

Mahindra CIE

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	MACA IN
Equity Shares (m)	379
M.Cap.(INRb)/(USD\$)	145.6 / 1.8
52-Week Range (INR)	462 / 168
1, 6, 12 Rel. Per (%)	3/25/68
12M Avg Val (INR M)	407

Financials & Valuations (INR b)

Y/E December	CY22	CY23E	CY24E
Sales	87.5	101.3	110.9
EBITDA (%)	13.4	15.2	15.8
Adj. PAT	6.8	8.9	10.3
EPS (INR)	18.1	23.4	27.3
EPS Growth (%)	69.2	29.7	16.5
BV/Share (Rs)	135	154	175

Ratio

RoE (%)	13.3	16.2	16.6
RoCE (%)	10.7	14.2	14.7
Payout (%)	13.3	16.7	16.7

Valuations

P/E (x)	21.2	16.4	14.1
P/BV (x)	2.8	2.5	2.2
Div. Yield (%)	0.7	1.0	1.2
FCF Yield (%)	4.6	2.3	5.6

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	68.9	75.0	72.2
DII	11.2	7.5	7.4
FII	8.6	7.3	10.7
Others	11.3	10.3	9.8

FII Includes depository receipts

CMP: INR384 TP: INR450 (+17%) Buy

Strong margin beat driven by healthy performance in the EU

Further scope of margin expansion in India; EU margins to sustain

- Mahindra CIE (MACA)'s 1QCY23 result was better than expected as its consol. EBITDA margin expanded 260bp QoQ to 15.6% (est. 14.1%). This was driven by strong EBITDA margin beat in the EU due to lower energy prices coupled with operating leverage and better efficiency. While margin for India business too was better at 15.0% (est. 14.5%), there is further scope of margin expansion in India.
- We raise our CY23E/CY24E EPS by 3%/1% to reflect better margins in both businesses, lower EU revenue in CY24E and higher interest cost. **Reiterate BUY with a TP of INR450 (premised on ~16x Mar'25E consol. EPS).**

Margin expansion continues in both the businesses

- MACA's 1QCY23 consol. revenue/EBITDA/PAT grew 18%/36%/34% YoY.
- Consol. revenue stood at ~INR24.4b (in line), driven by growth in both the EU (28% YoY) and India (13% YoY) businesses. EBITDA was at ~INR3.8b (v/s est. INR3.4b; **up 36% YoY**). Adj. PAT stood at INR2.2b (v/s est. INR1.9b; up 34% YoY) during the quarter.
- **India business:** Revenue grew 13% YoY to ~INR14.45b (v/s est. ~INR15.0b). EBITDA margin stood at 15.0% (v/s est. 14.5%; up 160bp YoY).
- **EU business:** Revenue was up 28% YoY to ~INR9.95b (v/s est. ~INR9.4b), whereas revenue growth would be ~22% in EUR terms. EBITDA margin expanded 240bp YoY to 16.4% (v/s est.13.5%) largely driven by lower energy prices coupled with operating leverage and better efficiency.

Highlights from the management commentary

- **Margin in India has further room for improvement**, led by recovery in 2W volumes. In the short term, it aspires to align India margin with CIE global level margin of 18% and in the medium term to 19% (v/s 1QCY23 reported margin of 16.7%).
- **EU EBITDA margin benefitted** from lower energy prices (one-third contribution), operating leverage (one-third) and internal efficiencies (one-third). It expects margin to sustain at current levels (but for seasonality).
- **For India EVs**, MACA has received several orders from M&M and TTMT. Further, it is working with 5-6 2W OEMs, as well as a few e-3W OEMs. Moreover, it is commencing EV components production in India, for supply to the EU, of certain steel-forged and pre-machined components.
- **The EU EV business acquisition:** MACA is working with several customers and already received a new battery packs business for a CV OEM. About 33% of its order book is made of EV components based on steel and aluminum forging (EV components and structural parts).

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 as well as recovery in domestic 2W demand 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 16.4x/14.1x CY23E/CY24E consolidated EPS. **Reiterate BUY with a TP of INR450 (premised on ~16x Mar'25E consol. EPS).**

Quarterly performance (Consol.)

