

Stepping up margins in foreign operations, earnings witness smart upgrade, retain positive stance...

About the stock: Mahindra CIE (MCI), part of the Spain-based CIE Automotive Group, is a multi-technology, multi-product automotive component supplier.

- CY22 consolidated revenue mix – Europe 36%, India 64%
- Forging is ~59% of consolidated sales (78% in Europe)
- In India, it derives 49%, 23%, 20%, 8% of sales from PV, 2-W, tractors, M&HCV, respectively. In Europe it now derives 75% of sales from PV space

Q1CY23 Results: The company posted healthy Q1CY23 results.

- Consolidated revenue from continuing operations at ₹ 2,440 crore, nearly up 9% QoQ. Indian, European revenues up 1%, 32% QoQ, respectively
- EBITDA came in at ₹ 380.6 crore with margins at 15.6% (highest ever)
- PAT for the quarter came in at ₹ 220 crore vs. ₹195 crore in Q3'FY23 (excl. German forging business which is carved out as asset held for sales)

What should investors do? MCI stock price has grown at ~8% CAGR in past five years (from ~₹ 250 in April 2018), outperforming the Nifty Auto index in that time.

- We retain **BUY** rating on MCI tracking reiterated growth focus on Indian operations, steady demand outlook in foreign markets, sustenance of high double-digit margins in European operations amid decline in energy costs, order wins in EV space and healthy double digit return ratios

Target Price and Valuation: Revising our estimates, our earnings stage an upgrade of ~15%. We now value MCI at ₹ 520 i.e. 18x PE on CY24E EPS of ~₹ 29/share.

Key triggers for future price performance:

- Healthy underlying demand across categories domestically and continued focus on PV business in Europe with opportunities in lightweighting amid increasing EV penetration (i.e. increasing share of aluminium forging). We expect sales to grow at 11.8% CAGR over CY22-24E
- With operating leverage at play, efforts on operational efficiencies post sale of German forging business, margins seen improving to 15.8% by CY24E
- De-risking initiatives; addition of US Truck marker as EV client apart from existing 2-W EV OEMs; with EVs now comprising a third of new order wins
- RoE, RoCE is seen improving to ~17%, 18%, respectively, by CY24E amid superlative CFO, FCF yields, pegged at ~9%, 6%, respectively, in CY23-24E

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 ₹ 390

Mahindra CIE

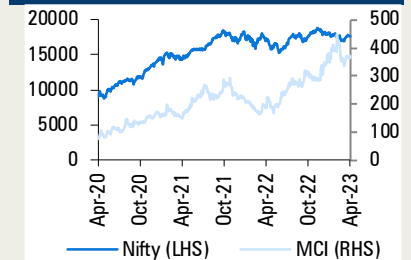
Particulars

Particular	₹ crore
Market Capitalization	15,142
Total Debt (CY22P)	923
Cash & Investments (CY22P)	662
EV	15,404
52 week H/L (₹)	462 / 168
Equity capital	₹ 379.1 Crore
Face value	₹ 10

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	74.9	75.0	75.0	68.9
FII	6.9	7.3	7.3	8.6
DII	8.1	7.7	7.5	11.2
Other	10.2	10.1	10.3	11.3

Price Chart



Recent event & key risks

- Posted healthy Q1CY23 results
- **Key Risk:** (i) Slower than anticipated sales in European region amid macro uncertainty (ii) Inefficient inorganic acquisitions along the growth journey

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Raghvendra Goyal
raghvendra.goyal@icicisecurities.com

Key Financial Summary

Key Financials	CY20	CY21	CY22P	5 year CAGR (CY17-22)	CY23E	CY24E	2 year CAGR (CY22-24E)
Net Sales	6,050.1	6,765.2	8,753.0	6.1%	10,058.9	10,940.4	11.8%
EBITDA	501.6	941.7	1,172.1	7.5%	1,543.0	1,723.1	21.3%
EBITDA Margins (%)	8.3	13.9	13.4		15.3	15.8	
Net Profit	106.4	392.8	(136.1)	PL	941.5	1,094.0	LP
EPS (₹)	2.8	10.4	(3.6)		24.9	28.9	
P/E	142.3	38.6	(111.3)		16.1	13.8	
RoNW (%)	2.2	7.7	9.2		16.2	16.5	
RoCE (%)	2.7	9.4	13.4		17.4	18.4	

