

Mahindra CIE

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	MACA IN
Equity Shares (m)	379
M.Cap.(INRb)/(USDb)	118.3 / 1.4
52-Week Range (INR)	326 / 164
1, 6, 12 Rel. Per (%)	11/58/23
12M Avg Val (INR M)	200

Financials & Valuations (INR b)

INR b	CY21	CY22E	CY23E
Sales	83.9	107.3	120.2
EBITDA (%)	12.1	11.5	13.1
Adj. PAT	5.2	7.0	8.7
EPS (INR)	13.8	18.5	23.1
EPS Growth (%)	391.0	33.3	25.3
BV/Share (INR)	137	152	171

Ratio

RoE (%)	10.4	12.7	14.3
RoCE (%)	7.7	10.4	11.8
Payout (%)	24.1	17.0	16.7

Valuations

P/E (x)	22.5	16.9	13.5
P/BV (x)	2.3	2.1	1.8
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	4.8	0.6	4.1

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	75.0	74.9	72.2
DII	7.7	8.1	7.8
FII	7.3	6.9	10.5
Others	10.1	10.2	9.5

FII Includes depository receipts

CMP: INR312 TP: INR360 (+15%) Buy

Inline; India business continues to outperform; EU hurt by energy cost

India business targets 10% higher growth than the served industry growth

- MACA's overall performance in 3QCY22 was in line. The India business outperformed the European business, led by strong domestic demand. Given the moderation in commodity costs and partial pass-through of energy cost, we expect margin in both geographies to improve from here on.
- We change our CY22/CY23 estimate by -1%/+4% to reflect strong PV demand for its key customers in India and adverse forex impact. **We maintain our Buy rating with a TP of INR360 (~13x Dec'24E consolidated EPS).**

Energy costs headwinds impacts the EU business

- Consolidated revenue/EBITDA/adjusted PAT grew 30%/18%/18% YoY to INR27.2b/INR3.2b/INR1.7b (est. INR27.1b/INR3.2b/INR1.7b) in 3QCY22. Revenue/EBITDA/adjusted PAT rose 27%/11%/20% YoY in 9MCY22.
- EBITDA margin stood at 11.6% (est. 11.9%), led by lower RM and employee costs sequentially.
- Revenue in the India business grew 34% YoY to ~INR15.3b (est. ~INR14.2b), partly aided by RM cost pass-through benefits (~6%). India EBITDA margin grew 120bp YoY to 13.4% (est. 14%), led by RM cost pass-through and operating leverage. India EBITDA grew 32% YoY to ~INR2.05b (est. INR2b).
- Revenue from the EU business came in below our estimate of ~INR12.8b, but rose 25% YoY (up 39% YoY in EUR terms) to ~INR11.9b. There was an adverse currency impact of 11% and commodity cost pass-through (up 15%). EBITDA margin fell 260bp YoY, but grew 20bp QoQ to 9.3% (est. 9.5%), impacted adversely by energy cost inflation.
- Consolidated net debt declined by INR1.2b QoQ to ~INR7.5b.

Highlights from the management commentary

- It aims to grow the India business by ~10%, ahead of the served industry growth, v/s its earlier outperformance target of 5-10%.
- For the EU, overall market demand and order book remains strong, but macro uncertainty remains. It is seeing strong demand across its businesses in PVs, CVs, and the Off-highway segment.
- For energy cost hyperinflation in the EU, it has an agreement in place with most customers for pass-through of 60-70% of the cost inflation. For staff cost inflation, it is focused on diluting the impact through enhanced efficiencies and business growth.

Valuation and view

- MACA's growth story is on track, driven by its organic initiatives (new products and customers in the India business). This, coupled with cost-cutting measures in both India and the EU, will drive margin expansion going forward.
- Any significant order wins or growth in the EV portfolio can drive a re-rating. The stock trades at 16.9x/13.5x CY22E/CY23E consolidated EPS. **We maintain our Buy rating with a TP of INR360 (~13x Dec'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.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated quarterly performance

(INR m)

