

Q1CY24 EBITDA Inline; Indian Growth Story Remains Intact
Est. Vs. Actual for Q1CY24: Revenue – **INLINE**; EBITDA – **INLINE**; PAT – **BEAT**
Change in Estimates post Q1CY24
CY24E/CY25E: Revenue: -1.6%/-1.9%; EBITDA: -1.6%/-1.9%; PAT: -3.9%/-2.8%

Recommendation Rationale

- **Strong Orderbook to drive outperformance in Indian operations:** Improvement across segments and customers is expected in H2CY24 driven by a strong orderbook, ramp-up of Mahindra's XUV3XO, upcoming launches by Bajaj's CNG 2W and Mahindra' tractor and LCV vehicles. Mahindra, Bajaj and Maruti are anchor investors for the company accounting for 55% of Indian business operations. The company has won orders for Rs 300 Cr annual orders in Q1CY24. We expect the company to report revenue growth of 10% CAGR over CY24-26E in the Indian operations.
- **European Business Outlook:** Post a strong 13% YoY growth in the European PV industry in CY23, the management expects a 2-3% decline in CY24. While the EU market forecast for the medium term is muted, we are optimistic about the CIEAUTO – Metalcastello operations in CY25 (post-US elections) which exhibit higher margins, higher returns, and strong cash flow generation capabilities. We estimate a 4.5% CAGR revenue growth over CY24-26E in the EU business.
- **EV business:** 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. The transition to EVs will hence be more gradual than earlier expected.

Company Outlook & Guidance: The management indicated that the company will continue to outperform the overall industry in India in the medium term and the European businesses to gradually grow in line with industry growth. It maintained long-term EBITDA margin guidance at ~17-18%. CIEAUTO believes in greater business opportunities in India and Mexico than in the stagnant EU market.

Current Valuation: 1-year forward 25xPE (earlier 24x) on Indian and 10x (unchanged) PE on European CY25 EPS.

Current TP: Rs 560/share (earlier Rs 565/share)

Recommendation: Our BUY recommendation is based on long-term growth outperformance in Indian and Mexican operations, led by increased capacities, headroom for operational efficiencies, and a healthy balance sheet. However, due to the near-term headwinds in the European/US business and Slower-than-expected ramp-up in EV Operations, we lower our earnings estimate marginally for CY24/25E.

Valuation & Recommendation

We like CIEAUTO based on its strong execution capabilities. we reiterate our BUY rating on the company and value the company at a 1-year Forward PE multiple of 25x (earlier 24x) on Indian operations (aided by overall industry growth, strong order book and demand-backed capacity expansions) and 10x (unchanged) on moderate European operational earnings for CY25 EPS. Based on this, we arrive at our SOTP-based TP of Rs 560/share (earlier Rs 565/share), implying an upside of 14% from the CMP.

Key Financials (Consolidated)

Year End Dec (Rs Cr)	Q1CY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,427	8.3%	-0.5%	2,393	1.4%
EBITDA	361	10.1%	-5.3%	359	0.4%
EBITDA Margin	14.9%	24 bps	-74 bps	15.0%	-14 bps
Reported Net Profit	230	30.0%	-10.8%	202	13.8%
Reported EPS	6.07	30.1%	4.5%	5.34	13.8%

Source: Company, Axis Securities

(CMP as of 03rd May' 24)

CMP (Rs)	490
Upside /Downside (%)	14%
High/Low (Rs)	578/401
Market cap (Cr)	18,607
Avg. daily vol. (6m) Shrs.	5,90,476
No. of shares (Cr)	37.9

Shareholding (%)

	Sep-23	Dec-23	Mar-234
Promoter	65.70	65.70	65.70
FII	6.61	5.63	5.11
MFs / UTI	14.15	14.72	17.17
Banks / FI	0.00	0.00	0.00
Others	13.54	13.95	12.02

Financial & Valuations

Y/E Dec (Rs Cr)	CY23	CY24E	CY25E
Net Sales	9,280	9,792	10,571
EBITDA	1,424	1,542	1,723
Net Profit	798	916	1,072
EPS (Rs.)	21.0	24.2	28.3
PER (x)	22.4	20.3	17.3
EV/ EBITDA (x)	7.5	6.9	5.6
P/BV (x)	3.0	2.7	2.4
ROE (%)	13.3%	13.5%	13.8%

Change in Estimates (%)

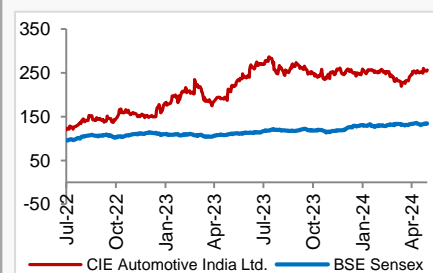
Y/E Mar	CY24E	CY25E	CY26E
Sales	-1.6%	-1.9%	-
EBITDA	-1.6%	-1.9%	-
PAT	-3.9%	-2.8%	-

ESG disclosure Score**

Environmental Score	17
Social Score	12
Governance Score	79
Total ESG Score	36
Sector Average	45

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures.

