

CMP: ₹ 225

Target: ₹ 275 (22%)

Target Period: 12 months

BUY

April 27, 2022

Healthy performance, meaningful gains lie ahead...

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)
- In India, it derives 37%, 31%, 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

Q1CY22 Results: MCI posted healthy Q1CY22 results.

- Consolidated net sales came in at ₹ 2,558 crore, up 25% QoQ
- EBITDA margins were at 11.5%, up 170 bps QoQ
- PAT nearly doubled QoQ at ₹ 161.4 crore

What should investors do? MCI's stock price has de-grown at ~1% CAGR in the past five years (~₹ 245 levels in April 2017), underperforming the Nifty Auto index.

- We retain **BUY**, tracking portfolio attributes i.e. strong CFO, FCF yields (~11%, 5%, respectively) & ex-goodwill healthy return ratios (RoIC: ~30%)

Target Price and Valuation: Rolling over our valuation to CY23E, we now value MCI at 8x CY23E EV/EBITDA for revised target of ₹ 275 (earlier target: ₹ 245).

Key triggers for future price performance:

- With improving economic outlook post the pandemic and commodity inflation led increase in realisations, we expect sales to grow at a CAGR of 8.4% over CY21-23E, led primarily by growth in the Indian business
- Efficiency efforts to report margin uptick to 12.4% by CY23E with CY23E EPS seen at ~₹ 18.3/share with consequent RoCE at ~12% 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

Mahindra CIE

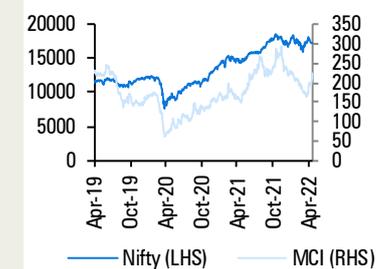
Particulars

Particular	₹ crore
Market Capitalization	8,517
Total Debt (CY21)	1,282
Cash & Investments (CY21)	598
EV	9,201
52 week H/L (₹)	312 / 153
Equity capital	₹ 379 Crore
Face value	₹ 10

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	72.2	72.2	72.2	72.2
FII	12.7	10.5	10.4	10.7
DII	5.6	7.8	7.8	7.4
Other	9.5	9.5	9.7	9.8

Price Chart



Recent event & key risks

- Posted healthy Q1CY22 results.
- **Key Risk:** (i) In-ability to diversify and address EV risk in current product profile, (ii) persistent pressure on costs especially energy in European operations

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Key Financial Summary

Key Financials	CY19	CY20	CY21	5 year CAGR (CY16-21)	CY22E	CY23E	2 year CAGR (CY21-23E)
Net Sales	7,907.8	6,050.1	8,386.7	9.5%	9,849.8	10,696.6	8.4%
EBITDA	967.7	501.6	1,017.3	13.9%	1,150.0	1,327.4	9.3%
EBITDA Margins (%)	12.2	8.3	12.1		11.7	12.4	
Net Profit	353.8	106.4	392.9	18.4%	581.3	693.5	20.9%
EPS (₹)	9.3	2.8	10.4		15.4	18.3	
P/E	24.1	80.0	21.7		14.7	12.3	
RoNW (%)	7.7	2.2	7.7		10.3	11.2	
RoCE (%)	10.2	2.7	9.4		10.2	11.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1CY22 Results:

- Mahindra CIE reported a healthy performance in Q1CY22. On a consolidated basis, net sales for the quarter were at ₹ 2,588.4 crore, up 25% QoQ. EBITDA for Q1CY22 was at ₹ 296.9 crore with corresponding EBITDA margins at 11.5%, up 170 bps QoQ primarily tracking higher margins in Indian operation vs. steady performance in European operations
- Margin recovery in Indian operations was an impressive 310 bps QoQ to 15.1% while it was at a steady 110 bps at European operations at 10.2%. Sequential topline growth for the quarter was, however, led by European operations i.e. up 42% QoQ (at ₹ 1,242 crore) while Indian operations reported 12.6% sales growth on QoQ basis (₹ 1,202 crore)

