

# Mahindra CIE

India Research

**RESULT REVIEW**

 Bloomberg: MACA IN  
 Reuters: MAHN.NS

**BUY**

## Steady Performance – Maintain BUY

During Q1CY19 MHCIE reported mixed bag numbers. Going forward Management expects its Indian operations to remain steady during H1CY19 and international operations to be robust. During H2CY19 exact reverse is likely to happen with robust domestic operations and steady international operations. During the quarter MHCIE also concluded its second largest acquisition in the form of Aurangabad Electricals. To factor in current business outlook and consolidation of acquired entity, we have revised our Sales estimates upwards by 6.2% and PAT estimates downwards by 2.5% for CY20E respectively. Over CY18-20E, we expect, MHCIE to report 10.8% sales CAGR and 11.1% PAT CAGR. The Company is expected to report EPS of Rs16.2 and Rs17.9 in CY19E and CY20E respectively. We maintain our BUY rating on the stock with revised target price of Rs304 (PE of 17xCY20E earnings).

**Q1CY19 Result Highlights:** During Q1CY19, MHCIE's consolidated sales grew by 8.9% YoY to Rs21.7bn (ahead of our estimates of Rs 20.2bn). EBITDA margins expanded by 4bps YoY at 13.0% (Lower than our estimates of 13.6%). PAT increased by 16.7% YoY to Rs1.5bn. Due to the cost pressure and changing product mix its gross margins declined by 144bps to 53.3%. Its tax rate was also lower by 272bps to 27.8% which supported its overall profitability.

**International Business (~51% of sales) - 8.3% Volume Growth :** MHCIE's Europe sales increased by 16.7% YoY to Rs13.3bn on the back of impressive volume growth of 8.3% aided by new product supply to existing clients in European market. It also benefitted from positive exchange rate impact during the quarter. Going forward Management expects its European operations to remain robust during H1CY19 and slightly subdued during H2CY19. Over the next 2-3 quarters, the company anticipates its volume growth to remain higher than overall Auto industry in Europe.

**Indian Operations (~41% of consolidated sales) – 8.6% overall growth:** MHCIE's India sales increased by 8.6% YoY to Rs8.4bn mainly on account of exports from India and supply of new products to domestic PV, Tractor and 2W industry. This growth was impressive in the light of its key domestic customers (M&M, Maruti and Tata Motors) reported weighted average sales decline of 9%.

**Key Financials:**

Y/E (Rs mn)	CY16	CY17	CY18	CY19E	CY20E
Net Sales	53,198	65,709	80,315	91,010	98,491
EBIDTA	5,311	9,648	10,510	12,132	13,616
EBIDTA Margin (%)	10.0	14.7	13.1	13.3	13.8
PAT	1,780	5,240	5,485	6,150	6,767
YoY (%)	15.2	194.4	4.7	12.1	10.0
EPS (Rs)	4.7	13.8	14.5	16.2	17.9
ROCE (%)	6.4	12.5	11.4	11.2	11.4
ROE (%)	6.8	15.0	13.7	13.4	12.9
PE (x)	46.7	15.9	15.2	13.5	12.3

Source: Karvy Stock Broking

**Recommendation**

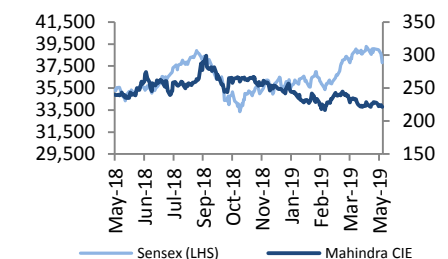
CMP:	Rs220
Target Price:	Rs304
Previous Target Price	Rs312
Upside (%)	38%

**Stock Information**

Market Cap. (Rsbn / US\$ mn)	84/1,203
52-week High/Low (Rs)	302/211
3m ADV (Rsmn / US\$ mn)	34/0
Beta	0.9
Sensex/ Nifty	37,789/11,359
Share outstanding (mn)	379

**Stock Performance (%)**

	1M	3M	12M	YTD
Absolute	(0.3)	(5.3)	(7.8)	(13.9)
Rel. to Sensex	2.1	(8.4)	(14.0)	(17.8)