Relative performance


Source: Ace Equity, AxisSecurities.

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Financial Performance

- **CIEAUTO Q1CY24 consolidated Revenue/EBITDA** were 1.4%/0.4%, marginally above our estimates. The company missed our Indian operations estimates by ~2% while EU operations beat our estimates by 13%. Consolidated EBITDA stood at Rs 361 Cr (inline), down ~5% YoY but up ~10% QoQ. The EBITDA margins came in at 14.9% (inline), down 74bps but up 24bps QoQ. The QoQ improvement was on account of lower personnel and other expenses being partly offset by higher RM costs. The company's Reported PAT stood at ~Rs 230 Cr, down 11% YoY but up ~30% QoQ and beat our estimates by ~14% on account of significantly higher other income.

Outlook

- We are optimistic about the company's growth prospects driven by several factors: (a) Operational Performance and focus on building an EV product portfolio; (b) Healthy orderbook position skewed towards EVs in Europe and steady growth in Indian/Mexican operations; (c) Strong Free Cash Flow (FCF) generation capabilities; (d) Capacity building to meet demand from Indian OEMs. The growth trajectory in EU operations is expected to gradually recover from CY25 as per the management's guidance. Considering these factors, we forecast the company to post consolidated Revenue/EBITDA/PAT CAGR of 8.2%/10.4%/14.5% over CY24-26E.

Key Concall Highlights

- **European Business Performance:** The European light vehicle market experienced a decline of 3% in Q1CY24 following a period of robust growth of 13% YoY in CY23. The management anticipates that European light vehicle production in 2024 will be 2-3% lower than in CY23. Additionally, the slowdown in the USA construction equipment market is expected to pick up towards Q1CY25. Consequently, sales at Metalcastello are anticipated to be adversely affected in CY24, with revenues expected to range between EUR 50-60 Mn, down from EUR 75 Mn in CY23. The management has guided that Q2 in the EU is likely to witness flat market growth.
- **OEM-wise share of business:** Mahindra, Maruti, and Bajaj collectively account for 50% to 55% of the total Indian business. Tata Motors, Ashok Leyland, Hyundai, Kia, and Bosch each contribute in the range of 3% to 5% of sales individually. Additionally, the next 50 customers in India contribute over Rs 1 Cr annually to the top line.
- **Geographical split:** In Q1CY24, India contributed ~62% while Europe contributed ~38% of total continued business operations.
- **Capex and Net Debt:** The management Capex guidance is 5% of the CY24/25E turnover. The said Capex will be for (1) **Composite Business:** Building a new plant and purchasing new machinery; (2) **Stamping Plant:** Adding one new press line that will be ready for commercial production by Jul'24. (3) **Forging Plant:** Adding a new crankshaft machining line.

Key Risks to our Estimates and TP

- **Slowdown in PV, CV, and Tractor:** In Indian Operations, <6 tons (PV+LCV) contributed 52%, Tractors 18%, MHCV 9%, and 2W 21% to the MCIE's total revenue in CY23. We anticipate single-digit growth in PV and CV and a decline in tractor production volumes in CY24. A slower-than-expected recovery in CY25 may impact the company's EBITDA/PAT.
- **Higher interest rate:** The slowdown in the global economy, attributed to inflationary pressure, might compel central banks to maintain higher interest rates for an extended period. Consequently, the heightened cost of capital could impede automotive vehicle consumption, manufacturing, and production.

Change in Estimates

	Revised			Old			% Change		
	CY23A	CY24E	CY25E	CY23A	CY24E	CY25E	CY23A	CY24E	CY25E
Sales	9,280	9,792	10,571	9,280	9,954	10,777	0.0%	-1.6%	-1.9%
EBITDA	1,424	1,542	1,723	1,424	1,568	1,757	0.0%	-1.6%	-1.9%
PAT	798	916	1,072	798	953	1,103	0.0%	-3.9%	-2.8%
EPS	21	24	28	21	25	29	0.0%	-3.9%	-2.8%

