

CIE Automotive India

BSE SENSEX 81,381 S&P CNX 24,964

CMP: INR541 TP: INR650 (+20%) Buy



Bloomberg	CIEINDIA IN
Equity Shares (m)	379
M.Cap.(INRb)/(USDb)	205.3 / 2.4
52-Week Range	628 / 401
1, 6, 12 Rel. Per (%)	-2/4/-9
12M Avg Val (INR M)	285
Free float (%)	34.3

Financials & Valuations (INR b)

Y/E March	CY23	CY24E	CY25E
Sales	92.8	90.7	103.5
EBITDA (%)	15.3	15.1	15.7
Adj. PAT	8.0	8.2	10.1
EPS (INR)	21.1	21.7	26.8
EPS Growth (%)	16.8	2.7	23.6
BV/Share (Rs)	158	175	195

Ratio

RoE (%)	14.4	13.0	14.5
RoCE (%)	13.0	12.0	13.7
Payout (%)	23.8	20.0	20.0

Valuations

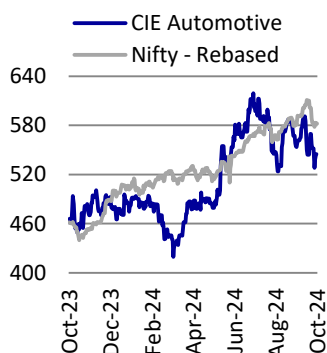
P/E (x)	25.7	25.0	20.2
P/BV (x)	3.4	3.1	2.8
Div. Yield (%)	0.9	0.8	1.0
FCF Yield (%)	4.2	1.9	3.4

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	65.7	65.7	65.7
DII	19.5	18.2	14.8
FII	5.0	5.1	7.5
Others	9.8	11.0	12.0

FII includes depository receipts

Stock Performance (1-year)



Profitability to maintain as growth moderates

India to remain a key growth driver in the near term

We recently met with the management of CIE Automotive (CIEINDIA), and following are the KTAs from the discussion. The domestic market is experiencing a weak demand phase in the tractor and PV segments, while 2W continues to perform relatively well. The global auto market, particularly in Europe, remains sluggish. The EV transition in India continues to evolve as a growth opportunity, given the healthy new order wins. Additionally, the risk of EV transition in Europe remains mitigated, given that: 1) most European OEMs are now reconsidering their EV transition deadlines and 2) hybrids are likely to gain traction in Europe, which augurs well for CIEINDIA. However, the management remains committed to focusing on: 1) outperforming the core domestic industry growth in the long run; 2) further improving operational efficiencies in India; and 3) revising costs in Europe to the new normal. Given its focus on operational efficiencies, CIEINDIA has evolved into a highly resilient company. Some of the financial attributes unique to the global ancillary player include: being net debt free, having strict capex/inorganic expansion guidelines, generating positive FCF, and tracking an improving return trajectory. We reiterate BUY with a TP of INR650 (based on ~21x Sep'26E consol. EPS).

Well-diversified company with unique capabilities

CIEINDIA is well-diversified, notable for being the only company that houses seven different automotive technologies under one roof. Moreover, it is amongst the top 2-3 suppliers in each of the technologies it supplies. Some of its strong attributes include: 1) the largest supplier of PV crankshafts in India; 2) a dominant player in forged steering parts; 3) one of the two strategic suppliers of aluminum castings to a leading domestic 2W OEM; 4) the second-largest supplier of crankshafts in Europe; 5) a strategic supplier of gears to a global leading supplier of construction and mining equipment; 6) the largest supplier of stampings and gears to one of the leading SUV/tractor OEMs in India; and 7) a supplier with the unique ability to supply crankshafts through both castings and forgings.

India: Outlook appears weak, with 2Ws as the only bright spot

The management has indicated that demand remains weak across most segments in India, including PVs, CVs, and tractors. However, the demand for 2Ws continues to be healthy. While the demand for tractors is expected to revive in H2, it is yet to pick up. However, M&M (UVs) and BJAUT, which are its key customers, are currently experiencing healthy demand trends on account of their new model launches.

