

# Axis Annual Analysis 2023



CIE Automotive India Ltd

## Demand-led Capacity Expansion to Drive Growth

### Short Summary

- **European Operations:** CIE's business from continuing operations in Europe grew by a robust 29% YoY to Rs 3,165 Cr (despite the light vehicle industry (<6Tons) declining by 1.3%YoY and flat growth in MHCV segment in CY22). The outperformance was mainly driven by market share gains (40% YoY in CY22) due to the consolidation of the supply chain network.
- **Transition to EV:** EVs have become mainstream in both Europe and India. In Europe, market penetration of EVs is increasing rapidly (market share >10%) and EVs are on the rise in India as well, especially 2W and 3W. The EV order book covers Aluminum & steel forgings, gears, stampings, and composite parts for e2W, e3W and e4W. In CY22, nearly 40% of the order book in Europe and 35% of the orderbook in India were for electric vehicles.
- **Indian Operations:** CIE's Indian operations contributed 64% of CY22's total revenues. The company reported revenue of Rs ~5,587 Cr (~29% YoY) in CY22, driven by above-average performance of its key customers in PV and tractor segments (including M&M, John Deere), increased orders from Tata Motors, KIA, Hyundai, and passing on input costs to customers.
- **Capacity Expansion:** The company's Capex policy is usually 5-6% of annual sales; of this, 2% goes to maintenance and the rest to growth. According to the management, the order book situation in India requires capital expenditure across all verticals to increase capacity.
- **Exports:** Exports form 10-12% of total sales. Exports are mainly carried out from India to Europe and from the Italian subsidiary to the US.

### Key Highlights

- **Healthy liquidity:** The company has ensured its stability and business performance by maintaining adequate cash and cash equivalents (including bank balances) totalling ~Rs 158 Cr as of Dec'22. In addition, its net debt has decreased to ~Rs 89 Cr in CY22 from ~133 Cr in CY21.
- **Segmental Performance India:** In India, Forging division(PV)/Bill Forge(2W)/Stamping division/Castings/Magnetics/Composites/Gears/AEL division grew by 55%/ 36%/ 43%/ 30%/ 20%/40%/14%/4% YoY respectively. Revenue in Aluminum Castings (AEL) was subdued due to the high exposure to Bajaj, where production volumes in CY22 were down 11% YoY. In Europe, PV Forgings and Metalcastello respectively grew by 30%/20% YoY.
- **Segment performance Europe:** In Europe, PV Forging and Metalcastello divisions grew 30% and 21% YoY, respectively. Industry growth and supplier consolidation led to market share gains.

**Key Competitive Strengths:** (a) Leading manufacturer of forged crankshafts in both India and Europe; (b) India's leading manufacturer of ductile iron castings, including turbocharger housings, differential housings and exhaust manifolds; (c) India's leading manufacturer and exporter of cores and magnets for the Car and 2W industries; (d) One of the largest automotive stamping companies in India; (e) Access to diversified multi-technology from promoter CIE Automotive Spain.

**Strategies Implemented:** The company is moving from a static to a dynamic manufacturing system led by robotic process automation that automates repetitive and non-value-added activities. With decentralized plant management and a continued focus on profitability, the company is targeting a consolidated EBITDA margin of 17%-18% by FY25.

**Growth Drivers:** a) Robust order book - the company won new orders worth ~Rs 1,000 Cr in India (EV order book is Rs 300 Cr); b) Increased share of business with existing customers (M&M, Maruti, Bajaj Auto, Tata Motors, Kia, Hyundai); c) Addition of new customers – Bosch, Royal Enfield, among many others.

**Key Focus Areas:** To meet growing demand, CIE is expanding capacity in all verticals – Bill Forge, CIE Hosur, AEL, Gears and Magnetics Division. Moreover, it is expanding capacity in the Forging, Stamping, Machining and Magnetics segments, which is expected to drive revenue growth moving ahead.

**Outlook & Recommendation:** We remain confident in the company's growth story driven by healthy operational performance, focus on building the EV portfolio, strong FCF generation ability; and building capacities to meet demand from Indian and EU OEMs.

We reiterate our BUY rating and value the company at a 1-year Forward PE multiple of 24x in Indian operations and 10x on moderate European operational earnings – Jun'25 EPS, thereby arriving at our SOTP-based TP of Rs 585/share, implying an upside of 17% from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	CY22	CY23E	CY24E
Net Sales	8,753	9,653	10,798
EBITDA	1,172	1,527	1,728
Net Profit	711	891	1,044
EPS (Rs)	19	24	28
ROE (%)	14.0%	15.1%	15.3%
ROCE (%)	18.1%	19.7%	20.0%
P/E Ratio	18	20	17
P/BV	3	3	3
EV/ EBITDA	7.3	8.5	7.0
Debt / Equity (x)	0.24	0.18	0.12

Source: Company, Axis Research

(CMP as of Aug 21, 2023)

CMP (Rs)	499
Upside /Downside (%)	17%
High/Low (Rs)	578/252
Market cap (Cr)	18,930
Avg. daily vol. (6m) Shrs.	8,15,451
No. of shares (Cr)	37.9

### Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	75.0	68.9	65.7
FIs	7.3	8.6	7.5
MFs / UTI	7.2	10.6	13.6
Banks / FIs	0	0	0
Others	10.5	11.9	13.1

### Financial & Valuations

Y/E Mar (Rs Cr)	CY23E	CY24E	CY25E
Net Sales	9,653	10,798	12,036
EBITDA	1,527	1,728	1,986
Net Profit	891	1,044	1,250
EPS (Rs)	10.4	10.4	10.4
PER (x)	19.9	17.0	14.2
EV/EBITDA (x)	8.5	7.0	5.7
P/BV (x)	3.0	2.6	2.2
ROE (%)	15.1%	15.3%	15.6%

### Change in Estimates (%)

Y/E Mar	CY23E	CY24E	CY25E
Sales	0.0%	0.0%	0.0%
EBITDA	0.0%	0.0%	0.0%
PAT	0.0%	0.0%	0.0%

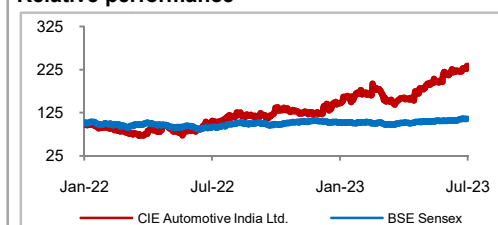
### ESG disclosure Score\*\*

Environmental Disclosure	16.79
Social Disclosure Score	11.94
Governance Disclosure Score	78.59
<b>Total ESG Disclosure Score</b>	<b>35.83</b>
<b>Sector Average</b>	<b>46.00</b>

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, Sector average is for NSE500 companies

### Relative performance



Source: Ace Equity, Axis Securities

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## Key Operating Highlights During the Year

