

Retail Equity Research (South India Focus)

# Mahindra CIE Automotive Ltd

Automobile- Auto Ancillaries

BSE CODE : 532756

NSE CODE: MAHINDCIE

BLOOMBERG CODE: MACA: IN

SENSEX : 55,320

**Buy**

12Months Investment Period

Rating as per Small Cap

**CMP Rs. 196 TARGET Rs. 236 RETURN 20%** ↑

(Closing: 09.06.2022)

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↔

**EARNINGS** ↑

## Long term growth intact.

Mahindra CIE (MCIE) is one of the top global forging players with a strong presence in both Europe and India. Currently 2/3<sup>rd</sup> of the revenue comes from Europe, while the rest is from India.

- We believe despite demand push back for short term, MCIE's key customer's are outperforming the industry growth. As a result, the current order remain strong for the company.
- Increased business with existing customers owing to supplier consolidation and shifting the production to India, as primary hub for export is adding value for the company.
- Q1CY22 revenue came at 18.2%YoY due to growth coming from both India and Europe business by 15% and 20% respectively.
- EBITDA margin came at 11.5%YoY (-170bps QoQ) with gross margin largely flat, despite input cost pressure.
- We firmly believe that the strong cost control initiatives and positive order book will help MCIE to tide over the crisis. We value MCIE at 12x CY23E EPS and maintain our rating as Buy.

## Current order book to continue.

New business from large OEMs in Europe and US has led to overachieve the industry growth. Current order book continue to be strong till October. The growth in the Metal Castello business continue to outperform. Similarly, strong performance from Mahindra & Mahindra and Tata Motors are driving the growth story in India business. In addition, post covid, the company foresee large supplier consolidation with respect to the delivery rates on time and MCIE holds successful track record with its customer during these crisis. The transition to India from China as a hub for export has grown significantly. The company has targeted to improve the export mix from current 12% to 25% in the next 2-3 years.

## Strong performance across segment.

MCIE's consolidated revenue came at -18.2%YoY on the back of strong growth coming from India and Europe business. As a result. MCIE business saw a sequential sales growth of 25.4%QoQ. Despite semi conductor shortage, European business margin came at 10.2% positive on QoQ (+110bps). EBITDA margin from India business shows tremendous improvement of +300bps QoQ, owing to strong order form its key customers. We expect the company's margin improvement trend to continue on YoY basis in the coming quarters due to lower base and poised to benefit from the past restructuring exercise. We expect revenue to grew by 14% CAGR over CY21-23 estimate respectively,

## Margin to expand through cost rationalization.

We expect the EBITDA margin to expand and to reach 13% by CY23, owing to Superior product mix, productivity improvement, and product rationalization in Mahindra Forging Europe business. Similarly restructuring in Germany to concentrate more profitable products is on track. We believe improvement in the performance of new products especially in EV share and pick up in the European car demand will lead to better utilization of the assets in the medium term.

## Valuations

MCIE holds a strong position in its balance sheet with a D/E ratio of 0.3% and positive cash flow on CY21. We believe that the large supply disruption have been factored in the price and looks for a revival on QoQ basis. We marginally upgrade our revenue estimates of CY22 by 5% owing to strong pick up expected from its key clients both in the domestic and European business. Considering the growth potential and inexpensive valuation, we rollover our estimate to CY23 and value MCIE a 12xCY23E EPS and arrive at a target price of Rs236 and maintain our buy rating.

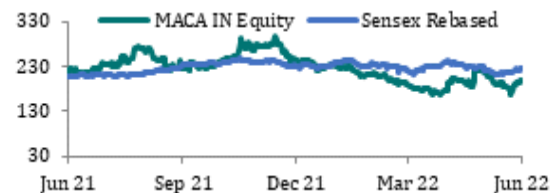
### Company Data

Market Cap (cr)	Rs.7,582
Enterprise Value (cr)	Rs.7,384
Outstanding Shares (cr)	37.9
Free Float	28%
Dividend Yield	1.3%
52 week high	Rs.312
52 week low	Rs.164
6m average volume (cr)	0.07
Beta	0.68
Face value	10.0

Shareholding (%)	Q3CY21	Q4CY21	Q1CY22
Promoters	72.2	72.2	72.2
FII's	10.5	12.7	10.7
MFs/Insti	7.8	5.6	7.4
Public	9.5	9.5	9.8
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	7.9%	-17.6%	-4.1%
Absolute Sensex	3.6%	-2.4%	7.8%
Relative Return*	4.2%	-15.2%	-12.0%

