

## Steady performance; investment thesis unchanged...

**About the stock:** Mahindra CIE (MCI), part of the Spain-based CIE Automotive Group, is a multi-technology, multi-product automotive component supplier.

- CY20 consolidated revenue mix – Europe 52%, India 48%
- Forging is ~63% of consolidated sales (89% in Europe). India mix is more diversified; includes 25% from aluminium, 18%- stampings & 11%- castings
- In India it derives 40%, 32%, 16%, 5% of sales from PV, 2-W, tractors, M&HCV, respectively
- In Europe it derives 48%, 42%, 10% of sales from PV, MHCV, off highway, respectively

**Q3CY21 Results:** MCI posted decent Q3CY21 results.

- Consolidated net sales rose 2.4% QoQ to ₹ 2,091 crore
- EBITDA margins were flattish sequentially at 12.8%
- PAT was 22.2% QoQ to ₹ 166 crore, aided by lower effective tax rate

**What should investors do?** The stock price has grown at ~5% CAGR over the past five years (from ~₹ 190 levels in October 16), slightly outperforming Nifty Auto index.

- We retain **BUY** on expected margin improvement & inexpensive valuations.

**Target Price and Valuation:** We introduce CY23E numbers; value MCI at 10x average CY22E-CY23E EV/EBITDA for revised target of ₹ 330 (earlier target: ₹ 290)

### Key triggers for future price performance:

- We expect CY20-23E net sales CAGR of 16.7% led by India business
- Higher utilisation, efficiency efforts to aid margin uptick to 13.5% (CY23E)
- CY23E EPS seen at ~₹ 18/share; RoCE to improve to ~12% by CY22E
- CY23E CFO, FCF yield seen at 12%, 7%, respectively, with net debt free b/s

**Alternate Stock Idea:** Besides MCI, in our ancillary coverage, we like Apollo Tyres.

- India CV revival beneficiary focused on debt reduction, higher return ratios
- BUY with target price of ₹ 275

## Mahindra CIE

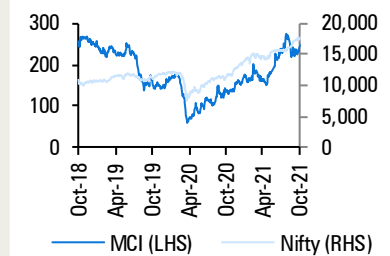
### Particulars

Particular	₹ crore
Market Capitalization	9,501.6
Total Debt (CY20)	1,648
Cash & Investments (CY20)	472.0
EV	10,677.1
52 week H/L (₹)	281 / 128
Equity capital	₹ 379 Crore
Face value	₹ 10

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	71.6	71.6	72.2	72.2
FII	14.6	14.8	12.7	10.5
DII	3.7	3.6	5.6	7.8
Other	10.1	10.0	9.5	9.5

### Price Chart



### Recent event & key risks

- Posted decent Q3CY21 results.
- **Key Risk:** (i) Faster than anticipated electrification in Indian auto space, (ii) Prolonged chip shortage impact

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### Key Financial Summary

Key Financials	CY19	CY20	5 year CAGR (CY15-20)	CY21E	CY22E	CY23E	3 year CAGR (CY20-23E)
Net Sales	7,907.8	6,050.1	9.4%	8,223.7	9,224.6	9,622.0	16.7%
EBITDA	967.7	501.6	5.8%	1,033.9	1,230.6	1,299.0	37.3%
EBITDA Margins (%)	12.2	8.3		12.6	13.3	13.5	
Net Profit	353.8	106.4	4.1%	366.9	635.7	672.9	84.9%
EPS (₹)	9.3	2.8		9.7	16.8	17.8	
P/E	26.9	89.3		25.9	14.9	14.1	
RoNW (%)	7.7	2.2		7.0	11.0	10.7	
RoCE (%)	10.2	2.7		9.6	11.5	11.7	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q3CY21 Results: India business pulls up overall performance

