	16,184	24.9	1.8
EBITDA							
Standalone	280	431	427	484	583	108.1	20.6
Subsidiaries	842	1,468	1,568	1,617	1,734	105.8	7.2
Consolidated	1,123	1,899	1,995	2,101	2,317	106.4	10.3
EBITDA margin (%)							
Standalone	7.0	10.1	9.5	10.0	10.4	340	40
Subsidiaries	9.4	12.7	14.8	14.6	16.4	699	178
Consolidated	8.7	12.0	13.2	13.2	14.3	565	111

Source: Company, Axis Capital

Exhibit 2: Consolidated summary financials (Rs mn)

Consolidated (Rs mn)	CY15 #	CY16	CY17	CY18E	CY19E
Revenues	38,612	53,198	65,200	71,713	77,495
- Growth %	-31%	38%	23%	10%	8%
EBITDA	3,780	5,311	8,221	9,715	10,824
- Growth %	-29%	41%	55%	18%	11%
EBITDA margin (%)	9.8%	10.0%	12.6%	13.5%	14.0%
Depreciation	1,637	2,325	2,808	2,956	3,041
- Growth %	-31%	42%	21%	5%	3%
Interest	471	594	545	454	363
- Growth %	-61%	26%	-8%	-17%	-20%
Adjusted PAT	1,651	1,780	3,654	4,695	5,536
- Growth %	-31%	8%	105%	28%	18%
Adjusted EPS (Rs)	4.4	4.7	9.7	12.4	14.6

Source: Company, Axis Capital # 9 months ended

Exhibit 3: Standalone summary financials (Rs mn)

Standalone (Rs mn)	CY15 #	CY16	CY17E	CY18E	CY19E
Revenues	12,035	16,106	19,607	22,232	24,927
- Growth %	-27%	34%	22%	13%	12%
EBITDA	1,008	1,463	1,948	2,408	2,889
- Growth %	-29%	45%	33%	24%	20%
EBITDA margin (%)	8.4%	9.1%	9.9%	10.8%	11.6%
Depreciation	544	710	759	831	875
- Growth %	-21%	31%	7%	9%	5%
Adjusted PAT	309	605	762	1,143	1,471
- Growth %	-64%	96%	26%	50%	29%
Adjusted EPS (Rs)	1.0	1.6	2.0	3.0	3.9

Source: Company, Axis Capital # 9 months ended

Exhibit 4: Subsidiary summary financials (Rs mn)

Subsidiaries (Rs mn)	CY15 #	CY16	CY17E	CY18E	CY19E
Revenues	26,577	37,092	45,593	49,481	52,568
- Growth %	-32%	40%	23%	9%	6%
EBITDA	2,772	3,848	6,273	7,307	7,935
- Growth %	-29%	39%	63%	16%	9%
EBITDA margin (%)	10.4%	10.4%	13.8%	14.8%	15.1%
Depreciation	1,093	1,615	2,049	2,125	2,166
- Growth %	-35%	48%	27%	4%	2%
Adjusted PAT	1,342	1,175	2,892	3,551	4,065
- Growth %	-13%	-12%	146%	23%	14%
Adjusted EPS (Rs)	4.2	3.1	7.6	9.4	10.7

Source: Company, Axis Capital # 9 months ended

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E December	CY16	CY17	CY18E	CY19E
Net sales	53,198	65,200	71,713	77,495
Other operating income	-	-	-	-
Total operating income	53,198	65,200	71,713	77,495
Cost of goods sold	(21,443)	(28,549)	(31,464)	(34,089)
Gross profit	31,755	36,651	40,249	43,406
<i>Gross margin (%)</i>	<i>59.7</i>	<i>56.2</i>	<i>56.1</i>	<i>56.0</i>
Total operating expenses	(26,444)	(28,430)	(30,534)	(32,582)
EBITDA	5,311	8,221	9,715	10,824
<i>EBITDA margin (%)</i>	<i>10.0</i>	<i>12.6</i>	<i>13.5</i>	<i>14.0</i>
Depreciation	(2,325)	(2,808)	(2,956)	(3,041)
EBIT	2,986	5,413	6,759	7,783
Net interest	(594)	(545)	(454)	(363)
Other income	314	269	330	408
Profit before tax	2,706	5,136	6,635	7,827
Total taxation	(926)	(1,483)	(1,941)	(2,291)
<i>Tax rate (%)</i>	<i>34.2</i>	<i>28.9</i>	<i>29.2</i>	<i>29.3</i>
Profit after tax	1,780	3,654	4,695	5,536
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,780	3,654	4,695	5,536
<i>Adj. PAT margin (%)</i>	<i>3.3</i>	<i>5.6</i>	<i>6.5</i>	<i>7.1</i>
Net non-recurring items	(90)	(69)	-	-
Reported net profit	1,690	3,585	4,695	5,536

