

Stock Update

# Mahindra CIE Automotive Ltd.

29-July-2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 268.2	Buy in the band of Rs 265-270 and add on dips in Rs 238-242 band	Rs 296	Rs 315	2 quarters

HDFC Scrip Code	MAHCIE
BSE Code	532756
NSE Code	MAHINDCIE
Bloomberg	MACA IN
CMP Jul 27, 2021 (Rs)	268.2
Equity Capital (cr)	379.0
Face Value (Rs)	10
Eq. Share O/S (cr)	37.9
Market Cap (Rs cr)	10,163.7
Book Value (Rs)	132.7
Avg.52 Wk Volume	452,700
52 Week High (Rs)	280.7
52 Week Low (Rs)	101.0

Share holding Pattern % (Jun, 2021)	
Promoters	72.19
Institutions	18.35
Non-Institutions	9.46
Total	100.0

## Fundamental Research Analyst

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### Our Take:

Mahindra CIE Automotive Ltd. (MHCIE) is a multi-technology automotive component manufacturer. Its domestic revenue is well diversified across technologies and end-use segments. In Europe, MHCIE's revenues primarily come from forging technology and PV and CV segments. The Indian and European PV market is expected to grow by 11% and 5% CAGR respectively over FY20-FY25, according to IHS Global, while CRISIL expects domestic 2W market to grow at 5-7%. The company is looking to increase its exports share from 12% to 20% in the next few years through a variety of initiatives including a shift of orders from Europe to India, tie-ups with some of the CIE Group companies in Europe and explore new customers especially for Bill Forge and AEL businesses. MHCIE's well capitalized balance sheet with best in class products and technology continues to be a strong moat for the company which makes it's a preferred supplier for leading OEMs. The Indian business is debt free and European business has a very low cost debt.

The management expects strong growth in the European business in H2 as restrictions/lockdowns are lifted with an increase in vaccination. Further it is working on products that cater to EVs which would limit the impact of transition going forward.

On April 28, 2021, we had initiated coverage on the stock with a recommendation to 'Buy at LTP and add on dips in Rs 142-144 band' for base case fair value of Rs 178 and bull case fair value of Rs 192 ([Link](#)). The stock had achieved our base case target on April 28 and bull case target on May 25, 2021.

### Valuations & Recommendation:

We expect MHCIE revenue to grow at 23% CAGR over CY20-CY22, led by the strong India business. EBITDA and PAT margin are expected to expand 576/595bps during the same period. RoCE/RoE (excl. Goodwill) are expected to improve from 10.1/11.5% in CY20 to 35/46% by CY22E. MHCIE has added 25 new customers over the last two years, across its product lines and end markets, and it is now targeting at least 25% of its annual revenue (earlier 15%) to come from the new customers. We believe investors can buy the stock in the band of Rs 265-270 and add on dips to Rs 238-242 band (13x CY23E EPS) for a base case fair value of Rs 296 (16x CY22E EPS) and bull case fair value of Rs 315 (17x CY22E EPS).



## Financial Summary

(Rs cr)	Q2CY21	Q2CY20	YoY (%)	Q1CY21	QoQ (%)	CY19	CY20	CY21E	CY22E
Operating Income	2,042	735	177.7	2,189	-6.7	7,908	6,050	7,953	9,100
EBITDA	260	-96	-369.2	287	-9.4	968	502	994	1,279
APAT	136	-129	-205.8	10	1249.3	354	106	402	701
Diluted EPS (Rs)	3.6	-3.4	-205.8	0.3	1249.3	9.3	2.8	10.6	18.5
RoE (excl. Goodwill-%)						33.7	11.5	37.0	46.3
P/E (x)						28.7	95.5	25.2	14.5
EV/EBITDA (x)						11.8	22.6	11.1	8.2

(Source: Company, HDFC sec)

## Recent Triggers

### Q2CY21 financials

The company reported strong numbers for Q2CY21 driven by strong performance in both India and EU business and a low base effect in the previous year. Consolidated revenue increased by 178% YoY to Rs 2,042cr. Domestic revenues grew 246% to Rs 873cr driven by M&HCV, while European business witnessed 132% growth to Rs 1,067cr. On a sequential basis consolidated revenues declined 6.7% as the domestic business underperformed due to staggered lockdowns. India/Europe revenues grew (-6.7)/2.8% QoQ. Consolidated EBITDA stood at Rs 260cr against a loss of Rs 96cr in Q2CY20 and Rs 287cr in Q1CY21, due to the efforts on reducing the breakeven point and other improvement activities undertaken during the preceding year of 2020.