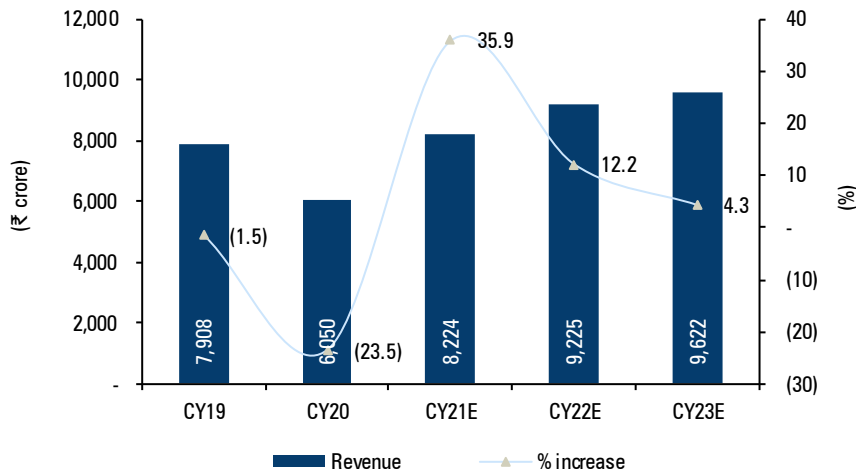
- MCI continued to outperform user industries in India as well as Europe
- Standalone revenues were higher by 22.5% QoQ to ₹ 879 crore, with margins up 200 bps QoQ to 14.1% despite ~230 bps gross margin decline
- Among geographies, India revenues jumped 22.3% QoQ to ₹ 1,068 crore while Europe revenues were down 14.5% QoQ to ₹ 912 crore partly on account of fewer working days in the quarter.
- India margins rose 120 bps sequentially to 15.1% while Europe margins declined by 160 bps QoQ to 12.5%

### Q3CY21 Earnings Conference Call highlights

- Q3CY21 performance was affected by the ongoing semiconductor crisis (especially in Europe). The constraints are expected to last for a few more months. The light vehicle markets in India and Europe as well as the European CV market are being affected by the shortage
- Q4CY21 could be a challenging quarter, with the company expecting similar performance to Q3CY21 in Europe. Underlying demand, however, remains strong & MCI expects all lost demand to be recovered from CY22E onwards. CY22E & CY23E are expected to be good years for European business, including the German CV forgings business. CY22E Europe growth is expected to be 10-11% YoY
- MCI won an order of €20 million per annum in Metalcastello for EV parts. The business is expected to peak in CY25E. It has also won an order for similar quantum in India for 4-W and 2-W transmission, driveline parts
- Metalcastello is benefiting from North America-led strong growth. The company this year is close to CY19 numbers and is adding capacities to cater to the high demand
- EV penetration in Europe is 7% currently. MCI's exposure to engine related products is 20-25%. Going forward, the company expects to be aligned to industry EV penetration levels, both in India and Europe
- MCI said that EV margins are similar to non-EV products. On the EV side, however, products more complex and require higher accuracy and tolerance levels. The company's present machinery can be utilised for EV products with bit more machining
- Over the longer term, MCI aims to grow exports to over 20% of sales vs. present 12-13% levels
- For Q3CY21, Aurangabad Electricals & Bill Forge sales were at ~₹ 240 crore
- The company is evaluating setting up sunroof business in India. However, it has not been decided if the business would be housed in MCI
- MCI is looking at converting some products into aluminium forged products in Spain and Germany
- CY22E capex guidance is for 5-5.5% of sales

