

CMP: ₹ 185

Target: ₹ 245 (32%)

Target Period: 12 months

BUY

February 24, 2022

Steady growth prospects, EV immune products in focus

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

- CY21 consolidated revenue mix – Europe 49%, India 51%
- Forging is ~59% of consolidated sales (86% in Europe). India mix is more diversified; includes 22% from aluminium, 21%- stampings & 12%- castings
- In India it derives 37%, 33%, 16%, 8% of sales from PV, 2-W, tractors, M&HCV, respectively
- In Europe it derives 36%, 39%, 9% of sales from PV, MHCV, off highway, respectively

Q4CY21 Results: MCI reported muted Q4CY21 results.

- Consolidated net sales came in at ₹ 2,064 crore, down 1.3% QoQ
- EBITDA margins were at 9.8%, down 300 bps QoQ
- PAT was down 52% QoQ to ₹ 80 crore

What should investors do? MCI's stock price has de-grown at ~1% CAGR in past five years (~₹ 200 levels in February 2017), underperforming the Nifty Auto index.

- We retain **BUY** on steady growth prospects & inexpensive valuations.

Target Price and Valuation: We value MCI at 9x average CY22-23E EV/EBITDA for revised target of ₹ 245 (earlier target price: ₹ 330)

Key triggers for future price performance:

- On the back of pent up demand in current financial year (CY22E) and limited long term growth prospects at European operations, we expect sales at MCI to grow at a CAGR of 5.8% over CY21-23E, led by growth in India business
- Efficiency efforts to report margin uptick to 11.6% by CY23E with CY23E EPS seen at ~₹ 15.3/share with consequent RoCE at ~10% by CY23E
- Constant effort to de-risk base business amid global thrust on electrification with order book gaining traction in EV specific as well as EV neutral products

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 ₹ 270

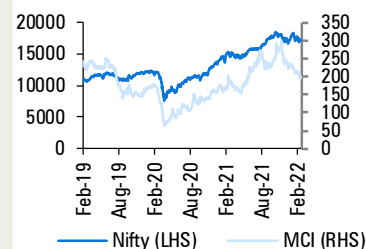
Particulars

| Particular | ₹ crore |
|----------------------------|-------------|
| Market Capitalization | 7,003.1 |
| Total Debt (CY21P) | 1,282 |
| Cash & Investments (CY21P) | 597.6 |
| EV | 7,687.1 |
| 52 week H/L (₹) | 312 / 148 |
| Equity capital | ₹ 379 Crore |
| Face value | ₹ 10 |

Shareholding pattern

| | Mar-21 | Jun-21 | Sep-21 | Dec-21 |
|----------|--------|--------|--------|--------|
| Promoter | 71.6 | 72.2 | 72.2 | 72.2 |
| FII | 14.8 | 12.7 | 10.5 | 10.4 |
| DII | 3.6 | 5.6 | 7.8 | 7.8 |
| Other | 10.0 | 9.5 | 9.5 | 9.7 |

Price Chart



Recent event & key risks

- Posted muted Q4CY21 results.
- **Key Risk:** (i) Faster than anticipated electrification in PV/2W space, (ii) Continued spike in raw material price

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Key Financial Summary

| Key Financials | CY19 | CY20 | CY21P | 5 year CAGR (CY16-21P) | CY22E | CY23E | 2 year CAGR (CY21-23E) |
|--------------------|---------|---------|---------|------------------------|---------|---------|------------------------|
| Net Sales | 7,907.8 | 6,050.1 | 8,386.7 | 9.5% | 9,451.9 | 9,932.0 | 5.8% |
| EBITDA | 967.7 | 501.6 | 1,017.3 | 13.9% | 1,013.2 | 1,155.1 | 4.3% |
| EBITDA Margins (%) | 12.2 | 8.3 | 12.1 | | 10.7 | 11.6 | |
| Net Profit | 353.8 | 106.4 | 392.9 | 18.4% | 482.3 | 577.4 | 13.7% |
| EPS (₹) | 9.3 | 2.8 | 10.4 | | 12.7 | 15.3 | |
| P/E | 19.8 | 65.8 | 17.8 | | 14.5 | 12.1 | |
| RoNW (%) | 7.7 | 2.2 | 7.7 | | 8.7 | 9.6 | |
| RoCE (%) | 10.2 | 2.7 | 9.4 | | 8.6 | 9.7 | |

