

CMP: ₹ 242

Target: ₹ 290 (20%)

Target Period: 12 months

BUY

July 23, 2021

Renewed focus on growth, margins, capital efficiency...

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

Q1FY22 Results: MCI posted robust Q2CY21 results, buoyed by Europe operations.

- Consolidated net sales decline limited to 6.7% to ₹ 2,043 crore.
- EBITDA margin decline was limited to ~40 bps sequentially to 12.7%.
- Consequent consolidated PAT for Q2CY21 stood at ₹136 crore

What should investors do? The stock price has grown at ~6% CAGR over the past five years (from ~₹ 180 levels as of July 2016), outperforming wider Nifty Auto index.

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

Target Price and Valuation: We value MCI at 9x EV/EBITDA on FY23E basis for a revised target price of ₹ 290 per share (earlier target price ₹ 220)

Key triggers for future price performance:

- We expect CY20-22E net sales CAGR of 23% led by India business rebound
- China plus one, low-cost outsourcing and PLI scheme additional tailwinds
- Higher utilisation, efficiency efforts to aid margin uptick to 13.5% (CY22E)
- CY22E EPS seen at ~₹ 16/share; RoCE to improve to ~11% by CY22E
- Robust cash generation with FY23E CFO, FCF yield at 12%, 7%, respectively

Alternate Stock Idea: Apart from MCI, in auto ancillary coverage, we like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with a target price of ₹ 180

Mahindra CIE

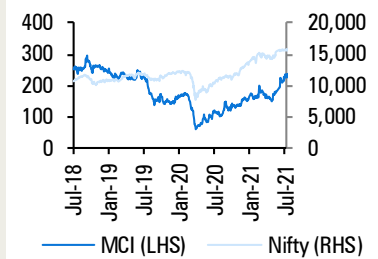
Particulars

Particular	₹ crore
Market Capitalization	9,160.9
Total Debt (CY20)	1,648
Cash & Investments (CY20)	472.0
EV	10,336.4
52 week H/L (₹)	259 / 101
Equity capital	₹ 379 Crore
Face value	₹ 10

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	71.6	71.6	71.6	72.2
FII	14.5	14.6	14.8	12.7
DII	3.4	3.7	3.6	5.6
Other	10.6	10.1	10.0	9.5

Price Chart



Recent event & key risks

- Posted robust Q2CY21 results
- **Key Risk:** (i) Faster than anticipated electrification in Indian auto space, (ii) Further Covid-related impact in India

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Key Financial Summary

Key Financials	CY18	CY19	CY20	5 year CAGR (CY15-20)	CY21E	CY22E	2 year CAGR (CY20-22E)
Net Sales	8,031.5	7,907.8	6,050.1	9.4%	8,345.9	9,177.8	23.2%
EBITDA	1,051.1	967.7	501.6	5.8%	1,076.6	1,242.7	57.4%
EBITDA Margins (%)	13.1	12.2	8.3		12.9	13.5	
Net Profit	498.1	353.8	106.4	4.1%	371.4	604.2	138.3%
EPS (₹)	13.2	9.3	2.8		9.8	16.0	
P/E	18.4	25.9	86.1		24.7	15.2	
RoNW (%)	12.4	7.7	2.2		7.1	10.5	
RoCE (%)	12.6	10.2	2.7		9.5	11.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2CY21 Results: Europe business shines!

