

Mahindra CIE

Estimate changes



TP change



Rating change



	MACA IN
Bloomberg Equity Shares (m)	379
M.Cap.(INRb)/(USDb)	52 / 0.7
52-Week Range (INR)	179 / 59
1, 6, 12 Rel. Per (%)	6/39/-11
12M Avg Val (INR M)	42

Financials & Valuations (INR b)

Y/E December	CY19	CY20E	CY21E
Sales	79.1	60.8	75.2
EBITDA (%)	12.2	8.4	12.4
Adj. PAT	3.6	1.2	4.1
EPS (INR)	9.4	3.2	10.8
EPS Growth (%)	-33.2	-65.7	233.1
BV/Share (INR)	123	126	137

Ratio

RoE (%)	8.0	2.6	8.2
RoCE (%)	6.5	2.6	6.9
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	14.6	42.4	12.7
P/BV (x)	1.1	1.1	1.0
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	11.6	-2.1	6.0

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	69.5	67.7	67.7
DII	5.3	21.6	7.1
FII	14.6	0.0	10.3
Others	10.6	10.7	14.9

FII Includes depository receipts

CMP: INR137
TP: INR165 (+20%)
Buy

Below est.; Weak op. performance in both India and EU

Focus on new orders and restructuring to drive strong recovery

- Mahindra CIE (MACA)'s adverse operating performance in 3QCY20 was attributable to weaker revenue in India and restructuring cost in EU. While it is focusing on new orders / exports in India, it is also cutting cost to reduce breakeven points for the EU business.
- We marginally cut our CY21E EPS to factor in lower revenue growth. Maintain **Buy**, with TP of ~INR165 (13x Sep'22 consol EPS).

Operating leverage and restructuring cost in EU impact performance

- 3QCY20 consol. revenue/EBITDA declined 9%/28% YoY, but PAT grew 4%. For 9MCY20, revenue/EBITDA declined 34%/69% and posted net loss.
- Consol EBITDA stood at ~INR1.5b (v/s est. INR2b), impacted by lower revenues in India and restructuring cost in the EU business (INR270m).
- Higher other income in the EU business on the sale of real estate in Jeco boosted PAT to INR607m (+4% YoY).
- India business performance was below estimates, with revenue declining by ~6% YoY to ~INR8.6b (v/s est. ~INR9.3b). The India EBITDA margin stood at 12.6% (v/s est. 12.7%).
- EU revenues declined ~9% YoY to ~INR8.7b (v/s est. ~INR8.1b), with 22% decline in EUR terms. EBITDA margins stood at 5.2% (v/s est. 10%), impacted by INR270m restructuring cost in the German CV business.

Highlights from management commentary

- For India, demand momentum is expected to continue in 4QCY20; however, management is cautiously optimistic on demand post the festive season. Average capacity utilization is at 90%.
- The India business would grow faster than the market on the back of: 1) exports growing from 12–13% of sales to 20% (to see benefit from 2HCY21) and 2) increasing contribution from new orders to 25% of sales from 15%.
- Post the restructuring, the EU business breakeven revenue stands at INR5.5b/qtr. This would further reduce to INR5.3b/qtr after the completion of the restructuring by 4QCY20.
- Capacity utilization is at 90% in India, 80% in the EU (PV forging), and 65–70% in the EU (CV forging). Metalcastello is at the bottom of the utilization cycle.
- Capex: India CY20 capex would be at ~INR2.5b (INR2b capex for 9MCY20) toward growth in capacity expansion. CY21 could be higher if the company wins additional business.
- CIE increased its stake by purchasing from the market. Stake now stands at 60.18% (v/s 58.02% in 2QCY20 and 56.29% in 3QCY19).
- Net consol debt stands at INR16.1b.

Valuation and view

- MACA's growth story is on track, driven by its organic initiatives (new products/customers) and M&A focus.
- The stock trades at attractive valuations of 12.7x/10.3x CY21E/CY22E consol. EPS. Maintain **Buy**, with TP of ~INR165 (13x Jun'22 consol EPS).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly performance (Consol.)