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4CY21 Results:

- Standalone revenues were down 4.3% QoQ to ₹ 840.8 crore, with margins down 230 bps QoQ to 11.8% amid ~376 bps gross margin decline
- Among geographies, India revenues remained flat QoQ at ₹ 1,068 crore while Europe revenues were down 4.5% QoQ to ₹ 871.2
- India margins declined ~310 bps sequentially to 12% while Europe margins declined 340 bps QoQ to 9.1%. The management attributed ~200 bps impact on account of RM pass through to customers without margins (high base)
- CY21 Consolidated revenue were up 37% YoY at ₹ 7,946 crore

Q4CY21 Earnings Conference Call highlights

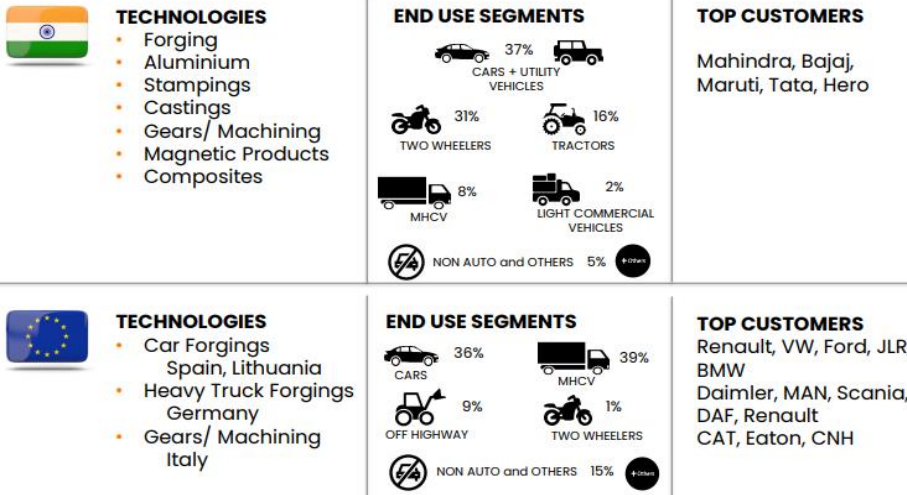
- Q4CY21 performance was affected by the ongoing semiconductor crisis & cost inflation - especially raw materials, energy and logistic costs. Negotiations are ongoing with customers to pass through these costs
- Raw material cost has been fully passed on to customer. Drop in profit in Indian operations was due to onetime expense booked in stamping department for VRS of ₹ 12.7 crore
- MCI (European operations) posted EBITDA of 12.6% for CY21
- MCI declared its maiden dividend of ₹ 2.5/ share for CY21
- MCI has pending order book of ~₹ 600 crore for EV/hybrid components
- Underlying demand remains strong in PV & CV space, whereas tractor demand to remain sluggish in coming two quarters, 2-W demand is expected to be muted in CY22 but exports are expected to gain traction. CY22E & CY23E are expected to be good years for Indian business
- Aluminium forging business is gaining traction with MCI geared up for manufacturing of suspensions & chassis & has already won order from customers & expect to deliver the same in coming year
- MCI is working with customers and entered into index contract to pass on the rising cost on energy in Europe
- Of the new orders in India, ~>20% pertains to EV & hybrid parts
- MCI India operations came out stronger than European operations & management expects same track to continue, going forward
- MCI expects CV space to grow double digit still would be lower than CY18-19 levels, whereas demand in Germany remain sluggish with European market expected to pick up pace from H2CY22
- Capex for CY22E is expected to be lower than CY21 at ~5% of revenue
- Margins for Indian operations for last two to three quarters are at ~15% & for European operations are ~13-14%. MCI expects to maintain the same in coming quarters. Further CIE (parent entity) expects margin in medium to long term to be ~17-18%
- Within European car sales, share of ICE powered vehicle has declined from 75% in the past to ~60% with rest constituted by hybrids at ~20%, BEV's at ~9% and plug-in hybrids at ~9%

MCI informed that EV margins are similar to non-EV products. On the EV side, however, products more complex and require higher accuracy and tolerance levels.

