

**CMP: INR 484**

**Rating: Hold**

**Target Price: INR 537**

**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)	580/282
Avg Yearly Vol (in 000')	1,139

**Shareholding Pattern %**

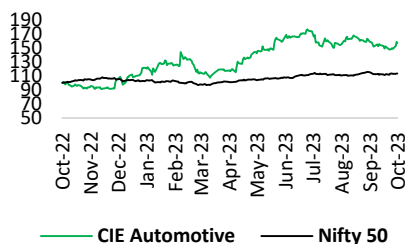
(As on June, 2023)

Promoters	65.70
FII	7.54
DII	14.75
Public & Others	12.01

**Stock Performance (%)**

	1m	3m	12m
CIE Automotive	-0.5	-7.1	57.6
Nifty 50	-1.7	0.1	12.0

**CIE Automotive Vs Nifty**



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CIE Automotive's Net Revenue dropped by 1.8% QoQ/+2.2% YoY to INR 2,279 Cr. This is largely below with our revenue estimate of INR 2468 Cr. Sales in line with the market: Tractors and Two Wheelers most affected. EBITDA grew by 17.7% YoY (down by 6.8% QoQ), to INR 345 Cr. EBITDA Margin expanded 199 bps YoY/(contraction by 81 bps QoQ) to 15.1%. This is below our quarterly EBITDA estimate of INR 384 Cr and margin estimate of 15.6%. Q3 margin coming back to recurrent levels after special impact of Q2 (margin improvement due to big stock generation for summer period) Reported PAT grew 11.4% YoY (down by 12.6% QoQ) to INR 186.7 Cr, below our quarterly PAT estimate of INR 227 Cr. Profit from discontinued operations after tax INR 188.6 Cr. Net profit after Profit from discontinued operations INR 375.4 Cr.

**Going forward, improvement in margin led by growth across the verticals**

The company is committed to continuous improvement across all verticals, addressing identified gaps, and foresee margin enhancement driven by anticipated market and business growth in the . While some projects have faced delays, the company maintain dedication to ongoing margin improvement, especially in India, where they aim to enhance production efficiency and competitiveness to achieve better margins, acknowledging that there is still room for improvement compared to European and Mexican operations.

**CFG subsidiaries sale completed in the October**

The sale of CFG subsidiaries on October 16, 2023, impacted the restated Q3 and 9M financials. PAT comprises INR 335.6 Cr profit from discontinued operations, including a one-time impact of INR 110 Cr from settled insurance claims, and INR 209 Cr from Foreign Currency Translation Reserve. Normalized EBITDA over production value stands at ~17%.

**Electrification gaining momentum in India:** The European EV market continues to grow, and company aim to align with it while preserving company's margins. They have expanded aluminum EV 4w production and invested in Mahindra's new EV models, including upcoming tractor models. Overall, they are confident in their ability to remain agile, and seize future opportunities.

**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, Festive season expected to boost the 2w MS, and the company's strong free cash flow generation and minimal debt on the balance sheet. In the near term, a concern arises from the decline in the U.S. off-highway market due to rising interest rates and uncertainty in the coming quarters due to the war in Ukraine and tense situation in Israel.

**We value CIE Automotive India at a PE of 20x its CY26E EPS of INR 29.6 with a target price of INR 537 per share (Earlier TP: INR 601 per share). We downgrade our rating to Hold from Accumulate 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%	-134.7
CY23E	9,772	1,530	867	22.9	15.66%	20.5%	21.2
CY24E	10,113	1,657	939	24.8	16.38%	18.5%	19.5
CY25E	10,698	1,779	1,016	26.9	16.63%	16.9%	18.0
CY26E	11,318	1,909	1,118	29.6	16.87%	16.5%	16.4