## Financial story in charts

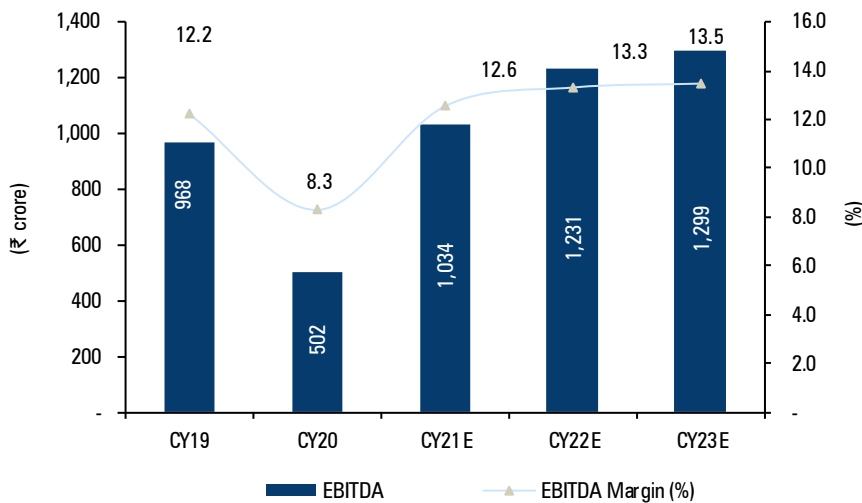
Exhibit 1: Trend in topline



MCI is seen posting 16.7% revenue CAGR over CY20-23E

Source: Company, ICICI Direct Research

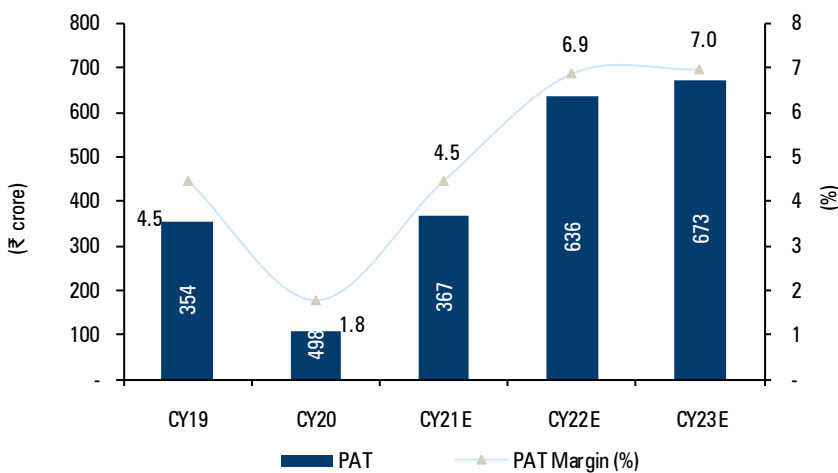
Exhibit 2: Trend in margins



Margins are seen rising to 13.5% by CY23E on the back of higher utilisation, better product mix and cost reduction efforts

Source: Company, ICICI Direct Research

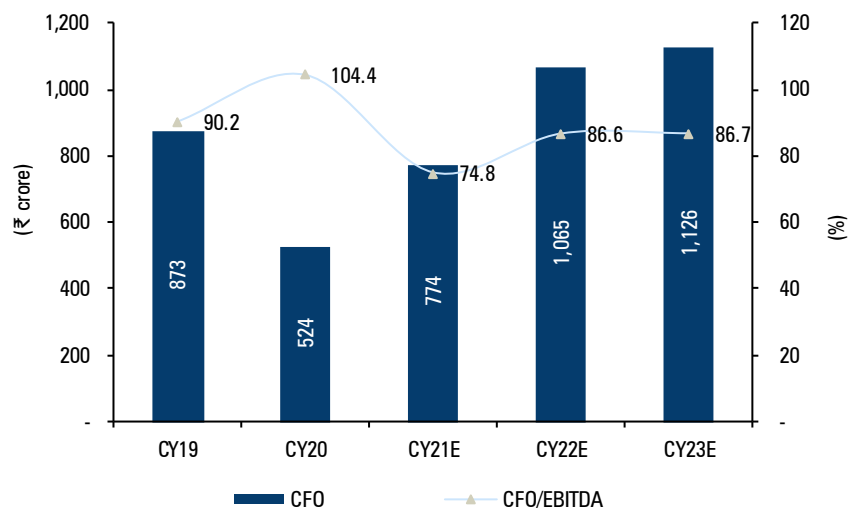
Exhibit 3: Trend in profitability



We expect PAT to grow to ₹ 673 crore by CY23E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in CFO generation



CFO generation has been a particular strength over the years at MCI (CY20: CFO yield at ~6%).