\*Over or under performance to benchmark index



Consolidated(cr)	CY21A	CY22E	CY23E
Sales	8,380	9,765	10,782
Growth (%)	38.5	16.5	10.4
EBITDA	1,052	1,269	1,402
EBITDA Margin(%)	12.6	13.0	13.0
PAT Adj.	437	656	743
Growth (%)	303.0	50.2	13.2
Adj.EPS	11.5	17.3	19.6
Growth (%)	303.0	50.2	13.2
P/E	17.1	11.4	10.0
P/B	1.4	1.2	1.1
EV/EBITDA	8.5	6.9	6.1
ROE (%)	8.5	11.6	11.7
D/E	0.3	0.2	0.2

Saji John  
Research Analyst

## Quarterly Financials (Consolidated)

Rs cr)	Q1CY22	Q1CY21	YoY Growth %	Q4CY21	QoQ Growth %
<b>Sales</b>	<b>2588</b>	<b>2189</b>	<b>18.2</b>	<b>2042</b>	<b>26.7</b>
<b>EBITDA</b>	<b>297</b>	<b>287</b>	<b>3.5</b>	<b>260</b>	<b>14.3</b>
EBITDA margins	11.5	13.1	-163	12.7	-124.8
Depreciation	87	88	-1.9	88	-1.89
<b>EBIT</b>	<b>210</b>	<b>199</b>	<b>5.9</b>	<b>172</b>	<b>22.6</b>
Interest	8.5	14.2	-40.3	13.1	-35.2
Other Income	11	19	-44.5	12	-7.1
Exceptional Items	0	0	0	0	0
<b>PBT</b>	<b>213</b>	<b>204</b>	<b>0.0</b>	<b>170</b>	<b>25.1</b>
Tax	54	194	-71.9	33	62.3
Share of profit from Associate	0	0	0	0	0
Minority Interest	0	0	0	0	0
<b>Reported PAT</b>	<b>158</b>	<b>10</b>	<b>-</b>	<b>137</b>	<b>15.9</b>
Adjustments	0	0	0	0	0
<b>Adj PAT</b>	<b>158</b>	<b>10</b>	<b>-</b>	<b>137</b>	<b>15.9</b>
No. of Shares	37.9	37.9	0	37.9	0
<b>EPS (Rs)</b>	<b>4.2</b>	<b>0.3</b>	<b>-</b>	<b>3.6</b>	<b>15.9</b>

## Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	CY22E	CY23E	CY22E	CY23E	CY22E	CY23E
Revenue	9,382	-	9,765	10,782	4.1	-
EBITDA	1,267	-	1,269	1,402	0.2	-
Margins (%)	13.5	-	13.0	13.0	-	-
Adj. PAT	654	-	656	743	0.3	-
EPS	17.3	-	17.3	19.6	0.2	-

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	CY19A	CY20A	CY21A	CY22E	CY23E
<b>Sales</b>	<b>7,908</b>	<b>6,050</b>	<b>8,380</b>	<b>9,765</b>	<b>10,782</b>
% change	-1.5	-23.5	38.5	16.5	10.4
<b>EBITDA</b>	<b>968</b>	<b>502</b>	<b>1052</b>	<b>1269</b>	<b>1402</b>
% change	-7.9	-48.1	109.6	20.7	10.4
Depreciation	305	293	327	353	376
EBIT	648	197	712	902	1010
Interest	52	55	54	47	40
Other Income	33	55	48	56	62
<b>PBT</b>	<b>634</b>	<b>197</b>	<b>705</b>	<b>911</b>	<b>1031</b>
% change	-15.9	-68.9	258.0	29.2	13.2
Tax	274	89	269	255	289
Tax Rate (%)	43.3	45.0	38.1	28.0	28.0
<b>Reported PAT</b>	<b>359</b>	<b>108</b>	<b>437</b>	<b>656</b>	<b>743</b>
Adj.	0	0	0	0	0
<b>Adj. PAT</b>	<b>359</b>	<b>108</b>	<b>437</b>	<b>656</b>	<b>743</b>
% change	-34.5	-69.8	303.0	50.2	13.2
No. of shares (cr)	37.9	37.9	37.9	37.9	37.9
<b>Adj EPS (Rs)</b>	<b>9.5</b>	<b>2.9</b>	<b>11.5</b>	<b>17.3</b>	<b>19.6</b>
% change	-34.5	-69.8	303.0	50.2	13.2
DPS (Rs)	0	0	0	2.5	2.5

