

# CEAT Ltd

## Replacement demand to continue drive volumes

### View and Valuation – Launching new SKUs for export ramp-up

CEAT 3QFY24 results missed our estimates as ~200bp QoQ contraction in consol gross margins at 41.3% (est 42.8%) surprised negatively. This was led by ~2.5% increase in blended RM basket QoQ, price correction in exports (to be competitive) and unfavorable product mix. On S/A basis, volumes/ASPs fell ~1.7%/-1.4% QoQ. Within sub segments, export/replacement volumes were flattish/+single digit QoQ while OEMs volume degrew. With the recent stability in crude prices, the management indicated RM basket likely to remain flat QoQ. Going forward, focus on high margin segments such as exports and OHT over TBR (though capacity expansion planned) to aid volumes and margins. CEAT has maintained the capex guidance of Rs6-6.5b of project capex in FY24E. Sustained volumes in both OEMs and replacement will enable faster absorption of new capacities and drive operating leverage. This, coupled with price retention should keep margins at elevated level (13-14%). Further, with current capex plan, contribution from focus areas could scale up to 60-62% over FY24-25E, which would reflect positively on margins. We have increase our FY24/25 EPS by 13%/11% to factor in for exports ramp-up and higher blended margins (mix related). However, valuations at 15.2x/14.3x (v/s 10yr LPA of 16x) do factor in positives with limited headroom for muted performance, we believe. Hence, we maintain 'Neutral' on the stock with revised TP at Rs2,982 based on ~15x Mar-26 EPS.

### Result Highlights - Weak gross margins while deleveraging continues

- Consol revenues grew 8.7% YoY (-3% QoQ) at Rs29.6b (est Rs30.8b, cons Rs29.9b). The standalone volume grew 12.5% YoY (-1.7% QoQ) while ASP grew 0.3% YoY (-1.4% QoQ). On YoY basis, replacement/OEM/exports volume grew 11%/9%/25% with >20% growth in 2W/3W, CV and PV (low double digit) and OHT (mid-single digit YoY).
- Consol gross margins contracted ~200bp QoQ (+880bp YoY) at 41.3% (est 42.8%) was led by RM basket increased ~2.5% QoQ, price correction in exports and adverse product mix, partially offset by lower ad spends and cost optimization initiatives. This led to 75.7% YoY (-8.5% QoQ) EBITDA growth at Rs4.17b (est Rs4.4b, cons Rs2.9b) with margins at 14.1% (est 14.3%, cons 13.9%, +530bp YoY/-80bp QoQ). Consequently, consol Adj.PAT came in at Rs1.8b (est Rs1.96b, cons Rs1.7b). Profit from JV came in at Rs81.7m (v/s Rs56.3m in 2QFY24 and loss of Rs61.9m in 3QFY23).
- Consol debt declined to Rs17.3b in 3QFY24 (v/s Rs18.9b in 2QFY24 and Rs23.4b in 3QFY23). Overall capex for 3QFY24 at Rs2.15b leading to overall capex for 9MFY24 at Rs6.05b.
- 9MFY24 performance – Revenue/EBITDA and PAT grew 6%/2.1x and 7.9x at Rs89.5b/Rs12.6b and Rs5.3b.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	29,631	30,870	29,947	-4.0	-1.1	Increase in RM basket by 2.5%, exports price correction and unfavorable mix dented gross margins.
EBITDA	4,175	4,423	4,150	-5.6	0.6	
EBITDA margins %	14.1	14.3	13.9	-20bp	20bp	
Adjusted PAT	1,811	1,963	1,714	-7.7	5.6	

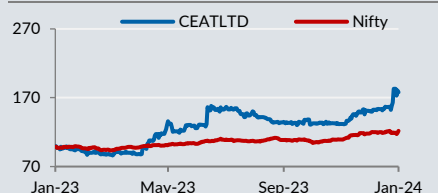
Source: Company, YES Sec

Reco	: <b>NEUTRAL</b>
CMP	: Rs 2,834
Target Price	: Rs 2,982
Potential Return	: +5.2%

#### Stock data (as on Jan 25, 2024)

Nifty	21,353
52 Week h/l (Rs)	2876 / 1357
Market cap (Rs/USD mn)	116341 / 1400
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	836
Div yield (%)	0.5
Bloomberg code:	CEAT IN
NSE code:	CEATLTD