Source: Company, Axis Securities

Q1CY24 Results Review

Y/E Dec (Rs Cr)	Q1CY24	Axis Sec Estimates	Variance (%)	Q4CY23	QoQ growth (%)	Q1CY23	YoY growth (%)	Consensus Estimates	% Variance
Net Sales	2,427	2,393	1.4%	2,240	8.3%	2,440	-0.5%	2,420	0.3%
Expenditure									
Net Raw Material	1,290	1,240	4.0%	1,162	11.0%	1,294	-0.3%		
Personnel	262	268	-2.4%	245	6.7%	260	0.6%		
Other Exp	515	527	-2.2%	506	1.8%	506	1.8%		
Total Expenditure	2,066	2,034	1.6%	1,913	8.0%	2,060	0.3%		
EBIDTA	361	359	0.4%	327	10.1%	381	-5.3%	383	-5.9%
EBITDA Margins	14.9%	15.0%	-14	14.6%	24	15.6%	-74	15.8%	
Oth. Inc.	51	26	98.9%	27	93.6%	16	221.5%		
Interest Expense	22	23	-3.2%	30	-27.4%	24	-8.1%		
Depreciation	86	85	1.9%	78	10.6%	83	4.6%		
Share of P/L from Associates	0.4	-0.1	NA	-0.3	NA	0.3	33.3%		
Exceptional Item	-	-	NA	-		38			
PBT	304	277	9.6%	245	23.9%	328	-7.4%		
Tax	74	75	-1.5%	68	8.2%	70	5.1%		
Reported PAT	230	202	13.8%	177	30.0%	258	-10.8%	211	9.3%
Reported EPS (Rs.)	6.1	5.3	13.8%	4.7	30.1%	5.8	4.5%		
Ratios	Q1CY24	Axis Estimates	Bps Change	Q4CY23	Bps Change	Q1CY23	Bps Change		
Gross Profit (Rs cr.)	1,137	1,154	-1.4%	1,078		1,146			
Gross Profit (%)	46.9%	48.2%	-135	48.1%	-128	47.0%	-13		
RM as % of Sales	53.1%	51.8%	135	51.9%	128	53.0%	13		
Staff costs as % of Sales	10.8%	11.2%	-42	10.9%	-16	10.7%	13		
OthExp as % of Sales	21.2%	22.0%	-78	22.6%	-136	20.7%	49		
Tax as a % of PBT	24.3%	27.0%	-274	27.8%	-354	21.4%	289		
Reported Net Profit (%)	9.49%	8.45%	103	7.90%	158	10.58%	-109		

Source: Company, Axis Securities

Financials (consolidated)
Profit & Loss

(Rs Cr)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
Net sales	9,280	9,792	10,571	11,455
Raw materials	(4,911)	(5,117)	(5,465)	(5,911)
Staff costs	(994)	(1,077)	(1,163)	(1,260)
Other expenses	(1,951)	(2,056)	(2,220)	(2,406)
Total expenses	(7,856)	(8,250)	(8,848)	(9,577)
EBITDA	1,424	1,542	1,723	1,879
Depreciation	(322)	(339)	(354)	(357)
EBIT	1,102	1,203	1,369	1,522
Other income	82	108	108	108
Interest expense	(107)	(76)	(28)	(7)
Share of Profit/loss from associates	(0)	1	1	1
Exceptional (expenses)/income	-	-	-	-
Profit before tax	1,076	1,236	1,449	1,623
Tax expense	(278)	(320)	(377)	(422)
Adjusted PAT	798	916	1,072	1,201
Reported PAT	798	916	1,072	1,201
No. of shares	37.9	37.9	37.9	37.9
Reported EPS (Rs/share)	21.0	24.2	28.3	31.7
Adjusted EPS	21.0	24.2	28.3	31.7

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
SHAREHOLDER'S FUNDS				
Equity Share Capital	379	379	379	379
Reserves and Surplus	5,609	6,430	7,407	8,514
Total Shareholders' Funds	5,988	6,809	7,787	8,893
NON-CURRENT LIABILITIES				
Long Term Borrowings	101	81	61	32
Long-Term Finance/Lease Liabilities	34	34	34	34
Long Term Provisions	101	101	101	101
Deferred Tax Liabilities	333	333	333	333
Other LT liabilities	103	103	103	103
Total Non-Current Liabilities	671	651	631	602
CURRENT LIABILITIES				
Short Term Borrowings	702	502	252	52
Short-Term Lease Liabilities	19	19	19	19
Trade Payables	1,934	2,388	2,553	2,348
Other Financial Liabilities	57	57	57	57
Other Current Liabilities	279	279	279	279
Short Term Provisions	52	52	52	52
Current Tax Liabilities	60	60	60	60
Disposal group	-	-	-	-
Total Current Liabilities	3,103	3,356	3,272	2,867
Total Capital And Liabilities	9,762	10,817	11,690	12,362
ASSETS				
NON-CURRENT ASSETS				
Net Tangible Assets	2,813	2,714	2,600	2,483
Capital Work-In-Progress	54	114	174	234
Intangible Assets	2,998	2,998	2,998	2,998
Non-Current Investments	38	38	38	38
Financial Assets	562	562	562	562
Deferred Tax Assets [Net]	9	9	9	9
Income Tax Assets [Net]	43	43	43	43
Other Non-Current Assets	98	98	98	98
Total Non-Current Assets	6,615	6,576	6,522	6,465
CURRENT ASSETS				
Inventories	1,163	1,495	1,613	1,748
Current Investments	781	781	781	781
Trade Receivables	633	926	1,004	1,088
Cash And Cash Equivalents	239	707	1,438	1,949
Other Current Assets	331	331	331	331
Disposal group	-	-	-	-
Total Current Assets	3,147	4,241	5,168	5,897
Total Assets	9,762	10,817	11,690	12,362

