

Mahindra CIE

 Estimate change 

 TP change 

 Rating change 

	MACA IN
Bloomberg Equity Shares (m)	379
M.Cap.(INRb)/(USD\$)	84.7 / 1.1
52-Week Range (INR)	312 / 153
1, 6, 12 Rel. Per (%)	32/-15/25
12M Avg Val (INR M)	125

Financials & Valuations (INR b)

INR b	CY21	CY22E	CY23E
Sales	83.9	99.6	109.5
EBITDA (%)	12.1	12.1	13.1
Adj. PAT	5.2	6.1	7.9
EPS (INR)	13.8	16.2	20.8
EPS Growth (%)	391.0	17.3	28.1
BV/Share (INR)	137	150	167

Ratio

RoE (%)	10.4	11.3	13.1
RoCE (%)	7.7	9.3	10.9
Payout (%)	24.2	17.0	16.7

Valuations

P/E (x)	16.1	13.8	10.7
P/BV (x)	1.6	1.5	1.3
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	6.8	-0.7	5.8

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	72.2	72.2	71.6
DII	7.4	7.8	3.6
FII	10.7	10.4	14.8
Others	9.8	9.7	10.0

FII Includes depository receipts

CMP: INR224 TP: INR280 (+25%) Buy
All-round beat, expect improvement to continue...
...on new orders, recovery in India 2Ws/Tractors, and better semiconductor supplies

- MACA's 1QCY22 performance was an all-round beat, led by strong revenue and profitability in the EU and robust margin in India. Improving supply-side issues, new orders, and the possibility of an improvement in demand for 2Ws and Tractors in India, coupled with a pass-through of cost, will lead to a sustained improvement in performance over the next 12 months.
- We raise our CY22/CY23 EPS estimate by 29%/12% to account for an improvement in revenue and EBITDA margin in India and the EU business. We maintain our Buy rating with a TP of INR280/share (13x Mar'24E EPS).

Strong margin recovery in the India and EU business

- Consolidated revenue grew 18% YoY to INR25.9b (est. INR22.8b), EBITDA rose 3.5% to INR3b (est. INR2.24b), and adjusted PAT increased by 6% to INR1.6b (est. INR0.9b) in 1QCY22.
- Revenue from the India business grew 15% YoY to ~INR12.8b (est. ~INR12b), driven by pass-through of RM cost (~10% benefit), strong performance in its Mexico business, and robust volumes in PVs and CVs. India EBITDA margin stood at 13.4% (est. 11%, +280bp QoQ/-30bp YoY), driven by RM cost pass-through and operating leverage.
- Revenue from the EU business grew 22% YoY to ~INR13b (est. ~INR10.8b). The same at a constant forex rate and excluding cost pass-through grew by ~10% YoY, led by strong growth at Metalcastello (30-35% YoY growth). EBITDA margin stood at 9.6% (8.5% higher than our estimate, +200bp QoQ/-290bp YoY), driven by partial pass-through of higher energy prices and operating leverage.
- Consolidated net debt rose by INR3b QoQ to ~INR11b.

Highlights from the management commentary

- **India business:** Despite a weak growth in the 2W and Tractor segments in 1QCY22, all verticals are showing good performance and positive expectations. As 2Ws and Tractors recover, MACA will benefit further. The Mexico business is now operating at near peak capacity (at a monthly revenue run-rate of USD2.5m). It has onboarded new customers, with a confirmed order book, and is adding capacity. This will take its peak monthly revenue to USD4m.
- The **EU business** will benefit from an improvement in semiconductor supply and the geopolitical situation. Truck makers are indicating a full pipeline for the next 12 months. The entire capacity of Metalcastello (the Off-Highway Gears business) has been booked. Given its strong order book, it is creating additional capacity.

Valuation and view

- MACA's growth story is on track, driven by its organic initiatives (new products and customers). This, coupled with its cost-cutting initiatives in India and the EU, will drive margin expansion.
- Any significant order wins, or growth in the EV portfolio, can act as a re-rating factor. The stock trades at 13.8x/10.7x CY22E/CY23E consolidated EPS. We maintain our **Buy** rating with a TP of ~INR280/share (13x Mar'24E consolidated 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.

