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CMP: INR 518

Rating: Accumulate

Target Price: INR 601

Stock Info

BSE	532756
NSE	CIEINDIA
Bloomberg	MACA.IN
Reuters	MAHINDCIE.BO
Sector	Automobile Ancillaries- Castings/Forgings

Face Value (INR)	10
Equity Capital (INR mn)	3793
Mkt Cap (INR mn)	201,081
52w H/L (INR)	578/243
Avg Yearly Vol (in 000')	216

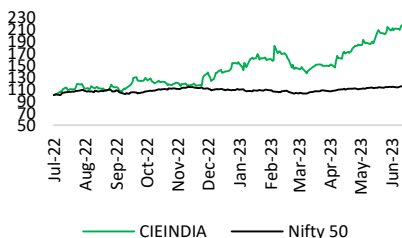
Shareholding Pattern %

(As on June, 2023)

Promoters	65.70
FII	7.54
DII	14.75
Public & Others	12.01

Stock Performance (%)	1m	3m	12m
Mahindra CIE Automotive	4.3	44.2	116.7
Nifty 50	5.5	12.6	20.2

CIE Automotive Vs Nifty



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CIE Automotive's (CIEINDIA) reported a decent set of Numbers. Mahindra CIE Automotive's Net Revenue dropped by 4.9% QoQ/+4.7% YoY to INR 2320 Cr. This is largely in-line with our revenue estimate of INR 2380 Cr. All businesses in India performing well with positive expectations.

Margin contraction led by sales slowdown mainly in Metalcastello due to US market negative evolution: EBITDA grew by 21% YoY/-2.7% QoQ, to INR 370Cr. EBITDA Margin expanded 217bps YoY/36bps QoQ to 15.96%. This is below our quarterly EBITDA estimate of INR 403 Cr and margin estimate of 16.9%. Sales slowdown mainly in Metalcastello due to US market negative evolution. Q2 margin improvement due to big stock generation for summer period (One time effect that will have reverse impact in Q3). The Q1 operational margins are being maintained.

Electrification gaining momentum in India: The adoption of electrification of powertrains and the EV order portfolio has rapidly increased in Europe, capturing an MS of >10%, and is also gaining momentum in India, particularly in 2w&3W and Spanish car forging manufacturing plants. The company has received orders for CIE Forgings used in battery packs and aluminum forging parts for Chassis, as well as orders from a couple of U.S. OEMs for EBIT transmission parts at Italian plant. These orders are expected to offset any potential revenue decline resulting from EV penetration. Overall, they are confident in their ability to remain agile, and seize future opportunities.

India & Europe business: The company's revenue showed a 4% YoY growth, but it was affected by a decline in 2w exports and changes in product mix. The EBITDA margin also improved, expanded by 150 bpd to reach 14.8% in Q2CY24. In the European business segment, revenue remained stable when measured in euros, primarily due to weaknesses observed at Metalcastello. However, because of the depreciation of the Indian rupee, there was a 6% year-on-year growth in revenue, amounting to approximately INR 8.9 billion. Additionally, the EBITDA margin in this segment improved significantly, expanding by 310 basis points to reach 17.8%, which was aided by reduced raw material and energy costs.

Valuations and Outlook

We believe CIEINDIA has a strong and resilient business structure, with multiple contracts with leading OEMs. The company's growth is driven by its own initiatives such as introducing new products and expanding its customer base entry into ASEAN markets, as well as through mergers and acquisitions. While Europe has shown disappointed on the revenue front. Our recommendation is based on three factors: the decrease in energy costs, the strong outlook for PV & 2W better performance on the back of new model launches, and the company's strong free cash flow generation and minimal debt on the balance sheet. **We value CIE Automotive India at a PE of 19x its CY25E EPS of INR 31.6 with a target price of INR 601 per share (Earlier TP: INR 490 per share). We downgrade our rating to Accumulate from Buy earlier on the stock.**

