

**CMP: INR 588**

**Rating: Buy**

**Target Price: INR 698**

**Stock Info**

BSE	532756
NSE	CIEINDIA
Bloomberg	MACA.IN
Reuters	MAHINDCIE.BO
Sector	Automobile Ancillaries- Castings/Forgings
Face Value (INR)	10
Equity Capital (INR Cr)	379
Mkt Cap (INR Cr)	22,344
52w H/L (INR)	622.40 / 406.80
Avg Yearly Vol (in 000')	629

**Shareholding Pattern %**

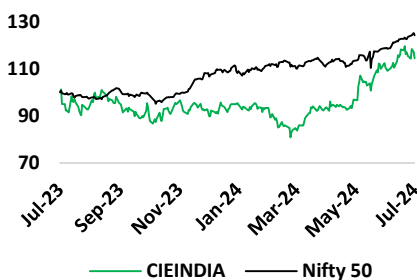
(As on March, 2024)

Promoters	65.70
FII	5.63
DII	19.45
Public & Others	9.82

**Stock Performance (%)**

	1m	3m	12m
CIE Automotive	3.50	18.35	14.33
Nifty 50	4.68	9.27	24.12

**CIE Automotive Vs Nifty**



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CIE Automotive's reported revenue below our estimates; while EBITDA margin & PAT in-line with expectations CIE Automotive's Net Revenue down by 8.3% QoQ/down 0.5% YoY to INR 2,293 Cr. This is largely below our revenue estimate of INR 2400 Cr. EBITDA de-grew by 2.8% YoY (flat QoQ), to INR 360 Cr. EBITDA Margin expanded 84 bps QoQ/(contraction by 26 bps YoY) to 15.7%. This aligns with our quarterly EBITDA estimate of INR 367 Cr and margin above our estimate of 15.3%. Reported PAT de-grew 5.9% QoQ(down by 28% YoY) to INR 216.8 Cr, in line with our quarterly PAT estimate of INR 216 Cr.

**Seasonal Weakness in Europe's H2CY24:** Europe's H2 is traditionally weaker than H1 due to the seasonality effect, including three-week August holidays and a week in December, with current market weakness evident in both off-road and light vehicle markets. Company has been heavily reliant on one American customer, Metalcastello, in a cyclical off-road market. Despite current delays in electrification programs, company diversifying by adding new customers and focusing on EV components. Conversely, in India, H2 is expected to outperform H1 and India revenue stands at ~63% of consolidated revenue.

**Capex:** The average Capex in the H1CY24 was ~4% of total turnover, slightly below the 5% standard, but it is expected to rise to 5.5% by year-end, with the majority focused on India.

**Growing Export Opportunities with Longer Lead Times:** Exports from India were around 13%, with significant opportunities in castings, gears, and aluminum castings. However, export businesses have longer lead times compared to domestic orders.

**Strong orderbook:** The company has a robust order book, with 30% of new orders in India and 55% in Europe related to electric vehicles. The company's strategy aligns with this transition. Additionally, it secured a significant contract with a new American transmission manufacturer for electric commercial and light commercial vehicles.

**Valuations and Outlook**

We believe CIEINDIA has a strong and resilient business structure, with multiple contracts with leading OEMs. Key growth drivers for CY24 include the revival in 2Ws, Mahindra 3XO launch, optimistic tractor outlook from H2CY24, and upcoming offtake from Stellantis and Bosch in Q3CY24. EU revenue growth is expected to be subdued due to a flat outlook for PVs and a downturn for Metalcastello. CAIL will prioritize growth over additional margin expansion. The capex/sales outlook remains at 5.5%, with 80% of growth capex focused on India. The company is not pursuing the sunroof business but is exploring acquisitions in the plastic parts segment. We expect recovery in H2CY24 led by strong order book and more focused customers for better growth.