(INR m)	CY21				CY22				CY21	CY22E	CY22E
Y/E December	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
Net Sales	21,894	20,425	20,907	20,641	25,709	27,072	27,231	27,324	83,867	1,07,336	27,084
Change (YoY %)	31.7	177.7	23.4	5.4	17.4	32.5	30.3	32.4	38.6	28.0	29.5
EBITDA	2,868	2,598	2,685	2,022	2,794	3,044	3,169	3,351	10,173	12,359	3,214
Margin (%)	13.1	12.7	12.8	9.8	10.9	11.2	11.6	12.3	12.1	11.5	11.9
Depreciation	883	886	835	827	866	893	872	906	3,431	3,537	915
Interest	142	131	133	127	85	44	166	111	533	406	130
Other Income	194	116	74	172	282	357	138	98	556	875	125
Share of profit from associates				12	4	11	3	7	12	25	4
PBT before EO expense	2,037	1,697	1,791	1,241	2,126	2,464	2,269	2,433	6,766	9,291	2,294
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	2,464	2,269	2,433	5,505	9,291	2,294
Tax Rate (%)	83.6	19.7	20.1	29.0	24.3	23.8	24.6	27.9	28.9	25.2	25.0
Adj. PAT	1,526	1,362	1,456	892	1,614	1,889	1,714	1,761	5,236	6,977	1,723
Change (YoY %)	143.5	-205.9	139.7	-20.2	5.8	38.7	17.7	97.3	390.9	33.3	18.4
Revenue											
India	11,144	9,344	11,395	11,394	12,811	13,778	15,311	13,658	43,277	55,558	14,244
Growth (%)	43	253	33	11	15	47	34	19.9	47.7	28	25.0
EU	10,750	11,081	9,511	9,247	13,073	13,254	11,920	13,515	40,590	51,762	12,840
Growth (%)	22	136	13	-1	22	20	25	46.2	30.1	28	35.0
EBITDA Margin											
India	13.7	12.2	13.6	10.6	13.4	13.3	13.4	14.1	12.5	13.6	14.0
EU	12.5	13.2	11.9	7.6	9.6	9.1	9.3	9.9	11.4	9.5	9.5

E: MOFSL estimates; AEL merger w.e.f 2QCY19



Key takeaways from the management interaction

India business:

- It aims to grow the India business by ~10%, ahead of the served industry growth, v/s its earlier outperformance target of 5-10%.
- All businesses are seeing a recovery. While demand for PVs remains strong, the 2W segment is seeing signs of a recovery. The Tractor business was seeing a slowdown until the festive season.
- RM cost pass-through contributed 6% YoY to 3QCY22 revenue growth.
- It is experiencing higher energy costs in Maharashtra, where the majority of its plants are located.
- Exports from India constitute 12-13% of sales. It was earlier targeting exports of 20% as a percentage of total sales. However, considering the strong demand in India, it is prioritizing domestic demand.

EU business:

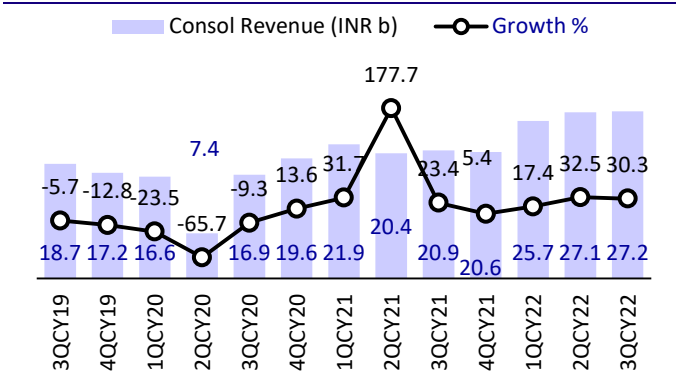
- For the EU, overall market demand and order book remains strong, but macro uncertainty remains. It is seeing strong demand across its businesses in PVs, CVs, and the Off-highway segment.
- The EU business witnessed 39% YoY growth in EUR terms, with commodity cost pass-through is aiding 15% growth. There was an adverse translation impact for the currency (-11% impact) on consolidation.
- For energy cost hyperinflation in the EU, it has an agreement in place with most customers for pass-through of 60-70% of the cost inflation. For staff cost inflation, it is focused on diluting the impact through enhanced efficiencies and business growth.

- The Metalcastello business is operating at full utilization as demand from the Off-highways segment in the US remains strong.