Exhibit 1: Financial Performance

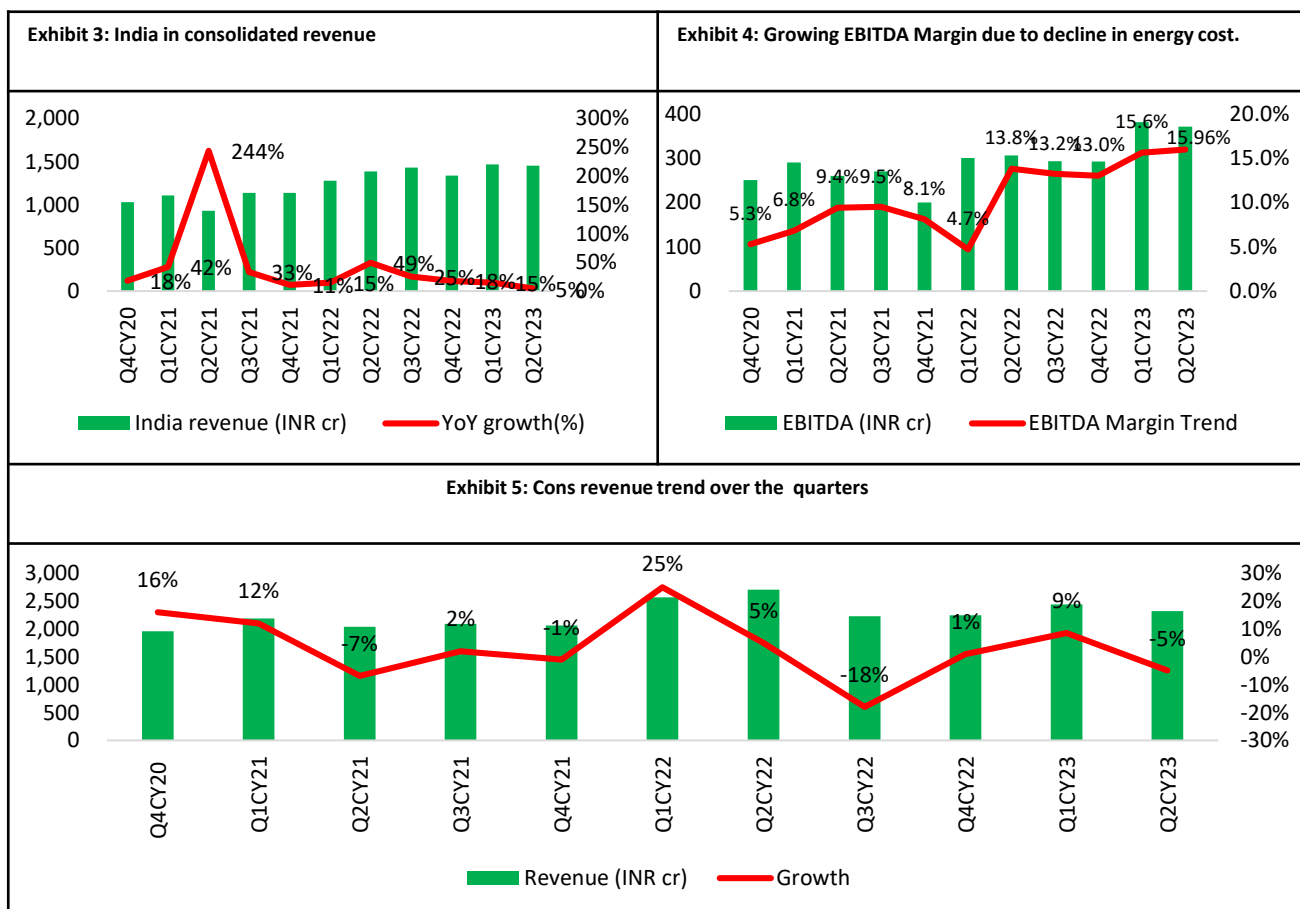
YE March (INR Mn)	Net Sales	EBITDA	PAT from Continue operations	EPS (INR)	EBITDA Margin %	ROCE	P/E (x)
CY22	8,753	1,172	709	-3.6	13.39%	17.3%	-144.2
CY23E	10,155	1,628	940	24.8	16.03%	22.2%	20.9
CY24E	11,285	1,840	1,076	28.4	16.30%	20.7%	18.2
FY25E	12,221	2,019	1,196	31.6	16.52%	19.0%	16.4

Source: Arihant Research, Company Filings

Exhibit 2 : Q2CY23 - Quarterly Performance (Consolidated)

