

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

**CMP: INR 387**

**Rating: Buy**

**Target Price: INR 496**

**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)	16,409
52w H/L (INR)	435/164
Avg Yearly Vol (in 000')	190

**Shareholding Pattern %**

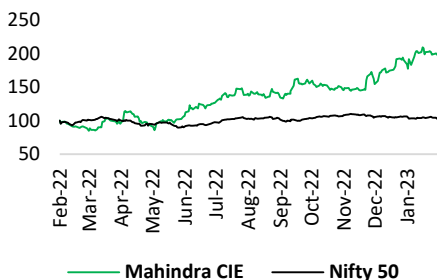
(As on Dec, 2022)

Promoters	74.96
FII	7.29
DII	7.47
Public & Others	10.29

**Stock Performance (%)**

	1m	6m	12m
Mahindra CIE Automotive	11.0	43.25	105.3
Nifty 50	3.35	-0.53	7.78

**Mahindra CIE Vs Nifty**



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**Mahindra CIE Automotive's Net Revenue grew by 34.6% YoY/0.8% QoQ to INR 2,247 Cr. This missed our quarterly revenue estimate of INR 2,350 Cr. EBITDA grew by 62.2% YoY to INR 292 Cr (-0.4% QoQ). EBITDA Margin expanded 221bps YoY to 13% (-15bps QoQ). This is below our quarterly EBITDA estimate of INR 320 Cr, and below our EBITDA Margin estimate of 13.6%. Reported PAT grew 153% YoY to INR 195 Cr (+16.3% QoQ), below our quarterly PAT estimate of INR 220 Cr. Profit/ (loss) from discontinued operations after tax ( INR -8,52.6 Cr). Net loss after Profit/ (loss) from discontinued operations INR (-657.8 Cr). The overall performance of the company was mixed, bottom line being impacted due to loss from the discontinued business but, a stable margin.**

**Fast-growing profitable opportunities visible in India business:** Sales in India in Q4CY22 were INR13.4 bn, which was 26% higher than same quarter last year, but lower than Q3CY22 to about 6.5% lower sequentially. The sequential drop happened because the Diwali season this year was in the third week of October and large part of festival led production happened in September. The India operations achieved an EBITDA margin of 18.5% in Q4CY22 against 12% in Q4CY21 & 15% in Q3CY22. The Q4CY22 EBITDA includes the positive impact of INR 37.8 cr of profit on land sale, without this the recurring EBITDA margin in Q4CY22 for India was 15.7% still higher sequentially by 0.7%. Also note the Q4CY21 EBITDA margin, had a one-time cost that lowered margin by 1.2%.

**Focusing on capacity Expansion:** MCIE has been expanding capacity in almost all verticals and the company is careful because they want to balance both growth and profitability objectives. So that is not really a problem for the company at this point of time.

**Robust order booking:** The company has developed a good order book for EV parts and are 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. The company expects 10% growth in 2023 and more in CY24.

**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 22x its CY24E EPS of INR 22.6 with a target price of INR 496 per share (earlier TP; INR 397 per share). We maintain our Buy rating on the stock.**