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY18	8,032	23.2	13.2	35.0	19.1	9.8	12.4	12.6
CY19	7,908	(1.5)	9.3	(29.0)	26.9	11.1	7.7	10.2
CY20	6,050	(23.5)	2.8	(69.9)	89.3	21.3	2.2	2.7
CY21E	8,224	35.9	9.7	244.8	25.9	10.1	7.0	9.6
CY22E	9,225	12.2	16.8	73.3	14.9	8.1	11.0	11.5
CY23E	9,622	4.3	17.8	5.9	14.1	7.3	10.7	11.7

Source: Company, ICICI Direct Research

Exhibit 6: Target price calculation

Particulars	
CY22E-23E Average EBITDA (₹ crore)	1,265
Target EV/EBITDA (x)	10.0
EV (₹ crore)	12,648
CY22E-23E Average Net Debt (₹ crore)	232
Resultant MCap (₹ crore)	12,416
No. of shares (crore)	37.9
Target Price (₹ per share)	330

Source: ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	CY20	CY21E	CY22E	CY23E
<b>Total operating Income</b>	<b>6,050.1</b>	<b>8,223.7</b>	<b>9,224.6</b>	<b>9,622.0</b>
Growth (%)	-23.5	35.9	12.2	4.3
Raw Material Expenses	2,806.3	3,947.3	4,520.0	4,714.8
Employee Expenses	1,261.8	1,398.0	1,499.0	1,587.6
Other Expenses	1,480.4	1,844.5	1,975.0	2,020.6
Total Operating Expenditure	5,548.5	7,189.8	7,994.0	8,323.0
<b>EBITDA</b>	<b>501.6</b>	<b>1033.9</b>	<b>1230.6</b>	<b>1299.0</b>
Growth (%)	-48.2	106.1	19.0	5.6
Other Income	54.9	41.0	47.0	51.2
Interest	54.8	53.9	37.9	19.9
Depreciation	306.4	349.5	392.0	433.0
<b>PBT</b>	<b>195.0</b>	<b>671.5</b>	<b>847.6</b>	<b>897.2</b>
Total Tax	88.6	304.6	211.9	224.3
PAT before Minority Interest	106.4	366.9	635.7	672.9
Minority Interest	0.0	0.0	0.0	0.0
<b>PAT after Minority Interest</b>	<b>106.4</b>	<b>366.9</b>	<b>635.7</b>	<b>672.9</b>
<b>EPS (₹)</b>	<b>2.8</b>	<b>9.7</b>	<b>16.8</b>	<b>17.8</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	CY20	CY21E	CY22E	CY23E
<b>Profit after Tax</b>	<b>106.4</b>	<b>366.9</b>	<b>635.7</b>	<b>672.9</b>
Add: Depreciation & Interest	361.2	403.4	429.9	452.9
(Inc)/dec in Current Assets	-29.4	-422.3	-295.6	-117.4
Inc/(dec) in CL and Provisions	85.2	425.6	295.4	117.3
<b>CF from operating activities</b>	<b>523.5</b>	<b>773.6</b>	<b>1065.4</b>	<b>1125.7</b>
(Inc)/dec in Investments	-42.6	-71.6	-33.0	-13.1
(Inc)/dec in Fixed Assets	-732.0	-450.0	-484.3	-505.2
Others	47.7	76.5	24.4	-2.4
<b>CF from investing activities</b>	<b>-726.9</b>	<b>-445.1</b>	<b>-492.8</b>	<b>-520.6</b>
Interest Paid	-54.8	-53.9	-37.9	-19.9
Inc/(dec) in loan funds	178.5	-300.0	-400.0	-450.0
Dividend paid & dividend tax	0.0	-56.8	-94.6	-113.6
Others	167.8	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>291.5</b>	<b>-410.7</b>	<b>-532.5</b>	<b>-583.5</b>
