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Q3CY20 result review
and earnings revision

Autos

Target price: Rs200

Earnings revision

(%)		CY20E	CY21E
Sales	↓	1.4	0.1
EBITDA	↑	2.7	10.1
PAT	↑	7.6	15.3

Target price revision

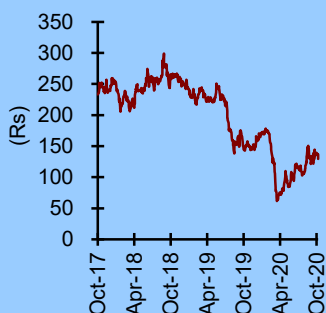
Rs200 from Rs151

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	67.7	69.5	71.6
Institutional investors	21.6	19.9	17.8
MFs and other	6.8	5.3	3.3
Banks & FIs	0.0	0.0	0.0
FIIIs	14.8	14.6	14.5
Others	10.7	10.6	10.6

Source: NSE

Price chart



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INDIA

Mahindra CIE Automotive

BUY

Maintained

Rs135

Resilient margin performance

Mahindra CIE Automotive's (MACA) Q3CY20 operating margins came in ahead of consensus estimates. Consolidated sales declined 8.2% YoY to Rs16.4bn (India/Europe revenue share turns 50%/ 50% for the first time) with Adj. EBITDA margin up 30bps at 12.5%. MACA had one-time restructuring cost (~140bps of margins). India EBITDA margins surprised positively as it exceeded pre-covid margins (13.6%, up 60bps YoY). European margins(Adj.) also reflected resilience (dropped only 20bps at 11.3%) even as revenues dropped ~12%. European business is expected to remain weak (down ~35-40%) in CY20, rebounding to >15% growth in CY21. We expect India business is expected to clock >20% growth in CY21 due to new customer additions, new order wins. MACA remains undervalued (~11xPE /8.5% FCF Yield on CY21 basis). Maintain BUY.

Conference call on Oct 21, Wednesday, at 12:30hours IST. Pre-registration [Link](#)

- **Key highlights of the quarter:** Consolidated organic revenues declined ~8.2% with Europe business down 12.3% to ~Rs8.2bn as commercial vehicles forging business remained weak. Adj. EBITDA margin dropped only 20bps ~11.3% excluding the Rs270mn of restructuring cost in MFE and Metalcastello (Rs614mn in 9MCY20). India business declined 3.8% to Rs8.2bn as CV segments recovery remained slower vis-à-vis PVs/2Ws/tractors. PBT was down ~18% to ~Rs937mn.
- **Margins resilience remains the cornerstone amidst uncertainty:** a) gross margins improved 173bps YoY at ~53%; however, employee costs continued to be sticky at 19% (up 285bps) with other expenses also up 117bps YoY; b) management has indicated restructuring through consolidation and downsizing in the low-margin CV business in the past quarters, benefits of which are likely to bring down the breakeven levels to improve profitability; c) AEL recognized grant income of Rs12mn in Q3CY20 (Rs134mn in 9MCY20) which helped operating margins; d) with second wave of Covid hitting major EU countries, MACA sales are likely to be affected in case lockdowns are re-implemented; e) India business is expected to perform better in Q4CY20 (we expect ~10% growth) due to continued demand momentum from tractors and 2Ws along with possible improvement in CVs.
- **Maintain BUY:** We believe MACA is a well-diversified MNC supplier with products and technologies across end-segments. We raise our estimates (up ~15% in CY21) factoring-in higher margin resilience from MACA, roll forward in CY22 as we introduce CY22E estimates. We prune our target multiple factoring in mid-cycle growth to 13.0x (earlier: 16.0x) Sep'22E EPS of Rs15.4. We maintain our **BUY** rating on the stock with a revised target price of Rs200/share (earlier: Rs151).

