

Navigating Challenges with Strategic Growth in Indian Operations

Est. Vs. Actual for Q3CY24: Revenue – **Miss**; EBITDA – **Miss**; PAT – **Miss**

Change in Estimates post Q3CY24

CY24E/CY25E: Revenue: -7%/-6.9%; EBITDA: -7.3%/-6.9%; PAT: -9%/-7.9%

Recommendation Rationale

- **Indian Business Outlook:** The light vehicles market (<6 tons) largely saw flat volumes YoY in Q3CY24, with the company's Indian operations performing in line with the industry, showing a marginal 1.5% YoY growth. Despite a softened demand environment, given a high base in CY23, the ramp-up of new orders and an increase in EV export orders are expected to support CIEAUTO's Indian operations moving forward. Revenue growth for the Indian segment is projected at a 10% CAGR over CY24-26E.
- **European Business Outlook:** In Q3CY24, EU operations recorded a 19% YoY decline, largely due to a 7% contraction in the light vehicle market. This decline stemmed from uncertainties surrounding EV policy, the anticipated introduction of an emissions tax in January 2025, and increased competition from an influx of Chinese vehicles. Additionally, reduced exports from the Metalcastello division, linked to a slowdown in the US off-highway vehicle market, further impacted performance. We project a 5.5% CAGR revenue growth for the EU business over CY24-26E.
- **EBITDA Margins:** The company has successfully mitigated the impact of declining sales on margins, which fell by 1-2%, through ongoing cost reduction initiatives. These include temporarily halting factory operations one day per week, implementing stricter policies, reducing overtime, and cutting back on the contract workforce. As a result, the company has managed to control costs and sustain profitability. We expect the company to maintain EBITDA margins of 15-16% in CY25/26E.

Company Outlook & Guidance: The management indicated that the company will continue to outperform the overall Indian industry in the medium term, with European businesses expected to remain depressed before gradually recovering in line with industry growth.

Current Valuation: 1-year forward 26xPE (unchanged) on Indian and 8x (earlier 9x) PE on European CY26 EPS (unchanged).

Current TP: Rs 600/share (earlier Rs 650/share)

Recommendation: We maintain our **BUY** rating on the stock.

Financial Performance

CIEAUTO's Q3CY24 revenue declined by 6.4% YoY and 6.9% QoQ. EBITDA was down 8.2% YoY and 4.3% QoQ. The company marginally exceeded our estimates for Indian operations by 2.8% but missed EU operations estimates by ~21%. Consolidated EBITDA was Rs 331 Cr, a 4.2% miss, with EBITDA margins at 15.5% (a 19bps beat), up 33bps YoY but down 22bps QoQ. The YoY improvement was driven by higher gross margins and sustained cost reduction efforts, partially offset by increased other expenses and personnel costs as a percentage of sales. Reported PAT stood at ~Rs 195 Cr, up 4.3% YoY but down ~10% QoQ, missing our estimates by ~2.6% due to lower effective tax rates.

Key Financials (Consolidated)

Year End Dec (Rs Cr)	Q3CY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,135	-6.9%	-6.4%	2,256	-5.4%
EBITDA	331	-8.2%	-4.3%	345	-4.2%
EBITDA Margin	15.5%	-22 bps	33 bps	15.3%	19 bps
Reported Net Profit	195	-10.0%	4.3%	200	-2.6%
Reported EPS	5.14	-10.0%	4.4%	5.27	-2.6%

Source: Company, Axis Securities Research

(CMP as of 25th October 2024)

CMP (Rs)	497
Upside /Downside (%)	21%
High/Low (Rs)	628/401
Market cap (Cr)	18,867
Avg. daily vol. (6m) Shrs.	4,27,309
No. of shares (Cr)	37.9

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	65.7	65.7	65.7
FII's	5.1	5.0	4.3
MFs / UTI	17.2	18.5	19.4
Banks / FIIs	0.0	0.0	0.0
Others	12.0	10.8	10.6

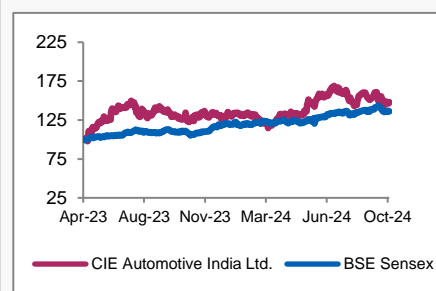
Financial & Valuations

Y/E Dec (Rs Cr)	CY24E	CY25E	CY26E
Net Sales	9,102	9,845	10,742
EBITDA	1,429	1,605	1,762
Net Profit	850	1,006	1,126
EPS (Rs.)	22.4	26.5	29.7
PER (x)	22.2	18.7	16.7
EV/ EBITDA (x)	7.7	6.3	5.3
P/BV (x)	2.8	2.5	2.2
ROE (%)	12.6%	13.1%	13.0%

Change in Estimates (%)

Y/E Mar	CY24E	CY25E	CY26E
Sales	-7.0%	-6.9%	-6.2%
EBITDA	-7.3%	-6.9%	-6.2%
PAT	-9.0%	-7.9%	-7.0%

Relative performance



Source: Ace Equity, AxisSecuritiesResearch.