									(INR m)	
(INR m)	CY19				CY20				CY19	CY20E
Y/E December	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	21,744	21,420	18,685	17,229	16,627	7,355	16,943	19,876	79,078	60,801
YoY Change (%)	8.9	3.0	-5.7	-12.8	-23.5	-65.7	-9.3	15.4	-1.5	-23.1
EBITDA	2,825	2,616	2,092	2,143	1,822	-963	1,508	2,750	8,319	5,118
Margins (%)	13.0	12.2	11.2	12.4	11.0	-13.1	8.9	13.8	10.5	8.4
Depreciation	740	844	789	788	815	518	849	966	3,161	3,148
Interest	103	115	198	106	182	167	142	146	523	638
Other Income	148	78	42	63	49	179	420	84	331	732
PBT before EO expense	2,130	1,734	1,147	1,312	873	-1,468	937	1,722	4,966	2,064
EO Exp/(Inc)	13	0	-51	84	-1	2	0	0	46	0
PBT after EO exp	2,117	1,734	1,198	1,228	874	-1,470	937	1,722	4,920	2,064
Tax Rate (%)	28.0	27.2	48.9	88.7	28.3	12.5	35.2	26.0	55.7	40.8
Adj. PAT	1,532	1,262	583	186	626	-1,286	607	1,275	3,564	1,223
YoY Change (%)	16.2	-9.1	-56.1	-86.8	-59.1	-201.9	4.2	584.1	-33.2	-65.7
Margins (%)	7.0	5.9	3.1	1.1	3.8	-17.5	3.6	6.4	4.5	2.0
Revenues										
India	8,524	9,684	9,134	8,704	7,819	2,650	8,560	10,458	35,934	29,487
Growth (%)	3.0	11.5	5	6.0	-8.3	-72.6	-6	20.1	7.2	-17.9
EU	13,324	11,735	9,561	8,512	8,807	4,704	8,381	9,413	43,132	31,305
Growth (%)	13.2	-2.4	-18	-26.8	-33.9	-59.9	-12	10.6	-7.8	-27.4
PBIT Margins										
India	11.6	8.2	7.4	6.7	6.8	-23.4	7.5	9.8	8.5	5.5
EU	9.3	9.0	7.5	8.7	6.0	-14.5	5.3	7.9	8.7	3.3

E: MOFSL Estimates; AEL merged w.e.f 2QCY19



Key takeaways from earnings call

India business

- Demand momentum is expected to continue in 4QCY20, and OEMs are confident of demand for the next six months; however, management is cautiously optimistic on demand post the festive season.
- CY19 sales levels are expected to recover by CY21; however, peak sales of CY18 (peak of the Auto sector) are expected to recover by CY23.
- MACA would grow faster than the market by: 1) growing exports from 12–13% to 20% (real benefit to be seen from 2H CY21 as it would take 12–18M to activate orders), 2) increasing its business with existing OEMs, 3) acquiring new OEMs as customers – such as Renault, Kia, etc., and 4) targeting Tier 1 suppliers for new and incremental business. Moreover, the company is seeing some shift in the business from EU operations to India. Management targets generating 25% of sales from new orders (v/s 15% currently).
- Average capacity utilization is at 90%, with different units ranging from 80–100% (Magnets at 100%).
- The China substitution may generate benefit of INR20–30m/month in Magnets and Gears.
- The India BEP is INR3.5b/qtr revenues.

Europe business

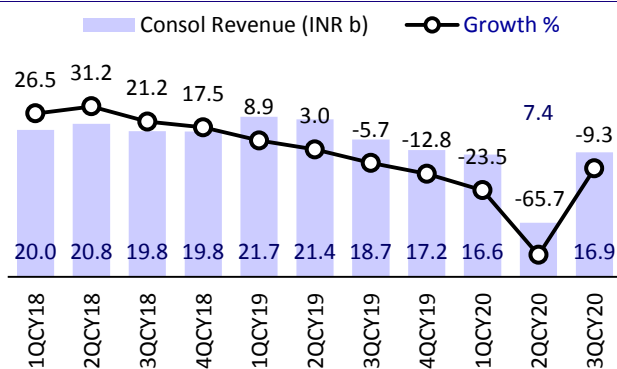
- The EU region is seeing a second wave of COVID-19 cases; however, this has not impacted production at any plant.
- A favorable currency exchange rate restricted EU sales decline to 12% in INR terms (v/s 22% in EUR terms).