Market Cap	Rs51.3bn/US\$700mn	Year to Dec	CY19	CY20E	CY21E	CY22E
Reuters/Bloomberg	MAFR.BO/MACA IN	Revenue (Rs mn)	79,078	61,338	75,380	86,366
Shares Outstanding (mn)	379.0	Rec. Net Inc (Rs mn)	3,564	1,385	4,708	6,184
52-week Range (Rs)	178/62	EPS (Rs)	9.4	3.7	12.5	16.4
Free Float (%)	28.4	% Chg YoY	(35.0)	(61.1)	240.0	31.3
FII (%)	14.5	P/E (x)	14.3	36.9	10.8	8.3
Daily Volume (US\$/'000)	475	CEPS (Rs)	17.7	11.9	21.2	25.8
Absolute Return 3m (%)	14.3	EV/E (x)	6.5	12.6	6.3	4.8
Absolute Return 12m (%)	(8.8)	Dividend Yield (%)	-	0.7	1.5	2.2
Sensex Return 3m (%)	8.5	RoCE (%)	10.7	3.1	9.8	11.9
Sensex Return 12m (%)	4.3	RoIC (%) Ex-Goodwill	25.8	7.3	21.9	26.0

Please refer to important disclosures at the end of this report

Table 1: Q3CY20 result review*(Rs mn, year ending March 31)*

	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)
Total operating income	16,943	18,685	-9	7,355	130
Raw material costs	7,999	9,144	-13	3,447	132
Employee costs	3,239	3,039	7	2,849	14
Other expenditures	4,197	4,409	-5	2,020	108
Total operating expenses	15,435	16,592	-7	8,316	86
EBITDA	1,508	2,093	-28	-961	-257
EBITDA margin (%)	8.9	11.2	-230 bps	-13.1	2197 bps
Depreciation & Amortization	849	789	8	518	64
Other income	420	42	909	180	133
Interest costs	142	198	-28	167	-15
PBT	937	1,148	-18	-1,466	NC
Exceptional Items	-	-51	-	-	-
Taxes	330	586	-44	-183	NC
Reported PAT	607	612	-1	-1,283	NC

Source: Company data, I-Sec research

Table 2: Q3CY20 result summary (consolidated)*(Rs mn, year ending Dec 31)*

	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)
Total operating income	16,381	17,849	-8.2%	7,113	130.3%
EBITDA	1,930	2,185	-11.7%	-785	-345.9%
<i>EBITDA Margin</i>	<i>11.8%</i>	<i>12.2%</i>	<i>-46 bps</i>	<i>-11.0%</i>	<i>2282 bps</i>
EBIT	1,080	1,396	-22.6%	-1,303	-182.9%
<i>EBIT Margin</i>	<i>6.6%</i>	<i>7.8%</i>	<i>-123 bps</i>	<i>-18.3%</i>	<i>2491 bps</i>
EBT	937	1,198	-21.8%	-1,470	-163.7%
<i>EBT Margin</i>	<i>5.7%</i>	<i>6.7%</i>	<i>-99 bps</i>	<i>-20.7%</i>	<i>2639 bps</i>

Source: Company data, I-Sec research

Table 3: Q3CY20 result summary: India*(Rs mn, year ending Dec 31)*

	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)
Total operating income	8,189	8,509	-3.8%	2,523	224.6%
EBITDA	1,116	1,111	0.5%	-324	-444.4%
<i>EBITDA Margin</i>	<i>13.6%</i>	<i>13.1%</i>	<i>57 bps</i>	<i>-12.8%</i>	<i>2647 bps</i>
EBIT	638	678	-5.9%	-621	-202.7%
<i>EBIT Margin</i>	<i>7.8%</i>	<i>8.0%</i>	<i>-18 bps</i>	<i>-24.6%</i>	<i>3240 bps</i>
EBT	590	566	4.2%	-701	-184.2%
<i>EBT Margin</i>	<i>7.2%</i>	<i>6.7%</i>	<i>55 bps</i>	<i>-27.8%</i>	<i>3499 bps</i>

