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Stock Update

CIE Automotive India Ltd.

May 24, 2024

RETAILRESEARCH

CIE Automotive India Ltd.

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Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 541	Buy in Rs 536-548 band and add on dips in Rs 480-490 band	Rs 588	Rs 629	2-3 quarters

HDFC Scrip Code	MAHCIEEQNR
BSE Code	532756
NSE Code	MAHINDCIE
Bloomberg	MACA IN
CMP May 23, 2024	541.3
Equity Capital (Rs Cr)	379.4
Face Value (Rs)	10
Equity Share O/S (Cr)	37.9
Market Cap (Rs Cr)	20410
Book Value (Rs)	163.9
Avg. 52 Wk Volumes	803,250
52 Week High	579.8
52 Week Low	406.8

Share holding Pattern % (Mar 2024)	
Promoters	65.7
Institutions	23.3
Non Institutions	11.0
Total	100

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Atul Karwa
atul.karwa@hdfcsec.com

Our Take:

CIE Automotive India Ltd. (CAIL) is a multi-technology automotive component manufacturer. Its domestic revenue is well diversified across technologies and end-use segments. Recent trends indicate a revival in the European PV segment while domestic PV and CV segment continue to grow at a good pace. The decision of the company to exit from low profit making German forging operations could improve margins/returns going forward and free up capital to invest in future growth areas. CAIL is adding capacity across all its verticals. The company intends to maintain capex at ~5% of revenue as a benchmark for growing business order book in India.

Peaking of inflation and interest rate should provide a strong tailwind for light vehicle growth in Europe market. Capacity additions across verticals in the domestic market would enable the company to meet the robust order book and provide room for growing exports.

Strong order wins in ICE and EV segments, increasing wallet share with existing customers, the addition of new customers as well as increase in capacity will help CAIL to outperform the domestic automotive industry. The demand trends in North America off highway segment could recover from 2HCY24E, which will further aid profitability.

Valuation & Recommendation:

CAIL enjoys importance in CIE’s global operations as the auto component division for South Asian and Southeast Asian markets. CAIL is likely to benefit out of the parent’s strong technological expertise along with established relationships with global OEMs. The India business is expected to be the key growth driver for the company in CY24 and the bulk of its capex is currently in the India business to expand for new customer orders. While the near-term outlook for Europe is weak, we expect it to pick up in CY25 on the back of its new order wins.

We expect CAIL’s revenue to grow at 7% CAGR over CY23-CY25E, led by the strong India business. EBITDA and PAT margin are expected to expand 110/120bps during the same period. We believe investors can buy the stock in the band of Rs 536-548 and add on dips in Rs 480-490 band (17.75x CY25E EPS) for a base case fair value of Rs 588 (21.5x CY25E EPS) and bull case fair value of Rs 629 (23x CY25E EPS) over the next 2-3 quarters.

Financial Summary:

Particulars (Rs cr)	Q1CY24	Q1CY23	YoY (%)	Q4CY23	QoQ (%)	CY22	CY23	CY24E	CY25E
Operating Income	2,427	2,440	-0.5	2,240	8.3	8,753	9,280	9,794	10,609
EBITDA	361	381	-5.3	327	10.1	1,172	1,424	1,528	1,740
APAT	230	279	-17.4	177	30.2	-136	1,125	890	1,037
Diluted EPS (Rs)	6.1	7.4	-17.5	4.7	30.2	-3.6	29.7	23.5	27.3
RoE-%						-7.0	41.5	25.7	24.8
P/E (x)						NA	18.3	23.1	19.8
EV/EBITDA						17.8	14.3	13.0	11.0

Q1CY24 Result Update

CAIL reported weak set of numbers as growth in Europe remains under pressure due to delay in the ramp-up of orders from the customers' end. Operating income was flat YoY at Rs 2427cr, driven by 6.3% YoY growth in India sales and 7.5% degrowth in Europe market. EBITDA stood at Rs 361cr, down 5% YoY and EBITDA margin contracted 70bps to 14.9%. India/Europe sales revenue stood at Rs 1440/894cr with EBITDA margin of 18.7%/16.0% respectively. Consolidated PAT (excluding exceptional item) increased by 4% YoY to Rs 230cr aided by one-off gain of Rs 22cr subsidy received by its subsidiary, Aurangabad Electricals.

