

BSE Code: 532756 NSE Code: MAHINDCIE Reuters Code: MAHN.NS Bloomberg Code: MACA:IN

Mahindra CIE Automotive Ltd (Mahindra CIE) is an automotive component supplier, formed by the alliance of CIE Automotive, a Spanish automotive component major and Mahindra & Mahindra's (M&M) Systech division. The company is engaged in the business of manufacturing forged and machined products for automotive, agriculture, railway, mining, construction and other industries. With a presence across Latin America, Europe and India, Mahindra CIE is one of the world's largest forgers.

Investment Rationale

Revenue to grow at a CAGR of ~13% over FY14-17E: We expect the revenue to grow at a CAGR of ~13% over FY14-17E supported by expectations for a gradual recovery in the European and Indian automotive component business. Though outlook for the European business seems a little cautious, the Indian automotive component market is expected to get a boost in FY16 with an improvement in industrial activity, better agricultural output and infrastructure project execution; which thereby strengthen the outlook for Mahindra CIE.

Combined strength of CIE and Mahindra is expected to expand margin: Historically CIE has been known to create value and with Mahindra family, Mahindra CIE plans to expand the value creation across the entire product portfolio. CIE's management has a very strong focus on costs ranging from contribution of products to corporate overheads. In Q3FY15 itself, the management focussed on reducing costs like headcount, downtime, Power subsidy, Procurement & Sales price which resulted in a significant improvement on the operational front with 36.3% YoY growth in consolidated EBITDA. Besides, CIE has also framed plans to improve the overall profitability of Mahindra CIE. We believe that the company, along with CIE's experience and expertise, would see a substantial improvement in the profitability in the upcoming quarters.

Global promoters and footprints, favourable for the company: The management's strategy of bringing CIE's products (that enjoys leadership in the existing CIE locations like Europe and America) into India in areas such as forging, stamping would improve the company's product portfolio. With the advent of wider product portfolio, the company will be able to cater to larger section of the market with qualitative product and would be able to cross-sell the product to existing clients, which would help it enhancing its revenue-base.

Uptick in global economic recovery to aid profitability: The management's strategy of bringing CIE's products (that enjoys leadership in the existing CIE locations like Europe and America) into India in areas such as forging, stamping would improve the company's product portfolio. With the advent of the wider product portfolio, the company will be able to cater to larger section of the market with qualitative product and would be able to cross-sell the product to existing clients, which would help it enhancing its revenue-base.

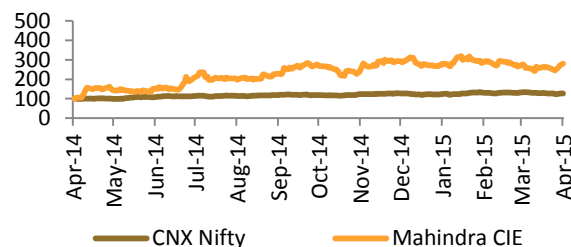
Market Data

Rating	BUY
CMP (₹)	217.8
Target (₹)	261.2
Potential Upside	~19.9%
Duration	Long Term
Face Value (₹)	10.0
52 week H/L (₹)	257.0/79.7
Adj. all time High (₹)	295.5
Decline from 52WH (%)	15.3
Rise from 52WL (%)	173.2
Beta	1.6
Mkt. Cap (₹bn)	20.1
EV (₹bn)	26.5

Fiscal Year Ended

Y/E	FY14A	FY15E	FY16E	FY17E
Revenue (₹bn)	25.9	27.2	32.1	36.9
EBITDA (₹bn)	1.1	1.5	1.9	2.2
Adj. Net Profit	(0.7)	(0.4)	0.05	0.2
Adj. EPS (₹)	(7.9)	(3.8)	0.5	1.6
Adj. P/E (x)	(27.5)	(57.9)	432.6	133.3
P/BV (x)	3.1	3.4	3.7	4.0
EV/EBITDA (x)	24.4	18.4	14.4	13.1
ROCE (%)	0.1	3.5	6.5	8.0
ROE (%)	(12.4)	(5.8)	0.9	3.0

