CIE Automotive India (MAHCIE)

ICICI direct Research

CMP: ₹ 496 | Target: ₹ 625 (26%) | Target Period: 12 months | BUY

August 23, 2023

Conviction Idea

Margins and return ratios shift orbit; poised for re-rating…

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

- CY22 consolidated revenue mix – Europe 36%, India 64%
- Forging is ~59% of consolidated sales (78% in Europe)
- In India, it derives 49%, 23%, 20%, 8% of sales from PV, 2-W, tractors, M&HCV, respectively. In Europe it now derives 75% of sales from PV space.

Investment Thesis:

- **Strategic focus to grow India business; European operations to focus on efficiencies:** Sensing organic growth opportunities in India as well as export potential that it holds CIE has strategically aligned its goals wherein it intends to incur growth capex in India while at the same time focus upon improving operational efficiencies at its European operations. Indian operations are currently recording ~17% EBITDA margins while its European operations post discontinuance of its German forging business and normalisation of power costs have started to clock ~18% EBITDA margin profile. For its European operations on the back of limited scope of organic growth amidst developed nature of these economies and faster transition towards electrification CIE's aim is to consolidate its position in ICE space, win new orders in the EV domain and further work upon operational efficiencies. At its Indian operations, given the developing nature of domestic economy amidst underpenetrated Passenger Vehicle category and cyclical upswing in CV space, steady demand in 2-W & tractor space and growing thrust on exports amidst China+1 trend, CIE is well poised for double digit revenue growth and further improvement in margins amid o/p leverage gains.
- **Strong margins, return ratios, CFO Yield merit PE re-rating for CIE Automotive:** On the consolidated basis, Topline/EBITDA at CIE is expected to grow at a CAGR of 11%, 21.3% over CY22-24E. EBITDA margins are seen improving from 13.4% levels in CY22 to 16% in CY24E. RoCE in the similar timeframe is seen improving from 13.4% to 18.4%. 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 pegged at attractive ~7% thereby making PE re-rating imminent for CIE automotive. CIE also has lean B/S with Debt/Equity at 0.2x as of CY22 with net debt <₹300 crore and is expected to turn net cash positive in CY23E amid broader intent to spend ~5% of sales as capex.

Rating and Target Price

- We assign **BUY** rating on CIE Automotive tracking healthy growth at its Indian operations, efficiencies at bay at its European business, improving margins and return ratios profile and consistent healthy cash flow generation (CFO yield ~7%)
- We also like CIE Automotive amidst its increasing presence with EV-OEM's'
- Our **target price for CIE is ₹625** i.e., 22x P/E on CY24E EPS of ₹ 28.4 per share
- **This is our conviction pick in mid-cap auto ancillary space**

CIE India

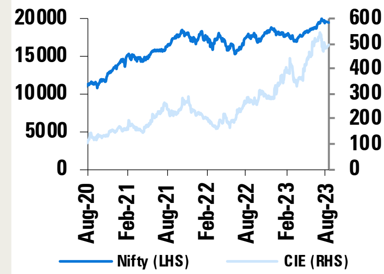
Particulars

Particular	₹ crore
Market Capitalization	18,776
Total Debt (CY22)	923
Cash & Investments (CY22)	662
EV	19,038
52 week H/L (₹)	580 / 250
Equity capital	₹ 379 Crore
Face value	₹ 10

Shareholding pattern

	Sep-22	Dec-22	Mar-23	Jun-23
Promote	75.0	75.0	68.9	65.7
FII	7.3	7.3	8.6	7.5
DII	7.7	7.5	11.2	14.8
Other	10.1	10.3	11.3	12.0

Price Chart



Recent event & key risks

- Posts healthy Q2CY23 Results.
- **Key Risk:** (i) slower than anticipated volume recovery across Indian OEMs limiting organic revenue growth, (ii) lower than anticipated margin recovery and consequent RoCE's

