

CMP: ₹ 485

Target: ₹ 600 (24%)

Target Period: 12 months

BUY

May 6, 2024

Growth delayed not denied, offers healthy CFO yield...

About the stock: CIE Automotive India (CIE), part of the Spain-based CIE Automotive Group, is a multi-technology, multi-product automotive component.

- CY23 consolidated revenue mix –India 63%, Europe 37%. Forging is over 54% of consolidated sales (81% in Europe and 38% in India).

Q1CY24 Results: CIE Automotive India reported muted performance in Q1CY24. Consolidated revenue for the quarter came in at ₹ 2,427 crore, flattish YoY. EBITDA for the quarter stood at ₹ 361 crore with corresponding EBITDA margins at 14.9%, up 30 bps QoQ. PAT in Q1CY24 stood at ₹ 230 crore.

Investment Thesis:

- Focus remains to grow Indian business; drive efficiencies at Europe:** Domestic auto industry has witnessed a remarkable recovery over the past two years with PV space already surpassing its pre-Covid highs in FY23. Even in CV space the cyclical recovery has been robust with industry up ~70% from Covid lows and is close proximity to its pre-Covid highs. The volume recovery in 2-W space, which was lacklustre before, has now picked up pace & is expected to outperform rest of the segments in FY25E amidst impending elections and high base in rest of the segments. CIE with its diversified presence across auto segments in India (PV&LCV form 52% of sales, 2W: 21%, Tractors: 18% and M&HCV: 9% of sales) is well poised to grow with company committed to growth capex in India sensing both organic growth opportunities in India as well as increasing exports play (China+1 theme). At its European operations, the focus is on improving operational efficiencies as it has limited scope of organic growth amidst developed nature of these economies. In this geography, CIE's aim is to consolidate its position in ICE space with new orders win in the EV domain.
- Healthy financial matrix, CFO Yield merit re-rating for CIE Automotive:** On the consolidated basis, Topline/PAT at CIE is expected to grow at a CAGR of 6%, 10% over CY23-25E. EBITDA margins are seen at 15-16% band over CY23-25E with RoCE in similar timeframe pegged at ~15%. Cash flow generation has been the key USP and differentiating factor at CIE with EBITDA to CFO generation at healthy 75%+ with present CFO yield at attractive ~7% levels thereby making PE re-rating imminent for CIE automotive. With controlled capex spend of ~5% of sales, even its FCF yield is lucrative at 5%, providing good margin of safety to our investment thesis.

Rating and Target Price

- We assign BUY rating on CIE Automotive tracking healthy growth opportunities at its Indian operations, focus on margins and efficiencies at its European business, steady margin profile and consistent healthy cash flow generation. Our target for CIE is pegged at ₹ 600 i.e. 24x PE on CY25E



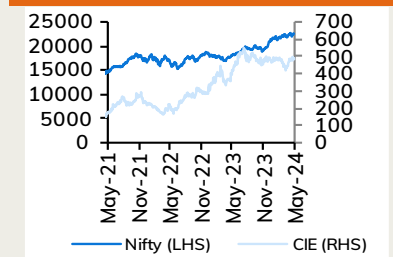
Particulars

Particular	₹ crore
Market Capitalization	18,360
Total Debt (CY23P)	803
Cash & Investments	1,057
EV	18,106
52 week H/L (₹)	580 / 401
Equity capital	₹ 379 Crore
Face value	₹ 10

Shareholding pattern

	June-23	Sep-23	Dec-23	Mar-24
Promoter	65.7	65.7	65.7	65.7
FII	7.5	6.6	5.6	5.1
DII	14.8	15.4	16.0	18.1
Other	12.0	12.3	12.7	11.1

Price Chart



Recent event & key risks

- Reported muted Q1CY24.
- Key Risk: (i) slower than anticipated sales growth at its Indian operations over CY23-25E, (ii) further growth challenges at its European arm amid high exposure to crankshaft as a sub-segment