- **Demand outlook:** Passenger Vehicle Forgings and Gears (Italy) have a positive outlook for the coming quarters, but Commercial Vehicle Forgings remains challenged.
- Metalcastello's key customer is Caterpillar, which is at the bottom end of the cycle in the US. Expect the market to revive post the US election in Nov'20.
- **Restructuring:**
 - MFE incurred restructuring cost of INR270m. This was partially offset by the sale of real estate property in Jeco (INR162m profit).
 - Major restructuring has been completed, and some additional cost is expected for fine-tuning in 4QCY20. Margins would normalize toward the last month of the quarter.
 - Metalcastello's restructuring activity has been completed and the business is seeing good margins.
 - The MFE Germany CV business is seeing restructuring. Current volumes would remain stable for the remainder of CY20.
 - The PV business does not need any restructuring.
 - Post the restructuring, the EU business has a BEP of INR5.5b/qtr revenue. This would further reduce by INR200m/qtr.
- Capacity utilization: PV Forgings: 80%, Germany (CV): 65–70%
- The government grant was EUR4m in the EU in 2Q and <EUR1m in 3Q.

Others

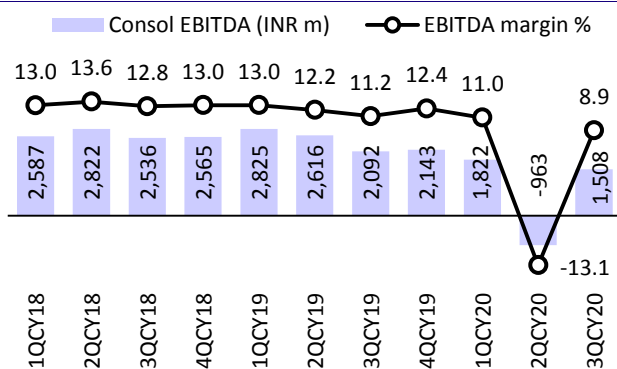
- CIE took additional stake from the market to reach 60.18% (v/s 58.02% in 2QCY20 and 56.29% in 3QCY19).
- Capex: India CY20 capex would be at ~INR2.5b (9MCY20 capex at INR2b) toward growth in capacity expansion. CY21 could be higher if the company wins additional business.
- Net debt stands at INR16.1b, including a lease of INR2.5b as well as the impact of a weak INR (INR1b). Pure debt increased ~INR1.2b in Dec'19 due to an increase in working capital (India business debt: INR1b; EU is balance).
- EV risk to business: 25% of revenues (20% India and ~30% EU) are exposed to engine components. MFE Germany does not do engine forgings. In PV Forgings, crankshafts (25–30% of business) would not be relevant. The CV Forgings business would not be affected.

