

Retail Equity Research
CIE Automotive India Ltd.
Automobile- Auto Ancillaries

BSE CODE : 532756
BLOOMBERG CODE: CIEINDIA: IN

NSE CODE: MAHINDCIE
SENSEX : 65,151

12 Months Investment Period
CMP Rs. 480

Rating as per Mid Cap
TARGET Rs. 576

RETURN 20%


(Closing: 17.08.2023)

KEY CHANGES:

TARGET


RATING


EARNINGS


Re-rating in valuation...
CIE Automotive India Ltd. (CIE) is the part of Spain -based, top global forging player with a strong presence in both Europe & India. Currently, 60% of the revenue comes from India, while the rest is from Europe.

- We believe the current growth story in the domestic market and the focus on building the EV product portfolio and operation performance in the European business are likely to push the margin forward.**
- Despite lower sales due to higher pass-through to customers for Q2, CIE's consolidated margin expanded by 217bps on the back of benign metal prices and cost control initiatives by discontinuing German operations.**
- Though the current order will suffice for the required growth in the near term. However, Global macro turbulence could delay capacity expansion from Major OEM.**
- Increased business with existing customers owing to supplier consolidation, localization and shifting production to India as the primary hub for export is adding value for the company.**
- We expect a re-rating in valuation similar to listed MNCs in the automotive sector and recommend BUY rating at CMP (21x CY24E EPS).**

Strategic move to enhance profitability.
The board approved the name change from MCIE to CIE Automotive India Limited (CAIL) after increasing its stake from 60.8% to 65.7%. Additionally, to enhance profitability, the decision by CIE to hive off its German operations is viewed as a positive move, as this division has been a drag on the company's EBITDA margins (3-5% versus 13-15% in CY22). Following the spinoff, it is anticipated that the EBITDA margins of the European business will increase and accelerate the company's consolidated EBITDA towards the targeted 17-18%, which would be consistent with the CIE global operations of the parent company. The company launched a programme in December 2022 to locate a buyer for CFG and its subsidiaries, JECO, GSA, FALK, and SCHO. The transaction (CFG sells subsidiary shares to Mutares) was approved by the Board of Directors on August 23, subject to obtaining the necessary approvals in accordance with the applicable laws of the respective countries and the approval of CIE India's shareholders. Mutares SE & Co. (German Pvt. Equity) and CIE Automotive India (CIE) have reached a definitive agreement to sell the forging division of CIE's German GmbH (CFG).

Margin positively affected due to better passthrough
CIE's consolidated revenue came in line with our estimate of 5% YoY on the back of positive performance in India and big commercial efforts in Europe to offset huge cost increases. EBITDA margin from India business sustained at 16.8% owing to stabilising raw material prices and strong orders from its key customers. The European automotive market is showing recovery as semiconductor shortages ease. Margins are positively affected by a better pass-through of Energy and inflation, which add extra costs to customers. We expect the company's overall margin improvement trend to continue for India and European business (~15-16%), due to cost rationalizing and supplier consolidation in the international business.

New business is projected to from EV.
The current order suffices the requirement for growth in the near term due to supplier consolidation. Though we believe the next growth story in the domestic & International businesses is focusing on building the EV product portfolio and operating performance in the European business, Over 50% of the new business is projected from EV in the next 2 years (a substantial increase from the current 30%), with a key focus on developing cutting-edge technology in stamping and light-weight Aluminium forging. With a wider portfolio catering to the e-2W, e-3W, and e-4W segments, it aims to elevate margin and return ratio to new heights.

Valuations
We expect normal growth in the domestic car segment for the year due to a high base and fading pent-up demand. In addition, there is the possibility of a tightening in the International business in the near term. However, the long-term growth prospects are intact, and we expect a re-rating in valuation similar to listed MNCs in the automotive sector. We value CIE at 21x CY24E EPS and recommend a buy rating with a target price of Rs. 576.

