

## Steady performance, healthy demand outlook...

**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, respectively
- In Europe it derives 36%, 39%, 9% of sales from PV, MHCV, off highway, respectively

**Q3CY22 Results:** MCI posted steady Q3CY22 results.

- Consolidated net sales came in at ₹ 2,731 crore, flat QoQ
- EBITDA margins were at 11.6%, up 36 bps QoQ
- PAT was at ₹ 171 crore, down 9.4% QoQ

**What should investors do?** MCI's stock price has grown at ~5% CAGR in the past five years (from ~₹ 244 levels in October 2017), outperforming the Nifty Auto index.

- We retain **BUY**, tracking healthy demand prospects, strong CFO/FCF yields (~10/5%) & healthy return ratios matrix (ex-goodwill RoIC: ~30%+)

**Target Price and Valuation:** Introducing CY24E, we now value MCI at 10x CY23E EV/EBITDA for revised target price of ₹ 380 (earlier target price: ₹ 325).

### Key triggers for future price performance:

- With volume growth on the anvil in Indian operations amid benefits flowing from the robust product profile at M&M & MSIL, as well as recovery in Europe, sales at MCI is expected to grow at 14.7% CAGR over CY21-24E
- With benign RM prices, negotiations with customers for pass through of hiked cost, operating leverage at play amid MCI's efforts on costs efficiency, margins are seen improving to 12.8% by CY24E with corresponding RoCE seen at ~14% (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 (MCI set to benefit from transition towards hybrids)

**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 ₹ 335

## Mahindra CIE

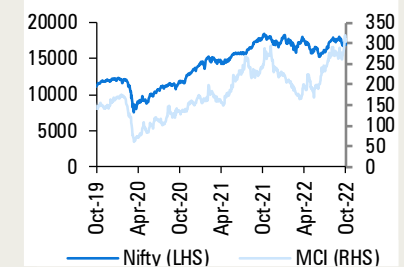
### Particulars

Particular	₹ crore
Market Capitalization	11,811
Total Debt (CY21)	1,282
Cash & Investments (CY21)	598
EV	12,495
52 week H/L (₹)	326 / 164
Equity capital	₹ 379.1 Crore
Face value	₹ 10

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	72.2	72.2	74.9	75.0
FII	10.4	10.7	6.9	7.3
DII	7.8	7.4	8.1	7.7
Other	9.7	9.8	10.2	10.1

### Price Chart



### Recent event & key risks

- Posted steady Q3CY22 results.
- **Key Risk:** (i) Slower recovery in Europe amid uncertain economic outlook (ii) High energy cost impacting margin recovery in European operations

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### Key Financial Summary

Key Financials	CY20	CY21	5 year CAGR (CY16-21)	CY22E	CY23E	CY24E	3 year CAGR (CY21-24E)
Net Sales	6,050.1	8,386.7	9.5%	10,863.7	11,773.7	12,671.0	14.7%
EBITDA	501.6	1,017.3	13.9%	1,256.9	1,463.5	1,616.8	16.7%
EBITDA Margins (%)	8.3	12.1		11.6	12.4	12.8	
Net Profit	106.4	392.9	18.4%	687.2	813.9	918.6	32.7%
EPS (₹)	2.8	10.4		18.2	21.5	24.3	
P/E	111.0	30.1		17.2	14.5	12.9	
RoNW (%)	2.2	7.7		12.0	12.8	13.0	
RoCE (%)	2.7	9.4		11.6	13.4	14.2	

