

**Strong order inflow; Robust India operations
outweighing weak EU**

CMP: INR 312

Rating: Buy

Target Price: INR 397

Stock Info

BSE	532756
NSE	MAHINDCIE
Bloomberg	MACA.IN
Reuters	MAFR.BO
Sector	Automobile Ancillaries
Face Value (INR)	10
Equity Capital (INR cr)	379
Mkt Cap (INR cr)	11,834
52w H/L (INR)	325/164
Avg Yearly Vol (in 000')	190

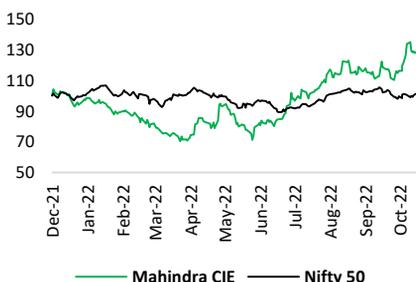
Shareholding Pattern %

(As on June, 2022)

Promoters	74.96
FII	6.85
DII	8.11
Public & Others	10.17

Stock Performance (%)	1m	3m	12m
Mahindra CIE Automotive	11.0	28.4	18.2
Nifty 50	-0.25	7.42	-5.36

Mahindra CIE Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Mahindra CIE (MCIE) is a multi-technology automotive components supplier. MCIE is a subsidiary of the CIE Automotive group of Spain; an industrial group specialized in supplying components and subassemblies for the automotive market. CIE Automotive continues to reaffirm its faith in MCIE by raising its stake from 63.44% equity to 65.71% during Q3 CY2022. The company revenue mix, in Europe, is 49%, India 51%. Forging is 59% of consolidated sales (86% in Europe). In Europe, the company has car forging (Spain and Lithuania), Truck forging in Germany, and gear machinery (Italy). India mix is more diversified; includes 22% from aluminium, 21%- stampings & 12% castings. In India, it derives 37%, 33%, 16%, and 8% of sales from PV, 2-W, tractors, and M&HCV, respectively. In Europe, it derives 36%, 39%, and 9% of sales from PV, MHCV, and off-highway, respectively.

Investment Rationale

Q3CY22 results overview: Mahindra CIE (MCIE) reported consolidated revenue of INR 2,723 Cr (up 0.6% QoQ/30.3%YoY) compared to INR 2,091 Cr in Q3CY21. EBITDA Margin stood at 11.6% against 12.8% in Q3CY21. The growth was led by positive performance, supported by growth and solid profitability in India and big commercial efforts in Europe to offset huge cost increases (Inflation, Energy). The company has good expectation for Indian business and uncertainty for European region.

Fast-growing profitable opportunities visible in India business: India sales stood at INR 143 Cr (+34% YoY/+12% QoQ). India's EBIT margin stood at 10.8% (+40bps QoQ) led by better operating performance. Demand remains strong in the PV segment. However, post-festive, it is expected to moderate for tractors owing to seasonality. Strong performance in the recent quarters has been led by successful model launches for M&M. The company indicated that it will be supplying to all the upcoming launches of M&M in EV & ICE, MSIL, and Tata Motor.

Focusing on capacity Expansion: MCIE has been expanding capacities in India and some of these have been commercialized viz. (1) new greenfield plant in Hosur for Bill Forge – company has invested INR 1.3 bn and commercial production started towards the end of June catering to RE and Hyundai-KIA and (2) Rajkot expansion of capacities for gears and shafts for existing customers. It is also readying a new plant at AEL for existing non-Bajaj customers apart from investments to develop warm forgings at Chakan and in its magnetics division.

Robust order booking: The order books is full. The customer is pushing to manufacture more product. The company has observed that there could be energy shortage which can impact production. In the last 3 years, Europe Automotive Industry was depressed and is hovering around 15mn cars. The company expects 7%-8% industry growth in 2023.

Valuations: We believe, MCIE has a resilient business structure from a long-term perspective and multiple long-term contracts with the world's leading OEMs. The company growth story is on track, led by its organic initiatives (new products/customers) and M&A focus. Under CIE's parentage, MCIE has improved its efficiencies, cut costs, and improved profitability. The company has been one of the beneficiaries of de-risking of global supply chains by OEMs (China+1). It intends to strategically shift products/technology for manufacturing and exporting from India by balancing the cost advantage and logistics/supply chain risk. The company targets 20% export revenue from India (from 12-13% currently) over the medium term. Strong order book and robust demand in both Indian and European operations are expected to drive the performance of the company. **We value Mahindra CIE at a PE of 17x its CY24E EPS of INR 23.4 with a target price of INR 397 per share. We initiate a Buy rating on the stock.**