Exhibit 1: Trend in consol. revenues



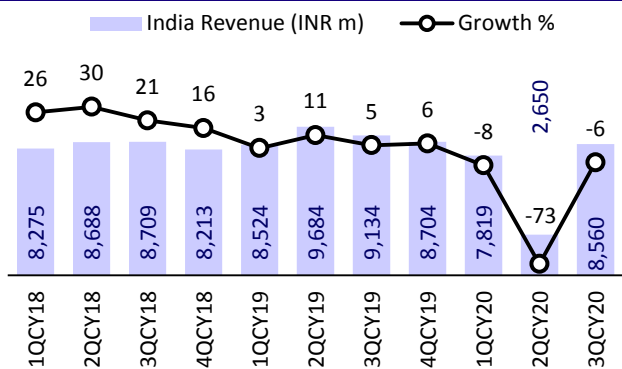
Source: Company, MOFSL

Exhibit 2: Trend in consol. EBITDA



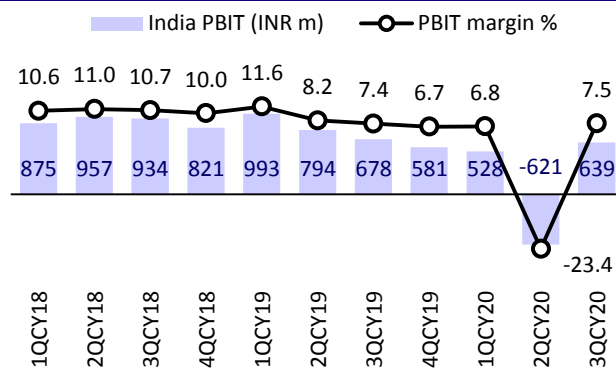
Source: Company, MOFSL

Exhibit 3: Trend in India revenues



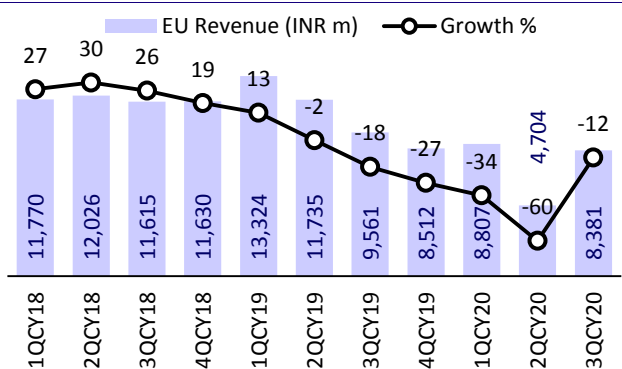
Source: Company, MOFSL

Exhibit 4: Trend in India PBIT margins



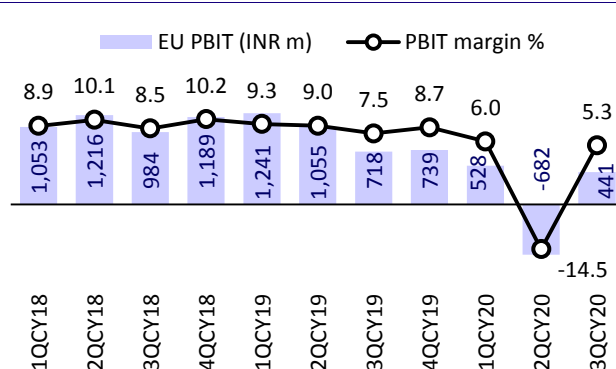
Source: Company, MOFSL

Exhibit 5: Trend in EU revenues



Source: Company, MOFSL

Exhibit 6: Trend in EU PBIT margin



Source: Company, MOFSL

Valuation and view

- **With COVID-led slowdown easing out and EU restructuring costs ending in 4QCY20, margins would normalize to earlier levels:** MACA has been focused on diversifying revenues in India and cutting cost in the India and EU businesses. However, CY20 performance is severely impacted by the repercussions of COVID-19 and one-time restructuring cost. Looking beyond CY20, we expect margin expansion to be driven by: (a) improvement in the mix, (b) product-process location optimization, and (c) operating leverage.
- **Strong, focused, and disciplined parent:** CIE is a focused global player in Auto Components, with diversified technologies and multi-location offerings. It has demonstrated the ability of acquisitive profitable growth across geographies, at the same time delivering value-accretive growth, adhering to strict financial discipline. MACA is benefitting from CIE's expertise in driving operational improvement and is working toward achieving CIE's financial objectives.
- **Set for growth after consolidation phase:** Over the last three years since acquiring MACA, CIE embarked on restructuring and consolidating all operations under MACA. With Phase 1 of consolidation largely complete, MACA is now focused on growth in Phase 2. In the India business, it is targeting both organic and inorganic growth. In the Europe business, it would invest selectively for growth purposes. MACA is CIE's vehicle for expansion in Southeast Asia and forging technology worldwide.

