



MORNING FARSIGHT

Monday, June 11, 2018

MAHINDRA CIE AUTOMOTIVE

CMP:RS 250

TRGT:RS 325

TIME HORIZON: 1 YEAR

Mahindra CIE Automotive, is looking a good buy, with robust Q1CY18 earnings seen, with attractive valuations. Company follows December year ending and for Q1CY18, earned consolidated EBITDA of Rs. 264 cr against Rs. 232 cr QoQ and Rs. 195 cr YoY, up by over 13% QoQ and 35% YoY, with hefty EBITDA margin of 13.8%. India business reported 50%YoY EBITDA growth, while Europe Business achieved an EBITDA growth of 27% YoY, indicating all around performance across both the markets. Consolidated PBT has come in at Rs. 193 cr against Rs. 154 cr QoQ and Rs. 129 cr YoY, with M Cap of Rs. 9,450 cr and EV of Rs. 10,350 cr. On an estimated EBITDA of Rs. 1,150 cr for CY18, share is trading at an EV/EBITDA of 9x only, which is at discount to peers like Bharat Forge (EV/EBITDA 18x) and to very small players like Ramkrishna Forgings at 12x or MM Forgings at 11x. Further, if we annualize Q1CY18 consolidated PBT of Rs. 193 cr, we get CY18 PBT of Rs. 772 cr, and with tax rate of —29%, we get Consolidated PAT of Rs. 548 cr and an EPS of Rs. 14.47, which gives PE of near 17x, which is seen quite low, as Q4CY18 will be the best quarter. We are tracking more than 55 auto ancillary companies, and this is the most attractive valuations, given the kind of growth company is delivering quarter after quarter and giant global presence of Mahindra CIE Automotive. Technically as well, stock is showing signs of breakout after consolidating in last 1 month, with accumulation seen having completed by the strong hands. Mahindra CIE Automotive is one of the largest auto component suppliers in India with presence across 6 technologies i.e. Forgings, Castings, Stampings, Composite, Gears and Magnetic Products, through 19 manufacturing facilities (11 in India and 8 overseas -Germany, Spain, Italy, UK). The performance is set to improve, led by India business with CV cycles seen strongest in years, scope to add customers in Metalcastello, focus on value add at MFE and management looking for new acquisitions. Also recall that company had acquired Bill Forge in Sept 2016 and offers strong growth potential, given its association with the strongest players in PVs. Outlook for the coming quarters is robust, given new projects from caterpillar worth Rs. 123 a and new crankshaft line in Lithuania for supply to VW with peak revenue potential of Rs. 70 cr annually. Also, with expected cash profits of Rs. 600 cr annually, company is likely to generate healthy free cash flows in the near to medium term despite capex of Rs. 350-375 cr on an annual basis. Promoters are holding —70% stake, while —13.4% is held by the Institutional houses. Company's key clients include M&M, Maruti, Tata Motors, Daimler, Renault, VW Group, DAF, MAN, Caterpillar, Volvo, Kolbenschmidt, GKN, JLR, ZF Steering, Ford etc. Share ruling at Rs. 250 can move to Rs. 325 in 1 year

DISCLAIMER: This is solely for information of clients of Farsight Securities Ltd. and does not construe to be an investment advice. It is also not intended as an offer or solicitation for the purchase and sale of any financial instruments. Any action taken by you on the basis of the information contained herein is your responsibility alone and Farsight Securities Ltd. its subsidiaries or its employees or associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained in this recommendation, but Farsight Securities Ltd. or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this recommendation or any action taken on basis of this information. Technical analysis studies market psychology, price patterns and volume levels is used to forecast future price and market movements. Technical analysis is complementary to fundamental analysis and news sources. The recommendations issued herewith might be contrary to recommendations issued by Farsight Securities Ltd. in the company research undertaken as the recommendations stated in this report is derived purely from technical analysis. Farsight Securities Ltd. has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; Farsight Securities Ltd. makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. The information and any disclosures provided herein are in summary form and have been prepared for informational purposes. The recommendations and suggested price levels are intended purely for trading purposes. The recommendations are valid for the day of the report however trading trends and volumes might vary substantially on an intraday basis and the recommendations may be subject to change. The information and any disclosures provided herein may be considered confidential. Any use, distribution, modification, copying, forwarding or disclosure by any person is strictly prohibited. The information and any disclosures provided herein do not constitute a solicitation or offer to purchase or sell any security or other financial product or instrument. The current performance may be unaudited. Past performance does not guarantee future returns. There can be no assurance that investments will achieve any targeted rates of return, and there is no guarantee against the loss of your entire investment.

POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.