Source: Company, ICICI Direct Research

## Key takeaways of the recent quarter & conference call highlights

### Q3CY22 Results:

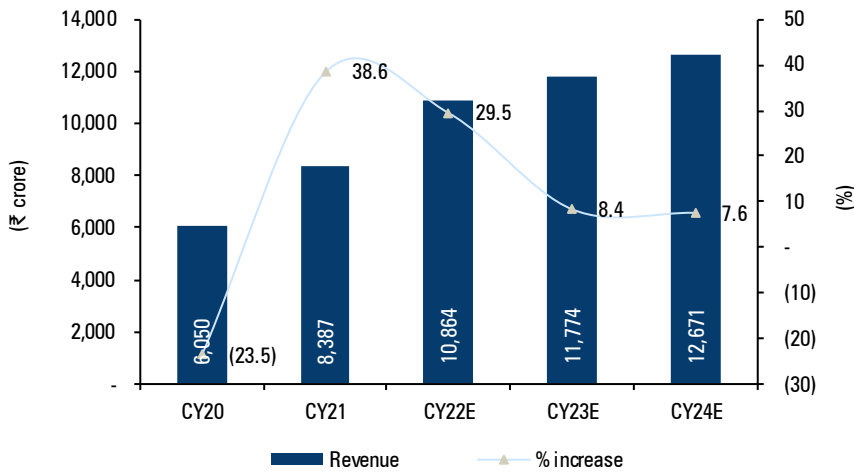
- Mahindra CIE reported a steady performance in Q3CY22. On a consolidated basis, net sales for the quarter were at ₹ 2,731.1 crore, flat QoQ. EBITDA for Q3CY22 was at ₹ 316.9 crore with EBITDA margins at 11.6%
- Revenues from Indian operations grew 12% QoQ with steady state 15% EBITDA margin profile while revenues from European operations de-grew 9% with 160 bps decline in EBITDA margins at 10%
- With a rise in share of revenues from India (55% for the quarter vs. 50% in Q2CY22), blended margins witnessed 36 bps expansion to 11.6%
- Margins at European operating came in muted due to high energy prices
- Management commentary on demand outlook was robust with intent to grow ahead of industry, going forward

### Q3CY22 Earnings Conference Call highlights

- During the quarter, CIE bought M&M's share keeping in mind high growth prospects in Indian operations. Post this acquisition, CIE's share increased from 63.44% to 65.71%
- The management guided about strong growth forecast for the auto industry in India (except tractors) whereas the European region witnessed some setbacks due to war & inflationary scenarios. However, demand from the European region is still strong with minimal cancellations of orders
- Muted performance in European operations was due to 20 days plant closure during Q3CY23 as well as high metals & energy prices, which impacted margins as well as topline for the company. The company is engaging with customers for pass-through of this hike that is expected to be recovered with a quarterly lag
- The management guided about no constraints in terms of availability of energy as of now in the European region. However, some rumours suggest a shortfall of gas in Germany
- The management expects European PV industry to grow 7-8% in CY23
- Metacastello, a material subsidiary of the company, is witnessing good demand traction from the US market and is working towards fulfilling pending orders (particularly in PV space). Metacastello has received large orders for EV powertrain in previous quarters, which are yet to be delivered
- CV forging business in the EU region witnessed some softness due to seasonality factor and is less profitable in the opinion of management. It is currently focusing more on PV, which is expected to grow by 7-8% for CY23
- MCIE continues to focus on its local supply model (i.e. produce & sell in same country) to save logistics cost & mitigate currency exchange risk
- The company expects some consolidation of forging players to happen in Europe due to economic uncertainty, thereby benefitting MCIE
- The tractor industry in India remained muted on the back of muted farm sentiments whereas other segments including 2-W are witnessing recovery
- The company is supplying components to largely all new launches of M&M & Maruti Suzuki and has also won new business from Tata Motors & Royal Enfield (brand at Eicher Motors)
- The management stays committed to incurring ~5% of turnover as capex
- Net debt as on date was at ~₹ 750 crore of which ~₹ 650 crore relates to European operations
- Exports from India were at ~12-13% of turnover and the management remains committed towards 20% target. However, the company is witnessing strong domestic demand and would like to focus on the same