Research Analyst

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ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	CY20	CY21	CY22	5 year CAGR (CY17-22)	CY23E	CY24E	2 year CAGR (CY22-24E)
Net Sales	6,050.1	6,765.2	8,753.0	6.1%	9,883.5	10,781.5	11.0%
EBITDA	501.6	941.7	1,172.1	7.5%	1,559.1	1,725.0	21.3%
EBITDA Margins (%)	8.3	13.9	13.4		15.8	16.0	
Net Profit	106.4	392.8	(136.1)	PL	921.4	1,074.1	LP
EPS (₹)	2.8	10.4	(3.6)		24.3	28.4	
P/E	176.4	47.8	(138.0)		20.4	17.5	
RoNW (%)	2.2	7.7	9.2		15.8	16.1	
RoCE (%)	2.7	9.4	13.4		17.6	18.4	

Source: Company, ICICI Direct Research

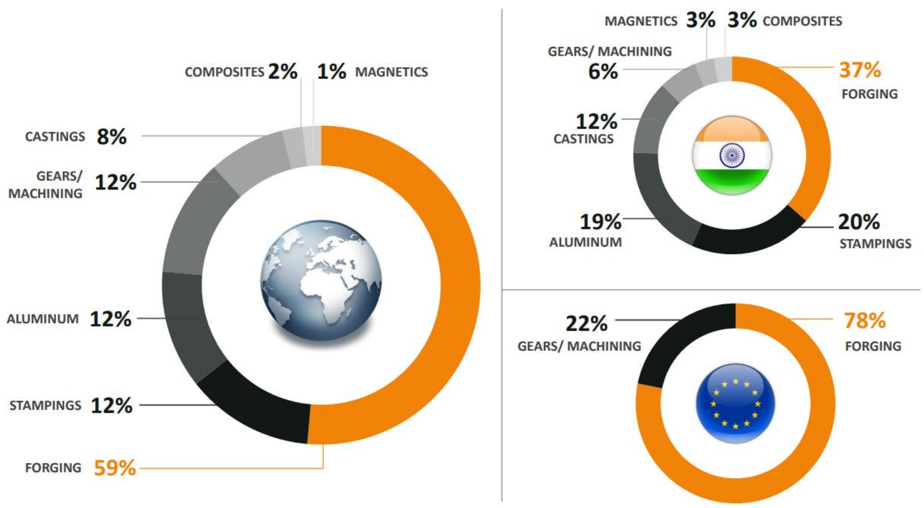
Company Background

- CIE Automotive India Ltd (erstwhile Mahindra CIE) is a multi-technology automotive components supplier & is part of CIE Automotive group of Spain; an industrial group specialised in designing and manufacturing components and subassemblies for the automotive market, which has presence across the globe. Company has 25 plants across India producing variety of products like Crankshafts, Stub axles, turbo chargers housing, axle and transmission parts, aluminium castings, gears, shafts, etc.

- Overall company derived 59%, 12%, 12%, 12% of its sales from forging, stampings, aluminium casting & gears/machining respectively as of CY22. Within India forging, stamping, aluminium casting contributes 37%, 20%, 19% respectively. In Europe company derives 78% from forging & 22% from gears & machining.

Post divestment of its German forging business share of European sales in its total sales is pegged at 36% as of CY22 vs. 49% in CY21. Consequently, share of Indian sales in its total sales has increased from 51% in CY21 to 64% in CY22

