

March 18, 2015

Mahindra CIE Automotive (MAHAUT) ₹ 201

Merger in place...debut consolidated numbers!

- Mahindra CIE completed its merger process on December 10, 2014. The company has come out with the quarterly numbers of the merged entity (all segments included) for the first time. The results, therefore, are not comparable on a like-to-like basis
- Its standalone business consists of Mahindra's Forging India, casting & magnet business and composites & stamping division. At the consolidated level, it includes Mahindra Forging Europe, CIE forging business and Mahindra's gears business
- On a standalone business, the operating income for Q3FY15 stood at ₹ 378 crore vs. ₹ 421 crore in Q2FY15. EBITDA and PAT for Q3FY15 stood at ₹ 27.9 crore and ₹ 13.2 crore, respectively
- The management's turnaround strategy continues to be in place with focus on improving its profitability despite sluggish sales growth

Strong Tier-1.5 supplier to global OEMs... *The TILA factor!*

MCI is a strong tier-1.5 supplier to global OEMs, i.e. a supplier of critical components to OEMs. With global carmakers moving towards homologation with modular architecture, global platforms and standards, automotive suppliers need to meet the increasing intensiveness. We believe MCI's greatest advantage is in its significant geographic spread that has the "there is little alternative" (TILA) factor associated with it. With a presence ranging across Europe, Latin America (LatAm), North America Free Trade Agreement (Nafta) region and Asia, the alliance produces a company with limited competition in terms of presence.

CIE's turnaround path key; demand growth joker in the pack!

CIE's management has laid out clear plans for the turnaround of hot spots in MCI. The first one targeted is Mahindra Forgings Europe (MFE), for which CIE had targeted a **600 bps EBITDA margin increase on an overall basis in 36 months**. CIE's intense cost focus and decentralised management bodes well for the sustenance of this turnaround. An added kicker may emerge in the form of demand/economic recovery in both Europe & India, which may enhance the earnings lever even further.

Past rendered irrelevant as bright future beckons! CIE focus strong...

We feel MCI provides a rare, unique Indian auto component play, which has a **global footprint with global promoters** along with massive turnaround possibilities in the company. MCI has a presence across both commercial vehicles and passenger vehicles with complementary strengths of dual parents. With cost controls and economic recovery playing out, we expect utilisation levels to improve leading to EBIT margins rise to ~8% and RoCE expansion to ~15% in FY17E. CIE's track record on turnarounds via cost control and high focus on financial metrics gives us confidence.

Possible multiplier in financials to reflect in price, multiples; reiterate BUY

Mahindra CIE Auto is a unique case of valuation considering the massive turnaround possibilities. We expect utilisation levels to improve leading to EBIT margins rising to 8% and RoCE expansion to ~15% in FY17E. We expect dividend payout of ~30%, in line with CIE's philosophy of high dividend payouts (~30-50%). CFOs are also likely to balloon to ~₹ 700-800 crore (FY17E). We value MCI at 10x FY17E EV/EBITDA multiple (~25% discount to Bharat Forge), considering its steady turnaround in operations. Our target price of ₹ 260 implies an upside of ~29%. We continue to recommend BUY.

Rating matrix	
Rating	Buy
Target	₹ 260
Target Period	12 months
Potential Upside	29%

What's Changed?	
Target	Unchanged
EPS FY16E	changed from ₹ 10.3 to ₹ 9.9
EPS FY17E	changed from ₹ 13.9 to ₹ 13.2
Rating	Unchanged

Quarterly Performance					
(₹ Crore)	Q3FY15	Q3FY14	YoY	Q2FY15	QoQ
Revenues	378.3	89.9	N.A.	421.3	-10.2
EBITDA	27.9	10.2	N.A.	36.8	-24.0
EBITDA (%)	7.4	11.4	N.A.	8.7	-134 bps
Reported PAT	13.2	1.5	N.A.	13.9	-5.5

Key Financials				
₹ Crore	FY14E	FY15E	FY16E	FY17E
Net Sales	5,535	5,554	5,956	6,442
EBITDA	453.1	580.2	753.2	894.6
Net Profit	39.6	171.2	318.5	425.0
EPS (₹)	1.2	5.3	9.9	13.2

All financial numbers incorporate merger assumption completed

Valuation summary				
	FY14E	FY15E	FY16E	FY17E
P/E (x)	163.7	37.9	20.4	15.3
Target P/E (x)	211.5	49.0	26.3	19.7
EV/EBITDA (x)	17.9	13.5	10.1	8.2
P/BV (x)	2.7	2.6	2.6	2.4
RoNW (%)	1.7	6.9	12.6	15.7
RoCE (%)	3.9	6.9	11.4	15.3

