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Q1CY21 result review
and earnings revision

Autos

Target price: Rs264

Earnings revision

(%)	CY21E	CY22E
Sales	↑ 2.1	↑ 1.1
EBITDA	↑ 9.3	↑ 3.2
PAT	↓ 12.4	↑ 5.8

Target price revision

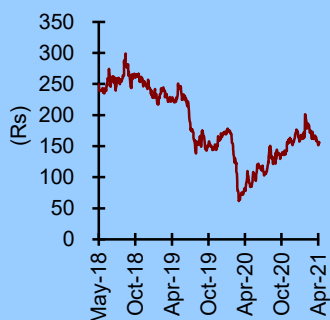
Rs264 from Rs253

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	71.6	71.6	71.6
Institutional investors	17.8	18.3	18.4
MFs and other	3.3	3.3	3.2
Banks & FIs	0.0	0.0	0.1
FII's	14.5	15.0	15.1
Others	10.6	10.1	10.0

Source: NSE

Price chart



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INDIA

Mahindra CIE Automotive

BUY

Maintained

Rs172

Strong performance amidst challenges

Mahindra CIE Automotive's (MACA) Q1CY21 operating margins were a beat on consensus expectations driven by faster improvement across Europe and India. Consolidated sales rose ~30% YoY to Rs20.8bn of which India grew 41% at Rs10.5bn while Europe grew ~21% at Rs10.4bn. India business clocked seven-quarter high margins at ~15.5% (up ~242bps) while Europe clocked ten-quarter high margins at 13.9% (up 340bps). India PBT contribution in 1Q rose to 55% (up 500bps YoY), although European business is improving, bulk of MACA's future profitability would be driven by India business. We expect cumulative FCF of ~Rs11.6bn over CY21-CY22E (CY20 – Rs2bn). Stock remains undervalued (9.5x P/E / 10.3% FCF yield on CY22E). **Maintain BUY.**

Conference call on April 30, Friday, at 13:00 hours IST. Pre-registration [Link](#)

- **Key highlights of the quarter:** Consolidated revenue rose 30.1% YoY while EBITDA margins jumped 301bps to ~14.7% on the back of strong performance across verticals in both Europe and India. India business has already crossed the 15% CIE margin target (second successive quarter) even as industry cycle enters a recovery cycle in CY21/CY22. Consolidated PBT grew ~133% to ~Rs2bn. The company took one-time non-cash charge on deferred tax of ~Rs1.4bn caused due to amendment in depreciation policy w.r.t to goodwill by the Finance Act,2021.
- **Margin delivery continues; growth also coming back strongly:** Management's focus continues on improving internal efficiencies and has laid out a growth strategy focused on value-added products in the domestic market, and exports. European business is expected to witness profitability improvements as the company focuses on a) reducing fixed costs, b) increasing new product sales (e.g. knuckles) in European PV business, and c) riding on the recovery cycle across industrial, automotive customers. China-plus global supply chain rejig, PLI scheme and increased outsourcing from CIE is expected to aid export growth for MACA.
- **Maintain BUY:** We believe MACA is a well-diversified MNC play with dominant India contribution (~58% as PBT share CY22E/ up 11% since CY19). We revise our estimates by -12.4%/5.8% for CY21E/CY22E, respectively, factoring in the improved European margin performance. Stock remains inexpensive at ~10% FCF yield on CY22E. We maintain our target multiple to 15x CY22E EPS of Rs18. Maintain **BUY** with a revised target price of Rs264/share (earlier: Rs253).

Market Cap	Rs65.3bn/US\$882mn	Year to Dec	CY19	CY20	CY21E	CY22E
Reuters/Bloomberg	MAFR.BO/MACA IN	Revenue (Rs mn)	79,078	60,501	74,293	85,371
Shares Outstanding (mn)	379.0	Rec. Net Inc (Rs mn)	3,564	1,070	4,369	6,820
52-week Range (Rs)	202/84	EPS (Rs)	9.4	2.8	11.6	18.0
Free Float (%)	28.4	% Chg YoY	(35.0)	(70.0)	308.5	56.1
FII (%)	15.0	P/E (x)	18.3	60.9	14.9	9.5
Daily Volume (US\$/'000)	873	CEPS (Rs)	17.7	10.9	20.2	27.4
Absolute Return 3m (%)	6.3	EV/E (x)	8.0	15.8	7.2	5.7
Absolute Return 12m (%)	90.3	Dividend Yield (%)	-	-	1.2	1.7
Sensex Return 3m (%)	7.7	RoCE (%)	10.7	2.9	11.3	12.6
Sensex Return 12m (%)	53.8	RoIC (%) Ex-Goodwill	24.7	6.1	22.7	25.6