The EU light-vehicle market was down 3% YoY in Q1CY24 after 13% YoY growth in CY23, and the management expects this trend of decline to continue this year (2-3% decline YoY for the light-vehicle market). EVs are slowing down in CY24 due to a reduction of subsidies in Germany. In EU, EV penetration was down 100bp in Q1CY24, while penetration of hybrids was up 5%.

While Europe business is likely to be muted in the near term due to weak demand trends in North American off-highway segments, the business could recover from 2HCY24E post US elections.

The company has received several orders that are likely to boost India revenue in coming quarters are: 1) stamping and gears order for MM's XUV3XO, 2) supplies to MM EVs and upcoming SCVs, 3) supplies to MM K2 series of tractors, 4) supplies to Triumph as well as BAL's CNG bike, and 5) crankshaft business in MSIL's upcoming SUV. Capex guidance for CY24 remains at 5% of sales.

Key Triggers

Strong positive momentum in domestic business

CAIL has shown a strong positive momentum in the domestic business which has grown by 17% CAGR over CY21-CY23 driven by sturdy volume growth in the domestic PV and CV segments of the automobile industry along with pass through of increased material inflation.

Key customers M&M and Tata Motors have witnessed a strong growth in passenger vehicles sales in FY24. PV volumes at M&M increased by 28% while Tata Motors reported a growth of 6% in PV volumes. CAIL would also be supplying to new launches of Maruti Suzuki, M&M and Tata Motors. With a buoyant PV market and robust volumes in CV segment on back of higher infrastructure spending, we expect CAIL to post strong topline growth in the near term.

CAIL continues its capex program

CAIL is planning to add new capacities in stampings (adding new line by July 2024), composite, forging (new crankshaft machinery line). Also, the company is planning to add more capacity, especially in the higher value technologies such as gear grinding. The company incurred a capex of Rs 100cr in Q1CY24 and expects the capex spends to rise in the coming quarters. The company guided that the capex (growth and maintenance) would be around 5% of sales. This shows its confidence in maintaining revenue growth over the medium term.

Sale of German unit to be margin positive

CAIL has decided to sell its German forging operations – CIE Forgings Germany (CFG), which primarily manufactured forging components for truck segment in Europe. The company had earlier indicated that it is facing challenges in the German operation due to the sharp increase in energy prices and the geo-political conflict. Sale of CFG would be positive for the company as consolidated margins and return ratios would improve. It would also free up capital for the company which can be deployed for manufacturing other products. The company would continue to focus on supplying parts to the light vehicle industry from its own plants.

New order wins for EV

The transition towards electric vehicles is bringing sturdy order inflows for the company. Battery electric vehicles account for ~10% of sales and hybrid vehicles for another 20%. Pure BEV are expected to increase to ~50% by 2030. Going forward, most of the capex of the company would be towards making parts for EV. It is also witnessing strong demand for its gears and stamping division. This would be beneficial for CAIL as content per vehicle would increase significantly.

Promoter increases stake in the company

CIE group has been strengthening its stake in the company. In May’22 it acquired 1 crore shares from the open market. Further, in Sep’22 M&M sold 2.17% stake in the company to CIE Automotive at Rs 285/share. Post the stake sale, CIE automotive holds 65.70% stake in the company. This reaffirms promoters positive view on the company and its prospects. It is structurally positive for the company in the long run. In Mar’24 quarter DIIs have increased their holding from 15.98% to 18.12%.

Company has started paying dividend

CAIL had amended its dividend distribution policy in CY21. As per the amended policy, the company would endeavour to maintain a total dividend payout ratio of up to 25% of the annual consolidated profit after tax. Earlier, the company was conserving cash to fund its organic as well as inorganic growth. However, with strong growth it has recognized the need to pay regular dividends. Company paid a dividend of Rs 2.5/share in CY22 and increased it to Rs 5/share for CY23.