All financial numbers incorporate merger assumption completed

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	₹ 6488
Total Debt (FY14E) (₹ Crore)	₹ 1657.8
Cash & Investments (FY14E) (₹ Crore)	₹ 32.3
EV (₹ Crore)	₹ 8113.6
52 week H/L (₹)	257/69
Equity capital (₹ crore)	₹ 322.8
Face value (₹)	₹ 10

All financial numbers incorporate merger assumption completed

Price performance (%)				
	1M	3M	6M	12M
Mahindra CIE Automotive Ltd	-10.4	-2.9	-0.8	175.7
Motherson Sumi Systems Ltd	5.0	17.5	16.9	113.6
Bharat Forge Ltd	10.3	44.6	54.6	237.2

Research Analyst	
Nishit Zota	nishit.zota@icicisecurities.com
Vidrum Mehta	vidrum.mehta@icicisecurities.com

Variance analysis- Standalone

	Q3FY15	Q3FY14	YoY(%)	Q2FY15	QoQ(%)	Comments
Total Operating Income	378.3	89.9	320.8	421.3	-10.2	QoQ decline attributable to decline in volumes of major customers
Raw Material Expenses	203.4	46.8	334.3	233.4	-12.8	
Employee Expenses	47.1	9.0	420.9	47.9	-1.8	
Other expenses	99.8	23.8	319.4	103.2	-3.3	
EBITDA	27.9	10.2	173.3	36.8	-24.0	
EBITDA Margin (%)	7.4	11.4	-398 bps	8.7	-134 bps	
Other Income	9.6	1.2	709.5	3.7	159.3	
Depreciation	16.3	7.1	130.0	18.2	-10.5	
Interest	3.5	1.6	127.7	3.5	0.7	
PAT	13.2	1.5	765.5	14	-5.5	
EPS	0.4	0.0	765.5	0.4	-5.5	
Key Metrics						
Mahindra CIE Standalone Revenues(₹ crore)	378	90	320.8	421	-10.2	
Mahindra CIE Consolidated Revenues(₹ crore)	1,318	1,411	-6.6	N.A.	N.A.	
Mahindra Standalone OPM (%)	7.4	11.4	-398 bps	8.7	-134 bps	
Mahindra Consolidated OPM(%)	8.4	5.8	260 bps	N.A.	N.A.	

Source: Company, ICICIdirect.com Research; YoY numbers not comparable as Q3FY15 results represent financials of merged entity

Change in estimates

(₹ Crore)	FY16E			FY17E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,244	6,103	-2.3	6,804	6,597	-3.0	Marginal reduction in estimates after release of YTD consolidated numbers by company
EBITDA	781	753	-3.6	931	895	-3.9	Recovery in MFE & MC operational performance on track
EBITDA Margin (%)	12.5	12.3	-17 bps	13.7	13.6	-12 bps	
PAT	331	319	-3.8	448	425	-5.1	
EPS (₹)	10.3	9.9	-4.1	13.9	13.2	-5.5	

Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

Assumptions

	FY14E		Current		Earlier		Comments
	FY14E	FY15E	FY16E	FY17E	FY16E	FY17E	
Revenue (₹ crore)							
Forgings	3,819	3,792	3,953	4,090	4,134	4,329	Growth led by improvement in both European and Indian forgings business
Castings	517	543	620	731	662	781	
Stampings	723	738	858	1,016	909	1,076	
Gears	552	570	617	664	636	684	Improvement in automotive demand to aid the gear business post growth
Composites	50	50	55	62	57	65	
EBITDA margins(%)							
Forgings	7.1	10.3	12.9	14.1	11.9	12.9	Strong possibility of margin expansion as product profile improves and on benefit of operating leverage
Castings	10.6	10.6	12.1	13.9	14.6	16.3	
Stampings	9.2	9.6	11.0	12.9	11.4	13.3	Strong possibility of margin expansion as product profile improves and on benefit of operating leverage
Gears	8.2	10.5	11.8	12.5	13.4	14.1	Expansion of margins to be led to operating leverage
Composites	1.9	1.9	3.0	5.7	4.6	7.2	

Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

Key conference call takeaways

- The company is currently operating at ~80% of the utilisation level and the management does not have any major capex plan in the near term
- On the domestic automotive market, the management remains cautiously optimistic and is focused on maintaining current profitability levels
- In Mahindra Forgings Europe (MFE), the company's turnaround strategy is in place. The management remains uncertain on the European CV market. However, the company has started enjoying the synergy benefit in the European market, with MFE mainly catering to the CV segment while CIE Forging Europe is catering to passenger cars
- CIE's European Forgings segment continues with its stable operations and profitability. It mainly operates in the passenger vehicle segment with car sales growing steadily at 3-5%
- In the Metalcastello business (Italy), the management is focusing on cost and capex reduction in addition to exploring new customer and market segments. With sluggish sales growth (from the Europeans trucks and tractor market and lower demand from Caterpillar and its associate company Turner and from the defence segment), Mahindra Gears is looking to explore the machining business. The existing asset at the plant is for miscellaneous applications and can be used either for manufacturing gears or machining, resulting in operational efficiencies and a minimum return on capital of ~20% from the new vertical
- In the domestic market, the company has enrolled itself as the preferred supplier to its two major customers, M&M and Tata Motors. Mahindra CIE is in discussions with major OEMs in India and has recently started supplying to Renault India
- The company plans to grow in the Southeast Asian market and is likely to take the inorganic route for the same. Mahindra CIE could acquire a Japanese company, which has a presence in Southeast Asia