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Key Financial Summary

Key Financials (₹ crore)	CY20	CY21	CY22	CY23P	5 year CAGR (CY18-23)	CY24E	CY25E	2 year CAGR (CY23-25E)
Net Sales	6,050.1	6,765.2	8,753.0	9,280.4	2.9%	9,667.3	10,380.2	5.8%
EBITDA	501.6	941.7	1,172.1	1,423.9	6.3%	1,450.1	1,608.9	6.3%
EBITDA Margins (%)	8.3	13.9	13.4	15.3		15.0	15.5	
Net Profit	106.4	392.8	(136.1)	1,125.1	17.7%	844.0	967.4	-7.3%
Normalised PAT	106.4	394.6	709.2	798.1	9.9%	843.5	966.8	10.1%
EPS (₹)	2.8	10.4	(3.6)	29.7		22.3	25.6	
P/E	172.5	46.7	(134.9)	16.3		21.8	19.0	
RoNW (%)	2.2	7.7	9.2	14.7		12.8	13.2	
RoCE (%)	2.7	9.4	13.4	15.2		14.6	15.0	

Source: Company, ICICI Direct Research

Q1CY24 Earnings Conference Call Highlights

Indian Operation

- **Industry:** CIE expects the two-wheeler market to grow further due to demand recovery in rural and semi urban regions, whereas the passenger vehicle market is expected to grow at a steady rate.
- **Topline and Margins:** CIE reported a 6% YoY increase in revenue, which was above weighted average market growth of ~4%, supported by growth in light commercial vehicles (LCV) and 2-Wheelers. EBITDA margins came in at 18.7% which includes a one-off subsidy benefit. Excluding the subsidy, EBITDA margins for Indian operation is 17.2%, up by 50 bps YoY.
- **Capex:** In Q1CY24, the overall capex spend was ₹ 100 crores which is less than the its usual capex constituting 5% of sales. However, it expects to recover with additional capex likely to be executed in the coming quarters. Overall growth capex is concentrated more towards India than Europe.
- **Revenue segment and Customers:** The top 3 customers such as M&M, Maruti Suzuki, and Bajaj, contributes ~50% to 55% of sales. Others 10 to 11 customers including Tata Motors, Ashok Leyland, Hyundai, Kia, Bosch each contributes about ~3% to 5% of sales. It has received new orders for Indian operations, particularly EV and export orders, however their execution has been delayed, with expectation for these orders to ramp up by H2CY24. In Q1CY24, it received additional new orders worth more than ₹300 crores per year, which will be executed next year.
- **Others:** CIE anticipates good orders from customers, including the new launches of XUV-3XO and small commercial vehicles (0.8 to 1.5 ton) by Mahindra and Mahindra, largely benefiting gears and stampings. The new SUVs launches by Maruti Suzuki are expected to benefit the crankshaft segment. Additionally, it expects good growth from Bajaj's new products Triumph and CNG bikes.

European Operation

- **Industry:** CIE witnessed a de-growth of 3% in the light vehicle market in Q1 CY24. As per IHS, Europe's light vehicle production is expected to be lower by 2% YoY in CY24. It witnessed a decline of 1% in EV penetration in the European region. However, the Hybrid space has increase by 4% to 5%, while petrol and diesel have declined by 2% each. The new Euro 7 norms have been delayed until mid of 2027, which will slow down the process of electrification in European market.
- **Topline and Margins:** CIE reported a 7% YoY decline in revenue owing to high base effect, with Q1CY23 being an exceptional quarter due to pent up demand sales in Europe. It reported an EBITDA margin of ~16% in Q1CY24 vs ~17.6% in Q1CY23 due to stock correction, low production due to holiday week (easter holidays). However, it aims to normalize EBITDA margins of ~18% in European operation, which was reported in CY23.
- **Others:** Electric Vehicle constitute 40% of the new order books of Europe operation. It has received orders for aluminium forging for EV transmission parts, among others