Q1CY22 Earnings Conference Call highlights

- MCI India's topline growth of 15% YoY involved 10% realisation led growth tracking commodity costs pass through. MCI India's margins improvement involved savings realised from VRS scheme offered for stamping division in the past. It aims to maintain this ~15% margin profile, going forward
- MCI Europe's topline growth of 20% YoY involved 12% realisation led growth tracking commodity costs pass through. Margins at the European division were impacted by higher energy costs with likely impact placed at 2-3%. The company is negotiating with customers for pass through of steep rise in energy costs with about one-third costs already passed on to customers and rest expected to be passed through in coming quarters. The management opined that energy costs have more than doubled over the past six months
- On the capacity utilisation front, Indian operations are running at near optimum utilisation levels with the company adding capacities in this domain. While European operations are running at ~70-75% utilisation levels with improvement envisaged in coming quarters
- On an overall basis, the company is aiming for 15% margin profile and ahead of industry volume growth, thereby improving its market share
- Capex is envisaged at ~5-6% of sales
- Steel prices are still in inflationary mode; however, they are a complete pass through for the company
- MCI's Mexico plant is operating at optimum utilisation levels with MCI adding press lines to increase throughput by 50-60% in two to three years

Exhibit 1: End uses across geographies (CY21)

SEGMENTS AND CUSTOMERS (CY2021)

	TECHNOLOGIES	END USE SEGMENTS	TOP CUSTOMERS
	<ul style="list-style-type: none"> • Forging • Aluminium • Stampings • Castings • Gears/ Machining • Magnetic Products • Composites 	<p>END USE SEGMENTS</p> <ul style="list-style-type: none"> 37% CARS + UTILITY VEHICLES 16% TRACTORS 31% TWO WHEELERS 8% MHCV 2% LIGHT COMMERCIAL VEHICLES 5% NON AUTO and OTHERS 	<p>TOP CUSTOMERS</p> <p>Mahindra, Bajaj, Maruti, Tata, Hero</p>
	<p>TECHNOLOGIES</p> <ul style="list-style-type: none"> • Car Forgings Spain, Lithuania • Heavy Truck Forgings Germany • Gears/ Machining Italy 	<p>END USE SEGMENTS</p> <ul style="list-style-type: none"> 36% CARS 39% MHCV 9% OFF HIGHWAY 1% TWO WHEELERS 15% NON AUTO and OTHERS 	<p>TOP CUSTOMERS</p> <p>Renault, VW, Ford, JLR, BMW Daimler, MAN, Scania, DAF, Renault CAT, Eaton, CNH</p>

