

Volume No. XIII Issue No. 02

8 May 2021

Mahindra CIE Automotive

Rs 182

Forging major with global footprint

Sensex: 49,206

Nifty: 14,823

FINANCIALS SUMMARY

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTEREST	PBDT	DEP.	PBT	EO	PBT AFTER EO	TAX	PAT	EO/PPT	TOTAL PAT	EPS (Rs)*
1912 (12)	7907.82	12.2	967.71	33.09	1000.8	52.27	948.53	316.1	632.43	-4.58	627.85	274.06	353.79	0	353.79	9.4
2012 (12)	6050.11	8.3	501.63	54.89	556.52	54.85	501.68	306.4	195.28	0	195.28	88.65	106.63	0	106.63	2.8
2112 (12P)	7648.65	12.3	941.96	74.36	1016.32	52.63	963.69	333.4	630.29	0	630.29	170.19	460.1	-142.5	317.6	12.1
2212 (12P)	8184.06	12.6	1031.19	81.8	1112.99	55.26	1057.73	356.74	700.99	0	700.99	189.27	511.72	0	511.72	13.5

*Annualised on Standalone equity of Rs 34.81 crore of face value of Rs 10 each. (P): Projections. Figures in Rs crore
Source: Capitaline Database

Mahindra CIE Automotive (MCIE), a part of the global auto component player, CIE Automotive Group, based out of Spain is a multi-locational and multi-technology automotive components company with manufacturing facilities and engineering capabilities in India, Europe (Germany, Spain, Lithuania, and Italy) and Mexico. It has an established presence in each of these locations and supplies to automotive Original Equipment Manufacturers (OEMs) and their Tier 1 suppliers.

MCIE was earlier known as Mahindra Forgings Limited (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 through the amalgamation of some existing Mahindra Group companies combined with a series of acquisitions in India and Europe. The Systech auto component division (comprising multiple companies, listed and unlisted) encompassed products across forgings, stampings, castings, gears, magnetic products and composites. As end of March 2021 CIE holds 60.17% stake and Mahindra & Mahindra group holds about 11.44% stake in the company.

In terms of revenue, MCIE is among the largest auto components suppliers in India. In Europe, it is one of the leading forgings suppliers for PV, CV and off-highway segments. Apart from its strong presence in forgings, MCIE is among the largest ductile iron casting and compression moulded auto components manufacturers in India. Its standalone operations consist of six product segments—forgings, castings, stampings, composites, magnetic products and gears. Following the acquisition of BFL in CY2016, the company gained strong traction in precision forged and machined automotive components for domestic 2W and PV segments.

Its European operations, especially for MFE and CIE Galfor, consist of forged components, while Metalcastello is primarily involved in the gears segment. In April 2019, the company completed the acquisition of Aurangabad Electricals Limited (AEL), which helped it to enter the aluminium die-casting business and the less cyclical 2W automotive segment in the Indian market.

Global manufacturing footprint

Operations of the company is well-diversified in terms of products, geographical reach, clientele and industry segments. While the Indian operations has a product range of



STOCK DATA

BSE Code	:	532756
BSE Group	:	A
NSE Code	:	MAHINDCIE
Bloomberg	:	MACA.IN
Reuters	:	MAHN.NS
Par Value	:	Rs 10
52-week High/Low	:	Rs 235 / Rs 81
Sector	:	Castings, Forgings and Fastners

SHAREHOLDING PATTERN *

Category	% of equity
Foreign	: 15.05
Institutions	: 3.56
Govt Holding	: 0.00
Corporate Holding	: 0.35
Promoters	: 71.61
Public & Others	: 9.44

* as on 31/03/2021

Source: Capitaline Databases

Forgings (34%), aluminium die casting (25%), stampings (18%), castings (11%), gears/machining (6%), magnets (3%) and composites (3%) that of Europe was largely of forgings which accounts 89% of the revenue and 11% gears/machining. Overall, forgings accounts for 63% of the revenue, aluminium die-casting 12%, stampings 9%, gears, machining 9%, castings 5%, magnetics 2% and composites 1%.