- **European Operations:** CIE's business from continuing operations in the region grew by a robust 29% YoY to Rs 3,165 (despite the light vehicle industry (<6Tons) declining by 1.3%YoY and flat growth in MHCV segment in CY22). The outperformance was mainly driven by market share gains (40% YoY in CY22) due to the consolidation of the supply chain network. During the year, the management decided to divest the low-margin German truck forging business to focus more on the more profitable PV business, which will improve CIE's overall margins and ROCE trajectory. Divesting the German business will allow a stronger focus on managing the EV transition.
- **Transition to EV:** EVs have become mainstream in both Europe and India. In Europe, market penetration of EVs is increasing rapidly (market share >10%) and EVs are on the rise in India as well, especially two- and three-wheelers. CIE has a good order book for EV parts and is working with major European and Indian OEMs in the EV space, across segments. The EV order book covers Aluminum & steel forgings, gears, stampings, and composite parts for e2W, e3W and e4W. In CY22, nearly 40% of the order book in Europe and 35% of the order book in India were for electric vehicles. EVs will have a greater emphasis on stamped, plastic, and aluminium parts compared to forged, cast or machined parts. As the supplier ecosystem for EVs is still in its nascent stage, EV OEMs are looking for partners who have quality and pedigree, thereby opening up new and notable business opportunities for the company.
- **Indian Operations:** CIE's Indian operations contributed 64% of CY22's total revenues. The company reported revenue of Rs ~5,587 Cr (~29% YoY) in CY22 driven by above-average performance of its key customers in PV and tractor segments (including MnM, John Deere), increased orders from Tata Motors, KIA, Hyundai, and passing on input costs to customers. New orders won in India was Rs 1,000 Cr (for the year), including EV orders worth Rs 300 Cr. To meet this growing demand, CIE is expanding its capabilities across all verticals – Bill Forge, CIE Hosur, AEL, Gears and Magnetics Division. This will contribute to further revenue growth for the company going forward.
- **Capacity Expansion:** The company's Capex policy is usually 5-6% of annual sales; of this, 2% goes to *maintenance* and the rest to *growth*. According to the management, the order book situation in India required capital expenditure across all verticals to increase capacity. This included (i) A new unit at the Pune transmission plant to supply EV parts and the expansion of the Rajkot gears plant, (ii) A new forging and machining line was installed by Bill Forge in Bengaluru to supply EV transmission parts, (iii) CIE Hosur commissioned a new fuel rail line, (iv) Crankshaft machining capacity at the forging plant in Chakan, Pune, was expanded and an additional 4000-tonne press is being installed to increase forging capacity, (v) Two presses for compression moulding were added to the composites plant in Pune, (vi) Expansion of the stamping plant in Kanhe with robotic welding capabilities, (vii) Growth capex at the magnetics, foundry and Mexico plants. The company is focusing on process reengineering, automation and digitization to improve operations and meet CIE's global production standards.

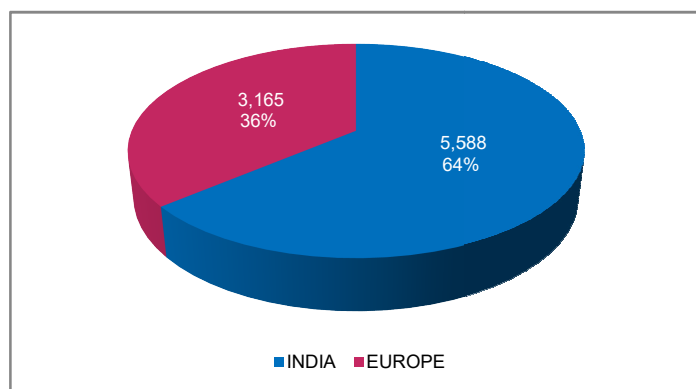
## Company Overview

Mahindra CIE – a multi-technology, multi-product automotive component supplier with a strong focus on innovation, quality, and sustainability. The company is headquartered in Mumbai (India) and has operations in over 20 countries, including Spain, Germany, Brazil, Mexico, China, and the USA. It operates as a subsidiary of CIE Automotive – an industrial group from Spain that specializes in providing components and sub-assemblies for the automotive industry. CIE Automotive has a global presence and is listed on the stock exchange in Madrid.

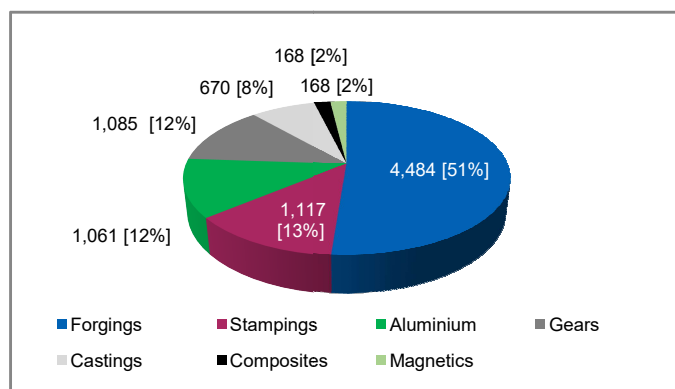
Mahindra CIE offers a wide range of products and services, including forging, casting, machining, and assembly of components for engines, transmission, chassis, and other applications. The company also provides design and engineering services, as well as research and development capabilities, to meet the evolving needs of the automotive industry. Its global presence, diverse product portfolio, and commitment to customer satisfaction make it a trusted partner for customers in the automotive industry.

## CY22 Performance Round-up

- **Robust financial performance:** The company reported revenue of Rs8,753, Cr in CY22, up 29.4% YoY. India revenues grew 30% YoY in CY22 (50% in CY21) and the outperformance was driven by PV and tractor segments with robust demand from OEMs such as M&M, Hyundai-KIA, Tata Motors, etc. Revenue from continuing operations in Europe grew by 30% YoY aided by supplier consolidation, industry growth, and market share gains.
- **Higher costs during the year impacted margins:** The company reported an EBITDA margin of 13.4% in CY22 against 13% in CY21 mainly on account of elevated cost of raw materials during the year.
- **Net profit:** The company's net profit witnessed ~80% growth largely driven by higher business from Indian OEMs and operational efficiencies during the year.
- **Stability amidst the challenging scenario:** The company maintained its stability amidst the challenging scenario through its robust cash position. It has made conscious efforts to transition from being leveraged to an almost debt-free company during the year. The Net Debt of the company reduced from Rs 132 Cr in CY21 to Rs 90 Cr in CY22. The company generated FCF of Rs 71 Cr in CY22, an increase of 235% YoY and RoCE/RoE improved to 18%/14%.
- **Capacity expansion plans in India:** The company has close relationships with OEMs such as MnM, Hyundai-KIA, Tata Motors in the PV segment, Royal Enfield, Bajaj Auto in the 2W segment and John Deere, New Holland etc. in the tractor segment. To fulfill new and existing orders, the company has (1) commissioned a new fuel line at Hosur for components for PV and 2W, (2) expanded gear capacity at the Rajkot plant and (3) increased pressing and forging capacity by 4,000 tons at the Pune plant.