Please refer to important disclosures at the end of this report

Table 1: Q1CY21 result review*(Rs mn, year ending Dec 31)*

	Q1CY21	Q1CY20	YoY (%)	Q4CY20	QoQ (%)
Total operating income	21,894	16,627	32	19,576	12
Raw material costs	10,184	7,629	33	8,989	13
Employee costs	3,624	3,145	15	3,384	7
Other expenditures	5,217	4,031	29	4,728	10
Total operating expenses	19,025	14,805	29	17,101	11
EBITDA	2,869	1,822	57	2,475	16
EBITDA margin (%)	13.1	11.0	215 bps	12.6	46 bps
Depreciation & Amortisation	883	815	8	882	0
Other income	194	49	296	74	160
Interest costs	142	182	-22	57	150
PBT	2,038	874	133	1,611	26
Exceptional Items	-	-	-	-	-
Taxes	1,936	247	684	493	293
Reported PAT	102	627	-84	1,119	-91
Adj PAT	102	655	-84	1,119	-91

Source: Company data, I-Sec research

Table 2: Q1CY21 result summary (consolidated)*(Rs mn, year ending Dec 31)*

	Q1CY21	Q1CY20	YoY (%)	Q4CY20	QoQ (%)
Total operating income	20,863	16,033	30.1%	18,653	11.8%
EBITDA	3,062	1,871	63.7%	2,549	20.1%
<i>EBITDA Margin</i>	<i>14.7%</i>	<i>11.7%</i>	<i>301 bps</i>	<i>13.7%</i>	<i>101 bps</i>
EBIT	2,180	1,056	106.4%	1,668	30.7%
<i>EBIT Margin</i>	<i>10.4%</i>	<i>6.6%</i>	<i>386 bps</i>	<i>8.9%</i>	<i>151 bps</i>
PBT	2,038	873	133.4%	1,612	26.4%
<i>PBT Margin</i>	<i>9.8%</i>	<i>5.4%</i>	<i>432 bps</i>	<i>8.6%</i>	<i>113 bps</i>

Source: Company data, I-Sec research

Table 3: Q1CY21 result summary: India*(Rs mn, year ending Dec 31)*

	Q1CY21	Q1CY20	YoY (%)	Q4CY20	QoQ (%)
Total operating income	10,488	7,440	41.0%	9,702	8.1%
EBITDA	1,621	970	67.1%	1,483	9.3%
<i>EBITDA Margin</i>	<i>15.5%</i>	<i>13.0%</i>	<i>242 bps</i>	<i>15.3%</i>	<i>17 bps</i>
EBIT	1,171	528	121.8%	1,032	13.5%
<i>EBIT Margin</i>	<i>11.2%</i>	<i>7.1%</i>	<i>407 bps</i>	<i>10.6%</i>	<i>53 bps</i>
PBT	1,116	434	157.4%	1,025	8.9%
<i>PBT Margin</i>	<i>10.6%</i>	<i>5.8%</i>	<i>481 bps</i>	<i>10.6%</i>	<i>8 bps</i>

Source: Company data, I-Sec research

Table 4: Q1CY21 result summary: Europe*(Rs mn, year ending Dec 31)*

	Q1CY21	Q1CY20	YoY (%)	Q4CY20	QoQ (%)
Total operating income	10,375	8,593	7.1%	8,951	9.3%
EBITDA	1,441	901	-0.2%	1,066	31.0%
<i>EBITDA Margin</i>	<i>13.9%</i>	<i>10.5%</i>	<i>-86 bps</i>	<i>11.9%</i>	<i>197 bps</i>
EBIT	1,009	528	-13.9%	636	43.9%
<i>EBIT Margin</i>	<i>9.7%</i>	<i>6.1%</i>	<i>-173 bps</i>	<i>7.1%</i>	<i>171 bps</i>
PBT	922	440	-7.8%	587	69.2%
<i>PBT Margin</i>	<i>8.9%</i>	<i>5.1%</i>	<i>-106 bps</i>	<i>6.6%</i>	<i>232 bps</i>

