AXIS DIRECT

# 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

*(…continued to page 2)*

**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 |

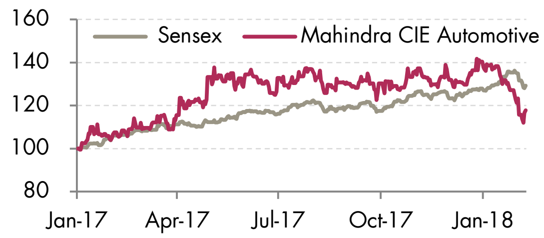
Source: *Consensus broker estimates, Company, Axis Capital, CMP as on 21 Feb 2018

# 9 months ended

**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**



*(…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 |
| *Gross margin (%)* | *59.7* | *56.2* | *56.1* | *56.0* |
| Total operating expenses | (26,444) | (28,430) | (30,534) | (32,582) |
| **EBITDA** | **5,311** | **8,221** | **9,715** | **10,824** |
| *EBITDA margin (%)* | *10.0* | *12.6* | *13.5* | *14.0* |
| 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) |
| *Tax rate (%)* | *34.2* | *28.9* | *29.2* | *29.3* |
| 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 |
| *Adj. PAT margin (%)* | *3.3* | *5.6* | *6.5* | *7.1* |
| 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 |
| *Chg in working capital* | *(4,593)* | *(286)* | *6,484* | *229* |
| **Cash flow from operations** | **169** | **6,106** | **14,258** | **8,762** |
| *Capital expenditure* | *(992)* | *(3,748)* | *(2,194)* | *(2,194)* |
| **Cash flow from investing** | **(13,136)** | **(3,641)** | **(1,864)** | **(1,786)** |
| *Equity raised/ (repaid)* | *10,950* | *3* | *-* | *-* |
| *Debt raised/ (repaid)* | *3,075* | *(1,668)* | *(2,131)* | *(2,118)* |
| *Dividend paid* | *-* | *-* | *-* | *-* |
| **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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| SELL | Less than -10% |



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