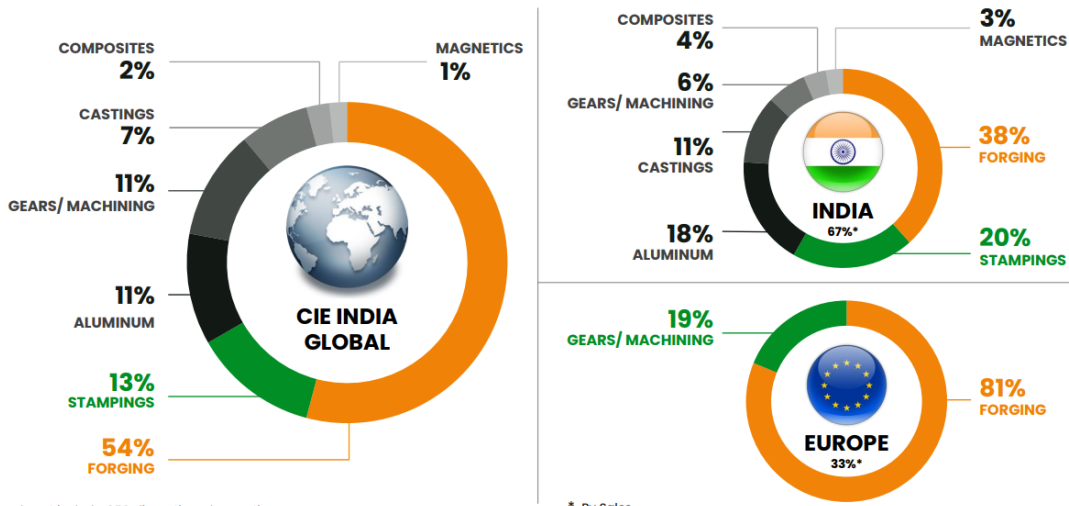
Key Tables and Charts

Exhibit 1: CIE Automotive India – Geography and Overview

CIE INDIA OVERVIEW

GEOGRAPHY AND TECHNOLOGY

CIE India 6



Sales do not include CFG discontinued operations

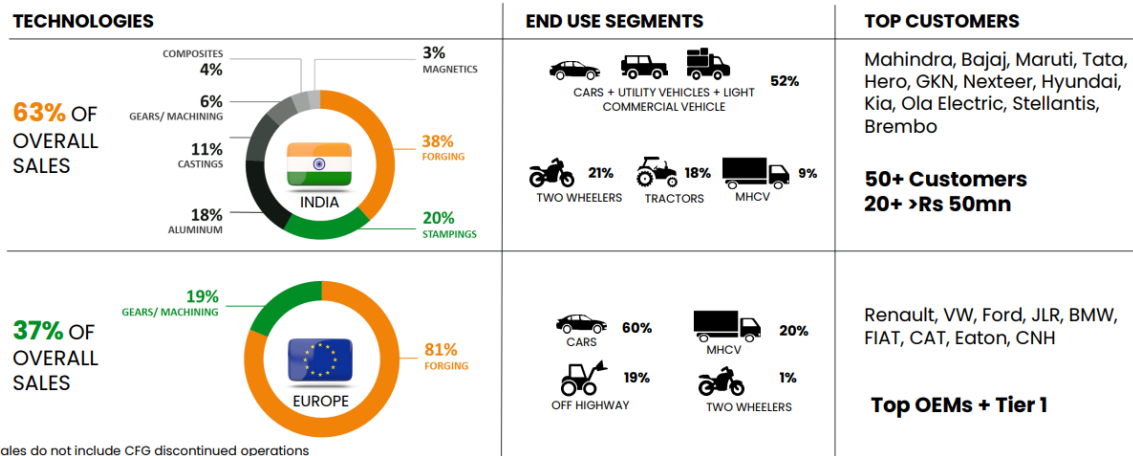
Source: Company, ICICI Direct Research

Exhibit 2: CIE Automotive India – Technologies, End Use Segments, and Top Customers