#### Stock performance



	1M	3M	1Y
Absolute return	18.0%	34.8%	78.6%

#### Shareholding pattern (As of Dec'23)

Promoter	47.2%
FII+DII	34.3%
Others	18.5%

#### Δ in stance

(1-Yr)	New	Old
Rating	Neutral	Neutral
Target Price	2,982	2,506

#### Δ in earnings estimates

	FY25E	FY25E
EPS (New)	186	199
EPS (Old)	164	179
% change	13.2%	11%

#### Financial Summary

Y/E MARCH (Rs b)	FY24E	FY25E	FY26E
Sales	122.2	133.2	145.2
EBITDA	16.6	18.0	19.3
Adj. PAT	7.0	7.5	8.0
Adj. EPS (INR)	171.8	186.1	198.8
EPS Gr. (%)	216.5	8.3	6.8
BV/Sh. (INR)	1,002	1,164	1,339
RoE (%)	17.1	16.0	14.8
RoCE (%)	18.6	18.0	17.5
Payout (%)	11.2	10.3	9.7
P/E (x)	16.5	15.2	14.3
P/BV (x)	2.8	2.4	2.1
EV/EBITDA (x)	7.8	7.0	5.9
Div. Yield (%)	0.6	0.6	0.6

#### DEEP SHAH

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## Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q3FY24	Q3FY23	YoY chg	Q2FY24	9MFY24	9MFY23	YoY chg
Net Revenues	29,631	27,272	8.7	30,533	89,516	84,401	6.1
Raw Materials	17,385	17,852	(2.6)	17,298	51,979	56,635	(8.2)
% of Net Sales	58.7%	65.5%		56.7%	58.1%	67.1%	
Personnel	2,172	1,818	19.4	2,177	6,304	5,214	20.9
% of Net Sales	7.3%	6.7%		7.1%	7.0%	6.2%	
Manufacturing & Other Exp	5,899	5,226	12.9	6,498	18,627	16,492	12.9
% of Net Sales	19.9%	19.2%		21.3%	20.8%	19.5%	
Total Expenditure	25,456	24,896	2.3	25,972	76,909	78,341	(1.8)
EBITDA	4,175	2,376	75.7	4,561	12,607	6,060	108.0
EBITDA Margin (%)	14.1%	8.7%		14.9%	14.1%	7.2%	
Depreciation	1,273	1,175	8.4	1,245	3,728	3,440	8.4
EBIT	2,902	1,201	141.6	3,316	8,880	2,620	238.9
Interest Expenses	656	657	(0.2)	717	2,074	1,755	18.2
Non-operating income	29	20	45.5	105	167	146	14.5
Extraordinary Expenses	0	5		0	0	249	
PBT	2,276	560.1	306.3	2,704	6,972	762	815.6
Tax-Total	544	150	263.7	683	1,756	267	557.4
Tax Rate (%) - Total	23.9%	26.7%	(10.5)	25.3%	25.2%	35.1%	(28.2)
Reported PAT	1,731	410	321.8	2,021	5,216	494	955.0
Minority Interest/Share of associates	80	(67)	(218.4)	54	103	(20)	(623.9)
PAT after MI	1,811	343	427.8	2,074	5,319	475	1,020.6
Adj. PAT	1,811	347	422.3	2,074	5,319	674	689.7