- MCI's revenue performance was comprehensively better than underlying OEM volumes across India and Europe
- Europe revenues rose ~3% QoQ to ₹ 1,067 crore (flattish in constant currency terms) while India business revenues fell ~17% on account of Covid impact
- EBITDA margins in Europe improved marginally to 14.1%, aided by past restructuring actions in German CV forgings business and Metalcastello (Italy)

Q2CY21 Earnings Conference Call highlights

- H2CY21E is expected to be better than H1CY21 as well as H2CY20 for European operations. Europe recovery would be aided by expected improvement in CV space in Q4CY21E. In India, the outlook is for progressive improvement in H2CY20. MCI highlighted that production schedules and orderbook are strong for both India as well as Europe
- The company expects the semiconductor shortage situation to get resolved in the coming quarters
- MCI has been benefitting from supplier consolidation and competitor weakness as OEMs prefer trusted suppliers in prevailing uncertain times
- The company is also looking at inorganic growth opportunities once pandemic impact fades
- MCI has won a large order on the EV side from an American customer recently (existing product profile)
- New greenfield set up at Hosur would lower Bill Forge capacity constraints and benefit from lower tax rate
- MCI remains focused on converging towards parent CIE's margin trajectory of ~18% and >20% RoA
- European business undertook a price hike of ~6% QoQ in Q2CY21 to pass on higher input costs
- Capex guidance is at 5-6% of sales

Key highlights from CY20 Annual Report

- Spain and Lithuania (Europe PV business) performance returned to pre-Covid levels in Q4CY20
- CY20 Europe margins were aided, to an extent, by government programmes in Italy, Germany and Spain that provided support equivalent to 70-80% of employee costs during shutdowns
- Indian operations saw some benefit from OEMs shifting sourcing away from China
- Rationalisation of German product portfolio (reduction of unprofitable businesses to aid margins) would continue in CY21E
- Strong orderbook in India is expected to lead to outperformance vs. underlying segments. Verticals like foundry, magnets, gears, Bill Forge and Aurangabad Electricals are going for capacity expansion. Additionally, divisions like foundry, magnets and gears are increasing value-additive content. The company is focusing on increasing exports from India as a whole
- The management expects to retain most of the savings realised from India break-even reduction efforts once situation normalises
- Shift to plug in hybrid EVs (PHEVs) against full battery EVs (BEVs) would be beneficial to MCI due to higher parts under the former
- MCI expects BEVs to form 15% of European car sales by 2025 vs. ~5% at present. This would pressurise car crankshaft business (constitutes ~33% of MCI Europe revenues). MCI would mitigate the same via increasing wallet share with existing crankshaft clients, focus on non-engine parts and introduction of aluminium forgings
- MCI India is working with counterparts in MCI Europe as well as parent CIE level to benefit from outsourcing opportunities to lower cost locations. 'China plus one' strategy being pursued by many global OEMs and the Indian PLI scheme are further opportunities
- India stampings business and Italy gears business suffer from client concentration risk