Company Analysis

MFE remains a hotspot in the consolidated MCI entity registering an EBITDA loss of ~₹ 3 crore (€0.4 million) for FY13. One of the major challenges in the operating performance is the significantly high employee cost. Our analysis has highlighted the fact that cultural differences between the German entity and erstwhile promoters M&M had led to a lack of reduction in these costs even as sales witnessed declines since FY09, thus causing sharp declines in EBITDA.

In comparison, CIE's management, considering its European expertise, has laid out a clear path towards the reduction of the same. The first signs of the same are visible. CIE is looking to review the performance of the top level management as part of the employee cost reduction process. The company is looking to reduce its temporary workforce, which is at >200 employees for a total employee base of 1300 employees. This could possibly lead to minimum cost savings of €8-10 million (~₹ 60-80 crore).

In the first phase of the turnaround since H2FY14 the focus has been on process improvements and efficiencies in terms of production facilities. In terms of example, the Schöneweiss facility 12,800 T press has witnessed nearly ~30% increase in productivity (21,000 parts/month run rate in Q4FY14).

Thus, on the EBITDA front, we expect MFE to witness an EBITDA improvement to ~₹ 200-250 crore by FY17E with EBITDA margins of ~10.1% during the same.

Exhibit 1: What's dragging down performance?

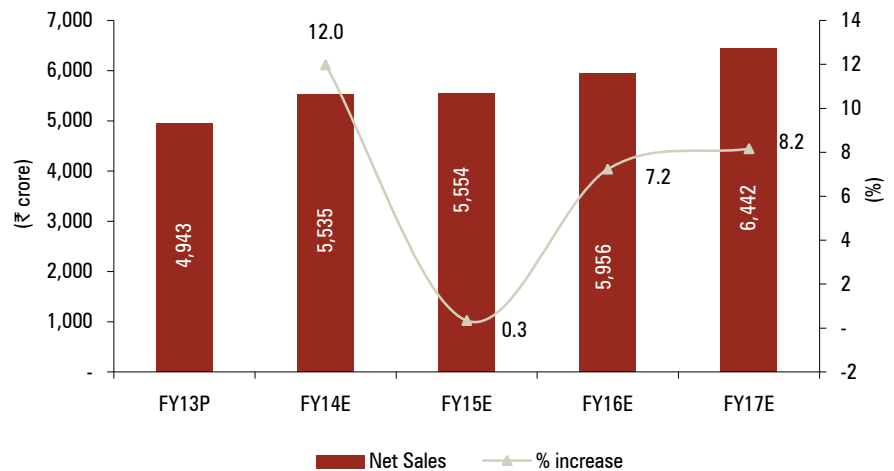
Geography	Companies	FY13P Revenues (₹ crore)		EBITDA margin (%)		Contribution to consolidated (%)	
		Revenue	EBITDA	Revenue	EBITDA		
Europe	Mahindra Forgings Europe	1702.1	-2.7	-0.2	34.4	-0.8	
	CIE Forgings	1,042.4	139.0	13.3	21.1	41.9	
	Metalcastello	402.2	44.9	11.2	8.1	13.5	
India	Mahindra Forgings India	394.7	43.0	10.9	8.0	13.0	
	Mahindra Gears India	105.8	10.9	10.3	2.1	3.3	
	Mahindra Hinoday	478.8	25.8	5.4	9.7	7.8	
	MUSCO (Stampings)*	766.4	69.1	9.0	15.5	20.8	
	Mahindra Composites	50.3	1.8	3.6	1.0	0.5	
Total	Mahindra CIE Automotive	4942.7	331.9	6.7	100.0	100.0	

Source: Company, ICICIdirect.com Research MFE is biggest hotspot, Hinoday second largest followed by Composite All financial numbers incorporate merger assumption completed

Revenue growth to be modest as Europe, Indian challenges remain

Mahindra CIE has ~60:40 ratio towards geographic mix outside/within India. The revenue growth possibilities on favourable macros in Europe and India remain key upside risks. However, we have factored in overall moderate revenue growth of ~7.5% CAGR (FY13-17E) in the European business while for India we are building in a marginal recovery vis-à-vis industry. The strongest revenue segmental drivers would continue to remain the forgings entity (~6% CAGR in FY13-17E) followed by gears, castings, stampings business (3%, 11%, 7% CAGR in FY13-17E, respectively). On an overall basis, we expect revenue growth to be 0.3%, 7.2% and 8.1% for FY15E, FY16E and FY17E, respectively.