Exhibit 1: Segment Mix as of CY22

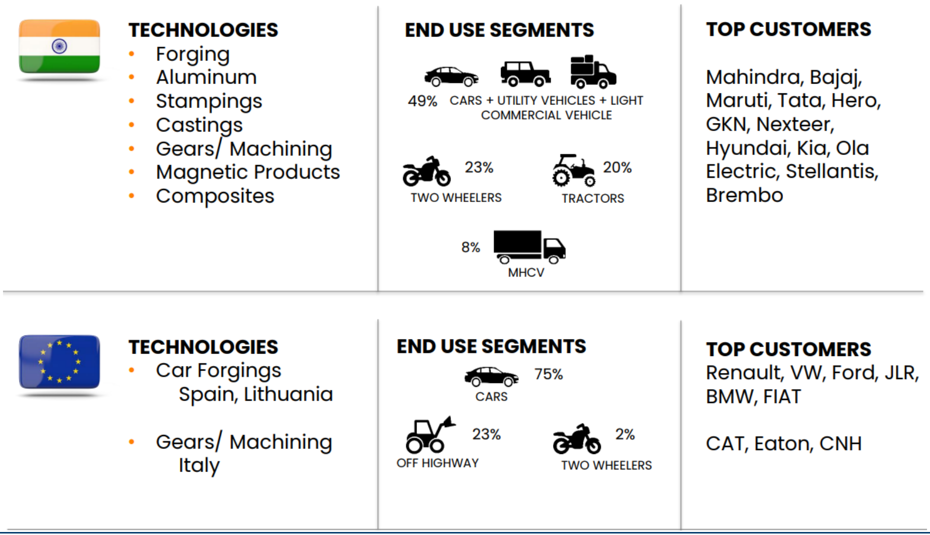


Source: Company, ICICI Direct Research

- Domestically company carter to wide variety of clients across categories (including M&M as its anchor client in PV space). Company derives ~49% from PV, 23% from 2W, 20% from tractor and 8% from M&HCV space respectively in India

- At its European operations, it derives 75% of sales from PV segment.

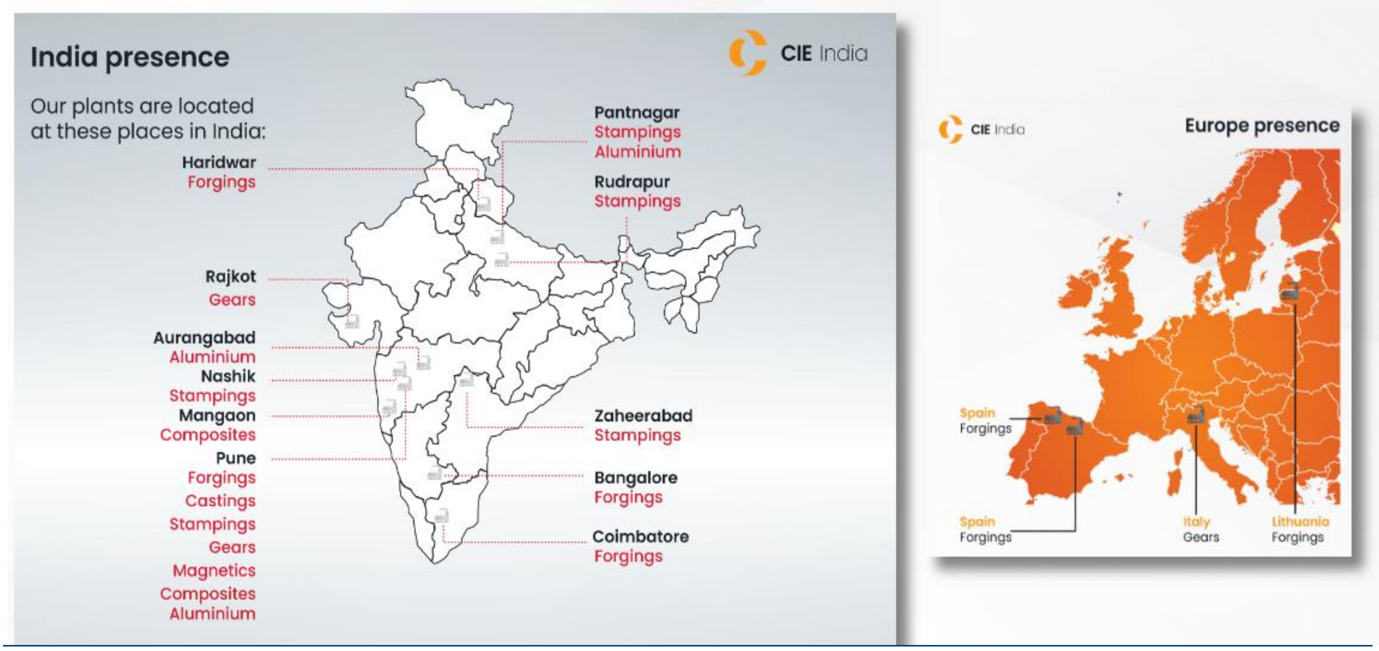
Exhibit 2: End User Mix



Source: Company, ICICI Direst Research

- CIE Automotive India comes across as an auto component (forging) company which is heavy on the PV segment vs. other forging companies which are heavy on the CV front. This is structurally positive for CIE given the underpenetrated PV category domestically and steady demand prospects in PV space in key developed markets. Its exposure to cyclicality of CV space is low thereby providing growth longevity.