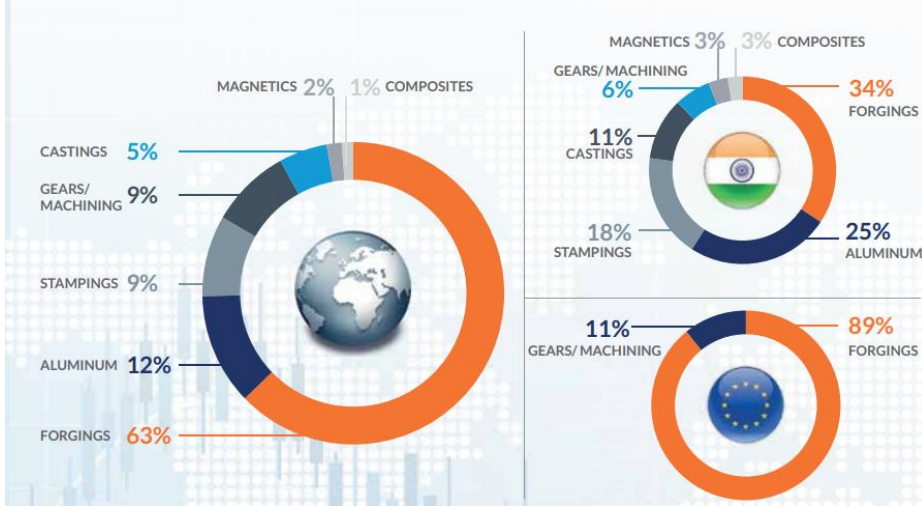
Exhibit 1: Technology split in CY20

Technology, geography	Segment	CY20 revenues (₹ crore)	% of total
Forgings		3,795.8	62.7
India	PV, 2-W, tractors	980.9	16.2
Germany	Heavy CV	1,311.2	21.7
Spain, Lithuania	PV	1,503.7	24.9
Aluminium castings		726.8	12.0
India	2 & 3 W, PV, CV, Tier-1	726.8	12.0
Stampings		526.5	8.7
India	PV	526.5	8.7
Castings		315.2	5.2
India	PV, construction equipment, etc, Tier-1	315.2	5.2
Magnetics		98.4	1.6
India	Tier-1	98.4	1.6
Composites		74.6	1.2
India	Electrical switchgears, auto components	74.6	1.2
Gears		512.8	8.5
India	PV, construction equipment, etc.	171.7	2.8
Italy	Tractors, construction equipment, etc.	341.1	5.6
	Total	6,050.1	100.0