Source: Company, YES Sec

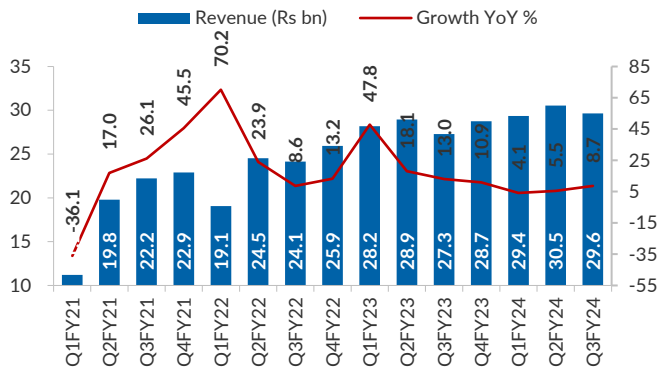
## KEY CON-CALL HIGHLIGHTS

- **Volume offtake** – 3QFY24 volume grew 12.5% YoY as OEM, replacement and exports volume grew. Overall volumes declined ~1.7% QoQ (led by decline in OEM volumes due to seasonality).
  - **Domestic replacement volume grew 11% YoY** led by 2W/3W (>20% YoY), CV, PV (low double digits YoY) and OHT (mid-single digit YoY)....expect the growth momentum to continue in replacement segment.
  - **During 9MFY24**, Scooter segment volumes grew in double-digit, mid-single digit growth in PCR, MC and TBR. Expect the growth trend to continue in similar range.
  - **OEM volume grew 9% YoY** – led by 2Ws and CVs while PCR volumes impacted led by small size exits. Gradually ramping up higher rim sizes.
  - **Exports volume grew ~25% YoY (mild positive to flat QoQ)**, led by PCR and 2Ws segment while in OHT (tractors subdued) others segment did well. Did see some headwinds in Europe for exports.
    - Exports mix is profit accretive even after recent price corrections.
    - **Outlook** - Headwinds in Europe to continue, to launch 2 categories in US in 1Q (TBR and PCR), Agri in US is doing well on low base, LATAM doing well (across segments), Africa, ME and ASEAN is doing fine. US may restrict import from Thailand market but still no decision is out about the same.
    - Don't expect demand improvement but down stocking has happened for ~2 quarters.
    - Seeing red sea impact mostly on European routes and not so much on LATAM and US markets.
    - **Exports regional mix** – LATAM, ME + Africa, Europe are large markets for CEAT while US and SE Asia is small. Expect US to be as big or bigger post launch of new production.
    - YTD value growth is 14%.
  - **Exports positioning vs peers** – There is protection for Chinese products in most of the exports markets. CEAT positioning is in value segment. For example, If European brands are at EURO100, Koreans at EUR80, China at EUR40 and Indians are in between China and Koreans.
- **Demand outlook is steady for FY25E** – OEM to be slow growth led by high base in FY24 while expect volume growth in replacement (mid-single digit for industry) and exports segments to continue.
- **Have gained market share domestic replacement** - in PCR at ~16% now vs 11% in FY19. Have gained market share in Scooter QoQ while the same for Motorcycles and TBR were flat.
- **Gross margins contraction of ~200bp QoQ was led by RM basket increased ~2.5% QoQ, price correction in exports and adverse product mix.**
  - Have maintained pricing in the domestic replacement segment while ~70% OEM volumes are indexed for passthrough.
  - Price correction taken in exports (to be competitive).
  - Expect RM basket to be stable QoQ in 4QFY24.
  - Overall EBITDA margins to be in narrow range for coming quarters.
- **Capacity utilization** – overall at 75-80% with higher utilization in TBR (Halol) at 90%.

- **EV – 2W EV** - ~40% market share in OEM including start-up in 2Ws, **4W EV** – work with M&M, MG, PSA and in talks with Tata, BYD, KIA. **CV EV** - Tata, Olectra, VECV, M&M and PMI, **3W EV** – Altigreen, Euler, Evage etc.
- **Sri Lanka operations** – normalization of macro-economic situations leading to volume recovery.
  - SL operation reported strong growth in revenue and PAT.
  - SL currency is stabilized with positive biased towards appreciation.
- **Distribution** - Exclusive stores increased from 340 in FY21 to 550 by FY24E. Sales touchpoints increased to ~55k in 2 years.
- **Capex expected at Rs8-8.25b for FY24E (including Rs2b maintenance capex) and Rs10b for FY25E** – all expansion projects are on track. Spent Rs2.15b (Rs6.05b in 9MFY24) in 3QFY24. WC went down by ~Rs1.11 led by improvement in receivables and enlarge payables. WC remain negative at ~Rs2.5b.
  - **Project capex in FY24** – 2W (Nagpur), PCR (Chennai), Specialty tyres.
  - Capex of ~Rs52b is approved in past 4-5 years of which of which have spent ~Rs40b.
  - TBR (Halol) – Commissioned and completed, 2W (Nagpur) – only Rs300m remaining of Rs5.2b capex incurred, PCR (Chennai) – Committed Rs20.6b of which ~Rs2 yet to be spent, TBR – have announced Rs7b of which Rs2.5-2.6b completed and expect the balance to complete by end of 2QFY25E, Speciality – increasing capacity from 95tpd to 105tpd to 155tpd (the project will be over by end of FY25E).
- **Consol Debt** – Overall debt declined to Rs17.29b (v/s Rs18.9b in 2QFY24). Expect debt to be stable QoQ (with biased towards reduction). Gross debt declined ~Rs6.2b in last 12 months.
- **Tesla** – have installed CEAT sport drive (premium super luxury range) tyres in Dubai.
- **New product launch** –
  - **CEAT motorcycle steel radial in premium 2W segment.** Will cover entire range till 1000CC super bikes. ~3% of market is top end where OEMs off-take have started (currently mostly imported).
- **Other highlights**
  - Natural rubber – alternate source account for ~24% for procurement.
  - B2C channel account for ~8% sales of PCR.
  - Tyre rolling resistance is reduced by ~10%.
  - Have ~700 SKUs now and will expand to 1000+ SKUs. Have launched ~150 SKUs in 9MFY24. Have launched tyres for forestry etc.
  - Have filled ~160 patents of which ~33 patents have been granted.