Consolidated quarterly performance

(INR m)

(INR m)	CY21				CY22E				CY21	CY22E	CY22E
Y/E December	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Net Sales	21,894	20,425	20,907	20,641	25,884	25,001	23,852	24,886	83,867	99,622	22,786
YoY Change (%)	31.7	177.7	23.4	5.4	18.2	22.4	14.1	20.6	38.6	18.8	4.1
EBITDA	2,868	2,598	2,685	2,022	2,969	3,017	2,937	3,109	10,173	12,033	2,238
Margin (%)	13.1	12.7	12.8	9.8	11.5	12.1	12.3	12.5	12.1	12.1	9.8
Depreciation	883	886	835	827	866	860	880	906	3,431	3,513	880
Interest	142	131	133	127	85	135	130	130	533	480	140
Other Income	194	116	74	172	107	145	150	134	556	537	145
Share of profit from associates				12	4	4	4	4	12	16	
PBT before EO expense	2,037	1,697	1,791	1,241	2,126	2,167	2,077	2,207	6,766	8,577	1,363
EO Exp./(Inc.)	1,425	0	-293	128	0	0	0	0	1,260	0	0
PBT after EO exp.	612	1,697	2,084	1,113	2,126	2,167	2,077	2,207	5,505	8,577	1,363
Tax Rate (%)	83.6	19.7	20.1	29.0	24.2	28.6	28.6	32.8	28.9	28.6	32.7
Adj. PAT	1,526	1,362	1,456	892	1,614	1,551	1,487	1,487	5,236	6,139	917
YoY Change (%)	143.5	-205.9	139.7	-20.2	5.8	13.9	2.1	66.6	390.9	17.3	-39.9



Key takeaways from the management interaction

Growth outlook

- **India business:** Despite a weak growth in the 2W and Tractor segments in 1QCY22, all verticals are showing good performance and positive expectations. As 2Ws and Tractors recover, MACA will benefit further. The Mexico business is now operating at near peak capacity (at a monthly revenue run-rate of USD2.5m). It has onboarded new customers, with a confirmed order book, and is adding capacity. This will take its peak monthly revenue to USD4m.
- The **EU business** will benefit from an improvement in semiconductor supply and the geopolitical situation. Truck makers are indicating a full pipeline for the next 12 months. The entire capacity of Metalcastello (the Off-Highway Gears business) has been booked. Given its strong order book, it is creating additional capacity.

India business

- Revenue growth is similar in the domestic and export business, resulting in a stable share of exports at 12-15% of sales.
- 4Ws and CVs have done well. It had added capacity in CY21, which is now aiding execution of its order book.
- The Mexico business is now operating near peak capacity (at a monthly revenue run-rate of USD2.5m). It has onboarded new customers, with a confirmed order book, and is adding capacity. This will take its peak revenue to USD4m/month.
- The India Gear business is operating at 100% utilization. It is expanding capacity at its Rajkot and Pune facilities.

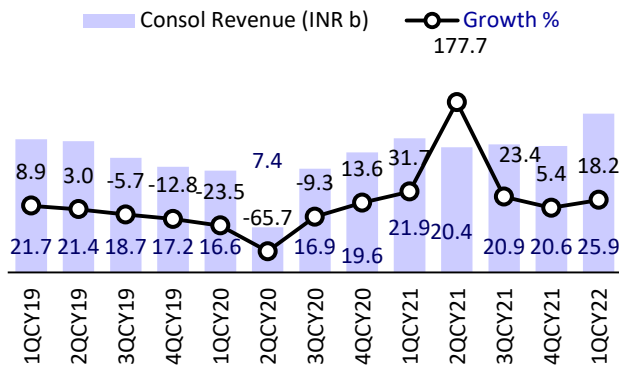
European business

- Metalcastello is performing well (+35% YoY), with sales at a historical record due to the OHV segment in the US. It expects to clock a revenue of EUR80m in CY22 (previous peak was EUR72m in CY19), as its capacity is fully booked and is creating additional capacity.
- **EBITDA margin was negatively affected by higher energy prices, which impacted margin by 2-3pp in 1QCY22. It is negotiating with its main customers for pass-through of energy cost (only 25-30% of energy cost inflation are passed through so far).**