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CIEINDIA will continue to outperform core industry growth:

CIEINDIA aims to continue outperforming the domestic auto industry growth by 5-7% in the long-run. As highlighted above, its anchor customers, such as M&M and BJAUT, continue to experience strong demand traction. CIEINDIA is featured in most of M&M's upcoming and recently launched models. Additionally, it has a strong presence in Bajaj's recent new launches. Apart from its anchor customers, CIEINDIA has around 10-12 growth customers, each contributing to about 3-6% of its revenues. CIEINDIA experiences a healthy demand traction from these customers and targets to ramp up its presence in this area. Additionally, the company's growth is expected to be driven by new opportunities emerging from the transition to EV and hybrid technologies.

Europe: Industry outlook likely to remain weak at least in the near term

The automotive demand in EU remains weak, primarily due to uncertainties surrounding the transition to EVs, according to the management. With many OEMs reevaluating their EV transition strategies, there is significant uncertainty among customers about whether to opt for EVs or ICE vehicles, which the management cites as a reason for the weak demand. Although the company has orders in hand, delays in execution by OEMs are adversely affecting its revenue traction from the region. The market is expected to experience a 7-8% decline this year, with 2HCY24 expected to perform worse than 1H and even weaker than the usual H2 levels.

Electrification in India opens up new growth avenues

About 20% of CIEINDIA's business involves crankshafts or other engine-related components for 4Ws and 2Ws. Another 50% of this comes from PV EVs. Since the EV transition in PVs is expected to take longer in India, the company's exposure to engine components is fairly limited in the country. Nevertheless, the management views the EV transition as an opportunity rather than a threat, given its multiple new order wins in the Indian segment. The company is engaged in 3W EVs with its largest customer. It also has a strong presence with two of the four largest PV EV OEMs in India. Further, the company has garnered a fair share of orders from 2W EV OEMs in the country. As of H1CY24, CIEINDIA's EV order book contributed ~30% to India's overall order book. While EV transition in India remains a strong growth opportunity for CIEINDIA, it is important to note that the EV penetration in the country is progressing much more slowly than envisaged.

Slow pace of electrification in EU and emergence of hybrid to bode well

In Europe, 4W forgings contribute EUR275m-EUR300m to CIEINDIA's revenue (~81% of EU's revenue), approximately half of which comes from crankshafts. Thus, the rapid EV transition in Europe is certainly a risk for the company's European business in the long run. However, while the current EV penetration in Europe has reached 12%, most OEMs are reworking/postponing their EV transition plans following multiple headwinds in this segment. Given these trends, OEMs are likely to focus on pushing hybrids as a temporary solution before the EV transition picks up pace again. Nonetheless, almost 55% of its H1 order book in Europe was from EVs. The company is also looking to ramp up its presence in aluminum forgings by showcasing its capabilities to multiple global OEMs. Thus, the EV transition risk in Europe for CIEINDIA appears to have materially subsided and the company would

continue to focus on diversifying its revenue stream, in turn mitigating any material impact on its financials in the long run.

Focus on optimizing growth and profitability

While the management is confident in achieving long-term outperformance relative to the broader industry, it acknowledges the near-term challenges posed by weak demand in both domestic markets and Europe, as highlighted above. However, the company will continue to emphasize prioritizing profitability over simply maintaining topline growth. The management has indicated that it will not pursue growth without ensuring a requisite level of profitability. In India, the company aims to continue increasing margins by enhancing its operational efficiencies. CIEINDIA’s parent company specializes in automation/digitization initiatives globally. It incentivizes production managers and measures their performance, not only on the production output but also on the ROI delivered from their respective plants. Given these practices, notably, the company’s margins in Europe are comparable to, or even better than, those in India. Despite the weak industry demand outlook in Europe, the management aims to sustain margins at current levels in Europe. It targets to achieve this by revisiting all cost heads to new utilization levels.

