

May 03, 2024

RESULT REPORT Q4 FY24 | Sector: Automobile

CEAT Ltd

Guides for healthy volumes in FY25E

View and Valuation – Product mix to partially offset EPR impact

CEAT 4QFY24 missed our estimates as ~100bp QoQ expansion in consol gross margins at 42.3% (est ~41%) was offset by EPR provisions of Rs720m for FY24, higher brand spends (>2%) due to IPL and exports freight. This led to ~5%/~14% EBITDA miss on our/street. The management indicated at prevailing prices, the EPR impact of 1.2-1.4% of domestic sales likely, however co have started engaging with OEMs for price adjustments while for replacement, it would be passed on with price hikes. However, on the positive side, despite TBR price cuts by the industry in 4QFY24, CEAT have maintained pricing in TBR while have taken moderate price hike in PCR and farm with further hike of ~1.5% in Apr'24. With the recent volatility in crude and NR prices, RM basket inflation of 3-4% QoQ expected in 1QFY25E. Going forward, focus on high margin segments such as exports ramp-up (~19% of sales) and OHT to aid volumes and margins. However, we build in revenue growth of ~9% for FY25E (vs guidance of high single to early double digit volume growth) led by moderating growth in OEMs. We have cut our FY25/26 EPS by 6-8% to factor in for EPR hit and RM inflation. Valuations at 14.8x/13.6x (vs 10yr LPA of ~17x) do provide limited upside. Hence, we maintain 'Neutral' on the stock with revised TP at Rs2,803 (vs Rs2,901) based on ~15x Mar-26 EPS.

Result Highlights – FCF highest at ~Rs8.5b in FY24

- Consol revenues grew by 4.1% YoY (+1% QoQ) at Rs29.9b (est Rs30.7b) as overall volumes grew 5.3% YoY. Replacement/Exports volumes grew ~5%/~22% YoY while OEM volumes declined marginally. Co indicated moderate price hikes in PCR and farm segments followed by ~1.5% blended hike taken in Apr'24.
- Consol gross margins expanded ~100bp QoQ (+120bp YoY) at 42.3% (est 40.9%) led by benign RM, moderate price hikes and favorable mix. However, this was offset by increased other expense due to EPR (Extended Producer Responsibility) provisions of Rs727m, higher brand spends (>2% due to IPL/WPL) and freight rates. This restricted EBITDA growth to 6.4% YoY (-6.2% QoQ) at Rs3.94b (est Rs4.1b) with margins at 13.1% (est 13.4%, +40bp YoY/-100bp QoQ).
- Led by higher depreciation at Rs1.36b (est Rs1.29b, +7% QoQ) and tax at ~33% (est 24%), Adj.PAT came in lower at Rs1.43m (est ~Rs1.76b, cons ~Rs1.7b). Profit from JV came in at Rs94m (v/s Rs81.7m in 3QFY24 and Rs76.3m in 4QFY23).
- Consol debt declined to Rs16.3b in 4QFY24 (v/s ~Rs17.3b in 3QFY24). Overall capex for 4QFY24 at Rs2.6b (vs Rs2.15b in 3Q) leads to FY24 capex at Rs8.2b. FCF for FY24 at Rs8.5b (the highest vs Rs3.2b in FY23).
- FY24 revenue/EBITDA/Adj.PAT grew 5.6%/~70%/~2.2x.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	29,919	30,726	30,555	-2.6	-2.1	Gains on GMs offset by higher other expense, led by EPR provisions and brand spends.
EBITDA	3,915	4,121	4,540	-5.0	-13.8	
EBITDA margins %	13.1	13.4	14.9	-30bp	-180bp	
Adjusted PAT	1,425	1,759	1,688	-19.0	-15.6	

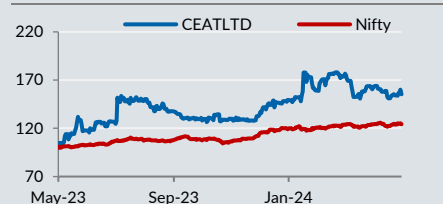
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 2,545
Target Price	: Rs 2,803
Potential Return	: +10%

Stock data (as on May 03, 2024)

Nifty	22,476
52 Week h/l (Rs)	2,994 / 1,512
Market cap (Rs/USD mn)	106,074 / 1,272
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	552
Div yield (%):	0.5
Bloomberg code:	CEAT IN
NSE code:	CEATLTD

