

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

CMP: INR 374

Rating: Buy

Target Price: INR 490

Stock Info

BSE	532756
NSE	MAHINDCIE
Bloomberg	MACA.IN
Reuters	MAFR.BO
Sector	Automobile Ancillaries
Face Value (INR)	10
Equity Capital (INR mn)	3793
Mkt Cap (INR mn)	1,42,052
52w H/L (INR)	462/168
Avg Yearly Vol (in 000')	190

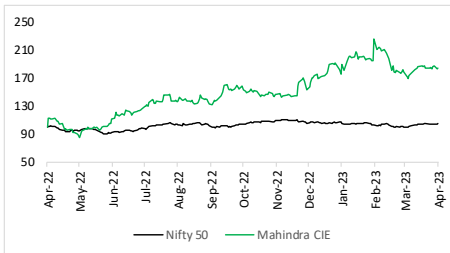
Shareholding Pattern %

(As on Mar, 2023)

Promoters	68.89
FII	8.62
DII	11.21
Public & Others	11.28

Stock Performance (%)	1m	6m	12m
Mahindra CIE Automotive	5.5	-0.81	67.3
Nifty 50	4.8	-0.71	3.28

Mahindra CIE Vs Nifty



Mahindra CIE Automotive's beat our estimates in all fronts. Net Revenue grew by 8.6% QoQ, de grew 5.1% YoY to INR 2,440 Cr. This is above our quarterly revenue estimate of INR 2,410 Cr. Europe led Beat on Revenue, grew 17.4% QoQ/20.7% YoY. Sales remain strong despite the uncertain market environment. Positive exchange rate impact of 6%. Q1CY23, M&M has reduced its shareholding in MCIE from 9.25% to 3.19%. The Indian business has grown on the backdrop of a mixed market scenario. The light vehicles market has grown at 9.5% YoY in this quarter, but the two-wheeler market has fallen. The Q1 seasonally is normally a good quarter.

Strong margin execution led by energy price reduction: EBITDA grew by 36.2% YoY/30.2% QoQ, to INR 381 Cr. EBITDA Margin expanded 473bps YoY/259bps QoQ to 15.6%. This is above our quarterly EBITDA estimate of INR 363 Cr and above our EBITDA Margin estimate of 15.1%. In Q4CY22, there was a one-time impact of EBITDA of INR 3780 Cr that is on the profit of land sale due to which the reported EBITDA margin in Q4 CY22 for MCIE India vertical was 18.5%, without that, recurrent EBITDA was 15.6%

Focusing on capacity Expansion: MCIE has been expanding capacity we have been adding capacity, we have been adding new machinery state of the art machinery with several power-carrying machines and these are the best-in-class machinery that the company is now using to produce gears in Metalcastello. The fact is that the company has been also peaking up at EUR270 mn EUR578 mn turnover in Metalcastello which is the highest turnover that the company has ever had in the company.

Robust order booking: The company has developed a good order book for EV parts and is working with major European in Indian OEMs in the EV space across segments and EV order book covers Aluminium and Steel forgings year stampings and composites parts for 2w, 3w, and 4w. 25% of sales in a year target getting from new orders, which the company has got in the previous years. The company aims to exceed market performance by 5-10% on a regular basis from a sales perspective.

Valuations

We believe, MCIE has a strong and resilient business structure, with multiple contracts with leading OEMs. The company's growth is driven by its own initiatives such as introducing new products and expanding its customer base, as well as through mergers and acquisitions. MCIE aims to surpass market performance in terms of sales by 5-10%. While Europe has shown good performance with high sales and low energy costs, the company will focus its M&A efforts solely on India, with a focus on Capex. Our recommendation is based on three factors: the decrease in energy costs, the improving outlook for PV and 2W recovery in the near future, and the company's strong free cash flow generation and minimal debt on the balance sheet. **We value Mahindra CIE at a PE of 19x its CY25E EPS of INR 29.8 with a target price of INR 490 per share. We maintain our Buy rating on the stock.**

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT from Continue operations	EPS (INR)	EBITDA Margin %	ROE	P/E (x)
CY22	8,753	1,172	709	-3.6	13.39%	17.1%	-107.2
CY23E	9,870	1,465	833	22.0	14.84%	19.4%	17.5
CY24E	11,140	1,704	976	25.8	15.30%	19.0%	14.9
FY25	12,588	1,957	1,129	29.8	15.55%	19.1%	12.9