DIVERSIFICATION

TECHNOLOGIES AND SEGMENTS

CIE India 7



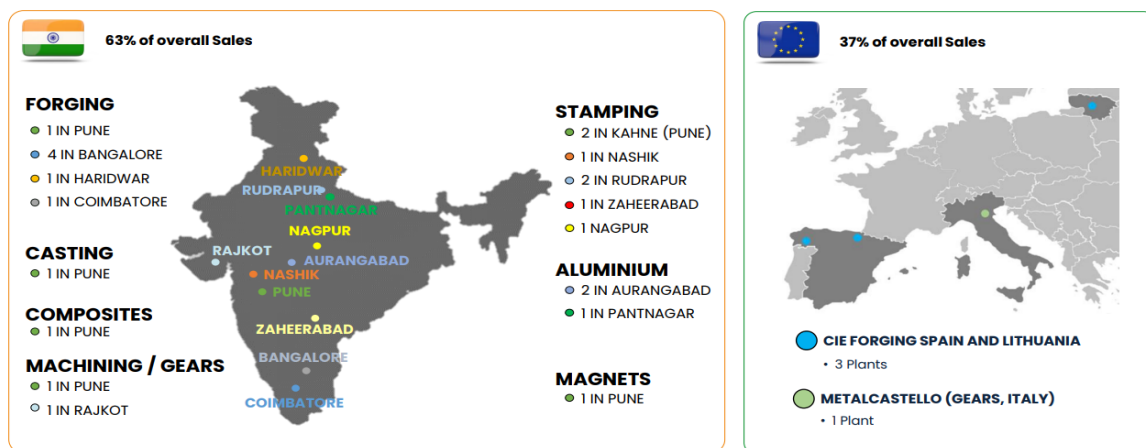
Source: Company, ICICI Direct Research

Exhibit 3: CIE Automotive India - Plant Locations (India and Europe)

CIE INDIA OVERVIEW

PLANT LOCATIONS

CIE India 7



Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	CY22	CY23P	CY24E	CY25E
Total operating Income	8,753.0	9,280.4	9,667.3	10,380.2
Growth (%)	29.4	6.0	4.2	7.4
Raw Material Expenses	4,776.0	4,910.9	5,075.4	5,449.6
Employee Expenses	902.2	994.4	1,015.1	1,089.9
Other Expenses	1,902.8	1,951.2	2,126.8	2,231.7
Total Operating Expenditure	7,581.0	7,856.5	8,217.2	8,771.3
EBITDA	1,172.1	1,423.9	1,450.1	1,608.9
Growth (%)	24.5	21.5	1.8	11.0
Other Income	58.3	82.0	102.9	131.7
Interest	22.7	107.4	58.3	43.3
Depreciation	296.2	322.2	362.5	399.6
PBT	949.3	1076.3	1132.2	1297.7
Total Tax	240.1	278.2	288.7	330.9
PAT before Minority Interest	709.2	798.1	843.5	966.8
Minority Interest	0.0	0.0	0.0	0.0
PAT after Minority Interest	-136.1	1125.1	844.0	967.4
EPS (₹)	-3.6	29.7	22.3	25.6