Others

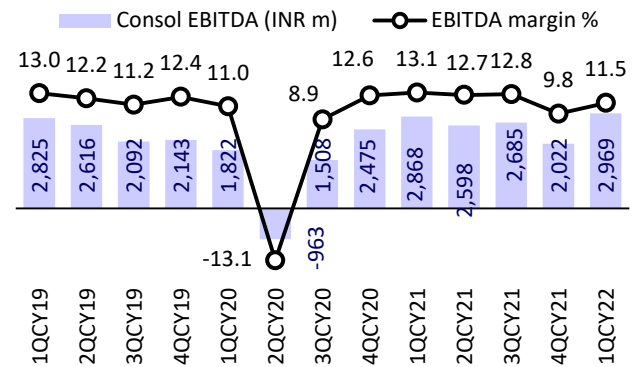
- We expect steel prices to see a further increase (double-digit) in India (EU to be stable) in 2QCY22.
- Interest cost in 1QCY22 had a forex gain of INR20m and interest subvention (retrospective effect from Oct'21). Interest is sustainable at 4QCY21 levels.
- **Capacity utilization:** In India, most businesses are operating near 100%. With expansions in place, it will add 20-25% growth. Utilization in EU stands at 70-75%.

Exhibit 1: Trend in consolidated revenue



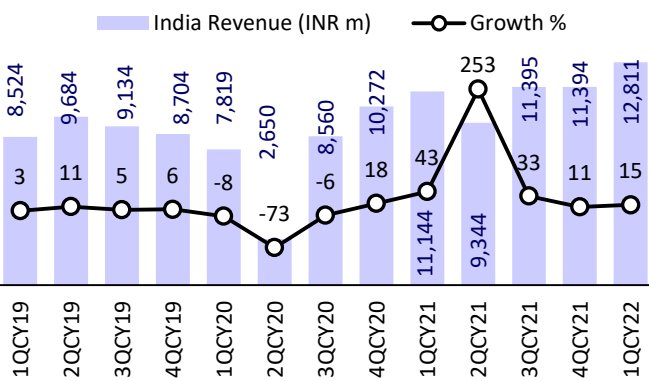
Source: Company, MOFSL

Exhibit 2: Trend in consolidated EBITDA



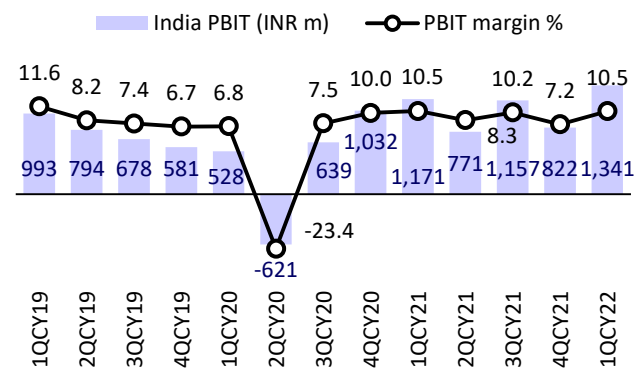
Source: Company, MOFSL

Exhibit 3: Trend in India revenue



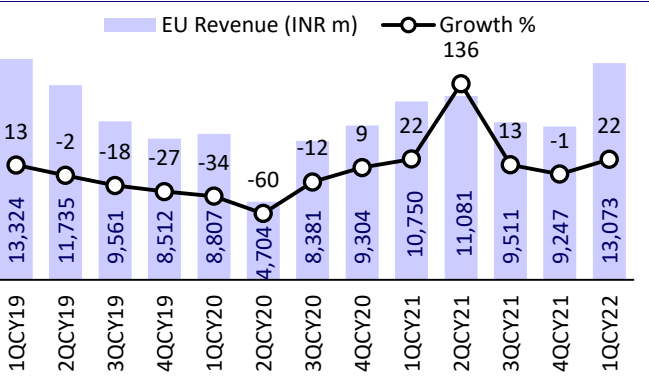
Source: Company, MOFSL

Exhibit 4: Trend in India PBIT margin



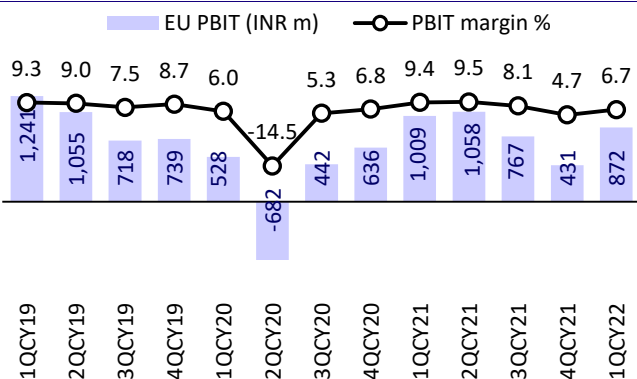
Source: Company, MOFSL

Exhibit 5: Trend in EU revenue



Source: Company, MOFSL

Exhibit 6: Trend in EU PBIT margin



Source: Company, MOFSL

Valuation and view

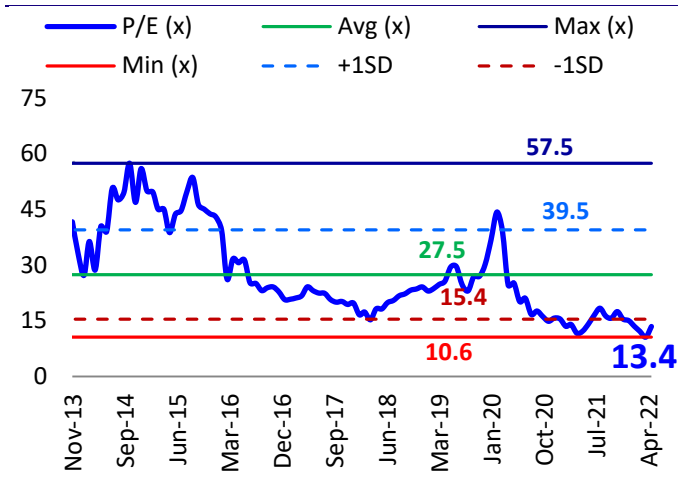
- **India a growth driver; focus is on consolidating EU operations:** MACA has been diversifying its India revenue and cutting costs both domestically and in its EU business. India is expected to be the key growth driver, led by: a) value-added products (machined castings, higher grade magnets, complex gears, etc.), b) exports, and c) new products and customers. We expect margin expansion to be led by: a) improvement in the mix, b) optimization of product process location, and c) operating leverage. Since it has achieved its 15% EBITDA margin target in India, it is aiming for 18-20% (at which its parent operates). Considering the lack of growth in the EU business, the focus is on: a) rationalizing its Germany business portfolio to improve margin, b) matching costs with revenue in a cyclical market to retain margin in its Italy business, and c) maintaining margin in its Spain and Lithuania business.