Stock performance



	1M	3M	1Y
Absolute return	(4.2%)	(2.4%)	+55.3%

Shareholding pattern (As of March'24)

Promoter	47.2%
FII+DII	34.3%
Others	18.5%

Δ in stance

(1-Yr)	New	Old
Rating	Neutral	Neutral
Target Price	2,803	2,901

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	171.4	186.9
EPS (Old)	186.1	198.8
% change	(7.9%)	(6%)

Financial Summary

Y/E Mar (Rs b)	FY24	FY25E	FY26E
Sales	119.4	130.2	139.3
EBITDA	16.5	16.7	17.8
Adj. PAT	7.0	6.9	7.6
Adj. EPS (INR)	173	171	187
EPS Gr. (%)	219.1	-1.1	9.0
BV/Sh. (INR)	1,001.8	1,138.2	1,285.1
RoE (%)	17.3	15.1	14.5
RoCE (%)	18.5	16.4	16.2
Payout (%)	21.7	23.5	24.6
P/E (x)	14.7	14.8	13.6
P/BV (x)	2.5	2.2	2.0
EV/EBITDA (x)	7.3	7.1	6.4
Div. Yield (%)	1.2	1.4	1.6

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Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q4FY24	Q4FY23	YoY chg	Q3FY24	FY24	FY23	YoY chg
Net Revenues	29,919	28,748	4.1	29,631	119,435	113,149	5.6
Raw Materials	17,265	17,219	0.3	17,385	69,244	73,854	(6.2)
% of Net Sales	57.7%	59.9%		58.7%	58.0%	65.3%	
Personnel	2,153	2,138	0.7	2,172	8,457	7,352	15.0
% of Net Sales	7.2%	7.4%		7.3%	7.1%	6.5%	
Manufacturing & Other Exp	6,585	5,713	15.3	5,899	25,212	22,205	13.5
% of Net Sales	22.0%	19.9%		19.9%	21.1%	19.6%	
Total Expenditure	26,003	25,070	3.7	25,456	102,913	103,411	(0.5)
EBITDA	3,915	3,678	6.4	4,175	16,522	9,738	69.7
EBITDA Margin (%)	13.1%	12.8%		14.1%	13.8%	8.6%	
Depreciation	1,361	1,253	8.6	1,273	5,088	4,693	8.4
EBIT	2,555	2,425	5.3	2,902	11,434	5,045	126.6
Interest Expenses	617	666	(7.4)	656	2,691	2,421	11.1
Non-operating income	31	24	28.5	29	197	169	16.5
Extraordinary Expenses	582	86		0	582	334	
PBT	1,387	1,697.7	(18.3)	2,276	8,359	2,459	239.9
Tax-Total	458	450	1.7	544	2,214	718	208.6
Tax Rate (%) - Total	33.0%	26.5%	24.5	23.9%	26.5%	29.2%	(9.2)
Reported PAT	929	1,247	(25.5)	1,731	6,145	1,742	252.8
Minority Interest/Share of associates	31	64	(51.0)	80	134	44	206.6
PAT after MI	960	1,311	(26.8)	1,811	6,279	1,786	251.7
Adj. PAT	1,425	1,379	3.3	1,811	6,744	2,053	228.5

