

Healthy quarter with promising growth outlook...

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.

Q4CY22 Results: Company posted healthy Q4CY22 results

- Consolidated revenue from continuing operations came in at ₹2,246 crores, nearly flat QoQ (Sequential growth in Europe, OEM led decline in India)
- EBITDA came in at ₹292.4 crores with margins at 13%.
- Company reported Loss at the PAT level amounting to ₹658 crores vs. profit reading on QoQ and YoY basis, largely attributable to impairment charge for placing Germany forging business up for sale. Profit from continuing operation stood at ₹195 crore for Q3FY22 and ₹711 crore for CY22

What should investors do? MCI stock price has grown ~11% CAGR past 5 years (from ~₹ 230 levels in Feb 2018), outperforming the Nifty Auto index in that time.

- We retain **BUY**, tracking healthy demand outlook, value accretion post selling of its German forging operations; improved financials; order wins in EV space, strong CFO yields (~7%) & healthy double digit return ratios.

Target Price and Valuation: Rolling over our valuations & switching to PE valuation methodology, we now value MCI at ₹500 i.e., 20x PE on CY24E EPS of ₹25/share

Key triggers for future price performance:

- With healthy underlying demand across major clients (like M&M, Tata, Maruti Suzuki) in Indian operations and PV centric Europe exposure, sales at MCI are expected to grow at 12.4% CAGR over CY22-24E.
- With o/p leverage at play & efforts on operational efficiencies post sale of German forging business, margins are seen improving to 14.1% by CY24E
- Robust order wins during year amidst consistent efforts to de-risk the base business with EV orders crossing ₹3 billion (per annum basis) mark in India
- RoE/RoCE is seen improving to 15%/17% respectively by CY24E amid superlative CFO/FCF yields which are pegged at ~7%/5% over CY22-24E

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

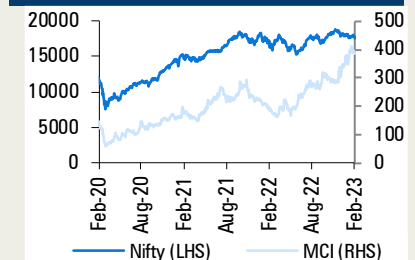
Particulars

Particular	₹ crore
Market Capitalization	15,710
Total Debt (CY22P)	923
Cash & Investments (CY22P)	662
EV	15,971
52 week H/L (₹)	420 / 164
Equity capital	₹ 379.1 Crore
Face value	₹ 10

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	72.2	74.9	75.0	75.0
FII	10.7	6.9	7.3	7.3
DII	7.4	8.1	7.7	7.5
Other	9.8	10.2	10.1	10.3

Price Chart



Recent event & key risks

- Posted healthy Q4CY22 results
- **Key Risk:** (i) Slower than anticipated sales growth in European region amid macro uncertainty (ii) lower than built in margin recovery over CY23E,24E

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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%	10,016.8	11,067.4	12.4%
EBITDA	501.6	941.7	1,172.1	7.5%	1,352.3	1,555.0	15.2%
EBITDA Margins (%)	8.3	13.9	13.4		13.5	14.1	
Net Profit	106.4	392.8	(136.1)	PL	810.5	947.0	LP
EPS (₹)	2.8	10.4	(3.6)		21.4	25.0	
P/E	147.6	40.0	(115.4)		19.4	16.6	
RoNW (%)	2.2	7.7	9.2		14.2	14.8	
RoCE (%)	2.7	9.4	13.4		15.0	16.7	

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 the recent quarter & Concall highlights

Q4CY22 Results:

- Mahindra CIE reported healthy performance in Q4CY22. On consolidated basis, net sales from continuing operations for the quarter stood at ₹2,246 crore, nearly flat QoQ. EBITDA for Q4CY22 stood at ₹292.4 crore with corresponding EBITDA margins at 13%, up 140 bps QoQ. Standalone margins came in at ₹14.5% up 200 bps QoQ (led by gross margin gains).
- EBIT margin recovery in the European operations was impressive ~100 bps QoQ to 11.4% while it was even better in Indian operations at 14.5% up ~300 bps QoQ. Sequential top line de-growth for Indian operations was 6% QoQ at ₹1,341.8 crores whereas continuing European operations grew 7.6% QoQ at ₹732.2 crores.