Exhibit 2: We build modest revenue growth at 7% CAGR in FY13-17E

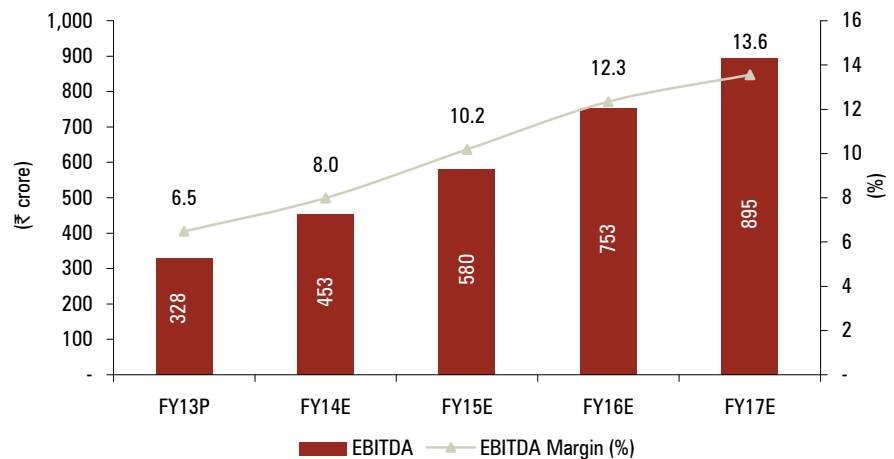


Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

EBITDA margins to rise as CIE philosophy takes over!

Looking at the history of CIE's acquisitions, it is evident that CIE's management has a very strong focus on all kinds of costs ranging from contribution of products to corporate overheads. Corporate overheads stand at less than 1% of sales. CIE focuses on the decentralised management of various plants, which are independently given targets of RoCEs and EBIT margins. We believe the overall group turnaround may face some outlier roadblocks due to which we expect the management's target of ~12% EBITDA margin to be achieved over the next couple of years. We, however, expect the progression of margins to be smooth on the way (10.2% in FY15E, 12.3% in FY16E and 13.6% in FY17E).

Exhibit 3: EBITDA margin to grow strongly over FY13P-17E!!

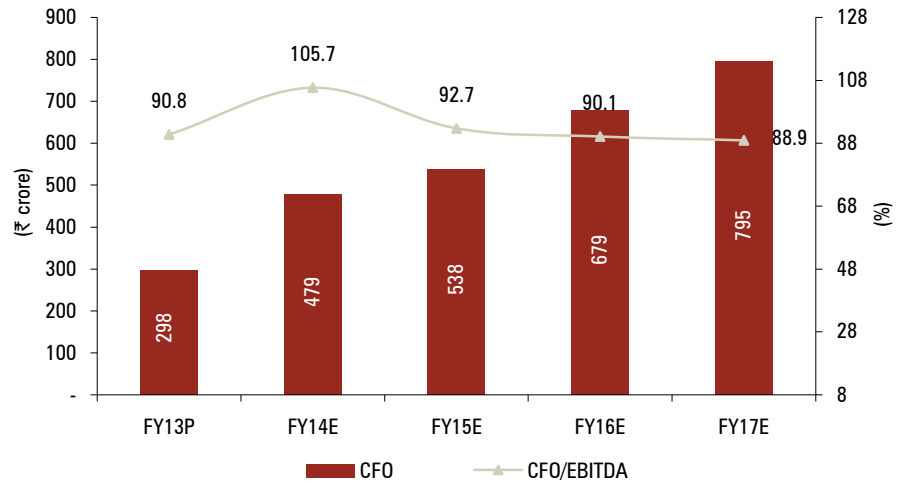


Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

Strong working capital controls as CFO/EBITDA strong!

CIE's philosophy of decentralised operations not only minimises corporate overhead but also makes the plant manager responsible for all operational/financial decisions. This ensures high accountability and tight control on costs as well as better working capital management. CIE's CFO/EBITDA stands at ~90%. Currently, MCI's CFO/EBITDA stands at 92%. We expect a further improvement in the working capital cycle, which is likely to further boost operating cash flows.