**Performance**
**Mahindra CIE**


Source: Bloomberg

**Earnings Revision**

(%)	CY19E	CY20E
Revenue	↑ 6.2	↑ 6.2
EBITDA	↑ 4.2	↑ 5.7
PAT	↓ 0.1	↓ 2.5

Source: Karvy Stock Broking

**Analysts Contact**

**Mahesh Bendre**  
 +91 22 6176 0828  
 mahesh.bendre@karvy.com

**Mahindra CIE**

**EBITDA Margins Remains stable to 13%:** During the quarter, MHCIE reported domestic EBITDA margins of 15.4% (up 24bps) and international business EBITDA margins of 12.6% (down by 4bps). Domestic margins improved because of increasing contribution from high margin business (Bill Forge) and higher utilization of its manufacturing assets. Though its international operations continues to display improvement on account of efficiency gains at its European forging business, its margins during the quarter contracted by 4bps on account of rise in steel and other commodity prices.

**Steady Growth Outlook:** The Company expects demand for its products in Indian market to pick up during from H2CY19. In the European market, the Company expects to grow faster than the overall auto market in Europe. Overall the Company expects CY19 to be a stable growth year.

**New Acquisition:** During Q1CY19 MHCIE announced acquisition of Aurangabad Electricals (AEL) which is Aluminum die casting company catering to two wheelers and passenger cars. It's all cash deal wherein MHCIE is likely to pay Rs8.8bn for the acquisition, valuing the entity at EV/EBITDA of 8.7x FY19. The acquired entity reported Sales of Rs8.6bn and EBITDA margins of 11.8% during FY19.

**Revision of Estimates:** We have revised our sales estimates upwards by 6.2% and PAT estimates downwards by 2.5% for CY20E respectively to factor in current business outlook and consolidation of acquired entity. We expect, MHCIE to report 10.8% sales CAGR and 11.1% PAT CAGR. Over CY18-20E, The Company is expected to report EPS of Rs16.2 and Rs17.9 in CY19E and CY20E respectively.

**BUY with 38% Upside:** MHCIE, a second largest forging company in India and diversified auto ancillary MNC is on its way to become one of the largest Auto ancillary entity in India. Post its alliance with CIE, the Company has consolidated its business by improving its plant operations and strengthening its balance sheet. Given the stable business growth outlook and ~10.8% earnings CAGR over CY18-20E, we believe stock is due for rerating. We maintain our BUY rating on the stock with revised target price of Rs304 (PE of 17xCY20E earnings).

**Exhibit 2: Jan'19 Quarterly Performance (Consolidated)**

Quarterly Results (Rs Mn)	Q1CY19	Q1CY18	YoY%	Q4CY18	QoQ%
<b>Net Sales</b>	21,744	19,965	8.9%	19,750	10.1%
Cost of materials consumed	10,175	9,130	11.5%	9,590	6.1%
Changes in inventories	(30)	(102)	-70.3%	(965)	-96.9%
Staff Cost	3,559	3,360	5.9%	3,383	5.2%
Other expenditure	5,214	4,991	4.5%	5,177	0.7%
Total Expenditure	18,919	17,378	8.9%	17,186	10.1%
<b>EBITDA</b>	<b>2,825</b>	<b>2,587</b>	<b>9.2%</b>	<b>2,565</b>	<b>10.2%</b>
Depreciation	740	711	4.1%	737	0.5%
EBIT	2,085	1,876	11.2%	1,828	14.1%
Interest	103	30	248.2%	191	-46.0%
Other Income	148	52	188.2%	182	-18.5%
PBT	2,130	1,898	12.3%	1,819	17.1%
Tax	593	580	2.3%	399	48.5%
<b>PAT</b>	<b>1,537</b>	<b>1,318</b>	<b>16.7%</b>	<b>1,420</b>	<b>8.3%</b>
Margins (%)	Q1CY19	Q1CY18	YoY(bps)	Q4CY18	QoQ(bps)
Gross Margins	53.3%	54.8%	(144)	56.3%	(298)
EBITDA	13.0%	13.0%	4	13.0%	1
PAT	7.1%	6.6%	47	7.2%	(12)
Tax Rate	27.8%	30.6%	(272)	22.0%	589