Exhibit 3: CIE Automotive India – Plant Locations (India, Europe)



Source: Company, ICICI Direst Research

Exhibit 4: Global Customer List (Alphabetically)

BAJAJ	KOBENSCHMIDT
BOSCH	MAHINDRA
CAT	MAN
DAIMLER	MARUTI
FIAT	NEXTEER
FORD	NIDEC
GKN	NTN
HERO	RENAULT
HYUNDAI	SAF
JLR – TATA	VOLKSWAGEN

Source: Company, ICICI Direst Research

CIE Automotive reported healthy performance in Q2CY23 (Apr-Jun'23 period)

- Consolidated revenue from continuing operations came in at ₹2,320 crores, down 5% QoQ. EBITDA for the quarter stood at ₹371 crores with corresponding EBITDA margins at 16% up 40 bps QoQ. Profit for the quarter (from continuing operations) came in at ₹214 crores, down 3% QoQ. CFO generation in H1CY23 came in robust at ₹ 636 crore with FCF generation healthy at >₹ 300 crore.

- Company's margin performance was commendable wherein margins at the standalone business improved 80 bps QoQ to 16.1% and consolidated margins were up by 40 bps QoQ to 16%. Its European operations reported record EBITDA margins of 19.2% with company guiding for some one-off in these number with core operating margins at ~17%+ and sees them sustaining going forward.

CIE Automotive finds buyer for its German forging arm

- In a regulatory exchange filing CIE informed about executing a share purchase agreement thereby selling its German forging business (intent already expressed and classified as asset held for sale) to Mutares SE & Co KgaA (Mutares) for an Enterprise Valuation of Euros 55.5 million (~₹ 500 crore) i.e. ~5x EV/Adjusted EBITDA

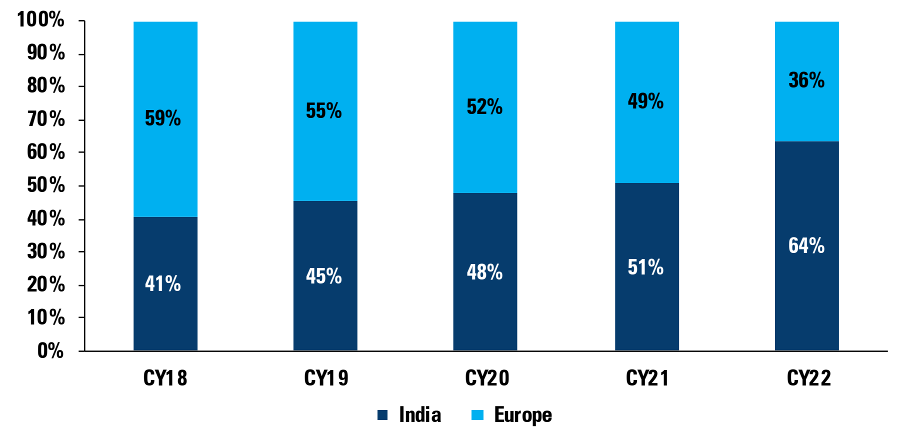
- German forging business was a sizeable business segment at the company at ~20% of topline & ~12% of Networth with subdued profitability in the past leading to company's decision to sell off this part of business. On the valuations front, the sale transaction seems reasonable with net accretion to CIE pegged at Euros 25 million.