Y/E December	CY22				CY23E				CY22	(INR m) CY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	20,608	22,160	22,294	22,468	24,402	24,910	25,837	26,171	87,530	1,01,320
YoY Change (%)	-5.9	8.5	6.6	34.6	18.4	12.4	15.9	16.5	29.4	15.8
EBITDA	2,804	3,058	2,934	2,924	3,806	3,834	3,881	3,912	11,720	15,433
Margins (%)	13.6	13.8	13.2	13.0	15.6	15.4	15.0	14.9	13.4	15.2
Depreciation	717	747	731	767	825	825	825	875	2,962	3,350
Interest	40	-1	109	79	240	210	210	208	227	868
Other Income	107	98	134	244	160	150	150	171	583	630
Share of profit from associates	4	11	3	4	3	10	5	7	22	25
PBT before EO expense	2,155	2,409	2,229	2,321	2,901	2,949	2,996	3,000	9,114	11,846
EO Exp/(Inc)	0	0	-38	-379	0	0	0	0	-379	0
PBT after EO exp	2,155	2,409	2,267	2,700	2,901	2,949	2,996	3,000	9,492	11,846
Tax Rate (%)	23.9	23.8	24.5	28.0	24.2	25.6	25.5	26.4	25.3	25.4
Adj. PAT	1,643	1,847	1,685	1,662	2,203	2,204	2,236	2,215	6,828	8,858
YoY Change (%)	7.7	35.6	13.0	96.3	34.1	19.4	32.7	33.2	69.2	29.7

**Key takeaways from the management interaction****India business:**

- India revenue growth was despite a mix-market scenario.
- **Margin in India has further room for improvement**, led by recovery in 2W volumes. In the short term, it aspires to align India margin with CIE global level margin of 18% and in the medium term to 19% (v/s 1QCY23 reported margin of 16.7%).
- **For India EVs**, MACA has received several orders from M&M and TTMT. Further, it is working with 5-6 2W OEMs, as well as a few e-3W OEMs. Moreover, it is commencing EV components production in India, for supply to the EU, of certain steel-forged and pre-machined components.
- Management reiterated its aspiration of beating underlying industry growth by 5-10pp, with 25% of sales coming from new orders.

Europe business:

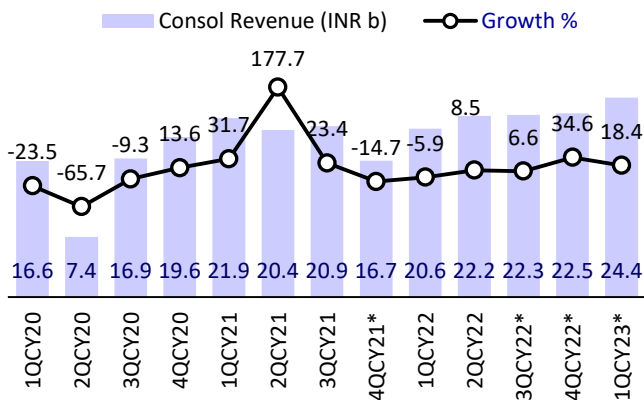
- Sales remained strong despite the uncertain market environment, as underlying PV industry grew 17.5% YoY. Favorable EUR-INR added 6% to the growth.
- Metalcastello: It is investing in capacity, especially for critical equipment. It is seeing weakness in the US (70% of Metalcastello sales) in the coming quarters.
- It expects growth to normalize for the market, with marginal growth going ahead.
- **EU EBITDA margin benefitted** from lower energy prices (one-third contribution), operating leverage (one-third) and internal efficiencies (one-third). It expects margin to sustain at current levels (but for seasonality).
- German forging business's (held for sale) strong performance was led by several one-offs. The sale process is ongoing and it expects outcome in 1-2 quarters.

- **The EU EV business acquisition:** MACA is working with several customers and already received a new battery packs business for a CV OEM. About 33% of its order book is made of EV components based on steel and aluminum forging (EV components and structural parts).
- The EU business has seen increase in interest cost as interest rates for MACA have gone up from 1QCY23.