Source: Company, YES Sec

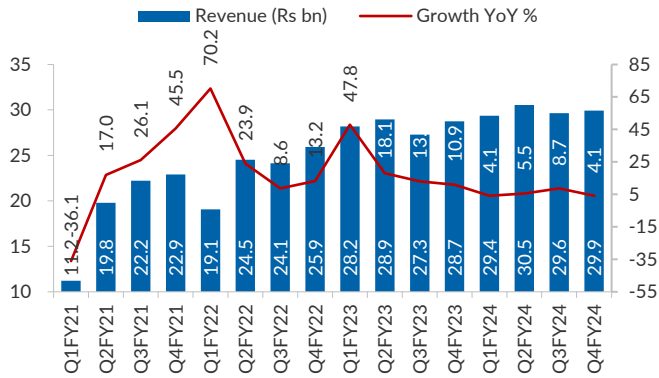
KEY CON-CALL HIGHLIGHTS

- **Volume offtake** – 4QFY24 volumes grew 5.3% YoY (double digit growth in 2W, exports, high single digit growth in TBR and specialty). This was led by replacement as well as exports. Exports vols grew ~22% led by volume growth from ME, Brazil and Europe. OHT volume growth seen healthy in LATAM and ASEAN markets.
 - Replacement volumes grew +5% YoY led by TBR and 2W.
 - OEM volumes declined marginally impacted by CV and 2W.
 - FY24 volumes grew 6.5% led by growth across exports, replacement, and OEM.
 - **Expect high single to early double digit volume growth overall in FY25E.** 1Q is strong in terms of volumes in replacement TBR, PCR and signs of rural recovery in MC and scooters. OEM – 2W to do well while PCR low single digit growth is likely. Expect new launches in US.
- **Exports momentum to continue led by new SKU launch, network expansion and macro improvements** – have launched 55+ SKU under OH segment in 4QFY24. Expect healthy growth from agri radial, PCR and TBR. Expect share of exports to increase from ~19% in FY24 to 25% in 2 years. Recently have reconfigured distribution in Bangladesh and impact of the same is Rs156.6m.
 - M&M OJHA is launched on CEAT tyres. US channel expansion progressing well while volumes from SL is improving especially on personal segments while commercial segment is still under pressure.
 - Focus markets will be Europe, US, LATAM and Middle East etc.
- **Price hike taken in 4Q and in Apr'24** - 4QFY24 saw price cuts in TBR similar where CEAT have largely maintained but have taken moderate price hike in PCR and farm. Further have taken hike of ~1.5% in replacement from Apr'24 would converge the same to exports as well.
- **Market share increased across segments** - PCR market share increased to ~17%, 2W market share at +35% and have maintained a leadership. TBR too have seen market share gains on low base approaching double digit. **OEM market share** – PCR <17%, 2Ws <35% and TBR mid double digit.
- **Margins – Expect RM basket increase of 3-4%**
 - RM basket remained flat QoQ which was in-line with guidance.
 - Increase on NR prices had some impact in 4QFY24 and if remain 3-4% in 1QFY25E. Able to maintain pricing in OEM and exports segment.
 - Marketing spends increased (was at >2%) led by new campaigns, IPL, WPL etc. Expect to continue in 1Q due to ongoing IPL.
- **EPR** – FY23 and FY24 of Rs1.07b of which Rs350m for FY23 (4QFY24 Rs400m ~1.3% EBITDA impact). Estimated EPR impact likely to be 1.2-1.4% of domestic sales the impact of the same will get offset by operational efficiencies, product mix.
 - Have started engaging with OEMs for EPR compensation. In replacement, price hike will be taken to pass on the impact.
- **EV** – CEAT is supplying to Tata Punch EV and with this became supplier to all EV OEMs manufactured in India. E PV market share stands at ~20% and E 2W market share at ~27%. Within CV will supply to Switch and VECV's XEV.
- Premium share continues to improve. Will invest in marketing which stands at 2% (highest in the industry). Steel Radial for 2Ws – focusing on high performance Motorcycle (~3% of volumes is an overall opportunity). Will spend for brand building events such as KTM cup, adventure biking events.

- **Red sea impact** – freight rates increased by ~300% from the beginning of 4QFY24 for Europe routes and have remained at same levels even now. FOB (buyer take impact) and CIF (co have to take the impact but renegotiate the price next cycle).
- **Capex expected at ~Rs10b of which Rs2.5b maintenance.** Capacity utilization overall is in the range of ~80% barring TBR where capacity is fully utilized. Expect new capacity of ~45k tyres per month to come on stream from 2QFY25 from TBR capacity in Chennai (vs **130k tyres per month in Chennai and increasing the same by another ~45k typres per month by 2QFY25E.**
- **Network** – CEAT exclusive stores increased to ~550 led by in hinterlands.
- **Others highlights**
 - NR sourcing from alternate source at ~26%. Rolling Resistance declined by ~5%.
 - Consol – Revenue growth was led by volumes largely.
 - GM expansion was led by better mix and higher inventory impact. NR and Crude seeing increase in margins.
- FY24 capex at Rs8.66b (in-line with guidance). Operating working capital came down by Rs1.02b led by improvement in inventory and receivables. FCF at ~Rs8.57b the highest.
- Consol debt to EBITDA 0.97x, DE of 0.4x.