Source: Arihant Research, Company Filings

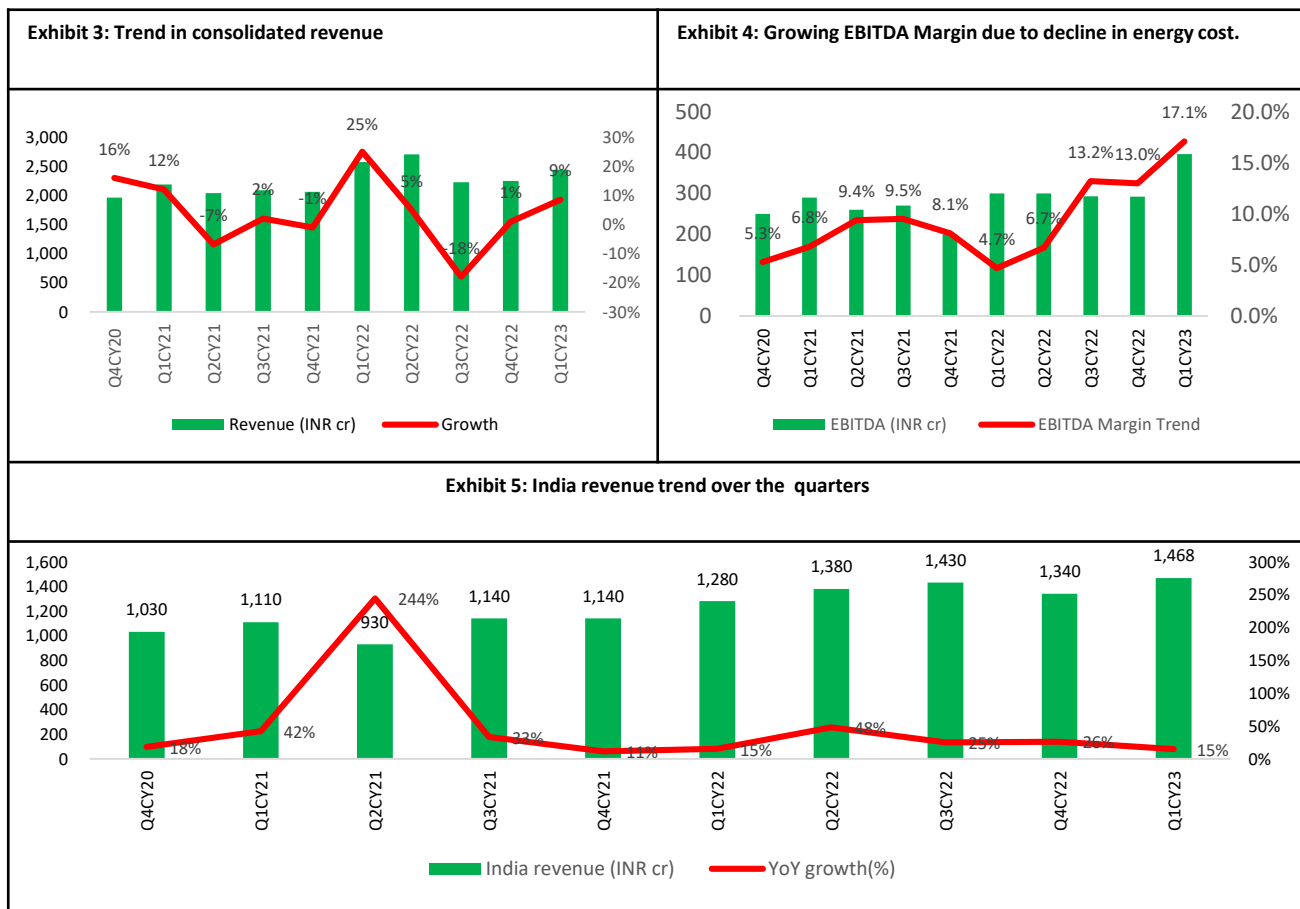
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Exhibit 2 : Q1CY23 - Quarterly Performance (Consolidated)