INR Cr (Consolidate)	Q2CY23	Q1CY23	Q2CY22	Q-o-Q	Y-o-Y
Net Revenue	2,320	2,440	2,216	-4.9%	4.7%
Material Cost	1,208	1,294	1,229	-6.6%	-1.7%
Employee cost	257	260	227	-1.0%	13.2%
Other Expenses	485	506	453	-4.2%	6.9%
EBITDA	370	381	306	-2.7%	21.1%
EBITDA margin %	15.96%	15.60%	13.8%	36bps	217bps
Other Income	20	16	10	22.4%	95.7%
Depreciation	83	83	75	0.9%	11.3%
EBIT	307	314	241	30.8%	42.1%
EBIT Margin	13.2%	12.9%	10.9%	35bps	235bps
Finance cost	22	24	-	-7.9%	-
Exceptional Item	-	-	-	-	-
Share of profits of Associate company	-	-	1	-	-
PBT	284.310	290.428	241.92	7.4%	36.4%
Tax Expense	71	70	57	0.8%	23.4%
Effective tax rate %	24.9%	24.2%	23.7%	73bps	118bps
Reported Net Profit	213.6	220.3	184.6	-3.0%	15.7%
Profit for the period for discontinued operation	88	59	4.3	49.7%	1961.5%
Profit/(loss) for the period	301.7	279.1	188.850	8.1%	59.7%
Net margin %	9.2%	9.0%	8.3%	18bps	87bps
Reported EPS (INR)	8	7	4.98	8.0%	59.6%
Geography					
INR Cr (Consolidate)	Q2CY23	Q1CY23	Q2CY22	Q-o-Q	Y-o-Y
India	1,453	1,468	1,387	-1.0%	4.8%
Europe	1,403	1,553	1,332	-9.6%	5.3%

Source: Arihant Research, Company Filings



Source: Arihant Research, Company Filings

Q2CY23 Conference Call Highlights:

- **Monsoon:** Going forward, the relatively patchy progress of the monsoons could affect growth in the 2w and tractors market, but they do expect growth in the 4w segment to continue on the back of new model launches.
- **Industry:** Gradual recovery of two-wheeler production, which grew from 2% to 12% sequentially. The two-wheeler retail sales data reported by the dealers association also shows a gradually recovering sales MoM.
- The European operations experienced growth flattening due to Metalcastello's slowdown, while Q2 CY23 showed a healthy 19.2% EBITDA margin, higher than normal due to the pause in production for the upcoming summer holidays.
- The tractor market experienced high single-digit growth on a semi-annual basis, while trucks and two-wheelers slightly declined. This uneven performance across segments is anticipated to persist, but the EBITDA margin of 16.8%, EBIT margin of 12.8%, EBIT margin of 11.9%, and 9% margin are all significantly higher compared to H1FY22, indicating a strong all-round performance, and this positive momentum is expected to continue.
- The German CV forging business (held for sale) had INR1.1b insurance claim, which boosted PAT to INR846m in 2QCY23. Operating performance of this business has been improving with EBITDA margin of 8-10% in 2QCY23. The process to sell this business is progressing well and management expects a deal to happen sooner rather than later. The business transferred an excess cash of INR2.6b, as the deal is expected to be on debt and cash-free basis.
- **Capex** for the H1CY23 was INR1.7 bn, largely focused on projects in India (90% in India). Overall CapEx for H1CY23 was 5.4% and further will maintain 5-6% capex over the year. A large part of this capex is towards growth capex in India and Mexico.
- In Europe, the electrification of powertrains and EV order portfolio has rapidly gained traction, holding a MS of over 10%, and a similar trend is picking up in India, especially in 2w & 3w and Spanish car manufacturing plants.
- **Orders:** The company has secured orders for CIE Forgings, aluminum forging parts chassis, and EBIT transmission parts at Italian plant, expecting them to offset revenue decline from EV penetration, and remains confident in their ability to seize future opportunities. They have secured multiple orders from German carmakers for EVs, including differential grounds and battery plates for trucks, with industrialization planned next year, aiming to enhance their presence in the EV market, where currently over 1/3rd of new orders originate from EVs, with an anticipated increase in the future.
- **EV:** The company is currently selling components for EVs, especially in the three-wheelers, in both composites and magnet and gears divisions. The percentage of revenue from these activities in India is approximately 1%, and in Europe, it is also low due to the introduction of new products, with expectations of increased production and industrialization in the coming years, possibly reaching around 3%, 4%, or 5%.
- **Revenue Mix for India:** CY22 ~49% in India for four wheelers ~23% for two wheelers 20% for tractors and 8% for trucks in India. EV revenue 3-5% in Europe and 1-2% in India.
- **Customer:** M&M has performed exceptionally well, particularly with the newer models that have shown significant improvement compared to the older models, including advancements in stampings and external parts. The underperformance in the 2w market, but the company expects a recovery from August onwards with Bajaj exports getting back on track at ~50%, while newer customer segments are performing well.
- For sunroof business, the parent's strategy in India is yet to be finalized (currently housed in the parent-owned subsidiary).