Others

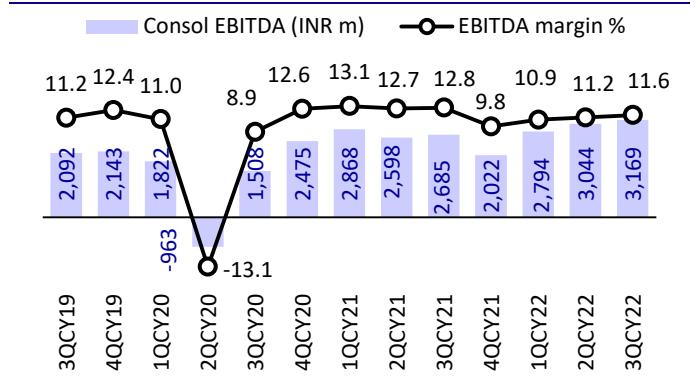
- The management said that capex will be ~5% of consolidated revenue. It has incurred INR4b in CY22 till date for capacity additions across businesses in India.
- Net financial debt stood at INR7.5b in 9M v/s INR8.7b in 1HCY22, with the same for India/EU at INR1b/INR6.5b.

Exhibit 1: Trend in consolidated revenue



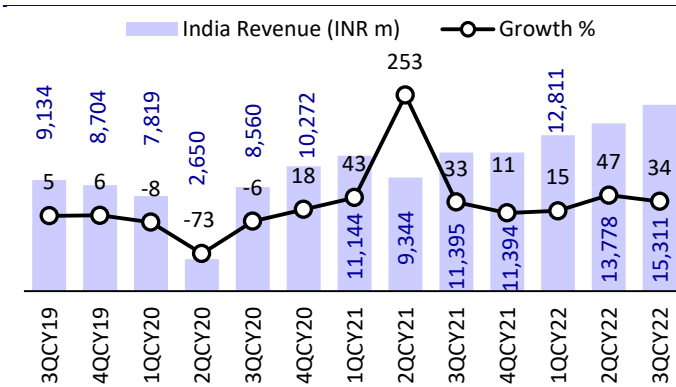
Source: Company, MOFSL

Exhibit 2: Trend in consolidated EBITDA



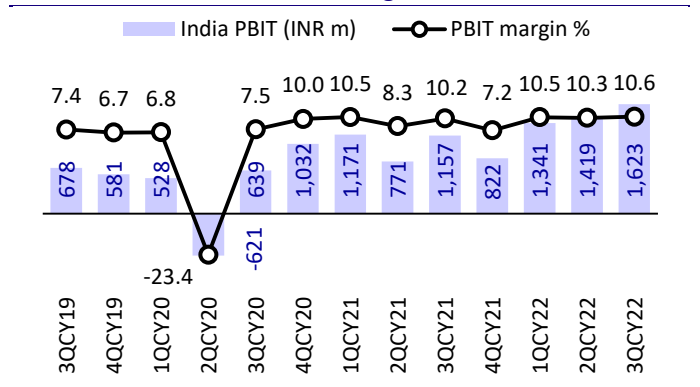
Source: Company, MOFSL

Exhibit 3: Trend in India revenue



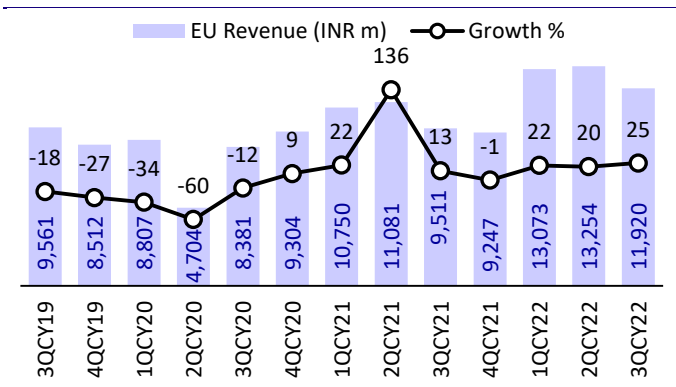
Source: Company, MOFSL

Exhibit 4: Trend in India PBIT margin



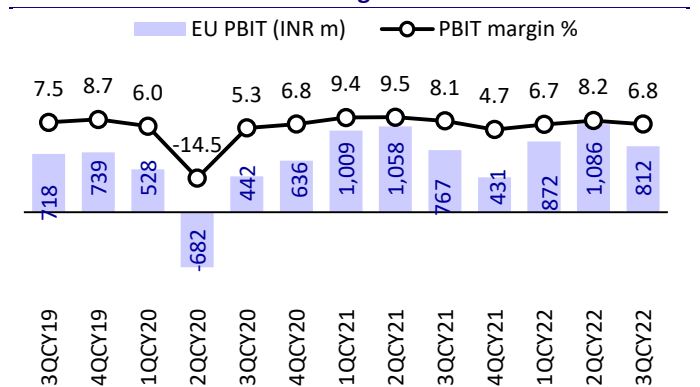
Source: Company, MOFSL

Exhibit 5: Trend in EU revenue



Source: Company, MOFSL

Exhibit 6: Trend in EU PBIT margin



Source: Company, MOFSL

Valuation and view

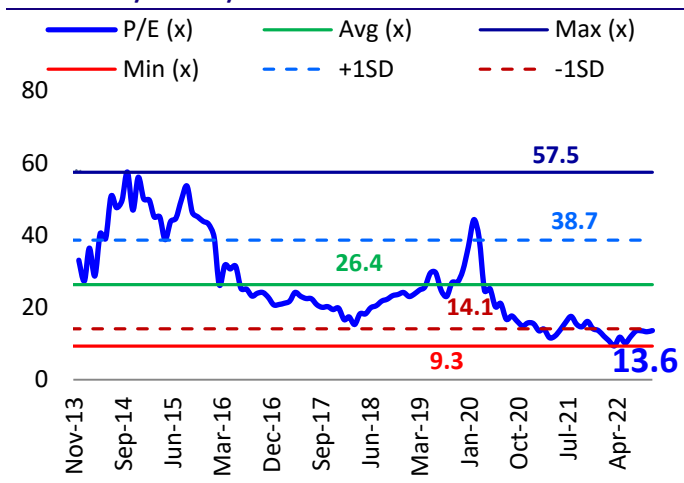
- **India a growth driver; focus is on consolidating operations in the EU:** MACA has been diversifying its India revenue and rationalizing costs, both domestically and in its EU business. India is expected to be the key growth driver, led by: a) value-added products (machined castings, higher grade magnets, complex gears, etc.); b) exports; and c) new products and customers. We expect margin expansion to be driven by: a) an 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 at 18-20% (at which its parent operates). Considering the lack of growth in the EU business, the focus is on: a) rationalizing the German business portfolio to improve margin, b) matching costs with revenue in a cyclical market to retain margin in the Italy business, and c) maintaining margin in Spain and Lithuania.