Net Cash flow	88.0	-82.2	40.0	21.6
Opening Cash	150.0	238.0	155.9	195.9
<b>Closing Cash</b>	<b>238.0</b>	<b>155.9</b>	<b>195.9</b>	<b>217.6</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	CY20	CY21E	CY22E	CY23E
<b>Liabilities</b>				
Equity Capital	379.0	379.0	379.0	379.0
Reserve and Surplus	4,529.0	4,839.1	5,380.2	5,939.5
<b>Total Shareholders funds</b>	<b>4908.0</b>	<b>5218.1</b>	<b>5759.2</b>	<b>6318.6</b>
Total Debt	1,647.6	1,347.6	947.6	497.6
Minority Interest	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>7483.7</b>	<b>7618.4</b>	<b>7816.8</b>	<b>7948.9</b>
<b>Assets</b>				
Gross Block	8,153.5	8,565.8	9,050.1	9,555.2
Less: Acc Depreciation	5,167.6	5,517.1	5,909.1	6,342.1
<b>Net Block</b>	<b>2985.9</b>	<b>3048.7</b>	<b>3140.9</b>	<b>3213.1</b>
Capital WIP	12.3	50.0	50.0	50.0
Total Fixed Assets	2,998.2	3,098.7	3,190.9	3,263.1
Investments	234.0	254.0	274.0	294.0
Goodwill	3,755	3,755	3,755	3,755
Inventory	1,006.2	1,126.5	1,263.6	1,318.1
Debtors	705.4	901.2	1,010.9	1,054.5
Other current assets	294.5	400.3	449.0	468.4
<b>Cash</b>	<b>238.0</b>	<b>155.9</b>	<b>195.9</b>	<b>217.6</b>
Total Current Assets	2,244.1	2,584.0	2,919.5	3,058.5
Creditors	1,459.1	1,689.8	1,895.5	1,977.1
Provisions	87.9	119.5	134.0	139.8
Other Current Liabilities	454.5	617.8	693.0	722.8
Total Current Liabilities	2,001.5	2,427.1	2,722.5	2,839.8
<b>Net Current Assets</b>	<b>242.6</b>	<b>156.9</b>	<b>197.0</b>	<b>218.7</b>
<b>Application of Funds</b>	<b>7483.7</b>	<b>7618.4</b>	<b>7816.8</b>	<b>7948.9</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	CY20	CY21E	CY22E	CY23E
<b>Per share data (₹)</b>				
EPS	2.8	9.7	16.8	17.8
Cash EPS	10.9	18.9	27.1	29.2
BV	129.7	137.8	152.1	166.9
DPS	0.0	1.5	2.5	3.0
Cash Per Share	6.3	4.1	5.2	5.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	8.3	12.6	13.3	13.5
PAT Margin	1.8	4.5	6.9	7.0
Inventory days	60.7	50.0	50.0	50.0
Debtor days	42.6	40.0	40.0	40.0
Creditor days	88.0	75.0	75.0	75.0
<b>Return Ratios (%)</b>				
RoE	2.2	7.0	11.0	10.7
RoCE	2.7	9.6	11.5	11.7
RoIC	2.8	9.9	11.9	12.1
<b>Valuation Ratios (x)</b>				
P/E	89.3	25.9	14.9	14.1
EV / EBITDA	21.3	10.1	8.1	7.3
EV / Net Sales	1.8	1.3	1.1	1.0
Market Cap / Sales	1.6	1.2	1.0	1.0
Price to Book Value	1.9	1.8	1.6	1.5
<b>Solvency Ratios</b>				
Debt/Equity	0.3	0.3	0.2	0.1
Current Ratio	1.0	1.0	1.0	1.0
Quick Ratio	0.5	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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