One year Price Chart



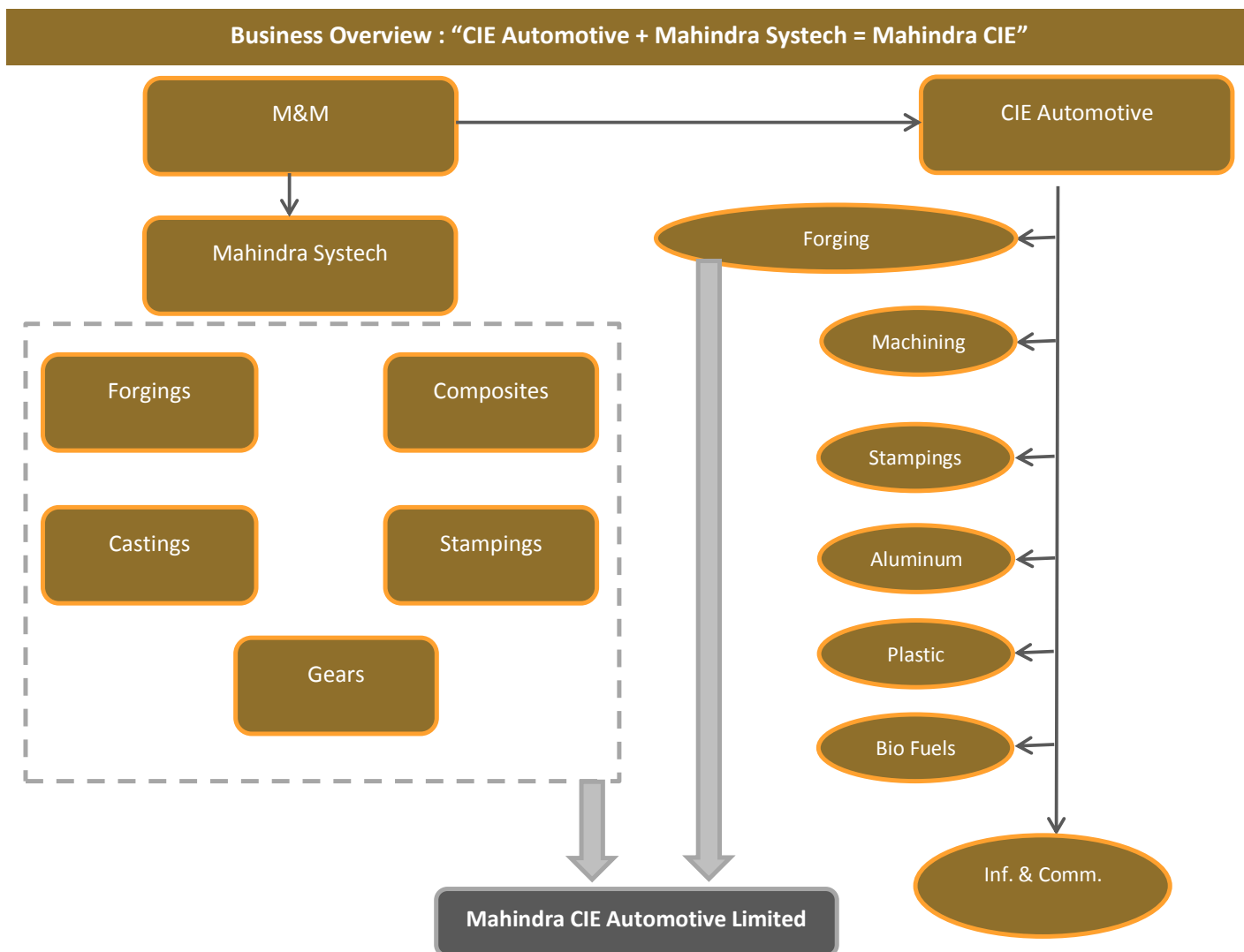
Shareholding Pattern	16Jan15	Dec14	Diff.
Promoters	74.9	78.5	(3.6)
FII	1.4	3.2	(1.8)
DII	4.7	5.4	(0.7)
Others	19.0	12.9	6.1

Mahindra CIE is engaged in the business of manufacturing forged and machined products for automotive, agriculture, railway, mining, construction and other industries.

Mahindra CIA Automotive - the fastest emerging leader in forging business

Mahindra CIE Automotive Ltd (Mahindra CIE) erstwhile Mahindra Forgings Ltd, formed by the alliance of the Spanish automotive component major, CIE Automotive and Mahindra & Mahindra's (M&M) Systech division, is the fastest emerging leader in forging business. With the expertise of CIE Automotive, which specializes in supplying components and subassemblies for the automotive market, coupled with the experience of Mahindra Forgings, which is focused on design, development and machining of crankshafts and steering knuckles for cars and multi-utility vehicles; the merged entity would evolve as a global major in auto component manufacturing business.