- **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:** Over 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 for sourcing forging technologies worldwide.
- **Financial discipline key to its M&A-led strategy:** M&A has been an integral tool for MACA in achieving its strategic objectives and growth. For MACA, M&A will 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 (Maruti, Hyundai, etc.); and c) for entry into ASEAN markets. CIE has displayed a strict acquisition discipline, with a criteria of less than 3x EV/EBITDA over three years, and targets a minimum RoI of ~20%.
- **Maintain our Buy rating with a TP of INR360:** MACA's growth story is on track, led by its organic initiatives (new products/customers) and M&A focus. Under CIE's parentage, MACA has been able to improve its efficiencies, cut costs, and improve profitability. The stock trades at 16.9x/13.5x CY22E/CY23E consolidated EPS. **We maintain our Buy rating with a TP of INR360 (~13x Dec'24E consolidated EPS).**

Exhibit 7: Our revised estimates

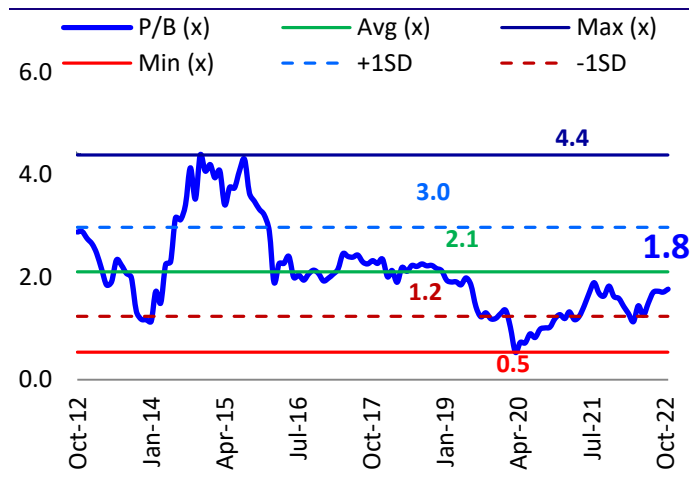
(INR m)	CY22E			CY23E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net sales	1,07,336	1,06,480	0.8	1,20,170	1,18,770	1.2
EBITDA	12,359	12,387	(0.2)	15,794	15,296	3.3
EBITDA margin (%)	11.5	11.6	-10bp	13.1	12.9	30bp
Adj. PAT	6,977	7,017	(0.6)	8,740	8,370	4.4
EPS	18.5	18.6	(0.6)	23.1	22.1	4.4