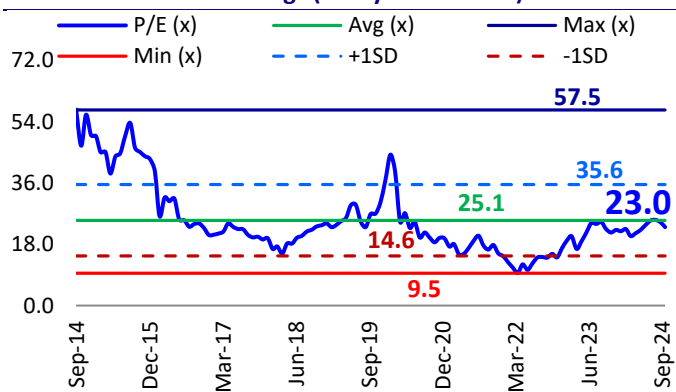
Other takeaways

- The company’s capex has been in the range of 5-6% of its revenue. It targets to invest INR 15b over the next three years. A bulk of its capex would be invested in India, where it is receiving new orders. In Europe, no additional growth capex is required as utilization remains around 80%.
- CIEINDIA has evolved into a highly resilient company. Even at the peak of COVID-19, its margins did not fall below 9%.

Valuation and view

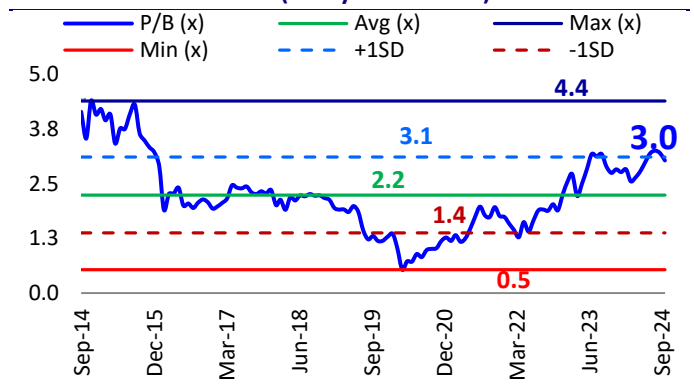
- We expect the Indian business to be the primary growth driver for the company in the near future. However, the weak outlook for its EU business and Metalcastello is likely to weigh on the overall performance in the near term. The company will continue to strive to enhance efficiencies in the coming years. Some of the financial attributes unique to the global ancillary player include: being net debt free, having strict capex/inorganic expansion guidelines, generating positive FCF, and tracking an improving return trajectory. The stock trades at 25x/20x CY24E/CY25E consolidated EPS. We reiterate BUY with a TP of INR650 (based on ~21x Sep’26E consol. EPS).

Exhibit 1: Price-to-earnings (one-year forward)



Source: MOFSL, Company

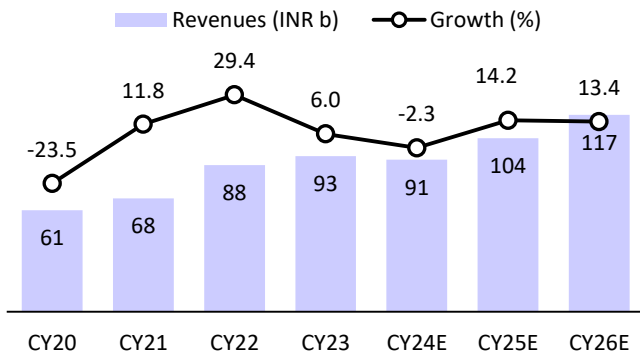
Exhibit 2: Price-to-book (one-year forward)



