

Retail Equity Research (South India Focus)

**Mahindra CIE Automotive Ltd**

Automobile- Auto Ancillaries

BSE CODE : 500493      NSE CODE: MAHINDCIE  
BLOOMBERG CODE: MACA IN      SENSEX : 37,013

**Accumulate**

12M Investment Period

Rating as per Mid Cap

**CMP Rs222 TARGET Rs247 RETURN 11%** ↑  
(Closing: 13-05-19)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↑

**EARNINGS** ↓

**Medium term order outlook intact**

Mahindra CIE (MCIE) is among the top global forging players with a strong presence in both Europe and India. Currently 2/3<sup>rd</sup> of the revenue comes from Europe while the rest is from India.

- During Q1CY19, MCIE's consolidated revenue and PBT grew by 10% & 12%YoY respectively, in line with our estimates. The growth was driven by 15%YoY & 2%YoY from European and India business.
- Despite weak European car sales, the new orders in Gears & Forging segments supported the revenue. However weak domestic demand lowered the India share business.
- EBITDA margin improved by 50bps due to exchange benefit and superior product mix from Mexico Plant.
- Current order backlog from Europe and new launches by key domestic customers could enable revenue to grow by 11% over CY18-20E.
- The near term headwind due to slower PV growth both in Europe and domestic to remain under check for short term.
- We value MCIE at 13xCY20E EPS and derive at a target price of Rs247 & upgrade our rating to Accumulate from Hold at CMP.

**Revenue growth in line with estimates**

During Q1CY19, MCIE's consolidated revenue and PBT grew by 10% & 12% YoY respectively, in line with our estimates. The growth was driven by 15%YoY & 2% YoY from European and India business. Despite weak European car sales, the new orders in Gears & Forging supported the revenue growth. However weak domestic demand lowered the India share. On a weighted average, MCIE India's key customers (M&M, Maruti & Tata) sales declined by 9% in volume. Meanwhile, On account of strong export from India has helped to retain the margin. During the quarter MCIE announced acquisition of Aurangabad Electricals (AEL) which is Aluminum die casting company catering to 2W and cars. MCIE is likely to pay Rs8.8bn all cash deal for the acquisition. The acquired entity reported sales of Rs8.6bn & EBITDA margin of 11.8% during FY19.

**MCIE Europe business to outperform.**

The contribution from the European business to remain strong in CY19. The second phase of Metalcastello projects for Caterpillar worth 16mn Euro and new crankshaft line in Lithuania for supply to Volkswagen with a revenue potential of ~Euro 8.9mn will provide higher revenue visibility. European forging business marginally improved by 10bps during the quarter due to RM cost and subdued Industry growth. Currently, MCIE is operating at 90% capacity utilization and hence it has plan to invest Rs7bn over the next two years (Primarily for MCIE India). We expect consolidated revenue to grow at 11% CAGR over CY18-20E.

**EBITDA margin to remain stable at 13-14%**

During the quarter MCIE reported domestic EBITDA margin of 16.3% (+120bps) and the international business margin of 13.1% (+10bps). We expect the EBITDA margin to expand owing to ramp up of Lithuania plant along with productivity improvement (closing UK subsidiary Stokes) and product rationalization in Mahindra Forging Europe business. We believe improvement in the performance of new products share and pick up in the European car demand will lead to better utilization of the assets.

**Valuations**

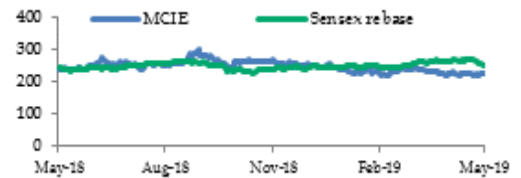
On the back of new launches from its key domestic customers and strong demand in the CV segment due to pre buying owing to change in emission norm, will generate demands for its products. However the near term headwind due to slower PV growth both in Europe and domestic to remain under check for short term. We value MCEI at 13xCY20E EPS and derive at a target price of Rs247 and upgrade our rating to Accumulate from Hold at CMP.