Other

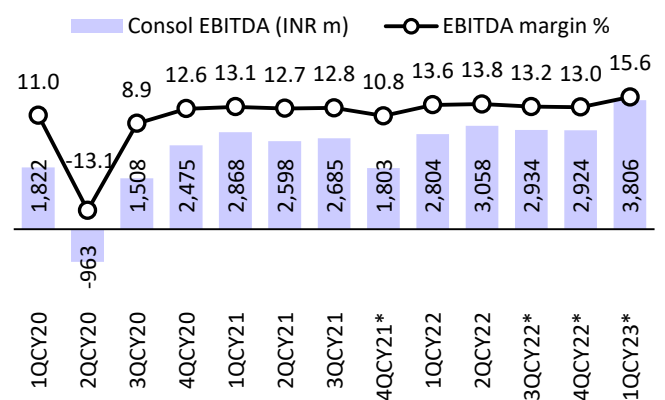
- India business is expected to grow 5-10pp above underlying market, whereas the EU business is likely to remain stable.
- M&A: It is actively looking for inorganic opportunities in light-weighting solutions in India. It typically looks at an RoNA of 15% in 3-5 years' timeline.

Exhibit 1: Trend in consolidated revenue



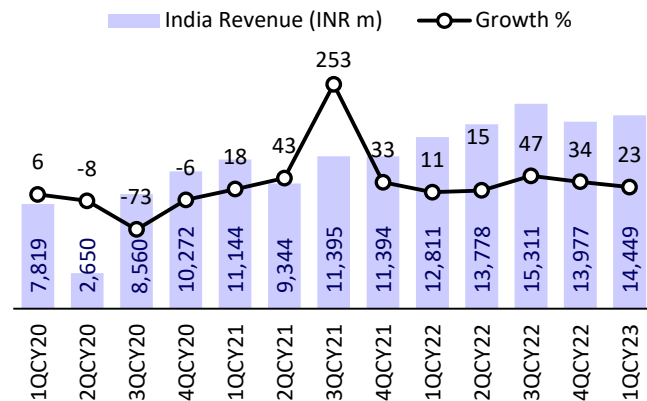
Source: *Excludes MFE, Company, MOFSL

Exhibit 2: Trend in consolidated EBITDA



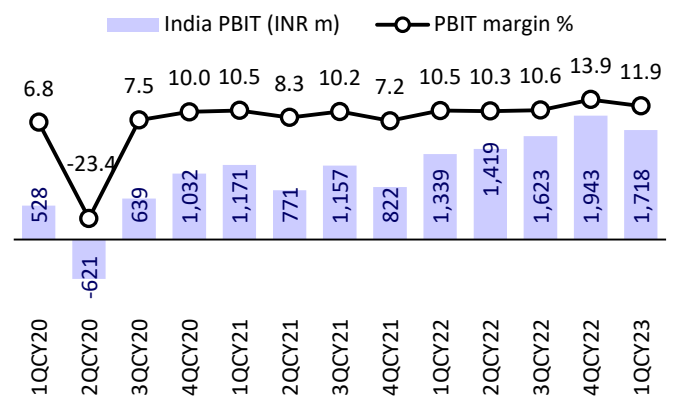
Source: *Excludes MFE, Company, MOFSL

Exhibit 3: Trend in India revenue



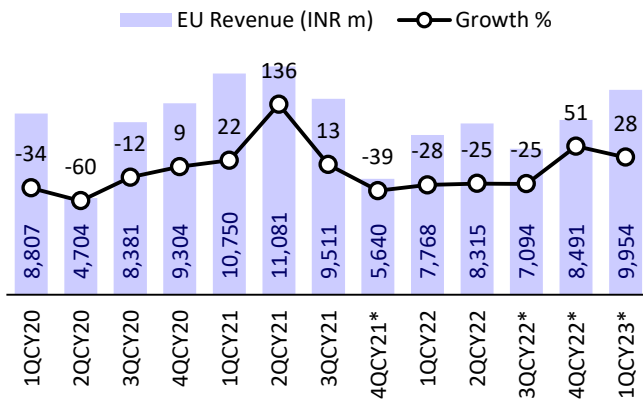
Source: Company, MOFSL

Exhibit 4: Trend in India PBIT margin



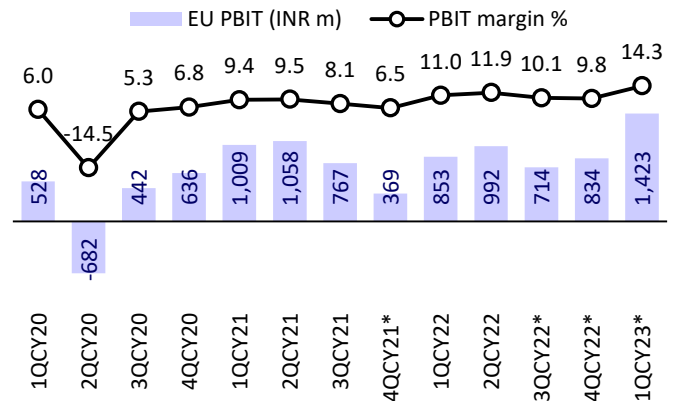
Source: Company, MOFSL

Exhibit 5: Trend in the EU revenue



Source: *Excludes MFE, Company, MOFSL

Exhibit 6: Trend in the EU PBIT margin



Source: *Excludes MFE, Company, MOFSL

Valuation and view

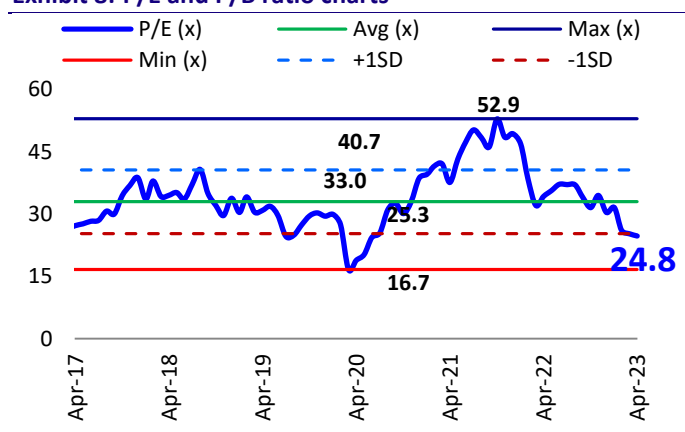
