

CMP: ₹ 260

Target: ₹ 325 (25%)

Target Period: 12 months

July 25, 2022

BUY

Steady performance, profitable growth lies 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
- In Europe it derives 36%/39%/9% of sales from PV/MHCV/Off highway

Q2CY22 Results: MCI posted steady Q2CY22 results

- Consolidated net sales came at ₹2,707 crores, up 4.6% QoQ.
- EBITDA margins stood at 11.2%, down 30 bps QoQ.
- PAT stood at ₹189 crores up 17% QoQ, aided by higher other income & lower finance costs. MCI's commentary was positive on demand outlook

What should investors do? MCI stock price has remained broadly flat over the past 5 years (from ~₹ 250 levels in July 2017), underperforming the Nifty Auto index.

- We retain **BUY**, tracking portfolio attributes namely strong CFO/FCF yields (~11%/5%) and ex-goodwill led healthy return ratios matrix (RoIC: ~30%).

Target Price and Valuation: Upgrading our forward estimates, we now value MCI at 8.5x CY23E EV/EBITDA for revised target of ₹ 325 (earlier target: ₹ 275)

Key triggers for future price performance:

- With volume growth on the anvil in the Indian operations, benefits flowing from the robust product profile/demand at M&M and recovery in European operations, sales at MCI is expected to grow at 18.6% CAGR over CY21-23E
- With operating leverage at play and MCI's efforts on costs efficiency, margins are seen improving to 12.5% by CY23E with corresponding RoCE seen at ~13% (optically muted due to high goodwill in B/S, RoIC at ~30%+)
- Persistent efforts to de-risk the 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 ₹230

Mahindra CIE

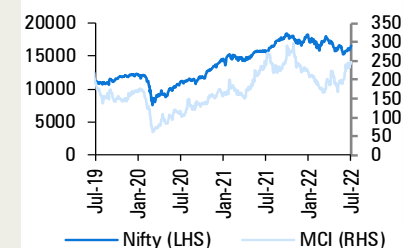
Particulars

Particular	₹ crore
Market Capitalization	9,842
Total Debt (CY21)	1,282
Cash & Investments (CY21)	598
EV	10,526
52 week H/L (₹)	312 / 164
Equity capital	₹ 379.1 Crore
Face value	₹ 10

Shareholding pattern

	Sep-21	Dec-21	Mar-22	June-22
Promoter	72.2	72.2	72.2	74.9
FII	10.5	10.4	10.7	6.9
DII	7.8	7.8	7.4	8.1
Other	9.5	9.7	9.8	10.2

Price Chart



Recent event & key risks

- Posted steady Q2CY22 results.
- **Key Risk:** (i) faster than anticipated switch to EV's and consequent lower sales growth (ii) delay in margin improvement on the European operations front

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Raghvendra Goyal
raghvendra.goyal@icicisecurities.com

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%	10,862.1	11,793.6	18.6%
EBITDA	967.7	501.6	1,017.3	13.9%	1,249.1	1,471.3	20.3%
EBITDA Margins (%)	12.2	8.3	12.1		11.5	12.5	
Net Profit	353.8	106.4	392.9	18.4%	683.7	835.1	45.8%
EPS (₹)	9.3	2.8	10.4		18.1	22.1	
P/E	27.8	92.5	25.1		14.4	11.8	
RoNW (%)	7.7	2.2	7.7		11.9	13.1	
RoCE (%)	10.2	2.7	9.4		11.5	13.3	

Source: Company, ICICI Direct Research

Key takeaways of the recent quarter & Concall highlights

Q2CY22 Results:

- Mahindra CIE reported steady performance in Q2CY22. On consolidated basis, net sales for the quarter stood at ₹2,707.2 crore, up 4.6% QoQ. EBITDA for Q2CY22 stood at ₹304.4 crore with corresponding EBITDA margins at 11.2%, down 30 bps QoQ
- EBIT margin recovery in the European operations was impressive ~150 bps QoQ to 8.5% while it was flat in Indian operations at 11.1%. Sequential top line growth for Indian operations was 7% QoQ at ₹1,386.6 crores whereas European operations grew 4% QoQ at ₹1,332.3 crores.