Source: Company data, I-Sec research

Table 4: Q3CY20 result summary: Europe*(Rs mn, year ending Dec 31)*

	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)
Total operating income	8,192	9,340	-12.3%	4,590	78.5%
EBITDA	814	1,074	-24.2%	-461	-276.6%
<i>EBITDA Margin</i>	<i>9.9%</i>	<i>11.5%</i>	<i>-156 bps</i>	<i>-10.0%</i>	<i>1998 bps</i>
EBIT	442	718	-38.4%	-682	-164.8%
<i>EBIT Margin</i>	<i>5.4%</i>	<i>7.7%</i>	<i>-229 bps</i>	<i>-14.9%</i>	<i>2025 bps</i>
EBT	347	632	-45.1%	-769	-145.1%
<i>EBT Margin</i>	<i>4.2%</i>	<i>6.8%</i>	<i>-253 bps</i>	<i>-16.8%</i>	<i>2099 bps</i>

Source: Company data, I-Sec research

Valuation snapshot

We believe MACA is a well-diversified MNC supplier with products and technologies across end-segments. We raise our estimates (up ~15% in CY21) factoring-in higher margin resilience from MACA, roll forward in CY22 as we introduce CY22E estimates. We prune our target multiple factoring in mid-cycle growth to 13.0x (earlier: 16.0x) Sep'22E EPS of Rs15.4. We maintain our **BUY** rating on the stock with a revised target price of Rs200/share (earlier: Rs151).

Table 5: Earnings revision

(Rs mn, year ending Dec 31)

	CY20E			CY21E			CY22E
	Previous	New	Chg (%)	Previous	New	Chg (%)	Introduced
Sales	62,206	61,338	(1.4)	75,291	75,380	0.1	86,366
EBITDA	4,902	5,036	2.7	8,759	9,646	10.1	11,841
PAT	1,288	1,385	7.6	4,082	4,708	15.3	6,184
EPS (Rs)	3.4	3.7	7.6	10.8	12.5	15.3	16.4

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 6: Profit and loss statement

(Rs mn, year ending December 31)

	CY19	CY20E	CY21E	CY22E
Total Op. Income (Sales)	79,078	61,338	75,380	86,366
Operating Expenses	69,401	56,302	65,734	74,525
EBITDA	9,678	5,036	9,646	11,841
% margins	12.2	8.2	12.8	13.7
Depreciation & Amortisation	3,161	3,096	3,290	3,577
EBIT	6,517	1,940	6,356	8,264
Other Income	331	515	618	741
Gross Interest	523	628	532	514
PBT	6,325	1,827	6,442	8,491
Less: Exceptionals	46	-	-	-
PBT after Exceptionals	6,279	1,827	6,442	8,491
Less: Taxes	2,741	441	1,734	2,307
Less: Minority Interest	-	-	-	-
Add: Profit from Associates	-	(0)	-	-
Net Income (Reported)	3,538	1,385	4,708	6,184
Net Income (Adjusted)	3,564	1,385	4,708	6,184

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending December 31)

	CY19	CY20E	CY21E	CY22E
ASSETS				
Current Assets	21,209	17,279	22,247	27,099
Cash & cash eqv.	1,524	1,155	2,430	4,395
Current Liabilities & Provisions	19,547	15,451	18,977	21,482
Net Current Assets	1,661	1,829	3,270	5,617
Investments	955	1,890	3,390	4,890
Goodwill	35,260	35,260	35,260	35,260
Net Fixed Assets	24,120	24,024	24,734	25,657
Capital Work-in-Progress	0	0	0	0
Long term loans & advances	568	441	542	621
Deferred Tax Assets	1,567	1,467	1,367	1,267
Other non-current asset	3,329	3,329	3,329	3,329
Total Assets	67,461	68,240	71,892	76,641
LIABILITIES				
Borrowings	14,691	15,691	15,191	14,691
long-term borrowings	8,256	9,256	8,756	8,256
short-term borrowings	6,435	6,435	6,435	6,435
Long-term provisions	3,608	3,808	4,008	4,208
Deferred Tax Liability	2,296	2,296	2,296	2,296
Other Non-current Liabilities	530	530	530	530
Minority Interest	0	0	0	0
Equity Share Capital	3,788	3,790	3,790	3,790
Reserves & Surplus	42,548	42,124	46,076	51,125
Net Worth	46,336	45,915	49,866	54,915
Total Liabilities	67,461	68,240	71,892	76,641