## Financial story in charts

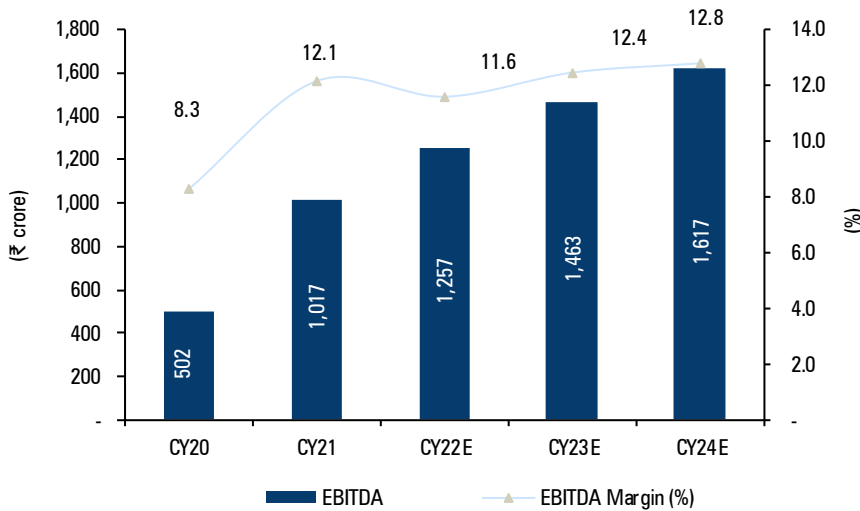
Exhibit 1: Trend in topline



MCI is seen posting 14.7% revenue CAGR over CY21-24E to ₹ 12,671 crore in CY24E

Source: Company, ICICI Direct Research

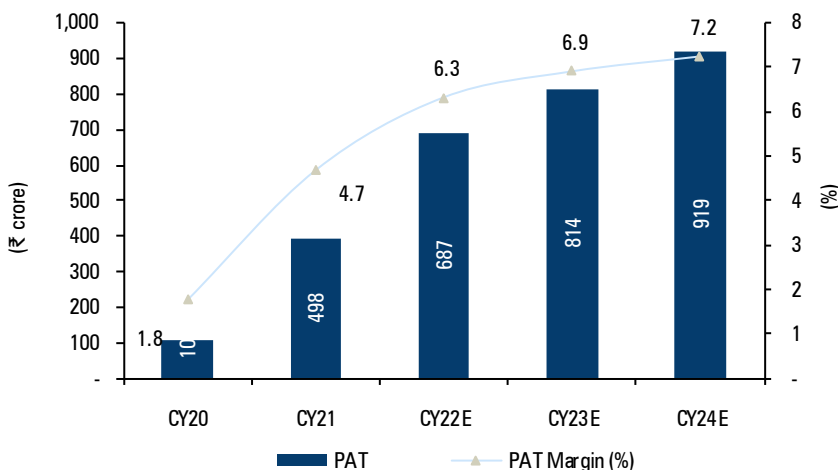
Exhibit 2: Trend in margins



Margins are seen rising to 12.8% by CY24E on the back of operating leverage benefits, internal efficiencies and revival of foreign operations

Source: Company, ICICI Direct Research

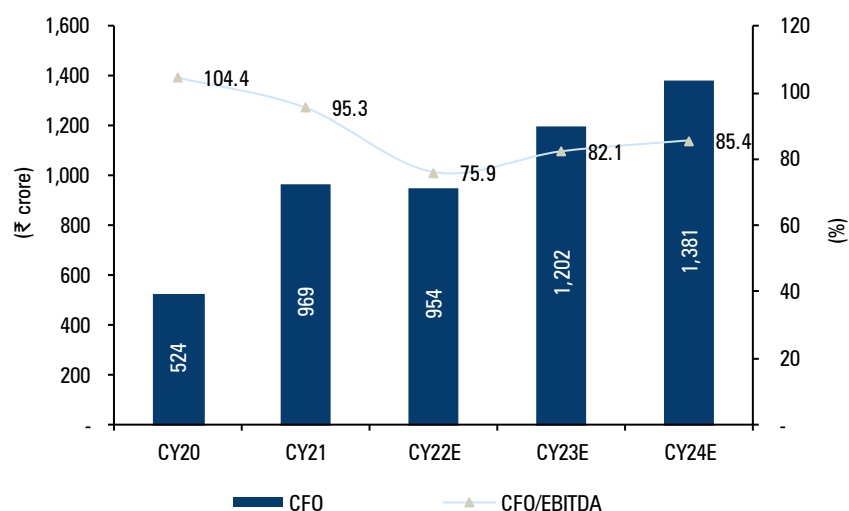
Exhibit 3: Trend in profitability



We expect PAT to grow at a CAGR of 32.7% over CY21-24E to ₹ 919 crore by CY24E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in CFO generation