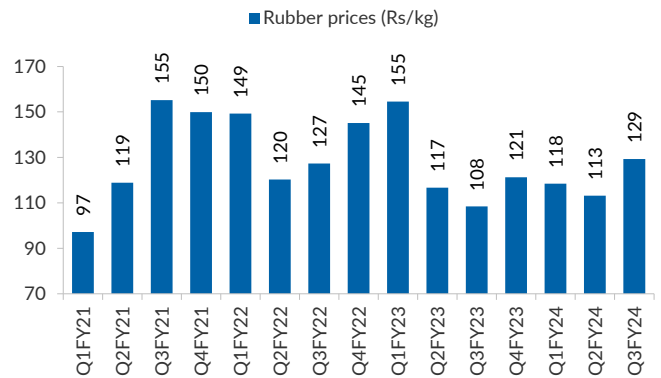
## CHARTS

**Exhibit 1: 3Q revenue recorded at Rs29.6b (-3% QoQ)**



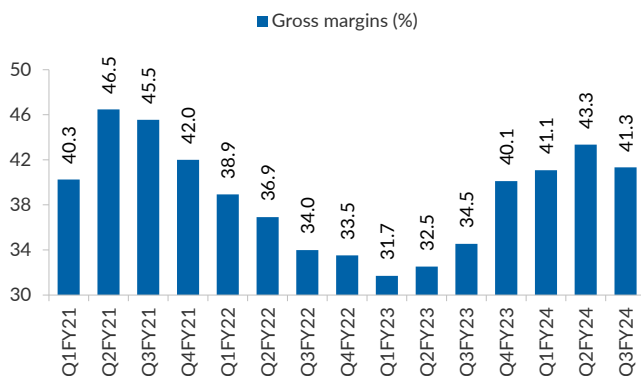
Source: Company, YES Sec

**Exhibit 2: NR prices grew by 14.2% QoQ to Rs129/kg**



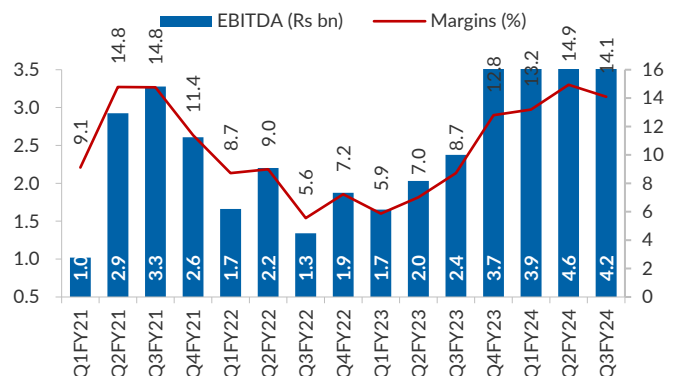
Source: Bloomberg, YES Sec

**Exhibit 3: 3Q GM contracted by 200bps QoQ at 41.3%**



Source: Company, YES Sec

**Exhibit 4: EBITDAM contracted 80bp QoQ at 14.1%**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 5: Balance Sheet**