Source: Arihant Research, Company Filings

## Exhibit 2 : Q3CY23 - Quarterly Performance (Consolidated)

INR Cr (Consolidate)	Q3CY23	Q2CY23	Q3CY22	Q-o-Q	Y-o-Y
Net Revenue	2,279	2,320	2,229	-1.8%	2.2%
Material Cost	1,247	1,208	1,240	3.2%	0.6%
Employee cost	232	257	216	-9.7%	7.7%
Other Expenses	455	485	480	-6.1%	-5.3%
EBITDA	345	370	293	-6.8%	17.7%
EBITDA margin %	15.15%	15.96%	13.2%	-81bps	199bps
Other Income	20	20	13	2.5%	49.7%
Depreciation	78	83	73	-5.9%	7.2%
EBIT	287	307	234	-6.4%	22.8%
EBIT Margin	12.6%	13.2%	10.5%	-62bps	211bps
Finance cost	31	22	11	40.4%	185.0%
Exceptional Item	-	-	-	-	-
Share of profits of Associate company	-0	-0	0	-	-
PBT	255.875	284.310	223.182	-10.0%	14.6%
Tax Expense	69	71	56	-2.3%	24.4%
Effective tax rate %	27.0%	24.9%	24.9%	214bps	211bps
<b>Reported Net Profit from Continue Business</b>	<b>186.7</b>	<b>213.6</b>	<b>167.583</b>	<b>-12.6%</b>	<b>11.4%</b>
Profit for the period for discontinued operation	209	259	4.0	-19.3%	5095.4%
Loss on fair valuation of assets and liabilities of disposal group	-20.4	-133.3			
Current Tax expenses		24.0	0.3		
Deffered Tax expenses/reversal		13.8	-0.0		
<b>Profit/(loss) for the period</b>	<b>188.683</b>	<b>88.093</b>	<b>3.784</b>	<b>114.2%</b>	<b>4886.3%</b>
<b>Profit loss for the Period</b>	<b>375.416</b>	<b>301.653</b>	<b>171.367</b>	<b>24.5%</b>	<b>119.1%</b>
Net margin %	16.5%	13.0%	7.7%	347bps	878bps
Continue business EPS (INR)	5	6	4.42	-12.8%	11.3%

INR Cr (Consolidate)	Q3CY23	Q2CY23	Q3CY22	Q-o-Q	Y-o-Y
India	1,537	1,453	1,543	5.7%	-0.4%
Europe	744	1,403	1,192	-47.0%	5.3%

Source: Arianth Research, Company Filings

**Q3CY23 Conference Call Highlights:****CFG Subsidiaries**

- Sale of CFG subsidiaries completed on October 16, 2023, with restated Q3 and 9-month results.
- PAT includes INR 335.6 Cr profit from discontinued operations (CFG), including INR 110 Cr of settled insurance claims.
- INR 209 Cr from Foreign Currency Translation Reserve credited to P&L on sale of German business.
- Normalized EBITDA over production value at about 17%.
- A 3% impact from declining steel prices. The impact of ForEx and steel price drop mostly cancelled each other out in Q2FY24.
- Diwali shift and delayed order ramp-up affected sales growth.
- Positive expectations for growth and margins in all Indian verticals.

**Indian Operations**

- Optimistic market situation in India with good sequential growth across all four market segments.
- 2w segment shows sharpened sequential growth, boosted by the festive season.
- Steady tractor segment on a high base, with some impact from erratic monsoon.
- ~10% of new orders are for EVs.
- Positive signs of growth in the domestic market.
- Festive season expected to boost the two-wheeler market share.

**European Operations**

- Slightly depressed market due to annual stock build-up in July.
- Uncertainty in the coming quarters due to the war in Ukraine and tense situation in Israel.
- Margins have recovered, stabilizing power costs.
- 74% of new orders in Europe are for EVs.

**Metalcastello**

- Impact of cyclical slowdown in end-use market.
- Affected by the decline in the US off-highway market due to higher interest rates.
- Expectation of recovery in 2024.
- Received orders worth INR 28 Cr to INR 3 Cr.
- 50% of business for electric vehicles this year.

**EV**

- EV penetration in European auto sales is increasing.
- Expanding in the aluminum EV four-wheeler space.
- Investments in Mahindra EV's new models.
- New tractor models from Mahindra.

**Export**

- Exports, especially 2w exports, have not recovered significantly on a YTD basis, down about 20%.