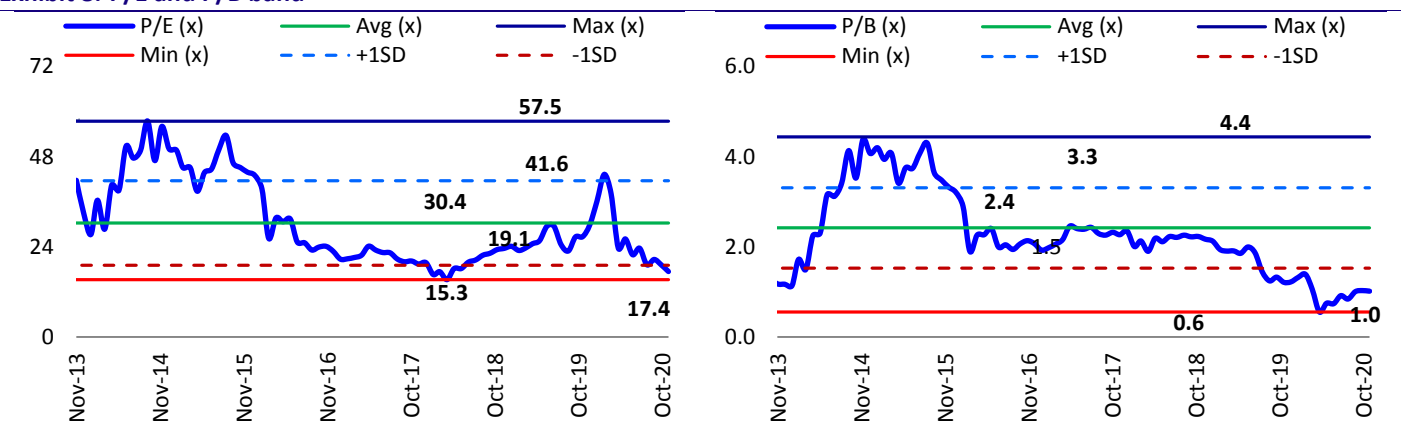
- Financial discipline key to M&A-led strategy:** M&A has been an integral tool for MACA in achieving strategic objectives and growth. For MACA, M&A would be the key driver: (a) to fill the gaps in the area of strategic technologies – aluminum and plastics, (b) for access to key players in the India PV segment (Maruti, Hyundai, etc.), and (c) to enter the ASEAN markets. CIE has displayed strict acquisition discipline, with criteria of < 3x EV/EBITDA in three years, and targets minimum RoI of ~20%.
- Maintain Buy, with TP of INR165:** We cut our CY21E EPS by 2.9% to factor lower revenue. Near-term macro challenges notwithstanding, MACA’s growth story is on track, driven by its organic initiatives (new products/customers) and M&A focus. More importantly, under CIE’s parentage, MACA has been able to improve its efficiencies, cut costs, and improve profitability. The stock trades at attractive valuations of 12.7x/10.3x CY21E/CY22E consol. EPS. We value MACA at 13x Sep’22 EPS, at almost a ~50% discount to BHFC’s target multiple, due to the difference in its competitive positioning and capital efficiencies. Maintain Buy, with TP of ~INR165 (13x Sep’22 consol EPS).

Exhibit 7: Revised estimates

(INR M)	CY20E			CY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	60,801	61,156	(0.6)	75,192	76,579	(1.8)
EBITDA	5,118	5,370	(4.7)	9,313	9,470	(1.7)
EBITDA margin %	8.4	8.8	-40bp	12.4	12.4	0bp
Adj. PAT	1,223	1,110	10.2	4,074	4,197	(2.9)
EPS	3.2	2.9	10.2	10.8	11.1	(2.9)