Q4CY22 Earnings Conference Call highlights

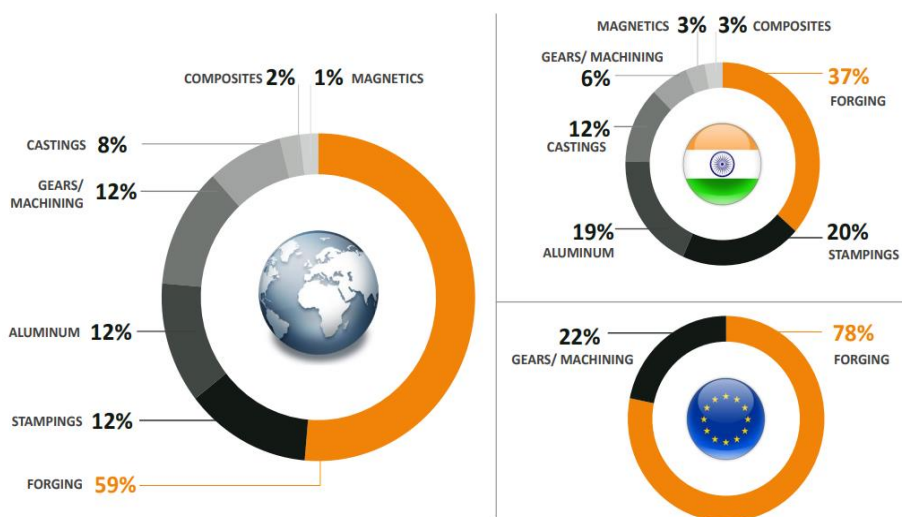
- During the year CIE increased its stake in the company from 60.8% to 65.7% & approved change of name from MCIE to CIE automotive India Ltd to show its commitment towards Indian market. Further company approved selloff of its truck forging business in Germany, consequently CIE Forgings Germany has been shown as discontinued operations.
- Management informed about Indian business being affected due to muted 2W & PV volumes due to year end effect, however expect healthy momentum going forward from PV, CV & Tractor space.
- MCIE Indian operation reported ~18.5% EBITDA margins higher due to one-time exceptional gain booked during the quarter as profit on sale of land adjusting which margins stood at 15.7%.
- With respect to European operations management informed about recovery being witnessed with company benefitting from consolidation of suppliers.
- BEV contribution in Europe stood at >10% in PV space and is progressing well with company supplying aluminium stamped products for the same.
- In Europe volume growth during the quarter stood at ~11% and for CY22 stood at 40%.
- Profit from discontinued operations is higher in Q4CY22 due to one-time exceptional items booked like reversal of provisions, price settlement of ~€7 million.
- Management remained committed towards its dividend distribution policy of 25% of PAT

Management remained confident about demand from Indian markets and expects to grow 5-10% higher than industry growth.

Management aspires to attain CIE global level margins of ~18-19% for the company in the near to medium term.

Company informed about healthy relations from M&M, Tata, MSIL and increasing share of business with south Korean OEMs like Kia & Hyundai