- **Strong, focused and a disciplined parent:** CIE is a focused global player in Auto Components, with diversified technologies and multi-location offerings. It has demonstrated its ability to achieve acquisitive profitable growth across geographies, while delivering value-accretive growth, by adhering to a strict financial discipline. MACA benefits from CIE's expertise in driving operational improvements and is working toward achieving the latter's financial objectives.
- **Set for growth after the consolidation phase:** In the last three-to-four years since acquiring MACA, CIE embarked on restructuring and consolidating all operations under the former. With Phase I of the consolidation largely complete, MACA is now focusing on growth in Phase II. In the India business, it is targeting both organic and inorganic growth. In the Europe business, it will 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 its strategic objectives and growth. For MACA, M&A would be the key driver: a) to fill gaps in areas of strategic technologies – aluminum and plastics, b) for access to key players in the India PV segment (MSIL, Hyundai, etc.), and c) for entry into ASEAN markets. CIE has displayed strict acquisition discipline, with a criteria of less than 3x EV/EBITDA over three years, and targets a minimum RoI of ~20%.
- **Maintain Buy with a TP of INR280/share:** We raise our CY22/CY23 EPS estimate by 29%/12% to account for an improvement in revenue and EBITDA margin in both India and the EU. MACA's growth story is on track, led by its organic initiatives (new products/customers) and M&A focus. Under CIE's parentage, it has been able to improve its efficiencies, cut cost, and improve profitability. The stock trades at 13.8x/10.7x CY22/CY23 consolidated EPS. We maintain our **Buy** rating with a TP of ~INR280/share (13x Mar'24E consolidated EPS).