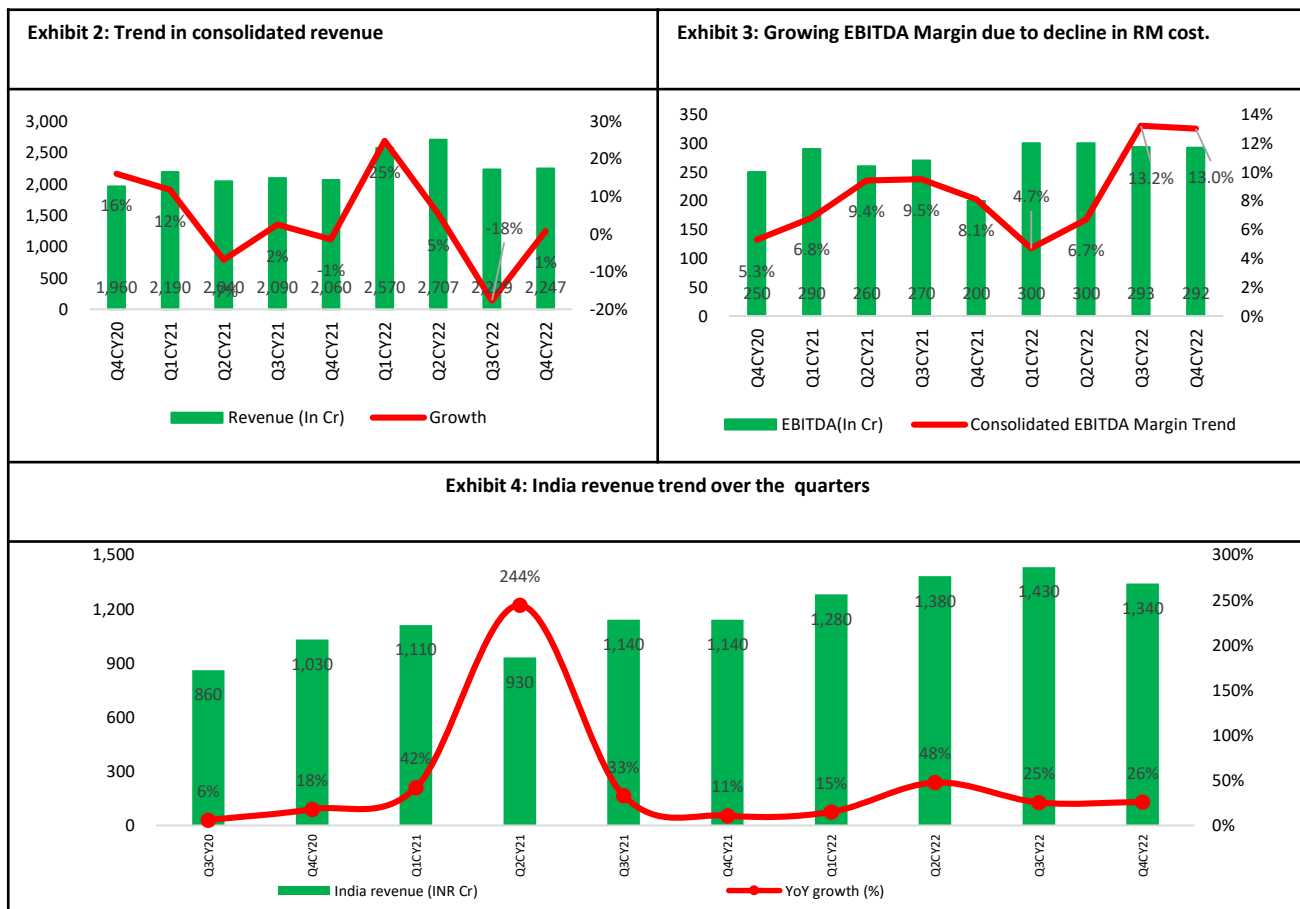
YE March	Net Sales	EBITDA	PAT from Continue operations	EPS (INR)	EBITDA Margin %	ROE	P/E (x)
(INR Mn)							
CY21	8,387	1,017	423	10.9	12.13%	12.1%	35.6
CY22	8,753	1,172	709	18.7	13.39%	17.1%	-108.0
CY23E	9,653	1,329	732	19.3	13.77%	17.1%	20.1
CY24E	10,819	1,542	854	22.6	14.25%	16.8%	17.2

Source: Arihant Research, Company Filings

Exhibit1: Q4CY22 - Quarterly Performance (Consolidated)