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Outlook

- We are optimistic about the company's long-term growth prospects in Indian operations. The EU operations are expected to gradually recover from H2CY25, as per management's guidance. Considering these factors, we forecast the company to achieve consolidated Revenue/EBITDA/PAT CAGRs of 5%/7%/12% over CY23-26E.

Valuation & Recommendation

- Our BUY recommendation is based on the long-term growth outlook in Indian and Mexican operations, driven by increased capacities, potential for operational efficiencies, and a healthy balance sheet. However, due to near-term headwinds in the European and US business and a slower-than-expected ramp-up in EV operations, we remain conservative in our earnings estimates for CY25/26E. We favour CIEAUTO for its strong execution capabilities and maintain our BUY rating, valuing it at a 1-year forward PE multiple of 26x for Indian operations (supported by robust 2W growth, recovery in the tractor segment, ramp-up of the export order book, and demand-driven capacity expansions) and 8x (down from 9x) for moderate European operational earnings for CY26 EPS. **Based on this, we arrive at our SOTP-based TP of Rs 600/share (down from Rs 650/share), implying a 21% upside from the CMP.**

Other Key Highlights

- **Geography Split:** The revenue split from the geographies was 71.3% from India and 28.6% from Europe (vs. 37.23% from Europe; 62.77% from India CY23.)
- **European Business Performance:** The management highlighted that, despite a 1% decline in YTD consolidated sales, PAT has recorded a 3.5% growth, driven by operational efficiencies and cost control efforts.
- **Metalcastello:** The slowdown in the US off-road and haulage market has adversely impacted sales at the subsidiary, Metalcastello. This subsidiary continues to face challenges this quarter, with current monthly sales at €4 Mn—representing a 30% decline from the €6 Mn per month achieved during stronger periods. Management remains cautiously optimistic about a recovery much later, projecting customer market improvements post-U.S. elections, likely materializing in Q2/Q3 of CY25.
- **OEM-wise share of business:** Mahindra, Maruti, and Bajaj collectively account for 50% to 55% of the total Indian business. Non-anchor customers, such as Tata Motors, Ashok Leyland, Hyundai, Kia, and Bosch, contribute the remaining share, with none exceeding 10% individually.
- **Exports:** In Q3CY24, exports accounted for 10-11% of Indian operations, down from 13% in previous quarters. This decline was attributed to a general slowdown in the European and American markets. Management indicated that achieving a 15% export rate should be readily attainable in the coming calendar years.

Change in Estimates

- Slower than earlier expected growth in EU and US operations led to a downward revision in the future forecast.

	Revised			Old			% Change		
	CY24E	CY25E	CY26E	CY24E	CY25E	CY26E	CY24E	CY25E	CY26E
Sales	9,102	9,845	10,742	9,791	10,571	11,455	-7.0%	-6.9%	-6.2%
EBITDA	1,429	1,605	1,762	1,542	1,723	1,879	-7.3%	-6.9%	-6.2%
PAT	850	1,006	1,126	935	1,092	1,211	-9.0%	-7.9%	-7.0%