Source: MOFSL, Company

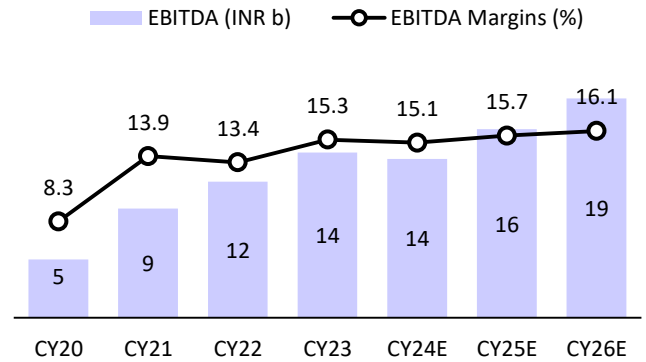
Story in charts

Exhibit 3: Expect consolidated revenue to recover



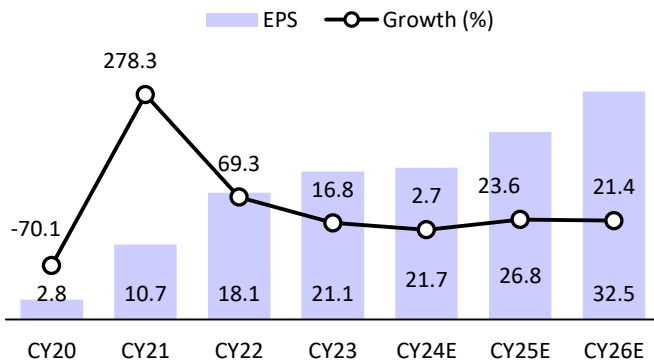
Source: Company, MOFSL

Exhibit 4: EBITDA margin to see some moderation in CY24E



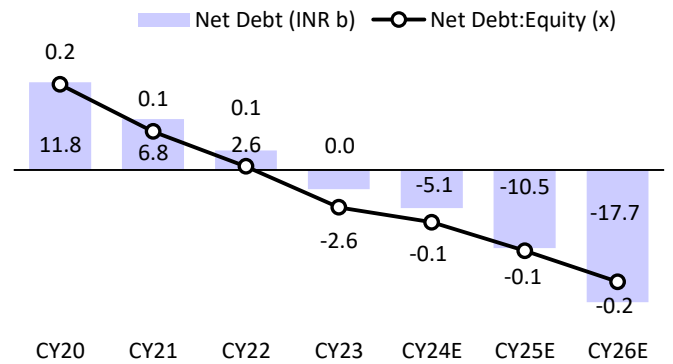
Source: Company, MOFSL

Exhibit 5: EPS and EPS growth



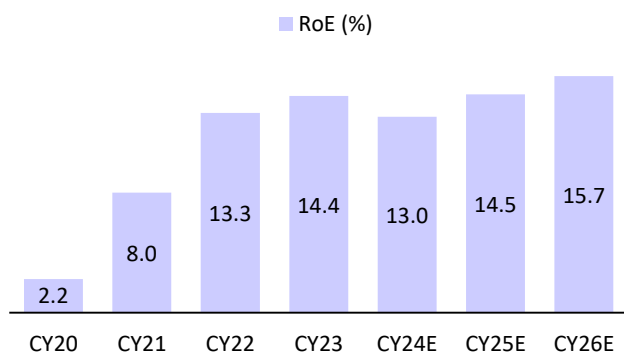
Source: Company, MOFSL

Exhibit 6: Turned net cash positive from CY23



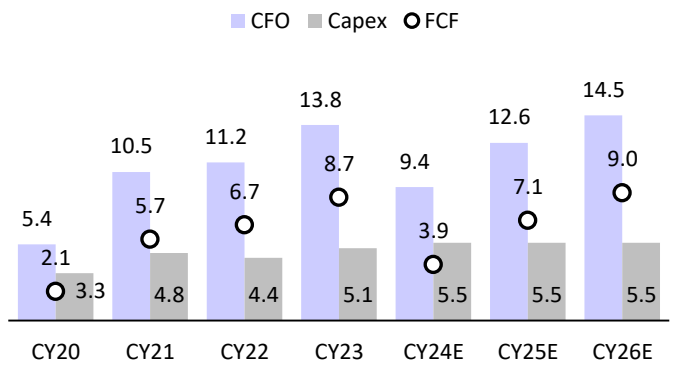
Source: Company, MOFSL

Exhibit 7: Expect RoE to continue to improve



Source: Company, MOFSL

Exhibit 8: FCF to remain at healthy levels



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement							(INR m)
Y/E December	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Total Income from Operations	60,501	67,652	87,530	92,803	90,678	1,03,549	1,17,410
Change (%)	-23.5	11.8	29.4	6.0	-2.3	14.2	13.4
Total Expenditure	55,485	58,234	75,810	78,565	76,999	87,295	98,513
% of Sales	91.7	86.1	86.6	84.7	84.9	84.3	83.9
EBITDA	5,016	9,417	11,720	14,239	13,679	16,254	18,897
Margin (%)	8.3	13.9	13.4	15.3	15.1	15.7	16.1
Depreciation	3,064	2,733	2,962	3,222	3,421	3,831	4,094
EBIT	1,952	6,684	8,758	11,017	10,258	12,423	14,802
Int. and Finance Charges	548	348	227	1,074	814	614	473
Other Income	549	468	583	820	1,427	1,463	1,762
PBT bef. EO Exp.	1,953	6,805	9,114	10,763	10,871	13,272	16,091
EO Items	0	-128	379	0	0	0	0
PBT after EO Exp.	1,953	6,677	9,492	10,763	10,871	13,272	16,091
Total Tax	886	2,731	2,401	2,782	2,697	3,165	3,821
Tax Rate (%)	45.4	40.9	25.3	25.8	24.8	23.8	23.7
Share of profit from associate	0	12	22	-5	15	15	15
Reported PAT	1,066	3,958	7,113	7,976	8,189	10,122	12,286