**Company Data**

Market Cap (cr)	Rs.8,447
Enterprise Value (cr)	Rs.9,269
Outstanding Shares (cr)	37.9
Free Float	25%
Dividend Yield	0.0%
52 week high	Rs.302
52 week low	Rs.211
6m average volume (cr)	0.02
Beta	0.89
Face value	Rs.10

Shareholding (%)	Q3CY19	Q4CY19	Q1CY19
Promoters	67.8	67.8	67.7
FII's	8.1	8.1	10.1
MFs/Insti	9.7	9.7	7.1
Public	16.5	16.5	15.1
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-1.9%	-15.3%	-7.1%
Absolute Sensex	2.6%	5.5%	4.3%
Relative Return	-4.4%	-19.7%	-11.0%



Consolidated(cr)	CY19A	CY20E	CY21E
Sales	8,031	8,759	9,810
Growth (%)	24.9	9.1	12.0
EBITDA	1,051	1,170	1,360
EBITDA Margin(%)	13.1	13.4	13.9
PAT Adj.	549	608	720
Growth (%)	46.9	10.7	18.4
Adj.EPS	14.5	16.1	19.0
Growth (%)	46.9	10.7	18.4
P/E	15.4	13.9	11.7
P/B	2.0	1.7	1.5
EV/EBITDA	9.5	8.5	7.3
ROE (%)	13.7	13.3	13.7
D/E	0.4	0.3	0.3

Saji John  
Research Analyst

## Profit & Loss

### Quarterly Financials (Consolidated)

Rs cr)	Q1CY19	Q1CY18	YoY Growth %	Q4CY18	YoY Growth %
<b>MCIE India (Net)</b>	<b>794</b>	<b>776</b>	<b>2.3</b>	<b>821</b>	<b>-3.4</b>
EBITDA Margin %	16.3	15.1	+120bps	13.8	+250bps
<b>MCIE Europe (Net)</b>	<b>1,284</b>	<b>1,119</b>	<b>14.8</b>	<b>1,120</b>	<b>14.6</b>
EBITDA Margin %	13.1	13.0	+10bps	14.4	-130bps
<b>MCIE Consolidated</b>	<b>2,068</b>	<b>1,888</b>	<b>9.6</b>	<b>1,873</b>	<b>10.4</b>
EBITDA Margin %	14.4	13.9	+50bps	14.7	-30bps
<b>PBT Consolidated</b>	<b>213</b>	<b>191</b>	<b>11.6</b>	<b>182</b>	<b>17.1</b>

### Quarterly Financials (Standalone)

Rs cr)	Q1CY19	Q1CY18	YoY Growth %	Q4CY18	YoY Growth %
<b>Sales</b>	<b>643</b>	<b>612</b>	<b>5.1</b>	<b>615</b>	<b>4.6</b>
<b>EBITDA</b>	<b>79</b>	<b>74</b>	<b>6.5</b>	<b>70</b>	<b>13.3</b>
EBITDA margins	12.2	12.1	+10bps	11.3	+90bps
Depreciation	18	19	(5.7)	18	(1.6)
<b>EBIT</b>	<b>61</b>	<b>55</b>	<b>10.6</b>	<b>51</b>	<b>18.5</b>
Interest	3	1.5	-	2.5	-
Other Income	15	6	150.0	11	36.4
Exceptional Items	0	0	-	-129	-
<b>PBT</b>	<b>73</b>	<b>60</b>	<b>22.1</b>	<b>-69</b>	<b>78.3</b>
Tax	25.8	21.1	22.3	21	26.1
Share of profit from Associate	0	0	-	0	-
Minority Interest	0	0	-	0	-
<b>Reported PAT</b>	<b>47</b>	<b>39</b>	<b>22.1</b>	<b>-89</b>	<b>-</b>
Adjustments	-	-	-	129	-
<b>Adj PAT</b>	<b>47</b>	<b>39</b>	<b>22.1</b>	<b>39</b>	<b>20.2</b>
No. of Shares	37.9	37.9	-	37.9	-
<b>EPS (Rs)</b>	<b>1.2</b>	<b>1.02</b>	<b>22.1</b>	<b>1.03</b>	<b>20.2</b>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	CY19E	CY20E	CY19E	CY20E	FY19E	FY20E
Revenue	8,841	9,696	8,759	9,810	-0.9	1.2
EBITDA	1,181	1,344	1,170	1,360	-0.9	1.2
Margins (%)	13.4	13.9	13.4	13.9	-	-
Adj. PAT	616	708	608	720	-1.3	1.2
EPS	16.4	18.7	16.1	19.0	-1.3	1.2