Risks & Concerns

Slowdown in automobile industry

CAIL manufactures parts for the automobile industry which has witnessed strong domestic growth in the last few quarters. Any slowdown in the industry could be detrimental for the company. In India, CV and Tractor sales are expected to consolidate in CY24 and grow at a small pace.

High exposure to EU auto market

Europe currently accounts for ~35-40% of the revenues of the company. However, it reports lower margins which could be due to the ongoing Ukraine conflict and higher interest rates, resulting in demand slowdown. European region could continue to experience slowdown for some more quarters and pull down the blended growth of the company.

The EV segment is witnessing a slowdown in European business and CAIL assumes that EVs would get adopted in the European market, though at a slower pace compared to initial expectations. The EV business in Europe is expected to slow down in CY24 due to the elimination of subsidies in certain countries like Germany. Furthermore, the delay in the new Euro 7 norms until mid-CY27 has led the OEMs to slow down their EV programs.

Rise in commodity prices

Sharp increase in commodity prices, especially steel and aluminium, could impact the company’s profitability in the short term.

Foreign exchange risk

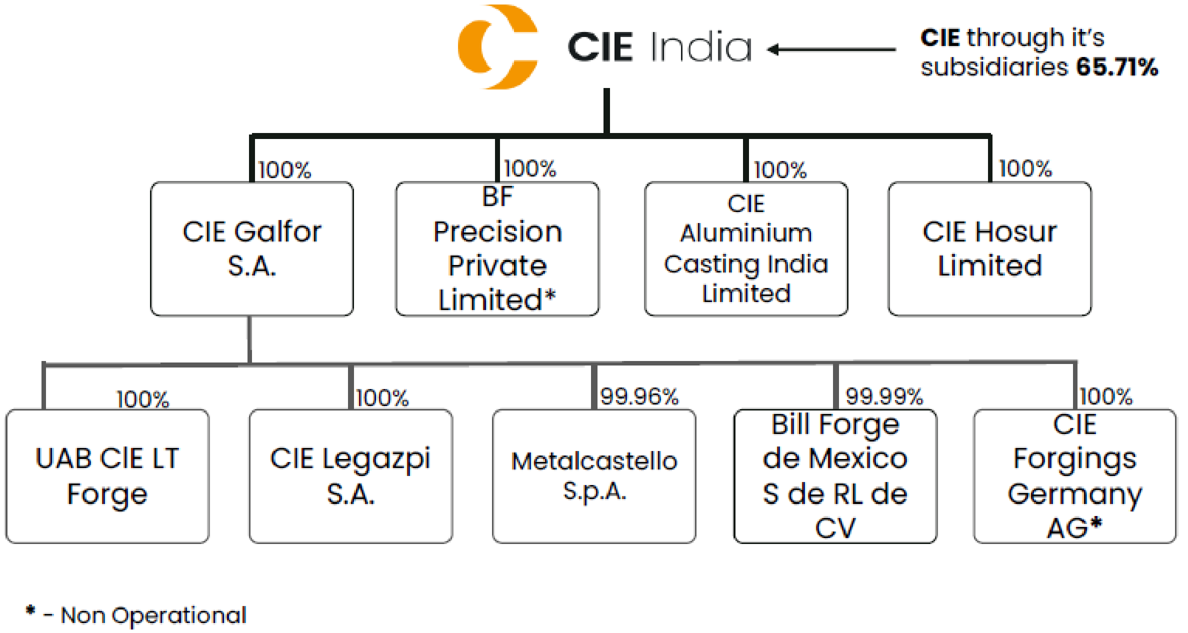
The company derives ~35-40% revenues from its European operations and is looking to increase the share of exports from the current 12-13%. Any adverse movement in forex rates could impact its profits.

Company Background:

CIE Automotive India Ltd. (CAIL) is a multi-locational and multi-technology automotive components company with manufacturing facilities and engineering capabilities in India and in Germany, Spain, Lithuania, and Italy in the Europe as well as a plant in Mexico. It has an established presence in each of these locations and supplies to automotive Original Equipment Manufacturers (OEMs) and their Tier 1 suppliers. Apart from its strong presence in forgings, CAIL is also among the largest ductile iron casting and compression moulded auto components manufacturers in India.