Y/E March (Rs m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	405	405	405	405	405	405
Total Reserves & other equity	32,991	32,559	34,166	40,135	46,683	53,741
Net Worth	33,395	32,964	34,570	40,540	47,087	54,146
Deferred Liabilities	4,116	4,491	5,196	5,296	5,396	5,496
Total Loans	15,837	22,800	23,466	17,383	18,300	18,300
Capital Employed	53,348	60,255	63,232	63,218	70,782	77,941
Gross Block	58,732	67,748	79,307	88,082	98,082	98,082
Less: Accum. Deprn.	11,097	14,456	19,149	24,217	29,691	35,603
Net Fixed Assets	47,634	53,292	60,158	63,864	68,390	62,478
Capital WIP	7,929	8,759	5,961	-	-	-
Total Investments	2,101	1,792	1,696	1,716	1,738	1,763
Curr. Assets, Loans&Adv.	24,968	29,076	28,961	33,527	39,432	55,557
Inventory	11,299	13,096	11,378	11,718	12,772	13,922
Account Receivables	9,216	11,543	13,070	16,070	17,517	19,093
Cash and Bank Balance	431	363	719	2,445	6,099	19,748
Loans and Advances	-	-	-	-	-	-
Others	4,022	4,074	3,794	3,294	3,044	2,794
Curr. Liability & Prov.	29,284	32,663	33,543	35,889	38,778	41,857
Account Payables	18,395	21,576	21,871	23,436	25,545	27,844
Provisions	1,541	1,680	1,917	1,942	1,967	1,992
Others	9,348	9,407	9,756	10,511	11,266	12,021
Net Current Assets	(4,316)	(3,587)	(4,583)	(2,362)	654	13,700
Appl. of Funds	53,347	60,255	63,232	63,218	70,782	77,941

Source: Company, YES Sec

## Exhibit 6: Income statement

Y/E March (Rs m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	76,096	93,634	113,149	122,201	133,199	145,187
Change (%)	12.3	23.0	20.8	8.0	9.0	9.0
EBITDA	9,830	7,098	9,738	16,596	17,970	19,303
Margin (%)	12.9	7.6	8.6	13.6	13.5	13.3
Depreciation	3,396	4,352	4,693	5,069	5,474	5,912
EBIT	6,433	2,746	5,045	11,528	12,496	13,391
Int. and Finance Charges	1,755	2,070	2,421	2,736	2,955	3,191
Other Income - Rec.	138	114	169	203	224	246
PBT bef. EO Exp.	4,816	790	2,793	8,995	9,765	10,446
EO Expense/(Income)	341	129	334	334	334	334
PBT after EO Exp.	4,476	661	2,459	8,661	9,430	10,112
Tax	516	243	718	2,165	2,358	2,528
Tax Rate (%)	11.5	36.7	29.2	25.0	25.0	25.0
Reported PAT	3,960	418	1,742	6,496	7,073	7,584
PAT Adj	4,661	841	2,196	6,951	7,529	8,040
Change (%)	78.5	(82.0)	161.1	216.5	8.3	6.8

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

Y/E March (Rs m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
NP/ (Loss) bef Tax and EO	4,476	661	2,793	8,995	9,765	10,446
Depreciation	3,396	4,352	4,693	5,069	5,474	5,912
Interest & Finance Charges	1,755	2,070	2,421	2,736	2,955	3,191
Direct Taxes Paid	(460)	133	(13)	(2,065)	(2,258)	(2,428)
(Inc)/Dec in WC	4,516	(736)	485	(1,775)	(392)	(427)
Others	(106)	(291)	1,144	121	122	122
CF from Operations	13,577	6,189	12,055	14,026	16,361	17,512
(inc)/dec in FA	(6,395)	(9,587)	(8,791)	(2,814)	(10,000)	(0)
Free Cash Flow	7,182	(3,398)	3,264	10,878	6,027	17,178
(Pur)/Sale of Investments	214	143	299	(20)	(22)	(25)
CF from Investments	(6,181)	(9,444)	(8,492)	(2,834)	(10,022)	(25)
(Inc)/Dec in Debt	(5,677)	5,821	(979)	(6,083)	917	-
Interest Paid	(1,628)	(1,944)	(2,093)	(2,736)	(2,955)	(3,191)
Dividend Paid	(4)	(746)	(126)	(647)	(647)	(647)
CF from Fin. Activity	(7,309)	3,132	(3,197)	(9,466)	(2,685)	(3,838)
Inc/Dec of Cash	87	(123)	366	1,392	3,320	13,315
Add: Beginning Balance	274	361	238	719	2,445	6,099
Closing Balance	361	238	603	2,111	5,765	19,414