**We value CIE Automotive India at a PE of 22x its CY26E EPS of INR 31.7 with a target price of INR 698 per share (Earlier TP: INR 689 per share). We maintain our Buy rating 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)
CY23	9,280	1,424	798	29.7	15.34%	17.3%	19.8
CY24E	10,186	1,612	957	25.3	15.82%	15.5%	23.3
CY25E	10,851	1,773	1,067	28.2	16.34%	15.4%	20.8
CY26E	11,560	1,922	1,186	31.4	16.63%	15.5%	18.7

Source: Arihant Research, Company Filings

## Exhibit 2 : Q2CY24 - Quarterly Performance (Consolidated)

INR Cr (Consolidate)	Q2CY24	Q1CY24	Q2CY23	QoQ	YoY
Net Revenue	2,293	2,427	2,320	-5.5%	-1.2%
Material Cost	1,174	1,290	1,208	-9.0%	-2.8%
Employee cost	267	262	257	2.2%	3.9%
Other Expenses	491	515	485	-4.5%	1.4%
EBITDA	360	361	370	-0.2%	-2.8%
EBITDA margin %	15.70%	14.86%	15.96%	84bps	-26bps
Other Income	31	51	20	-40.3%	56.9%
Depreciation	84	86	83	-3.2%	0.4%
EBIT	307	326	307	18.0%	3.6%
EBIT Margin	13.4%	13.4%	13.2%	-2bps	17bps
Finance cost	21	22	22	-4.2%	-4.4%
Exceptional Item	-	-	-		
Share of profits of Associate company	1	0	-0	-	-
PBT	286.6	303.9	284.3	-5.7%	0.8%
Tax Expense	70	74	71	-4.8%	-0.8%
Effective tax rate %	24.5%	24.3%	24.9%	23bps	-40bps
Reported Net Profit from Continue Business	216.4	230.2	213.6	-6.0%	1.3%
Profit for the period for discontinued operation	0.6	0.4	259	54.9%	-99.8%
Loss on fair valuation of assets and liabilities of disposal group	-	-	-133		
Current Tax expenses	0.2	0.1	24.0		
Deffered Tax expenses/reversal			13.8		
Profit/(loss) for the period	0.6	0.4	88.1	54.9%	-99.3%
Profit loss for the Period	216.8250	230.4780	301.653	-5.9%	-28.1%
Net margin %	9.5%	9.5%	13.0%	-4bps	-354bps
Continue business EPS (INR)	5.71	6.08	5.64	-6.1%	1.2%

INR Cr (Consolidate)	Q2CY24	Q1CY24	Q2CY23	Q-o-Q	Y-o-Y
India	1,506	1,508	1,453	-0.1%	3.6%
Europe	788	920	1,403	-14.4%	-43.8%

Source: Arianth Research, Company Filings

**Q2CY24 Conference Call Highlights:**

The company expects H2CY24 in India to outperform H1CY24 due to positive market trends. In Europe, H2 will likely be weaker due to seasonality, US election uncertainties, and slow EV adoption. Indian exports are set to rise despite longer lead times. Challenges include a slowdown in the European light vehicle market, weakness in the US off-road market, and reliance on a single customer for Metalcastello. The company has a strong order book focused on EVs, is not pursuing European acquisitions, and is prioritizing debt reduction

**India**

Sales grew 8% YoY to INR 14,463Mn

EBITDA increased 16% YoY to INR 2,614 mn, resulting in an EBITDA margin of 18.1%. All Indian businesses were performing well with positive growth and margin expectations.

20 customers including Mahindra, Bajaj, Hyundai, Kia, and Volkswagen.

**Europe**

Sales declined 11% YoY to INR 7,604 mn. EBITDA decreased 21% YoY to INR 1,292 mn, leading to an EBITDA margin of 17%.

CACIL received an INR2,674 mn subsidy under the Maharashtra Government Package Scheme of Incentives (PSI) 2013.

Sales reduction due to low market performance (-7.0%) and Metalcastello's drop (-32%) due to US off-road market situation and lower volume.

