

**Q4CY23 Misses Estimates; Robust Growth Story Remains Intact**
**Est. Vs. Actual for Q4CY23:** Revenue – **MISS**; EBITDA – **MISS**; PAT – **MISS**
**Change in Estimates post Q4CY23**
**CY24E/CY25E:** Revenue -3.9%/-4.4%; EBITDA -3.9%/-5.6%; PAT -2%/-4.4%

**Recommendation Rationale**

**Indian operations likely to outperform underlying industry growth in the medium term:** In Q4CY23, the company's revenue growth in the Indian business was weaker by 3.6% than our estimates. This was owing to a delayed ramp-up in new EV export orders, steel price softening, and a decline in MHCV/Tractor production volumes. However, the management indicated improvement across segments and across customers in CY24 as well as demand-backed Capex. We expect the company to report revenue growth of 9.6% CAGR over CY23-26E in the Indian operations.

**Europe Business:** In Q4CY23, the company's revenue growth in EU business was weaker by 7% than our estimates owing to lower production volume growth, specifically in Western Europe, a drop in the US off-highway market, and delayed ramp-up of orders by customers. While the EU market forecast is muted in the medium term, we are optimistic about the CIEAUTO operations which exhibit higher margins, higher returns, and strong cash flow generation capabilities. We estimate a 5.7% CAGR revenue growth over CY23-26E in the EU business.

**EV business:** Light-weighting and safety concerns will push the industry towards AL castings and composites which are the key focus areas for the management. The management reported that within the total new orders in CY23, electric vehicles (EVs) constitute 73% of the EU Forgings business, 51% in Metalcastello, and 15% in the Indian operation. The transition to EVs requires components with higher precision, closer tolerances and better quality, which will lead to greater opportunities in India (Bill Forge, AEL castings, and Gears division to benefit from export demand).

**Company Outlook & Guidance:** The management indicated that the company will continue to outperform overall industry growth by over 5% in India and European business 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 a stagnant EU market.

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

**Current TP:** Rs 565/share (earlier Rs 585/share)

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

**Financial Performance**

CIEAUTO reported a weak set of numbers. Q4CY23 consolidated Revenue/EBITDA/PAT was 4.8%/11.6%/ 8.9% below our estimates (5.2%/10.9%/14.8% below consensus estimates). The company missed both our internal and consensus revenue estimates primarily due to a slowdown in the EU market, a decline in the US off-highway market, as well as decreased demand in the MHCV/Tractor segments in India. Consolidated EBITDA stood at Rs 327 Cr (up ~12% YoY but down 5.2% QoQ), missing our estimates, largely due to higher other expenses as a percentage of sales. The company's Reported PAT stood at ~Rs 177 Cr, (up ~12.8% YoY but down ~5.2% QoQ) and missed our estimates largely following weaker topline and higher effective tax rates.

**Valuation & Recommendation**

We like CIEAUTO based on its strong execution capabilities and reiterate our BUY rating on the company at a 1-year Forward PE multiple of 24x (unchanged) on Indian operations (aided by overall industry growth 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 565/share (earlier Rs 585/share), implying an upside of 19% from the CMP.

**Key Financials (Consolidated)**

Year End Dec (Rs Cr)	Q4CY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,240	-1.7%	-0.3%	2,353	-4.8%
EBITDA	327	-5.2%	12.0%	370	-11.6%
EBITDA Margin	14.6%	-54 bps	160 bps	15.7%	-113 bps
Reported Net Profit	177	-5.2%	12.8%	194	-8.9%
Reported EPS	4.67	-5.2%	-9.2%	5.13	-9.0%

Source: Company, Axis Securities

 (CMP as of 20<sup>th</sup> Feb' 24)

CMP (Rs)	473
Upside /Downside (%)	19%
High/Low (Rs)	578/332
Market cap (Cr)	17,927
Avg. daily vol. (6m) Shrs.	5,90,476
No. of shares (Cr)	37.9

**Shareholding (%)**

	Jun-23	Sep-23	Dec-23
Promoter	65.7	65.7	65.7
FII's	7.5	6.6	5.6
MF's / UTI	13.6	14.2	14.7
Banks / FI's	0.0	0.0	0.0
Others	13.1	13.5	14.0

**Financial & Valuations**

Y/E Dec (Rs Cr)	CY23	CY24E	CY25E
Net Sales	9,280	9,954	10,777
EBITDA	1,424	1,568	1,757
Net Profit	798	953	1,103
EPS (Rs.)	21.0	25.1	29.1
PER (x)	22.4	18.9	16.3
EV/ EBITDA (x)	7.5	6.4	5.1
P/BV (x)	3.0	2.6	2.3
ROE (%)	13.3%	13.9%	14.0%