**Exhibit 1: Geography-wise revenue breakup (CY22) (Consol.)**


Source: company, Axis Securities

**Exhibit 2: Segment-wise Revenue Breakup (CY22) (Consol.)**


**Key Segmental Performance during the year**
**(Rs Mn)**

Revenue Break Up	Product Speciality	Focus Area	Key Customers	CY20	CY21	CY22
<b>CIE India Business</b>						
Forgings Division	Crankshafts, Stub Axles	PV, UV and Tractors	M&M, Maruti, Tata Motors	2,911	4,988	7,745
As % of Total Sales				5%	6%	7%
YoY growth (%)				-32%	71%	55%
Bill Forge Forgings Division	2W-Steering Races & Engine Vavle, Steering Yokes, Wheel Hubs	PV & 2W	Hero, Bajaj, HMSI, TVS Ford, GKN, NTN, Nexteer, RaneNSK	6,898	9,238	12,553
As % of Total Sales				11%	11%	12%
YoY growth (%)				-21%	34%	36%
Stampings Division	Sheet Metal Stampings	PV & UV	M&M, Tata Motors	5,265	8,980	12,859
As % of Total Sales				8.70%	10.71%	11.99%
YoY growth (%)				37.40%	70.56%	43.20%
Castings Division	Turbocharger Housings, Axle & Transmission Parts	PV, UV and Tractors	M&M, Hyundai, JCB, Cummins Turbo	3,152	5,021	6,527
As % of Total Sales				5%	6%	6%
YoY growth (%)				-26%	59%	30%
Magnetic Products Division	Soft and Hard Magnets, Magnetic Induction Lighting	PV & UV, 2w, Exports	Denso TVS, Nippon Electricals, Bajaj Auto	984	1,342	1,613
As % of Total Sales				2%	2%	2%
YoY growth (%)				-8%	36%	20%
Composites Division	Components and Products	Electrical Switchgear, Auto Components	L&T Switchgear, M&M, Volvo Eicher	746	1,227	1,722
As % of Total Sales				1%	1%	2%
YoY growth (%)				-30%	64%	40%
Gears Division	Engine Gears, Transmission Gears	PV, UV and Tractors	M&M, Turner, Eaton, NHFI	1,717	2,836	3,230
As % of Total Sales				3%	3%	3%
YoY growth (%)				-23%	65%	14%
Aluminium Castings (AEL)				7,268	9,646	10,060
As % of Total Sales				12%	12%	9%
YoY growth (%)				14%	33%	4%
<b>SUB TOTAL INDIA</b>				<b>28,940</b>	<b>43,282</b>	<b>56,312</b>
<b>CIE Europe Business</b>						
M Forgings, Spain+Lithuania	Common shaft, tulip, crankshaft, Stubbs, Forged Steel Plants	PV	Renault, VW, Daimler, Fiat, GM, Bosch, JLR, NTN, Faurecia, Dana, BMW, ZF	13,112	18,884	24,621
As % of Total Sales				22%	23%	23%
YoY growth (%)				-26%	44%	30%
CIE Forgings, Germany	Forged & machined Parts, Front Axle, Steel Pistons	HCV	Daimler AG, MAN, DAF, Volvo, Linde, Ford, SAF Holland, Robert Bosch, Agco, ZF	15,037	16,215	19,690
As % of Total Sales				25%	19%	18%
YoY growth (%)				-22%	8%	21%
Metal Castello, Italy	Gear, Drive Shaft, Pinion	Tractors, CEE	Catepillar, Meritor, CNH, Agro, John Deere	3,411	5,490	6,601
As % of Total Sales				6%	7%	6%
YoY growth (%)				-40%	61%	20%
<b>SUB TOTAL EU</b>				<b>31,560</b>	<b>40,590</b>	<b>50,913</b>
EU % of Total Sales				52%	48%	47%
YoY growth (%)				-26%	29%	25%
<b>TOTAL SEGMENT REVENUE</b>				<b>60,501</b>	<b>83,867</b>	<b>1,07,221</b>
Less: Intersegment Revenue						
<b>TOTAL REVENUE</b>				<b>60,501</b>	<b>83,867</b>	<b>1,07,221</b>
YoY growth (%)				-23%	39%	28%
less: Disposal Business Revenue				15,037	16,215	19,690
<b>NET REVENUE</b>				<b>45,464</b>	<b>67,652</b>	<b>87,531</b>
YoY growth (%)				<b>-23.9%</b>	<b>48.8%</b>	<b>29.4%</b>

## Key Growth Drivers

### Robust Order Book to drive Indian Operations

The company has won new orders worth ~Rs 1,000 Cr in India. Moreover, in the EV segment, it has won new orders worth Rs 300 Cr. Orders include more than 10 new customers and new platforms from the existing customers.

### Increasing Content per share from Existing Clients and Addition of New Cliental

- CIE has seven operational verticals located strategically close to OEMs in India and Europe.
- Increased share of business from existing customers (M&M, Maruti, Bajaj Auto, Tata Motors, Kia, Hyundai)
- Addition of new customers—Bosch, Royal Enfield, among many others.

### Major Customers

IN INDIA	IN EUROPE
<b>MnM</b>	<b>Renault</b>
<b>Bajaj Auto</b>	<b>Volkswagen</b>
Maruti Suzuki	Ford
Tata Motors	JLR
Hero Motorcycles	BMW
GKN	Fiat
Nexteer	CAT
Hyundai	Eaton
Kia	CNH
<b>Ola Electric</b>	
TVS Motors	
Stellantis	
Brembo	

### Key strategies moving forward

To meet this growing demand, CIE is enhancing capacities across all verticals – Bill Forge, CIE Hosur, AEL, Gears, and Magnetics Division, which will aid in its revenue growth moving ahead. The company is adding capacities across the forging, stamping, machining and magnetic segments, which should drive its revenue growth.

The company has also forayed into the aluminium forging business to offset the EV risk. The company is getting ready with a broad range of EV Product Offerings.

**Exhibit 3:CV 2022 Highlights – EV Product Portfolio**



Source: Company



## Business Outlook

### Indian Market

In CY22, the light vehicles segment (<6 tons) and the MHCV segment posted healthy growth of 23%/27% YoY respectively, followed by the 2W segment which was up 3% YoY. Tractors, on the other hand, posted a decline of 2.3% on a YoY basis.

	▼ <6T Vehicles**		▼ MHCV		▼ Tractors		▼ Two Wheelers	
PERIOD	Million Units	Δ%	Units	Δ%	Units	Δ%	Units	Δ%
CY2022	5.12	23.5	381,763	27.4	1,004,976	-2.3	19,537,259	3.0
Q4 CY2022	1.24	18.7	88,398	4.0	224,671	28.7	4,604,786	0.5
Q3 CY2022	1.38	37.3	89,318	33.3	304,864	-1.6	5,650,212	7.7
Q2 CY2022	1.24	38.4	94,286	98.8	284,320	14.4	4,820,657	38.2
Q1 CY2022	1.26	4.9	109,761	9.5	191,121	-35.3	4,461,604	-21.0