EBITDA margin reduction due to turnover drop, with cost control activities ongoing.

Excludes Russian market data to align with business realities.

**EV**

The European market's electrification process has slowed due to subsidy eliminations, causing market uncertainty and volatility, with growth expected to continue but at a lower pace, potentially delaying by 2-3 years. Meanwhile, internal combustion engine components remain in demand, providing time for companies to prepare for the transition.

**Order book**

The company has a robust order book, with 30% of new orders in India and 55% in Europe related to electric vehicles.

The company's strategy aligns with this transition. Additionally, it secured a significant contract with a new American transmission manufacturer for electric commercial and light commercial vehicles.

**Sunroof**

CIE Automotive India focuses primarily on Tier 2 businesses, while the Roof Systems business is managed independently by CIE Spain as a Tier 1 business.

**M&A**

The company is not actively pursuing acquisitions in Europe, preferring to focus its efforts on the growing Indian market.

**Debt**

Company expects another INR1 bn to go down by the end of the year.

**Near-term Challenges**

The company is facing challenges including a slowdown in the European light vehicle market, marked by a decline in EV orders and reduced subsidies. Additionally, weakness in the US off-road market is impacting Metalcastello's performance, compounded by the company's reliance on a single customer for this business. While diversification efforts are in progress, these factors are contributing to the current difficulties.

Export: 13% from India, with growing opportunities in iron and gear casting.

Growth CapEx for H1 was INR 1.05 bn, primarily allocated to projects in India.

## Key Financials

Income Statement (INR Cr)				
Year End-March	CY23	CY24E	CY25E	CY26E
<b>Revenues</b>	9,280	10,186	10,851	11,560
<i>Change (%)</i>	6.0%	9.8%	6.5%	6.5%
<b>Gross Profit</b>	<b>1,102</b>	<b>1,240</b>	<b>1,351</b>	<b>1,490</b>
Employee costs	994	1,004	1,065	937
Other expenses	1,951	2,012	2,093	2,393
<b>Total Expenses</b>	<b>1,951</b>	<b>2,012</b>	<b>2,093</b>	<b>2,393</b>
<b>EBITDA</b>	<b>1,424</b>	<b>1,612</b>	<b>1,773</b>	<b>1,922</b>
<b>EBITDA Margin</b>	<b>15.34%</b>	<b>15.82%</b>	<b>16.34%</b>	<b>16.63%</b>
Depreciation	322	372	422	432
<b>EBIT</b>	<b>1184</b>	<b>1346</b>	<b>1495</b>	<b>1656</b>
<b>EBIT Margin</b>	<b>12.75%</b>	<b>13.22%</b>	<b>13.78%</b>	<b>14.32%</b>
Interest	107.37	-	-	-
Other Income	82	107	144	166
<b>PBT</b>	<b>1,076</b>	<b>1,280</b>	<b>1,429</b>	<b>1,590</b>
Exceptional Items	(0.49)	-	-	-
<b>PBT after exceptional Items</b>	<b>1,076</b>	<b>1,280</b>	<b>1,429</b>	<b>1,590</b>
Tax	278	322	360	401
<i>Rate (%)</i>	25.8%	25.2%	25.2%	25.2%
<b>PAT</b>	<b>798</b>	<b>957</b>	<b>1,067</b>	<b>1,186</b>
SHARE OF PROFIT / (LOSS) OF ASSOCIATES / JVs.	(0.49)	-	-	-
PROFIT / (LOSS) FROM DISCONTI. OPERATIONS	-	-	-	-
<b>Consolidated PAT</b>	<b>798</b>	<b>958</b>	<b>1,069</b>	<b>1,189</b>
<i>Change (%)</i>		20.1%	11.6%	11.2%