- **India a growth driver; focus is on consolidating operations in the EU:** MACA has been diversifying its India revenue and rationalizing costs, both domestically and in its EU business. India is expected to be the key growth driver, led by: a) value-added products (machined castings, higher grade 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 MACA has achieved its 15% EBITDA margin target in India, it is aiming for 18-19% (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 inorganic 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 post-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 BUY with a TP of INR450:** 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 16.4x/14.1x CY23E/CY24E consolidated EPS. **Reiterate BUY with a TP of INR450 (premised on ~16x Mar'25E consol. EPS).**

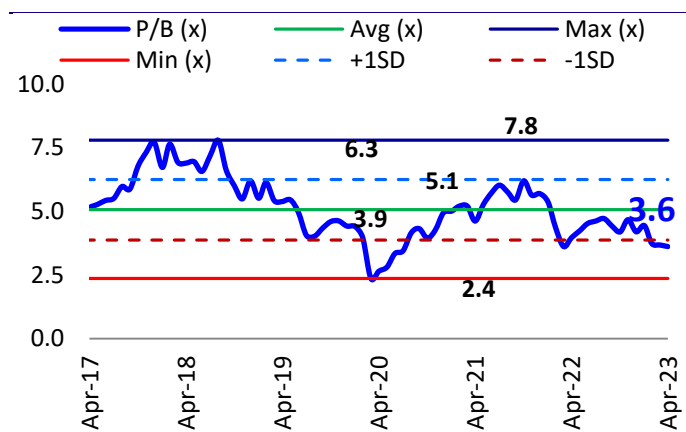
Exhibit 7: Our revised estimates

(INR m)	CY23E			CY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,01,320	1,00,537	0.8	1,10,926	1,09,843	1.0
EBITDA	15,433	14,335	7.7	17,538	16,717	4.9
EBITDA margin %	15.2	14.3	100bp	15.8	15.2	60bp
Adj. PAT	8,858	8,605	2.9	10,321	10,195	1.2
EPS (INR)	23.4	22.8	2.9	27.3	27.0	1.2