Source: Company Presentation Q4CY22

### As per the company presentation – Q4CY22

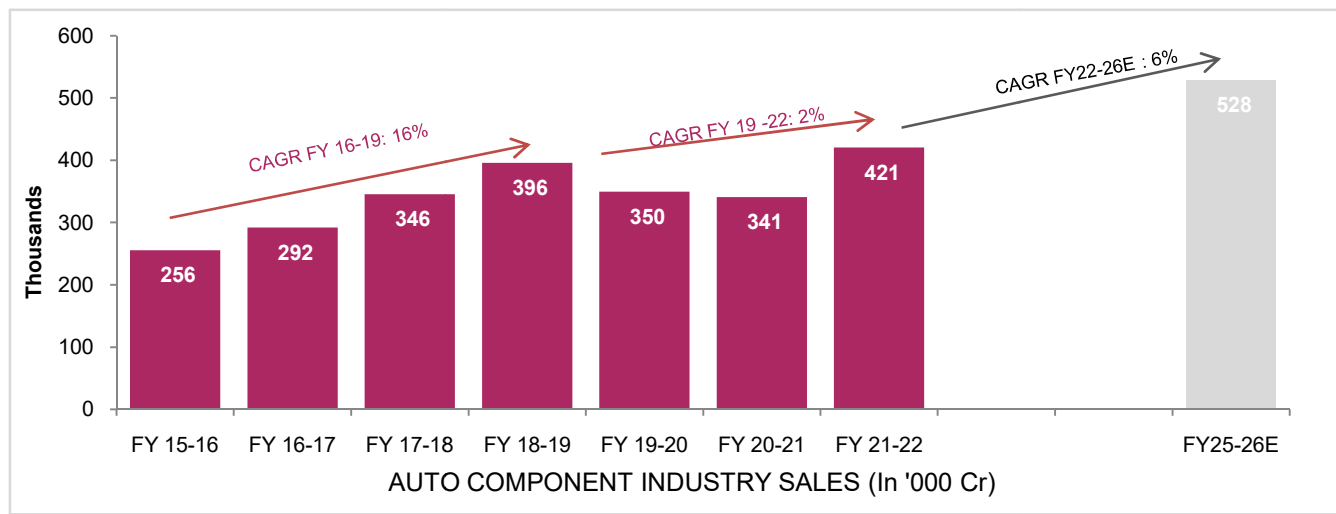
- Production in the Light Vehicles (< 6 tons as per the EU classification) segment is expected to grow at a healthy rate of 7.4% YoY in CY23; and at 2.5% CAGR over a period of 2022-27E.
- The MHCV production is expected to grow at 2.9% YoY in CY23; and at 5.7% CAGR over 2022-27E.
- The domestic tractor industry is expected to grow at 6-8% CAGR over FY22-27E and
- The 2W domestic industry is expected to grow at 12-14% CAGR over a period of FY22-27E.

### India Market Growth Outlook

Segment	YoY Growth in CY2023	CAGR over CY22-27
Light vehicles (<6tons as per EU classification)	7.4%	2.5%
MHCV	2.9%	5.2%
TRACTOR		7%
2W's		13%

Source: Company Q4CY22 presentation.

As per the ACMA, the auto-components industry has grown at 23% YoY in FY22, primarily driven by strong export performance and replacement market growth. In future, it is expected to grow at 6% CAGR over FY22-26E.

**Exhibit 4: Indian Auto Component Industry Sales (in '000 Cr)**


Source: ACMA, ASL.

### European Market

In CY22, the light vehicles production de-grew by 1.3% YoY and MHCV stood flat due to poor macro-economic conditions.

▼ <6T Vehicles			▼ MHCV	
PERIOD	Million Units	Δ%	Units	Δ%
CY2022	15.35	-1.3	533,296*	-0.5
Q4 CY2022	4.16	6.6	142,143	-7.6
Q3 CY2022	3.52	21.1	125,495	18.8
Q2 CY2022	3.85	-5.1	132,013	-4.4
Q1 CY2022	3.82	-18.3	133,645	-3.3

Source: Company Presentation Q4CY22

### As per the company, the European Market Outlook is as follows:

- Light Vehicle production is expected to increase by 4.7% YoY in CY23.
- The MHCV segment is expected to grow at 1.3% CAGR between CY22-27.

Segment	YoY Growth in CY2023E	CAGR over CY22-27
Light Vehicles (<6 Tons)	4.7%	2.3%
MHCV	-1.7%	1.3%

Source: Company Q4CY22 presentation

## Risks & Mitigation

The company has established an extensive and well-designed risk management framework to identify, assess, and mitigate key risks which may hamper its operating continuity, growth and/or profitability. The Board of Directors has formed a Risk Management Committee to stringently oversee the company's risk assessing and mitigation process and advise the management as required.

- **Rapid transition to electric mobility in Europe:** In Europe, a significant portion of sales in the forged parts sector comes from the production of crankshafts for cars. Crankshafts are at risk from the transition to electric cars. Management expects a large negative impact in the short term, but in the medium term (starting in 2026), sales of crankshafts will gradually decline. The mitigation plan is to start producing aluminium forgings and steel suspension products for cars. Nearly 40% of the new orders received by the automotive forging business in CY22 were in the BEV sector. Aluminum forged parts are expected to account for a significant portion of sales of forged parts for automobiles by 2027. Management believes that the other European vertical, which produces transmissions for off-road and agricultural vehicles (Metalcastello), will not be much affected by electrification.
- **Slower-than-expected 2W Demand Recovery:** In the Indian business, the 2W segment accounts for 23% of CIE's total revenue. Since Bajaj Auto is the main customer in this segment, a decline in demand from Bajaj may affect sales. Therefore, the company needs to focus on diversifying its revenue share with other OEMs.
- **Slower-than-expected recovery in 2W demand:** In the Indian business, the 2W segment accounts for 23% of CIE's total revenue. Since Bajaj Auto is the main customer in this segment, a decline in demand from Bajaj may affect revenue performance. Therefore, the company needs to focus on diversifying its revenue share with other OEMs.
- **Hiving off Trucking Business** – CIE has recognized a fair value loss adjustment of ~Rs900 Cr from its discontinued European operations. Given the significant contribution to EU revenue (20%) with a low EBITDA margin (~5%), we view the decision as positive. However, any further write-down could affect investor sentiment.
- **Energy Price Volatility:** As the company is primarily engaged in the forging business (process-oriented), any volatility in energy prices tends to have a negative impact on the company's EBITDA. The company needs to hedge against such volatility to avoid unexpected losses.

## Progress on sustainability

Through its strategic business activities, the company hopes to create a more sustainable environment. Its goal is to maximize resource efficiency, limit environmental effects, and positively impact communities. It is committed towards sustainable development through continued and targeted efforts towards environmental, social and governance aspects of the business. The company has identified the following areas through materiality assessment:

- **Social:** 1. Attracting and retaining talent, 2. Customer Satisfaction, 3. Occupational Health and Safety, 4. Responsible Supply Chain Management.
- **Environment:** 1. Circular economy-efficient use of raw material, and waste management, 2. New form of mobility, 3. Environment Impact.
- At the beginning of CY22, while the company has not undertaken specific targets, the emphasis continued on increasing the share of green energy in total energy consumption. During CY22 the captive solar power plants set up in Maharashtra with capacity of 52.5 MW commissioned supply with the entire capacity. The proportion of renewable energy consumption to the total energy consumption was about 51% in CY22. During the year, the company has signed firm agreements to source an additional 16 MW of power from captive solar power plants to be setup in Maharashtra, which are expected to commission in CY23. On its pathway towards a circularity model, it emphasized better managing natural resources, monitoring their consumption and waste generation to minimize impacts arising from our activities on the environment.
- **Further, as part of the Group's ESG Strategic Plan, in CY22, the company has focused on its supplier relations and ethics compliance with the following key targets:**
  1. Conducting supplier audits (with annual purchase volume > €1M) on ESG criteria
  2. Enrolling and registering suppliers on the Supplier Portal
  3. Increasing purchases from local suppliers
  4. Ensuring 100% of employees complete their Code of Conduct training

## Forex Analysis

The company operates internationally and its business is conducted in various currencies. Consequently, the company is exposed to foreign exchange risk through the sale and purchase of goods and services primarily in USD, EURO and GBP. The risk for the rest of the assets denominated in other foreign currencies related to operations is not material. For the year ended December 31, 2022, and December 31, 2021, each 10% appreciation/depreciation in the exchange rate between the Indian rupee and the U.S. dollar would have impacted the company's incremental operating margins by ~Rs 2.5 Cr and Rs 1.9 Cr, respectively. In addition, each ten % appreciation/depreciation in the exchange rate between the Indian rupee and the euro would have impacted the Company's incremental operating margins by ~Rs 3.9 Cr and Rs 1 Cr, respectively. In addition, each ten % appreciation/depreciation in the exchange rate between the Indian rupee and the GBP would have impacted the company's incremental operating margins by ~Rs 20 Lc and Rs 20 Lc, respectively. The sensitivity for net exposure to other currencies does not have a material impact on the income statement. The sensitivity analysis is calculated based on the changes in foreign currency receivables and payables when translated into the functional currency due to exchange rate fluctuations in the previous reporting period and the current reporting period.