Q2CY22 Earnings Conference Call highlights

- Management guided about strong growth forecast for auto industry in India whereas European region witnessed some setbacks due to war. With things normalizing management expects H2CY22 to be better than H1CY22.
- Raw materials are expected to be at similar levels in India as no fall in prices is witnessed till now.
- Higher RM led growth in MCIs' top line in European operation is pegged at ~15%. Management informed about pass through agreement entered with customers wherein ~60-70% energy costs will be passed onto customers and ~30-40% impact to be absorbed by MCI.
- Meta Castello (a material subsidiary of company) grew 15-20% YoY. Whereas German operations hit due to war & energy prices however there is no cash burn there.
- MCI India top line growth for Indian operations (YoY) due to inflationary measures is to extent of ~10%. However same on QoQ basis is negligible (~1%)
- Company witnessed market share increase in European region due to consolidation of market as a result of geopolitical crisis.
- 2W industry is being muted however witnessing some uptick QoQ however still remains far below from FY18 peak.
- For Mahindra CIE's hosur plant, management plans to invest ₹5 billion over tenure of 5-6 years and same is expected to be funded through internal financing (till date spent ~₹130 crore, plant commissioned in June 2022)

Exhibit 1: Forecast for Indian Markets

- Passenger Vehicles
 - Light Vehicles (less than 6 Tons – European Classification)
 - Short Term: IHS forecasts production growth at a 16.8% between CY2021-CY 2022
 - Long term: IHS forecasts production growth at a CAGR of 3.8% over a period of 2021-2026
- MHCVs:
 - Short Term: IHS* forecasts production growth at 20.8% between CY2021-CY 2022
 - Long term: IHS* forecasts production growth at a CAGR of 6.8% over a period of 2021-2026
- Tractors:
 - "CRISIL Research expects domestic tractor industry to drop by 7-9% in fiscal 2022"... "... domestic tractor sales to expand at 3-5% compound annual growth rate (CAGR) during FY2022 to FY2027" ... CRISIL Research report
- Two Wheelers:
 - "CRISIL Research expects the two-wheeler industry to decline by -12 to -10% in fiscal 2022"... "... expects domestic two-wheeler sales to record a compound annual growth rate (CAGR) of 3-5% from FY 2021 to FY 2026" ... CRISIL Research report

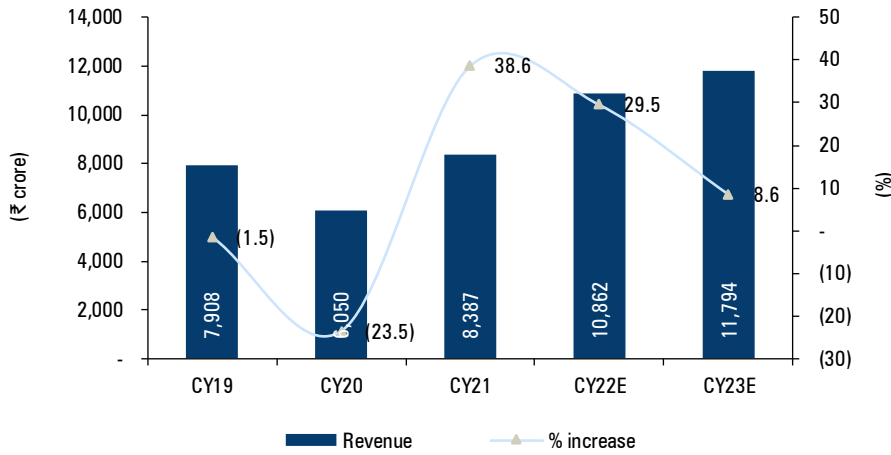
PV, CV space are expected to grow double digit in CY22 as per IHS estimates

H2CY22 sales for <6T trucks in Europe are expected to be at 8.6 mil units in vs 7.6 mil in H1CY22.