Financial story in charts

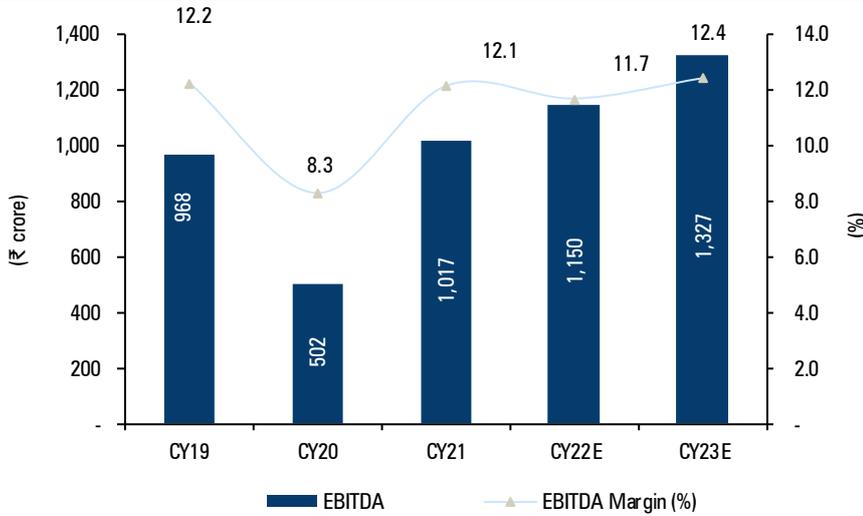
Exhibit 2: Trend in topline



MCI is seen posting 8.4% revenue CAGR over CY21-23E to ₹ 10,697 crore in CY23E

Source: Company, ICICI Direct Research

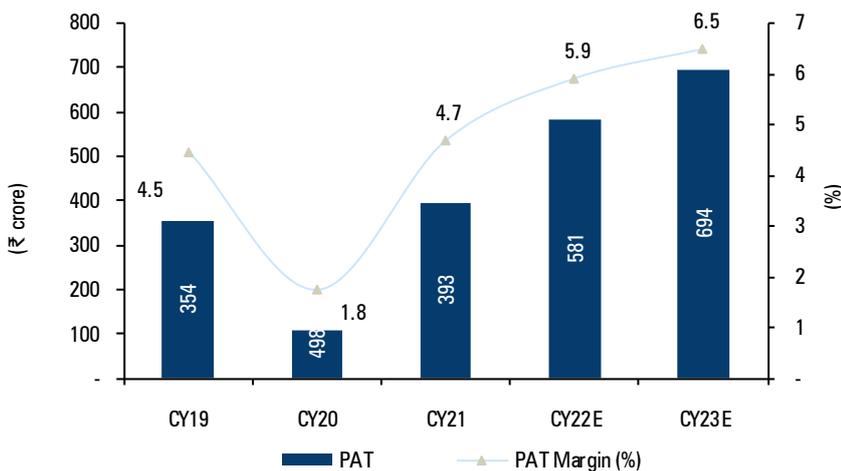
Exhibit 3: Trend in margins



Margins are seen rising to 12.4% by CY23E on the back of operating leverage benefits and internal efficiencies

Source: Company, ICICI Direct Research

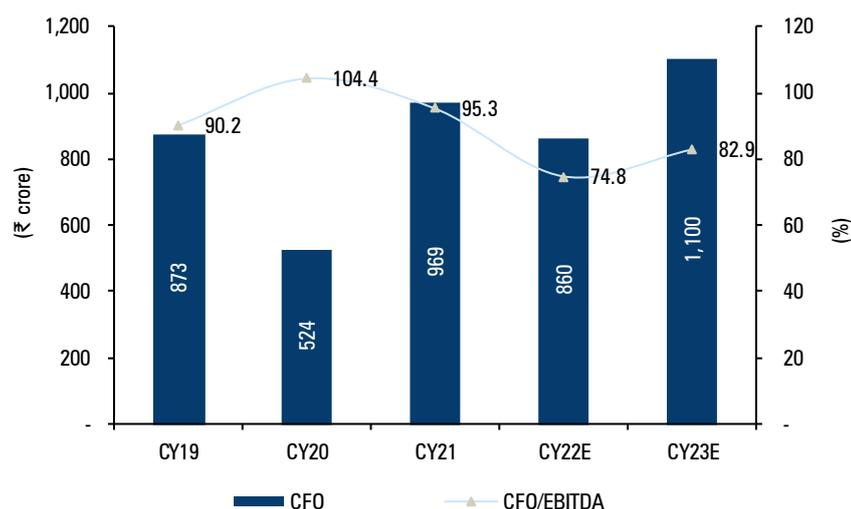
Exhibit 4: Trend in profitability



We expect PAT to grow at a CAGR of 20.9% over CY21-23E to ₹ 694 crore by CY23E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in CFO generation



CFO generation has been a particular strength over the years at MCI (CY21: CFO yield at ~11%). We expect it to be > 10% for CY22E-23E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY18	8,032	23.2	13.2	35.0	17.1	8.9	12.4	12.6
CY19	7,908	(1.5)	9.3	(29.0)	24.1	10.1	7.7	10.2
CY20	6,050	(23.5)	2.8	(69.9)	80.0	19.3	2.2	2.7
CY21	8,387	38.6	10.4	269.2	21.7	9.0	7.7	9.4
CY22E	9,850	17.4	15.4	48.0	14.7	7.9	10.3	10.2
CY23E	10,697	8.6	18.3	19.3	12.3	6.6	11.2	11.6

Source: Company, ICICI Direct Research

Exhibit 7: Target price calculation

Particulars	
CY23E EBITDA (₹ crore)	1,327
Target EV/EBITDA (x)	8.0
EV (₹ crore)	10,620
CY23E Net Debt (₹ crore)	261
Resultant MCap (₹ crore)	10,359
No. of shares (crore)	37.9
Target Price (₹ per share)	275