Adj. PAT	1,066	4,034	6,829	7,976	8,189	10,122	12,286
Change (%)	-70.1	278.3	69.3	16.8	2.7	23.6	21.4
Margin (%)	1.8	6.0	7.8	8.6	9.0	9.8	10.5

Consolidated - Balance Sheet							(INR m)
Y/E December	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Equity Share Capital	3,790	3,791	3,793	3,794	3,794	3,794	3,794
Total Reserves	45,290	48,175	47,192	56,086	62,228	69,819	79,034
Net Worth	49,080	51,966	50,985	59,880	66,021	73,613	82,827
Total Loans	16,476	12,816	9,234	8,033	5,533	3,033	533
Deferred Tax Liabilities	1,236	2,459	3,199	3,238	3,238	3,238	3,238
Capital Employed	66,792	67,241	63,418	71,151	74,793	79,884	86,599
Gross Block	53,135	50,226	48,348	53,792	58,828	64,328	69,828
Less: Accum. Deprn.	23,204	20,624	20,921	24,228	27,649	31,481	35,575
Net Fixed Assets	29,931	29,602	27,427	29,564	31,179	32,847	34,253
Goodwill on Consolidation	37,554	36,265	28,040	28,540	28,540	28,540	28,540
Capital WIP	123	1,247	1,195	537	1,001	1,001	1,001
Total Investments	2,340	4,380	5,756	8,206	8,206	11,206	16,206
Curr. Assets, Loans&Adv.	23,686	26,712	36,780	30,679	30,796	34,617	38,614
Inventory	10,062	13,486	12,108	11,626	12,446	14,111	15,924
Account Receivables	7,054	6,687	8,608	6,331	8,695	9,929	11,258
Cash and Bank Balance	2,380	1,595	859	2,387	2,400	2,293	2,038
Loans and Advances	4,190	4,943	15,205	10,334	7,254	8,284	9,393
Curr. Liability & Prov.	26,843	30,965	35,780	26,374	24,928	28,326	32,014
Account Payables	14,590	19,385	21,350	19,341	17,087	19,372	21,862
Other Current Liabilities	7,909	7,605	12,876	5,505	6,347	7,248	8,219
Provisions	4,344	3,976	1,553	1,528	1,493	1,705	1,933
Net Current Assets	-3,157	-4,253	1,000	4,305	5,868	6,291	6,600
Appl. of Funds	66,791	67,240	63,418	71,152	74,794	79,885	86,600