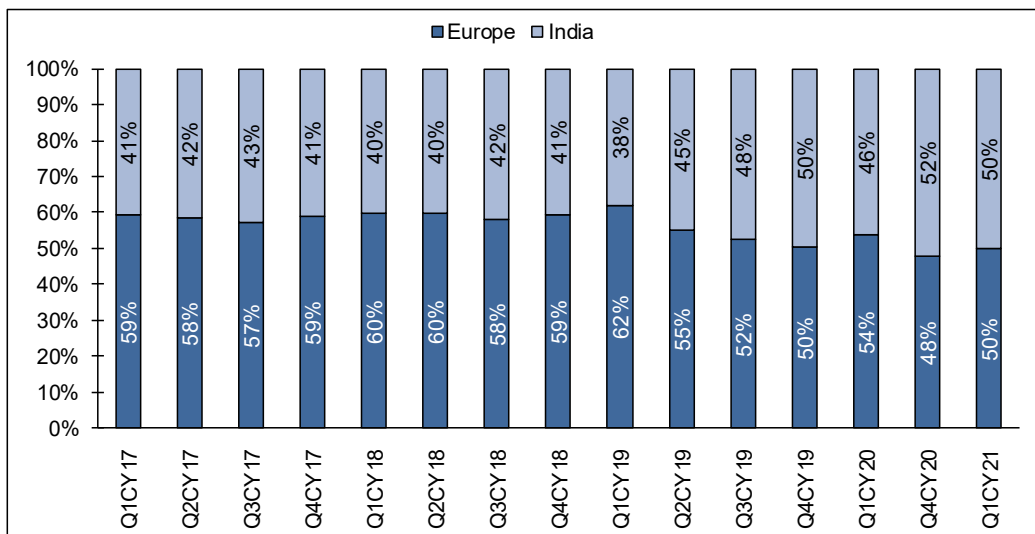
Source: Company data, I-Sec research

Table 5: Earnings revision*(Rs mn, year ending Dec 31)*

	CY21E			CY22E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	72,767	74,293	2.1	84,450	85,371	1.1
EBITDA	9,967	10,890	9.3	12,356	12,751	3.2
PAT	4,989	4,369	(12.4)	6,449	6,820	5.8
EPS (Rs)	13.2	11.6	(12.4)	17.1	18.0	5.8

