

CMP: INR 496

Rating: Buy

Target Price: INR 634

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)	18,867
52w H/L (INR)	628/ 401
Avg Yearly Vol (in 000')	50

Shareholding Pattern %

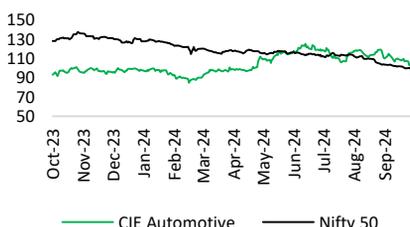
(As on March, 2024)

Promoters	65.70
FII	4.32
DII	20.3
Public & Others	9.61

Stock Performance (%)

	1m	3m	12m
CIE Automotive	-12.4	-15.03	8.0
Nifty 50	-7.0	-0.9	26.4

CIE Automotive Vs Nifty



CIE Automotive's reported Q3CY24 numbers below our estimates. Reported its Q3CY24 numbers, with revenue at INR 2,135 Cr (down by 6.4% YoY and 6.9% QoQ), below our estimates of INR 2,400 Cr. EBITDA de-grew by 4.3% YoY & 8.2% QoQ, to INR 331 Cr. EBITDA Margin expanded 33 bps YoY/(contraction by 22 bps QoQ) to 15.5%. Below with our quarterly EBITDA estimate of INR 367 Cr and margin on-line our estimate of 15.3%. Reported PAT de-grew 10.0% QoQ (Up by 15.9% YoY) to INR 194.7 Cr, below with our quarterly PAT estimate of INR 216 Cr.

Maintain margin led by the cost optimization: The company is stopping the factories and, applying certain regulations and policies to stop the factories one day per week, these kind of things, eliminating all the extra time, eliminating all the contract workers, temporary workers, and trying to reduce at minimum the cost level. Also able to keep margins. lose some margin because cannot offset all the drop, this is not possible, but only lost 1% to 2%. Margin will recover in H2CY24.

Improvement in EV by H2CY25: The EV market should see improvements in the coming quarters. European suppliers and customers are positioned at the top of the technology spectrum. In the mid-term, electrification is forecasted to evolve by 2030, influenced by policy usage. The off-road market is anticipated to improve in Q2 and Q3, while the light vehicle market has contracted by 7% and is expected to remain stable in the next 2-3 quarters. OEMs are not ramping up production as anticipated, with many downgrading expectations in the EV segment.

Off-highway market expected to recover by H2CY25: The trend of growth in the 2w segment should continue and the festive season is expected to give a boost to this segment. Tractors will continue to be steady on a high base with rural income showing recovery. The light vehicle market though will see a steady growth of around 5% unlike the heavy growth seen over the last few quarters. Sales fell to INR 5,899 mn from INR7,262 mn in Q3CY23 and is a combination of the drop in the European light vehicle market and the extended slowdown in the US off-highway market affecting Metalcastello that the company has been talking about since the last few quarters.

Valuations and Outlook

We believe CIEINDIA has a strong and resilient business structure, supported by multiple contracts with leading OEMs. There has been good growth in the 2W segment, particularly during the festive season; however, Metalcastello sales remain weak due to the sluggish US off-highway market, which is expected to recover post-election in H2CY25. The company intends to keep pace with the market while safeguarding margins and positioning itself as a leader. Exports from India have decreased by 10-11% due to low demand from Europe and the US. We anticipate a recovery in H2CY25, driven by a strong order book and a more focused customer base for better growth. In India, we remain optimistic about future growth and margin improvement across all sectors, projecting a growth trajectory of 5-6% moving forward. The 2W segment is expected to benefit from the festive season boost, while the steady tractor segment will be supported by rural income recovery. The light vehicle market is expected to grow consistently at around 5%. The company aims for medium to long-term growth of 400-500 basis points above the blended average industry rate.

We value CIE Automotive India at a PE of 20x its CY26E EPS of INR 31.7 with a target price of INR 634 per share (Earlier TP: INR 698 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%	16.7
CY24E	10,186	1,612	957	25.3	15.82%	15.5%	19.6
CY25E	10,889	1,782	1,074	28.4	16.36%	15.5%	17.5
CY26E	11,641	1,940	1,199	31.7	16.67%	15.6%	15.6

Source: Arihant Research, Company Filings

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Exhibit 2 : Q3CY24 - Quarterly Performance (Consolidated)