### CASH FLOW

Y.E March (Rs Cr)	CY19A	CY20A	CY21A	CY22E	CY23E
Net inc. + Depn.	953	502	1045	1278	1423
Non-cash adj.	26	-1	-229	-226	-269
Changes in W.C	64	217	416	-86	68
<b>C.F. Operation</b>	<b>1043</b>	<b>717</b>	<b>1233</b>	<b>966</b>	<b>1222</b>
Capital exp.	-960	-716	-293	-342	-377
Change in inv.	585	62	-302	-55	-41
Other invest.CF	-651	-237	-238	-240	-240
<b>C.F - Investment</b>	<b>-1026</b>	<b>-891</b>	<b>-833</b>	<b>-637</b>	<b>-658</b>
Issue of equity	180	0	0	0	0
Issue/repay debt	-144	179	-200	-200	-200
Dividends paid	0	166	0	0	0
Other finance.CF	-52	-55	-54	-47	-40
<b>C.F - Finance</b>	<b>-17</b>	<b>290</b>	<b>-254</b>	<b>-247</b>	<b>-240</b>
Chg. in cash	1	116	146	81	324
Closing cash	102	218	364	445	770

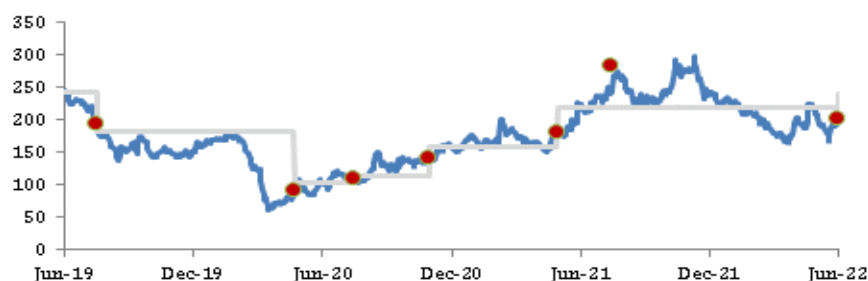
### BALANCE SHEET

Y.E March (Rs Cr)	CY19A	CY20A	CY21A	CY22E	CY23E
Cash	102	218	364	445	770
Accounts Receivable	737	705	872	1017	1123
Inventories	1057	1006	1186	1555	1717
Other Cur. Assets	271	223	293	342	377
Investments	96	34	335	391	431
Gross Fixed Assets	4195	4965	5258	5600	5978
Net Fixed Assets	2494	2971	2937	2926	2927
CWIP	54	0	0	0	0
Intangible Assets	31	27	22	18	13
Def. Tax (Net)	-91	-124	-109	-91	-71
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>8,457</b>	<b>9,019</b>	<b>10,116</b>	<b>11,032</b>	<b>11,969</b>
Current Liabilities	461	570	798	921	1016
Provisions	417	434	574	589	650
Debt Funds	1469	1648	1448	1248	1048
Other Liabilities	1477	1459	1952	2274	2511
Equity Capital	379	379	379	379	379
Reserves & Surplus	4255	4530	4966	5623	6365
Shareholder's Fund	4633	4908	5345	6001	6744
<b>Total Liabilities</b>	<b>8,457</b>	<b>9,019</b>	<b>10,116</b>	<b>11,032</b>	<b>11,969</b>
<b>BVPS</b>	<b>122</b>	<b>129</b>	<b>141</b>	<b>158</b>	<b>178</b>

### RATIOS

Y.E March	CY19A	CY20A	CY21A	CY22E	CY23E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	12.2	8.3	12.6	13.0	13.0
EBIT margin (%)	8.2	3.3	8.5	9.2	9.4
Net profit mgn.(%)	4.5	1.8	5.2	6.7	6.9
ROE (%)	8.1	2.3	8.5	11.6	11.7
ROCE (%)	6.7	2.4	7.2	9.8	10.3
<b>W.C &amp; Liquidity</b>					
Receivables (days)	34.1	43.5	34.4	35.3	36.2
Inventory (days)	111.3	134.1	101.7	110.2	119.1
Payables (days)	73.0	88.6	74.3	79.0	81.0
Current ratio (x)	2.7	2.3	2.1	2.4	2.5
Quick ratio (x)	1.6	1.2	1.1	1.1	1.1
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.1	1.3	1.6	1.8	1.9
Total asset T.O (x)	0.9	0.7	0.9	0.9	0.9
Int. covge. ratio (x)	12.4	3.6	13.1	19.1	25.1
Adj. debt/equity (x)	0.3	0.3	0.3	0.2	0.2
<b>Valuation</b>					
EV/Sales (x)	1.1	1.5	1.1	0.9	0.8
EV/EBITDA (x)	9.2	18.1	8.5	6.9	6.1
P/E (x)	20.7	68.8	17.1	11.4	10.0
P/BV (x)	1.6	1.5	1.4	1.2	1.1

## Recommendation summary (Last 3 Years)



Dates	Rating	Target
26.02.2019	Hold	243
14.05.2019	Accumulate	247
26.07.2019	Reduce	182
30.04.2020	Accumulate	103
24.07.2020	Hold	114
06.11.2020	Accumulate	160
07.05.2021	Buy	219
26.07.2021	Buy	282
10.06.2022	Buy	236

Source: Bloomberg, Geojit Research.

## Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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