Exhibit 7: Revision to our estimates

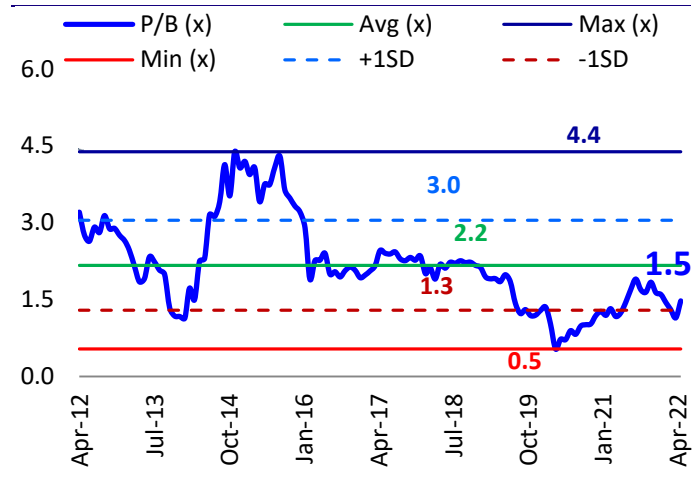
(INR m)	CY22E			CY23E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net sales	99,622	95,176	4.7	109,538	103,100	6.2
EBITDA	12,033	10,715	12.3	14,402	13,756	4.7
EBITDA margin (%)	12.1	11.3	80bp	13.1	13.3	-20bp
Adjusted PAT	6,139	4,770	28.7	7,864	7,024	12.0
EPS	16.2	12.6	28.7	20.8	18.6	12.0