Source: Company, Axis Securities Research

Q3CY24 Results Review

Y/E Dec (Rs Cr)	Q3CY24	Axis Sec Estimates	Variance (%)	Q2CY24	QoQ growth (%)	Q3CY23	YoY growth (%)
Net Sales	2,135	2,256	-5.4%	2,293	-6.9%	2,279	-6.4%
Expenditure							
Net Raw Material	1,105	1,155	-4.3%	1,174	-5.8%	1,247	-11.4%
Personnel	240	271	-11.3%	267	-10.2%	232	3.4%
Other Exp	459	485	-5.4%	491	-6.6%	455	0.9%
Total Expenditure	1,804	1,911	-5.6%	1,933	-6.7%	1,934	-6.7%
EBIDTA	331	345	-4.2%	360	-8.2%	345	-4.3%
EBITDA Margins	15.5%	15.3%	19	15.7%	-22	15.2%	33
Oth. Inc.	24	31	-21.5%	31	-20.8%	20	21.2%
Interest Expense	17	21	-19.9%	21	-19.7%	31	-45.3%
Depreciation	80	85	-6.0%	84	-4.6%	78	1.9%
Share of P/L from Associates	1.9	0.1	1399.2%	0.6	204.7%	-0.2	NA
Exceptional Item	-	-	NA	-	-	-	-
PBT	260	270	-3.8%	287	-9.3%	256	1.6%
Tax	65	70	-7.1%	70	-7.0%	69	-5.6%
Reported PAT	195	200	-2.6%	216	-10.0%	187	4.3%
Reported EPS (Rs.)	5.1	5.3	-2.6%	5.7	-10.0%	4.9	4.4%
Ratios	Q3CY24	Axis Estimates	Bps Change	Q2CY24	Bps Change	Q3CY23	Bps Change
Gross Profit (%)	48.2%	48.8%	-58	48.8%	-58	45.3%	293
RM as % of Sales	51.8%	51.2%	58	51.2%	58	54.7%	-293
Staff costs as % of Sales	11.2%	12.0%	-76	11.7%	-42	10.2%	106
Oth Exp as % of Sales	21.5%	21.5%	0	21.4%	6	20.0%	154
Tax as a % of PBT	25.1%	26.0%	-90	24.5%	62	27.0%	-192
Reported Net Profit (%)	9.12%	8.86%	26	9.44%	-32	8.19%	93

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
Net sales	9,280	9,102	9,845	10,742
Raw materials	(4,911)	(4,733)	(5,090)	(5,543)
Staff costs	(994)	(1,019)	(1,083)	(1,182)
Other expenses	(1,951)	(1,921)	(2,067)	(2,256)
Total expenses	(7,856)	(7,673)	(8,240)	(8,981)
EBITDA	1,424	1,429	1,605	1,762
Depreciation	(322)	(356)	(354)	(357)
EBIT	1,102	1,073	1,250	1,404
Other income	82	134	134	121
Interest expense	(107)	(77)	(29)	(8)
Share of Profit/loss from associates	(0)	4	4	4
Exceptional (expenses)/income	-	-	-	-
Profit before tax	1,076	1,134	1,359	1,521
Tax expense	(278)	(283)	(353)	(396)
Adjusted PAT	798	850	1,006	1,126
Reported PAT	798	850	1,006	1,126
No. of shares	37.9	37.9	37.9	37.9
Reported EPS (Rs/share)	21.0	22.4	26.5	29.7
Adjusted EPS	21.0	22.4	26.5	29.7

Source: Company, Axis Securities Research

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	6,364	7,275	8,306
Total Shareholders' Funds	5,988	6,744	7,655	8,686
NON-CURRENT LIABILITIES				
Long Term Borrowings	101	91	71	42
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	661	641	612
CURRENT LIABILITIES				
Short Term Borrowings	702	502	252	52
Short-Term Lease Liabilities	19	19	19	19
Trade Payables	1,934	2,209	2,378	2,202
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	3,177	3,096	2,721
Total Capital And Liabilities	9,762	10,582	11,392	12,019
ASSETS				
NON-CURRENT ASSETS				
Net Tangible Assets	2,813	2,697	2,583	2,465
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	6,559	6,504	6,447
CURRENT ASSETS				
Inventories	1,163	1,389	1,502	1,639
Current Investments	781	781	781	781
Trade Receivables	633	861	935	1,020
Cash And Cash Equivalents	239	660	1,338	1,800
Other Current Assets	331	331	331	331
Disposal group	-	-	-	-
Total Current Assets	3,147	4,023	4,887	5,571
Total Assets	9,762	10,582	11,392	12,019

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
Cash flows from operating activities				
Profit before tax for the year	1,076	1,134	1,359	1,521
Discontinued operations	380	-	-	-
Finance costs	107	77	29	8
Depreciation and amortization	322	356	354	357
Others	-114	-	-	-
Cash Flow From operation before changes in WC	1,772	1,567	1,743	1,886
Change in operating assets and liabilities:	(389)	(463)	(371)	(793)
Net cash generated by operating activities	1,383	1,103	1,371	1,093
Cash flows from investing activities				
Payments for PPE & IA	(530)	(300)	(300)	(300)
Others	(500)	-	-	-
Proceeds from disposal of PPE	121	-	-	-
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	(10)	(20)	(29)
Net Proceeds/(Repayment) of ST borrowings	(248)	(200)	(250)	(200)
Interest paid	(104)	(77)	(29)	(8)
Net cash used in financing activities	(427)	(382)	(394)	(331)
Net increase/(decrease) in CCE	46	422	677	462
Opening Cash and cash equivalents	158	210	631	1,309
Effects of exchange rate changes	5	-	-	-
Closing Cash and cash equivalents	210	631	1,309	1,770