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
Cash flows from operating activities				
Profit before tax for the year	1,076	1,236	1,449	1,623
Finance costs	107	76	28	7
Depreciation and amortisation	322	339	354	357
Others	266			
Cash Flow From operation before changes in WC	1,772	1,650	1,831	1,987
Change in operating assets and liabilities:	(389)	(491)	(407)	(846)
Net cash generated by operating activities	1,383	1,159	1,424	1,141
Cash flows from investing activities				
Payments for PPE & IA	(530)	(300)	(300)	(300)
Others	(379)			
Net cash (used in)/generated by investing activities	(910)	(300)	(300)	(300)
Cash flows from financing activities				
Dividends Paid	(95)	(95)	(95)	(95)
Net Proceeds/(Repayment) of LT borrowings	40	(20)	(20)	(29)
Net Proceeds/(Repayment) of ST borrowings	(248)	(200)	(250)	(200)
Interest paid	(104)	(76)	(28)	(7)
Net cash used in financing activities	(427)	(391)	(393)	(330)
Net increase/(decrease) in CCE	46	468	731	511
Opening Cash and cash equivalents	158	210	678	1,409
Effects of exchange rate changes	5	-	-	-
Closing Cash and cash equivalents	210	678	1,409	1,920

Ratio Analysis

(%)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
Operational Ratios				
Sales growth (% YoY)	6.0%	5.5%	8.0%	8.4%
EBITDA growth (% YoY)	21.5%	8.3%	11.7%	9.0%
Net Profit growth (% YoY)	12.1%	14.8%	17.1%	12.0%
EBITDA Margin %	15.3%	15.8%	16.3%	16.4%
Net profit Margin %	8.6%	9.4%	10.1%	10.5%
Efficiency Ratios				
Total Asset Turnover (x)	0.94	0.95	0.94	0.95
Sales/Gross block (x)	1.76	1.74	1.75	1.81
Sales/Net block(x)	3.4	3.5	4.0	4.5
Valuation Ratios				
PER (x)	22	20	17	15
P/BV (x)	3	3	2	2
EV/Ebitda (x)	7.5	6.9	5.6	4.8
EV/Sales (x)	1.15	1.09	0.92	0.78
Dividend Yield (%)	0.53%	0.51%	0.51%	0.51%
FCF Yield (%)	0.54%	0.61%	0.68%	0.53%
Return Ratios				
ROE	13.3%	13.5%	13.8%	13.5%
ROCE	17.6%	17.8%	18.4%	18.1%
ROIC	18.21%	17.28%	17.26%	16.84%
Leverage Ratios				
Debt / equity (x)	0.18	0.12	0.07	0.04
Net debt/ Equity (x)	0.10	0.00	0.00	0.00
Net debt/Ebitda (x)	0.43	0.00	0.00	0.00
Interest Coverage ratio (x)	10.26	15.87	48.55	225.00

Source (CFS, Ratio Analysis): Company, Axis Securities

CIE Automotive India Price Chart and Recommendation History



Date	Reco	TP	Research
10-Apr-23	BUY	475	Initiating Coverage
27-Apr-23	BUY	475	Result Update
02-May-23	BUY	475	Top Picks
01-Jun-23	BUY	535	Top Picks
01-Jul-23	BUY	595	Top Picks
20-Jul-23	BUY	585	Result Update
01-Aug-23	BUY	585	Top Picks
11-Aug-23	BUY	585	Company Update
21-Aug-23	BUY	585	Result Update
18-Aug-23	BUY	585	Result Update
01-Sep-23	BUY	585	Top Picks
03-Oct-23	BUY	585	Top Picks
01-Nov-23	BUY	585	Top Picks
01-Dec-23	BUY	585	Top Picks
01-Jan-24	BUY	585	Top Picks
02-Feb-24	BUY	585	Top Picks
20-Feb-24	BUY	565	Result Update
01-Mar-24	BUY	565	Top Picks
02-May-24	BUY	565	Top Picks
06-May-24	BUY	560	Result Update

Source: Axis Securities

About the Analyst

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