EBITDA margin stood at 12.7% (-40bps QoQ). Segment wise EBITDA margins declined by 160bps in India business to 13.9% due to lower operating leverage while it expanded 20bps in European business to 14.1% over Q1CY21. The company has completed its restructuring exercise and does not expect any additional restructuring activities in 2021. Consolidated PAT declined 10.4% QoQ to Rs 136cr (excl. impact of one-time tax expense of Rs 142.5cr in Q1CY21 as the outcome of the difference between goodwill for the books of account and its updated tax rate in Q1CY21).



## Company to start paying dividend

MHCIE has amended its dividend distribution policy. As per the amended policy, the company would endeavor to maintain a total dividend payout ratio of up to 25% of the annual consolidated profit after tax. Earlier, the company was conserving cash to fund its organic as well as in-organic growth. However, with strong growth it has recognized the need to pay regular dividends.

## Strong growth expected in Europe in H2

The management expects that the second half of the year will be much stronger in Europe as vaccination process is accelerating and by Aug-Sept majority of European citizens will be vaccinated following which restriction are likely to be lifted. Customers have asked to increase stock levels and to be ready to increase the production.

## Limited impact of EV

MHCIE is working on a lot of products in the electrification area, especially in Europe as it expects the share of battery vehicles to expand from 5% currently to 15% by 2025 and 30-40% by 2030. MHCIE has also benefited from the synergies with CIE Automotive on the EV side. CIE as a group is already working closely with Tesla and Renault on EVs. It supplies parts to these EVs - largely plastic and stamped parts. EVs will mean a greater emphasis on stamped, plastic and aluminum parts in comparison to forged, casting or machined parts. MHCIE will benefit from its multi-technology and a diverse portfolio spread across geographies, which will enable the company to handle the transition more efficiently. As a result, the company is better placed than most others in the automotive component business. It is looking to change its portfolio towards chassis components in aluminium forgings. In India, it expects EV adoption to be faster in 2W and 3W while in 4W its market share is expected to be ~5% by 2030. MHCIE already supplies to M&M and looking at other EV companies like Bajaj and Hyundai for orders. MHCIE's Bill Forge division has also bagged orders for supply to KIA motor's electric vehicle.

## Growing export market

MHCIE earns ~11-12% of its revenues from exports and it intends to increase the share to 20% over the next few years. It has already been awarded several export projects. It is also looking to produce forgings and gears in India to be finished and delivered from its subsidiaries in Europe.



## **New subsidiary to invest in mobility space**

MHCIE is setting up a new subsidiary which would be making investment in a greenfield plant at Hosur to support its Bill Forge division and leverage the emerging growth opportunities in the mobility space. The plant will produce different components for exports. Trial runs have already begun and production is expected to start in the current year.

## **India sales to recover in H2CY21**

In the second half of CY2021, MHCIE expects the market to recover on the back of the demand for personal transportation necessitated by the pandemic driven safety concerns and continuing positive rural sentiments riding on a satisfactory monsoon.

## **CIE group's plan 2025 has lot of upside for MHCIE**

CIE's Plan 2025 (disclosed in June 2021) has an ambitious target of ~48% growth in sales, EBITDA of EUR1bn at 19% margins, and PAT of €500mn on a cumulative capex of €1bn over the coming five years. Plan 2025 continues with CIE's focus on adoption and implementation of future ready technology using Industry 4.0 elements i.e. robotics, Big Data, IOT, digitisation, and cloud.

On forgings, the parent plans to increase capacity in its India subsidiary MHCIE through a new plant in Coimbatore for precision parts, and expanding the driveline components for EVs using hot forgings. India strategy includes increasing domestic market growth, localising product imports from China, and increasing exports to the US. For the aluminium segment, MHCIE's India focus is on diversifying into new customers and new products for PV segment.

Transfer of CIE's technology transfer and ramp-up of new plant in India, which would help in exports too. In India, a new plant for fuel rails will be established in Hosur; strong automation is also planned for the Kanhe plant for improved efficiency. MHCIE will set up an iron casting moulding line to expand machining capacity and launch new export programmes for global OEMs.