INR Cr (Consolidate)	Q3CY24	Q2CY24	Q3CY23	QoQ	YoY
Net Revenue	2,135	2,293	2,279	-6.9%	-6.4%
Material Cost	1,105	1,174	1,247	-5.8%	-11.4%
Employee cost	240	267	232	-10.2%	3.4%
Other Expenses	459	491	455	-6.6%	0.9%
EBITDA	331	360	345	-8.2%	-4.3%
EBITDA margin %	15.49%	15.70%	15.15%	-22bps	33bps
Other Income	24	31	20	-20.8%	21.2%
Depreciation	80	84	78	-4.6%	1.9%
EBIT	275	307	287	-10.4%	-4.2%
EBIT Margin	12.9%	13.4%	12.6%	-51bps	29bps
Finance cost	17	21	31	-19.7%	-45.3%
Exceptional Item	-	-	-		
Share of profits of Associate company	2	1	-0	-	-
PBT	260.0	286.6	255.9	-9.3%	1.6%
Tax Expense	65	70	69	-7.0%	-5.6%
Effective tax rate %	25.1%	24.5%	27.0%	62bps	-192bps
Reported Net Profit from Continue Business	194.7	216.4	187	-10.0%	4.3%
Profit for the period for discontinued operation	0.8	0.6	209	19.4%	-99.6%
Loss on fair valuation of assets and liabilities of disposal group	-	-	-20.4		
Current Tax expenses	0.2	0.2			
Deffered Tax expenses/reversal					
Profit/(loss) for the period	0.8	0.6	188.7	19.4%	-99.6%
Profit loss for the Period	195	217	375	-10.0%	-48.0%
Net margin %	9.1%	9.5%	16.5%	-31bps	-732bps
Continue business EPS (INR)	5.14	5.71	4.92	-10.0%	4.5%

INR Cr (Consolidate)	Q3CY24	Q2CY24	Q3CY23	QoQ	YoY
India	1,529	1,506	1,537	1.5%	-0.5%
Europe	608	788	744	-22.9%	-18.3%

Source: Arianth Research, Company Filings

Q3CY24 Conference Call Highlights:**Metalcastello sales are expected to rebound in mid-2025 post the US elections**

Europe Business: Facing unpredictable market conditions, EV market sluggishness, and the US off-highway market downturn. Challenges anticipated from Chinese imports and future local manufacturing. Currently operating at a reduced rate of 4-4.5 mn euros monthly, previously 6- 6.5 mn. The 2w segment is performing well, while the tractor segment shows signs of weakness.

Metalcastello: Sales dip caused by weak 4W and CV market performance and a drop in Metalcastello sales due to the weak US off-highway market. Restructuring activities in place to sustain margins, incorporating cost-cutting measures such as reducing factory operating days and minimizing worker hours. The Metalcastello business is expected to recover by H2CY25, which is crucial for the company. Efforts to maintain margins include keeping costs low, such as implementing a policy of one workday per week in the factory. While there have been margin losses of 1-2%, the company is striving to manage costs effectively in this challenging environment.

India Business: In contrast, Indian growth is projected to pick up, while Europe is likely to remain weak in the coming quarters. All businesses in India are performing well, aligning with the weighted average market growth, although margin reduction has occurred due to slower sales. The decline in the European market is offsetting the positive performance in India.

EV: The EV market should see improvements in the coming quarters, although Chinese car manufacturers face higher provisioning costs in Europe. European suppliers and customers are positioned at the top of the technology spectrum. In the mid-term, electrification is forecasted to evolve by 2030, influenced by policy usage. The off-road market is anticipated to improve in Q2 and Q3, while the light vehicle market has contracted by 7% and is expected to remain stable in the next 2-3 quarters. OEMs are not ramping up production as anticipated, with many downgrading expectations in the EV segment.

There is a notable \$1 mn difference in imports from China this year, with market conditions expected to stabilize in the next 2-3 quarters. Companies like Mahindra & Mahindra, Bajaj, and Maruti have performed well domestically, although exports have declined compared to last year.

Overall improvement in India is driven by productivity gains, particularly in the aluminum segment, which relies on the tractor and commercial vehicle markets.

India Business outlook: Optimistic about future growth and margin improvement across all sectors. Project a 5-6% growth trajectory moving forward. The 2w segment anticipated to gain from the festive season boost. Steady tractor segment bolstered by rural income recovery. Light vehicle market to consistently grow around 5%. Aims for medium to long-term growth 400-500 bps above the blended average industry rate.

Europe business outlook: Market uncertainty expected in upcoming quarters. An ambiguous future for the light vehicle market with its 12-14% EV penetration. A continued depression in the US off-highway truck market impacting Metalcastello. Metalcastello sales are expected to rebound in mid-2025 post the US elections. Intends to keep up with the market while safeguarding margins and positioning as a leader amid.

industry consolidation: Additional business opportunities anticipated from Chinese car manufacturers entering European markets. Continuing focus on securing business with Chinese OEMs and aiding existing European clientele. Preparing for growth in the electric vehicle market despite uncertainty around adoption speed.