Key Financials

Income Statement (INR Cr)				
Year End-March	CY22	CY23E	CY24E	FY25E
Revenues	8,753	10,155	11,285	12,221
<i>Change (%)</i>	4.4%	16.0%	11.1%	8.3%
Gross Profit	876	1,252	1,413	1,543
Employee costs	902	722	729	773
Other expenses	1,903	2,264	2,559	2,761
Total Expenses	1,903	2,264	2,559	2,761
EBITDA	1,172	1,628	1,840	2,019
EBITDA Margin	13.39%	16.03%	16.30%	16.52%
Depreciation	296	376	426	476
EBIT	934	1323	1505	1667
EBIT Margin	10.67%	13.02%	13.34%	13.64%
Interest	22.71	-	-	-
Other Income	58	71	92	124
PBT	911	1,257	1,439	1,601
Exceptional Items	37.87	-	-	-
PBT after exceptional Items	949	1,257	1,439	1,601
Tax	240	316	362	403
<i>Rate (%)</i>	25.3%	25.2%	25.2%	25.2%
PAT	709	940	1,076	1,198
SHARE OF PROFIT / (LOSS) OF ASSOCIATES / JVs.	2.20	-	-	-
PROFIT / (LOSS) FROM DISCONTI. OPERATIONS	(847.51)	-	-	-
Consolidated PAT	-136	940	1,077	1,198
<i>Change (%)</i>	-132.2%		14.5%	11.2%

Balance Sheet (INR Cr)					
Year End-March	CY21	CY22	CY23E	CY24E	FY25E
Sources of Funds					
Share Capital	379	379	379	379	379
Reserves & Surplus	4,818	4,719	5,527	6,092	6,400
Net Worth	5,197	5,098	5,906	6,471	6,779
Loan Funds	(114)	(35)	331	349	361
MI, Deferred Tax & other Liabilities	386	1,046	1,046	1,046	1,046
Capital Employed	5,082	5,063	6,237	7,424	8,802
Application of Funds					
Gross Block	5,436	5,998	6,119	6,802	7,533
Less: Depreciation	2,356	2,652	3,028	3,455	3,931
Net Block	2,704	2,629	3,090	3,347	3,600
CWIP	124.72	119.47	119.47	119.47	119.47
Other Non-current Assets	24.60	32.14	32.14	32.14	32.14
Other Current Assets	207	1,238	1,651	2,110	2,628
Net Fixed Assets	3,060	4,019	4,893	5,609	6,380
Investments	438	576	596	606	616
Debtors	669	861	999	1,110	1,202
Inventories	1,349	1,211	1,292	1,321	1,316
Cash & Bank Balance	160	86	375	725	1,205
Loans & Advances & other CA	-	-	-	-	-
Total Current Assets	2,948	3,764	4,601	5,573	6,676
Current Liabilities	4,759	4,830	4,974	5,025	5,016
Provisions	398	155	155	155	155
Net Current Assets	(1,811)	(1,065)	(372)	548	1,663
Total Assets	5,082	5,063	6,237	7,424	8,802

Cash Flow Statement (INR Cr)					
Year End-March	CY21	CY22	CY23E	CY24E	FY25E
PBT	669	951	1,257	1,439	1,601
Cash From Operating Activities	136	(58)	(363)	(191)	(96)
Tax	(105)	(198)	316	363	405
Net Cash From Operations	1,046	1,051	1,652	2,452	2,452
Cash From Investing	(755)	(640)	(1,057)	(869)	(869)
Borrowings	(279)	(394)	366	18	12
Finance cost paid	(46)	(38)	(66)	(66)	(66)
Cash From Financing	(363)	(488)	(306)	(1,103)	(1,103)
Net Increase/ Decrease in Cash	-72	-77	289	350	480
Cash at the beginning of the year	239	160	86	375	725
Cash at the end of the year	160	86	375	725	1,205

Key Ratios				
Year End-March	CY22	CY23E	CY24E	FY25E
Per share (INR)				
EPS	-3.6	24.8	28.4	31.6
Valuation (x)				
P/E	-144.2	20.9	18.2	16.4
P/BV	3.8	3.3	3.0	2.9
Return ratio (%)				
EBITDA Margin	13.4%	16.0%	16.3%	16.5%
Retrun on Networkth	13.2%	17.1%	17.4%	18.1%
ROCE	17.3%	22.2%	20.7%	19.0%
Sales/Capital employed (x)	1.7	1.6	1.5	1.4
MatATERIAL COST / SALES (%)	54.6%	54.6%	54.6%	54.6%
Leverage Ratio (%)				
Total D/E	0.0	0.1	0.1	0.1
Turnover Ratios				
Inventory Days	50	46	46	46
Receivable Days	36	36	36	36
Current liabilities	89	82	82	82

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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