Source: Company, ICICI Direct Research; Figures for CY20 have not adjusted for the proposed sale of MCI's German forging business, hence are not comparable

Key takeaways of recent quarter & conference call highlights

Q1CY23 Results:

- Mahindra CIE reported a healthy performance in Q1CY23. On a consolidated basis, net sales from continuing operations for the quarter were at ₹ 2,440 crore, nearly up 9% QoQ. EBITDA for Q1CY23 was at ₹ 380.6 crore with corresponding EBITDA margins at 15.6%, up 260 bps QoQ. Standalone margins came in at 15.3%, up 84 bps QoQ (led by gross margin gains)
- EBIT margin recovery in European operations was impressive ~330 bps QoQ to 14.7% while the same for Indian operations was at 12.7%, up ~110 bps QoQ (adjusted for land sale proceeds in Q4CY22). Sequential topline growth for Indian operations was 1% QoQ at ₹ 1,354.1 crore whereas continuing European operations grew 32% QoQ to ₹ 966.6 crore

Q1CY23 Earnings Conference Call highlights

- The management informed about M&M reducing its stake in the company from 9.1% to 3.19%. Also MCI has applied to NCLT for change of its name
- The management said the Indian business is performing well and is expected to continue this momentum. However, only subdued demand in the 2-W space is limiting performance whereas tractors performed exceptionally well
- MCIE European operation reported ~17.6% EBITDA margins due to energy price reduction, which was exceptionally high in previous quarters. The management informed about energy prices declining from € 300/MwH to ~€ 100-120/MwH in Q1CY23. Also, gas prices reduced from € 180/MwH to € 50/MwH in Q1CY23. Management expects them to sustain at current level
- The management informed about sale of its German forging business to be completed in the coming quarter or two
- On the margins front, the management continues to remain optimistic about achieving 18%+ margin over short term and 19%+ over medium term i.e. in line with the CIE group global targets
- On the demand front, the management guided about its European business facing headwinds and to remain weaker in coming quarters whereas Indian business to ride on PV & CV growth
- On Metacastello front, the management informed about the company watching the US market closely and not requiring capacity expansion based on current demand

On the EV front, the company informed about engaging with various OEMs and won order for battery housing packs and chassis components from truck manufacturer in north America. The company also won orders from five to six EV OEMs and is now engaging with E-3-W OEMs

The company to focus both on organic growth and inorganic growth and is targeting 50:50 mix for the same

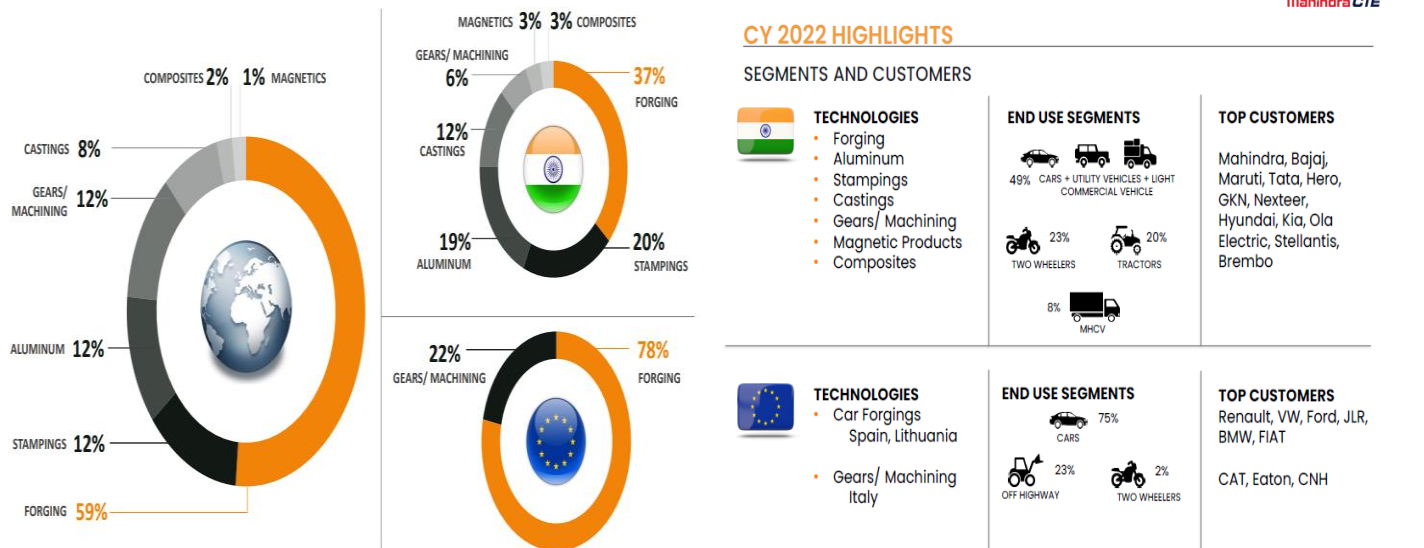
The management informed about exposure to engine related components in Europe increased to 30%+ post selling off of German forging business