## Key Financials

Income Statement (INR Cr)						
Year End-March	CY22	CY23E	CY24E	CY25E	CY26E	
<b>Revenues</b>	8,753	9,772	10,113	10,698	11,318	
<i>Change (%)</i>	4.4%	11.6%	3.5%	5.8%	5.8%	
<b>Gross Profit</b>	<b>876</b>	<b>1,154</b>	<b>1,230</b>	<b>1,303</b>	<b>1,423</b>	
Employee costs	902	992	1,002	1,062	935	
Other expenses	1,903	1,918	1,936	2,019	2,298	
<b>Total Expenses</b>	<b>1,903</b>	<b>1,918</b>	<b>1,936</b>	<b>2,019</b>	<b>2,298</b>	
<b>EBITDA</b>	<b>1,172</b>	<b>1,530</b>	<b>1,657</b>	<b>1,779</b>	<b>1,909</b>	
<b>EBITDA Margin</b>	<b>13.39%</b>	<b>15.66%</b>	<b>16.38%</b>	<b>16.63%</b>	<b>16.87%</b>	
Depreciation	296	376	426	476	486	
<b>EBIT</b>	<b>934</b>	<b>1224</b>	<b>1322</b>	<b>1426</b>	<b>1565</b>	
<b>EBIT Margin</b>	<b>10.67%</b>	<b>12.53%</b>	<b>13.07%</b>	<b>13.33%</b>	<b>13.83%</b>	
Interest	22.71	-	-	-	-	
Other Income	58	71	92	124	142	
<b>PBT</b>	<b>911</b>	<b>1,158</b>	<b>1,256</b>	<b>1,361</b>	<b>1,500</b>	
Exceptional Items	37.87	-	-	-	-	
<b>PBT after exceptional Items</b>	<b>949</b>	<b>1,158</b>	<b>1,256</b>	<b>1,361</b>	<b>1,500</b>	
Tax	240	292	316	342	378	
<i>Rate (%)</i>	25.3%	25.2%	25.2%	25.2%	25.2%	
<b>PAT</b>	<b>709</b>	<b>867</b>	<b>939</b>	<b>1,016</b>	<b>1,118</b>	
SHARE OF PROFIT / (LOSS) OF ASSOCIATES / JVs.	2.20	-	-	-	-	
PROFIT / (LOSS) FROM DISCONTI. OPERATIONS	(847.51)	-	-	-	-	
<b>Consolidated PAT</b>	<b>-136</b>	<b>867</b>	<b>940</b>	<b>1,018</b>	<b>1,121</b>	
<i>Change (%)</i>	-132.2%		8.4%	8.3%	10.1%	

Cash Flow Statement (INR Cr)						
Year End-March	CY21	CY22	CY23E	CY24E	CY25E	CY26E
<b>PBT</b>	<b>669</b>	<b>951</b>	<b>1,158</b>	<b>1,256</b>	<b>1,361</b>	<b>1,500</b>
Cash From Operating Activities	136	(58)	(191)	131	(82)	(83)
Tax	(105)	(198)	292	317	344	381
<b>Net Cash From Operations</b>	<b>1,046</b>	<b>1,051</b>	<b>1,701</b>	<b>2,165</b>	<b>2,165</b>	<b>2,350</b>
Cash From Investing	(755)	(640)	(1,057)	(793)	(793)	(824)
Borrowings	(279)	(394)	369	(87)	(13)	1,422
<b>Finance cost paid</b>	<b>(46)</b>	<b>(38)</b>	<b>(66)</b>	<b>(66)</b>	<b>(66)</b>	<b>(66)</b>
Cash From Financing	(363)	(488)	(303)	(1,129)	(1,129)	308
<b>Net Increase/ Decrease in Cash</b>	<b>-72</b>	<b>-77</b>	<b>342</b>	<b>397</b>	<b>244</b>	<b>1833</b>
<b>Cash at the beginning of the year</b>	<b>239</b>	<b>160</b>	<b>86</b>	<b>428</b>	<b>825</b>	<b>1,069</b>
Cash at the end of the year	160	86	428	825	1,069	2,902