Key Presentation Highlights

Exhibit 1: End uses

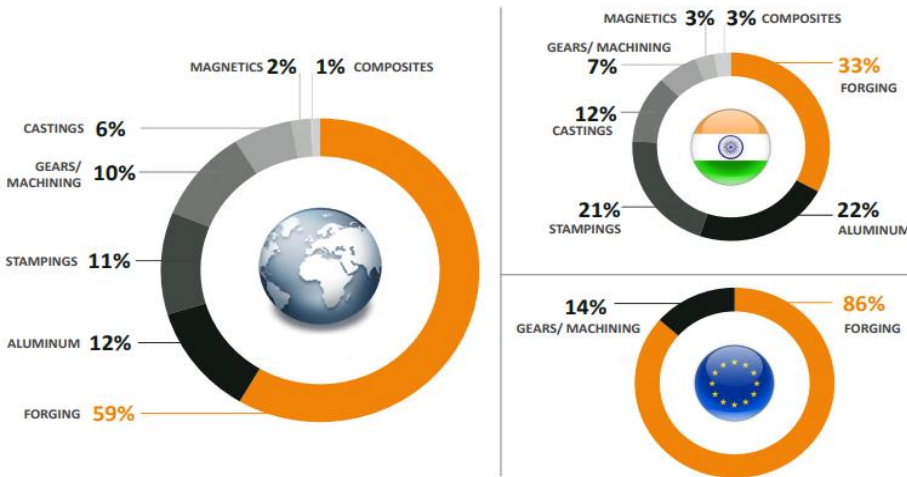
SEGMENTS AND CUSTOMERS (CY2021)



Source: Company, ICICI Direct Research

Exhibit 2: Revenue break-up

GEOGRAPHY AND TECHNOLOGY



Source: Company, ICICI Direct Research

Exhibit 3: EV update

EV UPDATE

CY2021

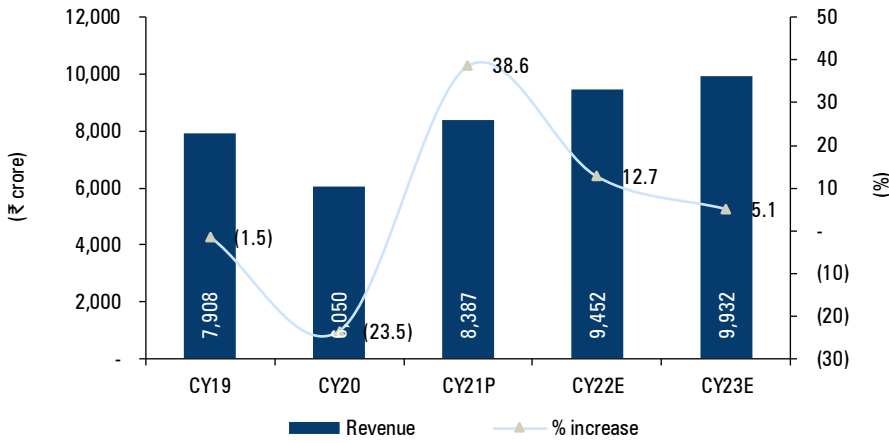
- Europe
 - Aluminum Forgings trials on going
 - New orders focused on non-engine parts
 - Orders received for EV parts with significant revenue
- India
 - Significant part of new orders (>20%) in many divisions are for EV and Hybrid parts - especially in divisions focussed on 2W
 - Orders from leading 2W, 3W & 4W EV OEMs (Traditional as well as new entrants)