Exhibit 4: Strong CFO/EBITDA

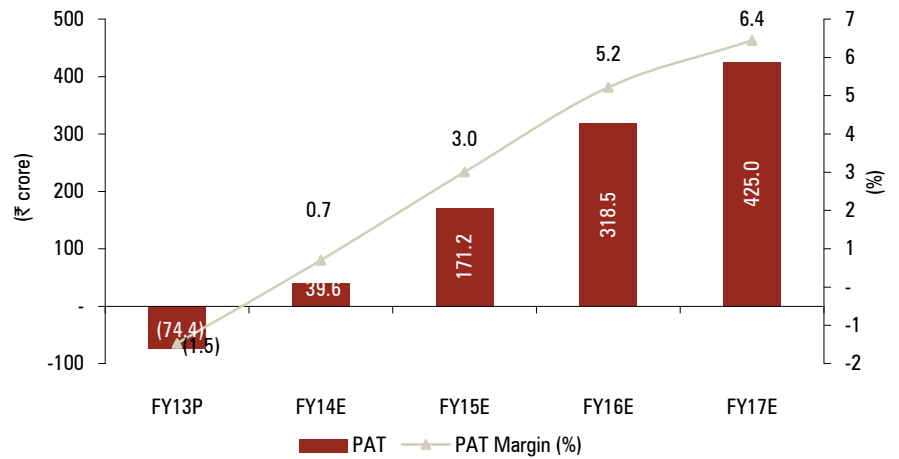


Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

Large room for non-linear profit growth!

The operating and financial revival of hotspots like MFE can have a significant impact on the profitability of the overall business. We expect this to happen, albeit at a pace slower than that being targeted by CIE's management. We expect profits after MI (PE stake in Metalcastello) to gallop to ~₹ 425 crore in FY17E with PAT margins improving ~570 bps from FY14E-17E to 6.4%. The path to this improvement could see FY15E, FY16E witnessing PAT margins of 3.0%, 5.2%, respectively. We expect the PAT to rise at ~121% CAGR in FY14E-17E and ~58% CAGR in FY15E-17E.

Exhibit 5: Profit to start pumping in as operational improvement kicks in!!



Source: Company press release, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

Key risks & concerns:

- **Issues relating to management collaboration & cultural integration**

One of the key issues in relation to any merger or acquisition is management bandwidth, roadblocks in integration of management philosophies and work style that could be a key concern. The reason we feel this is a major concern stems from the fact that M&M even after acquiring MFE could not successfully reduce costs in Germany. Cultural roadblocks were one of the reasons for the same, which we believe would not be a major issue with CIE's European nature

- **Sharp declines in revenues in Europe, India delay turnaround**

The European and Indian automotive market has been weak to say the least in the last couple of years. Though we have seen some good pre-buying effect for the CV segment in Europe on account of emission norms change, the consistency of the same is a risk. In India, the automotive space for the last two years has seen moderate growth due to high fuel prices and interest rates along with weak economic growth. If the macro scenario worsens then that can cause a delay in turnaround as revenue stability is essential.

- **Retrenchment of top management in India**

Though we have highlighted and lauded CIE's management philosophy of de-centralising power and reducing corporate overheads we feel India, as a country, is unique. Considering CIE's nascent knowledge there should not arise any situation of top management removal or discontent as the domestic understanding of the M&M management is second to none.

Outlook and valuation

Mahindra CIE Auto is a unique case of valuation considering the massive turnaround possibilities in the company and we are factoring in the same. We expect the turnaround to be significant, as according to our estimates there will be non-linear profit growth at ~121% CAGR in FY14E-17E. MCI would find a way to increase efficient and profitable utilisation with low capex over the next two or three years. CFO is expected to balloon to ~₹ 700-800 crore (FY17E). We expect dividend payouts of ~30%, in line with CIE's philosophy of high dividend payouts (~30-50%).

We feel MCI provides a rare, unique Indian auto component play, which has a global footprint with global promoters. We expect strong business prospects to fructify into a turnaround (PAT:-FY13 loss of ~₹ 92 crore to FY17E profit of ~₹ 417 crore), which would lead to a debt reduction of ~₹ 650-700 crore till FY17E (FY17E-debt/EBITDA: 1.1x, debt/equity: 0.4x FY13- debt/EBITDA: 5.1x, debt/equity: 1.0).

We forecast ~7% and ~121% CAGR in revenues and earnings, respectively, over FY14E-17E. We value the stock on EV/EBITDA multiple of 10x its FY17E (25% discount to Bharat Forge), considering it is a turnaround company. We maintain our **BUY** recommendation on the stock and arrive at a target price of ₹ 260, with an upside potential of 29%.

Currently, the stock is trading at ~17x PE FY17E, at a discount to domestic peers with global scale like Bharat Forge and Motherson Sumi possibly on account of uncertainty of the financial turnaround and actual numbers post merger. The parent company CIE Automotive SPA, Autometal BZ also trades at much higher valuations considering the strong financial metrics. We believe the same would pan out for MCI in the longer term as the market starts to factor in the pace of the turnaround. The only peer with a similar business profile is Bharat Forge, which is much more stable and mature in terms of financial profile. Though we have seen even ~40x kind of current multiples for the same during early 2000s when it was attaining scale and profitability, we have been conservative in ascribing such turnaround multiples to MCI. However, we completely believe the fact that as performance flows through in the coming quarters we may see a strong re-rating in the stock post completion of the merger.