**Mahindra CIE**
**Exhibit 3: Jan'19 Quarterly Performance (Consolidated)**

Key Financials (Rs mn)	Q1CY19	Q1CY18	YoY%	Q4CY18	QoQ%
MHCIE India Sales	9,105	8,794	3.5%	8,798	3.5%
MHCIE Europe Sales	13,805	12,124	13.9%	12,050	14.6%
Subsidiaries Sales (Euro mn)	172	164	5.2%	147	17.6%
<b>Consolidate sales (Rs Mn)</b>	<b>22,910</b>	<b>20,918</b>	<b>9.5%</b>	<b>20,848</b>	<b>9.9%</b>
MHCIE India EBITDA	1,296	1,175	10.3%	1,134	14.3%
MHCIE Europe EBITDA	1,677	1,457	15.1%	1,613	4.0%
<b>Consolidate EBITDA</b>	<b>2,973</b>	<b>2,632</b>	<b>13.0%</b>	<b>2,747</b>	<b>8.2%</b>
MHCIE India EBITDA Margins	14.2%	13.4%	87	12.9%	134
MHCIE Europe EBITDA Margins	12.1%	12.0%	13	13.4%	(124)
<b>Consolidate EBITDA Margins</b>	<b>13.0%</b>	<b>12.6%</b>	<b>39bps</b>	<b>13.2%</b>	<b>(20)bps</b>
MHCIE India EBIT	993	875	13.5%	822	20.8%
MHCIE Europe EBIT	1,241	1,053	17.9%	1,188	4.5%
<b>Consolidated EBIT</b>	<b>2,234</b>	<b>1,928</b>	<b>15.9%</b>	<b>2,010</b>	<b>11.1%</b>
MHCIE India EBIT Margin	10.9%	9.9%	96	9.3%	156
MHCIE Europe EBIT Margin	9.0%	8.7%	30	9.9%	(87)
<b>Consolidated EBIT Margin</b>	<b>9.8%</b>	<b>9.3%</b>	<b>54bps</b>	<b>9.7%</b>	<b>11bps</b>
MHCIE India EBT	990	967	2.4%	737	34.3%
MHCIE Europe EBT	1,141	941	21.3%	1,082	5.5%
<b>Consolidated EBT</b>	<b>2,131</b>	<b>1,908</b>	<b>11.7%</b>	<b>1,819</b>	<b>17.2%</b>
MHCIE India EBT Margin (%)	10.9%	11.0%	(12)	8.4%	250
MHCIE Europe EBT Margin (%)	8.3%	7.8%	50	9.0%	(71)
<b>Consolidated EBT Margin (%)</b>	<b>9.3%</b>	<b>9.2%</b>	<b>19bps</b>	<b>8.8%</b>	<b>58bps</b>

**Mahindra CIE****Q1CY19 Con-Call Takeaways:**

- Management has ascertained its optimistic view on the growth outlook for CY19. This is on account of new orders from Caterpillar which led to ramp up of Metalcastello plant and the Lithuania Plant, the company has delivered crankshaft for Volkswagen.
- Foundry production for KIA Motors would commence in July 2019.
- 2W slowdown has affected Bill Forge revenues which have resulted in a flat growth during Q1CY19.
- The company's share of Passenger Vehicles and Utility Vehicles in the India Business is ~50% which includes major share in M&M.
- M&M, Tata Motors and Maruti Suzuki overall contributes ~50%+ of total revenue.
- MCIE has acquired Aurangabad Electricals Ltd. in Aluminum Die Casting space which would help the company to get access to the major OEM's such as Bajaj Auto, Hero Motocorp, Honda Motorcycles and Maruti Suzuki as well.
- Aurangabad Electricals Ltd. exports stood at ~8-9% and the GDC includes large part of the business in exports in FY19.
- The company's current focus in India is to add more complex products and components which would add higher value to its portfolio.
- MHCIE has announced the closure of its Stokes UK operations as the plant was loss making. It plans to shift the plant and machinery to Bill Forge India.
- The company plans to add Jaguar Land Rover, Volvo and Honda to the Bill Forge portfolio going forward.
- As per the Management, CIE (Parent of MHCIE) plans to merge its other Forging Plants (China/Brazil/Mexico) to MHCIE India by next year.