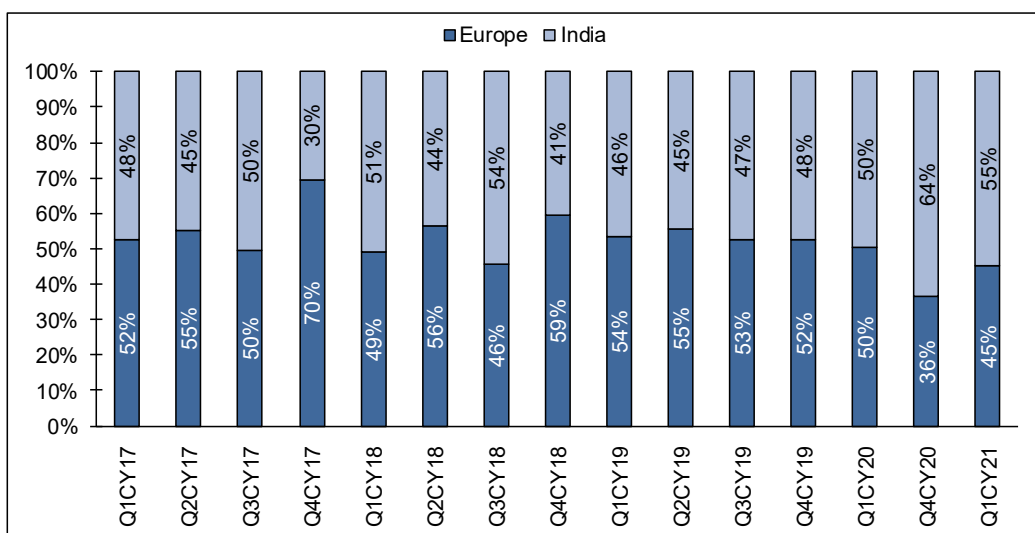
Source: Company data, I-Sec research

Chart 1: India's revenue matches up with Europe



Source: Company data, I-Sec research

Chart 2: India's PBT share exceeds Europe



Source: Company data, I-Sec research

Table 6: Revenue/PBT projected estimates

(Rs mn, year ending Dec 31)

Revenue (Rs mn)	CY17	CY18	CY19	CY20	CY21	CY22
Europe	38,159	45,694	41,861	30,326	38,421	42,973
India	26,120	34,621	37,217	30,175	35,872	42,398
Revenue Share	CY17	CY18	CY19	CY20	CY21	CY22
Europe	59%	57%	53%	50%	52%	50%
India	41%	43%	47%	50%	48%	50%
PBT (Rs mn)	CY17	CY18	CY19	CY20	CY21	CY22
Europe	2,849	3,946	3,371	605	3,636	3,946
India	2,370	3,584	2,954	1,351	4,029	5,429
PBT Share	CY17	CY18	CY19	CY20	CY21	CY22
Europe	55%	52%	53%	31%	47%	42%
India	45%	48%	47%	69%	53%	58%

Source: Company data, I-Sec research

Valuation and risk

We believe MACA is a well-diversified MNC play with dominant India contribution (~58% as PBT share CY22E/ up 11% since CY19). We revise our estimates by -12.4%/5.8% for CY21E/CY22E, respectively, factoring in the improved European margin performance. Stock remains inexpensive at ~10% FCF yield on CY22E. We maintain our target multiple to 15x CY22E EPS of Rs18. Maintain **BUY** with a revised target price of Rs264/share (earlier: Rs253).

Downside risk: Sudden decline in European truck market demand could impact margins.

Upside risk: Quicker ramp-up of India growth could improve profitability faster than anticipated.

Financial summary (consolidated)

Table 7: Profit and loss statement

(Rs mn, year ending December 31)

	CY19	CY20	CY21E	CY22E
Total Op. Income (Sales)	79,078	60,501	74,293	85,371
Operating Expenses	69,401	55,482	63,403	72,620
EBITDA	9,678	5,019	10,890	12,751
% margins	12.2	8.3	14.7	14.9
Depreciation & Amortisation	3,161	3,064	3,250	3,550
EBIT	6,517	1,955	7,640	9,201
Other Income	331	549	659	791
Gross Interest	523	548	634	616
PBT	6,325	1,956	7,665	9,376
Less: Exceptionals	46	-	-	-
PBT after Exceptionals	6,279	1,956	7,665	9,376
Less: Taxes	2,741	886	3,296	2,555
Less: Minority Interest	-	-	-	-
Add: Profit from Associates	-	-	-	-
Net Income (Reported)	3,538	1,070	4,369	6,820
Net Income (Adjusted)	3,564	1,070	4,369	6,820

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending December 31)

	CY19	CY20	CY21E	CY22E
ASSETS				
Current Assets	20,713	22,448	22,967	29,152
Cash & cash eqv.	1,498	2,379	1,114	4,359
Current Liabilities & Provisions	19,547	20,333	22,790	25,939
Net Current Assets	1,165	2,115	177	3,213
Investments	955	2,340	3,840	5,340
Goodwill	35,260	37,554	37,554	37,554
Net Fixed Assets	25,717	29,982	30,733	31,682
Capital Work-in-Progress	0	0	0	0
Long term loans & advances	568	0	0	0
Deferred Tax Assets	1,567	1,993	1,893	1,793
Other non-current asset	2,228	851	851	851
Total Assets	67,461	74,835	75,048	80,434
LIABILITIES				
Borrowings	14,691	18,613	18,113	17,613
long-term borrowings	8,256	11,510	11,010	10,510
short-term borrowings	6,435	7,103	7,103	7,103
Long-term provisions	3,608	3,465	3,665	3,865
Deferred Tax Liability	2,296	2,771	2,771	2,771
Other Non-current Liabilities	530	908	908	908
Minority Interest	0	0	0	0
Equity Share Capital	3,788	3,788	3,790	3,790
Reserves & Surplus	42,548	45,290	45,801	51,487
Net Worth	46,336	49,078	49,591	55,277
Total Liabilities	67,461	74,835	75,048	80,434