Investment Rationale

1. Strategic focus to grow India business; European operations to focus on efficiencies:

CIE management has been quiet vocal in the past on its intent to incur growth capex in India amidst scope for organic growth as well as exports and consolidate as well as drive efficiencies out of its European operations amidst limited growth prospects. Traditionally its Indian operations used to report EBITDA margins to the tune of ~15% while European operations margins were reported at ~12% with improving India share leading to overall improvement in EBITDA margins. CIE sees strong organic growth prospects in India amidst underpenetrated Passenger Vehicle category, government infrastructure spends led cyclical upswing in the CV space and steady 2-W and Tractor demand prospects. India is also being looked as a credible alternate manufacturing hub amid China +1 trend and is gaining ground in exports – an area of focus at CIE. The company is also actively de-risking its existing business product profile by entry into EV products at existing as well as new age OEM's which provides growth longevity. In an interesting move, CIE had expressed intent and recently found buyer for its German forging business excluding which along with normalised power costs, margins at its European operations have meaningfully improved to ~18% (in tandem with CIE's global margins and target) with management commentary suggesting sustaining of it in near future.

Exhibit 5: Revenue mix geographies wise at CIE



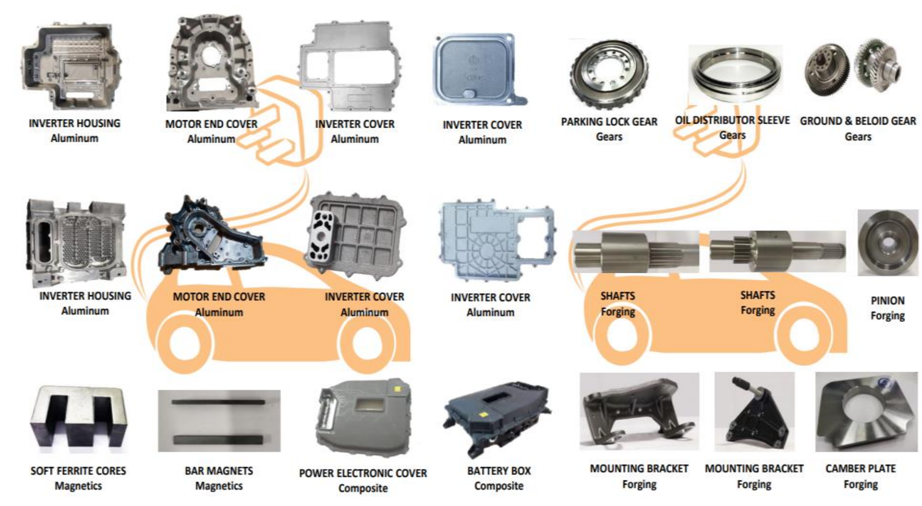
Source: Company, ICICI Direct Research

2. Keeping up on technological trends through new order wins on EV front:

Sensing greater EV transition both domestically as well as globally, CIE has placed its strategic focus on augmenting its play in the EV domain. In the recent Concall it shared that at its Spanish car forging plants, they have orders for steel forging used in battery packs and aluminium forging parts for chassis, while at its Italian plant they had orders from a couple of US OEMs for EV transmission parts. Thus, with strong intent at play to de-risk existing ICE dependent business, we expect CIE to ramp up capabilities, orderbook & sales in EV domain going forward

Notes from the recently held AGM suggest ~35% of company's order book in India and ~40% of the order book in Europe actually comes from EV space