**Exhibit 4: Revision in Estimates**

Revision in Estimates	CY19E	CY20E
<b>New Estimates</b>		
Net Sales	91,016	98,641
EBITDA	12,133	13,640
EBITDA (%)	13.3%	13.8%
PAT	6,151	6,775
EPS	16.2	17.9
<b>Old Estimates</b>		
Net Sales	85,698	92,881
EBITDA	11,646	12,904
EBITDA (%)	13.6%	13.9%
PAT	6,155	6,951
EPS	16.2	18.3
<b>Change (%)</b>		
Net Sales	6.2%	6.2%
EBITDA	4.2%	5.7%
EBITDA (Bps)	-26	-6
PAT	-0.1%	-2.5%
EPS	-0.1%	-2.5%

Source: Karvy Stock Broking

**Financials**
**Exhibit 5: Profit & Loss Statement**

Y/E Mar (Rs mn)	CY16	CY17	CY18	CY19E	CY20E
Net sales	53,198	65,709	80,315	91,010	98,491
YoY (%)	33.0	23.5	22.2	13.3	8.2
Raw Material	21,443	28,162	36,316	41,470	44,879
Employee Cost	11,025	11,527	13,297	14,891	15,914
SGA cost	15,419	16,372	20,192	22,517	24,082
Total Expenses	47,887	56,061	69,805	78,878	84,875
EBIDTA	5,311	9,648	10,510	12,132	13,616
EBIDTA Margin (%)	10.0	14.7	13.1	13.3	13.8
Depreciation	2,325	2,683	2,867	3,425	4,057
EBIT	2,986	6,965	7,643	8,707	9,558
Interest	594	510	502	436	347
Other Income	314	268	387	516	455
PBT	2,706	6,723	7,528	8,786	9,667
(-) Tax	926	1,483	2,043	2,636	2,900
Tax/ PBT	34.2	22.1	27.1	30.0	30.0
<b>PAT</b>	<b>1,780</b>	<b>5,240</b>	<b>5,485</b>	<b>6,150</b>	<b>6,767</b>
YoY (%)	15.2	194.4	4.7	12.1	10.0

Source: Company, Karvy Stock Broking

**Mahindra CIE**
**Exhibit 6: Balance sheet**

<b>Balance Sheet</b>	<b>CY16</b>	<b>CY17</b>	<b>CY18</b>	<b>CY19E</b>	<b>CY20E</b>
Equity Capital	3,781	3,784	3,788	3,788	3,788
Reserves	28,882	33,372	39,103	45,253	52,020
Net worth	32,663	37,156	42,891	49,041	55,808
Total Loans	13,621	11,969	16,134	13,134	10,134
Def Tax Liability	(1436)	(1630)	(1565)	(1565)	(1565)
<b>Total Liabilities</b>	<b>44,848</b>	<b>47,495</b>	<b>57,459</b>	<b>60,610</b>	<b>64,376</b>
Gross Block	23,458	27,600	31,294	40,547	44,547
Acc. Depreciation	5,778	8,586	11,454	14,879	18,936
Net Block	17,680	19,014	19,840	25,668	25,611
CWIP	967	602	960	960	960
Investments	1,045	2,006	8,428	2,428	2,428
Goodwill	27,055	28,489	29,212	32,715	32,715
Inventories	8,352	9,898	12,286	13,710	14,837
Debtors	5,219	5,984	7,414	7,591	8,215
Cash	981	719	1,127	676	4,652
Other Current Assets	1839	3487	1410	3171	3431
Loans and Advances	2,439	2,431	1,418	1,607	1,739
Current Assets	18,830	22,520	23,655	26,755	32,874
Current Liabilities	17,907	21,492	20,699	23,455	25,383
Provisions	2,821	3,644	3,937	4,461	4,828
Net Current Assets	-1,899	-2,617	-981	-1,161	2,663
<b>Total Assets</b>	<b>44,848</b>	<b>47,495</b>	<b>57,459</b>	<b>60,610</b>	<b>64,376</b>

Source: Company, Karvy Stock Broking

**Exhibit 7: Cash Flow Statement**

<b>Y/E Mar (Rs mn)</b>	<b>CY16</b>	<b>CY17</b>	<b>CY18</b>	<b>CY19E</b>	<b>CY20E</b>
Net profit	1,690	5,172	5,485	6,150	6,767
Depreciation	2,325	2,683	2,867	3,425	4,057
Deferred tax	180	217	144	0	0
Change in working cap	-3,757	456	-1,228	-270	151
Cash from Operations	439	8,528	7,268	9,306	10,975
Capex	-14,726	-5,497	-4,854	-12,756	-4,000
Investments	866	-961	-6,421	6,000	0
Cash from Investments	-13,860	-6,459	-11,276	-6,756	-4,000
<b>Free Cash Flow</b>	<b>-14,287</b>	<b>3,031</b>	<b>2,413</b>	<b>-3,450</b>	<b>6,975</b>
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	-450	3,975
Opening cash	502	981	719	1,127	676
Closing cash	981	719	1,127	676	4,651