Source: MOFSL

Exhibit 8: P/E and P/B band

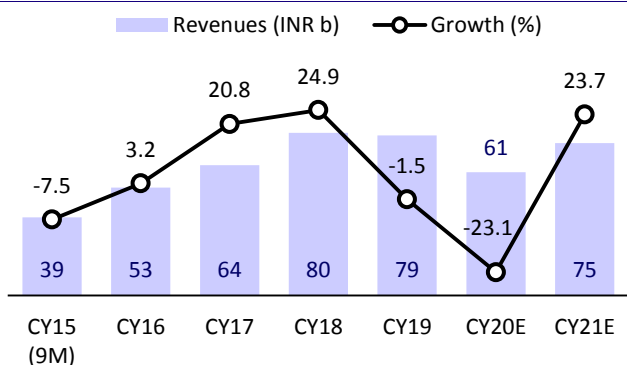


Source: MOFSL

Source: MOFSL

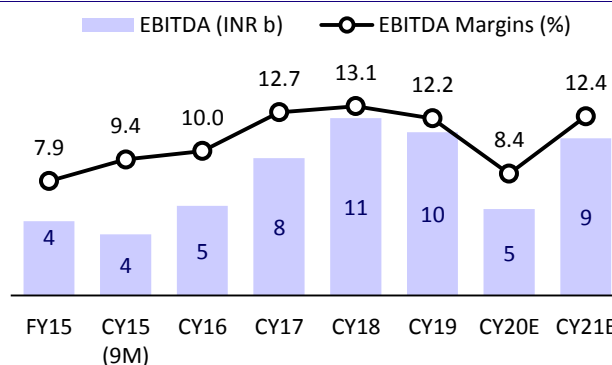
MACA's | Key operating indicators

Exhibit 9: Expect consol revenue to recover sharply in CY21E



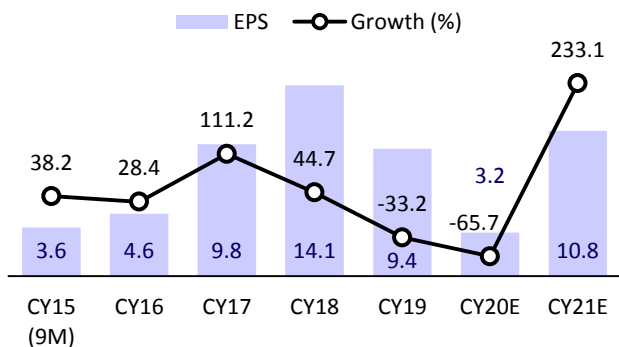
Source: Company, MOFSL

Exhibit 10: EBITDA margin to recover in CY21E



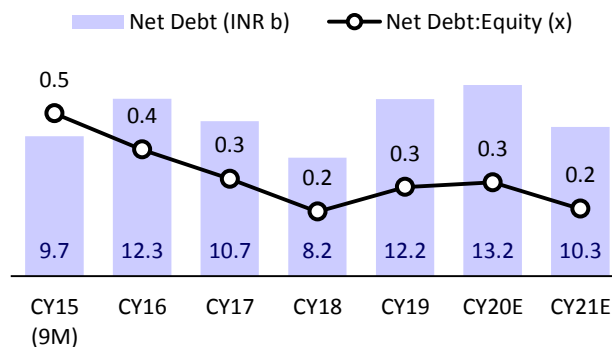
Source: Company, MOFSL

Exhibit 11: Expect consol. EPS to recover sharply in CY21E



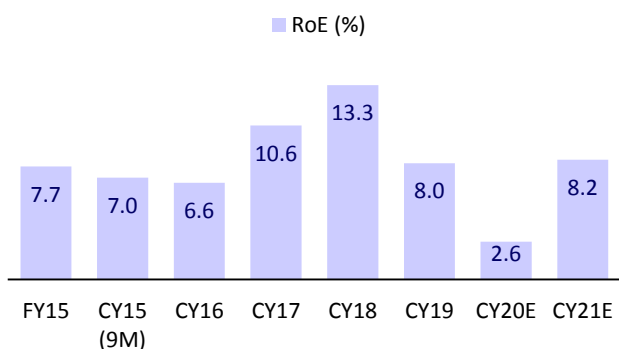
Source: Company, MOFSL

Exhibit 12: Debt under control despite organic & inorganic initiatives



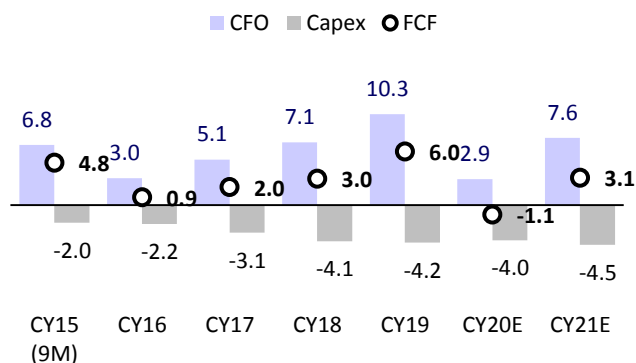
Source: Company, MOFSL

Exhibit 13: RoEs to remain stable despite AEL acquisition



Source: Company, MOFSL

Exhibit 14: FCF positive throughout, except CY19, due to AEL acquisition



Source: Company, MOFSL

Exhibit 15: Key operating metrics

INR m	CY16	CY17	CY18	CY19	CY20E	CY21E
Revenues						
Forgings	36,436	45,474	56,132	51,519	37,587	46,937
Growth (%)		25	23	-8	-27	25
India (ex BFL)	3,868	4,364	5,971	11,921	8,702	10,269
Growth (%)		13	37	100	-27	18
BFL	1,750	6,917	8,210	1,950	950	1,220
Growth (%)		295	19	-76	-51	28
MFE Europe	16,009	17,316	21,095	16,604	12,320	16,336
Growth (%)		8	22	-21	-26	33
CIE Europe	14,809	16,876	20,857	21,044	15,615	19,112
Growth (%)		14	24	1	-26	22
Gears	5,106	4,716	7,642	7,677	5,698	4,641
Growth (%)		-8	62	0	-26	-19
India	1,469	828	2,071	2,196	2,327	0
Growth (%)		-44	150	6	6	-100
Metalcastello	3,637	3,888	5,571	5,482	3,370	4,641
Growth (%)		7	43	-2	-39	38
Stampings	6,342	8,015	9,149	8,410	6,308	7,443
Growth (%)		26	14	-8	-25	18
Castings	3,652	4,177	5,422	4,237	3,178	3,813
Growth (%)		14	30	-22	-25	20
Composites	880	907	1,017	1,069	780	952
Growth (%)		3	12	5	-27	22
Magnets	1,338	1,292	1,355	1,068	908	1,108
Growth (%)		-3	5	-21	-15	22
Aluminum (AEL)				5,818	6,981	8,236
Growth (%)					20	18
Total Consol Revenues	53,199	64,279	80,315	79,078	60,801	75,192
Growth (%)		21	25	-2	-23	24
EBITDA Margins	10.0	12.7	13.1	12.2	8.4	12.4
EBIT Margins	5.6	8.5	9.5	8.2	3.2	7.8
Adj. EPS (INR/Sh)	4.6	9.8	14.1	9.4	3.2	10.8
Growth (%)		111	45	-33	-66	233

Financials and valuations

Consolidated – Income Statement

(INR m)

Y/E December	CY15 (9M)	CY16	CY17	CY18	CY19	CY20E	CY21E
Total Income from Operations	38,653	53,199	64,279	80,315	79,078	60,801	75,192
Change (%)	-30.6	37.6	20.8	24.9	-1.5	-23.1	23.7