INR Cr (Consolidate)	Q4CY22	Q3CY22	Q4CY21	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>2,247</b>	<b>2,229</b>	<b>1,669</b>	0.8%	34.6%
Material Cost	1,191	1,240	884	-3.9%	34.7%
Employee cost	236	216	222	9.7%	6.4%
Other Expenses	527	480	382	9.6%	37.7%
<b>EBITDA</b>	<b>292</b>	<b>293</b>	<b>180</b>	-0.4%	62.2%
<b>EBITDA margin %</b>	<b>13.0%</b>	<b>13.2%</b>	<b>10.8%</b>	-15bps	221bps
Other Income	24	13	16	82.4%	49.3%
Depreciation	77	73	66	5.0%	16.1%
<b>EBIT</b>	<b>240</b>	<b>234</b>	<b>131</b>	-6.8%	13.4%
<b>EBIT Margin</b>	<b>10.7%</b>	<b>10.5%</b>	<b>7.8%</b>	20bps	286bps
Finance cost	8	11	9	-27.1%	-13.0%
Exceptional Item	38	-	-13	-	-
Share of profits of Associate company	0.4	0.3	1	-	-
<b>PBT</b>	<b>270.386</b>	<b>223.2</b>	<b>109.8</b>	21.2%	146.2%
Tax Expense	76	56	33	35.9%	131.0%
<b>Effective tax rate %</b>	<b>27.9%</b>	<b>24.9%</b>	<b>29.8%</b>	303bps	-184bps
<b>Reported Net Profit</b>	<b>194.8</b>	<b>167.6</b>	<b>77.1</b>	16.3%	152.6%
Loss for the period for discontinued operation	-852.6	3.8	3.1	-	-
<b>PAT</b>	<b>-657.8</b>	<b>171.4</b>	<b>80.2</b>	-	-
<b>Net margin %</b>	<b>8.7%</b>	<b>7.5%</b>	<b>4.6%</b>	115bps	405bps
<b>Reported EPS (INR)</b>	<b>-17.35</b>	<b>4.52</b>	<b>2.11</b>	-	-

Source: Arihant Research, Company Filings



Source: Arihant Research, Company Filings

**Q4CY22 Conference call Highlights:**

- **The truck forgings business** in Germany has been classified as held for sale. The company is not presenting the details of the truck forgings business in the Q4CY22 and CY22 results. The details of the operations held for sale are presented separately.
- The name of the German truck forgings business was also changed to CIE Forgings Germany and the company call it CSG in presentation, as well as in this stock.
- **Margin:** The India operations achieved an EBITDA margin of 18.5% in Q4CY22 against 12% in Q4CY21 & 15% in Q3CY22. The Q4CY22 EBITDA includes the positive impact of INR 37.8 cr of profit on land sale, without this the recurring EBITDA margin in Q4CY22 for India was 15.7% still higher sequentially by 0.7%. Also note the Q4CY21 EBITDA margin, had a one-time cost that lowered margin by 1.2%.
- **The four-wheeler and truck** markets did very well, while tractors were sluggish on high base and two-wheelers continued to be weak. This trend is going to continue. The EBITDA margin of 15.9%, EBIT margin of 12.0% and EBT margin of 11.9% are all much higher than CY21. This reflects strong sales and margin performance.
- **The PAT percentage in CY22 is 9.1%** against 3.9% the previous year. The CY21 PAT % was affected by the one-time negative impact of roughly INR1,42.6 mn of deferred tax liability on Bill Forge goodwill. So please adjust for that. Looking ahead, the company expect the growth momentum to sustain in India for the next few quarters.
- **In Europe, the company expect** the market to start recovering very gradually and are focused on improving profitability
- **The consolidated PAT is negative INR 136.2 cr**, which is -1.7% and includes INR 847.5 mn of losses coming from discontinued operations, about INR2 bn of positive exchange rate impact on (CIE Forgings Germany) CFG goodwill and net assets is pending. To be allocated to the P&L account in 2023 this will be done once the CFG sales transaction is completed.
- **Capex:** Overall CapEx was 5.6% of sales, which is in line with norms while consolidated PAT is negative on account of classifying CFG held for sale.
- **Electric vehicles portfolio** electrification of powertrain has seen rapid adoption in Europe market share of battery electric vehicles has crossed 10% there and it is getting to become more mainstream in India as well especially in two and three wheelers.
- **Order book:** The company has developed a good order book for EV parts and are 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.
- **Volume:** The volume increase has been 40% as to that of negative exchange rate impact of 3%, but volume increase has been approximately 40%.
- **The company is actively quoting several projects in the aluminum forgings.** MCIE developing this this product commercially and the company has got MCIE. In Technology, the company will be able to get additional projects and develop this business. So, the company is planning to make this transition from combustion engine components to this
- **The company will outperform Indian markets for 10%.** India, ~49% is 4w, 23% is 2w, 20% tractors and construction equipment and roughly 8% is trucks.
- **The company customers is growing M&M, Tata Motors, Maruti** they're growing minimum both in light vehicles as well as tractors. The company has been getting more orders in areas where the company was earlier less present like Hyundai, Kia, John Deere even in Tata Motors.
- The company is increasing presence and the company has been adding new customers. So all three parts are there large part of the growth and also exports, especially from AEL, Aurangabad Electricals. So, these would be the drivers that has allowed to grow much faster than the market.
- **Capacity expansion:** The company will be adding capacity in almost all verticals and the company is careful because they want to balance both growth and profitability objectives. So that is not really a problem for the company at this point of time.
- The company has outgrown the market in Europe. So, 6%-8% growth is expected in Europe this year
- **Going forward, the company ended up in light vehicles at about 15.2 mn** units production that is expected to go up to 16.1mn or 16.2mn something like that. So that is the kind of growth.
- **Outlook:** The company's electricity cost is approximately EUR140 per megawatt when 3 month ago the company was at above EUR300 per megawatt. So, considering all this scenario, management believes that the 2023 will be a good year, the company will see increase activity both in Metalcastello, CIE forgings, the company sees strong demand in this moment and expect a good CY23.

