

Mahindra CIE

India Research

EVENT UPDATE

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BUY

CY18 Annual Report – Key Takeaways

Mahindra CIE (MHCIE) has released its CY2018 Annual report. During CY18, MHCIE has displayed strong operating performance and further strengthened its consolidated balance sheet. During CY18 its 1) PAT grew by 46.9% 2) Net debt declined by 23.3% 3) Net Debt to Equity declined from 0.25 to 0.15. However, MHCIE carries ~Rs29bn of Goodwill on its balance which forms ~68% of its net worth and 51% of its balance sheet size. We believe the presence of such high goodwill constraints meaningful expansion in its return ratios.

Following are the key takeaways from the Annual Report:

Management Commentary:

Hemant Luthra (Chairman): As per the Chairman, MHCIE Management team, during the year has built systemic capability to generate better Returns on both Equity and Capital Employed going forward.

Ander Arenaza Alvarez (CEO): As per the CEO, MHCIE continues to invest in incremental capacity and debottlenecking which includes building two brown field projects. We believe this in sync with requirement as the Company is currently operating at 85%+ utilization. Based on current business outlook and the MHCIE's expansion plans, we expect MHCIE to report 7.5 % sales CAGR and 12.6% earning CAGR over CY18-20.

Indian Operations Performance: In Indian operations MHCIE has been implementing operating strategy of focusing on increasing plant efficiencies to improve its operating margins. It has received reasonable traction in adding new customers during CY18. Operations at Bill Forge plant at Mexico is ramping up however, there are some operational problems which are being addressed through rationalizations and consolidation of its operations.

Key Financials:

Y/E (Rs mn)	CY16	CY17	CY18	CY19E	CY20E
Net Sales	53,198	65,709	80,315	85,698	92,881
EBIDTA	5,311	9,648	10,510	11,646	12,904
EBIDTA Margin (%)	10.0	14.7	13.1	13.6	13.9
PAT	1,780	5,240	5,485	6,155	6,951
YoY (%)	15.2	194.4	4.7	12.2	12.9
EPS (Rs)	4.7	13.8	14.5	16.2	18.3
ROCE (%)	6.4	12.5	11.4	11.2	11.7
ROE (%)	6.8	15.0	13.7	13.4	13.2
PE (x)	47.2	16.0	15.3	13.7	12.1

Source: Karvy Stock Broking

Recommendation

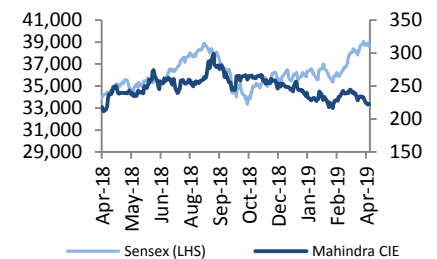
CMP:	Rs222
Target Price:	Rs312
Previous Target Price	Rs321
Upside (%)	40%

Stock Information

Market Cap. (Rsbn / US\$ mn)	84/1,217
52-week High/Low (Rs)	302/205.6
3m ADV (Rsmn / US\$ mn)	34/0
Beta	0.9
Sensex/ Nifty	35,585/11,584
Share outstanding (mn)	379

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(6.8)	(8.1)	(0.8)	(13.5)
Rel. to Sensex	(11.4)	(14.0)	(12.9)	(19.1)

Performance
Mahindra CIE


Source: Bloomberg

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Mahindra CIE

European Operations Performance: Although its German operations are stable, the Company is focusing more on improving its profit margins. MHCIE has decided to close down its UK operations within the next two years and planning to shift machinery and business orders to its other locations. The Company has already provided for the impairment of all the investments in the subsidiary.

No dividend Policy: In the Director's report, the Company has highlighted that MHCIE needs significant funds for its organic and inorganic growth. However, the present Indian FDI regulations do not permit MHCIE (Indian Company owned by foreign majority) to acquire Indian companies through domestic borrowing. Hence MHCIE has not paid dividend to shareholders during CY18.

Growth Opportunities: Parent of MHCIE, CIE automotive is focusing on growth in emerging markets like India, Mexico and Asean region. As per CIE plan, MHCIE is likely to lead these growth initiatives in South East Asia. MHCIE is also likely to benefit from CIE's expertise in working with OEM in their electric vehicle program.