Balance Sheet (INR Cr)						
Year End-March	CY21	CY22	CY23E	CY24E	CY25E	CY26E
<b>Sources of Funds</b>						
Share Capital	379	379	379	379	379	379
Reserves & Surplus	4,818	4,719	5,453	5,882	6,009	5,861
<b>Net Worth</b>	<b>5,197</b>	<b>5,098</b>	<b>5,832</b>	<b>6,261</b>	<b>6,388</b>	<b>6,240</b>
<b>Loan Funds</b>	<b>(114)</b>	<b>(35)</b>	<b>334</b>	<b>248</b>	<b>235</b>	<b>1,657</b>
MI, Deferred Tax & other Liabilities	<b>386</b>	<b>1,046</b>	<b>1,046</b>	<b>1,046</b>	<b>1,046</b>	<b>1,047</b>
<b>Capital Employed</b>	<b>5,082</b>	<b>5,063</b>	<b>6,167</b>	<b>7,112</b>	<b>8,285</b>	<b>9,567</b>
<b>Application of Funds</b>						
Gross Block	5,436	5,998	6,119	6,744	7,398	8,083
Less: Depreciation	2,356	2,652	3,028	3,455	3,931	4,417
Net Block	2,704	2,629	3,090	3,288	3,465	3,664
CWIP	124.72	119.47	119.47	119.47	119.47	119.47
Other Non-current Assets	24.60	32.14	32.14	32.14	32.14	32.14
Other Current Assets	207	1,238	1,589	1,891	2,300	2,799
<b>Net Fixed Assets</b>	<b>3,060</b>	<b>4,019</b>	<b>4,831</b>	<b>5,331</b>	<b>5,917</b>	<b>6,614</b>
<b>Investments</b>	<b>438</b>	<b>576</b>	<b>596</b>	<b>606</b>	<b>616</b>	<b>626</b>
Debtors	<b>669</b>	<b>861</b>	<b>961</b>	<b>994</b>	<b>1,052</b>	<b>1,113</b>
Inventories	1,349	1,211	1,244	1,184	1,152	1,122
Cash & Bank Balance	160	86	375	725	1,205	1,685
Loans & Advances & other CA	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>2,948</b>	<b>3,764</b>	<b>4,445</b>	<b>5,077</b>	<b>6,004</b>	<b>7,026</b>
Current Liabilities	<b>4,759</b>	<b>4,830</b>	<b>4,888</b>	<b>4,783</b>	<b>4,727</b>	<b>4,674</b>
<b>Provisions</b>	<b>398</b>	<b>155</b>	<b>155</b>	<b>155</b>	<b>155</b>	<b>155</b>
<b>Net Current Assets</b>	<b>(1,811)</b>	<b>(1,063)</b>	<b>(443)</b>	<b>295</b>	<b>1,280</b>	<b>2,355</b>
<b>Total Assets</b>	<b>5,082</b>	<b>5,063</b>	<b>6,167</b>	<b>7,112</b>	<b>8,285</b>	<b>9,567</b>

Key Ratios						
Year End-March	CY22	CY23E	CY24E	CY25E	CY26E	
<b>Per share (INR)</b>						
EPS	-3.6	22.9	24.8	26.9	29.6	
<b>Valuation (x)</b>						
P/E	-134.7	21.2	19.5	18.0	16.4	
P/BV	3.6	3.1	2.9	2.9	2.9	
<b>Return ratio (%)</b>						
EBIDTA Margin	13.4%	15.7%	16.4%	16.6%	16.9%	
Retrun on Networkth	13.2%	15.9%	15.5%	16.1%	17.7%	
ROCE	17.3%	20.5%	18.5%	16.9%	15.9%	
Sales/Capital employed (x)	1.7	1.6	1.4	1.3	1.2	
MATERIAL COST / SALES (%)	54.6%	54.6%	54.6%	54.6%	54.6%	
<b>Leverage Ratio (%)</b>						
Total D/E	0.0	0.1	0.0	0.0	0.3	
<b>Turnover Ratios</b>						
Inventory Days	50	46	46	46	47	
Receivable Days	36	36	36	36	36	
Current liabilities	89	82	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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