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	CY16A	CY17A	CY18A	CY19E	CY20E
<b>Sales</b>	<b>5320</b>	<b>6428</b>	<b>8032</b>	<b>8759</b>	<b>9810</b>
% change	37.8	20.8	24.9	9.1	12.0
<b>EBITDA</b>	<b>326</b>	<b>814</b>	<b>1051</b>	<b>1170</b>	<b>1360</b>
% change	34.5	149.5	29.1	11.3	16.2
Depreciation	233	268	277	310	348
EBIT	94	546	765	849	998
Interest	59	51	50	57	57
Other Income	31	27	39	53	59
<b>PBT</b>	<b>57</b>	<b>515</b>	<b>753</b>	<b>844</b>	<b>1000</b>
% change	(298.6)	806.0	46.3	12.1	18.4
Tax	93	148	204	236	280
Tax Rate (%)	162.8	28.8	27.1	28.0	28.0
<b>Reported PAT</b>	<b>(36)</b>	<b>367</b>	<b>549</b>	<b>608</b>	<b>720</b>
Adj.	(9)	(7)	0	0	0
<b>Adj. PAT</b>	<b>-27</b>	<b>374</b>	<b>549</b>	<b>608</b>	<b>720</b>
% change	(189.9)	-	46.9	10.7	18.4
No. of shares (cr)	37.9	37.8	37.9	37.9	37.9
<b>Adj EPS (Rs)</b>	<b>(0.7)</b>	<b>9.9</b>	<b>14.5</b>	<b>16.1</b>	<b>19.0</b>
% change	(176.8)	(1500.9)	46.9	10.7	18.4
DPS (Rs)	0	0	0	0	0

### CASH FLOW

Y.E March (Rs Cr)	CY16A	CY17A	CY18A	CY19E	CY20E
Net inc. + Depn.	289	783	1040	1166	1361
Non-cash adj.	57	51	-6	(179)	(223)
Changes in W.C	(188)	(100)	116	(284)	7
<b>C.F. Operation</b>	<b>99</b>	<b>586</b>	<b>945</b>	<b>716</b>	<b>1133</b>
Capital exp.	891	(364)	(395)	(364)	(400)
Change in inv.	(1079)	(16)	(626)	(195)	(203)
Other invest.CF	29	(147)	(75)	(155)	(155)
<b>C.F - Investment</b>	<b>(831)</b>	<b>(532)</b>	<b>(1103)</b>	<b>(714)</b>	<b>(758)</b>
Issue of equity	453	9	0	0	0
Issue/repay debt	182	(165)	346	0	0
Dividends paid	272	0	0	0	0
Other finance.CF	79	98	213	(57)	(57)
<b>C.F - Finance</b>	<b>847</b>	<b>(81)</b>	<b>296</b>	<b>(57)</b>	<b>(57)</b>
Chg. in cash	115	(27)	138	(64)	330
Closing cash	165	138	276	207	550