Key Operational and Financial Observations from Annual Report:

- During CY18, Standalone and Subsidiary sales grew by 22.5% and 22.1% YoY respectively.
- Standalone margins expanded by 252bps to 12% while subsidiary margins compressed by 14bps to 13.6% during CY18.
- During CY18, Standalone and Subsidiary PAT grew by 115.6% and 29.3% YoY respectively.
- For MHCIE, Consolidated net debt has declined by 23.3% to Rs8.2bn. Standalone entity remain cash rich while subsidiary witnesses 33.8% increase in Net Debt.
- Overall capital employed in the business has gone up by 15.4% to Rs 42.9bn. (Indian operations – up by 33.6%, Europe Operations – decline of 7.8%).
- The Company continues to maintain negative working capital cycle during the year (-5% of sales) largely driven by its European operations.
- The overall Gross block of the company expanded by 13.6% in CY18 (Indian operations – up by 6.2%, Europe Operations – decline of 16.6%).
- Consolidated Net Debt to Equity has declined from 0.25 to 0.15 during CY2018.
- The Company carries ~Rs29bn of goodwill on its balance sheet arising out of merger and acquisitions. This forms ~68% of its net worth and 51% of its balance sheet size. The presence of such high goodwill constraints meaningful expansion in its return ratios (ROE and RONW).

View and Valuations: (BUY with 40% Upside)

MHCIE is one of the largest diversified auto ancillary MNC in India. Post its alliance with CIE, the Company has consolidated its Indian and European business by improving its plant operations and strengthening its balance sheet. We believe, the Company has completed its consolidation phase and likely to enter into high growth phase with through organic and inorganic route. Based on current business outlook and the Company's expansion plans we expect MHCIE to report 7.5% sales CAGR and 12.6% earning CAGR over CY18-20. The stock is attractively priced at PE of 13.7xCY19E and 12.1xCY20 earnings. We maintain our BUY rating on the stock with revised price target of Rs312 (PER of 17xCY20E earnings – in line with its three year 12M forward average PE).

Exhibit 1: Annual Report Extracts

Division wise	CY18	CY17	YoY %
Standalone Sales	25,293	20639	23%
Subsidiary Sales	55,022	45,070	22%
Consolidated sales (Incl. Intersegment sales)	80,315	65,709	22%
Standalone EBITDA	3042	1963	55%
Subsidiary EBITDA	7,468	6,180	21%
Consolidated EBITDA	10510	8143	29%
Standalone Margins	12.0%	9.5%	252
Subsidiary Margins	13.6%	13.7%	-14
Consolidated Margins	13.1%	12.4%	69
Standalone PAT	1641	761	116%
Subsidiary PAT	3,844	2,974	29%
Consolidated PAT	5485	3735	47%
India sales	33886	28948	17%
Europe sales	46789	37030	26%
Consolidated Sales	80675	65978	22%
India EBIT	3588	2267	58%
Europe EBIT	4443	3392	31%
Consolidated EBIT	8031	5659	42%

Source: Company, Annual Report

Exhibit 2: Annual Report Extracts

Balance Sheet Items	CY18	CY17	YoY %
Standalone Net debt	(5,761)	265	NA
Subsidiary Net debt	13,975	10,448	34%
Consolidated Net Debt	8,214	10,713	-23%
Standalone Gross Block	8715	8206	6%
Subsidiary Gross block	23210	19903	17%
Consolidated Gross Block	31925	28109	14%
Standalone Inventory	2436	1728	41%
Subsidiary Inventory	9850	8170	21%
Consolidated Inventory	12286	9898	24%
Standalone Debtors	3293	3914	-16%
Subsidiary Debtors	4121	2070	99%
Consolidated Debtors	7414	5984	24%
Standalone W/C	991	258	284%
Subsidiary W/C	-4874	-3801	28%
Consolidated W/C	-3883	-3543	10%
India Capital Employed	27853	20849	34%
Europe Capital Employed	15036	16306	-8%
Capital Employed	42889	37155	15%