Key Financials

Income Statement (INR Cr)				
Year End-March	CY21	CY22	CY23E	CY24E
<b>Revenues</b>	8,387	8,753	9,653	10,819
<i>Change (%)</i>	38.6%	4.4%	10.3%	12.1%
<b>Gross Profit</b>	<b>705</b>	<b>876</b>	<b>983</b>	<b>1,145</b>
Employee costs	1,348	902	956	966
Other expenses	2,014	1,903	2,100	2,408
<b>Total Expenses</b>	<b>2,014</b>	<b>1,903</b>	<b>2,100</b>	<b>2,408</b>
<b>EBITDA</b>	<b>1,017</b>	<b>1,172</b>	<b>1,329</b>	<b>1,542</b>
<b>EBITDA Margin</b>	<b>12.13%</b>	<b>13.39%</b>	<b>13.77%</b>	<b>14.25%</b>
Depreciation	312	296	346	396
<b>EBIT</b>	<b>760</b>	<b>934</b>	<b>1044</b>	<b>1208</b>
<b>EBIT Margin</b>	<b>9.07%</b>	<b>10.67%</b>	<b>10.81%</b>	<b>11.17%</b>
Interest	-	22.71	-	-
Other Income	56	58	61	63
<b>PBT</b>	<b>707</b>	<b>911</b>	<b>978</b>	<b>1,143</b>
Exceptional Items	-	37.87	-	-
<b>PBT after exceptional Items</b>	<b>696</b>	<b>949</b>	<b>978</b>	<b>1,143</b>
Tax	301	240	246	288
<i>Rate (%)</i>	43.3%	25.3%	25.2%	25.2%
<b>PAT</b>	<b>423</b>	<b>709</b>	<b>732</b>	<b>854</b>
SHARE OF PROFIT / (LOSS) OF ASSOCIATES / JVs.	-	2.20	-	-
Profit / (LOSS) FROM DISCONTI. OPERATIONS		(847.51)		
<b>Consolidated PAT</b>	<b>423</b>	<b>-136</b>	<b>732</b>	<b>855</b>
<i>Change (%)</i>	297.9%	-132.2%		16.9%