Exhibit 6: Valuation

Particulars	
FY17E EBITDA (₹ crore)	894.6
FY17E Bharat Forge EV/EBITDA multiple (X)	14
Discount to Bharat Forge (%)	25
Implied target EV/EBITDA (x)	10
EV (₹ crore)	9222.3
FY17E Net Debt (₹ crore)	831
Mcap (₹ crore)	8391
No. of shares (crore)	32.3
Target Price (₹ per share)	260

Source: Company, ICICIdirect.com Research

Exhibit 7: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY13	4942.7		-2.3		0.0	24.5	-4.5	1.6
FY14E	5,535.0	12.0	1.2	NA	163.7	17.9	1.7	3.9
FY15E	5554.1	0.3	5.3	332.0	37.9	13.5	6.9	6.9
FY16E	5,955.9	7.2	9.9	86.0	20.4	10.1	12.6	11.4
FY17E	6442.0	8.2	13.2	33.4	15.3	8.2	15.7	15.3

Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

Company snapshot



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Jun-08	Mahindra Forging's acquisitions in Europe, including Schöneweiss, start to integrate into the business
Apr-09	The company reports annual losses on the back of sudden downturn in the European business
Oct-09	Domestic business also suffers on the back of Lehmann crisis
Nov-09	Mahindra Forgings invests in doubling installed capacity in the forgings entity in India to 80,000 MT
Mar-10	Receives best supplier awards from Volvo Eicher, Kirloskar Oil Engines
Jul-10	Company starts to report better financials compared to previous years
Sep-11	Third crankshaft machining line installed, new makino installed for tool room in die production
Sep-13	CIE Automotive Spain and M&M agree to a merger between Mahindra Systech and CIE Forgings Europe. M&M acquires 13.5% stake in CIE SPA for €6 while retaining 20% direct ownership in new company Mahindra CIE automotive. CIE post merger will have ~51% stake in the company
Jan-14	CIE's efforts in turning around Mahindra Forgings Europe start to reflect fruitfully as MFE starts to clock ~6-8% EBITDA
Jun-14	All parties ranging from shareholders to creditors give approval to the merger. Final court approval pending
Oct-14	Management indicates completion of the merger process likely by early December
Dec-14	Merger of Mahindra CIE companies formally completed on December 10, 2014

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)	Shareholding Pattern					
						(in %)	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
1	Participaciones Internacionales Autometal DOS, S. L.	31-Dec-14	22.62	73.0	0.00	Promoter	79.4	79.4	79.3	78.6	78.5
2	Sundaram Asset Management Company Limited	31-Jan-15	2.39	7.7	0.44	FII	5.1	3.4	2.0	2.9	2.9
3	Prudential Management & Services Pvt. Ltd.	2-Jan-15	1.48	4.8	4.78	DII	0.5	4.0	5.6	5.5	5.5
4	ICICI Prudential Asset Management Co. Ltd.	31-Jan-15	1.24	4.0	4.0	Others	15.0	13.2	13.2	13.1	13.2
5	UTI Asset Management Co. Ltd.	31-Jan-15	0.57	1.8	0.00						
6	Nainesh Trading & Consultancy, L.L.P.	31-Dec-14	0.48	1.5	-0.29						
7	BlackRock Asset Management North Asia Limited	31-Dec-14	0.46	1.5	-0.19						
8	SBI Funds Management Pvt. Ltd.	31-Jan-15	0.28	0.9	-0.14						
9	Jupiter Asset Management Ltd.	31-Dec-14	0.11	0.4	0.19						
10	Mahindra Group	31-Dec-14	0.09	0.3	0.00						