Exhibit 6: EV Product Profile at CIE



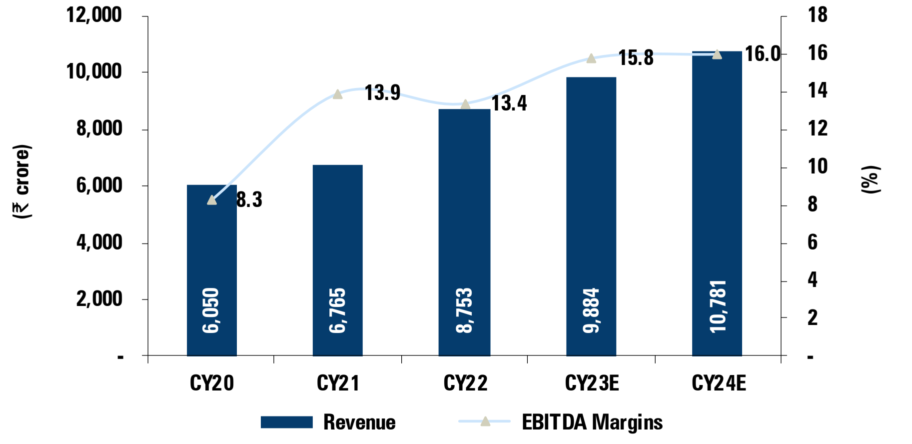
Source: Company, ICICI Direct Research

3. Topline to grow at 11% CAGR over CY22-24E, margins seen improving to 16% mark

On the consolidated basis, Topline/EBITDA at CIE is expected to grow at a CAGR of 11%, 21.3% over CY22-24E. EBITDA margins are seen improving from 13.4% levels in CY22 to 16% in CY24E with ultimate target of improving them to 17-18% (i.e. in line with CIE global). Overall, we expect revenue growth in Indian operations to vastly outperform growth in foreign operations.

MCI is seen posting 11% revenue CAGR over CY22-24E to ₹10,781 crores in CY24E

Exhibit 7: Trend in top line and EBITDA margins



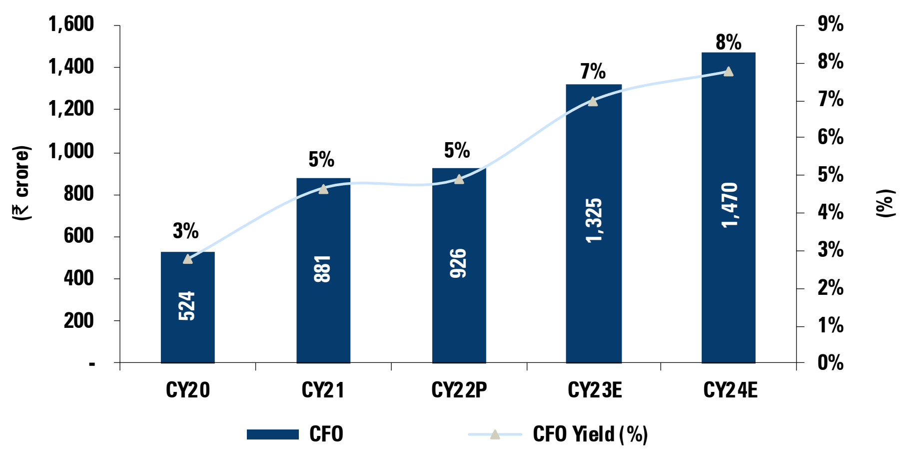
Source: Company, ICICI Direct Research

4. Strong return ratios accompanied by steady CFO Yield & lean B/S:

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 pegged at attractive ~7%. CIE also has lean B/S with Debt/Equity at 0.2x as of CY22 with net debt <₹300 crore and is expected to turn net cash positive in CY23E amid broader intent to spend ~5% of sales as capex. By virtue of CIE realising better margins, RoCE at CIE is seen improving from 13.4% in CY22 to 18.4% in CY24E.

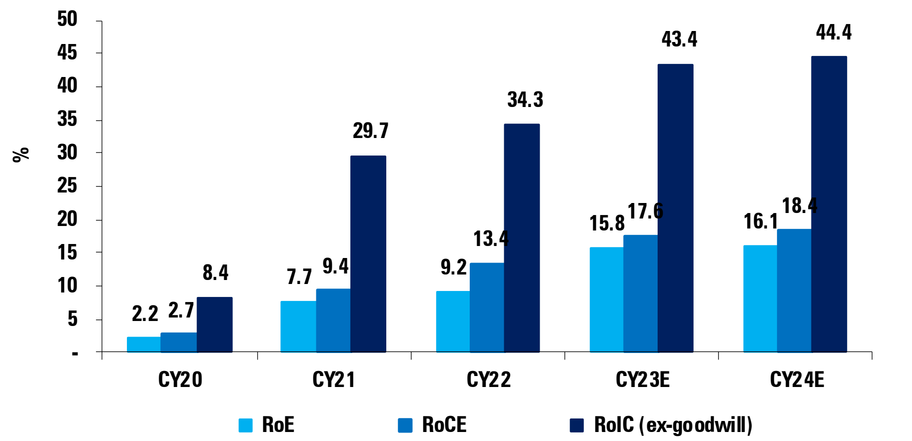
Positive healthy CFO is key positive USP at CIE. Going forward we expect CIE to realise robust CFOs with present CFO yield pegged at ~7%