Source: MOFSL

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

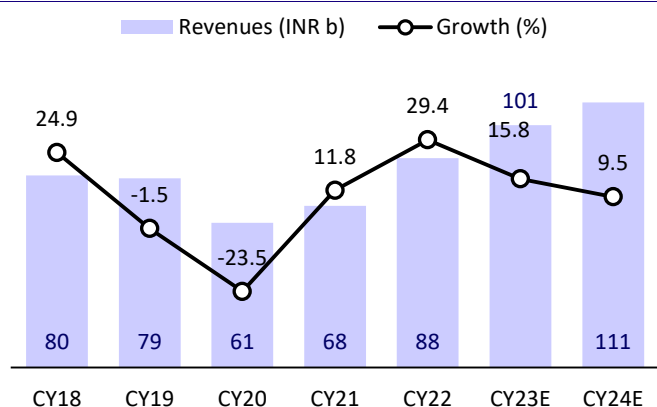
Source: Company, MOFSL



Source: Company, MOFSL

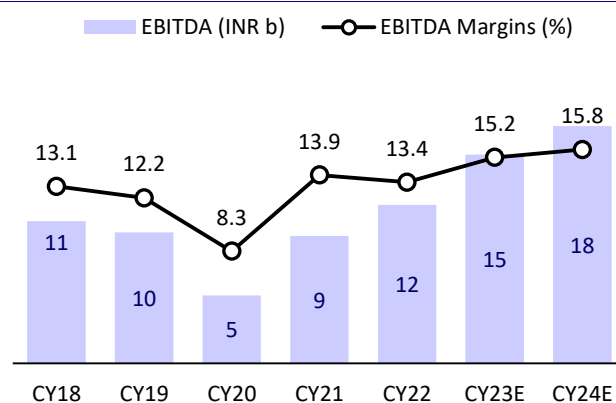
Key operating indicators

Exhibit 9: Expect consolidated revenue to recover



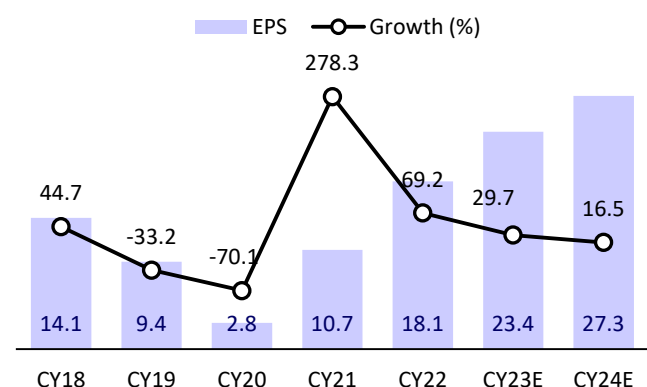
Source: Company, MOFSL

Exhibit 10: Expect EBITDA margin to recover in CY23



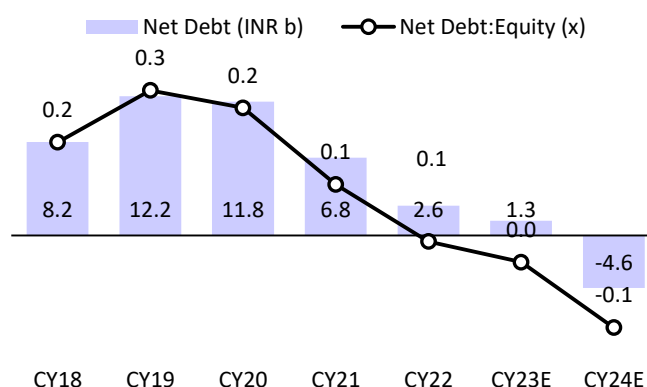
Source: Company, MOFSL

Exhibit 11: EPS and EPS growth



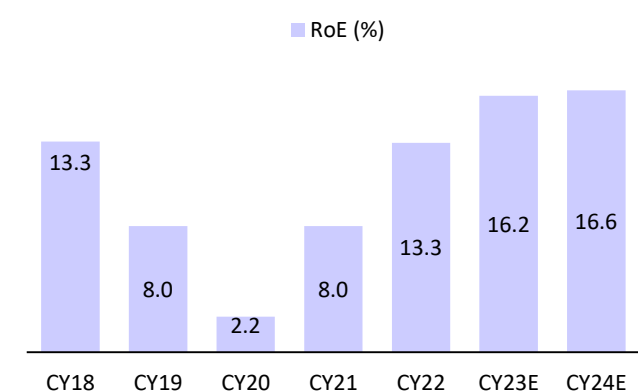
Source: Company, MOFSL

Exhibit 12: Expect net debt to reduce substantially by CY23



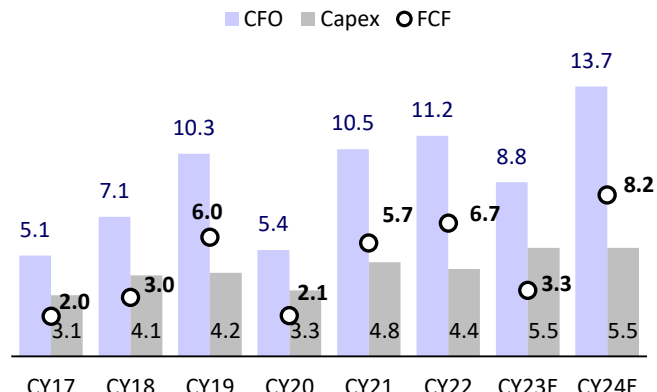
Source: Company, MOFSL

Exhibit 13: Expect RoE to continue to improve



Source: Company, MOFSL

Exhibit 14: FCF to remain at healthy levels



Source: Company, MOFSL

Exhibit 15: Key operating metrics

INR m	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Revenues								
Forgings	45,474	56,290	50,892	38,119	49,639	65,215	73,925	79,043
<i>Growth (%)</i>	25	24	-10	-25	30	31	13	7
India (ex BFL)	4,364	5,312	4,265	2,911	4,988	7,233	8,534	9,559
<i>Growth (%)</i>	13	22	-20	-32	71	45	18	12
BFL	6,917	8,737	8,776	6,898	9,238	13,436	15,049	16,855
<i>Growth (%)</i>	295	26	0	-21	34	45	12	12
MFE Europe	17,316	21,384	17,889	13,291	16,488	19,491	21,791	22,781