Source: Company, ICICI Direct Research

Financial story in charts

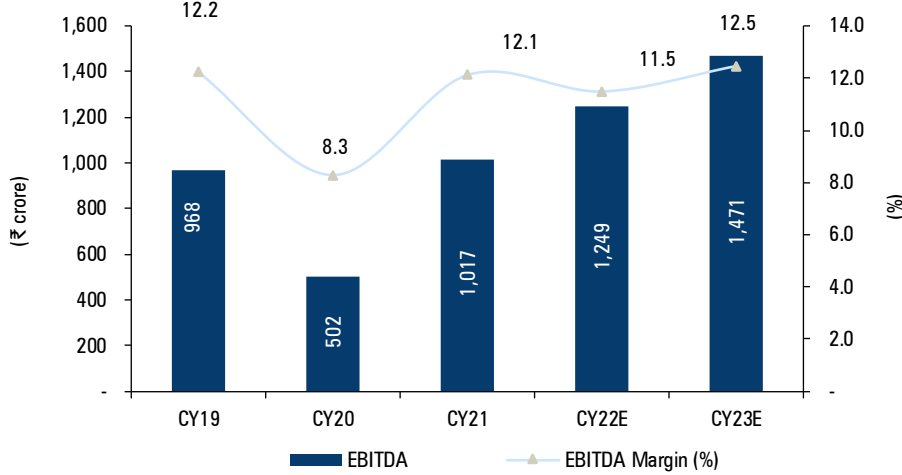
Exhibit 2: Trend in top line



MCI is seen posting 18.6% revenue CAGR over CY21-23E to ₹11,794 crores in CY23E

Source: Company, ICICI Direct Research

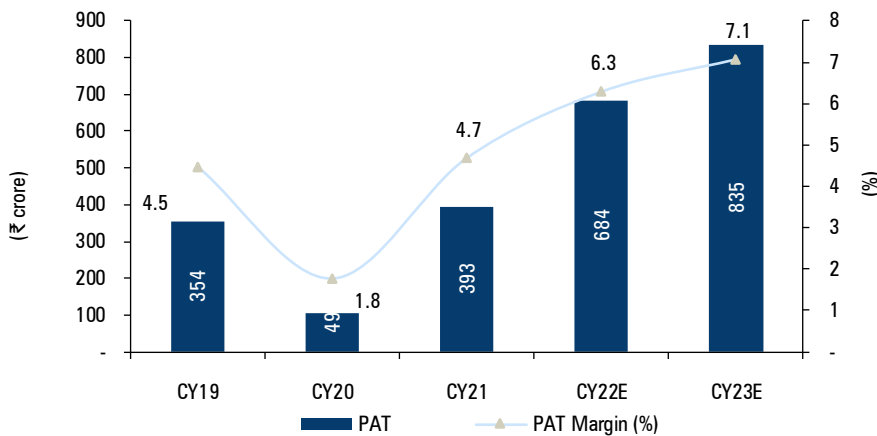
Exhibit 3: Trend in margins



Margins are seen rising to 12.5% by CY23E on the back of operating leverage benefits, internal efficiencies & revival of foreign operations

Source: Company, ICICI Direct Research

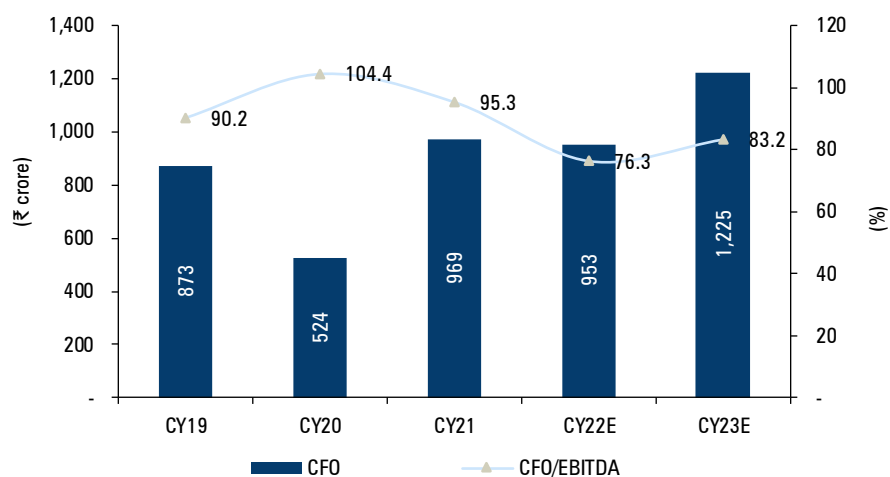
Exhibit 4: Trend in profitability



We expect PAT to grow at a CAGR of 45.8% over CY21-23E to ₹835 crores 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. We expect it to be >10% for CY22E-23E while FCF yield is placed at ~5% in the same time-frame

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	19.8	10.1	12.4	12.6
CY19	7,908	(1.5)	9.3	(29.0)	27.8	11.4	7.7	10.2
CY20	6,050	(23.5)	2.8	(69.9)	92.5	22.0	2.2	2.7
CY21	8,387	38.6	10.4	269.2	25.1	10.3	7.7	9.4
CY22E	10,862	29.5	18.1	74.0	14.4	8.3	11.9	11.5
CY23E	11,794	8.6	22.1	22.1	11.8	6.8	13.1	13.3

Source: Company, ICICI Direct Research

Exhibit 7: Target price calculation

Particulars	
CY23E EBITDA (₹ crore)	1,471
Target EV/EBITDA (x)	8.5
EV (₹ crore)	12,506
CY23E Net Debt (₹ crore)	206
Resultant MCap (₹ crore)	12,300
No. of shares (crore)	37.9
Target Price (₹ per share)	325