Source: MOFSL

Exhibit 8: P/E and P/B ratio charts



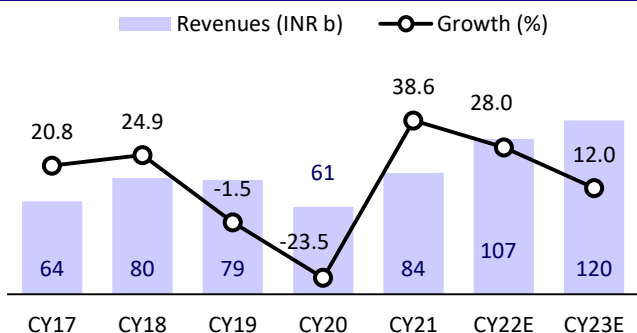
Source: Company, MOFSL



Source: Company, MOFSL

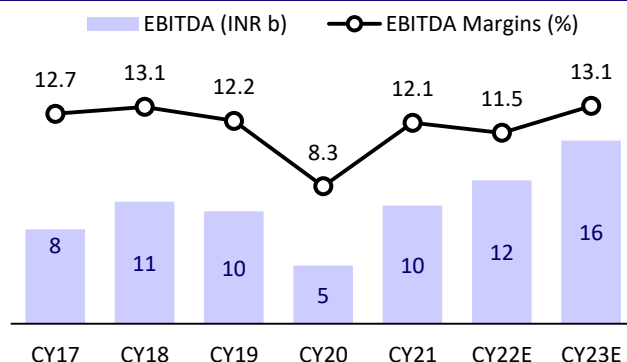
Key operating indicators

Exhibit 9: Expect consolidated revenue to recover



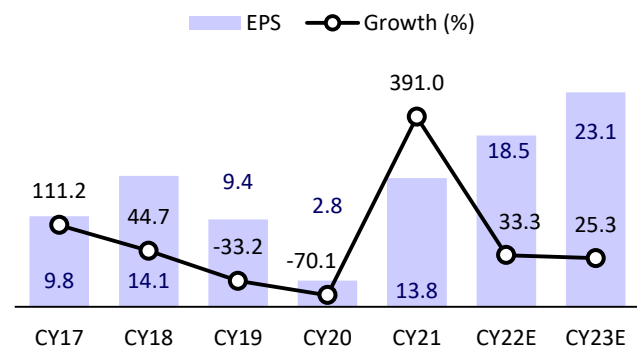
Source: Company, MOFSL

Exhibit 10: Expect EBITDA margin to recover in CY23



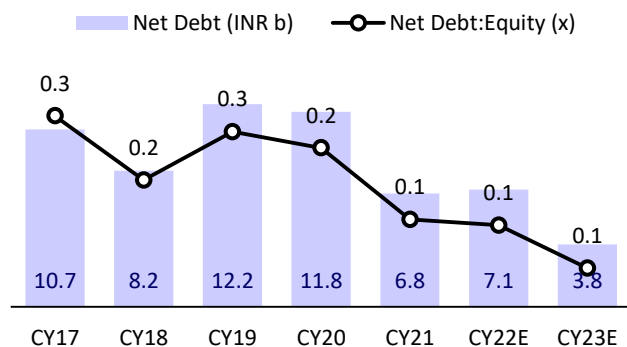
Source: Company, MOFSL

Exhibit 11: EPS and EPS growth



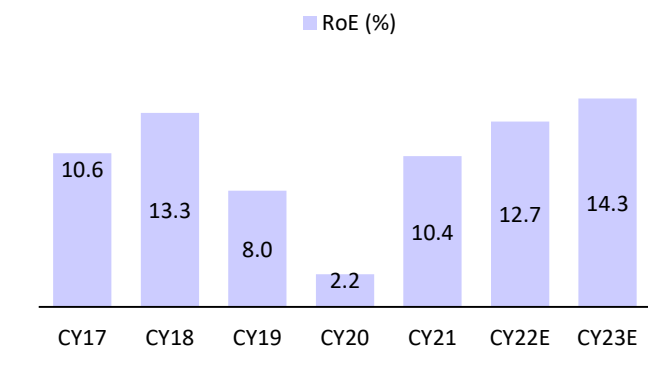
Source: Company, MOFSL

Exhibit 12: Expect net debt to reduce substantially by CY23



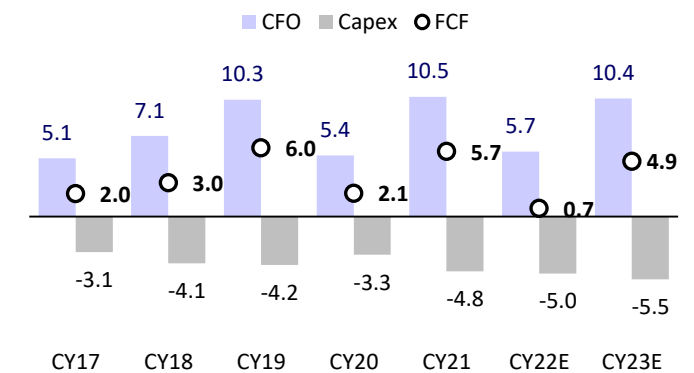
Source: Company, MOFSL

Exhibit 13: Expect RoE to improve from CY22



Source: Company, MOFSL

Exhibit 14: FCF positive throughout, except CY19, due to the AEL acquisition



Source: Company, MOFSL

Exhibit 15: Key operating metrics

INR m	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Revenue								
Forgings	36,436	45,474	56,290	50,892	38,119	49,639	61,913	67,591
Growth (%)		25	24	-10	-25	30	25	9
India (ex BFL)	3,868	4,364	5,312	4,265	2,911	4,988	6,734	8,081
Growth (%)		13	22	-20	-32	71	35	20
BFL	1,750	6,917	8,737	8,776	6,898	9,238	10,901	12,536
Growth (%)		295	26	0	-21	34	18	15