Exhibit 1: CY22 Revenue breakup




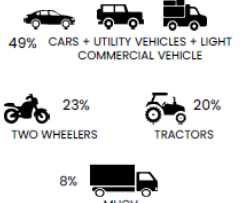

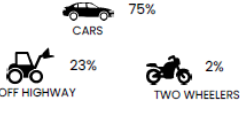
Source: Company, ICICI Direct Research

Exhibit 2: Segments and customer profile



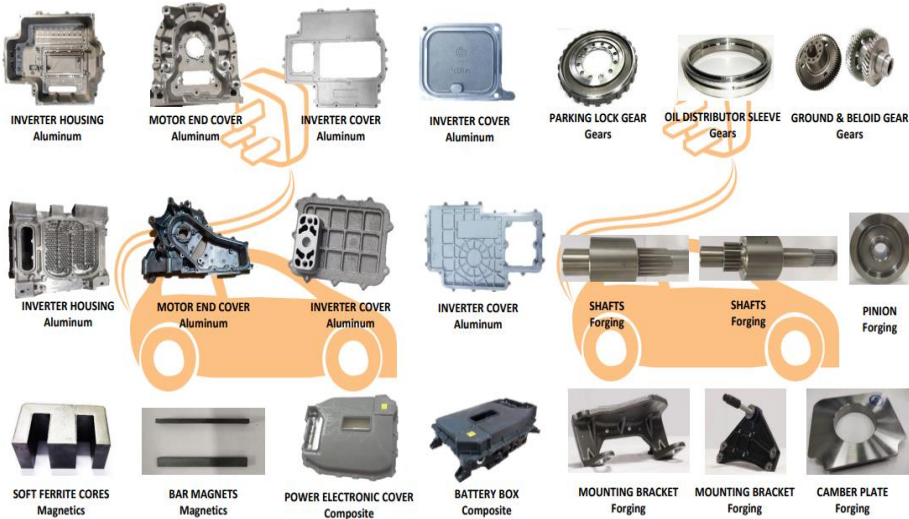
CY 2022 HIGHLIGHTS

SEGMENTS AND CUSTOMERS

 <p>TECHNOLOGIES</p> <ul style="list-style-type: none"> • Forging • Aluminum • Stampings • Castings • Gears/ Machining • Magnetic Products • Composites 	<p>END USE SEGMENTS</p>  <p>49% CARS + UTILITY VEHICLES + LIGHT COMMERCIAL VEHICLE</p> <p>23% TWO WHEELERS</p> <p>20% TRACTORS</p> <p>8% MHCV</p>	<p>TOP CUSTOMERS</p> <p>Mahindra, Bajaj, Maruti, Tata, Hero, GKN, Nexteer, Hyundai, Kia, Ola Electric, Stellantis, Brembo</p>
 <p>TECHNOLOGIES</p> <ul style="list-style-type: none"> • Car Forgings Spain, Lithuania • Gears/ Machining Italy 	<p>END USE SEGMENTS</p>  <p>75% CARS</p> <p>23% OFF HIGHWAY</p> <p>2% TWO WHEELERS</p>	<p>TOP CUSTOMERS</p> <p>Renault, VW, Ford, JLR, BMW, FIAT</p> <p>CAT, Eaton, CNH</p>