Source: Reuters, ICICIdirect.com Research

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Prudential Management & Services Pvt. Ltd.	16.98m	4.78m	Nainesh Trading & Consultancy, L.L.P.	-0.99m	-0.29m
ICICI Prudential Asset Management Co. Ltd.	14.25m	4.01m	BlackRock Asset Management North Asia Limited	-0.64m	-0.19m
Sundaram Asset Management Company Limited	1.57m	0.44m	Deutsche Asset Management (India) Private Ltd.	-0.61m	-0.17m
UBS Global Asset Management (Singapore) Ltd.	0.82m	0.23m	SBI Funds Management Pvt. Ltd.	-0.49m	-0.14m
Luthra (Hemant)	0.69m	0.19m	DSP BlackRock Investment Managers Pvt. Ltd.	-0.15m	-0.04m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY14E	FY15E	FY16E	FY17E	
Total operating Income	5,675.5	5,693.3	6,103.0	6,596.6	
Growth (%)	12.1	0.3	7.2	8.1	
Raw Material Expenses	2,798.7	2,731.2	2,892.1	3,112.3	
Employee Expenses	1,250.0	1,177.1	1,191.5	1,229.6	
Other Expenses	1,173.8	1,204.8	1,266.2	1,360.0	
Total Operating Expenditure	5,222.5	5,113.1	5,349.8	5,701.9	
EBITDA	453.1	580.2	753.2	894.6	
Growth (%)		28.0	29.8	18.8	
Other Income	23.7	28.4	32.9	30.9	
Interest	130.6	99.9	84.8	73.4	
Depreciation	291.3	295.3	303.5	313.3	
PBT	55.0	213.3	397.7	538.9	
Total Tax	48.6	57.3	90.0	122.4	
PAT before Minority Interest	6.4	156.1	307.7	416.5	
Minority Interest	-33.3	-15.1	-10.8	-8.5	
PAT after Minority Interest	39.6	171.2	318.5	425.0	
EPS (₹)	1.2	5.3	9.9	13.2	

Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

Balance sheet		₹ Crore			
(Year-end March)	FY14E	FY15E	FY16E	FY17E	
Liabilities					
Equity Capital	322.8	322.8	322.8	322.8	
Reserve and Surplus	2,063.7	2,159.4	2,214.6	2,388.6	
Total Shareholders funds	2,386.5	2,482.2	2,537.4	2,711.4	
Total Debt	1,657.8	1,568.7	1,306.7	995.6	
Minority Interest	116.7	101.6	90.8	82.3	
Total Liabilities	4,161.1	4,152.6	3,934.9	3,789.3	
Assets					
Gross Block	5,783.8	5,915.7	6,109.8	6,319.0	
Less: Acc Depreciation	2,930.7	3,226.1	3,529.6	3,842.9	
Net Block	2,853.1	2,689.6	2,580.2	2,476.1	
Capital WIP	60.0	30.0	30.0	30.0	
Total Fixed Assets	2,913.1	2,719.6	2,610.2	2,506.1	
Investments	759.0	709.0	659.0	609.0	
Inventory	652.1	684.8	734.3	776.6	
Debtors	705.1	707.6	758.8	820.7	
Other current assets	161.3	161.8	173.5	187.7	
Cash	32.3	238.7	162.5	164.6	
Total Current Assets	1,550.7	1,792.8	1,829.0	1,949.6	
Creditors	636.9	639.1	685.3	741.3	
Provisions	145.0	148.7	162.8	179.8	
Other Current Liabilities	332.1	333.2	357.4	386.5	
Total Current Liabilities	1,114.0	1,121.0	1,205.5	1,307.6	
Net Current Assets	436.8	671.8	623.5	642.0	
Application of Funds	4,161.1	4,152.6	3,934.9	3,789.3	

Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

Cash flow statement		₹ Crore			
(Year-end March)	FY14E	FY15E	FY16E	FY17E	
Profit after Tax	39.6	171.2	318.5	425.0	
Add: Depreciation	291.3	295.3	303.5	313.3	
(Inc)/dec in Current Assets	-133.5	-35.7	-112.4	-118.4	
Inc/(dec) in CL and Provisions	151.0	7.0	84.5	102.1	
CF from operating activities	348.4	437.9	594.1	722.0	
(Inc)/dec in Investments	-600.0	50.0	50.0	50.0	
(Inc)/dec in Fixed Assets	-441.2	-101.8	-194.1	-209.2	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	-1,041.2	-51.8	-144.1	-159.2	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-15.0	-89.1	-262.1	-311.0	
Dividend paid & dividend tax	0.0	-75.5	-113.3	-151.1	
Others	569.4	-99.9	-234.8	-173.4	
CF from financing activities	554.4	-264.5	-610.2	-635.5	
Net Cash flow	-81.0	206.4	-76.2	2.2	
Opening Cash	113.3	32.3	238.7	162.5	
Closing Cash	32.3	238.7	162.5	164.6	

Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

Key ratios					
(Year-end March)	FY14E	FY15E	FY16E	FY17E	
Per share data (₹)					
EPS	1.2	5.3	9.9	13.2	
Cash EPS	10.3	14.5	19.3	22.9	
BV	73.9	76.9	78.6	84.0	
DPS	0.0	2.0	3.0	4.0	
Cash Per Share	1.0	7.4	5.0	5.1	
Operating Ratios (%)					
EBITDA Margin	8.0	10.2	12.3	13.6	
PAT Margin	0.7	3.0	5.2	6.4	
Inventory days	43.0	45.0	45.0	44.0	
Debtor days	46.5	46.5	46.5	46.5	
Creditor days	42.0	42.0	42.0	42.0	
Return Ratios (%)					
RoE	1.7	6.9	12.6	15.7	
RoCE	3.9	6.9	11.4	15.3	
RoIC	4.0	7.4	12.1	16.2	
Valuation Ratios (x)					
P/E	163.7	37.9	20.4	15.3	
EV / EBITDA	17.9	13.5	10.1	8.2	
EV / Net Sales	1.5	1.4	1.3	1.1	
Market Cap / Sales	1.2	1.2	1.1	1.0	
Price to Book Value	2.7	2.6	2.6	2.4	
Solvency Ratios					
Debt/Equity	0.7	0.6	0.5	0.4	
Current Ratio	1.4	1.6	1.5	1.5	
Quick Ratio	0.8	1.0	0.9	0.9	