Source: Company, ICICI Direct Research

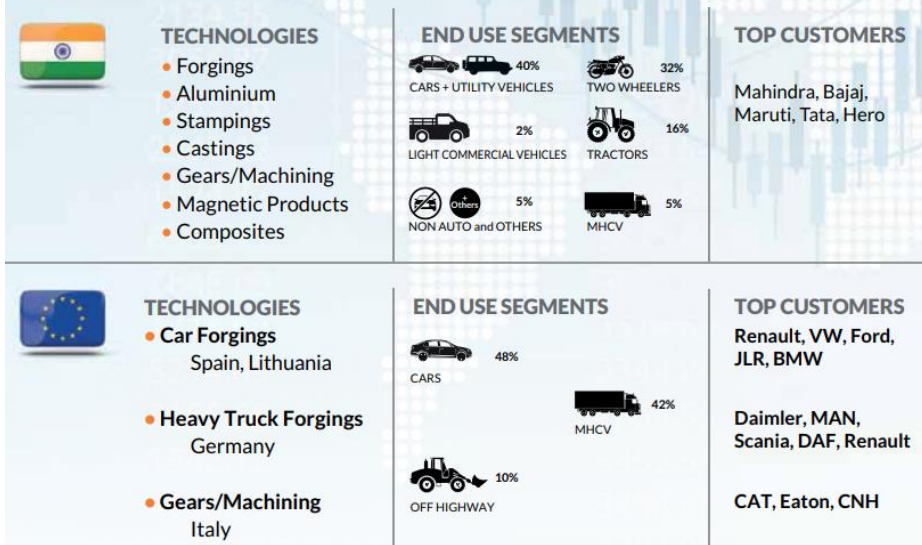
Financial story in charts

Exhibit 2: Product wise CY20 revenue break-up for MCI, India and Europe



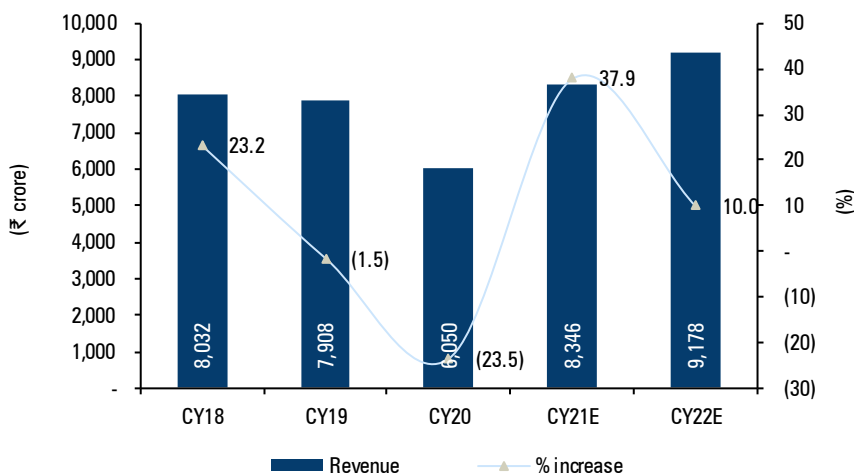
Source: Company, ICICI Direct Research

Exhibit 3: Geography-wise user segments and top clients as of CY20



Source: Company, ICICI Direct Research

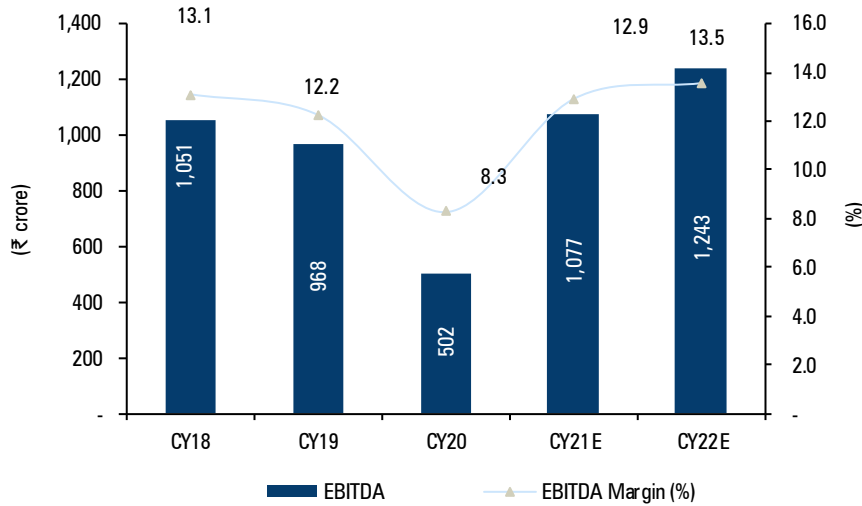
Exhibit 4: Trend in topline



MCI is seen posting 23.2% revenue CAGR over CY20-22E

Source: Company, ICICI Direct Research

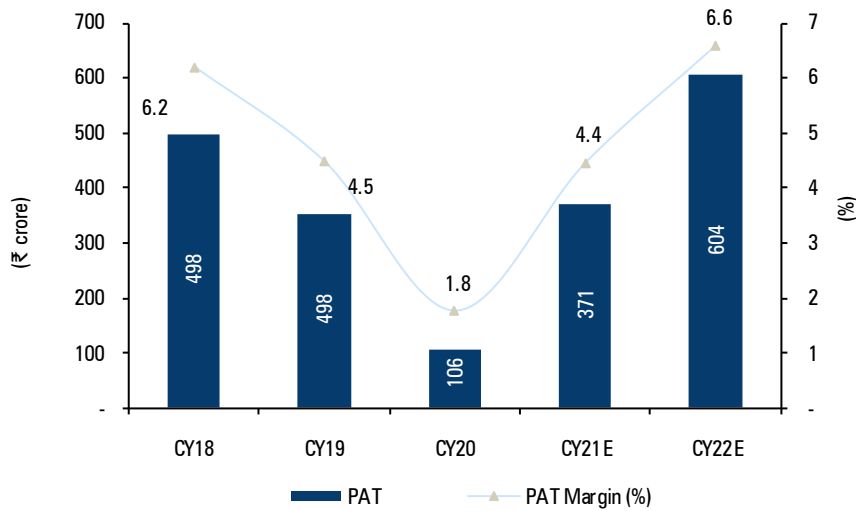
Exhibit 5: Trend in margins



Margins are seen rising to 13.5% by CY22E on the back of higher utilisation, better product mix and cost reduction efforts