Particulars (Rs Cr)	31 <sup>st</sup> Dec'22				31 <sup>st</sup> Dec'21			
	USD	EURO	GBP	Other Currencies	USD	EURO	GBP	Other Currencies
<b>Financial Assets</b>								
Trade Receivables	375	419	18	-	347	280	27	-
Cash and Cash equivalent	10	13	-	-	2	1	-	-
<b>Net exposure to foreign currency risk (assets)</b>	<b>385</b>	<b>432</b>	<b>18</b>		<b>349</b>	<b>281</b>	<b>27</b>	<b>-</b>
<b>Financial Liabilities</b>								
Trade Payables	127	41	2	6	155	181	46	-
<b>Net exposure to foreign currency risk (liabilities)</b>	<b>127</b>	<b>41</b>	<b>2</b>	<b>6</b>	<b>155</b>	<b>181</b>	<b>46</b>	<b>-</b>

Source: Company; Axis Securities.

### Contingent Liability Analysis

Particulars (Rs Cr)	CY22	CY21	Change
Long-term Employee Benefits.	73.4	279.1	-74%
Provisions for Litigative Matters (Other than water charges)	23.2	24.5	-5%
Water Charges*	26.2	26.2	-
Other regulatory provisions #	8.9	66.8	-87%
<b>Total</b>	<b>1,55.8</b>	<b>3,97.6</b>	<b>-61%</b>

Source: Company; Axis Securities

Note:

\* Provisions of Rs 26.2 Cr (Dec' 21: Rs 26.2 Cr) are towards an ongoing dispute with the Irrigation Department (Water Resource Department) in respect of levy of charge for use of water for the period Jul'91 to May'12 for an aggregate amount of Rs 58.7 Cr including penal charge of Rs 10.2 Cr and late fee charge of Rs 22.3 Cr (Dec'21: Rs 58.7 Cr including penal charge of Rs 10.2 Cr and late fee charge of Rs 22.3 Cr). Presently the matter is being legally pursued. The group has provided Rs 26.2 Cr towards arrears of water charges.

^ Provision of Rs 12 Cr has been recognised for Provident Fund liability basis Supreme Court judgment in 'Regional Provident fund commissioner (II) West Bengal vs Vivekananda Vidyamandir and Others' in accordance with Ind AS-37. The remaining amount pertains to provision against the levy of cross-subsidy charges and additional surcharge by Maharashtra State Electricity Distribution Company Limited during the year on account of power consumption from non-captive generating plant.

# This represents provisions made for probable liabilities payable to regulatory authorities. The above provisions are affected by various uncertainties and management has taken all efforts to make the best estimate. It is not practicable for the Group to estimate the timing of cash outflows accurately, if any, in respect of the above.

### Related Party Transaction Analysis

Particulars (Rs Cr)	Nature of Transaction	CY22
Mahindra & Mahindra Limited Investee Company in respect of which the Company is an Associate	Rent paid	3.4
	Reimbursements Made / Paid	1.6
	Sale of Goods	1,555.5
	Purchase	3
	Dividend Paid	104
	<b>Total</b>	<b>1,571.2</b>

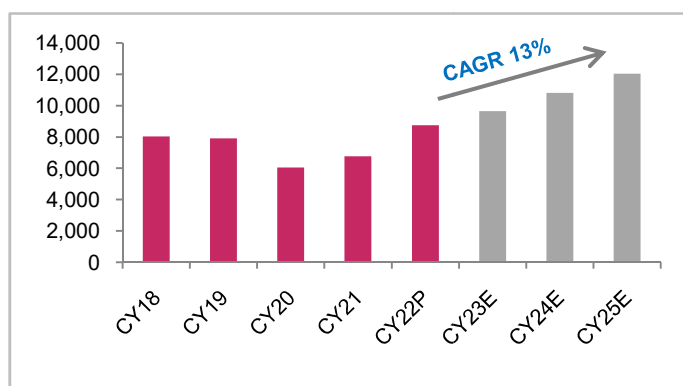
Source: Company; Axis Securities

Note: All the Related Party Transactions entered into by the company are at arm's length basis and in the ordinary course of business and approval of the Audit Committee / Board is obtained, wherever required.

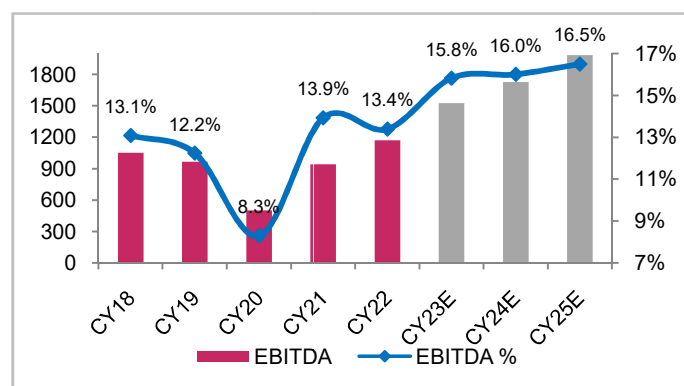
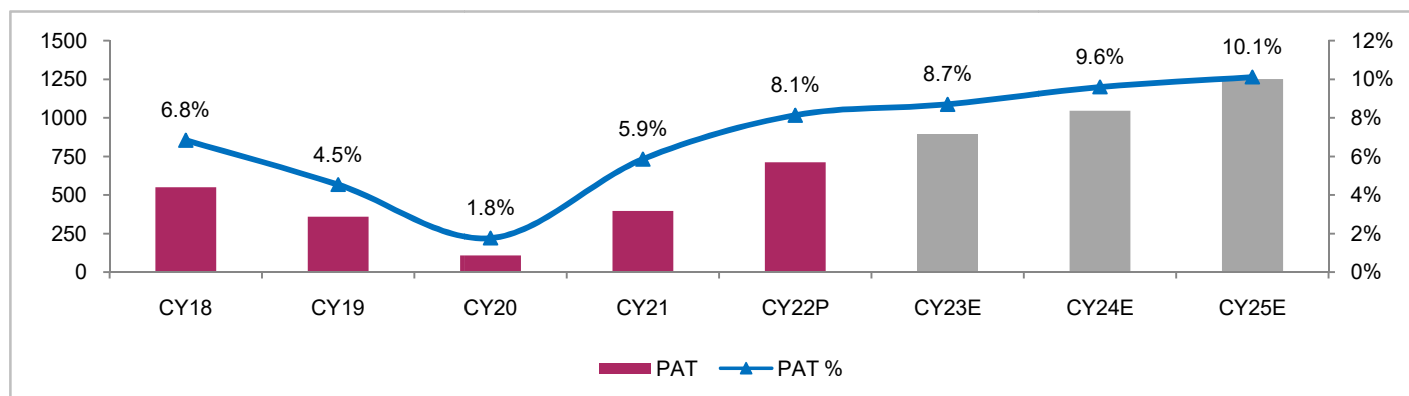
**Growth and Profitability Analysis (Rs Cr)**