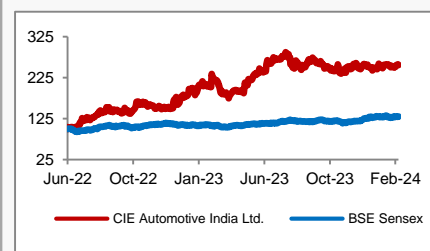
**Change in Estimates (%)**

Y/E Mar	CY24E	CY25E	CY26E
Sales	-3.9%	-4.4%	-
EBITDA	-3.9%	-5.6%	-
PAT	-2.0%	-4.4%	-

**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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## Outlook

- We like the company's growth story driven by (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 FCF generations capabilities, (d) Capacity building to meet demand from India OEMs. The growth trajectory in EU operations is expected to gradually recover from H2CY24 as per the management. Keeping these factors in view, we forecast the company to post consolidated Revenue/EBITDA/PAT CAGR of 8.2%/10.6%/15.8% over CY23-26E.

## Key Concall Highlights

- Indian Business Performance:** As per management, the sales deceleration in Q4CY23 was attributed to a decline in MHCV/Tractors production volumes and delays in order book ramp-up from various OEMs. However, they anticipate that Indian operations will surpass expectations in the future, driven by overall industry growth, demand-backed Capex, and increased orders from OEMs. Moreover, a recovery in 2W demand (from a low base) by CY24 is anticipated to enhance sales of wholly owned subsidiaries - AEL (Aurangabad), Bill Forge (Bangalore), and Magnets (Pune). A 9.6% CAGR revenue growth is expected over CY23-26E in Indian operations.
- European Business Performance:** The weaker Q4CY23 revenue was attributed to rising interest rates, a drop in the US off-highway market, a slowdown in Europe, and adverse macroeconomic conditions. Management anticipates flat industry growth in CY24, with CIE expected to report similar to slightly positive growth compared to the industry. They express confidence in maintaining EBITDA margins through lower energy prices, internal efficiencies, and higher efficiencies. A 5.7% CAGR revenue growth is estimated over CY23-26E in EU operations (at similar commodity levels).
- Exports:** Exports from India now constitute approximately 14% of total Indian Operations, compared to the previous range of 11-12%. Bill Forge and AEL are anticipated to increase production in CY24 in response to customer orders in the EV portfolio. Despite near-term challenges stemming from geopolitical conflicts at the Red Sea, AL castings, gears, and forgings divisions are expected to encounter growth opportunities in the long term.
- Geographical split:** In CY23, India contributed ~63% while Europe contributed ~37% of total continued business operations.
- Capex and Net Debt:** Management Capex guidance is between Rs 250-300 Cr for CY24. The company is cash positive with Rs 820 Cr as a balance.

## Key Risks to our Estimates and TP

- Slowdown in PV, CV, and Tractor:** In Indian Operations, <6 tons (PV+LCV) contribute to 52%, Tractors to 18%, MHCV to 9%, and 2W to 21% of 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 EBITDA/PAT.
- Changing EU Regulatory Norms:** The European Union has set a target of eliminating ICE vehicles entirely by 2035. Forgings business accounted for 81% of EU business in CY23 (previously 50%), exposing MCIE to electrification risk. Approximately 33% of MCIE's sales in CY23 originated from the European market, primarily from its ICE portfolio. The company needs to proactively expand its EV product portfolio to maintain a competitive edge.
- 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	9,954	10,777	9,469	10,353	11,278	-2.0%	-3.9%	-4.4%
EBITDA	1,424	1,568	1,757	1,479	1,631	1,861	-3.7%	-3.9%	-5.6%
PAT	798	953	1,103	851	972	1,153	-6.3%	-2.0%	-4.4%
EPS	21	25	29	22	26	30	-4.4%	-3.3%	-3.0%