CFO generation has been a particular strength over the years at MCI. We expect cash flow yield to be >= 10% for CY23E-24E while FCF yield is at ~5% in the same time-frame

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	23.7	12.0	12.4	12.6
CY19	7,908	(1.5)	9.3	(29.0)	33.4	13.5	7.7	10.2
CY20	6,050	(23.5)	2.8	(69.9)	111.0	25.9	2.2	2.7
CY21	8,387	38.6	10.4	269.2	30.1	12.3	7.7	9.4
CY22E	10,864	29.5	18.2	74.9	17.2	9.8	12.0	11.6
CY23E	11,774	8.4	21.5	18.4	14.5	8.2	12.8	13.4
CY24E	12,671	7.6	24.3	12.9	12.9	7.1	13.0	14.2

Source: Company, ICICI Direct Research

Exhibit 6: Target price calculation

Particulars	Amount
CY23E EBITDA (₹ crore)	1,463
Target EV/EBITDA (x)	10.0
EV (₹ crore)	14,635
CY23E Net Debt (₹ crore)	169
<b>Resultant MCap (₹ crore)</b>	<b>14,466</b>
No. of shares (crore)	37.9
<b>Target Price (₹ per share)</b>	<b>380</b>

Source: ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	CY21	CY22E	CY23E	CY24E
<b>Total operating Income</b>	<b>8,386.7</b>	<b>10,863.7</b>	<b>11,773.7</b>	<b>12,671.0</b>
Growth (%)	38.6	29.5	8.4	7.6
Raw Material Expenses	4,007.9	5,540.5	5,975.2	6,398.9
Employee Expenses	1,347.8	1,358.0	1,412.8	1,488.8
Other Expenses	2,013.7	2,708.3	2,922.2	3,166.5
Total Operating Expenditure	7,369.4	9,606.8	10,310.2	11,054.2
<b>EBITDA</b>	<b>1017.3</b>	<b>1256.9</b>	<b>1463.5</b>	<b>1616.8</b>
Growth (%)	102.8	23.5	16.4	10.5
Other Income	55.6	90.5	79.5	80.6
Interest	53.3	50.9	45.7	29.2
Depreciation	343.1	380.2	412.1	443.5
<b>PBT</b>	<b>663.8</b>	<b>916.3</b>	<b>1085.2</b>	<b>1224.7</b>
Total Tax	272.1	229.1	271.3	306.2
PAT before Minority Interest	391.7	687.2	813.9	918.6
Minority Interest	0.0	0.0	0.0	0.0
<b>PAT after Minority Interest</b>	<b>392.9</b>	<b>687.2</b>	<b>813.9</b>	<b>918.6</b>
<b>EPS (₹)</b>	<b>10.4</b>	<b>18.2</b>	<b>21.5</b>	<b>24.3</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	CY21	CY22E	CY23E	CY24E
<b>Profit after Tax</b>	<b>392.9</b>	<b>687.2</b>	<b>813.9</b>	<b>918.6</b>
Add: Depreciation & Interest	396.4	431.2	457.8	472.7
(Inc)/dec in Current Assets	-299.7	-895.6	-332.8	-269.4
Inc/(dec) in CL and Provisions	479.8	731.1	263.2	259.6
<b>CF from operating activities</b>	<b>969.3</b>	<b>953.8</b>	<b>1202.2</b>	<b>1381.4</b>
(Inc)/dec in Investments	25.0	-51.5	-18.9	-18.7
(Inc)/dec in Fixed Assets	-429.8	-543.2	-647.6	-696.9
Others	-119.4	22.1	5.5	-4.7
<b>CF from investing activities</b>	<b>-524.3</b>	<b>-572.5</b>	<b>-661.0</b>	<b>-720.3</b>
Interest Paid	-53.3	-50.9	-45.7	-29.2
Inc/(dec) in loan funds	-366.0	-150.0	-300.0	-300.0
Dividend paid & dividend tax	-94.6	-151.4	-189.3	-208.2