Financials and valuations

Ratios

Y/E December	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Basic (INR)							
EPS	2.8	10.7	18.1	21.1	21.7	26.8	32.5
Cash EPS	10.9	17.9	25.9	29.6	30.7	36.9	43.3
BV/Share	129.8	137.4	134.8	158.4	174.6	194.7	219.1
DPS	0.0	2.5	2.5	5.0	4.3	5.3	6.5
Payout (%)	0.0	23.9	13.3	23.8	20.0	20.0	20.0
Valuation (x)							
P/E	191.9	50.7	30.0	25.7	25.0	20.2	16.7
Cash P/E	49.5	30.2	20.9	18.3	17.6	14.7	12.5
P/BV	4.2	3.9	4.0	3.4	3.1	2.8	2.5
EV/Sales	3.6	3.2	2.4	2.3	2.3	2.0	1.7
EV/EBITDA	43.7	23.0	18.2	14.8	15.2	12.7	10.8
Dividend Yield (%)	0.0	0.5	0.5	0.9	0.8	1.0	1.2
FCF per share	5.4	15.1	17.8	23.0	10.4	18.6	23.8
Return Ratios (%)							
RoE	2.2	8.0	13.3	14.4	13.0	14.5	15.7
RoCE (Post-tax)	2.1	6.3	10.7	13.0	12.0	13.7	15.2
RoIC	1.8	6.5	11.3	14.1	12.5	14.7	17.0
Working Capital Ratios							
Fixed Asset Turnover (x)	1.1	1.3	1.8	1.7	1.5	1.6	1.7
Asset Turnover (x)	0.9	1.0	1.4	1.3	1.2	1.3	1.4
Inventory (Days)	61	73	50	46	50	50	50
Debtor (Days)	43	36	36	25	35	35	35
Creditor (Days)	88	105	89	76	69	68	68
Leverage Ratio (x)							
Net Debt/Equity	0.2	0.1	0.1	0.0	-0.1	-0.1	-0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E December	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
OP/(Loss) before Tax	1,953	6,689	9,514	10,759	10,886	13,287	16,106
Depreciation	3,064	3,431	3,537	3,222	3,421	3,831	4,094
Interest & Finance Charges	548	533	454	1,074	-613	-850	-1,289
Direct Taxes Paid	-503	-1,053	-1,981	-3,579	-2,697	-3,165	-3,821
(Inc)/Dec in WC	761	1,364	-97	-309	-1,550	-530	-563
CF from Operations	5,823	10,963	11,427	11,166	9,448	12,574	14,528
Others	-430	-452	-245	2,667	0	0	0
CF from Operating incl EO	5,393	10,511	11,182	13,833	9,448	12,574	14,528
(Inc)/Dec in FA	-3,343	-4,778	-4,434	-5,122	-5,500	-5,500	-5,500
Free Cash Flow	2,050	5,733	6,749	8,711	3,948	7,074	9,028
(Pur)/Sale of Investments	-1,376	-1,880	-1,273	-2,213	0	-3,000	-5,000
Others	502	-967	-661	-1,714	1,427	1,463	1,762
CF from Investments	-4,217	-7,625	-6,368	-9,049	-4,073	-7,037	-8,738
Issue of Shares	0	10	36	7	0	0	0
Inc/(Dec) in Debt	506	-2,787	-3,936	396	-2,500	-2,500	-2,500
Interest Paid	-477	-465	-378	-1,035	-814	-614	-473
Dividend Paid	0	0	-948	-948	-1,638	-2,024	-2,457
Others	-409	-385	349	-2,691	0	0	0
CF from Fin. Activity	-380	-3,627	-4,877	-4,272	-4,952	-5,138	-5,430
Inc/Dec of Cash	796	-740	-63	512	423	399	360
Opening Balance	1,590	2,386	1,646	1,583	2,095	2,517	2,916
Closing Balance	2,386	1,646	1,583	2,095	2,517	2,916	3,276

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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