INR Cr (Consolidate)	Q1CY23	Q4CY22	Q1CY22	Q-o-Q	Y-o-Y
Net Revenue	2,440	2,247	2,571	8.6%	-5.1%
Material Cost	1,294	1,191	1,210	8.6%	7.0%
Employee cost	260	236	343	9.9%	-24.3%
Other Expenses	506	527	738	-4.0%	-31.5%
EBITDA	381	292	279	30.2%	36.2%
EBITDA margin %	15.60%	13.0%	10.9%	259bps	473bps
Other Income	16	24	28	-34.6%	-43.5%
Depreciation	83	77	87	7.5%	-4.7%
EBIT	314	240	221	30.8%	42.1%
EBIT Margin	12.9%	10.7%	8.6%	219bps	427bps
Finance cost	24	8	8	202.3%	183.1%
Exceptional Item	-	38	-	-	-
Share of profits of Associate company	0	0.4	0	-	-
PBT	290.428	270.386	212.976	7.4%	36.4%
Tax Expense	70	76	59	-7.1%	19.7%
Effective tax rate %	24.2%	27.9%	27.5%	-378bps	-337bps
Reported Net Profit	220.3	194.8	154.3	13.1%	42.7%
Profit for the period for discontinued operation	59	-852.6	-	-	-
Profit from discontinued operations	279.1	-657.8	154.3	-	-
Net margin %	9.0%	8.7%	6.0%	36bps	302bps
Reported EPS (INR)	7	-17.35	4.26	-	-

Source: Arianth Research, Company Filings



Source: Arianth Research, Company Filings

Q1CY23 Conference call Highlights:

- The truck forging business in Germany sale will be completed in 1-2 quarters.
- In Q1CY23, the German government provided a one-off benefit of 1 million euros in subsidies.
- CIE will concentrate on competitive aspects of the business based on the customer portfolio, while efforts will be made to improve the business. Europe contributed to margin improvement in Q1CY23 through its customer portfolio.
- The management expects the two-wheeler market in India to recover in the next 3-6 months, as all verticals are growing and better sales number during Jan-Mar FY23.
- Higher sales and lower energy costs led to Europe's strong performance.
- The company aims to exceed market performance by 5-10% on a regular basis from a sales perspective. The company aims to exceed market performance by 5-10% on a regular basis from a sales perspective.
- The short-term target for margin in India is 18%.
- Employee costs in Europe have increased, so the company is negotiating with customers to pass on the cost and offset it internally.
- Exports will continue to increase, and M&A will only be focused on India, with a focus on Capex.
- M&M SHP 3.15%.
- India 9.5% LW, 2W market has fallen.
- 1Q seasonally good quarter
- EU - includes 6% gains in forex.
- EU good performance due to high sales and low energy cost - 100-120 euro per MW - have uncertainties in volumes but if energy stays at current rate vs 300 euro LY, mcie will be able to retain current margins.
- Discontinue ops - 70cr profits in 1Q - a lot of one offs in Germany in this quarter - Haven't found seller yet.
- Capex in Metalcastello - machines added for gears - 70% sales to USA - seeing decline in US due to interest rate increase.
- EV transition - got 2-3 new businesses already in truck.
- Acquisition is possible in for building EV order book, considering MCIE has FCF, Debt reduction. But not too many options available in EU but looking actively in Indian market.
- 50:50 organic : Inorganic mix to grow ahead of market - inorganic focus and capex focus is all in India.
- EU business outlook - mix of customers did better than competitors - got lucky this time, not much optimistic about growth continuing, April will be weaker so EU could be flat topline in next few quarters.
- EU margins sustainable plus can better it going ahead .
- India - they will improve the margins.
- Consol. 17% EBITDAM and CIE target is 19% - will have to do a lot of work for the same.
- India - 3 major business AEL/BFL after by 2W weak performance .
- Gas - peak 180 EU per MW, Now 50 EU per MW