Source: Company, Annual Report

Financials

Exhibit 3: Income Statement

Y/E Mar (Rs mn)	CY16	CY17	CY18	CY19E	CY20E
Net sales	53,198	65,709	80,315	85,698	92,881
YoY (%)	33.0	23.5	22.2	6.7	8.4
Raw Material	21,443	28,162	36,316	38,750	41,998
Employee Cost	11,025	11,527	13,297	14,099	15,269
SGA cost	15,419	16,372	20,192	21,203	22,710
Total Expenses	47,887	56,061	69,805	74,052	79,977
EBIDTA	5,311	9,648	10,510	11,646	12,904
EBIDTA Margin (%)	10.0	14.7	13.1	13.6	13.9
Depreciation	2,325	2,683	2,867	3,175	3,556
EBIT	2,986	6,965	7,643	8,471	9,347
Interest	594	510	502	436	347
Other Income	314	268	387	757	929
PBT	2,706	6,723	7,528	8,792	9,930
(-) Tax	926	1,483	2,043	2,638	2,979
Tax/ PBT	34.2	22.1	27.1	30.0	30.0
PAT	1,780	5,240	5,485	6,155	6,951
YoY (%)	15.2	194.4	4.7	12.2	12.9

Source: Company, Karvy Stock Broking

Exhibit 4: Balance sheet

Balance Sheet	CY16	CY17	CY18	CY19E	CY20E
Equity Capital	3,781	3,784	3,788	3,788	3,788
Reserves	28,882	33,372	39,103	45,258	52,208
Net worth	32,663	37,156	42,891	49,046	55,996
Total Loans	13,621	11,969	16,134	13,134	10,134
Def Tax Liability	(1436)	(1630)	(1565)	(1565)	(1565)
Total Liabilities	44,848	47,495	57,459	60,614	64,565
Net Block	17,680	19,014	19,840	20,665	21,109
CWIP	967	602	960	960	960
Investments	1,045	2,006	8,428	8,428	8,428
Goodwill	27,055	28,489	29,212	29,212	29,212
Inventories	8,352	9,898	12,286	12,811	13,885
Debtors	5,219	5,984	7,414	7,148	7,747
Cash	981	719	1,127	3,178	6,839
Other Current Assets	1839	3487	1410	2986	3236
Loans and Advances	2,439	2,431	1,418	1,513	1,640
Current Assets	18,830	22,520	23,655	27,636	33,346
Current Liabilities	17,907	21,492	20,699	22,086	23,937
Provisions	2,821	3,644	3,937	4,201	4,553
Net Current Assets	-1,899	-2,617	-981	1,349	4,856
Total Assets	44,848	47,495	57,459	60,614	64,565

Source: Company, Karvy Stock Broking

Mahindra CIE
Exhibit 5: Cash Flow Statement

Y/E Mar (Rs mn)	CY16	CY17	CY18	CY19E	CY20E
Net profit	1,690	5,172	5,485	6,155	6,951
Depreciation	2,325	2,683	2,867	3,175	3,556
Deferred tax	180	217	144	0	0
Change in working cap	-3,757	456	-1,228	-278	153
Cash from Operations	439	8,528	7,268	9,051	10,660
Capex	-14,726	-5,497	-4,854	-4,000	-4,000
Investments	866	-961	-6,421	0	0
Cash from Investments	-13,860	-6,459	-11,276	-4,000	-4,000
Free Cash Flow	-14,287	3,031	2,413	5,051	6,660
Equity	10,907	-679	251	0	0
Debt	2,994	-1,652	4,165	-3,000	-3,000
Cash from Financing	13,901	-2,331	4,415	-3,000	-3,000
Net change in cash	480	-262	407	2,051	3,660
Opening cash	502	981	719	1,127	3,178
Closing cash	981	719	1,127	3,178	6,838

Source: Company, Karvy Stock Broking

Exhibit 6: Ratios

Key Ratios	CY16	CY17	CY18	CY19E	CY20E
EPS (Rs)	4.7	13.8	14.5	16.2	18.3
Book value (Rs/share)	86.4	98.2	113.2	129.5	147.8
P/E (x)	47.2	16.0	15.3	13.7	12.1
EV/EBDITA (x)	18.0	9.7	9.4	8.1	6.8
P/B (x)	2.6	2.3	2.0	1.7	1.5
EV/Sales (x)	1.8	1.4	1.1	1.0	0.9
ROCE (%)	6.4	12.5	11.4	11.2	11.7
ROE (%)	6.8	15.0	13.7	13.4	13.2
Debt-Equity (x)	0.4	0.3	0.3	0.2	0.1
Gross Asset Turnover (x)	2.7	2.6	2.7	2.6	2.5
Working Capital Days	-33	-17	-12	-8	-7
W/C % of sales	-5.4	-5.1	-2.6	-2.1	-2

Source: Company, Karvy Stock Broking

Stock Ratings	Absolute Returns
Buy	> 15%
Hold	5-15%
Sell	< 5%

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