The management expects 25% of its growth to come from new orders and endeavours to outpace industry growth by 5-10%

On newer acquisition, the company remains focused on generating RoNA of 15% in three to five years from acquisition

Exhibit 1: CY22 revenue breakup (including segments, customer profile)

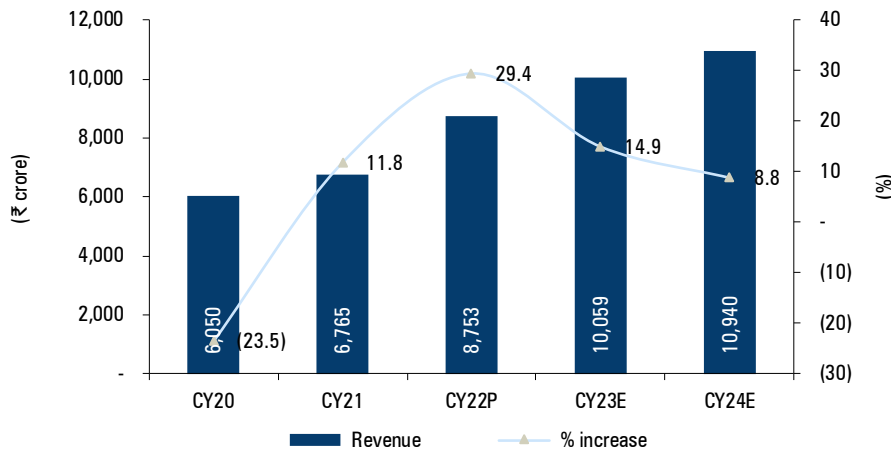
Mahindra CIE



Source: Company, ICICI Direct Research

Financial story in charts

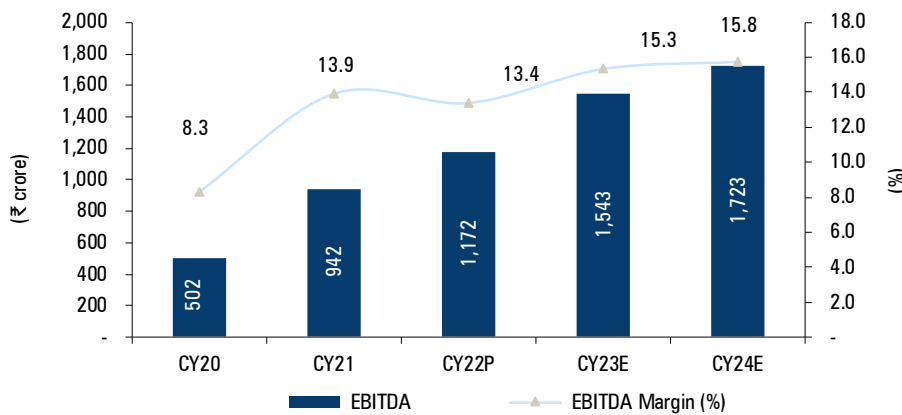
Exhibit 2: Trend in topline



MCI is seen posting 11.8% revenue CAGR over CY22-24E to ₹ 10,940 crore in CY24E

Source: Company, ICICI Direct Research

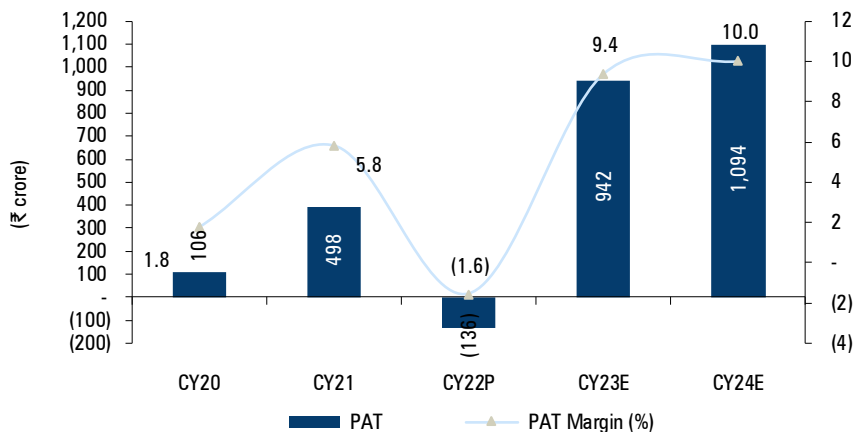
Exhibit 3: Trend in EBITDA and EBITDA margins



Margins are seen rising to 15.8% by CY24E on the back of a decline in RM costs, operating leverage benefits, internal efficiencies and selloff of its German business

Source: Company, ICICI Direct Research

Exhibit 4: Trend in PAT and PAT margins



PAT is expected to grow to ₹ 1,094 crore in CY24E from loss of ₹ 136 crore in CY22 due to impairment charge (profit from continued operations at ₹ 711 crore)

Source: Company, ICICI Direct Research