Exhibit1: Q3CY22 - Quarterly Performance (Consolidated)

INR Cr (Consolidate)	Q3CY22	Q2CY22	Q3CY21	Q-o-Q	Y-o-Y
Net Revenue	2,723	2,707	2,091	0.6%	30.3%
Material Cost	1,458	1,474	1,003	-1.1%	45.5%
Employee cost	319	336	323	-4.9%	-1.2%
Other Expenses	629	593	496	6.0%	26.6%
EBITDA	317	304	269	4.1%	18.0%
EBITDA margin %	11.6%	11.2%	12.8%	39bps	-121bps
Other Income	14	36	7	-61.3%	86.4%
Depreciation	87	89	83	-2.4%	4.4%
EBIT	244	251	192	-2.9%	13.4%
EBIT Margin	8.9%	9.3%	9.2%	-32bps	-26bps
Finance cost	17	4	13	277.0%	25.0%
Exceptional Item	-	-	-	-	-
Share of profits of Associate company	0.3	1	-	-	-
PBT	227.2	247.5	179.1	-8.2%	16.2%
Tax Expense	56	59	13	-4.8%	339.2%
Effective tax rate %	24.6%	23.7%	7.1%	88bps	NA
Reported Net Profit	171.4	188.9	166.4	-9.3%	22.4%
Loss for the period for discontinued operation	-	-	-0.1	-	-
PAT	171.4	188.9	166.3	-9.3%	3.0%
Net margin %	6.3%	7.0%	8.0%	-68bps	-167bps
Reported EPS (INR)	4.52	4.98	-0.28	-9.2%	NA

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q3CY22 Conference call Highlights:

- **MCIE Europe:** Europe sales stood at INR 116 Cr (+28% YoY, -9% QoQ). Sequential decline was due to 20 days holiday shutdown during 3Q. Unfavorable impact of currency translation stood at 11%. Europe EBIT margin stood at 6.8% (-270bps YoY, +10bps QoQ). Limited pass-through of energy inflation and negative operating leverage owing to holiday related shutdown affected margins for European operations.
- **Demand:** The company indicated that underlying demand for PVs in both Europe and US remains strong. CV forging business has been less profitable and the company is looking to scale down the business.
- **Impact of Energy Prices in Europe:** In Q3CY22, the energy prices was highest than ever seen, even worse than Feb22. Electricity prices went up to EUR300 per MW in Feb22 and now is EUR400 per MW. In Germany, the price was EUR700 per MW. The company has observed cool off prices in Sept to tune of ~EUR300 per MW. The company has made agreement with customers to partial pass through the price.
- **Energy Impact in Heat Treatment plant** where Forging operations are done, the Energy prices can go up to 10%. Post the pass through agreement of energy prices, it would have impact of 1% in margin. In Northern Europe, like Germany, latvia, the Gas supply could be impacted. All operations are running smoothly as of now.
- In PV car forging, the trend is strong. The company is selling at higher rates in summer. Demand was strong. In Europe, the company grew 59% YoY. In India, the revenue growth from RM pass through is 6% and in Europe is 15%..
- **Strategy:** The Company has not changed it strategy. MCIE's strategy is local to local strategy. Expect this strategy to be more sustainable and hedges from currency risk, logistic risk, geo-political risk, etc. The company would increase its presence in India to supply to the local Indian Industry. The company is targeting to take India revenue mix to ~60% against 50%.
- **CAPEX:** Indian CAPEX would be 5% of total revenue.
- **Margin:** The company has target to achieve same margin level for Indian operation equivalent to global market. Expect growth in Indian Operation would be higher than rest of market. Expect to grow 10% higher than weighted average Industry growth.
- **Acquisition:** The company would not want to do acquisition for growth. It will do acquisition for new segment, technology or customer.
- **Exports:** 12%-13% was export from India. The company has target to reach 20%. But there was huge domestic demand and company 1st priority to service existing customer.

Story in charts

Exhibit 2: Trend in consolidated revenue

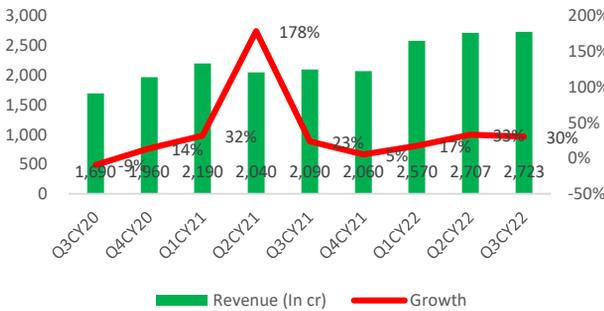


Exhibit 3: Growing EBITDA Margin due to decline in RM cost.