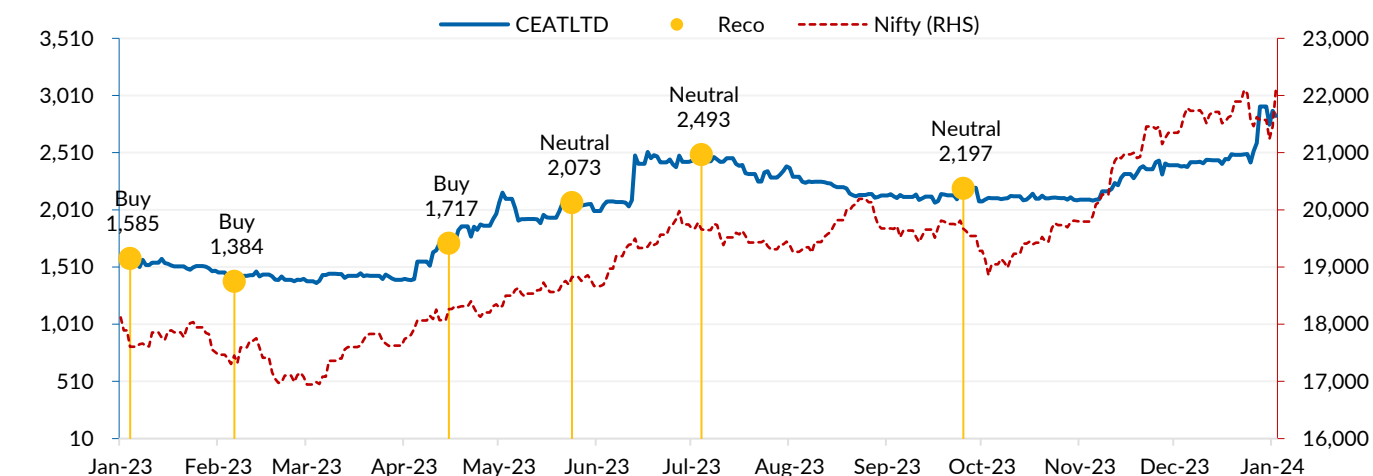
Source- Company, Yes Sec

**Exhibit 8: Growth and Ratio matrix**

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>						
EPS	115.2	20.8	54.3	171.8	186.1	198.8
Growth (%)	78.5	(82.0)	161.1	216.5	8.3	6.8
Cash EPS	199.2	128.4	170.3	297.1	321.4	344.9
BV/Share	825.6	814.9	854.6	1,002.2	1,164.1	1,338.6
DPS	18.0	3.0	12.0	16.0	16.0	16.0
Payout (%)	19.4	19.6	30.0	11.2	10.3	9.7
<b>Valuation (x)</b>						
P/E	24.6	136.3	52.2	16.5	15.2	14.3
Cash P/E	14.2	22.1	16.6	9.5	8.8	8.2
P/BV	3.4	3.5	3.3	2.8	2.4	2.1
EV/Sales	1.7	1.5	1.2	1.1	1.0	0.8
EV/EBITDA	13.2	19.3	14.1	7.8	7.0	5.9
Dividend Yield (%)	0.6	0.1	0.4	0.6	0.6	0.6
<b>Return Ratios (%)</b>						
EBITDA Margins (%)	12.9	7.6	8.6	13.6	13.5	13.3
Net Profit Margins (%)	6.1	0.9	1.9	5.7	5.7	5.5
RoE	14.0	2.6	6.4	17.1	16.0	14.8
RoCE	12.3	4.7	8.2	18.6	18.0	17.5
<b>Operating Ratios</b>						
Fixed Asset Turnover (x)	1.7	1.9	2.0	2.0	2.0	2.2
Inventory (Days)	53.6	50.4	55.0	55.0	55.0	55.0
Debtor (Days)	44.5	45.2	42.2	50.0	50.0	50.0
Creditor (Days)	88.5	84.5	73.6	77.0	77.0	77.0
Working Capital (Days)	9.6	11.1	5.1	13.0	13.0	13.0
<b>Leverage Ratio (x)</b>						
Current Ratio	0.8	0.8	0.8	0.9	1.0	1.3
Debt/Equity	0.5	0.7	0.7	0.4	0.4	0.3

Source: Company, YES Sec

## Recommendation Tracker



Source - YES Sec



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