Source: Company, ICICI Direct Research

Financial story in charts

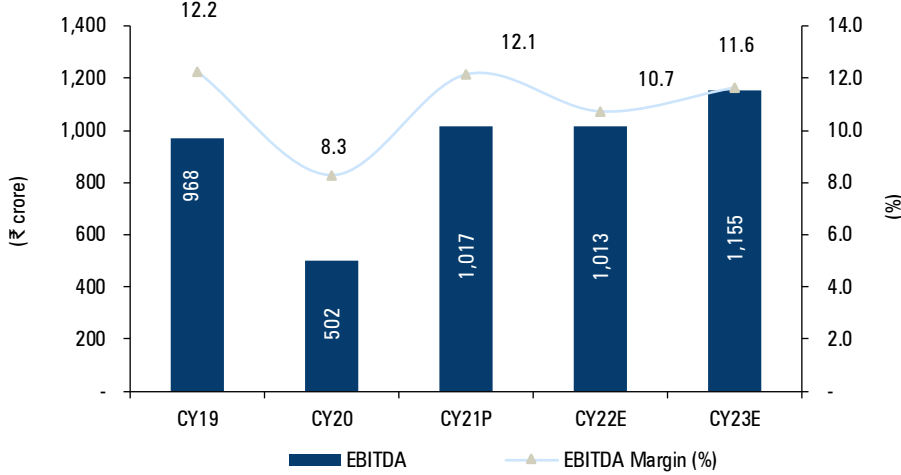
Exhibit 4: Trend in topline



MCI is seen posting 5.8% revenue CAGR over CY21-23E to ₹ 9,932 crore in CY23E

Source: Company, ICICI Direct Research

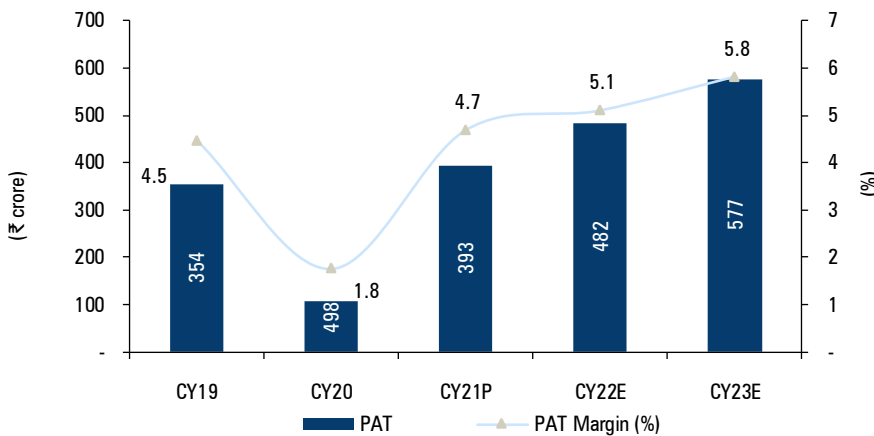
Exhibit 5: Trend in margins



Margins are seen rising to 11.6% by CY23E on the back of operating leverage benefits and stable commodity prices

Source: Company, ICICI Direct Research

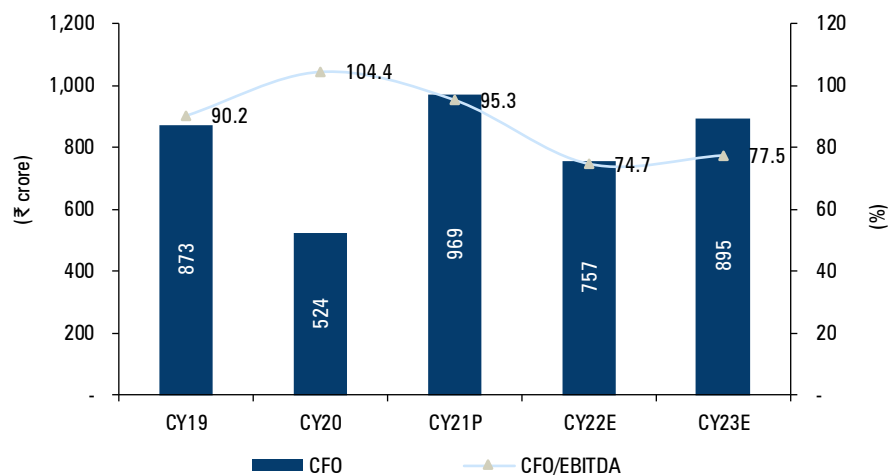
Exhibit 6: Trend in profitability



We expect PAT to grow to ₹ 577 crore by CY23E

Source: Company, ICICI Direct Research

Exhibit 7: Trend in CFO generation



CFO generation has been a particular strength over the years at MCI (CY21: CFO yield at ~13%). We expect it to be > 10% for CY22E-23E