Total Expenditure	35,022	47,888	56,136	69,805	69,401	55,683	65,878
% of Sales	90.6	90.0	87.3	86.9	87.8	91.6	87.6
EBITDA	3,632	5,311	8,143	10,511	9,677	5,118	9,313
Margin (%)	9.4	10.0	12.7	13.1	12.2	8.4	12.4
Depreciation	1,630	2,325	2,683	2,867	3,161	3,148	3,433
EBIT	2,002	2,985	5,460	7,643	6,516	1,970	5,880
Int. and Finance Charges	504	594	510	502	523	638	590
Other Income	287	314	268	387	331	732	393
PBT bef. EO Exp.	1,785	2,706	5,217	7,529	6,324	2,064	5,682
EO Items	-779	-90	-151	-504	-46	0	0
PBT after EO Exp.	1,006	2,615	5,067	7,025	6,279	2,064	5,682
Total Tax	239	926	1,483	2,043	2,741	841	1,608
Tax Rate (%)	23.7	35.4	29.3	29.1	43.7	40.8	28.3
Minority Interest	0	0	0	0	0	0	0
Reported PAT	767	1,689	3,584	4,981	3,538	1,223	4,074
Adj. PAT	1,361	1,747	3,691	5,339	3,564	1,223	4,074
Change (%)	38.2	28.4	111.2	44.7	-33.2	-65.7	233.1
Margin (%)	3.5	3.3	5.7	6.6	4.5	2.0	5.4

Consolidated – Balance Sheet

(INR m)

Y/E December	CY15 (9M)	CY16	CY17	CY18	CY19	CY20E	CY21E
Equity Share Capital	3,233	3,781	3,784	3,788	3,790	3,790	3,790
Total Reserves	16,833	28,882	33,372	39,103	42,548	43,771	47,845
Net Worth	20,066	32,663	37,156	42,891	46,338	47,561	51,635
Minority Interest	0	0	0	0	0	0	0
Total Loans	10,847	13,621	11,969	16,134	14,691	14,691	14,691
Deferred Tax Liabilities	-1,429	-1,710	-1,629	-1,565	912	912	912
Capital Employed	29,484	44,575	47,496	57,460	61,941	63,164	67,238
Gross Block	16,500	22,912	28,418	32,235	42,936	46,478	50,978
Less: Accum. Deprn.	2,935	5,077	9,279	12,294	17,619	20,767	24,201
Net Fixed Assets	13,565	17,835	19,139	19,941	25,316	25,710	26,777
Goodwill on Consolidation	19,364	27,338	28,364	29,111	35,260	35,260	35,260
Capital WIP	559	967	602	960	542	1,000	1,000
Total Investments	671	389	550	6,808	955	955	955
Curr. Assets, Loans&Adv.	15,844	20,109	24,705	26,455	23,553	19,298	26,162
Inventory	7,189	8,352	9,898	12,286	10,566	8,848	10,468
Account Receivables	3,831	5,219	5,984	7,414	7,368	5,664	7,004
Cash and Bank Balance	502	981	719	1,127	1,499	530	3,426
Loans and Advances	4,323	5,557	8,103	5,628	4,120	4,256	5,263
Curr. Liability & Prov.	20,520	22,063	25,865	25,815	23,686	19,059	22,916
Account Payables	14,063	15,258	15,743	16,838	14,771	12,205	14,439
Other Current Liabilities	3,299	3,316	6,477	5,038	4,745	3,648	4,511
Provisions	3,158	3,489	3,644	3,939	4,170	3,206	3,965
Net Current Assets	-4,675	-1,953	-1,160	640	-133	239	3,246
Appl. of Funds	29,484	44,575	47,496	57,460	61,941	63,164	67,238