## **What could go wrong?**

- Slowdown in automobile industry
- Rapid adoption of EVs could reduce forged part requirements
- Foreign exchange risk
- High exposure to EU auto market – especially to CV market

- EVs require lot of investment in public infrastructure by way of charging stations. Its demand is very dependent on government subsidies as the price differential between and ICV and EV is quite high. While some European govts have announced increased subsidies to EVs in the light of Covid crisis, countries like India may have budgetary constraints to support EV subsidies on a large scale.
- Shortage of semiconductor could have an adverse impact in H2CY22 in both India and Europe.
- Given the size of India the pace of vaccination is slow in covering the great majority of the population, one needs to be vigilant about incipient new wave that would affect the health of the people and the economy of the country. Any third wave of Covid could impact the economic activities and production/demand for vehicles and indirectly auto components.
- Rise in commodity prices – esp steel could impact the margins of the company atleast temporarily.

## About the company

Mahindra CIE Automotive Ltd (MHCIE) is a multi-locational and multi-technology automotive components company with manufacturing facilities and engineering capabilities in India and in Germany, Spain, Lithuania, and Italy in the Europe as well as a plant in Mexico. It has an established presence in each of these locations and supplies to automotive Original Equipment Manufacturers (OEMs) and their Tier 1 suppliers. Apart from its strong presence in forgings, MHCIE is also among the largest ductile iron casting and compression moulded auto components manufacturers in India.

It is part of the global auto component player, CIE Automotive Group, based out of Spain. MHCIE was earlier known as Mahindra Forgings Ltd (part of Mahindra Systech Division) and was later renamed, following the integration of the Mahindra Group's Systech business with CIE's operations, which was announced in 2013. Mahindra Systech, a division of Mahindra & Mahindra, was created in 2004 to capitalise on the opportunities presented by the growth of the Indian automobile component industry. The Systech auto component division (comprising multiple companies - listed and unlisted) encompassed products across forgings, stampings, castings, gears, magnetic products and composites. Under CIE's parentage, MHCIE has been able to improve its efficiencies, cut costs, and improve profitability.

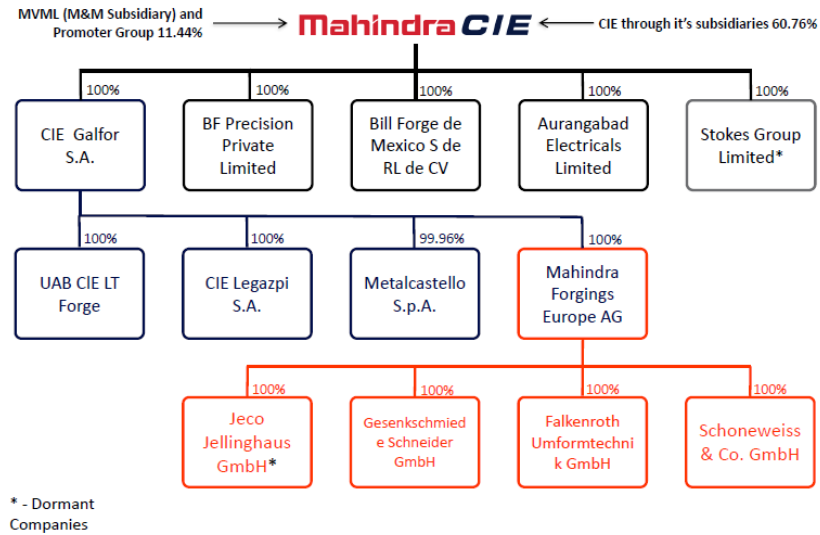
MHCIE has 31 manufacturing facilities including 8 manufacturing facilities in Europe and 1 in Mexico. The manufacturing locations are generally located close to major automotive manufacturing hubs in order to facilitate supplies to customers. MHCIE largely operates in the automotive markets of Europe and India. In Europe, MHCIE supplies components mainly to the light vehicles and heavy truck markets with

a comparatively small business in the off-road sector. In India, MHCIE is more diversified and supplies components to the light vehicles segment (both passenger vehicles and light commercial vehicles), two wheelers, tractors, medium and heavy commercial vehicles, in order of dependence.

CIE group holds 60.76% stake in the company while Mahindra group holds 11.4%.