Key Financials

Income Statement (INR Cr)				
Year End-March	CY22	CY23E	CY24E	FY25
Revenues	8,753	9,870	11,140	12,588
Change (%)	4.4%	12.8%	12.9%	13.0%
Gross Profit	876	1,119	1,308	1,511
Employee costs	902	956	966	1,024
Other expenses	1,903	2,063	2,391	2,738
Total Expenses	1,903	2,063	2,391	2,738
EBITDA	1,172	1,465	1,704	1,957
EBITDA Margin	13.39%	14.84%	15.30%	15.55%
Depreciation	296	346	396	446
EBIT	934	1,179	1,371	1,577
EBIT Margin	10.67%	11.95%	12.31%	12.53%
Interest	22.71	-	-	-
Other Income	58	61	63	66
PBT	911	1,113	1,305	1,511
Exceptional Items	37.87	-	-	-
PBT after exceptional Items	949	1,113	1,305	1,511
Tax	240	280	329	380
Rate (%)	25.3%	25.2%	25.2%	25.2%
PAT	709	833	976	1,129
SHARE OF PROFIT / (LOSS) OF ASSOCIATES / JVs.	2.20	-	-	-
PROFIT / (LOSS) FROM DISCONTI. OPERATIONS	(847.51)	-	-	-
Consolidated PAT	-136	833	977	1,131
Change (%)	-132.2%	-	17.2%	15.7%

Balance Sheet (INR Cr)					
Year End-March	CY21	CY22	CY23E	CY24E	FY25
Sources of Funds					
Share Capital	379	379	379	379	379
Reserves & Surplus	4,818	4,719	5,420	5,885	6,125
Net Worth	5,197	5,098	5,799	6,264	6,504
Loan Funds	(109)	37	628	1,091	1,969
MI, Deferred Tax & other Liabilities	386	1,046	1,046	1,046	1,046
Capital Employed	5,087	5,136	6,426	7,355	8,473
Application of Funds					
Gross Block	5,436	5,998	6,119	6,795	7,544
Less: Depreciation	2,356	2,652	2,998	3,395	3,841
Net Block	2,704	2,629	3,120	3,400	3,701
CWIP	124.72	119.47	119.47	119.47	119.47
Other Non-current Assets	24.60	32.14	32.14	32.14	32.14
Other Current Assets	207	1,238	1,605	2,083	2,707
Net Fixed Assets	3,060	4,019	4,877	5,634	6,560
Investments	438	576	596	606	616
Debtors	669	861	971	1,095	1,238
Inventories	1,349	1,211	1,256	1,304	1,356
Cash & Bank Balance	164.67	158	587	635	683
Loans & Advances & other CA	-	-	-	-	-
Total Current Assets	2,953	3,837	4,697	5,421	6,316
Current Liabilities	4,759	4,830	4,910	4,995	5,086
Provisions	398	155	155	155	155
Net Current Assets	(1,806)	(993)	(213)	427	1,233
Total Assets	5,087	5,136	6,426	7,355	8,473

Cash Flow Statement (INR Cr)					
Year End-March	CY21	CY22	CY23E	CY24E	FY25
PBT	669	951	1,113	1,305	1,511
Cash From Operating Activities	136	(10)	(235)	(258)	(103)
Tax	(105)	(198)	280	330	382
Net Cash From Operations	1,051	1,118	1,571	2,302	0
Cash From Investing	(755)	(640)	(1,087)	(917)	0
Borrowings	(279)	(394)	590	464	878
Finance cost paid	(46)	(38)	(66)	(66)	(66)
Cash From Financing	(363)	(488)	(55)	(1,337)	0
Net Increase/ Decrease in Cash	-67	-9	429	47	48
Cash at the beginning of the year	239	165	158	587	635
Cash at the end of the year	165	158	587	635	683

Key Ratios				
Year End-March	CY22	CY23E	CY24E	FY25
Per share (INR)				
EPS	-3.6	22.0	25.8	29.8
Valuation (x)				
P/E	-107.2	17.5	14.9	12.9
P/BV	2.9	2.5	2.3	2.2
Return ratio (%)				
EBIDTA Margin	13.4%	14.8%	15.3%	15.5%
Retrun on Networth	13.2%	15.3%	16.2%	17.7%
ROCE	17.1%	19.4%	19.0%	19.1%
Sales/Capital employed (x)	1.7	1.5	1.5	1.5
MATERIAL COST / SALES (%)	54.6%	54.6%	54.6%	54.6%
Leverage Ratio (%)				
Total D/E	0.0	0.1	0.2	0.3
Turnover Ratios				
Inventory Days	50	46	46	46
Receivable Days	36	36	36	36
Current liabilities	89	82	82	82

Source: Arianth Research, Company Filings

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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%

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