It is part of the global auto component player, CIE Automotive Group, based out of Spain. CAIL was earlier known as Mahindra Forgings Ltd (part of Mahindra Systech Division) and was later renamed, following the integration of the Mahindra Group's Systech business with CIE's operations, which was announced in 2013. Mahindra Systech, a division of Mahindra & Mahindra, was created in 2004 to capitalise on the opportunities presented by the growth of the Indian automobile component industry. The Systech auto component division (comprising multiple companies - listed and unlisted) encompassed products across forgings, stampings, castings, gears, magnetic products and composites. Under CIE's parentage, CAIL has been able to improve its efficiencies, cut costs, and improve profitability.

Company structure



(Source: Company, HDFCsec)

CAIL has 31 manufacturing facilities including 8 manufacturing facilities in Europe and 1 in Mexico. The manufacturing locations are generally located close to major automotive manufacturing hubs to facilitate supplies to customers. CAIL largely operates in the automotive markets of Europe and India. In Europe, CAIL supplies components mainly to the light vehicles and heavy truck markets with a comparatively small business in the off-road sector. In India, CAIL is more diversified and supplies components to the light vehicles segment (both passenger vehicles and light commercial vehicles), two wheelers, tractors, medium and heavy commercial vehicles, in order of dependence.

In May’23 M&M sold its stake in the company. As of Mar’24, CIE group holds 65.7% stake in the company.

Financials

Income Statement

(Rs cr)	CY21	CY22	CY23	CY24E	CY25E
Net Revenues	**8,387**	**8,753**	**9,280**	**9,794**	**10,609**
Growth (%)	***38.6***	***4.4***	***6.0***	***5.5***	***8.3***
Operating Expenses	7,369	7,581	7,856	8,266	8,869
EBITDA	**1,017**	**1,172**	**1,424**	**1,528**	**1,740**
Growth (%)	***102.8***	***15.2***	***21.5***	***7.3***	***13.9***
EBITDA Margin (%)	***12.1***	***13.4***	***15.3***	***15.6***	***16.4***
Depreciation	343	296	322	363	389
Other Income	56	58	82	113	101
EBIT	**730**	**934**	**1184**	**1278**	**1452**
Interest expenses	53	23	107	93	65
PBT	**664**	**949**	**1076**	**1185**	**1387**
Tax	272	240	278	295	349
PAT	**392**	**709**	**798**	**890**	**1037**
Profit/(Loss) from discontinued oper.	0	-848	328	0	0
Adj. PAT	**393**	**-136**	**1125**	**890**	**1037**
Growth (%)	***269.2***	***-134.7***	***NA***	***-20.9***	***16.6***
EPS	10.4	-3.6	29.7	23.5	27.3

Balance Sheet

As at December (Rs cr)	CY21	CY22	CY23	CY24E	CY25E
SOURCE OF FUNDS					
Share Capital	379	379	379	379	379
Reserves & Surplus	4,818	4,719	5,609	6,271	7,042
Shareholders' Funds	**5,197**	**5,098**	**5,988**	**6,650**	**7,422**
Minority Interest	0	0	0	0	0
Total Debt	1,282	923	803	628	453
Net Deferred Taxes	246	320	324	324	324
Total Sources of Funds	**6,724**	**6,342**	**7,115**	**7,602**	**8,199**
APPLICATION OF FUNDS					
Net Block & Goodwill	6,587	5,547	5,810	5,841	5,882
CWIP	125	119	54	40	20
Investments	438	576	821	971	1,421
Other Non-Curr. Assets	205	299	702	656	642
Total Non Current Assets	**7,355**	**6,541**	**7,387**	**7,508**	**7,965**
Inventories	1,349	1,211	1,163	1,288	1,453
Debtors	669	861	633	805	814
Cash & Equivalents	160	86	239	380	426
Other Current Assets	289	1,221	331	301	326
Total Current Assets	**2,466**	**3,379**	**2,366**	**2,773**	**3,019**
Creditors	1,939	2,135	1,934	1,986	2,035
Other Current Liab & Provisions	1,158	1,443	703	684	740
Total Current Liabilities	**3,097**	**3,578**	**2,637**	**2,669**	**2,775**
Net Current Assets	-630	-199	-272	104	244
Total Application of Funds	**6,724**	**6,342**	**7,115**	**7,602**	**8,199**