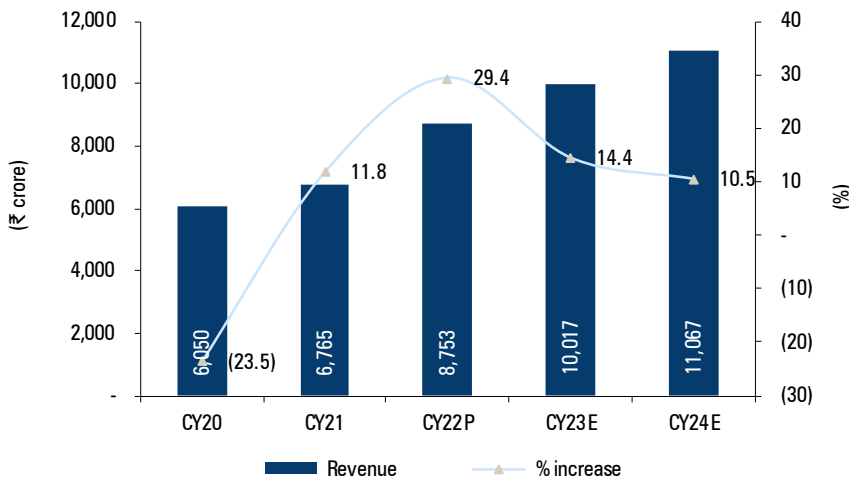
Source: Company, ICICI Direct Research

Exhibit 3: Current EV Portfolio



Source: Company, ICICI Direct Research

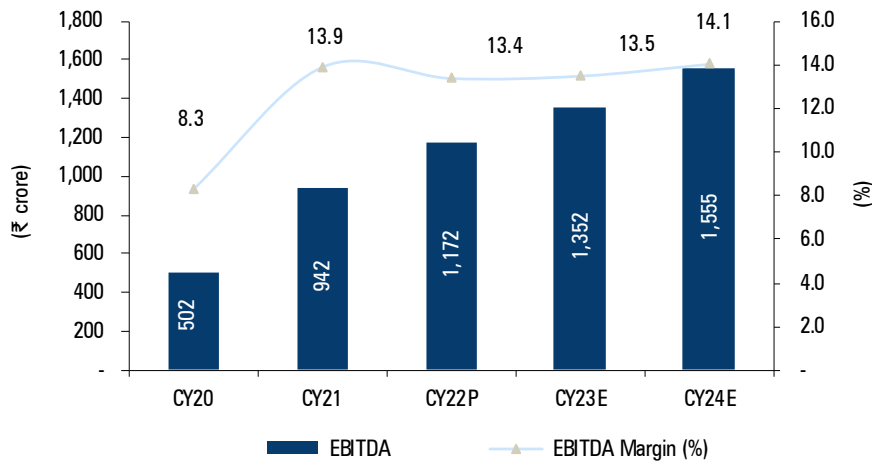
Exhibit 4: Trend in top line



MCI is seen posting 12.4% revenue CAGR over CY22-24E to ₹11,067 crores in CY24E

Source: Company, ICICI Direct Research

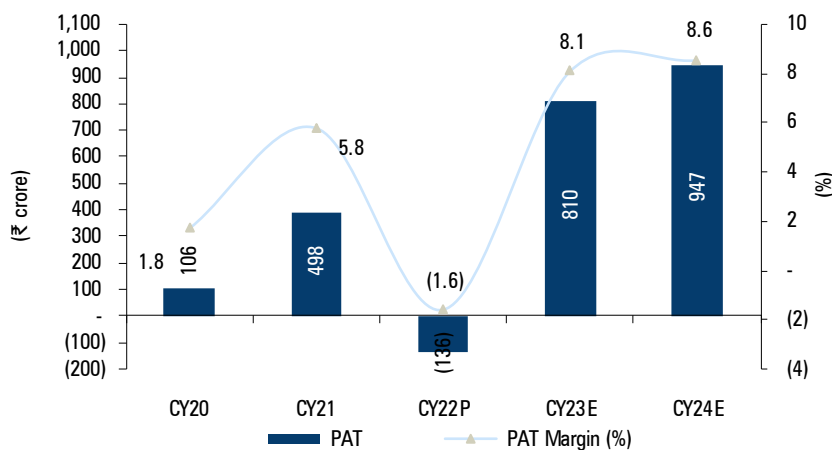
Exhibit 5: Trend in EBITDA and EBITDA margins



Margins are seen rising to 14.1% by CY24E on the back of decline in RM costs, operating leverage benefits, internal efficiencies & selloff of its German business

Source: Company, ICICI Direct Research

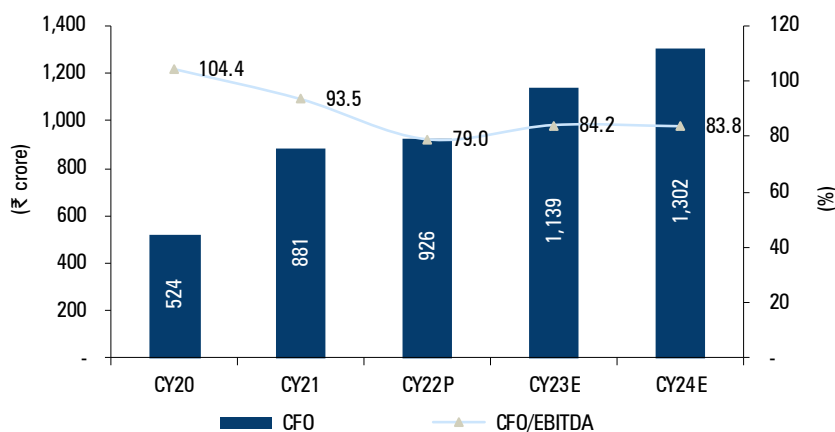
Exhibit 6: Trend in PAT and PAT margins



PAT is expected to grow to ₹947 crores in CY24E from loss of ₹136 crores in CY22 due to impairment charge (profit from continued operations at ₹711 cr)

Source: Company, ICICI Direct Research

Exhibit 7: Trend in CFO



CFO generation has been a particular strength over the years at MCI. We expect Cash flow/EBITDA to be 80%+ for CY22-24E

Source: Company, ICICI Direct Research

Exhibit 8: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY18	8,032	23.2	13.2	35.0	31.5	15.7	12.4	12.6
CY19	7,908	(1.5)	9.3	(29.0)	44.4	17.5	7.7	10.2
CY20	6,050	(23.5)	2.8	(69.9)	147.6	33.7	2.2	2.7
CY21	6,765	11.8	10.4	269.1	40.0	17.4	7.7	9.4
CY22P	8,753	29.4	(3.6)	NA	(115.4)	13.6	9.2	13.4
CY23E	10,017	14.4	21.4	NA	19.4	11.6	14.2	15.0
CY24E	11,067	10.5	25.0	16.8	16.6	9.8	14.8	16.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	CY21	CY22P	CY23E	CY24E
Total operating Income	6,765.2	8,753.0	10,016.8	11,067.4
Growth (%)	11.8	29.4	14.4	10.5
Raw Material Expenses	3,334.7	4,776.0	5,459.2	6,031.7
Employee Expenses	926.3	902.2	1,001.7	1,106.7
Other Expenses	1,562.5	1,902.8	2,203.7	2,374.0
Total Operating Expenditure	5,823.5	7,581.0	8,664.6	9,512.4
EBITDA	941.7	1172.1	1352.3	1555.0
Growth (%)	87.8	24.5	15.4	15.0
Other Income	46.8	58.3	74.1	71.1
Interest	34.8	22.7	20.2	9.2
Depreciation	273.3	296.2	325.5	354.2
PBT	667.7	949.3	1080.6	1262.6
Total Tax	273.1	240.1	270.2	315.7
PAT before Minority Interest	394.6	709.2	810.5	947.0
Minority Interest	0.0	0.0	0.0	0.0
PAT after Minority Interest	392.8	-136.1	810.5	947.0
EPS (₹)	10.4	-3.6	21.4	25.0