Exhibit 5: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY18	8,032	23.2	13.2	35.0	30.4	15.2	12.4	12.6
CY19	7,908	(1.5)	9.3	(29.0)	42.8	16.9	7.7	10.2
CY20	6,050	(23.5)	2.8	(69.9)	142.3	32.5	2.2	2.7
CY21	6,765	11.8	10.4	269.1	38.6	16.8	7.7	9.4
CY22P	8,753	29.4	(3.6)	NA	(111.3)	13.1	9.2	13.4
CY23E	10,059	14.9	24.9	NA	16.1	9.7	16.2	17.4
CY24E	10,940	8.8	28.9	16.2	13.8	8.4	16.5	18.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	CY21	CY22P	CY23E	CY24E
Total operating Income	6,765.2	8,753.0	10,058.9	10,940.4
Growth (%)	11.8	29.4	14.9	8.8
Raw Material Expenses	3,334.7	4,776.0	5,381.5	5,853.1
Employee Expenses	926.3	902.2	1,005.9	1,094.0
Other Expenses	1,562.5	1,902.8	2,128.5	2,270.1
Total Operating Expenditure	5,823.5	7,581.0	8,515.8	9,217.3
EBITDA	941.7	1,172.1	1,543.0	1,723.1
Growth (%)	87.8	24.5	31.7	11.7
Other Income	46.8	58.3	76.6	88.0
Interest	34.8	22.7	53.9	21.6
Depreciation	273.3	296.2	326.9	350.1
PBT	667.7	949.3	1,238.8	1,439.5
Total Tax	273.1	240.1	297.3	345.5
PAT before Minority Interest	394.6	709.2	941.5	1,094.0
Minority Interest	0.0	0.0	0.0	0.0
PAT after Minority Interest	392.8	-136.1	941.5	1,094.0
EPS (₹)	10.4	-3.6	24.9	28.9