Balance Sheet (INR Cr)				
Year End-March	CY23	CY24E	CY25E	CY26E
<b>Sources of Funds</b>				
Share Capital	379	379	379	379
Reserves & Surplus	5,609	6,055	6,234	6,153
<b>Net Worth</b>	<b>5,988</b>	<b>6,434</b>	<b>6,613</b>	<b>6,532</b>
<b>Loan Funds</b>	<b>1,676</b>	<b>1,558</b>	<b>1,162</b>	<b>2,131</b>
MI, Deferred Tax & other Liabilities	333	333	333	334
<b>Capital Employed</b>	<b>7,664</b>	<b>8,367</b>	<b>9,200</b>	<b>10,084</b>
<b>Application of Funds</b>				
Gross Block	6,119	6,682	7,278	7,909
Less: Depreciation	2,974	3,346	3,769	4,201
Net Block	2,840	3,334	3,507	3,706
CWIP	53.67	53.67	53.67	53.67
Other Non-current Assets	39.10	39.10	39.10	39.10
Other Current Assets	368	465	569	697
<b>Net Fixed Assets</b>	<b>3,301</b>	<b>3,891</b>	<b>4,169</b>	<b>4,496</b>
<b>Investments</b>	<b>821</b>	<b>606</b>	<b>616</b>	<b>626</b>
Debtors	633	695	740	789
Inventories	1,163	1,149	1,126	1,103
Cash & Bank Balance	210	560	1,040	1,520
Loans & Advances & other CA	-	-	-	-
<b>Total Current Assets</b>	<b>3,165</b>	<b>3,591</b>	<b>4,234</b>	<b>4,906</b>
Current Liabilities	2,069	2,071	2,066	2,063
<b>Provisions</b>	<b>153</b>	<b>153</b>	<b>153</b>	<b>153</b>
<b>Net Current Assets</b>	<b>1,096</b>	<b>1,520</b>	<b>2,170</b>	<b>2,845</b>
<b>Total Assets</b>	<b>7,664</b>	<b>8,367</b>	<b>9,200</b>	<b>10,084</b>

Source: Arian Research, Company Filings

## Key Financials

Cash Flow Statement (INR Cr)				
Year End-March	CY23	CY24E	CY25E	CY26E
<b>PBT</b>	<b>1,076</b>	<b>1,280</b>	<b>1,429</b>	<b>1,590</b>
Cash From Operating Activities	-31	-50	-27	-29
Tax	-358	323	362	404
<b>Net Cash From Operations</b>	<b>1,383</b>	<b>2,252</b>	<b>2,252</b>	<b>2,462</b>
Cash From Investing	-910	-789	-789	-824
Borrowings	40	-119	-396	969
<b>Finance cost paid</b>	<b>-104</b>	<b>-66</b>	<b>-66</b>	<b>-66</b>
Cash From Financing	-427	-1,312	-1,312	-146
<b>Net Increase/ Decrease in Cash</b>	<b>46</b>	<b>-136</b>	<b>151</b>	<b>1492</b>
<b>Cash at the beginning of the year</b>	<b>160</b>	<b>211</b>	<b>80</b>	<b>236</b>
Cash at the end of the year	211	80	236	1,732

Key Ratios				
Year End-March	CY23	CY24E	CY25E	CY26E
<b>Per share (INR)</b>				
EPS	29.7	25.3	28.2	31.4
<b>Valuation (x)</b>				
P/E	19.8	23.3	20.8	18.7
P/BV	3.7	3.5	3.4	3.4
<b>Return ratio (%)</b>				
EBIDTA Margin	15.3%	15.8%	16.3%	16.6%
Retrun on Networth	14.4%	15.4%	16.4%	18.0%
ROCE	17.3%	15.5%	15.4%	15.5%
Sales/Capital employed (x)	1.2	1.2	1.2	1.1
MATERIAL COST / SALES (%)	54.6%	54.6%	54.6%	54.6%
<b>Leverage Ratio (%)</b>				
Total D/E	0.3	0.2	0.2	0.3
<b>Turnover Ratios</b>				
Inventory Days	46	46	46	47
Receivable Days	25	25	25	25
Current liabilities	9	9	9	9

Source: Arihant 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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