Mahindra CIE is engaged in the business of manufacturing forged and machined products for automotive, agriculture, railway, mining, construction and other industries. Following the merger, the company now has expanded its global footprints to Latin America as well along with the presence it had in India and Europe (UK and Germany).



Recorded mixed performance in Q3FY15

The merged entity, Mahindra CIE has come out with its quarterly numbers for the first time. The consolidated business includes the results of Mahindra CIE (India), Mahindra Forging Europe (Germany and UK), Metalcastello (Italy) and CIE Forgings Europe (Spain and Lithuania).

Q3FY15 Performance - Proforma numbers (₹ mn)

	Q3FY14	Q3FY15	YoY change (%)
Total revenue	14,107.0	13,182.0	(6.6)
EBITDA	813.0	869.0	6.9
EBITDA margin (%)	5.8	6.6	80bps
Adj. EBITDA	813.0	1,108.0	36.3
Adj. EBITDA margin (%)	5.8	8.4	260bps
Net profit	1,170.0	106.0	(90.9)
Net profit margin (%)	8.3	0.8	(750)bps
Adj. Net profit	(544.0)	585.0	-
Adj. Net profit margin (%)	(3.9)	4.4	-

Mahindra CIE reported a 6.6% YoY decline in consolidated revenue to ₹13,182.0 mn in Q3FY15 as against ₹14,107.0 mn in the corresponding period a year ago.

Going forward, we believe, Mahindra CIE would be able to register a much better performance with the gradual recovery in the global automotive component market.

The company reported a 6.6% YoY decline in consolidated revenue to ₹13,182.0 mn in Q3FY15 as against ₹14,107.0 mn in the corresponding period a year ago. The revenue-base was mainly impacted by the continued slowdown in European passenger vehicle (PV) market. Decline in Indian tractor industry followed by slower growth in production of PV, utility vehicles (UV) and commercial vehicles (CV), further added to the woes. During the quarter, production at Mahindra CIE's key Indian customers declined by 12%, which also had an unfavorable impact on the top-line growth.

Continuous efforts towards cost reduction helped Mahindra CIE to record a growth of 36.3% YoY in adj. EBITDA to ₹1,108.0 mn in Q3FY15 compared to ₹813.0 mn in the same period a year earlier. Adj. EBITDA margin, as a result, expanded 260bps YoY to 8.4% in Q3FY15 compared to 5.8% in Q3FY14. Besides, the company showcased adj. net profit of ₹585.0 mn in Q3FY15 as against a net loss of ₹544 mn in Q3FY14.

Going forward, we believe, Mahindra CIE would be able to register a much better performance with the gradual recovery in the global automotive component market. Besides, the management's decision to concentrate on maintaining profitability with the help of cost-reduction measures promises better performance in the upcoming quarters. Mahindra CIE's efforts to diversify markets and to develop new product with the help of CIE's expertise also bodes well for the company.

Bringing CIE's existing technologies (such as aluminium products, plastic products, and vehicle-roof systems) to India and Asia and focus on achieving CIE financial standards and goals.

Mahindra CIE to benefit from synergy benefits arising out of the merger

After nearly 18 months of collaboration between CIE and Mahindra Systech, the company together created a footprint across three continents and became one of the leading auto component players in the world. This has helped realizing synergies in terms of cost reduction in manufacturing facilities situated in Mexico, Brazil, Spain and India. It was a complex structuring initially, but with better control and planned structure the business was framed strategically which is reaping benefits across business verticals. Mahindra Systech initially had a presence in Europe and India, while CIE used to operate in Europe and Latin America. After joining hands, the merged entity now has wider reach through cross-selling of product and removing duplication of work, etc. It has been a win-win situation for both the entity.

Historically, CIE has been known to create value in the past and now as part of the larger Mahindra family, Mahindra CIE plans to follow the same. After the collaboration, CIE framed a plan to improve profitability of Mahindra CIE. We believe that company's total operating income would grow at a CAGR of ~13% during FY14-FY17E period.