Export: Delayed export order ramp-ups and slight declines in the light vehicle market.

Chinese Vehicle Imports: Efforts to slow down imports with recently implemented import duties on Chinese electric cars.

Exports from India: Currently reduced to around 10-11% of sales due to low demand from Europe and the US.

Key Financials

Income Statement (INR Cr)				
Year End-March	CY23	CY24E	CY25E	CY26E
Revenues	9,280	10,186	10,889	11,641
<i>Change (%)</i>	6.0%	9.8%	6.9%	6.9%
Gross Profit	1,102	1,240	1,359	1,508
Employee costs	994	1,004	1,065	937
Other expenses	1,951	2,012	2,101	2,412
Total Expenses	1,951	2,012	2,101	2,412
EBITDA	1,424	1,612	1,782	1,940
EBITDA Margin	15.34%	15.82%	16.36%	16.67%
Depreciation	322	372	422	432
EBIT	1184	1346	1503	1674
EBIT Margin	12.75%	13.22%	13.81%	14.38%
Interest	107.37	-	-	-
Other Income	82	107	144	166
PBT	1,076	1,280	1,437	1,608
Exceptional Items	(0.49)	-	-	-
PBT after exceptional Items	1,076	1,280	1,437	1,608
Tax	278	322	362	406
<i>Rate (%)</i>	25.8%	25.2%	25.2%	25.2%
PAT	798	957	1,074	1,199
SHARE OF PROFIT / (LOSS) OF ASSOCIATES / JVs.	(0.49)	-	-	-
PROFIT / (LOSS) FROM DISCONTI. OPERATIONS	-	-	-	-
Consolidated PAT	798	958	1,076	1,202
<i>Change (%)</i>	-	20.1%	12.3%	11.8%

Balance Sheet (INR Cr)				
Year End-March	CY23	CY24E	CY25E	CY26E
Sources of Funds				
Share Capital	379	379	379	379
Reserves & Surplus	5,609	6,055	6,240	6,173
Net Worth	5,988	6,434	6,619	6,552
Loan Funds	1,676	1,558	1,167	2,138
MI, Deferred Tax & other Liabilities	333	333	333	334
Capital Employed	7,664	8,367	9,212	10,111
Application of Funds				
Gross Block	6,119	6,682	7,280	7,915
Less: Depreciation	2,974	3,346	3,769	4,201
Net Block	2,840	3,334	3,509	3,712
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	571	702
Net Fixed Assets	3,301	3,891	4,173	4,506
Investments	821	606	616	626
Debtors	633	695	743	794
Inventories	1,163	1,149	1,130	1,111
Cash & Bank Balance	210	560	1,040	1,520
Loans & Advances & other CA	-	-	-	-
Total Current Assets	3,165	3,591	4,244	4,928
Current Liabilities	2,069	2,071	2,067	2,064
Provisions	153	153	153	153
Net Current Assets	1,096	1,520	2,180	2,866
Total Assets	7,664	8,367	9,212	10,111

Source: Arian Research, Company Filings

Key Financials

Cash Flow Statement (INR Cr)				
Year End-March	CY23	CY24E	CY25E	CY26E
PBT	1,076	1,280	1,437	1,608
Cash From Operating Activities	(31)	(50)	(33)	(35)
Tax	(358)	323	364	409
Net Cash From Operations	1,383	2,256	2,256	2,479
Cash From Investing	(910)	(791)	(791)	(828)
Borrowings	40	(119)	(390)	970
Finance cost paid	(104)	(66)	(66)	(66)
Cash From Financing	(427)	(1,306)	(1,306)	(145)
Net Increase/ Decrease in Cash	46	-136	159	1506
Cash at the beginning of the year	160	211	80	244
Cash at the end of the year	211	80	244	1,755

Key Ratios				
Year End-March	CY23	CY24E	CY25E	CY26E
Per share (INR)				
EPS	29.7	25.3	28.4	31.7
Valuation (x)				
P/E	16.7	19.6	17.5	15.6
P/BV	3.1	2.9	2.8	2.9
Return ratio (%)				
EBIDTA Margin	15.3%	15.8%	16.4%	16.7%
Retrun on Networth	14.4%	15.4%	16.4%	18.2%
ROCE	17.3%	15.5%	15.5%	15.6%
Sales/Capital employed (x)	1.2	1.2	1.2	1.2
MATERIAL COST / SALES (%)	54.6%	54.6%	54.6%	54.6%
Leverage Ratio (%)				
Total D/E	0.3	0.2	0.2	0.3
Turnover Ratios				
Inventory Days	46	46	46	47
Receivable Days	25	25	25	25
Current liabilities	9	9	9	9

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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