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	10,862.1	11,793.6	
Growth (%)	-23.5	38.6	29.5	8.6	
Raw Material Expenses	2,806.3	4,007.9	5,431.1	5,867.3	
Employee Expenses	1,261.8	1,347.8	1,439.2	1,503.7	
Other Expenses	1,480.4	2,013.7	2,742.7	2,951.3	
Total Operating Expenditure	5,548.5	7,369.4	9,613.0	10,322.3	
EBITDA	501.6	1017.3	1249.1	1471.3	
Growth (%)	-48.2	102.8	22.8	17.8	
Other Income	54.9	55.6	95.8	101.6	
Interest	54.8	53.3	53.2	46.6	
Depreciation	306.4	343.1	380.2	412.8	
PBT	195.0	663.8	911.6	1113.5	
Total Tax	88.6	272.1	227.9	278.4	
PAT before Minority Interest	106.4	391.7	683.7	835.1	
Minority Interest	0.0	0.0	0.0	0.0	
PAT after Minority Interest	106.4	392.9	683.7	835.1	
EPS (₹)	2.8	10.4	18.1	22.1	

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	683.7	835.1	
Add: Depreciation & Interest	361.2	396.4	433.3	459.4	
(Inc)/dec in Current Assets	-29.4	-299.7	-895.1	-339.2	
Inc/(dec) in CL and Provisions	85.2	479.8	730.6	269.4	
CF from operating activities	523.5	969.3	952.5	1224.7	
(Inc)/dec in Investments	-42.6	25.0	-51.5	-19.4	
(Inc)/dec in Fixed Assets	-732.0	-429.8	-597.4	-648.6	
Others	47.7	-119.4	22.1	-4.2	
CF from investing activities	-726.9	-524.3	-626.8	-672.2	
Interest Paid	-54.8	-53.3	-53.2	-46.6	
Inc/(dec) in loan funds	178.5	-366.0	-100.0	-250.0	
Dividend paid & dividend tax	0.0	-94.6	-151.4	-189.3	
Others	167.8	-9.6	0.0	0.0	
CF from financing activities	291.5	-523.5	-304.6	-485.9	
Net Cash flow	88.0	-78.4	21.2	66.7	
Opening Cash	150.0	238.0	159.6	180.8	
Closing Cash	238.0	159.6	180.8	247.5	

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	5,349.8	5,995.6	
Total Shareholders funds	4908.0	5196.6	5728.9	6374.7	
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	7973.2	8403.3	
Assets					
Gross Block	8,153.5	8,470.9	9,143.0	9,791.6	
Less: Acc Depreciation	5,167.6	5,510.7	5,890.8	6,303.6	
Net Block	2985.9	2960.2	3252.2	3488.0	
Capital WIP	12.3	124.7	50.0	50.0	
Total Fixed Assets	2,998.2	3,084.9	3,302.2	3,538.0	
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	1,785.6	1,938.7	
Debtors	705.4	668.7	1,041.6	1,195.5	
Other current assets	294.5	289.3	374.6	406.8	
Cash	238.0	159.6	180.8	247.5	
Total Current Assets	2,244.1	2,466.2	3,382.5	3,788.4	
Creditors	1,459.1	1,938.5	2,529.5	2,746.5	
Provisions	87.9	89.2	115.5	125.4	
Other Current Liabilities	454.5	383.7	497.0	539.6	
Total Current Liabilities	2,001.5	2,411.4	3,142.1	3,411.5	
Net Current Assets	242.6	54.8	240.5	376.9	
Application of Funds	7483.7	7449.9	7973.2	8403.2	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	CY20	CY21	CY22E	CY23E	
Per share data (₹)					
EPS	2.8	10.4	18.1	22.1	
Cash EPS	10.9	19.4	28.1	33.0	
BV	129.7	137.3	151.3	168.4	
DPS	0.0	2.5	4.0	5.0	
Cash Per Share	6.3	4.2	4.8	6.5	
Operating Ratios (%)					
EBITDA Margin	8.3	12.1	11.5	12.5	
PAT Margin	1.8	4.8	6.3	7.1	
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	11.9	13.1	
RoCE	2.7	9.4	11.5	13.3	
RoC	2.8	9.8	11.8	13.8	
Valuation Ratios (x)					
P/E	92.5	25.1	14.4	11.8	
EV / EBITDA	22.0	10.3	8.3	6.8	
EV / Net Sales	1.8	1.3	1.0	0.9	
Market Cap / Sales	1.6	1.2	0.9	0.8	
Price to Book Value	2.0	1.9	1.7	1.5	
Solvency Ratios					
Debt/Equity	0.3	0.2	0.2	0.1	
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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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**

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