Complementary product market presence

Product	EU	NAFTA	Brazil	Russia	India	China
Stamping	CIE	CIE	CIE	CIE	Mahindra Systech	CIE
Forgings	CIE and Mahindra Systech	CIE	CIE		Mahindra Systech	CIE
Gears/ Machining	CIE and Mahindra Systech	CIE	CIE	CIE	Mahindra Systech	CIE
Plastics	CIE	CIE	CIE	CIE		CIE
Aluminium	CIE	CIE		CIE		
Casting			CIE		Mahindra Systech	
Painting	CIE	CIE	CIE			
Roof Systems	CIE	CIE				CIE
Composites					Mahindra Systech	
Magnets					Mahindra Systech	

Mahindra CIE operational performance expected to improve with synergy benefits; particularly in Europe. Indian operations are on the cusp of upturn.

Strong possibility to expand operations in each other territory and shifting manufacturing on economies of scale basis

The company is planning to create product families (similar products) so as to adjust the production to whatever capabilities they have in each plant and this is probably what the company will be doing in the future, in an attempt to lower down the production cost. Because of this, it is likely that the production of some precuts to be shifted from Europe to India

The main driver of the company's growth in India continues to be a domestic demand growth but definitely there will be some transfer from Europe to India which will help Mahindra CIE to optimize efficiency and improve profit margin.

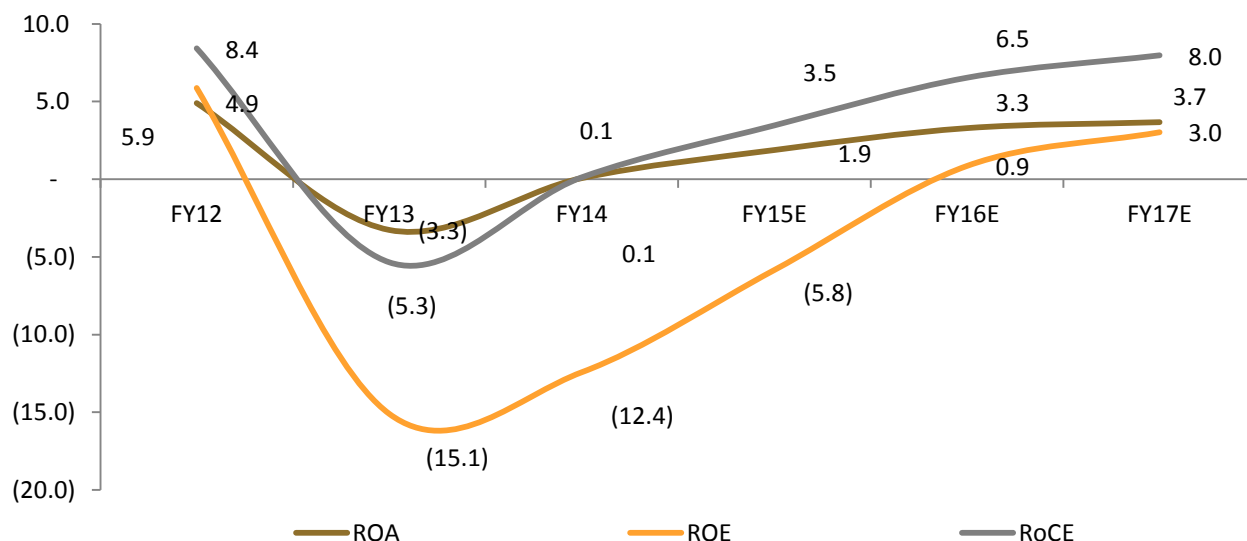
because right now India is probably the most competitive economy in the world for producing auto components (due to price competitiveness). Once the production of similar products shifts to India, the company will realise economies of scale benefits. While, the main driver of the company's growth in India continues to be a domestic demand growth, but definitely there will be some transfer from Europe to India which will help Mahindra CIE to optimize efficiency and improve profit margin.

Further, CIE is helping Mahindra CIE in terms of improving operations by way of automation and in terms of improving the maintenance support. Management believes that the actual benefit of this action would realize in ~8-12 months because these are long drawn process. Further, the company highlighted that the new orders they have got recently are entirely because of the expertise that it already have in India to manufacture the crankshafts.