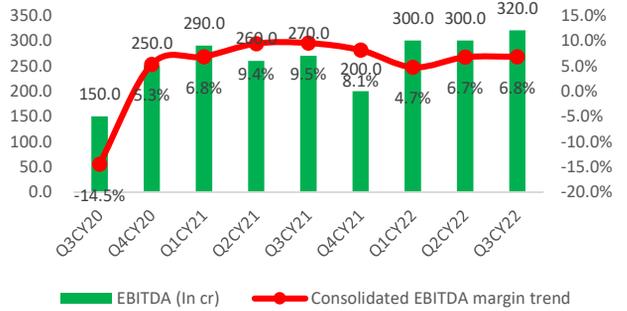


Exhibit 4: India revenue trend over the 9 quarter.

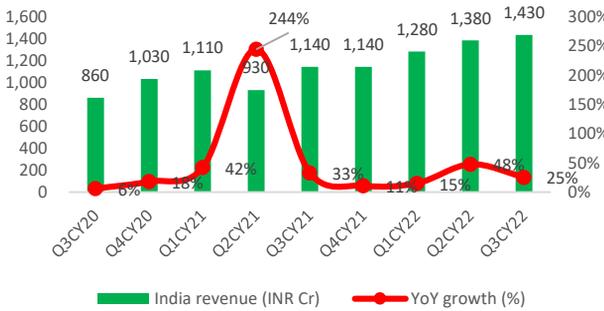


Exhibit 5: Europe revenue trend over the 9 quarter.

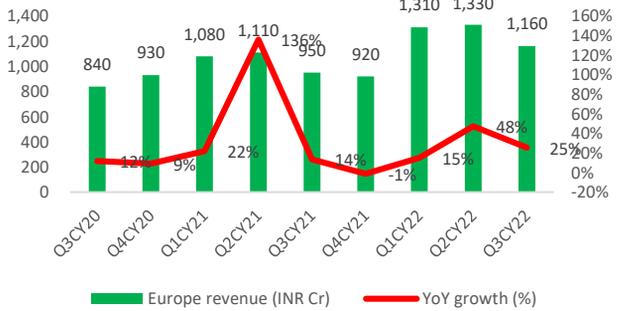


Exhibit 6: India EBIT margin trend

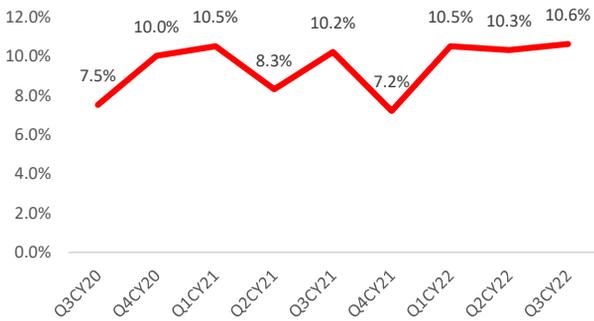


Exhibit 7: Europe EBIT margin trend



Exhibit 8: ROCE to improve from CY22E

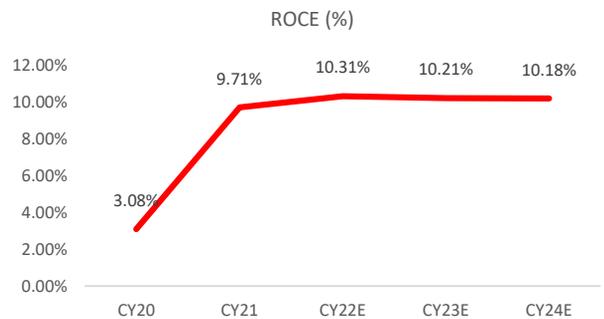
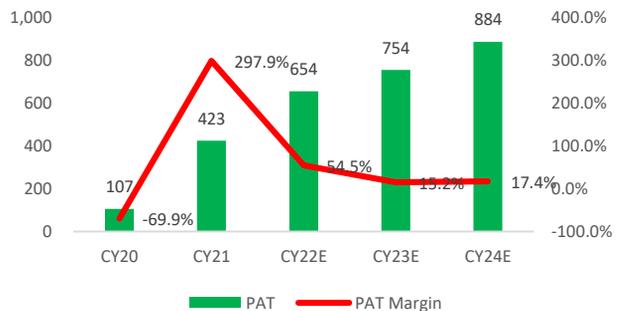