Exhibit 8: CFO & CFO Yield



Source: Company, ICICI Direct Research

Exhibit 9: Trend in return ratio



RoCE is seen climbing to ~18.4% mark by CY24E. Interestingly, core RoIC at CIE automotive (excluding goodwill) is well above 30% mark as of CY22 and is expected to further improve to 40%+ levels going forward

Source: Company, ICICI Direct Research

Risks and Concerns

Existing business susceptible to EV risk

As part of its current product profile which includes crankshafts, Engine gears and camshafts among others CIE automotive is exposed to EV risk with sizeable part of its product slate becoming obsolete in case of complete transition to EV's in the segments served. To mitigate it, the company is gradually building up its EV order book and is strategically focussing in this space with key new products being motor housing (aluminium), magnets & battery box among others.

Slower than expected domestic OEM volumes limiting the overall topline growth

Indian automobile Sector had a phenomenal run last year with volumes growing higher double digit across all categories in FY23. Total domestic sales were up 21% in FY23 with Passenger Vehicle space growing 27% YoY to 39 lakh units surpassing its pre-Covid peak. Volumes also grew healthy 34% in the Commercial Vehicle space at 9.6 lakh units with this segment well poised for a new high in FY24E. With favorable macro-economics in place and thrust on farm mechanization, tractor sales too reached a new milestone of 9.5 lakh units' sales volume in FY23 (up 12% YoY). Post this high base we expect the volume growth to moderate for the industry in FY24E, growing ~8% on YoY basis. CIE's endeavour is to always outperform OEM volume growth and grow ahead of industry. Any lower than anticipated volume growth at OEM's will limit the overall topline growth at the company and is adverse to our target price calculation.

Adverse raw material prices and rise in other overheads to limit margin recovery

CIE automotive uses metals and their derivatives as key material for manufacturing auto components. The company's operations are also power intensive in nature. Therefore, any unforeseen price movement in metals as well as power costs will adversely affect its profitability in the interim period till the time it is compensated by its clients for the same.

Financial Summary (Consolidated)

Exhibit 10: Profit and loss statement ₹ crore

(Year-end March)	CY21	CY22	CY23E	CY24E
Total operating Income	6,765.2	8,753.0	9,883.5	10,781.5
Growth (%)	11.8	29.4	12.9	9.1
Raw Material Expenses	3,334.7	4,776.0	5,238.3	5,714.2
Employee Expenses	926.3	902.2	988.4	1,078.1
Other Expenses	1,562.5	1,902.8	2,097.8	2,264.1
Total Operating Expenditure	5,823.5	7,581.0	8,324.4	9,056.5
EBITDA	941.7	1,172.1	1,559.1	1,725.0
Growth (%)	87.8	24.5	33.0	10.6
Other Income	46.8	58.3	72.3	84.7
Interest	34.8	22.7	74.5	20.6
Depreciation	273.3	296.2	345.9	377.4
PBT	667.7	949.3	1210.9	1411.8
Total Tax	273.1	240.1	290.6	338.8
PAT before Minority Interest	394.6	709.2	920.3	1,072.9
Minority Interest	0.0	0.0	0.0	0.0
PAT after Minority Interest	392.8	-136.1	921.4	1,074.1
EPS (₹)	10.4	-3.6	24.3	28.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	CY21	CY22	CY23E	CY24E
Profit after Tax (adj.)	392.8	786.2	921.4	1,074.1
Add: Depreciation & Interest	308.1	318.9	420.5	397.9
(Inc)/dec in Current Assets	-299.7	-986.3	465.1	-256.9
Inc/(dec) in CL and Provisions	479.8	807.5	-481.7	255.1
CF from operating activities	880.9	926.3	1325.3	1470.2
(Inc)/dec in Investments	25.0	126.5	-6.2	-4.9
(Inc)/dec in Fixed Assets	-360.1	-73.4	-543.6	-593.0
Others	-119.4	-709.9	-120.6	-166.3
CF from investing activities	-454.6	-656.8	-670.3	-764.2
Interest Paid	-34.8	-22.7	-74.5	-20.6
Inc/(dec) in loan funds	-366.0	-358.3	-350.0	-415.0
Dividend paid & dividend tax	-94.6	-94.6	-189.3	-227.1
Others	-9.5	132.6	0.0	0.0
CF from financing activities	-504.9	-343.0	-613.8	-662.7
Net Cash flow	-78.5	-73.5	41.1	43.3
Opening Cash	238.0	159.5	86.0	127.2
Closing Cash	159.5	86.0	127.2	170.5