Company Data			
Market Cap (Rs.cr)	18,225		
Enterprise Value (Rs.cr)	18,680		
Outstanding Shares (cr)	37.9		
Free Float	34%		
Dividend Yield	0.5%		
52 week high Rs.	578		
52 week low Rs.	252		
6m average volume (cr)	0.17		
Beta	0.8		
Face value Rs.	10		
Shareholding (%)	Q4CY22	Q1CY23	Q2CY23
Promoters	74.9	74.9	65.7
FII's	7.3	7.3	7.5
MFs/Insti	7.7	7.5	14.8
Public	10.1	10.3	12.0
Total	100.0	100.0	100.0
Promotor pledge	Nil	Nil	Nil
Price Performance	3 Month	6 Month	1 Year
Absolute Return	8.3%	22.8%	66.1%
Absolute Sensex	6.7%	7.4%	9.5%
Relative Return*	1.6%	15.4%	56.6%

*over or under performance to benchmark index



Consolidated (cr)	CY22	CY23E	CY24E
Sales	8,753	9,566	10,574
Growth (%)	29.4	9.3	10.5
EBITDA	1,172	1,502	1,726
EBITDA Margin (%)	13.4	15.7	16.3
Adj. PAT	674	881	1,038
Growth (%)	64.5	30.8	17.9
Adj. EPS	17.8	23.3	27.4
Growth (%)	64.5	30.8	17.9
P/E	27.0	20.6	17.5
P/B	3.0	2.6	2.3
EV/EBITDA	16.6	12.8	11.0
ROE (%)	11.9	13.6	14.0
D/E	0.2	0.2	0.1

Saji John
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q2CY23	Q2CY22	YoY Growth (%)	Q1CY23	QoQ Growth (%)
Sales	2,320	2,216	4.7	2,229	4.1
EBITDA	370.4	305.8	21.2	293.4	26.2
EBITDA margins (%)	16.0	13.8	217bps	13.2	280bps
Depreciation	83.3	74.8	11.3	73.1	14.0
EBIT	287	231	24	220	30.3
Interest	22.1	0.1	-	10.9	103.1
Other Income	19.5	10.0	95.7	13.4	46.1
Exceptional Items	0.0	0.0	0.0	0.0	0.0
PBT	285	241	18	223	27.7
Tax	70.8	57.3	23.4	55.6	27.3
Share of profit from associates	-0.3	1.1	0.0	0.3	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Reported PAT	214	185	15.7	168	27.4
Adjustments	0.0	0.0	0.0	0.0	0.0
Adj PAT	214	185	15.7	168	27.4
No. of Shares	37.9	37.9	0.0	37.9	0.0
Adj EPS (Rs)	5.6	4.9	15.7	4.4	27.4

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr.	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
Revenue	9,993	11,057	9,566	10,574	-4.3	-4.4
EBITDA	1,499	1,769	1,502	1,726	0.2	-2.4
Margins (%)	15.0	16.0	15.7	16.3	70bps	32bps
Adj. PAT	909	1,097	881	1,038	-3.1	-5.3
EPS	24.0	29.0	23.3	27.4	-3.0	-5.4

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	CY19	CY20	CY21	CY22	CY23E	CY24E
Revenue	7,908	6,050	6,765	8,753	9,566	10,574
% change	-1.5	-23.5	11.8	29.4	9.3	10.5
EBITDA	968	502	942	1,172	1,502	1,726
% change	-7.9	-48.1	87.7	24.5	28.1	14.9
Depreciation	305	293	260	282	306	332
EBIT	648	197	668	876	1,181	1,377
Interest	52	55	35	23	86	71
Other Income	33	55	47	58	73	70
PBT	634	197	668	949	1,167	1,376
% change	-15.9	-68.9	238.8	42.2	23.0	17.9
Tax	274	89	272	240	286	337
Tax Rate (%)	43.3	45.0	40.8	25.3	24.5	24.5
Reported PAT	359	108	397	712	881	1,038
Adj*	4.6	0.0	-12.8	37.9	0.0	0.0
Adj PAT	355	108	409	674	881	1,038
% change	-35.3	-69.5	277.7	64.5	30.8	17.9
No. of shares (cr)	38	38	38	38	38	38
Adj EPS (Rs.)	9.4	2.9	10.8	17.8	23.3	27.4
% change	-35	-69	278	65	31	18
DPS (Rs.)	0.0	0.0	0.0	2.5	2.5	2.5
CEPS (Rs.)	18	11	18	26	32	37