Particulars	CY22	CY21	Change	Comments/Analysis
Sales	8,753	6,765	29%	Sales in India grew 30% YoY in CY22 - outperformance driven by PV and tractor segments. EU revenue grew 30% - growth and market share gains in PV forgings/ Metalcastello business.
Raw Materials/Others	4,776	3,334	43%	Steep rise in commodity costs led to higher input costs.
Gross Profits	3,977	3,430	16%	Rise in commodity prices across the globe impacted Gross Profits.
GPM	51%	45%	-530bps	Decline in margins was due to inflationary pressures led by commodity prices across the globe.
Operating Expenses	2,805	2,488	13%	Operating expenses grew lower on account of better utilization of labours and increased productivity.
EBITDA	1,172	942	24%	Process reengineering, automation, and digitization to improve operations and match CIE's global standard of manufacturing excellence helped improve EBITDA performance.
EBITDA Margin	13.9%	13.4%	-50bps	Despite elevated raw material prices and energy costs, the company was able to maintain margins.
Interest	23	35	-34%	Lower Interest cost as a result of substantial reduction in companies debt.
EBIT	876	668	31%	
PAT	711	396	79%	The decision to hive off the low-margin truck forging business while simultaneously increasing focus on a more profitable PV division will lead to improved profits for CIE moving forward.
PAT Margin	8.1%	5.9%	220bps	CIE- CFG Forgings hive-off is seen to be a positive step as it was a drag on the company's EBITDA margins (3-5% vs. portfolio at 13-15%). Post the hive-off, improvement in PAT was largely following EBITDA and lower interest costs.
EPS	18.01	10.7	69%	

Source: Company; Axis Securities

**Exhibit 5: Healthy Growth in revenues led by Robust Order Book (Rs Cr)**


Source: company, Axis Securities

**Exhibit 6: Operating Efficiencies Lead to Improved EBITDA Margins**

**Exhibit 7: Consistently growing profitability; CY19,20 an exception being Covid affected**


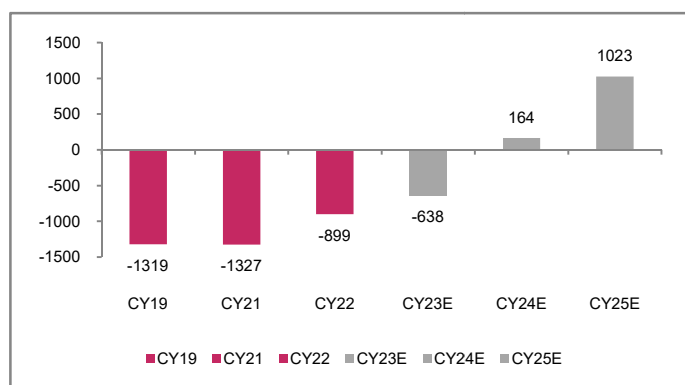
Source: Company, Axis Securities

## Financial Ratios

Particulars	CY22	CY21	Comments/Analysis
ROE	14%	7.6%	Higher profitability resulted in higher ROE. PAT was up 79% during the year.
ROCE	18.1%	11.1%	Higher EBIT impacted the ROCE. EBIT was up 31% during the year owing to lower operating costs.
Asset Turn	3.4x	2.5x	Asset Turnover was higher due to higher sales during the year.
Debt/Equity	0.24x	0.37x	Reduced owing to higher profit and cash generation during the year.
EV/EBITDA	7.3x	6.3x	Higher owing to increase in stock price during the year.

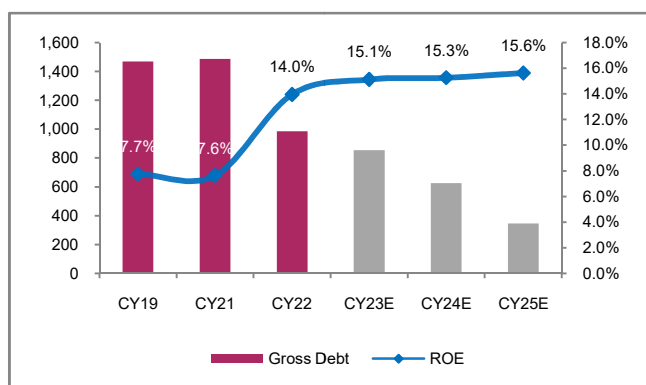
Source: Company; Axis Securities

**Exhibit 8: Reducing Net Debt = Healthy Balance Sheet (in Cr)**



Source: company, Axis Securities

**Exhibit 9: Lower Gross Debt to Aid ROE Improvement**





## Key Balance Sheet Takeaways

- **Working Capital Management:** Working capital intensity decreased in CY22 as the cash conversion cycle improved on account of lower inventory and debtor days. While CFO remained the major source of funding for the company, it generated an encouraging FCF of Rs 1,66.8 Cr over CY19-CY22.
- **Debt:** The company is virtually debt-free and the Debt/Equity ratio stood at 0.24x for CY22.
- **Capex plans:** To cater to EV orders in India, the company has already started work to (1) add a unit at its gears plant in Pune, (2) add a new machining and forging line at Bill Forge's existing plant in Bangalore to manufacture EV transmission parts, (3) build a new aluminium castings plant at Aurangabad (for 4W EV OEMs), and (4) invest in robotic welding in its stampings division (for XUV400 to start with).  
The shift towards electric vehicles is a relatively bigger challenge in Europe given higher exposure towards engine components such as crankshafts, which accounts for almost 60% of the PV forgings business. To mitigate this risk, the company has already started working towards producing aluminium forged parts (content addition of these parts in EVs) and steel suspension products for cars. Note that around 40% of the new order wins in the forgings business in CY22 are to supply components for electric vehicles.
- **Cash and liquidity position:** The company's liquidity position has reduced due to ongoing Capex in FY22. The cash & equivalent including bank balance stood at ~Rs9 Cr in CY22 against ~Rs16 Cr in CY21, a decrease of 43% YoY.

## Cash Conversion Cycle

Particulars	CY22	CY21	Change	Comments/Analysis
Inventory Days	50.5	72.8	-23	Inventory turns improved with growth in sales without similar increase in inventory levels.
Trade Receivables	35.9	36.1	-0	Decrease owing to better credit management.
Trade Payables	163.2	212.2	-49	Decrease in days due to regularization in credit terms from suppliers.
Cash Conversion Cycle	75	42	-26	Slight increase in WC.