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	CY15 (9M)	CY16	CY17	CY18	CY19	CY20E	CY21E
Basic (INR)							
EPS	3.6	4.6	9.8	14.1	9.4	3.2	10.8
Cash EPS	7.9	10.8	16.9	21.7	17.8	11.6	19.9
BV/Share	53.1	86.4	98.3	113.4	122.6	125.8	136.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E	38.1	29.7	14.1	9.7	14.6	42.4	12.7
Cash P/E	17.4	12.7	8.1	6.3	7.7	11.9	6.9
P/BV	2.6	1.6	1.4	1.2	1.1	1.1	1.0
EV/Sales	1.6	1.2	1.0	0.8	0.8	1.1	0.8
EV/EBITDA	17.1	12.2	7.8	6.4	6.7	12.9	6.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	12.7	2.3	5.3	7.9	16.0	-2.8	8.2
Return Ratios (%)							
RoE	7.0	6.6	10.6	13.3	8.0	2.6	8.2
RoCE (Post-tax)	5.5	5.8	8.8	10.9	6.5	2.6	6.9
RoIC	5.2	5.5	8.8	11.5	6.8	2.0	6.9
Working Capital Ratios							
Fixed Asset Turnover (x)	2.3	2.3	2.3	2.5	1.8	1.3	1.5
Asset Turnover (x)	1.3	1.2	1.4	1.4	1.3	1.0	1.1
Inventory (Days)	68	57	56	56	49	53	51
Debtor (Days)	36	36	34	34	34	34	34
Creditor (Days)	133	105	89	77	68	73	70
Leverage Ratio (x)							
Net Debt/Equity	0.5	0.4	0.3	0.2	0.3	0.3	0.2

Consolidated – Cash Flow Statement

(INR m)

Y/E December	CY15 (9M)	CY16	CY17	CY18	CY19	CY20E	CY21E
OP/(Loss) before Tax	1,006	2,616	5,067	7,025	6,279	2,064	5,682
Depreciation	1,630	2,325	2,734	2,898	3,168	3,148	3,433
Interest & Finance Charges	504	594	545	525	525	-95	198
Direct Taxes Paid	-261	-593	-1,077	-1,444	-1,161	-841	-1,608
(Inc)/Dec in WC	3,857	-1,881	-2,193	-1,769	1,556	-1,341	-111
CF from Operations	6,736	3,060	5,076	7,235	10,367	2,936	7,594
Others	60	-21	46	-155	-94	0	0
CF from Operating incl EO	6,796	3,040	5,122	7,080	10,273	2,936	7,594
(Inc)/Dec in FA	-2,006	-2,158	-3,105	-4,101	-4,238	-4,000	-4,500
Free Cash Flow	4,790	882	2,017	2,979	6,035	-1,064	3,094
(Pur)/Sale of Investments	-295	284	-183	-6,201	-1,871	0	0
Others	49	-6,434	260	129	219	732	393
CF from Investments	-2,252	-8,308	-3,028	-10,173	-5,890	-3,268	-4,107
Issue of Shares	28	4,525	66	57	30	0	0
Inc/(Dec) in Debt	-4,627	1,817	-1,877	4,089	-3,545	0	0
Interest Paid	-337	-594	-545	-525	-525	-638	-590
Dividend Paid	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0
CF from Fin. Activity	-4,936	5,748	-2,356	3,621	-4,040	-638	-590
Inc/Dec of Cash	-391	480	-262	528	343	-970	2,896
Opening Balance	893	502	981	719	1,247	1,590	620
Closing Balance	502	981	719	1,247	1,590	620	3,517

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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