## Company structure

### LEGAL STRUCTURE (AS ON 30 JUNE 2021)



(Source: Company, HDFC sec)



# Mahindra CIE Automotive Ltd.

## Financials – Consolidated

### Income Statement

(Rs cr)	CY18	CY19	CY20	CY21E	CY22E
<b>Net Revenues</b>	<b>8,032</b>	<b>7,908</b>	<b>6,050</b>	<b>7,953</b>	<b>9,100</b>
<b>Growth (%)</b>	<b>24.9</b>	<b>-1.5</b>	<b>-23.5</b>	<b>31.5</b>	<b>14.4</b>
Operating Expenses	6,981	6,940	5,549	6,959	7,821
<b>EBITDA</b>	<b>1,051</b>	<b>968</b>	<b>502</b>	<b>994</b>	<b>1,279</b>
<b>Growth (%)</b>	<b>29.1</b>	<b>-7.9</b>	<b>-48.2</b>	<b>98.2</b>	<b>28.6</b>
<b>EBITDA Margin (%)</b>	<b>13.1</b>	<b>12.2</b>	<b>8.3</b>	<b>12.5</b>	<b>14.1</b>
Depreciation	287	316	306	333	356
Other Income	39	33	55	64	77
<b>EBIT</b>	<b>803</b>	<b>685</b>	<b>250</b>	<b>724</b>	<b>1000</b>
Interest expenses	50	52	55	53	45
<b>PBT</b>	<b>753</b>	<b>628</b>	<b>195</b>	<b>671</b>	<b>954</b>
Tax	204	274	89	268	253
<b>PAT</b>	<b>549</b>	<b>354</b>	<b>107</b>	<b>402</b>	<b>701</b>
Loss from discontinued oper.	-50	0	0	0	0
<b>Adj. PAT</b>	<b>498</b>	<b>354</b>	<b>106</b>	<b>402</b>	<b>701</b>
<b>Growth (%)</b>	<b>39.0</b>	<b>-29.0</b>	<b>-69.9</b>	<b>278.3</b>	<b>74.3</b>
EPS	13.2	9.3	2.8	10.6	18.5

### Balance Sheet

As at December (Rs cr)	CY18	CY19	CY20	CY21E	CY22E
<b>SOURCE OF FUNDS</b>					
Share Capital	379	379	379	379	379
Reserves	3,910	4,255	4,529	4,837	5,387
<b>Shareholders' Funds</b>	<b>4,289</b>	<b>4,634</b>	<b>4,908</b>	<b>5,216</b>	<b>5,766</b>
Minority Interest	0	0	0	0	0
Borrowings	1,613	1,469	1,648	1,498	1,178
Net Deferred Taxes	-157	91	124	124	124
<b>Total Source of Funds</b>	<b>5,746</b>	<b>6,194</b>	<b>6,679</b>	<b>6,837</b>	<b>7,067</b>
<b>APPLICATION OF FUNDS</b>					
Net Block & Goodwill	4,905	6,044	6,741	6,758	6,777
CWIP	96	54	12	12	12
Investments	681	96	234	284	384
Other Non-Curr. Assets	314	284	124	159	173
<b>Total Non Current Assets</b>	<b>5,996</b>	<b>6,477</b>	<b>7,111</b>	<b>7,213</b>	<b>7,346</b>
Inventories	1,229	1,057	1,006	1,307	1,446
Trade Receivables	741	737	705	981	1,072
Cash & Equivalents	113	150	238	348	448
Other Current Assets	249	142	303	370	399
<b>Total Current Assets</b>	<b>2,332</b>	<b>2,086</b>	<b>2,252</b>	<b>3,006</b>	<b>3,365</b>
Trade Payables	1,684	1,477	1,459	1,852	1,995
Other Current Liab & Provisions	898	892	1,225	1,531	1,649
<b>Total Current Liabilities</b>	<b>2,582</b>	<b>2,369</b>	<b>2,684</b>	<b>3,383</b>	<b>3,644</b>
Net Current Assets	-250	-283	-432	-376	-279
<b>Total Application of Funds</b>	<b>5,746</b>	<b>6,194</b>	<b>6,679</b>	<b>6,837</b>	<b>7,067</b>