Source: Company data, I-Sec research

Table 8: 5-stage DuPont analysis

(% , year ending December 31)

All figures in %	CY19	CY20E	CY21E	CY22E
Tax Burden	56.4	75.8	73.1	72.8
Interest Burden	96.4	94.2	101.4	102.7
EBIT Margin	8.3	3.2	8.4	9.6
Asset Turnover	117.0	89.8	104.7	112.5
Financial Leverage	145.6	148.6	144.2	139.6
ROE	7.6	3.0	9.4	11.3

Source: Company data

Table 9: Cashflow statement

(Rs mn, year ending December 31)

	CY19	CY20E	CY21E	CY22E
Cashflow before working capital changes	7,222	5,109	8,530	10,275
Working Capital Changes	(139)	(536)	(166)	(382)
Operating Cashflow	7,083	4,573	8,364	9,892
Capital Commitments	(4,586)	(3,000)	(4,000)	(4,500)
Free Cashflow	2,497	1,573	4,364	5,392
Cashflow from Investing Activities	(5,032)	(3,508)	(5,301)	(5,779)
Incl/(Dec) in securities premium	-	-	-	-
Buyback of shares	-	-	-	-
Incl/(Dec) in Borrowings	(1,443)	1,000	(500)	(500)
Dividend paid	-	(378)	(756)	(1,134)
Others	67	(2,058)	(532)	(514)
Cashflow from Financing Activities	(1,376)	(1,434)	(1,788)	(2,148)
Net Cashflow	676	(369)	1,275	1,965
Closing Cash & Bank balance	1,524	1,155	2,430	4,395

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending December 31)

	CY19	CY20E	CY21E	CY22E
Per Share Data (in Rs.)				
EPS (Basic)	9.4	3.7	12.5	16.4
EPS (Adjusted)	9.4	3.7	12.5	16.4
Cash EPS	17.7	11.9	21.2	25.8
Dividend per share (DPS)	-	1.0	2.0	3.0
BVPS (Adjusted)	123	121	132	145
Growth Ratios (%)				
Total Op. Income (Sales)	-1.5	-22.4	22.9	14.6
EBITDA	-7.9	-48.0	91.5	22.8
Net Income (Adjusted)	-35.0	-61.1	240.0	31.3
EPS (Adjusted)	-35.0	-61.1	240.0	31.3
Cash EPS	-14.7	-33.1	78.5	22.0
BVPS (Adjusted)	9.8	-0.9	8.6	10.1
Valuation Ratios (x)				
P/E (Adjusted)	14.3	36.9	10.8	8.3
P/BV (Adjusted)	1.1	1.1	1.0	0.9
EV/EBITDA	6.5	12.6	6.3	4.8
EV/Sales	0.8	1.0	0.8	0.7
Return/Profitability Ratios (%)				
EBITDA Margin	12.2	8.2	12.8	13.7
Net Income Margin (Adjusted)	4.5	2.3	6.2	7.2
RoCE	10.7	3.1	9.8	11.9
RoNW	7.6	3.0	9.4	11.3
RoIC(Ex-Goodwill)	25.8	7.3	21.9	26.0
Dividend Payout Ratio	-	27.3	16.1	18.3
Dividend Yield	-	0.7	1.5	2.2
Wkg. Cap. Ratios (x)				
Net D/E				
Debt/EBITDA	0.3	0.3	0.2	0.1
EBIT/Interest	1.5	3.1	1.6	1.2
Current Ratio	12.5	3.1	12.0	16.1
Quick Ratio	1.1	1.1	1.2	1.3
Inventory (days)	0.5	0.6	0.6	0.7
Receivables (days)	49	51	51	51
Payables (days)	34	37	37	37

Source: Company data, I-Sec research

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