Others	-9.6	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-523.5</b>	<b>-352.3</b>	<b>-535.0</b>	<b>-537.4</b>
Net Cash flow	-78.4	29.0	6.2	123.7
Opening Cash	238.0	159.6	188.6	194.8
<b>Closing Cash</b>	<b>159.6</b>	<b>188.6</b>	<b>194.8</b>	<b>318.5</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	CY21	CY22E	CY23E	CY24E
<b>Liabilities</b>				
Equity Capital	379.1	379.1	379.1	379.1
Reserve and Surplus	4,817.5	5,353.3	5,978.0	6,688.3
<b>Total Shareholders funds</b>	<b>5196.6</b>	<b>5732.4</b>	<b>6357.0</b>	<b>7067.4</b>
Total Debt	1,281.6	1,131.6	831.6	531.6
Minority Interest	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>7449.9</b>	<b>7926.8</b>	<b>8284.9</b>	<b>8728.2</b>
<b>Assets</b>				
Gross Block	8,470.9	9,088.8	9,736.3	10,433.2
Less: Acc Depreciation	5,510.7	5,890.9	6,303.0	6,746.5
<b>Net Block</b>	<b>2960.2</b>	<b>3197.9</b>	<b>3433.3</b>	<b>3686.8</b>
Capital WIP	124.7	50.0	50.0	50.0
Total Fixed Assets	3,084.9	3,247.9	3,483.3	3,736.8
Investments	438.0	458.0	468.0	488.0
Goodwill	3,627	3,627	3,627	3,627
Inventory	1,348.6	1,785.8	1,935.4	2,082.9
Debtors	668.7	1,041.7	1,193.5	1,284.5
Other current assets	289.3	374.7	406.1	437.0
<b>Cash</b>	<b>159.6</b>	<b>188.6</b>	<b>194.8</b>	<b>318.5</b>
Total Current Assets	2,466.2	3,390.8	3,729.7	4,122.9
Creditors	1,938.5	2,529.9	2,741.8	2,950.8
Provisions	89.2	115.6	125.2	134.8
Other Current Liabilities	383.7	497.0	538.7	579.7
Total Current Liabilities	2,411.4	3,142.5	3,405.7	3,665.3
<b>Net Current Assets</b>	<b>54.8</b>	<b>248.3</b>	<b>324.0</b>	<b>457.5</b>
<b>Application of Funds</b>	<b>7449.9</b>	<b>7926.8</b>	<b>8284.9</b>	<b>8728.2</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	CY21	CY22E	CY23E	CY24E
<b>Per share data (₹)</b>				
EPS	10.4	18.2	21.5	24.3
Cash EPS	19.4	28.2	32.4	36.0
BV	137.3	151.4	167.9	186.7
DPS	2.5	4.0	5.0	5.5
Cash Per Share	4.2	5.0	5.1	8.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	12.1	11.6	12.4	12.8
PAT Margin	4.8	6.3	6.9	7.2
Inventory days	58.7	60.0	60.0	60.0
Debtor days	29.1	35.0	37.0	37.0
Creditor days	84.4	85.0	85.0	85.0
<b>Return Ratios (%)</b>				
RoE	7.7	12.0	12.8	13.0
RoCE	9.4	11.6	13.4	14.2
RoIC	9.8	12.0	13.8	14.9
<b>Valuation Ratios (x)</b>				
P/E	30.1	17.2	14.5	12.9
EV / EBITDA	12.3	9.8	8.2	7.1
EV / Net Sales	1.5	1.1	1.0	0.9
Market Cap / Sales	1.4	1.1	1.0	0.9
Price to Book Value	2.3	2.1	1.9	1.7
<b>Solvency Ratios</b>				
Debt/Equity	0.2	0.2	0.1	0.1
Current Ratio	1.0	1.0	1.0	1.0
Quick Ratio	0.4	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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