Cars/UV, two wheelers and tractors were the three large end user segments of Indian operations accounting for 40%, 32% and 16% of the revenue. MHCV, LCV and non autos segments accounts for 5%, 2% and 5% respectively. Major customers of India operations are Mahindra, Bajaj, Maruti Suzuki, Tata and Hero.

Cars, MHCV and off-highway were the key end user segments of the European operations respectively accounting 48%, 42% and 10% respectively. Top customers of its European operations in car forging are Renault, VW, Ford, JLR and BMW; in MHCV are Daimler, MAN, Scania, DAF and Renault and in case of off-highway it is CAT, Eaton and CNH.

MCIE is well diversified in terms of its geographical revenue base, which mainly includes India (49%) and Europe (51%) and also in terms clients with the top five clients contributing to 32% of its operating income (OI) in CY2020.

Strong parent

CIE is a focused global player in Auto Components, with diversified technologies and multi-location offerings.

MCIE is currently the CIE Automotive Group's vehicle for its forgings business globally and for all other technologies/processes in India and South East Asia.

CIE has demonstrated the ability to achieve acquisitive profitable growth across geographies, while delivering value-accretive growth, adhering to strict financial discipline. MCIE is benefitting from CIE's expertise in driving operational improvements and working toward achieving CIE's financial objectives.

MCIE benefits from CIE's strong technological expertise along with established relationships with the global OEMs. In the year 2020, CIE reinforced their faith in MCIE by increasing their shareholding in MCIE from 56.25% to 60.17% via open market transactions.

The company has been awarded several export projects owing to its export expansion strategy. The current export rate stands at 11–12% for both India and the EU. All the business verticals in India are making a push to increase exports.

Focus on rationalized product portfolio in Europe and get into more value added product in India to improve margin

MCIE has been focused on diversifying revenues in India and cutting cost in the India and EU businesses. In India, many divisions are increasing value added products e.g., foundry is targeting increasing their machine value add, magnetic division is aiming for better grade magnets, gears division has benefited from more complex gears due to BSVI transition etc.

Further in the case of the Indian operations, efforts were accelerated to reduce the Break-Even level of the plants to make them more efficient and future ready. The plants also focused on improving Capacity Utilization through reduced Outsourcing and by automation projects to improve Manpower Productivity.

MCIE had set in motion plans to rationalize its product portfolio in Germany to

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improve margins. Accordingly, the Commercial vehicle forgings business in Europe has seen some business downsizing and layoffs to improve profitability. The strategy of reducing unprofitable business to improve profitability will continue in Germany. Gears, Italy also went through some restructuring costs to align with the market drop as the off-highway market it serves started declining in 2019 and hit rock bottom last year. The market is expected to start a steady recovery in 2021. The car forgings business based out of Spain and Lithuania have normalized and margins in Q4CY20 are also back to pre-CoViD levels. The aim is to sustain these margins. The company is also increasing the non power train products so as to limit the impact of growth of Electric vehicles. Currently the focus in Europe is to sustain & gradually improve profitability in the face of a slowly recovering market demand.

Changes dividend payout policy

The company that has not paid any dividends to shareholders till date and have been conserving cash to fund its organic and inorganic growth has recognised the need to pay regular dividend while continuing to growth the company. In this regard MCIE's Board of Directors have recently amended its dividend policy and as per that it will endeavour to maintain a total dividend payout ratio of up to 25% of the annual consolidated profit after tax with the company.

Strong show in quarter ended March 2021

Sales for the quarter ended March 2021 was up by 32% to Rs 2189.40 crore driven by strong growth in both India and Europe business. While India sales was up 42% to Rs 1132 crore that of Europe was up 22% to Rs 1074.99 crore. With OPM expand by 210 bps to 13.1%, the operating profit was up by 57% to Rs 286.85 crore. The PBT more than doubled (up 133%) to Rs 203.73 crore gained by higher other income as well as lower interest and depreciation cost as proportion to sales. With taxation up by 107% to Rs 51.14 crore, the PAT was up by 143% to Rs 152.59 crore. In addition to current tax expenses and in accordance with the requirements of Ind AS 12, the company has recognised one-time tax expense amounting to Rs 142.5 crore as the outcome on the difference between Goodwill as per the books of account and its updated tax base of NIL. This was taken separately and show as EO. Thus the net profit was down by 84% to RS 10.09 crore.