Source: Company, ICICI Direct Research

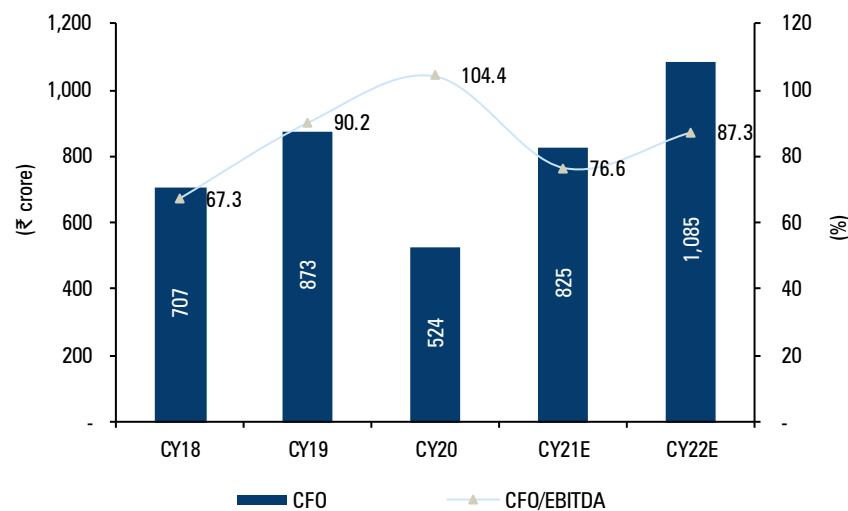
Exhibit 6: Trend in profitability



We expect PAT to grow to ₹ 604 crore by CY22E

Source: Company, ICICI Direct Research

Exhibit 7: Trend in CFO generation



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

Source: Company, ICICI Direct Research

Exhibit 8: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
CY18	8,032	23.2	13.2	35.0	18.4	9.5	12.4	12.6
CY19	7,908	(1.5)	9.3	(29.0)	25.9	10.7	7.7	10.2
CY20	6,050	(23.5)	2.8	(69.9)	86.1	20.6	2.2	2.7
CY21E	8,346	37.9	9.8	249.0	24.7	9.3	7.1	9.5
CY22E	9,178	10.0	16.0	62.7	15.2	7.6	10.5	11.1

Source: Company, ICICI Direct Research

Exhibit 9: Target price calculation

Particulars	
CY22E EBITDA (₹ crore)	1,243
Target EV/EBITDA (x)	9.0
EV (₹ crore)	11,184
CY22E Net Debt (₹ crore)	321
Mcap (₹ crore)	10,863
No. of shares (crore)	37.9
Target Price (₹ per share)	290