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet ₹ crore

(Year-end March)	CY21	CY22	CY23E	CY24E
Liabilities				
Equity Capital	379.1	379.3	379.3	379.3
Reserve and Surplus	4,817.5	4,719.2	5,451.3	6,298.3
Total Shareholders funds	5,196.6	5,098.5	5,830.6	6,677.6
Total Debt	1,281.6	923.3	573.3	158.3
Minority Interest	0.0	0.0	0.0	0.0
Total Liabilities	7,449.9	6,615.2	7,010.3	7,452.7
Assets				
Gross Block	8,401.2	8,479.8	9,042.9	9,685.8
Less: Acc Depreciation	5,440.9	5,737.1	6,083.0	6,460.3
Net Block	2,960.3	2,742.7	2,959.9	3,225.5
Capital WIP	124.7	119.5	100.0	50.0
Total Fixed Assets	3,085.0	2,862.2	3,059.9	3,275.5
Investments	438.0	575.6	675.6	825.6
Goodwill	3,627	2,804	2,804	2,804
Inventory	1,348.6	1,210.8	1,353.9	1,476.9
Debtors	668.7	860.8	1,083.1	1,181.5
Other current assets	289.3	1,221.4	390.7	426.2
Cash	159.5	86.0	127.2	170.5
Total Current Assets	2,466.1	3,378.9	2,954.9	3,255.2
Creditors	1,938.5	2,135.0	2,301.6	2,510.8
Provisions	89.2	54.5	61.6	67.2
Other Current Liabilities	383.7	345.2	389.8	425.2
Total Current Liabilities	2,411.4	2,534.8	2,753.0	3,003.2
Net Current Assets	54.7	844.2	201.9	252.0
Application of Funds	7,449.9	6,615.2	7,010.3	7,452.7

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	CY21	CY22	CY23E	CY24E
Per share data (₹)				
EPS	10.4	-3.6	24.3	28.4
Cash EPS	17.6	4.2	33.5	38.3
BV	137.3	134.7	154.0	176.4
DPS	2.5	2.5	5.0	6.0
Cash Per Share	4.2	2.3	3.4	4.5
Operating Ratios (%)				
EBITDA Margin	13.9	13.4	15.8	16.0
PAT Margin	5.9	5.4	9.3	10.0
Inventory days	72.8	50.5	50.0	50.0
Debtor days	36.1	35.9	40.0	40.0
Creditor days	104.6	89.0	85.0	85.0
Return Ratios (%)				
RoE	7.7	9.2	15.8	16.1
RoCE	9.4	13.4	17.6	18.4
RoIC	9.7	13.9	18.2	19.0
Valuation Ratios (x)				
P/E	47.8	-138.0	20.4	17.5
EV / EBITDA	20.7	16.2	11.9	10.4
EV / Net Sales	2.9	2.2	1.9	1.7
Market Cap / Sales	2.8	2.1	1.9	1.7
Price to Book Value	3.6	3.7	3.2	2.8
Solvency Ratios				
Debt/Equity	0.2	0.2	0.1	0.0
Current Ratio	1.0	1.3	1.0	1.0
Quick Ratio	0.4	0.8	0.5	0.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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