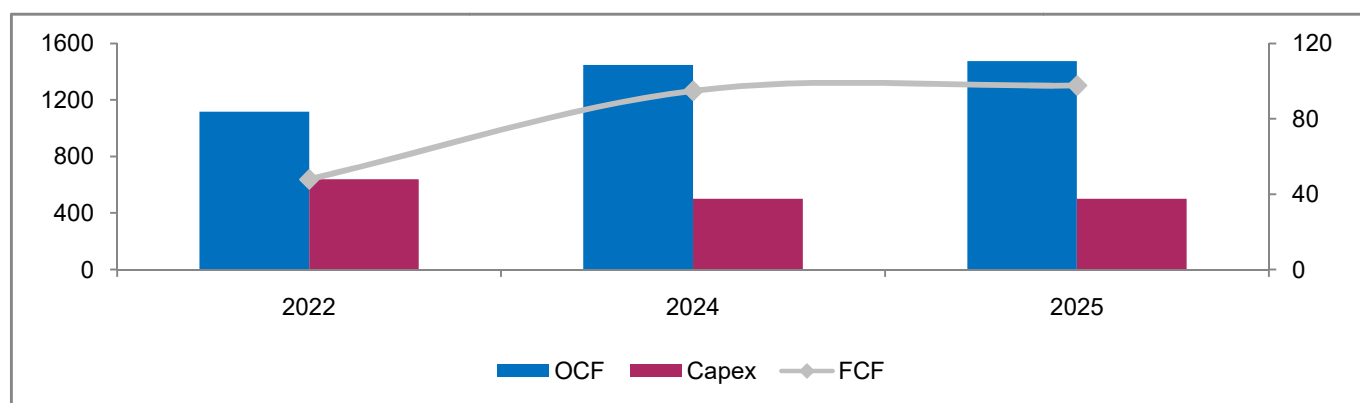
Source: Company; Axis Securities

## Key Cash Flow Takeaways

Particulars (RsCr)	CY22	CY21	Change	Comments/Analysis
PBT	951	669		PBT was higher supported by higher sales during the year.
Non-cash expenses				
Depreciation	354	343		Depreciation increased as new capacity was commissioned in CY22.
Finance Cost	45	53		Decreased owing to decline in debt
Others	-232	-14		
CFO	1118	1051		Increased owing to higher profit and productivity
CFI	-640	-755		
CFF	-363	-488		Reduced interest expenses on financial liabilities
Capex	-501	-527		Capex incurred in previous years led to ramp up in Metalcastello plant, EU. Expansion work At existing plants being carried out in India.
FCF	71	21		Increased owing to higher CFO, and lower capex during the year as compared to the previous year.

Source: Company; Axis Securities

**Exhibit 10: FCF to remain positive in FY25 despite growth capex**



Source: Company, Axis Securities

### Corporate Social Responsibility

The company's social responsibility policy focuses on using the capabilities of neighboring communities by improving the quality and standard of life and sustainable living, through contributions to local communities and society at large. During the CY22 the company spent Rs 4.6 Cr on CSR against 8.7 Cr in CY21.

### Corporate Governance Philosophy

Corporate Governance is based on preserving core beliefs and ethical business conduct while maintaining a strong commitment to maximizing long-term stakeholder value. The company is focused towards bringing transparency in all its dealings, adhering to well-defined corporate values and leveraging corporate resources for long-term value creation, without compromising the environment and health of society at large. It has complied with the requirements of Corporate Governance as laid down under the requirements of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015.

### Managerial Remuneration

On average, employees other than the managerial personnel (i.e. Executive and Non-Executive Directors) received an annual increase of 8.68% whereas the increase in the remuneration of the Executive Director was 20%. The increase in the Managerial remuneration for Mr. Ander Arenaza Alvarez, Mr. Manoj Mullassery Menon, Mr. K Jayaprakash, Mr. Pankaj Goyal was NIL/20%/6%/33% respectively. Percentage increase in the median remuneration of employees in the Calendar Year: 3.43%.

**Financials (Consolidated)**
**Profit & Loss**

(Rs Cr)

Y/E Mar, Rs Cr	CY22	CY23E	CY24E	CY25E
<b>Net sales</b>	<b>8,753</b>	<b>9,653</b>	<b>10,798</b>	<b>12,036</b>
Raw materials	(4,776)	(5,068)	(5,615)	(6,139)
Staff costs	(902)	(1,046)	(1,188)	(1,324)
Other expenses	(1,903)	(2,013)	(2,268)	(2,588)
<b>Total expenses</b>	<b>(7,581)</b>	<b>(8,126)</b>	<b>(9,070)</b>	<b>(10,050)</b>
<b>EBITDA</b>	<b>1,172</b>	<b>1,527</b>	<b>1,728</b>	<b>1,986</b>
Depreciation	(296)	(339)	(348)	(361)
<b>EBIT</b>	<b>876</b>	<b>1,188</b>	<b>1,379</b>	<b>1,625</b>
Other income	58	68	59	59
Interest expense	(23)	(71)	(51)	(23)
Share of Profit/loss from associates	2	1	1	1
Exceptional (expenses)/income	38	-	-	-
<b>Profit before tax</b>	<b>951</b>	<b>1,185</b>	<b>1,389</b>	<b>1,662</b>
Tax expense	(240)	(294)	(344)	(412)
Adjusted PAT	683	891	1,044	1,250
<b>Reported PAT</b>	<b>711</b>	<b>891</b>	<b>1,044</b>	<b>1,250</b>
No. of shares	37.9	37.9	37.9	37.9
Reported EPS (Rs/share)	18.8	23.5	27.5	33.0
Adjusted EPS	18.0	23.5	27.5	33.0