Source: MOFSL

Exhibit 8: P/E and P/B chart



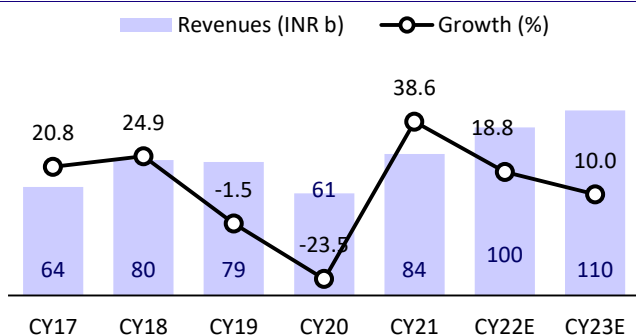
Source: Company, MOFSL



Source: Company, MOFSL

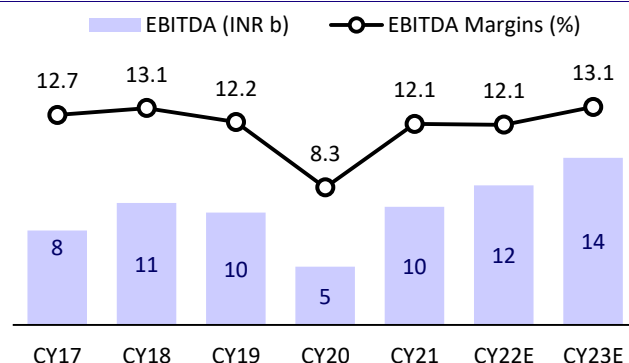
Key operating indicators

Exhibit 9: Expect consolidated revenue to recover



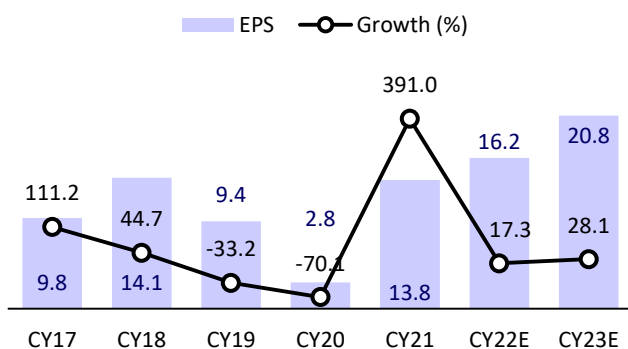
Source: Company, MOFSL

Exhibit 10: Expect EBITDA margin to recover in CY23



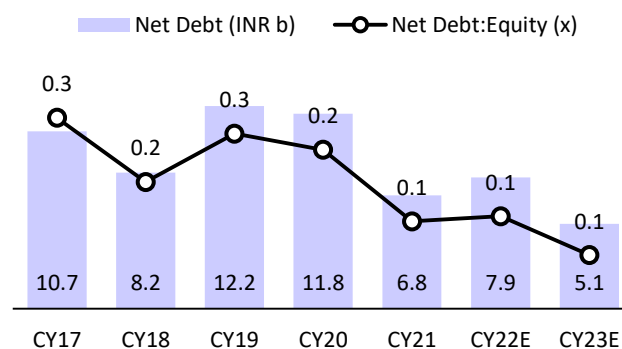
Source: Company, MOFSL

Exhibit 11: EPS and EPS growth



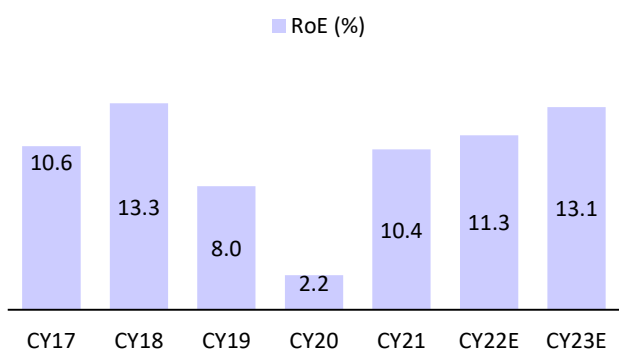
Source: Company, MOFSL

Exhibit 12: Expect net debt to reduce substantially by CY23



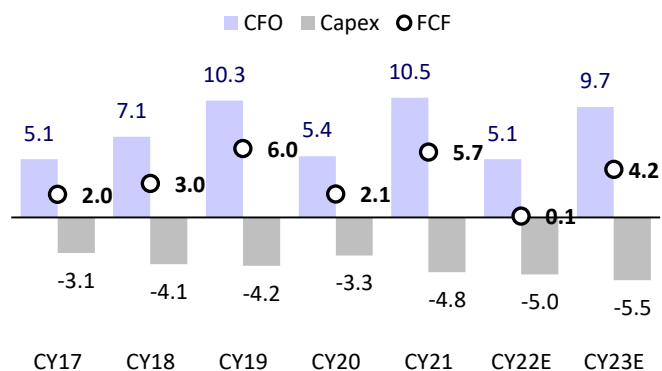
Source: Company, MOFSL

Exhibit 13: Expect RoE to improve from CY22



Source: Company, MOFSL

Exhibit 14: FCF positive from CY17 onwards



Source: Company, MOFSL

Exhibit 15: Key operating metrics

INR m	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Revenues								
Forgings	36,436	45,474	56,290	50,892	38,119	49,639	58,399	63,053
Growth (%)		25	24	-10	-25	30	18	8
India (ex BFL)	3,868	4,364	5,312	4,265	2,911	4,988	6,734	7,744
Growth (%)		13	22	-20	-32	71	35	15
BFL	1,750	6,917	8,737	8,776	6,898	9,238	10,347	11,381
Growth (%)		295	26	0	-21	34	12	10
MFE Europe	16,009	17,316	21,384	17,889	13,291	16,488	18,867	19,867
Growth (%)		8	23	-16	-26	24	14	5
CIE Europe	14,809	16,876	20,857	19,962	15,019	18,925	22,451	24,061
Growth (%)		14	24	-4	-25	26	19	7
Gears	5,106	4,716	7,904	7,893	5,128	8,326	10,226	11,552
Growth (%)		-8	68	0	-35	62	23	13
India	1,469	828	2,333	2,240	1,717	2,836	3,261	4,077
Growth (%)		-44	182	-4	-23	65	15	25
Metalcastello	3,637	3,888	5,571	5,653	3,411	5,490	6,965	7,475
Growth (%)		7	43	1	-40	61	27	7
Stampings	6,342	8,015	10,077	8,410	5,265	8,980	11,225	12,909
Growth (%)		26	26	-17	-37	71	25	15
Castings	3,652	4,177	5,269	4,237	3,152	5,021	6,126	6,861
Growth (%)		14	26	-20	-26	59	22	12
Composites	880	907	1,092	1,069	746	1,227	1,411	1,623
Growth (%)		3	20	-2	-30	64	15	15
Magnets	1,338	1,292	1,210	1,068	984	1,342	1,678	1,929
Growth (%)		-3	-6	-12	-8	36	25	15
Aluminum (AEL)				5,818	6,788	8,933	10,005	11,206
Growth (%)					17	32	12	12
Total Consol Revenues	53,199	64,279	80,315	79,078	60,501	83,867	99,622	1,09,538
Growth (%)		21	25	-2	-23	39	19	10
EBITDA Margins	10.0	12.7	13.1	12.2	8.3	12.1	12.1	13.1
EBIT Margins	5.6	8.5	9.5	8.2	3.2	8.0	8.6	9.4
Adj. EPS (INR/Sh)	4.6	9.8	14.1	9.4	2.8	13.8	16.2	20.8
Growth (%)		111	45	-33	-70	391	17	28