MFE Europe	16,009	17,316	21,384	17,889	13,291	16,488	19,374	20,350
Growth (%)		8	23	-16	-26	24	18	5
CIE Europe	14,809	16,876	20,857	19,962	15,019	18,925	24,905	26,624
Growth (%)		14	24	-4	-25	26	32	7
Gears	5,106	4,716	7,904	7,893	5,128	8,326	11,170	12,620
Growth (%)		-8	68	0	-35	62	34	13
India	1,469	828	2,333	2,240	1,717	2,836	3,687	4,609
Growth (%)		-44	182	-4	-23	65	30	25
Metalcastello	3,637	3,888	5,571	5,653	3,411	5,490	7,483	8,011
Growth (%)		7	43	1	-40	61	36	7
Stampings	6,342	8,015	10,077	8,410	5,265	8,980	12,123	14,305
Growth (%)		26	26	-17	-37	71	35	18
Castings	3,652	4,177	5,269	4,237	3,152	5,021	6,778	7,998
Growth (%)		14	26	-20	-26	59	35	18
Composites	880	907	1,092	1,069	746	1,227	1,534	1,764
Growth (%)		3	20	-2	-30	64	25	15
Magnets	1,338	1,292	1,210	1,068	984	1,342	1,812	2,083
Growth (%)		-3	-6	-12	-8	36	35	15
Aluminum (AEL)				5,818	6,788	8,933	10,005	11,206
Growth (%)					17	32	12	12
Total consolidated revenue	53,199	64,279	80,315	79,078	60,501	83,867	1,07,336	1,20,170
Growth (%)		21	25	-2	-23	39	28	12
EBITDA Margin	10.0	12.7	13.1	12.2	8.3	12.1	11.5	13.1
EBIT Margin	5.6	8.5	9.5	8.2	3.2	8.0	8.2	9.7
Adj. EPS (INR/share)	4.6	9.8	14.1	9.4	2.8	13.8	18.5	23.1
Growth (%)		111	45	-33	-70	391	33	25

Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
Total Income from Operations	64,279	80,315	79,078	60,501	83,867	1,07,336	1,20,170	1,30,881
Change (%)	20.8	24.9	-1.5	-23.5	38.6	28.0	12.0	8.9
Total Expenditure	56,136	69,805	69,401	55,485	73,694	94,978	1,04,377	1,12,542
As a percentage of Sales	87.3	86.9	87.8	91.7	87.9	88.5	86.9	86.0
EBITDA	8,143	10,511	9,677	5,016	10,173	12,359	15,794	18,339
Margin (%)	12.7	13.1	12.2	8.3	12.1	11.5	13.1	14.0
Depreciation	2,683	2,867	3,161	3,064	3,431	3,537	4,095	4,457
EBIT	5,460	7,643	6,516	1,952	6,743	8,822	11,699	13,882
Int. and Finance Charges	510	502	523	548	533	406	438	426
Other Income	268	387	331	549	556	875	640	724
PBT bef. EO Exp.	5,217	7,529	6,324	1,953	6,766	9,291	11,901	14,180
EO Items	-151	-504	-46	0	-1,260	0	0	0
PBT after EO Exp.	5,067	7,025	6,279	1,953	5,505	9,291	11,901	14,180
Total Tax	1,483	2,043	2,741	886	1,589	2,340	3,186	3,720
Tax Rate (%)	29.3	29.1	43.7	45.4	28.9	25.2	26.8	26.2
Share of profit from associate	0	0	0	0	12	25	25	25
Reported PAT	3,584	4,981	3,538	1,066	3,928	6,977	8,740	10,485
Adj. PAT	3,691	5,339	3,564	1,066	5,236	6,977	8,740	10,485
Change (%)	111.2	44.7	-33.2	-70.1	391.0	33.3	25.3	20.0
Margin (%)	5.7	6.6	4.5	1.8	6.2	6.5	7.3	8.0

Consolidated Balance Sheet

(INR m)

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
Equity Share Capital	3,784	3,788	3,790	3,790	3,790	3,790	3,790	3,790
Total Reserves	33,372	39,103	42,548	45,290	48,176	53,722	60,714	69,102
Net Worth	37,156	42,891	46,338	49,080	51,966	57,512	64,504	72,892
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	11,969	16,134	14,691	16,476	12,816	12,817	12,818	12,819
Deferred Tax Liabilities	-1,629	-1,565	912	1,236	2,459	2,459	2,459	2,459
Capital Employed	47,496	57,460	61,941	66,792	67,241	72,788	79,781	88,170
Gross Block	28,418	32,235	42,936	53,135	57,335	61,484	66,984	72,484
Less: Accum. Deprn.	9,279	12,294	17,619	23,204	26,635	30,172	34,266	38,723
Net Fixed Assets	19,139	19,941	25,316	29,931	30,700	31,312	32,717	33,760
Goodwill on Consolidation	28,364	29,111	35,260	37,554	36,265	36,265	36,265	36,265
Capital WIP	602	960	542	123	150	1,001	1,001	1,001
Total Investments	550	6,808	955	2,340	4,380	4,380	4,380	4,380
Curr. Assets, Loans, and Adv.	24,705	26,455	23,553	23,686	26,712	35,853	42,691	53,106
Inventory	9,898	12,286	10,566	10,062	13,486	15,613	16,872	18,192
Account Receivables	5,984	7,414	7,368	7,054	6,687	10,293	11,523	12,550
Cash and Bank Balance	719	1,127	1,499	2,380	1,595	1,361	4,683	11,894
Loans and Advances	8,103	5,628	4,120	4,190	4,943	8,587	9,614	10,470
Curr. Liability and Prov.	25,865	25,815	23,686	26,843	30,965	36,021	37,272	40,341
Account Payables	15,743	16,838	14,771	14,590	19,385	23,419	23,163	24,975
Other Current Liabilities	6,477	5,038	4,745	7,909	7,605	7,514	8,412	9,162
Provisions	3,644	3,939	4,170	4,344	3,976	5,088	5,697	6,205
Net Current Assets	-1,160	640	-133	-3,157	-4,253	-168	5,419	12,765
Appl. of Funds	47,496	57,460	61,941	66,791	67,241	72,789	79,782	88,171