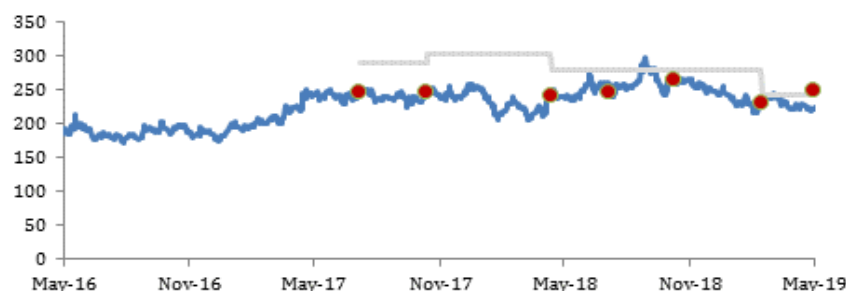
### BALANCE SHEET

Y.E March (Rs Cr)	CY16A	CY17A	CY18A	CY19E	CY20E
Cash	165	138	276	207	537
Accounts Receivable	522	598	741	792	887
Inventories	835	990	1229	1359	1515
Other Cur. Assets	289	487	283	657	736
Investments	39	55	681	876	1079
Gross Fixed Assets	2334	2742	3101	3501	3901
Net Fixed Assets	1768	1901	1984	2074	2126
CWIP	97	60	96	60	60
Intangible Assets	15	13	10	9	5
Def. Tax (Net)	149	120	176	176	176
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>6814</b>	<b>7447</b>	<b>8534</b>	<b>9553</b>	<b>10645</b>
Current Liabilities	310	578	331	625	697
Provisions	349	365	694	456	511
Debt Funds	1362	1197	1542	1542	1542
Other Liabilities	1526	1574	1684	2040	2284
Equity Capital	379	378	379	379	379
Reserves & Surplus	2888	3355	3904	4511	5231
Shareholder's Fund	3267	3733	4282	4890	5610
<b>Total Liabilities</b>	<b>6814</b>	<b>7447</b>	<b>8534</b>	<b>9553</b>	<b>10645</b>
BVPS	86	98	113	129	148

### RATIOS

Y.E March	CY16A	CY17A	CY18A	CY19E	CY20E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	6.1	12.7	13.1	13.4	13.9
EBIT margin (%)	1.8	8.5	9.5	9.7	10.2
Net profit mgn.(%)	-0.5	5.8	6.8	6.9	7.3
ROE (%)	-1.0	10.7	13.7	13.3	13.7
ROCE (%)	-1.2	8.6	10.9	10.6	11.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	35.8	31.8	30.4	31.9	31.2
Inventory (days)	142.2	118.3	111.5	120.0	119.5
Payables (days)	104.7	88.0	74.0	77.6	80.4
Current ratio (x)	3.1	2.6	2.6	3.1	3.3
Quick ratio (x)	1.7	1.0	2.2	1.3	1.3
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.7	2.5	2.7	2.7	2.7
Total asset T.O (x)	0.9	0.9	1.0	1.0	1.0
Int. covge. ratio (x)	1.6	10.7	15.2	14.9	17.5
Adj. debt/equity (x)	0.4	0.3	0.4	0.3	0.3
<b>Valuation</b>					
EV/Sales (x)	1.8	1.5	1.2	1.1	1.0
EV/EBITDA (x)	30.0	11.8	9.5	8.5	7.3
P/E (x)	-316.4	22.6	15.4	13.9	11.7
P/BV (x)	2.6	2.3	2.0	1.7	1.5

## Recommendation summary (Last 3 Years)



Dates	Rating	Target
21.07.2017	Buy	291
27.10.2017	Buy	304
25.04.2018	Buy	280
20.07.2018	Buy	281
22.10.2018	Hold	281
26.02.2019	Hold	243
14.05.2019	Accumulate	247

Source: Bloomberg, Geojit Research.

## Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

## General Disclosures and Disclaimers

### CERTIFICATION

I, Saji John, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

### COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

### DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

### GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

### RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

### FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or anyof its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax

## JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

## REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

### 1. Disclosures regarding Ownership\*:

*Geojit confirms that:*

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

*Further, the Analyst confirms that:*

he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

### 2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not \* received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

### 3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

### 4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that the I Saji John Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

### 5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange board of India.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: [www.geojit.com](http://www.geojit.com). For investor queries: [customercare@geojit.com](mailto:customercare@geojit.com), For grievances: [grievances@geojit.com](mailto:grievances@geojit.com), For compliance officer: [compliance@geojit.com](mailto:compliance@geojit.com).

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226