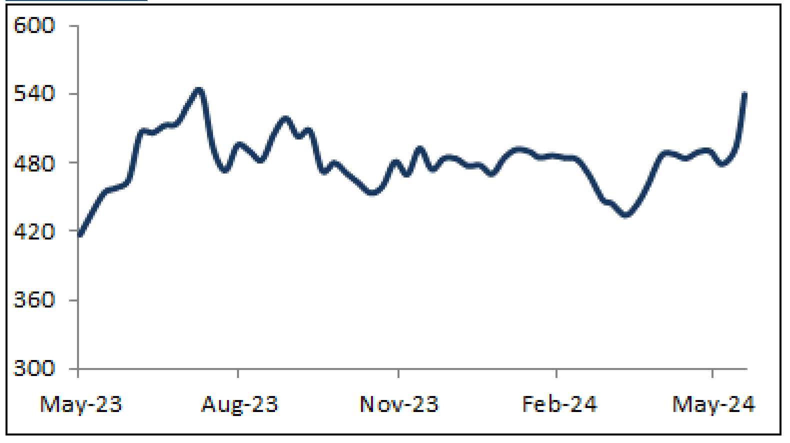
Cash Flow Statement

(Rs cr)	CY21	CY22	CY23	CY24E	CY25E
Reported PBT	665	111	1,076	1,185	1,387
Non-operating & EO items	-38	829	267	56	27
Interest Expenses	49	32	107	93	65
Depreciation	343	354	322	363	389
Working Capital Change	137	-10	-31	-245	-106
Tax Paid	-105	-198	-358	-295	-349
OPERATING CASH FLOW (a)	**1,051**	**1,118**	**1,383**	**1,157**	**1,412**
Capex	-478	-501	-512	-370	-410
Free Cash Flow	573	617	871	787	1,002
Investments	-186	-127	-221	-150	-450
Non-operating income	-99	-11	-176	0	0
INVESTING CASH FLOW (b)	**-763**	**-640**	**-910**	**-520**	**-860**
Debt Issuance / (Repaid)	-279	-306	-208	-175	-175
Interest Expenses	-47	-38	-104	-93	-65
FCFE	-37	135	162	369	312
Share Capital Issuance	1	4	1	0	0
Dividend	0	-95	-95	-228	-266
FINANCING CASH FLOW (c)	**-324**	**-435**	**-406**	**-496**	**-505**
NET CASH FLOW (a+b+c)	**-36**	**44**	**68**	**141**	**47**

Key Ratios

	CY21	CY22	CY23	CY24E	CY25E
Profitability Ratios (%)					
EBITDA Margin	12.1	13.4	15.3	15.6	16.4
EBIT Margin	8.7	10.7	12.8	13.0	13.7
APAT Margin	4.7	-1.6	12.1	9.1	9.8
RoE	31.4	-7.0	41.5	25.7	24.8
RoCE	26.9	30.8	33.1	30.6	30.7
Solvency Ratio (x)					
Net Debt/EBITDA	1.1	0.7	0.4	0.2	0.0
Net D/E	0.2	0.2	0.1	0.0	0.0
PER SHARE DATA (Rs)					
EPS	10.4	-3.6	29.7	23.5	27.3
CEPS	19.4	4.2	38.2	33.0	37.6
BV	137.1	134.4	157.8	175.3	195.6
Dividend	2.5	2.5	5.0	6.0	7.0
Turnover Ratios (days)					
Inventory days	32	34	31	28	29
Debtor days	54	57	49	48	50
Creditors days	78	90	84	77	73
VALUATION (x)					
P/E	52.2	NA	18.3	23.1	19.8
P/BV	3.9	4.0	3.4	3.1	2.8
EV/EBITDA	20.9	17.8	14.3	13.0	11.0
EV/Revenues	2.5	2.4	2.2	2.0	1.8
Dividend Yield (%)	0.5	0.5	0.9	1.1	1.3
Dividend Payout (%)	24.1	-69.6	16.9	25.6	25.6

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400
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ATUL JAGDISH KARWA

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