E: MOFSL estimates

Financials and valuations

Ratios

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
Basic (INR)								
EPS	9.8	14.1	9.4	2.8	13.8	18.5	23.1	27.7
Cash EPS	16.9	21.7	17.8	10.9	22.9	27.8	33.9	39.5
BV/Share	98.3	113.4	122.6	129.8	137.4	152.1	170.6	192.8
DPS	0.0	0.0	0.0	0.0	2.5	3.1	3.8	4.6
Payout (%)	0.0	0.0	0.0	0.0	24.1	17.0	16.7	16.7
Valuation (x)								
P/E ratio	32.0	22.1	33.1	110.6	22.5	16.9	13.5	11.3
Cash P/E ratio	18.5	14.4	17.5	28.6	13.6	11.2	9.2	7.9
P/BV ratio	3.2	2.8	2.5	2.4	2.3	2.1	1.8	1.6
EV/Sales ratio	2.0	1.7	1.7	2.2	1.5	1.2	1.1	0.9
EV/EBITDA ratio	15.9	12.7	13.6	26.4	12.7	10.5	8.0	6.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.8	1.0	1.2	1.5
FCF per share	5.3	7.9	15.9	5.4	15.1	1.9	12.8	23.8
Return Ratios (%)								
RoE	10.6	13.3	8.0	2.2	10.4	12.7	14.3	15.3
RoCE (Post-tax)	8.8	10.9	6.5	2.1	7.7	10.4	11.8	12.8
RoIC	8.8	11.5	6.8	1.8	7.8	10.4	12.6	14.6
Working Capital Ratios								
Fixed Asset Turnover (x)	2.3	2.5	1.8	1.1	1.5	1.7	1.8	1.8
Asset Turnover (x)	1.4	1.4	1.3	0.9	1.2	1.5	1.5	1.5
Inventory (Days)	56	56	49	61	59	53	51	51
Debtor (Days)	34	34	34	43	29	35	35	35
Creditor (Days)	89	77	68	88	84	80	70	70
Leverage Ratio (x)								
Net Debt/Equity ratio	0.3	0.2	0.3	0.2	0.1	0.1	0.1	0.0

Consolidated Cash Flow Statement

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
(INR m)								
OP/(Loss) before Tax	5,067	7,025	6,279	1,953	6,778	9,316	11,926	14,205
Depreciation	2,734	2,898	3,168	3,064	3,431	3,537	4,095	4,457
Interest and Finance Charges	545	525	525	548	533	-469	-202	-298
Direct Taxes Paid	-1,077	-1,444	-1,161	-503	-1,053	-2,340	-3,186	-3,720
(Inc.)/Dec. in WC	-2,193	-1,769	1,556	761	1,364	-4,320	-2,266	-134
CF from Operations	5,076	7,235	10,367	5,823	11,052	5,724	10,367	14,510
Others	46	-155	-94	-430	-541	0	0	0
CF from Operations incl. EO	5,122	7,080	10,273	5,393	10,511	5,724	10,367	14,510
(Inc.)/Dec. in FA	-3,105	-4,101	-4,238	-3,343	-4,778	-5,000	-5,500	-5,500
Free Cash Flow	2,017	2,979	6,035	2,050	5,733	724	4,867	9,010
(Pur.)/Sale of Investments	-183	-6,201	-1,871	-1,376	-1,880	0	0	0
Others	260	129	219	502	-967	875	640	724
CF from Investments	-3,028	-10,173	-5,890	-4,217	-7,625	-4,125	-4,860	-4,776
Issue of Shares	66	57	30	0	10	0	0	0
Inc./(Dec.) in Debt	-1,877	4,089	-3,545	506	-2,787	1	1	1
Interest Paid	-545	-525	-525	-477	-318	-406	-438	-426
Dividend Paid	0	0	0	0	0	-1,187	-1,457	-1,747
Others	0	0	0	-409	-532	0	0	0
CF from Fin. Activity	-2,356	3,621	-4,040	-380	-3,627	-1,592	-1,894	-2,172
Inc./Dec. in Cash	-262	528	343	796	-740	8	3,613	7,561
Opening Balance	981	719	1,247	1,590	2,386	1,646	1,654	5,267
Closing Balance	719	1,247	1,590	2,386	1,646	1,654	5,267	12,828

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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