Source: Company, ICICI Direct Research

Exhibit 8: Valuation Summary

| | Sales (₹ cr) | Growth (%) | EPS (₹) | Growth (%) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
|-------|-----------------|---------------|------------|---------------|-----------|------------------|-------------|-------------|
| CY18 | 8,032 | 23.2 | 13.2 | 35.0 | 14.1 | 7.4 | 12.4 | 12.6 |
| CY19 | 7,908 | (1.5) | 9.3 | (29.0) | 19.8 | 8.5 | 7.7 | 10.2 |
| CY20 | 6,050 | (23.5) | 2.8 | (69.9) | 65.8 | 16.3 | 2.2 | 2.7 |
| CY21P | 8,387 | 38.6 | 10.4 | 269.2 | 17.8 | 7.6 | 7.7 | 9.4 |
| CY22E | 9,452 | 12.7 | 12.7 | 22.8 | 14.5 | 7.5 | 8.7 | 8.6 |
| CY23E | 9,932 | 5.1 | 15.3 | 19.7 | 12.1 | 6.4 | 9.6 | 9.7 |

Source: Company, ICICI Direct Research

Exhibit 9: Target price calculation

| Particulars | |
|--------------------------------------|-------|
| CY22E-23E Average EBITDA (₹ crore) | 1,084 |
| Target EV/EBITDA (x) | 9.0 |
| EV (₹ crore) | 9,758 |
| CY22E-23E Average Net Debt (₹ crore) | 472 |
| Resultant MCap (₹ crore) | 9,285 |
| No. of shares (crore) | 37.9 |
| Target Price (₹ per share) | 245 |

Source: ICICI Direct Research

Financial Summary

| Exhibit 10: Profit and loss statement | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | CY20 | CY21P | CY22E | CY23E |
| Total operating Income | 6,050.1 | 8,386.7 | 9,451.9 | 9,932.0 |
| Growth (%) | -23.5 | 38.6 | 12.7 | 5.1 |
| Raw Material Expenses | 2,806.3 | 4,007.9 | 4,725.9 | 4,966.0 |
| Employee Expenses | 1,261.8 | 1,347.8 | 1,465.0 | 1,539.5 |
| Other Expenses | 1,480.4 | 2,013.7 | 2,247.7 | 2,271.5 |
| Total Operating Expenditure | 5,548.5 | 7,369.4 | 8,438.6 | 8,776.9 |
| EBITDA | 501.6 | 1017.3 | 1013.2 | 1155.1 |
| Growth (%) | -48.2 | 102.8 | -0.4 | 14.0 |
| Other Income | 54.9 | 55.6 | 61.1 | 70.7 |
| Interest | 54.8 | 53.3 | 53.2 | 48.7 |
| Depreciation | 306.4 | 343.1 | 378.1 | 407.2 |
| PBT | 195.0 | 663.8 | 643.1 | 769.9 |
| Total Tax | 88.6 | 272.1 | 160.8 | 192.5 |
| PAT before Minority Interest | 106.4 | 391.7 | 482.3 | 577.4 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 |
| PAT after Minority Interest | 106.4 | 392.9 | 482.3 | 577.4 |
| EPS (₹) | 2.8 | 10.4 | 12.7 | 15.3 |

Source: Company, ICICI Direct Research

| Exhibit 11: Cash flow statement | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | CY20 | CY21P | CY22E | CY23E |
| Profit after Tax | 106.4 | 392.9 | 482.3 | 577.4 |
| Add: Depreciation & Interest | 361.2 | 396.4 | 431.2 | 455.9 |
| (Inc)/dec in Current Assets | -29.4 | -299.7 | -479.5 | -277.6 |
| Inc/(dec) in CL and Provisions | 85.2 | 479.8 | 322.7 | 138.9 |
| CF from operating activities | 523.5 | 969.3 | 756.8 | 894.6 |
| (Inc)/dec in Investments | -42.6 | 25.0 | -22.1 | -10.0 |
| (Inc)/dec in Fixed Assets | -732.0 | -429.8 | -472.6 | -496.6 |
| Others | 47.7 | -119.4 | -1.9 | -11.8 |
| CF from investing activities | -726.9 | -524.3 | -496.6 | -518.4 |
| Interest Paid | -54.8 | -53.3 | -53.2 | -48.7 |
| Inc/(dec) in loan funds | 178.5 | -366.0 | -100.0 | -100.0 |
| Dividend paid & dividend tax | 0.0 | -94.6 | -113.6 | -151.4 |
| Others | 167.8 | -9.6 | 0.0 | 0.0 |
| CF from financing activities | 291.5 | -523.5 | -266.7 | -300.1 |
| Net Cash flow | 88.0 | -78.4 | -6.5 | 76.1 |
| Opening Cash | 150.0 | 238.0 | 159.6 | 153.0 |
| Closing Cash | 238.0 | 159.6 | 153.0 | 229.2 |