Source: Company, Axis Securities

**Q4CY23 Results Review**

Y/E Dec (Rs Cr)	Q4CY23	Axis Sec Estimates	Variance (%)	Q3CY23	QoQ growth (%)	Q4CY22	YoY growth (%)	Consensus Estimates	% Variance
<b>Net Sales</b>	<b>2,240</b>	<b>2,353</b>	<b>-4.8%</b>	<b>2,279</b>	<b>-1.7%</b>	<b>2,247</b>	<b>-0.3%</b>	<b>2,362</b>	<b>-5.2%</b>
<b>Expenditure</b>									
Net Raw Material	1,162	1,259	-7.7%	1,247	-6.8%	1,191	-2.4%		
Personnel	245	254	-3.6%	232	5.6%	236	3.6%		
Other Exp	506	470	7.7%	455	11.2%	527	-4.0%		
Total Expenditure	1,913	1,983	-3.5%	1,934	-1.1%	1,954	-2.1%		
<b>EBIDTA</b>	<b>327</b>	<b>370</b>	<b>-11.6%</b>	<b>345</b>	<b>-5.2%</b>	<b>292</b>	<b>12.0%</b>	<b>367</b>	<b>-10.9%</b>
EBITDA Margins	14.6%	15.7%	-113	15.2%	-54	13.0%	160	15.5%	
Oth. Inc.	27	14	84.9%	20	32.4%	24	8.6%		
Interest Expense	30	34	-10.9%	31	-2.0%	8	282.8%		
Depreciation	78	85	-7.7%	78	-0.3%	77	1.8%		
Share of P/L from Associates	-0.3	-	NA	-0.2	NA	0.4	NA		
Exceptional Item	-	-	NA	-	-	-	-		
PBT	245	266	-7.9%	256	-4.2%	233	5.5%		
Tax	68	72	-5.1%	69	-1.4%	76	-9.8%		
<b>Reported PAT</b>	<b>177</b>	<b>194</b>	<b>-8.9%</b>	<b>187</b>	<b>-5.2%</b>	<b>157</b>	<b>12.8%</b>	<b>208</b>	<b>-14.8%</b>
Reported EPS (Rs.)	4.7	5.1	-9.0%	4.9	-5.2%	5.1	-9.2%		
<b>Ratios</b>	<b>Q4CY23</b>	<b>Axis Estimates</b>	<b>Bps Change</b>	<b>Q3CY23</b>	<b>Bps Change</b>	<b>Q4CY22</b>	<b>Bps Change</b>		
Gross Profit (Rs cr.)	1,078	1,094	-1.5%	1,032		1,056			
Gross Profit (%)	48.1%	46.5%	163	45.3%	283	47.0%	115		
RM as % of Sales	51.9%	53.5%	-163	54.7%	-283	53.0%	-115		
Staff costs as % of Sales	10.9%	10.8%	14	10.2%	75	10.5%	41		
Oth Exp as % of Sales	22.6%	20.0%	262	20.0%	262	23.4%	-87		
Tax as a % of PBT	27.8%	27.0%	80	27.0%	78	32.5%	-470		
Reported Net Profit (%)	7.90%	8.26%	-35	8.19%	-29	6.99%	92		

Source: Company, Axis Securities

**Financials (consolidated)**
**Profit & Loss**

(Rs Cr)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
<b>Net sales</b>	<b>9,280</b>	<b>9,954</b>	<b>10,777</b>	<b>11,750</b>
Raw materials	(4,911)	(5,201)	(5,572)	(6,063)
Staff costs	(994)	(1,095)	(1,186)	(1,292)
Other expenses	(1,951)	(2,090)	(2,263)	(2,467)
<b>Total expenses</b>	<b>(7,856)</b>	<b>(8,386)</b>	<b>(9,021)</b>	<b>(9,823)</b>
<b>EBITDA</b>	<b>1,424</b>	<b>1,568</b>	<b>1,757</b>	<b>1,927</b>
Depreciation	(322)	(339)	(354)	(357)
<b>EBIT</b>	<b>1,102</b>	<b>1,229</b>	<b>1,403</b>	<b>1,570</b>
Other income	82	114	114	108
Interest expense	(107)	(57)	(26)	(5)
Share of Profit/loss from associates	(0)	(0)	(0)	(0)
Exceptional (expenses)/income	-	-	-	-
<b>Profit before tax</b>	<b>1,076</b>	<b>1,285</b>	<b>1,490</b>	<b>1,672</b>
Tax expense	(278)	(332)	(387)	(435)
Adjusted PAT	798	953	1,103	1,237
<b>Reported PAT</b>	<b>798</b>	<b>953</b>	<b>1,103</b>	<b>1,237</b>
No. of shares	37.9	37.9	37.9	37.9
Reported EPS (Rs/share)	21.0	25.1	29.1	32.6
Adjusted EPS	21.0	25.1	29.1	32.6