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	CY21	CY22P	CY23E	CY24E
Profit after Tax (adj.)	392.8	786.2	810.5	947.0
Add: Depreciation & Interest	308.1	318.9	345.7	363.4
(Inc)/dec in Current Assets	-299.7	-986.3	427.0	-300.6
Inc/(dec) in CL and Provisions	479.8	807.5	-444.6	292.6
CF from operating activities	880.9	926.3	1138.6	1302.4
(Inc)/dec in Investments	25.0	126.5	-6.9	-5.7
(Inc)/dec in Fixed Assets	-360.1	-73.4	-550.9	-608.7
Others	-119.4	-709.9	-33.0	-39.1
CF from investing activities	-454.6	-656.8	-590.8	-653.5
Interest Paid	-34.8	-22.7	-20.2	-9.2
Inc/(dec) in loan funds	-366.0	-358.3	-250.0	-365.0
Dividend paid & dividend tax	-94.6	-94.6	-208.2	-246.1
Others	-9.5	132.6	0.0	0.0
CF from financing activities	-504.9	-343.0	-478.4	-620.3
Net Cash flow	-78.5	-73.5	69.4	28.6
Opening Cash	238.0	159.5	86.0	155.4
Closing Cash	159.5	86.0	155.4	184.0

Source: Company, ICICI Direct Research

Exhibit 11: 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	5,321.5	6,022.4
Total Shareholders funds	5196.6	5098.5	5700.8	6401.7
Total Debt	1,281.6	923.3	673.3	308.3
Minority Interest	0.0	0.0	0.0	0.0
Total Liabilities	7449.9	6615.2	6982.0	7330.0
Assets				
Gross Block	8,401.2	8,479.8	9,050.2	9,708.9
Less: Acc Depreciation	5,440.9	5,737.1	6,062.6	6,416.8
Net Block	2960.3	2742.7	2987.6	3292.1
Capital WIP	124.7	119.5	100.0	50.0
Total Fixed Assets	3,085.0	2,862.2	3,087.6	3,342.1
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	1,372.2	1,516.1
Debtors	668.7	860.8	1,097.7	1,212.9
Other current assets	289.3	1,221.4	396.0	437.5
Cash	159.5	86.0	155.4	184.0
Total Current Assets	2,466.1	3,378.9	3,021.3	3,350.5
Creditors	1,938.5	2,135.0	2,332.7	2,577.3
Provisions	89.2	54.5	62.4	69.0
Other Current Liabilities	383.7	345.2	395.1	436.5
Total Current Liabilities	2,411.4	2,534.8	2,790.2	3,082.8
Net Current Assets	54.7	844.2	231.2	267.7
Application of Funds	7449.9	6615.2	6982.0	7330.0

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	CY21	CY22P	CY23E	CY24E
Per share data (₹)				
EPS	10.4	-3.6	21.4	25.0
Cash EPS	17.6	4.2	30.0	34.4
BV	137.3	134.7	150.6	169.1
DPS	2.5	2.5	5.5	6.5
Cash Per Share	4.2	2.3	4.1	4.9
Operating Ratios (%)				
EBITDA Margin	13.9	13.4	13.5	14.1
PAT Margin	5.9	5.4	8.1	8.6
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	14.2	14.8
RoCE	9.4	13.4	15.0	16.7
RoIC	9.7	13.9	15.5	17.2
Valuation Ratios (x)				
P/E	40.0	-115.4	19.4	16.6
EV / EBITDA	17.4	13.6	11.6	9.8
EV / Net Sales	2.4	1.8	1.6	1.4
Market Cap / Sales	2.3	1.8	1.6	1.4
Price to Book Value	3.0	3.1	2.8	2.5
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

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