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	CY22	CY23P	CY24E	CY25E
Profit after Tax (adj.)	786.2	1,125.1	844.0	967.4
Add: Depreciation & Interest	318.9	429.6	420.8	442.9
(Inc)/dec in Current Assets	-986.3	1,165.9	-336.9	-181.7
Inc/(dec) in CL and Provisions	807.5	-1,212.9	212.3	192.9
CF from operating activities	926.3	1507.6	1140.2	1421.5
(Inc)/dec in Investments	126.5	-4.4	-0.6	-3.9
(Inc)/dec in Fixed Assets	-73.4	-470.1	-483.4	-519.0
Others	-709.9	-419.4	73.3	-471.1
CF from investing activities	-656.8	-894.0	-410.6	-994.0
Interest Paid	-22.7	-107.4	-58.3	-43.3
Inc/(dec) in loan funds	-358.3	-120.0	-415.0	-100.0
Dividend paid & dividend tax	-94.6	-189.3	-227.1	-265.0
Others	73.7	237.4	-292.1	-408.2
CF from financing activities	-343.0	-463.0	-700.4	-408.2
Net Cash flow	-73.5	150.7	29.2	19.3
Opening Cash	159.5	86.0	236.7	265.9
Closing Cash	86.0	236.7	265.9	285.2

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	CY22	CY23P	CY24E	CY25E
Liabilities				
Equity Capital	379.3	379.4	379.4	379.4
Reserve and Surplus	4,719.2	5,608.6	6,225.5	6,927.9
Total Shareholders funds	5,098.5	5,987.9	6,604.9	7,307.2
Total Debt	923.3	803.3	388.3	288.3
Minority Interest	0.0	0.0	0.0	0.0
Total Liabilities	6,615.2	7,359.7	7,572.4	8,183.0
Assets				
Gross Block	8,479.8	9,015.7	9,502.7	10,021.7
Less: Acc Depreciation	5,737.1	6,059.3	6,421.8	6,821.4
Net Block	2,742.7	2,956.4	3,080.9	3,200.3
Capital WIP	119.5	53.7	50.0	50.0
Total Fixed Assets	2,862.2	3,010.1	3,130.9	3,250.3
Investments	575.6	820.6	1,020.6	1,470.6
Goodwill	2,804	2,854	2,854	2,854
Inventory	1,210.8	1,162.6	1,324.3	1,421.9
Debtors	860.8	633.1	794.6	853.2
Other current assets	1,221.4	331.3	345.1	370.6
Cash	86.0	236.7	265.9	285.2
Total Current Assets	3,378.9	2,363.7	2,729.9	2,930.9
Creditors	2,135.0	1,934.1	2,118.9	2,275.1
Provisions	54.5	52.4	60.2	64.7
Other Current Liabilities	345.2	354.3	369.1	396.3
Total Current Liabilities	2,534.8	2,340.8	2,548.2	2,736.1
Net Current Assets	844.1	22.9	181.7	194.8
Application of Funds	6,615.2	7,359.7	7,572.4	8,183.0

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	CY22	CY23P	CY24E	CY25E
Per share data (₹)				
EPS	-3.6	29.7	22.3	25.6
Cash EPS	4.2	38.2	31.9	36.1
BV	134.7	158.2	174.5	193.0
DPS	2.5	5.0	6.0	7.0
Cash Per Share	2.3	6.3	7.0	7.5
Operating Ratios (%)				
EBITDA Margin	13.4	15.3	15.0	15.5
PAT Margin	5.4	9.5	8.7	9.3
Inventory days	50.5	45.7	50.0	50.0
Debtor days	35.9	24.9	30.0	30.0
Creditor days	89.0	76.1	80.0	80.0
Return Ratios (%)				
RoE	9.2	14.7	12.8	13.2
RoCE	13.4	15.2	14.6	15.0
RoIC	13.9	15.8	15.2	15.6
Valuation Ratios (x)				
P/E	-134.9	16.3	21.8	19.0
EV / EBITDA	15.9	12.7	12.0	10.5
EV / Net Sales	2.1	2.0	1.8	1.6
Market Cap / Sales	2.1	2.0	1.9	1.8
Price to Book Value	3.6	3.1	2.8	2.5
Solvency Ratios				
Debt/Equity	0.2	0.1	0.1	0.0
Current Ratio	1.3	0.9	1.0	1.0
Quick Ratio	0.8	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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