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	CY21	CY22P	CY23E	CY24E
Profit after Tax (adj.)	392.8	786.2	941.5	1,094.0
Add: Depreciation & Interest	308.1	318.9	380.8	371.7
(Inc)/dec in Current Assets	-299.7	-986.3	415.0	-252.2
Inc/(dec) in CL and Provisions	479.8	807.5	-432.9	245.6
CF from operating activities	880.9	926.3	1,304.4	1,459.0
(Inc)/dec in Investments	25.0	126.5	-7.1	-4.8
(Inc)/dec in Fixed Assets	-360.1	-73.4	-553.2	-601.7
Others	-119.4	-709.9	-33.7	-36.0
CF from investing activities	-454.6	-656.8	-594.1	-642.6
Interest Paid	-34.8	-22.7	-53.9	-21.6
Inc/(dec) in loan funds	-366.0	-358.3	-250.0	-365.0
Dividend paid & dividend tax	-94.6	-94.6	-227.1	-265.0
Others	-9.5	132.6	0.0	0.0
CF from financing activities	-504.9	-343.0	-531.0	-651.6
Net Cash flow	-78.5	-73.5	179.3	164.9
Opening Cash	238.0	159.5	86.0	265.3
Closing Cash	159.5	86.0	265.3	430.2

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	CY21	CY22P	CY23E	CY24E
Liabilities				
Equity Capital	379.1	379.3	379.3	379.3
Reserve and Surplus	4,817.5	4,719.2	5,433.6	6,262.6
Total Shareholders funds	5,196.6	5,098.5	5,812.9	6,641.9
Total Debt	1,281.6	923.3	673.3	308.3
Minority Interest	0.0	0.0	0.0	0.0
Total Liabilities	7,449.9	6,615.2	7,094.6	7,568.8
Assets				
Gross Block	8,401.2	8,479.8	9,052.5	9,704.2
Less: Acc Depreciation	5,440.9	5,737.1	6,064.0	6,414.1
Net Block	2,960.3	2,742.7	2,988.5	3,290.2
Capital WIP	124.7	119.5	100.0	50.0
Total Fixed Assets	3,085.0	2,862.2	3,088.5	3,340.2
Investments	438.0	575.6	585.6	605.6
Goodwill	3,627	2,804	2,804	2,804
Inventory	1,348.6	1,210.8	1,377.9	1,498.7
Debtors	668.7	860.8	1,102.3	1,198.9
Other current assets	289.3	1,221.4	397.7	432.5
Cash	159.5	86.0	265.3	430.2
Total Current Assets	2,466.1	3,378.9	3,143.2	3,560.3
Creditors	1,938.5	2,135.0	2,342.5	2,547.8
Provisions	89.2	54.5	62.7	68.2
Other Current Liabilities	383.7	345.2	396.7	431.5
Total Current Liabilities	2,411.4	2,534.8	2,801.9	3,047.4
Net Current Assets	54.7	844.2	341.3	512.9
Application of Funds	7,449.9	6,615.2	7,094.6	7,568.8

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	CY21	CY22P	CY23E	CY24E
Per share data (₹)				
EPS	10.4	-3.6	24.9	28.9
Cash EPS	17.6	4.2	33.5	38.1
BV	137.3	134.7	153.6	175.5
DPS	2.5	2.5	6.0	7.0
Cash Per Share	4.2	2.3	7.0	11.4
Operating Ratios (%)				
EBITDA Margin	13.9	13.4	15.3	15.8
PAT Margin	5.9	5.4	9.4	10.0
Inventory days	72.8	50.5	50.0	50.0
Debtor days	36.1	35.9	40.0	40.0
Creditor days	104.6	89.0	85.0	85.0
Return Ratios (%)				
RoE	7.7	9.2	16.2	16.5
RoCE	9.4	13.4	17.4	18.4
RoIC	9.7	13.9	18.4	19.7
Valuation Ratios (x)				
P/E	38.6	-111.3	16.1	13.8
EV / EBITDA	16.8	13.1	9.7	8.4
EV / Net Sales	2.3	1.8	1.5	1.3
Market Cap / Sales	2.2	1.7	1.5	1.4
Price to Book Value	2.9	3.0	2.6	2.3
Solvency Ratios				
Debt/Equity	0.2	0.2	0.1	0.0
Current Ratio	1.0	1.3	1.0	1.0
Quick Ratio	0.4	0.8	0.5	0.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), and Raghvendra Goyal, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in a jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.