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
<b>SHAREHOLDER'S FUNDS</b>				
Equity Share Capital	379	379	379	379
Reserves and Surplus	5,609	6,467	7,475	8,617
<b>Total Shareholders' Funds</b>	<b>5,988</b>	<b>6,846</b>	<b>7,854</b>	<b>8,996</b>
<b>NON-CURRENT LIABILITIES</b>				
Long Term Borrowings	101	71	41	12
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
<b>Total Non-Current Liabilities</b>	<b>671</b>	<b>641</b>	<b>611</b>	<b>582</b>
<b>CURRENT LIABILITIES</b>				
Short Term Borrowings	702	502	252	52
Short-Term Lease Liabilities	19	19	19	19
Trade Payables	1,934	2,427	2,603	2,409
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	-	-	-	-
<b>Total Current Liabilities</b>	<b>3,103</b>	<b>3,395</b>	<b>3,321</b>	<b>2,927</b>
<b>Total Capital And Liabilities</b>	<b>9,762</b>	<b>10,883</b>	<b>11,787</b>	<b>12,506</b>
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
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
<b>Total Non-Current Assets</b>	<b>6,615</b>	<b>6,576</b>	<b>6,522</b>	<b>6,465</b>
<b>CURRENT ASSETS</b>				
Inventories	1,163	1,519	1,644	1,793
Current Investments	781	781	781	781
Trade Receivables	633	941	1,023	1,116
Cash And Cash Equivalents	239	733	1,484	2,020
Other Current Assets	331	331	331	331
Disposal group	-	-	-	-
<b>Total Current Assets</b>	<b>3,147</b>	<b>4,307</b>	<b>5,265</b>	<b>6,041</b>
<b>Total Assets</b>	<b>9,762</b>	<b>10,883</b>	<b>11,787</b>	<b>12,506</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
<b>Cash flows from operating activities</b>				
<b>Profit before tax for the year</b>	<b>1,076</b>	<b>1,285</b>	<b>1,490</b>	<b>1,672</b>
Finance costs	107	57	26	5
Depreciation and amortisation	322	339	354	357
Others	266			
Cash Flow From operation before changes in WC	1,772	1,681	1,870	2,034
Change in operating assets and liabilities:	<b>(389)</b>	<b>(505)</b>	<b>(419)</b>	<b>(870)</b>
<b>Net cash generated by operating activities</b>	<b>1,383</b>	<b>1,177</b>	<b>1,452</b>	<b>1,164</b>
<b>Cash flows from investing activities</b>				
Payments for PPE & IA	(530)	(300)	(300)	(300)
<b>Others</b>	<b>(379)</b>			
<b>Net cash (used in)/generated by investing activities</b>	<b>(910)</b>	<b>(300)</b>	<b>(300)</b>	<b>(300)</b>
<b>Cash flows from financing activities</b>				
Dividends Paid	(95)	(95)	(95)	(95)
Net Proceeds/(Repayment) of LT borrowings	18	(30)	(30)	(29)
Net Proceeds/(Repayment) of ST borrowings	(248)	(200)	(250)	(200)
Interest paid	(104)	(57)	(26)	(5)
<b>Net cash used in financing activities</b>	<b>(427)</b>	<b>(382)</b>	<b>(401)</b>	<b>(329)</b>
Net increase/(decrease) in CCE	46	495	751	536
Opening Cash and cash equivalents	158	210	704	1,455
Effects of exchange rate changes	5	-	-	-
<b>Closing Cash and cash equivalents</b>	<b>210</b>	<b>704</b>	<b>1,455</b>	<b>1,990</b>

**Ratio Analysis**

(%)

Y/E Dec	CY23A	CY24E	CY25E	CY26E
<b>Operational Ratios</b>				
Sales growth (% YoY)	6.0%	7.3%	8.3%	9.0%
EBITDA growth (% YoY)	21.5%	10.1%	12.1%	9.7%
Net Profit growth (% YoY)	12.1%	19.5%	15.7%	12.2%
EBITDA Margin %	15.3%	15.8%	16.3%	16.4%
Net profit Margin %	8.6%	9.6%	10.2%	10.5%
<b>Efficiency Ratios</b>				
Total Asset Turnover (x)	0.94	0.96	0.95	0.97
Sales/Gross block (x)	1.76	1.74	1.78	1.85
Sales/Net block(x)	3.4	3.6	4.1	4.6
<b>Valuation Ratios</b>				
PER (x)	22	19	16	15
P/BV (x)	3	3	2	2
EV/Ebitda (x)	7.5	6.4	5.1	4.3
EV/Sales (x)	1.15	1.01	0.84	0.70
Dividend Yield (%)	0.53%	0.53%	0.53%	0.53%
FCF Yield (%)	0.54%	0.64%	0.72%	0.56%
<b>Return Ratios</b>				
ROE	13.3%	13.9%	14.0%	13.8%
ROCE	17.6%	18.5%	18.8%	18.5%
ROIC	18.21%	17.57%	17.58%	17.23%
<b>Leverage Ratios</b>				
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	21.43	53.14	304.06

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

### CIE AutomotivIndia Ltd 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

Source: Axis Securities



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