## Cash Flow Statement

(Rs cr)	CY18	CY19	CY20	CY21E	CY22E
PBT	702	628	195	671	954
Non-operating & EO items	-16	-9	-43	58	16
Interest Expenses	53	53	55	53	45
Depreciation	290	317	306	333	356
Working Capital Change	-177	156	76	-39	-28
Tax Paid	-144	-116	-50	-268	-253
<b>OPERATING CASH FLOW ( a )</b>	<b>708</b>	<b>1,027</b>	<b>539</b>	<b>808</b>	<b>1,092</b>
Capex	-404	-414	-302	-350	-375
Free Cash Flow	305	613	238	458	717
Investments	-620	591	-138	-50	-100
Non-operating income	6	-766	10	0	0
<b>INVESTING CASH FLOW ( b )</b>	<b>-1,017</b>	<b>-589</b>	<b>-429</b>	<b>-400</b>	<b>-475</b>
Debt Issuance / (Repaid)	409	-355	51	-150	-320
Interest Expenses	-53	-53	-55	-53	-45
FCFE	47	31	106	205	251
Share Capital Issuance	6	3	0	0	0
Dividend	0	0	0	-95	-152
<b>FINANCING CASH FLOW ( c )</b>	<b>362</b>	<b>-404</b>	<b>-4</b>	<b>-298</b>	<b>-517</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>53</b>	<b>34</b>	<b>106</b>	<b>110</b>	<b>99</b>

## Key Ratios

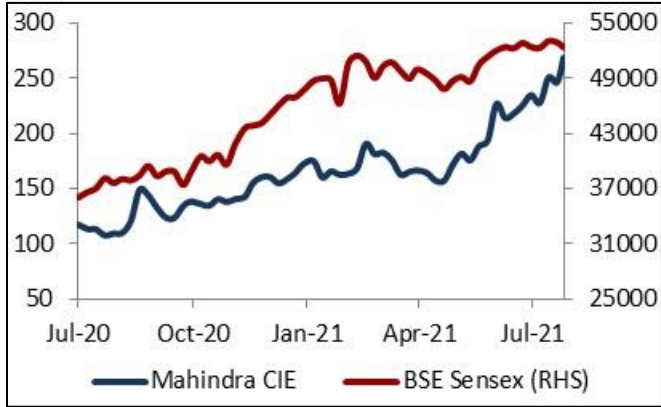
	CY18	CY19	CY20	CY21E	CY22E
<b>Profitability Ratios (%)</b>					
EBITDA Margin	13.1	12.2	8.3	12.5	14.1
EBIT Margin	10.0	8.7	4.1	9.1	11.0
APAT Margin	6.2	4.5	1.8	5.1	7.7
RoE (excl. Goodwill)	53.1	33.7	11.5	37.0	46.3
RoCE (excl. Goodwill)	34.3	26.4	10.1	27.2	35.0
<b>Solvency Ratio (x)</b>					
Net Debt/EBITDA	1.4	1.4	2.8	1.2	0.6
Net D/E	0.3	0.3	0.3	0.2	0.1
<b>PER SHARE DATA (Rs)</b>					
EPS	13.2	9.3	2.8	10.6	18.5
CEPS	20.7	17.7	10.9	19.4	27.9
BV	113.2	122.3	129.5	137.6	152.1
Dividend	0.0	0.0	0.0	2.5	4.0
<b>Turnover Ratios (days)</b>					
Inventory days	31.8	35.7	45.2	40.2	42.8
Debtor days	52.7	55.1	64.7	55.2	57.4
Creditors days	77.4	76.2	92.1	79.0	80.2
<b>VALUATION (x)</b>					
P/E	20.4	28.7	95.5	25.2	14.5
P/BV	2.4	2.2	2.1	1.9	1.8
EV/EBITDA	10.5	11.8	22.6	11.1	8.2
EV/Revenues	1.4	1.4	1.9	1.4	1.2
Dividend Yield (%)	0.0	0.0	0.0	0.9	1.5

(Source: Company, HDFC sec Research)

# Mahindra CIE Automotive Ltd.

598.71	685.65	38.56	13.09	203.88	118.92	118.09
(+2.11)	(-14.57)	(-7.74)	(-1.05)	(-1.75)	(-1.67)	(-1.46)
142.09	167.29	154.12	393.13	-62.95	-187.58	-42.38
(-3.51)	(-17.46)	(-7.88)	(-7.58)	(-11.88)	(-71.60)	(-15.88)

**Price chart**





## Disclosure:

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