

Structural drivers in place for meaningful gains...

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

Key recent developments

- As per regulatory filing, MCI has put its forging business in Germany (wholly owned subsidiary) on the block for sale with its holding company being empanelled to scout for buyers in this domain. In a separate filing, the company also informed about its intention to change its name from Mahindra CEI Automotive Ltd to CIE Automotive India Ltd
- MCI's German forging business (Mahindra Forgings Europe AG) constituted 10%+ of its consolidated sales as of CY21 and is loss making at the PAT level. It largely manufactured forging components for truck segment in Europe. MCI, in one of the earlier interactions, had indicated at challenges at its German operations due to geopolitical conflict and higher energy prices but informed about no cash burn in this domain
- Selling this part of the business bodes well for MCI's consolidated margin profile and capital efficiency matrix. MCI's Indian business clocks steady state margins of ~15% vs. ~10-12% clocked at its European operations
- CIE group has also steadily increased stake in MCI by ~5% in the past 12 months, reinforcing foreign promoter's commitment to this business

What should investors do? MCI's stock price has grown at ~5% CAGR in past five years (from ~₹ 250 in December 2017), outperforming Nifty Auto index in that time.

- We retain **BUY** tracking structural levers for improved financials, strong CFO yields (~10%) & healthy return ratios (ex-goodwill RoIC: ~30%+)

Target Price and Valuation: Rolling over our valuations, we now value MCI at 10x CY23-24E average EV/EBITDA for a revised TP of ₹ 410 (earlier TP: ₹ 380).

Key triggers for future price performance:

- With volume growth on the anvil in Indian operations, sales at MCI are expected to grow at 14.7% CAGR over CY21-24E. With benign RM prices & operating leverage at play, margins are seen improving to 12.8% by CY24E

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 ₹ 350

Mahindra CIE

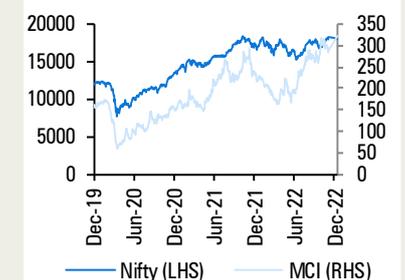
Particulars

Particular	₹ crore
Market Capitalization	12,303
Total Debt (CY21)	1,282
Cash & Investments (CY21)	598
EV	12,987
52 week H/L (₹)	345 / 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

- Put its forging business in Germany up for sale
- **Key Risk:** (i) Slower than anticipated sales growth, (ii) Delayed margin recovery

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Raghvendra Goyal
raghvendra.goyal@icicisecurities.com

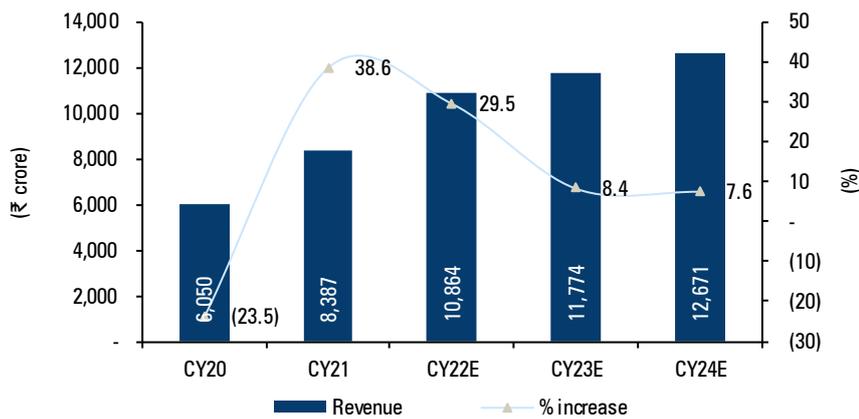
Key Financial Summary

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	115.6	31.3		17.9	15.1	13.4	
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; PI Note: We have kept our financial assumptions unchanged and not adjusted them for the proposed sale of MCI's German forging business