Balance sheet (Rs mn)

Y/E December	CY16	CY17	CY18E	CY19E
Paid-up capital	3,781	3,784	3,784	3,784
Reserves & surplus	28,881	33,372	37,624	42,718
Net worth	32,662	37,156	41,408	46,501
Borrowing	13,936	12,269	10,137	8,019
Other non-current liabilities	(1,435)	(1,629)	(1,629)	(1,629)
Total liabilities	45,164	47,795	49,916	52,891
Gross fixed assets	55,826	59,938	62,688	65,438
Less: Depreciation	(37,991)	(40,799)	(43,755)	(46,796)
Net fixed assets	17,835	19,139	18,932	18,641
Add: Capital WIP	966	602	46	(510)
Total fixed assets	18,801	19,741	18,979	18,132
Total Investment	389	550	550	550
Inventory	8,352	9,898	11,992	12,901
Debtors	5,219	5,984	6,366	6,978
Cash & bank	981	762	10,128	14,180
Loans & advances	2,439	2,388	2,452	2,513
Current liabilities	21,080	25,564	35,154	37,590
Net current assets	(927)	(860)	2,023	5,845
Other non-current assets	26,901	28,364	28,364	28,364
Total assets	45,164	47,795	49,916	52,891

Source: Company, Axis Capital

9 months ended

Cash flow (Rs mn)

Y/E December	CY16	CY17	CY18E	CY19E
Profit before tax	2,706	5,136	6,635	7,827
Depreciation & Amortisation	2,325	2,808	2,956	3,041
<i>Chg in working capital</i>	<i>(4,593)</i>	<i>(286)</i>	<i>6,484</i>	<i>229</i>
Cash flow from operations	169	6,106	14,258	8,762
<i>Capital expenditure</i>	<i>(992)</i>	<i>(3,748)</i>	<i>(2,194)</i>	<i>(2,194)</i>
Cash flow from investing	(13,136)	(3,641)	(1,864)	(1,786)
<i>Equity raised/ (repaid)</i>	<i>10,950</i>	<i>3</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>3,075</i>	<i>(1,668)</i>	<i>(2,131)</i>	<i>(2,118)</i>
<i>Dividend paid</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Cash flow from financing	13,447	(2,431)	(3,028)	(2,924)
Net chg in cash	480	34	9,367	4,051

Key ratios

Y/E December	CY16	CY17	CY18E	CY19E
OPERATIONAL				
FDEPS (Rs)	4.7	9.7	12.4	14.6
CEPS (Rs)	10.6	16.9	20.2	22.7
DPS (Rs)	-	0.5	1.0	1.0
Dividend payout ratio (%)	-	5.3	8.1	6.8
GROWTH				
Net sales (%)	3.3	22.6	10.0	8.1
EBITDA (%)	5.4	54.8	18.2	11.4
Adj net profit (%)	(19.1)	105.3	28.5	17.9
FDEPS (%)	(19.1)	105.1	28.5	17.9
PERFORMANCE				
RoE (%)	6.7	10.5	12.0	12.6
RoCE (%)	8.8	12.2	14.5	15.9
EFFICIENCY				
Asset turnover (x)	1.2	1.1	1.2	1.4
Sales/ total assets (x)	0.9	0.9	0.9	0.9
Working capital/ sales (x)	(0.1)	-	(0.1)	(0.1)
Receivable days	35.8	33.5	32.4	32.9
Inventory days	63.7	63.4	70.6	70.6
Payable days	116.3	97.8	142.4	141.9
FINANCIAL STABILITY				
Total debt/ equity (x)	0.5	0.4	0.3	0.2
Net debt/ equity (x)	1.0	0.7	0.3	0.1
Current ratio (x)	1.0	1.0	1.1	1.2
Interest cover (x)	5.0	9.9	14.9	21.4
VALUATION				
PE (x)	48.5	23.6	18.4	15.6
EV/ EBITDA (x)	21.1	13.5	10.2	8.6
EV/ Net sales (x)	2.1	1.7	1.4	1.2
PB (x)	2.6	2.3	2.1	1.9
Dividend yield (%)	-	0.2	0.4	0.4
Free cash flow yield (%)	-	-	0.1	0.1

Source: Company, Axis Capital

9 months ended

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