Source: Company, ICICIdirect.com Research All financial numbers incorporate merger assumption completed

ICICIdirect.com coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Amara Raja (AMARAJ)	861	932	Hold	14,699	25.1	34.0	42.3	34.3	25.3	20.3	20.9	16.5	13.1	33.9	34.0	33.0	25.0	26.4	25.6
Apollo Tyre (APOTYR)	167	228	Buy	8,441	19.5	21.4	22.8	8.6	7.8	7.3	5.5	5.5	5.3	19.3	16.6	15.3	17.9	16.5	15.1
Ashok Leyland (ASHLEY)	72	68	Hold	20,397	1.2	2.1	3.5	58.4	34.3	20.9	21.9	15.3	11.6	6.7	11.0	14.9	6.6	10.8	16.0
Bajaj Auto (BAAUTO)	2,039	2,833	Buy	58,995	111.8	155.5	180.0	18.2	13.1	11.3	11.8	9.1	7.3	38.0	39.4	40.4	29.9	34.8	33.7
Balkrishna Ind. (BALIND)	636	750	Buy	6,146	48.0	52.7	62.5	13.8	12.5	10.6	8.6	7.4	6.1	15.6	16.4	19.2	20.0	15.6	16.4
Bharat Forge (BHAFOR)	1,309	1,178	Hold	30,500	33.9	43.3	52.9	38.6	30.2	24.8	16.5	13.6	11.5	25.2	25.8	26.7	24.5	25.0	25.1
Bosch (MICO)	26,470	24,000	Hold	83,115	341.2	463.0	600.0	73.0	53.8	41.5	49.6	36.2	27.9	15.0	17.5	19.1	15.7	18.8	21.2
Eicher Motors (EICMOT)	15,840	18,800	Buy	42,784	228.0	393.8	703.9	69.5	40.2	22.5	40.7	25.5	14.6	23.9	31.0	38.6	24.2	30.8	36.8
Escorts (ESCORT)	136	131	Hold	1,626	6.9	12.9	22.4	18.5	9.8	5.7	9.0	6.6	3.7	5.3	8.1	12.7	4.3	7.6	11.8
Exide Industries (EXIIND)	187	220	Buy	15,895	6.0	8.4	11.4	31.0	22.2	16.4	18.8	14.0	10.4	17.8	21.9	25.8	12.7	15.8	18.6
Hero Mototcorp (HERHON)	2,649	3,036	Hold	52,901	128.8	166.2	202.4	20.6	15.9	13.1	14.6	16.3	15.1	46.8	52.5	52.4	39.4	42.8	42.8
JK Tyre & Ind (JKIND)	110	171	Buy	2,487	15.2	22.9	26.3	7.2	4.8	4.2	5.3	4.1	3.4	19.9	22.8	24.1	26.7	30.9	28.1
M&M (MAHMAH)	1,215	1,457	Buy	71,742	53.2	67.8	83.8	22.8	17.9	14.5	15.8	9.4	7.5	14.9	18.2	20.7	18.1	18.2	19.3
Mahindra CIE (MAHAUT)	202	260	Buy	6,539	5.3	9.9	13.2	38.2	20.5	15.4	13.5	10.1	8.2	6.9	12.6	15.7	6.9	11.4	15.3
Maruti Suzuki (MARUTI)	3652.4	3999.8	Hold	110375.5	117	155.1	200	31.2	23.6	18.3	16.5	13.0	10.2	14.7	17.4	19.6	14.8	16.9	18.6
Motherson (MOTSUM)	490	512	Buy	43173	9.1	16.9	27.3	53.8	28.9	17.9	14.5	10.7	7.3	22.2	27.6	35.8	24.8	36.3	41.6
Tata Motors (TELCO)	566	600	Hold	171604	61.5	72.9	80.5	9.1	7.7	7.0	4.2	3.7	3.3	23.6	22.4	21.2	23.7	22.4	19.9
Wabco India (WABTVS)	5554	5999.6	Buy	10553	67.2	117.8	166.7	82.6	47.1	33.3	47.0	31.1	22.1	14.7	20.9	23.2	18.5	24.3	27.6

Source: Company, ICICIdirect.com Research * All financial numbers incorporate merger assumption completed

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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