<i>Growth (%)</i>	8	23	-16	-26	24	18	12	5
CIE Europe	16,876	20,857	19,962	15,019	18,925	25,055	28,551	29,848
<i>Growth (%)</i>	14	24	-4	-25	26	32	14	5
Gears	4,716	7,904	7,893	5,128	8,326	10,880	12,620	13,756
<i>Growth (%)</i>	-8	68	0	-35	62	31	16	9
India	828	2,333	2,240	1,717	2,836	3,352	4,123	4,700
<i>Growth (%)</i>	-44	182	-4	-23	65	18	23	14
Metalcastello	3,888	5,571	5,653	3,411	5,490	7,528	8,497	9,056
<i>Growth (%)</i>	7	43	1	-40	61	37	13	7
Stampings	8,015	10,077	8,410	5,265	8,980	11,172	12,848	14,647
<i>Growth (%)</i>	26	26	-17	-37	71	24	15	14
Castings	4,177	5,269	4,237	3,152	5,021	6,703	7,709	8,557
<i>Growth (%)</i>	14	26	-20	-26	59	34	15	11
Composites	907	1,092	1,069	746	1,227	1,676	1,894	2,121
<i>Growth (%)</i>	3	20	-2	-30	64	37	13	12
Magnets	1,292	1,210	1,068	984	1,342	1,676	1,894	2,140
<i>Growth (%)</i>	-3	-6	-12	-8	36	25	13	13
Aluminum (AEL)			5,818	6,788	8,933	10,005	11,206	12,327
<i>Growth (%)</i>				17	32	12	12	10
Total Consol Revenues	64,279	80,315	79,078	60,501	67,652	87,530	1,01,320	1,10,926
<i>Growth (%)</i>	21	25	-2	-23	12	29	16	9
EBITDA Margins	12.7	13.1	12.2	8.3	13.9	13.4	15.2	15.8
EBIT Margins	8.5	9.5	8.2	3.2	9.9	10.0	11.9	12.6
Adj. EPS (INR/Sh)	9.8	14.1	9.4	2.8	10.7	18.1	23.4	27.3
<i>Growth (%)</i>	111	45	-33	-70	278	69	30	17