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

Y/E Dec, Rs Cr	CY22	CY23E	CY24E	CY25E
<b>SHAREHOLDER'S FUNDS</b>				
Equity Share Capital	379	379	379	379
Reserves and Surplus	4,719	5,516	6,465	7,620
<b>Total Shareholders Funds</b>	<b>5,098</b>	<b>5,895</b>	<b>6,844</b>	<b>8,000</b>
<b>NON-CURRENT LIABILITIES</b>				
Long Term Borrowings	119	89	59	29
Long-Term Finance/Lease Liabilities	43	43	43	43
Long Term Provisions	101	101	101	101
Deferred Tax Liabilities	328	328	328	328
Other LT liabilities	121	121	121	121
<b>Total Non-Current Liabilities</b>	<b>712</b>	<b>682</b>	<b>652</b>	<b>622</b>
<b>CURRENT LIABILITIES</b>				
Short Term Borrowings	805	705	505	255
Short-Term Lease Liabilities	19	19	19	19
Trade Payables	2,135	2,222	2,308	2,439
Other Financial Liabilities	78	78	78	78
Other Current Liabilities	249	249	249	249
Short Term Provisions	55	55	55	55
Current Tax Liabilities	60	60	60	60
Disposal group	718	718	718	718
<b>Total Current Liabilities</b>	<b>4,118</b>	<b>4,104</b>	<b>3,990</b>	<b>3,871</b>
<b>Total Capital And Liabilities</b>	<b>9,928</b>	<b>10,681</b>	<b>11,487</b>	<b>12,493</b>
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
<b>Net Tangible Assets</b>	<b>2,600</b>	<b>2,786</b>	<b>2,838</b>	<b>2,877</b>
Capital Work-In-Progress	119	194	294	394
Intangible Assets	2,946	2,946	2,946	2,946
Non-Current Investments	31	31	31	31
Financial Assets	192	192	192	192
Deferred Tax Assets [Net]	9	9	9	9
Income Tax Assets [Net]	39	39	39	39
Other Non-Current Assets	69	69	69	69
<b>Total Non-Current Assets</b>	<b>6,006</b>	<b>6,267</b>	<b>6,419</b>	<b>6,558</b>
<b>CURRENT ASSETS</b>				
Inventories	1,211	1,455	1,479	1,649
Current Investments	544	544	544	544
Trade Receivables	861	979	1,035	1,154
Cash And Cash Equivalents	86	217	789	1,368
Other CurrentAssets	242	242	242	242
Disposal group	979	979	979	979
<b>Total Current Assets</b>	<b>3,922</b>	<b>4,414</b>	<b>5,068</b>	<b>5,935</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Mar, Rs Cr	CY22	CY23E	CY24E	CY25E
<b>Cash flows from operating activities</b>				
<b>Profit before tax for the year</b>	<b>951</b>	<b>1,185</b>	<b>1,389</b>	<b>1,662</b>
<b>Continuing Operations</b>	(840)	-	-	-
Discontinued Operations				
Adjustments for:				
Finance costs	45	71	51	23
Depreciation and amortisation	354	339	348	361
Others	818	-	-	-
Share in Profit of Associates	(2)	-	-	-
Cash Flow From operation before changes in WC	1,326	1,596	1,788	2,046
Change in operating assets and liabilities:	<b>(208)</b>	<b>(569)</b>	<b>(340)</b>	<b>(569)</b>
<b>Net cash generated by operating activities</b>	<b>1,118</b>	<b>1,027</b>	<b>1,448</b>	<b>1,476</b>
<b>Cash flows from investing activities</b>				
Payments for PPE & IA	(501)	(600)	(500)	(500)
Others	(196)	-	-	-
Proceeds from disposal of PPE & IA	58	-	-	-
<b>Net cash (used in)/generated by investing activities</b>	<b>(640)</b>	<b>(600)</b>	<b>(500)</b>	<b>(500)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of Eq Sh of the Group*	4	-	-	-
Dividends Paid	(95)	(95)	(95)	(95)
Repayment of lease payments	-53	-	-	-
Net Proceeds/(Repayment) of LT borrowings	(394)	(30)	(30)	(30)
Net Proceeds/(Repayment) of ST borrowings	88	(100)	(200)	(250)
Interest paid	(38)	(71)	(51)	(23)
<b>Net cash used in financing activities</b>	<b>(488)</b>	<b>(296)</b>	<b>(375)</b>	<b>(397)</b>
Net increase/(decrease) in CCE	(9)	131	572	579
Opening Cash and cash equivalents	165	71	202	774
Effects of exchange rate changes	3	-	-	-
<b>Closing Cash and cash equivalents</b>	<b>158</b>	<b>202</b>	<b>774</b>	<b>1,353</b>

Source: Company, Axis Securities

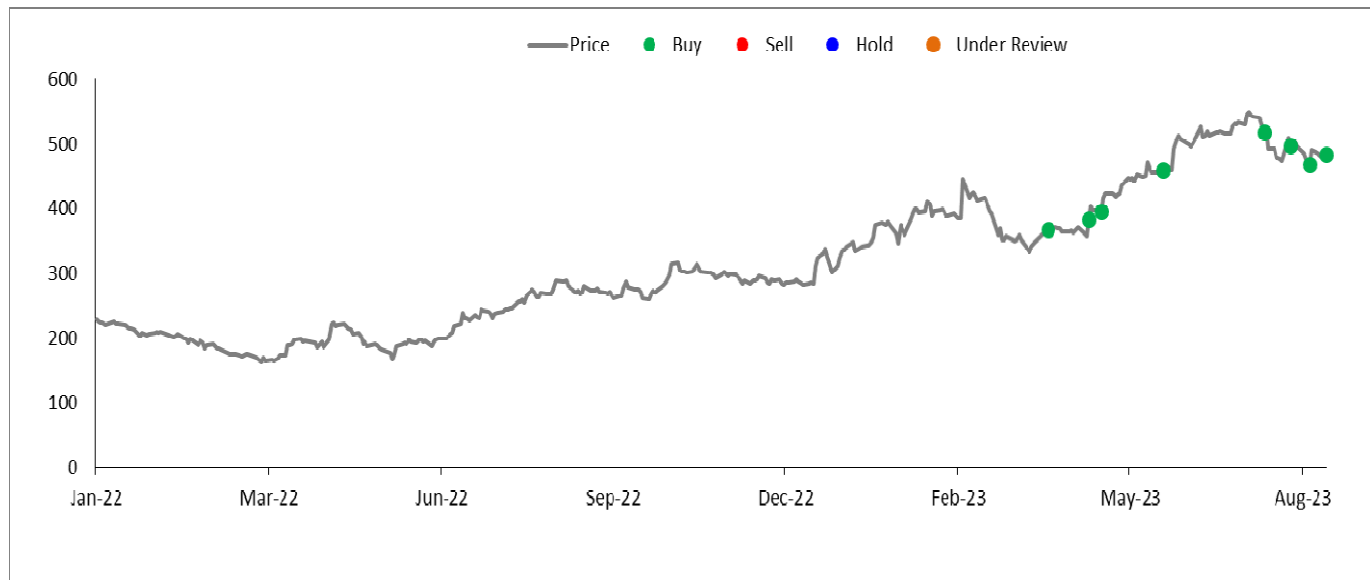
**Ratio Analysis**

(%)

Y/E Mar	CY22	CY23E	CY24E	CY25E
<b>Operational Ratios</b>				
Sales growth (% YoY)	29.4%	10.3%	11.9%	11.5%
EBITDA Margin %	13.4%	15.8%	16.0%	16.5%
Net profit Margin %	8.1%	9.2%	9.7%	10.4%
<b>Efficiency Ratios</b>				
Sales/Net block(x)	3.3	3.6	3.8	4.2
<b>Valuation Ratios</b>				
PER (x)	18	20	17	14
P/BV (x)	3	3	3	2
EV/Ebitda (x)	7.3	8.5	7.0	5.7
<b>Return Ratios</b>				
ROE	14.0%	15.1%	15.3%	15.6%
ROCE	18.1%	19.7%	20.0%	20.6%
ROIC	15.46%	19.93%	20.10%	20.41%
<b>Leverage Ratios</b>				
Debt/equity (x)	0.24	0.18	0.12	0.07
Net debt/ Equity (x)	0.18	0.11	0.00	0.00
Net debt/Ebitda (x)	0.77	0.42	0.00	0.00
Interest Coverage ratio (x)	38.56	16.64	27.21	71.69

Source: Company, Axis Securities

## CIE Automotive India Price Chart and Recommendation History



Date	Reco	TP	Research
10-Apr-23	BUY	475	Initiating Coverage
27-Apr-23	BUY	475	Result Update
02-May-23	BUY	475	Top Picks
01-Jun-23	BUY	535	Top Picks
01-Jul-23	BUY	595	Top Picks
20-Jul-23	BUY	585	Result Update
01-Aug-23	BUY	585	Top Picks
11-Aug-23	BUY	585	Company Update
21-Aug-23	BUY	585	Annual Report Analysis

Source: Axis Securities

**About the analysts**

1. **Sr Research Analyst: Aditya Welekar** is a PGDBM in Finance with 10 years of experience in Equity Market/Research.

2. **Research Associate: Shridhar Kallani** is a Chartered Accountant and a graduate from St.Xaviers College Kolkata.

**Sector:** Automobiles & Auto Ancillary.

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
<b>BUY</b>	More than 10%
<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
<b>NOT RATED</b>	The company have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
<b>UNDER REVIEW</b>	The company will revisit our recommendation, valuation and estimates on the stock following recent events
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