Exhibit 9: Expect consolidated PAT to recover CY22E onwards



Source: Company, Arianth Research

Key Financials

Income Statement (INR Cr)					
Year End-March	CY20	CY21	CY22E	CY23E	CY24E
Revenues	6,050	8,387	10,677	12,179	14,096
<i>Change (%)</i>	-20.0%	38.6%	27.3%	14.1%	15.7%
Gross Profit	195	705	896	1,029	1,205
Employee costs	1,262	1,348	1,375	1,457	1,472
Other expenses	1,480	2,014	2,986	3,486	3,109
Total Expenses	1,480	2,014	2,986	3,486	3,109
EBITDA	502	1,017	1,299	1,512	1,762
EBITDA Margin	8.29%	12.13%	12.16%	12.41%	12.50%
Depreciation	306	312	402	482	557
EBIT	250	760	954	1,089	1,267
EBITDA Margin	4.13%	9.07%	8.93%	8.94%	8.99%
Interest	55	-	-	-	-
Other Income	55	56	58	60	63
PBT	195	707	888	1,023	1,201
Exceptional Items	-0.20	-	-	-	-
PBT after exceptional Items	107	696	888	1,023	1,201
Tax	89	301	234	269	316
<i>Rate (%)</i>	83.1%	43.3%	26.3%	26.3%	26.3%
PAT	107	423	654	754	884
SHARE OF PROFIT / (LOSS) OF ASSOCIATES /					
JVs.	(0.20)	-	-	-	-
Consolidated PAT	106	423	654	754	885
<i>Change (%)</i>	-69.9%	297.9%	54.5%	15.2%	17.4%

Balance Sheet (INR Cr)					
Year End-March	CY20	CY21	CY22E	CY23E	CY24E
Sources of Funds					
Share Capital	379	379	379	379	379
Reserves & Surplus	4,529	4,896	5,455	6,077	6,450
Net Worth	4,908	5,275	5,834	6,456	6,829
Loan Funds	1,648	2,691	3,590	4,283	6,094
MI, Deferred Tax & other					
Liabilities	302	431	431	431	431
Capital Employed	6,556	7,965	9,424	10,739	12,923
Application of Funds					
Gross Block	5,042	5,436	5,970	6,579	7,283
Less: Depreciation	2,043	2,356	2,758	3,241	3,798
Net Block	2,998	3,080	3,211	3,338	3,484
CWIP	0	-	-	-	-
Other Non-current Assets	9	-	-	-	-
Other Current Assets	371	592	941	1,342	1,942
Net Fixed Assets	3,378	3,672	4,153	4,680	5,426
Investments	234	244	244	244	244
Debtors	705	1,048	1,335	1,522	1,762
Inventories	1,006	1,503	1,703	1,729	1,861
Cash & Bank Balance	238	1,172	2,159	3,028	4,471
Loans & Advances & other CA	1	1	1	1	1
Total Current Assets	2,529	4,523	6,348	7,831	10,244
Current Liabilities	2,961	3,637	4,134	4,429	4,805
Provisions	434	434	434	434	434
Net Current Assets	-432	886	2,213	3,401	5,440
Total Assets	6,556	7,965	9,424	10,739	12,923

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Cash Flow Statement (INR Cr)

Year End-March	CY20	CY21	CY22E	CY23E	CY24E
PBT	195	696	888	1,023	1,201
Cash From Operating Activities	76	-164	-983	-508	-747
Tax	-50	272	234	269	317
Net Cash From Operations	539	1,114	549	1,272	2,397
Cash From Investing	-429	-162	-375	-370	-395
Borrowings	51	1,043	899	693	1,811
Finance cost paid	-48	-53	-66	-66	-66
Cash From Financing	-38	990	833	627	3,014
Net Increase/ Decrease in Cash	72	1942	1007	1529	2687
Cash at the beginning of the year	159	239	2,180	3,187	4,716
Cash at the end of the year	239	2,180	3,187	4,716	7,403

Key Ratios

Year End-March	CY20	CY21	CY22E	CY23E	CY24E
Per share (INR)					
EPS	2.8	10.9	17.3	19.9	23.4
Valuation (x)					
P/E	111.2	28.7	18.1	15.7	13.4
P/BV	2.4	2.2	2.0	1.8	1.7
Return ratio (%)					
EBIDTA Margin	8.29%	12.13%	12.16%	12.41%	12.50%
PAT Margin	-69.92%	297.90%	54.51%	15.25%	17.37%
Retrun on Networth	2.23%	8.12%	11.78%	12.27%	13.32%
ROCE	3.08%	9.71%	10.31%	10.21%	10.18%
Sales/Capital employed (x)	0.9	1.1	1.1	1.1	1.1
MATERIAL COST / SALES (%)	46.0%	46.5%	47.0%	47.0%	55.0%
Leverage Ratio (%)					
Total D/E	0.3	0.5	0.6	0.7	0.9
Turnover Ratios					
Inventory Days	61	65	58	52	48
Receivable Days	43	46	46	46	46

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880