Source: Company, ICICI Direct Research

| Exhibit 12: Balance Sheet | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | CY20 | CY21P | CY22E | CY23E |
| Liabilities | | | | |
| Equity Capital | 379.0 | 379.1 | 379.1 | 379.1 |
| Reserve and Surplus | 4,529.0 | 4,817.5 | 5,186.3 | 5,612.3 |
| Total Shareholders funds | 4908.0 | 5196.6 | 5565.4 | 5991.4 |
| Total Debt | 1,647.6 | 1,281.6 | 1,181.6 | 1,081.6 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Liabilities | 7483.7 | 7449.9 | 7757.8 | 8101.5 |
| Assets | | | | |
| Gross Block | 8,153.5 | 8,595.6 | 9,018.2 | 9,514.8 |
| Less: Acc Depreciation | 5,167.6 | 5,510.7 | 5,888.7 | 6,295.9 |
| Net Block | 2985.9 | 3084.9 | 3129.4 | 3218.8 |
| Capital WIP | 12.3 | 0.0 | 50.0 | 50.0 |
| Total Fixed Assets | 2,998.2 | 3,084.9 | 3,179.4 | 3,268.8 |
| Investments | 234.0 | 438.0 | 458.0 | 478.0 |
| Goodwill | 3,755 | 3,627 | 3,627 | 3,627 |
| Inventory | 1,006.2 | 1,348.6 | 1,553.7 | 1,632.7 |
| Debtors | 705.4 | 668.7 | 906.3 | 1,088.4 |
| Other current assets | 294.5 | 289.3 | 326.0 | 342.5 |
| Cash | 238.0 | 159.6 | 153.0 | 229.2 |
| Total Current Assets | 2,244.1 | 2,466.2 | 2,939.1 | 3,292.8 |
| Creditors | 1,459.1 | 1,938.5 | 2,201.1 | 2,312.9 |
| Provisions | 87.9 | 89.2 | 100.5 | 105.6 |
| Other Current Liabilities | 454.5 | 383.7 | 432.5 | 454.4 |
| Total Current Liabilities | 2,001.5 | 2,411.4 | 2,734.1 | 2,873.0 |
| Net Current Assets | 242.6 | 54.8 | 205.0 | 419.8 |
| Application of Funds | 7483.7 | 7449.9 | 7757.8 | 8101.5 |

Source: Company, ICICI Direct Research

| Exhibit 13: Key ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | CY20 | CY21P | CY22E | CY23E |
| Per share data (₹) | | | | |
| EPS | 2.8 | 10.4 | 12.7 | 15.3 |
| Cash EPS | 10.9 | 19.4 | 22.7 | 26.0 |
| BV | 129.7 | 137.3 | 147.0 | 158.3 |
| DPS | 0.0 | 2.5 | 3.0 | 4.0 |
| Cash Per Share | 6.3 | 4.2 | 4.0 | 6.1 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 8.3 | 12.1 | 10.7 | 11.6 |
| PAT Margin | 1.8 | 4.8 | 5.1 | 5.8 |
| Inventory days | 60.7 | 58.7 | 60.0 | 60.0 |
| Debtor days | 42.6 | 29.1 | 35.0 | 40.0 |
| Creditor days | 88.0 | 84.4 | 85.0 | 85.0 |
| Return Ratios (%) | | | | |
| RoE | 2.2 | 7.7 | 8.7 | 9.6 |
| RoCE | 2.7 | 9.4 | 8.6 | 9.7 |
| RoIC | 2.8 | 9.7 | 8.8 | 10.0 |
| Valuation Ratios (x) | | | | |
| P/E | 65.8 | 17.8 | 14.5 | 12.1 |
| EV / EBITDA | 16.3 | 7.6 | 7.5 | 6.4 |
| EV / Net Sales | 1.4 | 0.9 | 0.8 | 0.7 |
| Market Cap / Sales | 1.2 | 0.8 | 0.7 | 0.7 |
| Price to Book Value | 1.4 | 1.3 | 1.3 | 1.2 |
| Solvency Ratios | | | | |
| Debt/Equity | 0.3 | 0.2 | 0.2 | 0.2 |
| Current Ratio | 1.0 | 1.0 | 1.0 | 1.1 |
| Quick Ratio | 0.5 | 0.4 | 0.5 | 0.5 |

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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