Source: ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement		₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E	
Total operating Income	7,907.8	6,050.1	8,345.9	9,177.8	
Growth (%)	-1.5	-23.5	37.9	10.0	
Raw Material Expenses	3,748.7	2,806.3	3,880.9	4,244.7	
Employee Expenses	1,308.0	1,261.8	1,460.5	1,587.8	
Other Expenses	1,883.4	1,480.4	1,927.9	2,102.6	
Total Operating Expenditure	6,940.1	5,548.5	7,269.3	7,935.2	
EBITDA	967.7	501.6	1076.6	1242.7	
Growth (%)	-7.9	-48.2	114.7	15.4	
Other Income	33.1	54.9	51.3	54.8	
Interest	52.3	54.8	53.9	35.9	
Depreciation	316.1	306.4	396.4	445.1	
PBT	627.8	195.0	677.6	816.4	
Total Tax	274.1	88.6	306.2	212.3	
PAT before Minority Interest	353.8	106.4	371.4	604.2	
Minority Interest	0.0	0.0	0.0	0.0	
PAT after Minority Interest	353.8	106.4	371.4	604.2	
EPS (₹)	9.3	2.8	9.8	16.0	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement		₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E	
Profit after Tax	353.8	106.4	371.4	604.2	
Add: Depreciation & Interest	368.4	361.2	450.3	481.0	
(Inc)/dec in Current Assets	324.9	-29.4	-458.4	-245.7	
Inc/(dec) in CL and Provisions	-174.0	85.2	461.6	245.5	
CF from operating activities	873.0	523.5	825.0	1085.0	
(Inc)/dec in Investments	131.3	-42.6	-75.6	-27.4	
(Inc)/dec in Fixed Assets	-798.6	-732.0	-400.0	-450.0	
Others	36.9	47.7	81.9	16.9	
CF from investing activities	-630.4	-726.9	-393.7	-460.5	
Interest Paid	-52.3	-54.8	-53.9	-35.9	
Inc/(dec) in loan funds	-144.2	178.5	-300.0	-450.0	
Dividend paid & dividend tax	0.0	0.0	-56.8	-94.6	
Others	-9.1	167.8	0.0	0.0	
CF from financing activities	-205.6	291.5	-410.7	-580.5	
Net Cash flow	37.0	88.0	20.6	44.0	
Opening Cash	113.0	150.0	238.0	258.7	
Closing Cash	150.0	238.0	258.7	302.6	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet		₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E	
Liabilities					
Equity Capital	379.0	379.0	379.0	379.0	
Reserve and Surplus	4,254.8	4,529.0	4,843.6	5,353.1	
Total Shareholders funds	4633.8	4908.0	5222.6	5732.1	
Total Debt	1,469.1	1,647.6	1,347.6	897.6	
Minority Interest	0.0	0.0	0.0	0.0	
Total Liabilities	6746.5	7483.7	7629.9	7737.1	
Assets					
Gross Block	7,379.6	8,153.5	8,515.8	8,965.8	
Less: Acc Depreciation	4,861.2	5,167.6	5,564.0	6,009.1	
Net Block	2518.4	2985.9	2951.8	2956.7	
Capital WIP	54.2	12.3	50.0	50.0	
Total Fixed Assets	2,572.6	2,998.2	3,001.8	3,006.7	
Investments	95.5	234.0	254.0	274.0	
Goodwill	3,526	3,755	3,755	3,755	
Inventory	1,056.6	1,006.2	1,143.3	1,257.2	
Debtors	736.8	705.4	914.6	1,005.8	
Other current assets	127.3	294.5	406.3	446.8	
Cash	150.0	238.0	258.7	302.6	
Total Current Assets	2,070.7	2,244.1	2,722.8	3,012.4	
Creditors	1,477.1	1,459.1	1,714.9	1,885.9	
Provisions	56.2	87.9	121.3	133.3	
Other Current Liabilities	363.4	454.5	627.0	689.5	
Total Current Liabilities	1,896.6	2,001.5	2,463.1	2,708.7	
Net Current Assets	174.1	242.6	259.7	303.7	
Application of Funds	6746.5	7483.7	7629.9	7737.1	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
(Year-end March)	CY19	CY20	CY21E	CY22E	
Per share data (₹)					
EPS	9.3	2.8	9.8	16.0	
Cash EPS	17.7	10.9	20.3	27.7	
BV	122.4	129.7	138.0	151.4	
DPS	0.0	0.0	1.5	2.5	
Cash Per Share	4.0	6.3	6.8	8.0	
Operating Ratios (%)					
EBITDA Margin	12.2	8.3	12.9	13.5	
PAT Margin	4.5	1.8	4.4	6.6	
Inventory days	48.8	60.7	50.0	50.0	
Debtor days	34.0	42.6	40.0	40.0	
Creditor days	68.2	88.0	75.0	75.0	
Return Ratios (%)					
RoE	7.7	2.2	7.1	10.5	
RoCE	10.2	2.7	9.5	11.1	
RoIC	10.5	2.8	9.9	11.6	
Valuation Ratios (x)					
P/E	25.9	86.1	24.7	15.2	
EV / EBITDA	10.7	20.6	9.3	7.6	
EV / Net Sales	1.3	1.7	1.2	1.0	
Market Cap / Sales	1.2	1.5	1.1	1.0	
Price to Book Value	2.0	1.9	1.8	1.6	
Solvency Ratios					
Debt/Equity	0.3	0.3	0.3	0.2	
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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