Source: Company data, I-Sec research

Table 9: 5-stage DuPont analysis

(% , year ending December 31)

All figures in %	CY19	CY20P	CY21E	CY22E
Tax Burden	56.4	54.7	74.0	71.8
Interest Burden	96.4	100.1	100.4	102.0
EBIT Margin	8.6	3.4	9.2	10.4
Asset Turnover	112.2	77.7	96.0	104.5
Financial Leverage	145.6	152.5	150.7	145.3
ROE	7.6	2.2	9.9	11.6

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending December 31)

	CY19	CY20	CY21E	CY22E
Cashflow before working capital changes	7,222	4,682	8,253	10,987
Working Capital Changes	331	(68)	673	209
Operating Cashflow	7,553	4,614	8,926	11,196
Capital Commitments	(5,056)	(2,564)	(4,000)	(4,500)
Free Cashflow	2,497	2,050	4,926	6,696
Cashflow from Investing Activities	(5,528)	(8,779)	(5,200)	(5,700)
Incl/(Dec) in securities premium	-	-	-	-
Buyback of shares	-	-	-	-
Incl/(Dec) in Borrowings	(1,443)	3,922	(500)	(500)
Dividend paid	-	-	(756)	(1,134)
Others	67	1,125	(3,737)	(616)
Cashflow from Financing Activities	(1,376)	5,046	(4,991)	(2,251)
Net Cashflow	650	881	(1,265)	3,245
Closing Cash & Bank balance	1,498	2,379	1,114	4,359

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending December 31)

	CY19	CY20	CY21E	CY22E
Per Share Data (in Rs.)				
EPS (Basic)	9.4	2.8	11.6	18.0
EPS (Adjusted)	9.4	2.8	11.6	18.0
Cash EPS	17.7	10.9	20.2	27.4
Dividend per share (DPS)	-	-	2.0	3.0
BVPS (Adjusted)	123	130	131	146
Growth Ratios (%)				
Total Op. Income (Sales)	-1.5	-23.5	22.8	14.9
EBITDA	-7.9	-48.1	117.0	17.1
Net Income (Adjusted)	-35.0	-70.0	308.5	56.1
EPS (Adjusted)	-35.0	-70.0	308.5	56.1
Cash EPS	-14.7	-38.3	84.3	36.1
BVPS (Adjusted)	9.8	5.9	1.0	11.5
Valuation Ratios (x)				
P/E (Adjusted)	18.3	60.9	14.9	9.5
P/BV (Adjusted)	1.4	1.3	1.3	1.2
EV/EBITDA	8.0	15.8	7.2	5.7
EV/Sales	1.0	1.3	1.1	0.9
Return/Profitability Ratios (%)				
EBITDA Margin	12.2	8.3	14.7	14.9
Net Income Margin (Adjusted)	4.5	1.8	5.9	8.0
RoCE	10.7	2.9	11.3	12.6
RoNW	7.6	2.2	8.8	12.3
RoI (ex-goodwill)	24.7	6.1	22.7	25.6
Dividend Payout Ratio	-	-	17.3	16.6
Dividend Yield	-	-	1.2	1.7

Wkg. Cap. Ratios (x)

Net D/E	0.3	0.3	0.3	0.1
Debt/EBITDA	1.5	3.7	1.7	1.4
EBIT/Interest	12.5	3.6	12.1	14.9
Current Ratio	1.1	1.1	1.0	1.1
Quick Ratio	0.5	0.6	0.5	0.7
Inventory (days)	51	63	52	51
Receivables (days)	36	44	37	37
Payables (days)	71	92	78	78

Source: Company data, I-Sec research

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