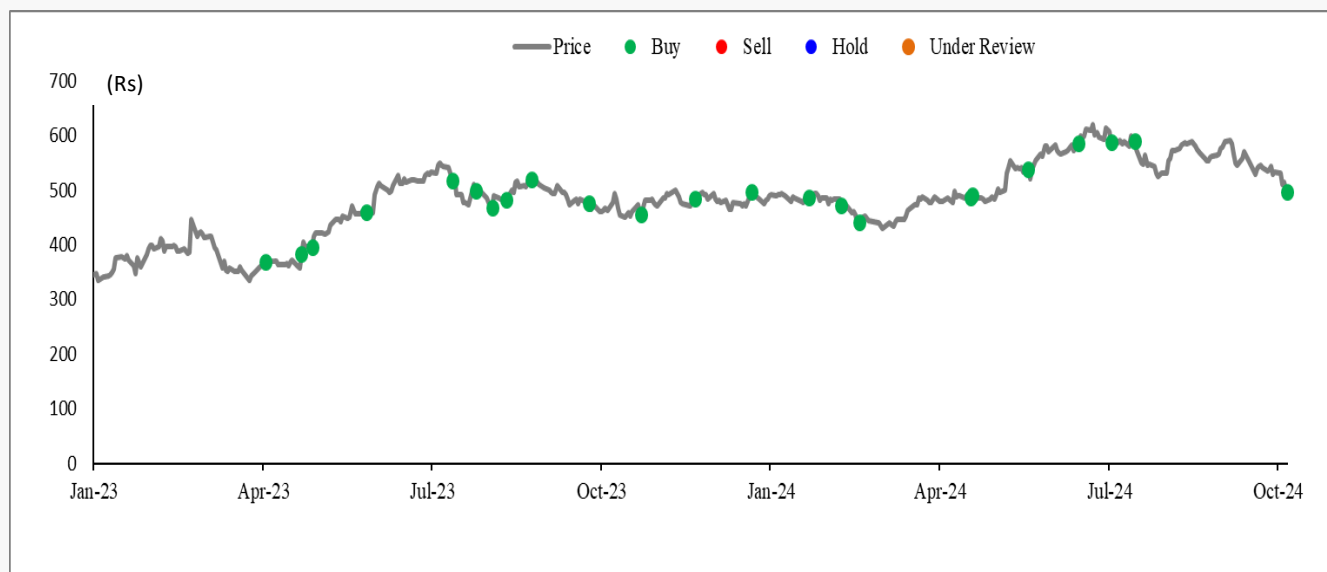
Ratio Analysis

(%)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
Operational Ratios				
Sales growth (% YoY)	6.0%	-1.9%	8.2%	9.1%
EBITDA growth (% YoY)	21.5%	0.4%	12.3%	9.8%
Net Profit growth (% YoY)	12.1%	6.6%	18.3%	11.9%
EBITDA Margin %	15.3%	15.7%	16.3%	16.4%
Net profit Margin %	8.6%	9.3%	10.2%	10.5%
Efficiency Ratios				
Total Asset Turnover (x)	0.94	0.89	0.90	0.92
Sales/Gross block (x)	1.76	1.73	1.63	1.69
Sales/Net block(x)	3.4	3.3	3.7	4.3
Valuation Ratios				
PER (x)	22	22	19	17
P/BV (x)	3	3	2	2
EV/Ebitda (x)	7.5	7.7	6.3	5.3
EV/Sales (x)	1.15	1.21	1.02	0.87
Dividend Yield (%)	0.53%	0.50%	0.50%	0.50%
FCF Yield (%)	0.54%	0.54%	0.61%	0.48%
Return Ratios				
ROE	13.3%	12.6%	13.1%	13.0%
ROCE	17.6%	16.5%	17.5%	17.4%
ROIC	18.21%	15.56%	15.96%	15.86%
Leverage Ratios				
Debt/equity (x)	0.18	0.13	0.08	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	13.91	42.96	185.67

Source: Company, Axis Securities Research.

CIE Automotive India Price Chart and Recommendation History



Date	Reco	TP	Research		Date	Reco	TP	Research
10-Apr-23	BUY	475	Initiating Coverage		01-Mar-24	BUY	565	Top Picks
27-Apr-23	BUY	475	Result Update		02-May-24	BUY	565	Top Picks
02-May-23	BUY	475	Top Picks		06-May-24	BUY	565	Result Update
01-Jun-23	BUY	535	Top Picks		03-Jun-24	BUY	586	Top Picks
01-Jul-23	BUY	595	Top Picks		01-Jul-24	BUY	630	Top Picks
20-Jul-23	BUY	585	Result Update		22-Jul-24	BUY	650	Result Update
01-Aug-23	BUY	585	Top Picks		01-Aug-24	BUY	650	Top Picks
11-Aug-23	BUY	585	Company Update		28-Oct-24	BUY	600	Result 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					

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.