Source: Company, MOFSL

Financials and valuations

Income Statement

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Total Income from Operations	53,199	64,279	80,315	79,078	60,501	83,867	99,622	109,538
Change (%)	37.6	20.8	24.9	-1.5	-23.5	38.6	18.8	10.0
Total Expenditure	47,888	56,136	69,805	69,401	55,485	73,694	87,589	95,137
As a percentage of Sales	90.0	87.3	86.9	87.8	91.7	87.9	87.9	86.9
EBITDA	5,311	8,143	10,511	9,677	5,016	10,173	12,033	14,402
Margin (%)	10.0	12.7	13.1	12.2	8.3	12.1	12.1	13.1
Depreciation	2,325	2,683	2,867	3,161	3,064	3,431	3,513	4,069
EBIT	2,985	5,460	7,643	6,516	1,952	6,743	8,520	10,333
Int. and Finance Charges	594	510	502	523	548	533	480	457
Other Income	314	268	387	331	549	556	537	640
PBT bef. EO Exp.	2,706	5,217	7,529	6,324	1,953	6,766	8,577	10,517
EO Items	-90	-151	-504	-46	0	-1,260	0	0
PBT after EO Exp.	2,615	5,067	7,025	6,279	1,953	5,505	8,577	10,517
Total Tax	926	1,483	2,043	2,741	886	1,589	2,454	2,669
Tax Rate (%)	35.4	29.3	29.1	43.7	45.4	28.9	28.6	25.4
Share of profit from associate	0	0	0	0	0	12	16	16
Reported PAT	1,689	3,584	4,981	3,538	1,066	3,928	6,139	7,864
Adj. PAT	1,747	3,691	5,339	3,564	1,066	5,236	6,139	7,864
Change (%)	28.4	111.2	44.7	-33.2	-70.1	391.0	17.3	28.1
Margin (%)	3.3	5.7	6.6	4.5	1.8	6.2	6.2	7.2

Consolidated Balance Sheet

(INR m)

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Equity Share Capital	3,781	3,784	3,788	3,790	3,790	3,790	3,790	3,790
Total Reserves	28,882	33,372	39,103	42,548	45,290	48,176	53,057	59,348
Net Worth	32,663	37,156	42,891	46,338	49,080	51,966	56,847	63,138
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	13,621	11,969	16,134	14,691	16,476	12,816	12,817	12,818
Deferred Tax Liabilities	-1,710	-1,629	-1,565	912	1,236	2,459	2,459	2,459
Capital Employed	44,575	47,496	57,460	61,941	66,792	67,241	72,122	78,414
Gross Block	22,912	28,418	32,235	42,936	53,135	57,335	61,484	66,984
Less: Accum. Deprn.	5,077	9,279	12,294	17,619	23,204	26,635	30,147	34,217
Net Fixed Assets	17,835	19,139	19,941	25,316	29,931	30,700	31,336	32,767
Goodwill on Consolidation	27,338	28,364	29,111	35,260	37,554	36,265	36,265	36,265
Capital WIP	967	602	960	542	123	150	1,001	1,001
Total Investments	389	550	6,808	955	2,340	4,380	4,380	4,380
Curr. Assets, Loans, and Adv.	20,109	24,705	26,455	23,553	23,686	26,712	32,435	37,976
Inventory	8,352	9,898	12,286	10,566	10,062	13,486	14,398	15,378
Account Receivables	5,219	5,984	7,414	7,368	7,054	6,687	9,553	10,504
Cash and Bank Balance	981	719	1,127	1,499	2,380	1,595	515	3,331
Loans and Advances	5,557	8,103	5,628	4,120	4,190	4,943	7,970	8,763
Curr. Liability and Prov.	22,063	25,865	25,815	23,686	26,843	30,965	33,294	33,973
Account Payables	15,258	15,743	16,838	14,771	14,590	19,385	21,597	21,112
Other Current Liabilities	3,316	6,477	5,038	4,745	7,909	7,605	6,974	7,668
Provisions	3,489	3,644	3,939	4,170	4,344	3,976	4,723	5,193
Net Current Assets	-1,953	-1,160	640	-133	-3,157	-4,253	-858	4,003
Appl. of Funds	44,575	47,496	57,460	61,941	66,791	67,241	72,123	78,415