Source: ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	CY20	CY21	CY22E	CY23E	
Total operating Income	6,050.1	8,386.7	9,849.8	10,696.6	
Growth (%)	-23.5	38.6	17.4	8.6	
Raw Material Expenses	2,806.3	4,007.9	4,875.7	5,348.3	
Employee Expenses	1,261.8	1,347.8	1,526.7	1,658.0	
Other Expenses	1,480.4	2,013.7	2,297.5	2,362.9	
Total Operating Expenditure	5,548.5	7,369.4	8,699.9	9,369.2	
EBITDA	501.6	1017.3	1150.0	1327.4	
Growth (%)	-48.2	102.8	13.0	15.4	
Other Income	54.9	55.6	62.4	67.1	
Interest	54.8	53.3	53.2	41.9	
Depreciation	306.4	343.1	384.1	427.9	
PBT	195.0	663.8	775.1	924.7	
Total Tax	88.6	272.1	193.8	231.2	
PAT before Minority Interest	106.4	391.7	581.3	693.5	
Minority Interest	0.0	0.0	0.0	0.0	
PAT after Minority Interest	106.4	392.9	581.3	693.5	
EPS (₹)	2.8	10.4	15.4	18.3	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	CY20	CY21	CY22E	CY23E	
Profit after Tax	106.4	392.9	581.3	693.5	
Add: Depreciation & Interest	361.2	396.4	437.3	469.8	
(Inc)/dec in Current Assets	-29.4	-299.7	-596.8	-308.2	
Inc/(dec) in CL and Provisions	85.2	479.8	437.8	244.9	
CF from operating activities	523.5	969.3	859.7	1100.1	
(Inc)/dec in Investments	-42.6	25.0	-30.4	-17.6	
(Inc)/dec in Fixed Assets	-732.0	-429.8	-541.7	-588.3	
Others	47.7	-119.4	4.9	-5.6	
CF from investing activities	-726.9	-524.3	-567.3	-611.5	
Interest Paid	-54.8	-53.3	-53.2	-41.9	
Inc/(dec) in loan funds	178.5	-366.0	-100.0	-250.0	
Dividend paid & dividend tax	0.0	-94.6	-132.5	-170.3	
Others	167.8	-9.6	0.0	0.0	
CF from financing activities	291.5	-523.5	-285.7	-462.3	
Net Cash flow	88.0	-78.4	6.8	26.3	
Opening Cash	150.0	238.0	159.6	166.3	
Closing Cash	238.0	159.6	166.3	192.6	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore			
(Year-end March)	CY20	CY21	CY22E	CY23E	
Liabilities					
Equity Capital	379.0	379.1	379.1	379.1	
Reserve and Surplus	4,529.0	4,817.5	5,266.4	5,789.6	
Total Shareholders funds	4908.0	5196.6	5645.4	6168.6	
Total Debt	1,647.6	1,281.6	1,181.6	931.6	
Minority Interest	0.0	0.0	0.0	0.0	
Total Liabilities	7483.7	7449.9	7852.5	8156.8	
Assets					
Gross Block	8,153.5	8,595.6	9,087.3	9,675.6	
Less: Acc Depreciation	5,167.6	5,510.7	5,894.8	6,322.7	
Net Block	2985.9	3084.9	3192.5	3353.0	
Capital WIP	12.3	0.0	50.0	50.0	
Total Fixed Assets	2,998.2	3,084.9	3,242.5	3,403.0	
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	1,619.2	1,758.3	
Debtors	705.4	668.7	944.5	1,084.3	
Other current assets	294.5	289.3	339.7	368.9	
Cash	238.0	159.6	166.3	192.6	
Total Current Assets	2,244.1	2,466.2	3,069.7	3,404.2	
Creditors	1,459.1	1,938.5	2,293.8	2,491.0	
Provisions	87.9	89.2	104.8	113.8	
Other Current Liabilities	454.5	383.7	450.7	489.4	
Total Current Liabilities	2,001.5	2,411.4	2,849.2	3,094.2	
Net Current Assets	242.6	54.8	220.5	310.0	
Application of Funds	7483.7	7449.9	7852.5	8156.8	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	CY20	CY21	CY22E	CY23E	
Per share data (₹)					
EPS	2.8	10.4	15.4	18.3	
Cash EPS	10.9	19.4	25.5	29.6	
BV	129.7	137.3	149.1	163.0	
DPS	0.0	2.5	3.5	4.5	
Cash Per Share	6.3	4.2	4.4	5.1	
Operating Ratios (%)					
EBITDA Margin	8.3	12.1	11.7	12.4	
PAT Margin	1.8	4.8	5.9	6.5	
Inventory days	60.7	58.7	60.0	60.0	
Debtor days	42.6	29.1	35.0	37.0	
Creditor days	88.0	84.4	85.0	85.0	
Return Ratios (%)					
RoE	2.2	7.7	10.3	11.2	
RoCE	2.7	9.4	10.2	11.6	
RoIC	2.8	9.7	10.5	12.0	
Valuation Ratios (x)					
P/E	80.0	21.7	14.7	12.3	
EV / EBITDA	19.3	9.0	7.9	6.6	
EV / Net Sales	1.6	1.1	0.9	0.8	
Market Cap / Sales	1.4	1.0	0.9	0.8	
Price to Book Value	1.7	1.6	1.5	1.4	
Solvency Ratios					
Debt/Equity	0.3	0.2	0.2	0.2	
Current Ratio	1.0	1.0	1.0	1.0	
Quick Ratio	0.5	0.4	0.5	0.5	

Source: Company, ICICI Direct Research

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Sell: <-15%



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