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement						(INR m)	
Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Total Income from Operations	80,315	79,078	60,501	67,652	87,530	1,01,320	1,10,926
Change (%)	24.9	-1.5	-23.5	11.8	29.4	15.8	9.5
EBITDA	10,511	9,677	5,016	9,417	11,720	15,433	17,538
Margin (%)	13.1	12.2	8.3	13.9	13.4	15.2	15.8
Depreciation	2,867	3,161	3,064	2,733	2,962	3,350	3,564
EBIT	7,643	6,516	1,952	6,684	8,758	12,083	13,974
Int. and Finance Charges	502	523	548	348	227	868	873
Other Income	387	331	549	468	583	630	683
PBT bef. EO Exp.	7,529	6,324	1,953	6,805	9,114	11,846	13,784
EO Items	-504	-46	0	-128	379	0	0
PBT after EO Exp.	7,025	6,279	1,953	6,677	9,492	11,846	13,784
Total Tax	2,043	2,741	886	2,731	2,401	3,013	3,487
Tax Rate (%)	29.1	43.7	45.4	40.9	25.3	25.4	25.3
Share of profit from associate	0	0	0	12	22	25	25
Reported PAT	4,981	3,538	1,066	3,958	7,113	8,858	10,321
Adj. PAT	5,339	3,564	1,066	4,034	6,828	8,858	10,321
Change (%)	44.7	-33.2	-70.1	278.3	69.2	29.7	16.5

Consolidated - Balance Sheet						(INR m)	
Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Equity Share Capital	3,788	3,790	3,790	3,791	3,793	3,793	3,793
Total Reserves	39,103	42,548	45,290	48,175	47,192	54,278	62,535
Net Worth	42,891	46,338	49,080	51,966	50,985	58,071	66,328
Minority Interest	0	0	0	0	0	0	0
Total Loans	16,134	14,691	16,476	12,816	9,234	9,235	9,236
Deferred Tax Liabilities	-1,565	912	1,236	2,459	3,199	3,199	3,199
Capital Employed	57,460	61,941	66,792	67,241	63,418	70,505	78,763
Gross Block	32,235	42,936	53,135	55,540	56,327	62,020	67,520
Less: Accum. Deprn.	12,294	17,619	23,204	25,937	28,899	32,249	35,813
Net Fixed Assets	19,941	25,316	29,931	29,603	27,427	29,771	31,707
Goodwill on Consolidation	29,111	35,260	37,554	36,265	28,040	28,040	28,040
Capital WIP	960	542	123	1,247	1,195	1,001	1,001
Total Investments	6,808	955	2,340	4,380	5,756	5,756	5,756
Curr. Assets, Loans&Adv.	26,455	23,553	23,686	26,712	36,780	33,888	42,718
Inventory	12,286	10,566	10,062	13,486	12,108	13,883	15,096
Account Receivables	7,414	7,368	7,054	6,687	8,608	9,716	10,637
Cash and Bank Balance	1,127	1,499	2,380	1,595	859	2,184	8,111
Loans and Advances	5,628	4,120	4,190	4,943	15,205	8,106	8,874
Curr. Liability & Prov.	25,815	23,686	26,843	30,965	35,780	27,950	30,458
Account Payables	16,838	14,771	14,590	19,385	21,350	19,060	20,724
Other Current Liabilities	5,038	4,745	7,909	7,605	12,876	7,092	7,765
Provisions	3,939	4,170	4,344	3,976	1,553	1,798	1,969
Net Current Assets	640	-133	-3,157	-4,253	1,000	5,938	12,260
Appl. of Funds	57,460	61,941	66,792	67,241	63,418	70,505	78,763