Balance Sheet (INR Cr)				
Year End-March	CY21	CY22	CY23E	CY24E
<b>Sources of Funds</b>				
Share Capital	379	379	379	379
Reserves & Surplus	4,818	4,719	5,318	5,661
<b>Net Worth</b>	<b>5,197</b>	<b>5,098</b>	<b>5,697</b>	<b>6,040</b>
<b>Loan Funds</b>	<b>(109)</b>	<b>37</b>	<b>689</b>	<b>1,229</b>
MI, Deferred Tax & other				
<b>Liabilities</b>	<b>386</b>	<b>1,046</b>	<b>1,046</b>	<b>1,046</b>
<b>Capital Employed</b>	<b>5,087</b>	<b>5,136</b>	<b>6,387</b>	<b>7,270</b>
<b>Application of Funds</b>				
Gross Block	5,436	5,998	6,119	6,779
Less: Depreciation	2,356	2,652	2,998	3,395
Net Block	2,704	2,629	3,120	3,384
CWIP	124.72	119.47	119.47	119.47
Other Non-current Assets	24.60	32.14	32.14	32.14
Other Current Assets	207	1,238	1,570	2,023
<b>Net Fixed Assets</b>	<b>3,060</b>	<b>4,019</b>	<b>4,842</b>	<b>5,558</b>
<b>Investments</b>	<b>438</b>	<b>576</b>	<b>596</b>	<b>606</b>
Debtors	669	861	949	1,064
Inventories	1,349	1,211	1,228	1,267
Cash & Bank Balance	164.67	158	587	635
Loans & Advances & other CA	-	-	-	-
<b>Total Current Assets</b>	<b>2,953</b>	<b>3,837</b>	<b>4,608</b>	<b>5,285</b>
<b>Current Liabilities</b>	<b>4,759</b>	<b>4,830</b>	<b>4,861</b>	<b>4,928</b>
Provisions	398	155	155	155
<b>Net Current Assets</b>	<b>(1,806)</b>	<b>(993)</b>	<b>(253)</b>	<b>357</b>
<b>Total Assets</b>	<b>5,087</b>	<b>5,136</b>	<b>6,387</b>	<b>7,270</b>

Key Ratios				
Year End-March	CY21	CY22	CY23E	CY24E
<b>Per share (INR)</b>				
EPS	10.9	-3.6	19.3	22.6
<b>Valuation (x)</b>				
P/E	35.6	-108.0	20.1	17.2
P/BV	2.8	2.9	2.6	2.4
<b>Return ratio (%)</b>				
EBIDTA Margin	12.13%	13.39%	13.77%	14.25%
Retrun on Networth	8.18%	13.23%	13.55%	14.55%
ROCE	12.11%	17.13%	17.06%	16.77%
Sales/Capital employed (x)	1.6	1.7	1.5	1.5
MATERIAL COST / SALES (%)	47.8%	54.6%	54.6%	54.6%
<b>Leverage Ratio (%)</b>				
Total D/E	0.0	0.0	0.1	0.2
<b>Turnover Ratios</b>				
Inventory Days	59	50	46	46
Receivable Days	29	36	36	36
Current liabilities	84	89	82	82

Cash Flow Statement (INR Cr)				
Year End-March	CY21	CY22	CY23E	CY24E
<b>PBT</b>	<b>669</b>	<b>951</b>	<b>978</b>	<b>1,143</b>
Cash From Operating Activities	136	(10)	(137)	(220)
Tax	(105)	(198)	246	289
<b>Net Cash From Operations</b>	<b>1,051</b>	<b>1,118</b>	<b>1,499</b>	<b>2,056</b>
Cash From Investing	(755)	(640)	(1,087)	(894)
Borrowings	(279)	(394)	652	540
<b>Finance cost paid</b>	<b>(46)</b>	<b>(38)</b>	<b>(66)</b>	<b>(66)</b>
Cash From Financing	(363)	(488)	17	890
<b>Net Increase/ Decrease in Cash</b>	<b>-67</b>	<b>-9</b>	<b>428</b>	<b>48</b>
<b>Cash at the beginning of the year</b>	<b>239</b>	<b>165</b>	<b>158</b>	<b>587</b>
Cash at the end of the year	164.62	158.31	587	635

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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