Management Takeaways

- Management remains optimistic about the domestic forging business and highlighted that the forging business in India is more dependent on volumes and how the market grows. With the expected revival in demand for passenger vehicles, one can expect both volumes as well as margins to pick up.
- The European business is likely to improve as the economic situation is signaling an improvement in Europe, Brazil and Russia, which are the company's major trading partners. Further management highlighted that currently the fixed cost to sales to be in the range of 35%-37% and the company is planning to reduce it further.
- The management expects a further improvement in operating performance at MFE (Mahindra Forgings Europe) as the process optimisation measures initiated by CIE showed initial sign of improvement.

Key return ratios (%)



Balance Sheet (Consolidated)

Y/E (₹mn)	FY14A	FY15E	FY16E	FY17E
Share Capital	923.4	932.5	932.5	932.5
Reserve & surplus	5,637.0	5,073.3	4,565.9	4,109.4
Net Worth	6,560.4	6,005.8	5,498.5	5,041.9
Total debt	6,799.7	7,394.7	8,172.3	9,190.8
Provisions	1,990.7	2,192.4	2,521.2	2,904.5
Deferred tax liability	55.7	55.7	61.3	67.4
Other non-current liabilities	30.5	30.5	33.5	36.9
Other current liabilities	4,729.2	5,438.6	6,417.5	7,755.6
Capital Employed	20,166.2	21,117.6	22,704.4	24,997.0
Fixed Assets	12,404.2	12,776.3	13,670.6	15,311.1
Investments	578.3	634.0	695.2	762.5
Loans & advances	799.4	869.9	950.8	1,034.7
Deferred tax assets	655.5	655.5	655.5	655.5
Other non-current assets	5,728.8	6,181.9	6,732.3	7,233.2
Capital Deployed	20,166.2	21,117.6	22,704.4	24,997.0

Key Ratios (Consolidated)

Y/E	FY14A	FY15E	FY16E	FY17E
EBITDA Margin (%)	4.2	5.4	6.0	6.0
EBIT Margin (%)	0.1	1.5	2.3	2.5
NPM (%)	(3.1)	(1.3)	0.1	0.4
Adj. NPM (%)	(2.8)	(1.3)	0.1	0.4
ROCE (%)	0.1	3.5	6.5	8.0
ROE (%)	(12.4)	(5.8)	0.9	3.0
EPS (₹)	(8.8)	(3.8)	0.5	1.6
Adj. EPS (₹)	(7.9)	(3.8)	0.5	1.6
P/E (x)	(24.7)	(57.9)	432.6	133.3
Adj. P/E (x)	(27.5)	(57.9)	432.6	133.3
BVPS(₹)	71.0	64.4	59.0	54.1
P/BVPS (x)	3.1	3.4	3.7	4.0
EV/Net Sales (x)	1.0	1.0	0.9	0.8
EV/EBITDA (x)	24.4	18.4	14.4	13.1

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY14A	FY15E	FY16E	FY17E
Total revenue	25,907.8	27,203.2	32,099.7	36,914.7
Expenses	24,821.1	25,734.2	30,173.8	34,699.8
EBITDA	1,086.7	1,469.0	1,926.0	2,214.9
Other Income	127.7	127.7	140.4	154.5
Depreciation	1,199.9	1,199.9	1,319.9	1,451.9
EBIT	14.4	396.7	746.5	917.4
Interest	628.2	659.6	679.4	699.8
Profit Before Tax	(613.8)	(262.9)	67.1	217.6
Exceptional Item	(83.2)	-	-	-
Tax	117.9	87.9	20.1	65.3
Net Profit	(814.9)	(350.8)	46.9	152.3
Adj. Net Profit	(731.7)	(350.8)	46.9	152.3

Valuation and view

Following the association with CIE, Mahindra CIE emerged as a global automotive ancillary player with focus on Asian markets across all CIE's product verticals and its global forging operations. With the synergy in terms of wider spread across geographies, broad product base under one umbrella and better technology integration - the company is expected to drive growth. We expect company's total income to grow at a CAGR of ~13% during FY14-FY17E and also expects that the company would reap returns by the end of FY16E.

We initiate BUY rating on Mahindra CIE. At a current CMP of ₹217.8, Mahindra CIE is currently trading at an EV/EBITDA of 14.4x FY16E and 13.1x FY17E. Considering the company's strong fundamentals, we recommend 'BUY' with a target price of ₹261.2, which implies potential upside of ~19.9% to the CMP from a 1 year perspective.

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