E: MOFSL estimates

Financials and valuations

Ratios

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Basic (INR)								
EPS	4.6	9.8	14.1	9.4	2.8	13.8	16.2	20.8
Cash EPS	10.8	16.9	21.7	17.8	10.9	22.9	25.5	31.6
BV/Share	86.4	98.3	113.4	122.6	129.8	137.4	150.4	167.0
DPS	0.0	0.0	0.0	0.0	0.0	2.5	2.8	3.5
Payout (%)	0.0	0.0	0.0	0.0	0.0	24.1	17.0	16.7
Valuation (x)								
P/E	48.4	22.9	15.8	23.7	79.2	16.1	13.8	10.7
Cash P/E	20.7	13.3	10.3	12.6	20.5	9.8	8.8	7.1
P/BV	2.6	2.3	2.0	1.8	1.7	1.6	1.5	1.3
EV/Sales	1.8	1.5	1.2	1.2	1.6	1.1	1.0	0.9
EV/EBITDA	18.3	11.8	9.5	10.1	19.7	9.4	8.1	6.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	1.1	1.2	1.5
FCF per share	2.3	5.3	7.9	15.9	5.4	15.1	0.3	11.1
Return Ratios (%)								
RoE	6.6	10.6	13.3	8.0	2.2	10.4	11.3	13.1
RoCE (Post-tax)	5.8	8.8	10.9	6.5	2.1	7.7	9.3	10.9
RoIC	5.5	8.8	11.5	6.8	1.8	7.8	9.6	11.3
Working Capital Ratios								
Fixed Asset Turnover (x)	2.3	2.3	2.5	1.8	1.1	1.5	1.6	1.6
Asset Turnover (x)	1.2	1.4	1.4	1.3	0.9	1.2	1.4	1.4
Inventory (Days)	57	56	56	49	61	59	53	51
Debtor (Days)	36	34	34	34	43	29	35	35
Creditor (Days)	105	89	77	68	88	84	79	70
Leverage Ratio (x)								
Net Debt/Equity ratio	0.4	0.3	0.2	0.3	0.2	0.1	0.1	0.1

Consolidated Cash Flow Statement

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
OP/(Loss) before Tax	2,616	5,067	7,025	6,279	1,953	6,778	8,593	10,533
Depreciation	2,325	2,734	2,898	3,168	3,064	3,431	3,513	4,069
Interest and Finance Charges	594	545	525	525	548	533	-57	-184
Direct Taxes Paid	-593	-1,077	-1,444	-1,161	-503	-1,053	-2,454	-2,669
(Inc./Dec. in WC	-1,881	-2,193	-1,769	1,556	761	1,364	-4,476	-2,045
CF from Operations	3,060	5,076	7,235	10,367	5,823	11,052	5,119	9,704
Others	-21	46	-155	-94	-430	-541	0	0
CF from Operations incl. EO	3,040	5,122	7,080	10,273	5,393	10,511	5,119	9,704
(Inc./Dec. in FA	-2,158	-3,105	-4,101	-4,238	-3,343	-4,778	-5,000	-5,500
Free Cash Flow	882	2,017	2,979	6,035	2,050	5,733	119	4,204
(Pur./Sale of Investments	284	-183	-6,201	-1,871	-1,376	-1,880	0	0
Others	-6,434	260	129	219	502	-967	537	640
CF from Investments	-8,308	-3,028	-10,173	-5,890	-4,217	-7,625	-4,463	-4,860
Issue of Shares	4,525	66	57	30	0	10	0	0
Inc./(Dec.) in Debt	1,817	-1,877	4,089	-3,545	506	-2,787	1	1
Interest Paid	-594	-545	-525	-525	-477	-318	-480	-457
Dividend Paid	0	0	0	0	0	0	-1,044	-1,311
Others	0	0	0	0	-409	-532	0	0
CF from Fin. Activity	5,748	-2,356	3,621	-4,040	-380	-3,627	-1,523	-1,766
Inc./Dec. in Cash	480	-262	528	343	796	-740	-867	3,078
Opening Balance	502	981	719	1,247	1,590	2,386	1,646	778
Closing Balance	981	719	1,247	1,590	2,386	1,646	778	3,857

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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