Financials and valuations

Ratios

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
Basic (INR)							
EPS	14.1	9.4	2.8	10.7	18.1	23.4	27.3
Cash EPS	21.7	17.8	10.9	17.9	25.9	32.3	36.7
BV/Share	113.4	122.6	129.8	137.4	134.8	153.6	175.4
DPS	0.0	0.0	0.0	2.5	2.5	3.9	4.5
Payout (%)	0.0	0.0	0.0	23.9	13.3	16.7	16.7
Valuation (x)							
P/E	27.2	40.7	136.0	36.0	21.2	16.4	14.1
Cash P/E	17.7	21.6	35.1	21.4	14.8	11.9	10.4
P/BV	3.4	3.1	3.0	2.8	2.8	2.5	2.2
EV/Sales	2.0	2.0	2.6	2.3	1.8	1.5	1.3
EV/EBITDA	15.3	16.4	31.8	16.6	13.1	9.9	8.4
Dividend Yield (%)	0.0	0.0	0.0	0.7	0.7	1.0	1.2
FCF per share	7.9	15.9	5.4	15.1	17.8	8.8	21.6
Return Ratios (%)							
RoE	13.3	8.0	2.2	8.0	13.3	16.2	16.6
RoCE (Post-tax)	10.9	6.5	2.1	6.3	10.7	14.2	14.7
RoIC	11.5	6.8	1.8	6.5	11.3	15.4	16.6
Working Capital Ratios							
Fixed Asset Turnover (x)	2.5	1.8	1.1	1.2	1.6	1.6	1.6
Asset Turnover (x)	1.4	1.3	0.9	1.0	1.4	1.4	1.4
Inventory (Days)	56	49	61	73	50	50	50
Debtor (Days)	34	34	43	36	36	35	35
Creditor (Days)	77	68	88	105	89	69	68
Leverage Ratio (x)							
Net Debt/Equity	0.2	0.3	0.2	0.1	0.1	0.0	-0.1

Consolidated - Cash Flow Statement

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E
OP/(Loss) before Tax	7,025	6,279	1,953	6,689	9,514	11,871	13,809
Depreciation	2,898	3,168	3,064	3,431	3,537	3,350	3,564
Interest & Finance Charges	525	525	548	533	454	237	190
Direct Taxes Paid	-1,444	-1,161	-503	-1,053	-1,981	-3,013	-3,487
(Inc)/Dec in WC	-1,769	1,556	761	1,364	-97	-3,613	-395
CF from Operations	7,235	10,367	5,823	10,963	11,427	8,832	13,681
Others	-155	-94	-430	-452	-245	0	0
CF from Operating incl EO	7,080	10,273	5,393	10,511	11,182	8,832	13,681
(Inc)/Dec in FA	-4,101	-4,238	-3,343	-4,778	-4,434	-5,500	-5,500
Free Cash Flow	2,979	6,035	2,050	5,733	6,749	3,332	8,181
(Pur)/Sale of Investments	-6,201	-1,871	-1,376	-1,880	-1,273	0	0
Others	129	219	502	-967	-661	630	683
CF from Investments	-10,173	-5,890	-4,217	-7,625	-6,368	-4,870	-4,817
Issue of Shares	57	30	0	10	36	0	0
Inc/(Dec) in Debt	4,089	-3,545	506	-2,787	-3,936	1	1
Interest Paid	-525	-525	-477	-465	-378	-868	-873
Dividend Paid	0	0	0	0	-948	-1,476	-1,720
Others	0	0	-409	-385	349	0	0
CF from Fin. Activity	3,621	-4,040	-380	-3,627	-4,877	-2,343	-2,593
Inc/Dec of Cash	528	343	796	-740	-63	1,619	6,272
Opening Balance	719	1,247	1,590	2,386	1,646	1,583	3,202
Closing Balance	1,247	1,590	2,386	1,646	1,583	3,202	9,474

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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