BALANCE SHEET

Y.E March (Rs. cr)	CY19	CY20	CY21	CY22	CY23E	CY24E
Cash	102	218	263	198	513	935
Accounts Receivable	737	705	704	911	996	1,101
Inventories	1,057	1,006	1,005	1,636	1,713	1,901
Other Cur. Assets	271	223	237	306	335	370
Investments	96	34	271	350	383	423
Gross Fixed Assets	4,195	4,965	5,202	5,640	6,118	6,647
Net Fixed Assets	2,494	2,971	2,947	3,103	3,275	3,472
CWIP	54	0	0	0	0	0
Intangible Assets	31	27	22	18	13	5
Def. Tax (Net)	-91	-124	-153	-132	-120	-106
Other Assets	0	0	0	0	0	0
Total Assets	8,457	9,019	9,467	10,798	11,763	13,008
Current Liabilities	461	570	676	968	1,014	1,125
Provisions	417	434	463	528	577	637
Debt Funds	1,469	1,648	1,448	1,248	1,048	848
Other Liabilities	1,477	1,459	1,575	2,038	2,228	2,462
Equity Capital	379	379	379	379	379	379
Reserves & Surplus	4,255	4,530	4,926	5,638	6,519	7,557
Shareholder's Fund	4,633	4,908	5,305	6,016	6,897	7,935
Total Liabilities	8,457	9,019	9,467	10,798	11,763	13,008
BVPS (Rs.)	122	129	140	158	182	210

CASH FLOW

Y.E March (Rs. cr)	CY19	CY20	CY21	CY22	CY23E	CY24E
Net inc. + Depn.	953	502	941	1,246	1,489	1,725
Non-cash adj.	26	-1	-207	-198	-212	-280
Changes in W.C	64	217	258	-94	76	57
C.F. Operation	1,043	717	992	953	1,352	1,501
Capital exp.	-960	-716	-237	-476	-478	-529
Change in inv.	585	62	-237	-80	-33	-40
Other invest.CF	-651	-237	-238	-240	-240	-240
C.F - Investment	-1,026	-891	-712	-795	-751	-809
Issue of equity	180	0	0	0	0	0
Issue/repay debt	-144	179	-200	-200	-200	-200
Dividends paid	0	166	0	0	0	0
Other finance.CF	-52	-55	-35	-23	-86	-71
C.F - Finance	-17	290	-235	-223	-286	-271
Chg. in cash	1	116	45	-65	315	421
Closing cash	102	218	263	198	513	935

RATIOS

Y.E March	CY19	CY20	CY21	CY22	CY23E	CY24E
Profitab. & Return						
EBITDA margin (%)	12.2	8.3	13.9	13.4	15.7	16.3
EBIT margin (%)	8.2	3.3	9.9	10.0	12.3	13.0
Net profit mgn.(%)	4.5	1.8	6.1	7.7	9.2	9.8
ROE (%)	8.0	2.3	8.0	11.9	13.6	14.0
ROCE (%)	6.6	2.4	6.5	9.9	12.4	13.1
W.C & Liquidity						
Receivables (days)	34.1	43.5	38.0	33.7	36.4	36.2
Inventory (days)	111.3	134.1	110.1	100.9	122.2	118.8
Payables (days)	73.0	88.6	81.9	75.3	81.4	80.9
Current ratio (x)	2.7	2.3	2.1	2.2	2.4	2.6
Quick ratio (x)	1.6	1.2	1.0	0.9	1.0	1.0
Turnover & Leverage						
Gross asset T.O (x)	2.1	1.3	1.3	1.6	1.6	1.7
Total asset T.O (x)	0.9	0.7	0.7	0.9	0.8	0.9
Int. coverage ratio (x)	12.4	3.6	19.2	38.6	13.7	19.4
Adj. debt/equity (x)	0.3	0.3	0.3	0.2	0.2	0.1
Valuation						
EV/Sales (x)	2.5	3.3	2.9	2.2	2.0	1.8
EV/EBITDA (x)	20.3	39.5	20.8	16.6	12.8	11.0
P/E (x)	51.2	167.6	44.4	27.0	20.6	17.5
P/BV (x)	3.9	3.7	3.4	3.0	2.6	2.3



Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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