Source: Company, Karvy Stock Broking

**Mahindra CIE**
**Exhibit 8: Ratios**

Key Ratios	CY16	CY17	CY18	CY19E	CY20E
EPS (Rs)	4.7	13.8	14.5	16.2	17.9
Book value (Rs/share)	86.4	98.2	113.2	129.5	147.3
P/E (x)	46.7	15.9	15.2	13.5	12.3
EV/EBDITA (x)	17.9	9.6	9.4	7.9	6.5
P/B (x)	2.5	2.2	1.9	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	11.4
ROE (%)	6.8	15.0	13.7	13.4	12.9
Debt-Equity (x)	0.4	0.3	0.3	0.3	0.1
Gross Asset Turnover (x)	2.7	2.6	2.7	2.5	2.3
Working Capital Days	-33	-17	-12	-8	-7
W/C % of sales	-5.4%	-5.1%	-2.6%	-2.0%	-2%

Source: Company, Karvy Stock Broking



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

---

For further enquiries please contact:

---

**research@karvy.com**

**Tel: +91-22-61491500**

### **Disclosures Appendix**

#### **Analyst certification**

The following analyst(s), **Mahesh Bendre**, who is (are) primarily responsible for this report and whose name(s) is/are mentioned therein, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

#### **Disclaimer**

Karvy Stock Broking Limited [KSBL] is registered as a research analyst with SEBI (Registration No INH200003265). KSBL is also a SEBI registered Stock Broker, Depository Participant, Portfolio Manager and also distributes financial products. The subsidiaries and group companies including associates of KSBL provide services as Registrars and Share Transfer Agents, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, financial consultancy and advisory services, realty services, data management, data analytics, market research, solar power, film distribution and production, profiling and related services. Therefore associates of KSBL are likely to have business relations with most of the companies whose securities are traded on the exchange platform. The information and views presented in this report are prepared by Karvy Stock Broking Limited and are subject to change without any notice. This report is based on information obtained from public sources, the respective corporate under coverage and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KSBL. While we would endeavor to update the information herein on a reasonable basis, KSBL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent KSBL from doing so. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KSBL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither KSBL nor any associate companies of KSBL accepts any liability arising from the use of information and views mentioned in this report. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Past performance is not necessarily a guide to future performance. Forward-looking statements are not predictions and may be subject to change without notice. Actual results may differ materially from those set forth in projections.

- Associates of KSBL might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
- Associates of KSBL might have received compensation from the subject company mentioned in the report during the period preceding twelve months from the date of this report for investment banking or merchant banking or brokerage services from the subject company in the past twelve months or for services rendered as Registrar and Share Transfer Agent, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, consultancy and advisory services, realty services, data processing, profiling and related services or in any other capacity.
- KSBL encourages independence in research report preparation and strives to minimize conflict in preparation of research report.
- Compensation of KSBL's Research Analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.
- KSBL generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.
- KSBL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
- KSBL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report and have no financial interest in the subject company mentioned in this report.
- Accordingly, neither KSBL nor Research Analysts have any material conflict of interest at the time of publication of this report.
- It is confirmed that KSBL and Research Analysts, primarily responsible for this report and whose name(s) is/ are mentioned therein of this report have not received any compensation from the subject company mentioned in the report in the preceding twelve months.
- It is confirmed that **Mahesh Bendre**, Research Analyst did not serve as an officer, director or employee of the companies mentioned in the report.
- KSBL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
- Neither the Research Analysts nor KSBL have been engaged in market making activity for the companies mentioned in the report.
- We submit that no material disciplinary action has been taken on KSBL by any Regulatory Authority impacting Equity Research Analyst activities.

### **Karvy Stock Broking Limited**

Office No. 701, 7<sup>th</sup> Floor, Hallmark Business Plaza, Opp.-Gurunanak Hospital, Mumbai 400 051  
 RegdOff :Plot No.31, 6<sup>th</sup> Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India  
 Karvy Stock Broking Research is also available on: Bloomberg - KRVY <GO>, Thomson Publisher & Reuters.