For the fiscal ended Dec 2020, the sales was down by 23% to Rs 6050.11 crore. With OPM contractngi by 390 bps to 8.3%, the operating profit was down by 48% to Rs 501.63 crore. The PBT was down by 69% to Rs 195.28 crore. With EO income being nil compared to an expense of Rs 4.58 crore, the PBT after EO was down by 69% to Rs 195.28 crore. With taxation down by 68% to Rs 88.65 crore, the PAT was down by 70% to Rs 106.63 crore.

Outlook

Operations of the company in April 2021 is not impacted much despite surge in covid 19 cases in second wave in the country. But with OEMs announcing preponing of maintenance lockdown to tackle the Covid disturbance as well as increase in local restrictions or local lockdowns may hamper the operations in May & June 2021 resulting in certain slowdown. Considering thin channel inventory, the OEMs are expected to ramp up the production in India to meet festive demand if covid situation improves. This along with increased demand

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for personal mobility i.e. the passenger car and two wheelers on account of surge in covid is expected to support demand. Meanwhile in Europe though the demand is hit by semiconductor shortage in short term, the good progress in vaccination, which is expected to get completed within H1CY2021, is to improve the sentiment and demand in second half. With about 50% of the revenue coming from European operations the European market is expected to recover quicker than Indian from Covid impact auguring well for the company.

The management has also sounded that the clients are clear about their schedule and the company is well positioned in the market to continue growing on the strength of its wide product range. Further with rupee depreciate against Euro will boost the sales in rupee terms. On margin front, as the company completely pass through the commodity price increase to customers, the impact of it will be nil. The profitability is also likely to be supported by ramp-up in operations across the Indian and European subsidiaries (especially in Lithuania and Italy).

Due to focus on rationalisation of products with eye on profit, expansion of value added products and efficiency improvement, the company is expected to see margin improvement.

Valuation

We expect the company to register consolidated EPS of Rs 12.1 for fiscal ended Dec 2021 and Rs 13.5 for fiscal ended Dec 2022. The scrip is trading around Rs 182, which discounts the FY22 (Dec year end) EPS by around 13.5 times

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MAHINDRA CIE AUTOMOTIVE: CONSOLIDATED RESULTS

PARTICULARS	2103 (3)	2003 (3)	VAR. (%)	2012 (12)	1912 (12)	VAR. (%)
Sales	2189.40	1662.71	32	6050.11	7907.82	-23
OPM (%)	13.1	11.0		8.3	12.2	
OP	286.85	182.31	57	501.63	967.71	-48
Other inc.	19.36	4.89	296	54.89	33.09	66
PBIDT	306.21	187.19	64	556.52	1000.80	-44
Interest	14.19	18.24	-22	54.85	52.27	5
PBDT	292.02	168.96	73	501.68	948.53	-47
Dep.	88.29	81.53	8	306.40	316.10	-3
PBT before EO	203.73	87.43	133	195.28	632.43	-69
EO Income	0.00	0.00		0.00	-4.58	-100
PBT after EO	203.73	87.43	133	195.28	627.85	-69
Taxation	51.14	24.74	107	88.65	274.06	-68
PAT	152.59	62.69	143	106.63	353.79	-70
EO/PPT	-142.50	0.00		0.00	0.00	
Net profit	10.09	62.69	-84	106.63	353.79	-70
P/(L) from discontinued operations net of tax	0.00	0.00		-0.20	0.00	
Net profit after JV/ Associate profit	10.09	62.69	-84	106.43	353.79	-70
EPS (Rs)*	#	#		2.8	9.4	

* EPS is on current equity of Rs 379.011 crore, Face value of Rs 10.
EPS is not annualised due to seasonality of business. Figures in Rs crore.
Source: Capitaline Corporate Database