Financial story in charts

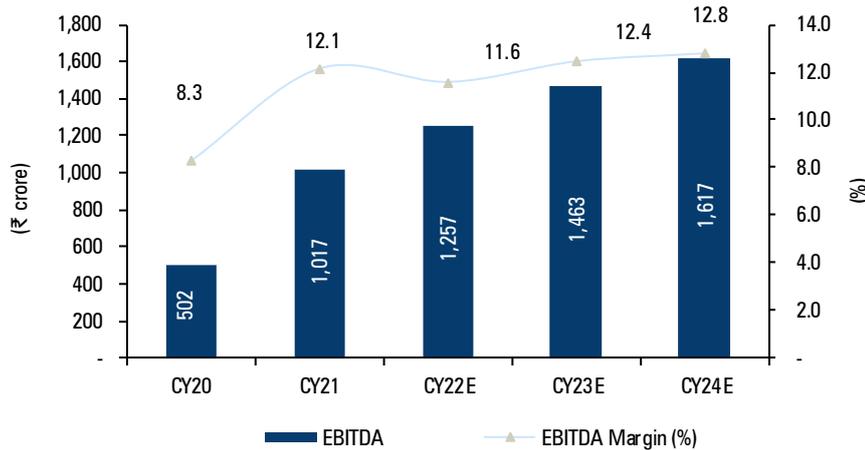
Exhibit 1: Trend in topline



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

Source: Company, ICICI Direct Research

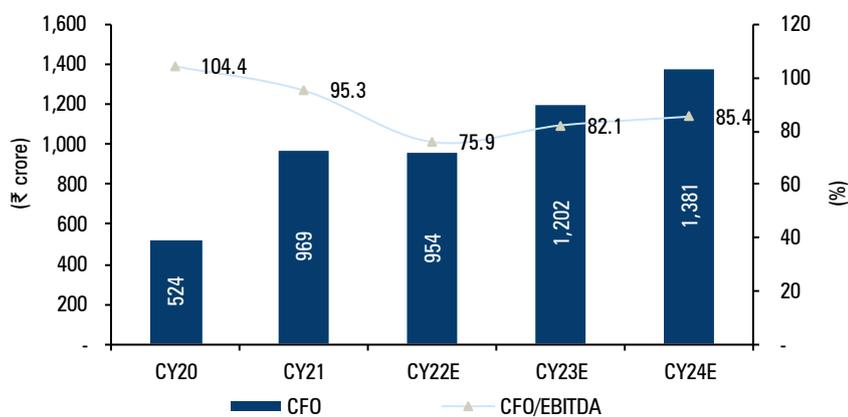
Exhibit 2: Trend in margins



Margins are seen rising to 12.8% by CY24E on the back of decline in RM costs, operating leverage benefits and internal efficiencies

Source: Company, ICICI Direct Research

Exhibit 3: 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 CY22-24E while FCF yield is at ~4% in the same time frame

Source: Company, ICICI Direct Research

Exhibit 4: Target price calculation

Particulars	Amount
CY23-24E Average EBITDA (₹ crore)	1,540
Target EV/EBITDA (x)	10.0
EV (₹ crore)	15,401
CY23-24E Average Net Debt (₹ crore)	(53)
Resultant MCap (₹ crore)	15,454
No. of shares (crore)	37.9
Target Price (₹ per share)	410

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement					₹ crore
(Year-end March)	CY21	CY22E	CY23E	CY24E	
Total operating Income	8,386.7	10,863.7	11,773.7	12,671.0	
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	
EBITDA	1017.3	1256.9	1463.5	1616.8	
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	
PBT	663.8	916.3	1085.2	1224.7	
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	
PAT after Minority Interest	392.9	687.2	813.9	918.6	
EPS (₹)	10.4	18.2	21.5	24.3	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					₹ crore
(Year-end March)	CY21	CY22E	CY23E	CY24E	
Profit after Tax	392.9	687.2	813.9	918.6	
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	
CF from operating activities	969.3	953.8	1202.2	1381.4	
(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	
CF from investing activities	-524.3	-572.5	-661.0	-720.3	
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	
CF from financing activities	-523.5	-352.3	-535.0	-537.4	
Net Cash flow	-78.4	29.0	6.2	123.7	
Opening Cash	238.0	159.6	188.6	194.8	
Closing Cash	159.6	188.6	194.8	318.5	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet					₹ crore
(Year-end March)	CY21	CY22E	CY23E	CY24E	
Liabilities					
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	
Total Shareholders funds	5196.6	5732.4	6357.0	7067.4	
Total Debt	1,281.6	1,131.6	831.6	531.6	
Minority Interest	0.0	0.0	0.0	0.0	
Total Liabilities	7449.9	7926.8	8284.9	8728.2	
Assets					
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	
Net Block	2960.2	3197.9	3433.3	3686.8	
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	
Cash	159.6	188.6	194.8	318.5	
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	
Net Current Assets	54.8	248.3	324.0	457.5	
Application of Funds	7449.9	7926.8	8284.9	8728.2	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	CY21	CY22E	CY23E	CY24E
Per share data (₹)				
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
Operating Ratios (%)				
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
Return Ratios (%)				
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
Valuation Ratios (x)				
P/E	31.3	17.9	15.1	13.4
EV / EBITDA	12.8	10.2	8.5	7.4
EV / Net Sales	1.5	1.2	1.1	0.9
Market Cap / Sales	1.5	1.1	1.0	1.0
Price to Book Value	2.4	2.1	1.9	1.7
Solvency Ratios				
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

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), and Raghvendra Goyal, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.