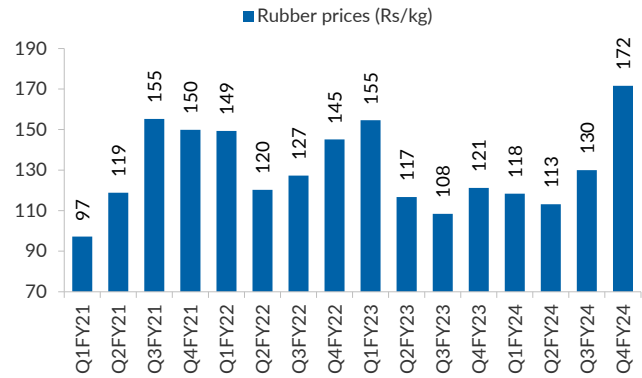
CHARTS

Exhibit 1: 4Q revenue led by volumes as pricing is flat



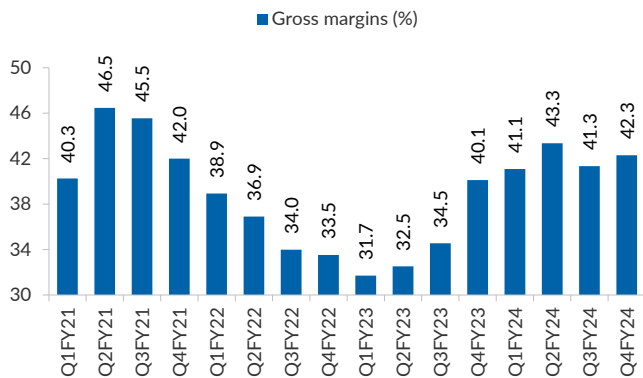
Source: Company, YES Sec

Exhibit 2: NR prices grew by ~32% QoQ to Rs172/kg



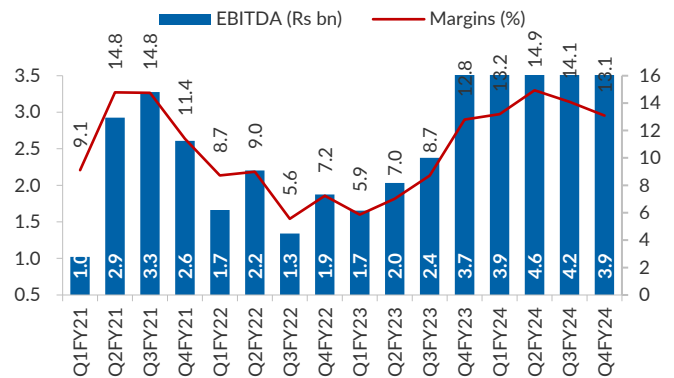
Source: Bloomberg, YES Sec

Exhibit 3: GM expanded 100bps QoQ led by benign RM



Source: Company, YES Sec

Exhibit 4: Higher other expense dent EBITDA margins



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs m)	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	405	405	405	405	405	405
Total Reserves & other equity	32,991	32,559	34,166	40,119	45,637	51,578
Net Worth	33,395	32,964	34,570	40,524	46,042	51,983
Deferred Liabilities	2,800	3,177	3,886	4,509	4,554	4,600
Total Loans	15,325	22,289	22,955	17,915	17,777	17,643
Capital Employed	51,521	58,429	61,411	62,948	68,373	74,226
Gross Block	63,324	71,462	79,004	87,103	97,103	104,103
Less: Accum. Deprn.	10,075	13,004	16,155	21,243	26,916	32,954
Net Fixed Assets	53,249	58,458	62,849	65,859	70,187	71,149
Goodwill				231	231	231
Capital WIP	2,314	3,593	4,073	3,456	3,466	3,476
Total Investments	2,101	1,792	1,696	1,821	1,837	1,854
Curr. Assets, Loans & Adv.	23,652	27,761	27,661	28,578	31,874	38,646
Inventory	11,299	13,096	11,378	11,505	12,540	13,418
Account Receivables	9,216	11,543	13,070	12,832	13,987	14,966
Cash Balance	361	238	606	552	1,609	6,475
Bank Balance	70	125	113	39	39	39
Loans and Advances	-	-	-	-	-	-
Others	2,706	2,759	2,494	3,650	3,698	3,747
Curr. Liability & Prov.	29,795	33,174	34,868	36,997	39,222	41,130
Account Payables	18,395	21,576	22,683	23,320	25,419	27,198
Provisions	1,541	1,680	1,917	1,840	1,851	1,861
Others	9,859	9,918	10,267	11,836	11,952	12,070
Net Current Assets	(6,143)	(5,413)	(7,207)	(8,419)	(7,348)	(2,484)
Appl. of Funds	51,521	58,430	61,411	62,949	68,373	74,226

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March (Rs m)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Sales	76,096	93,634	113,149	119,435	130,184	139,297
Change (%)	12.3	23.0	20.8	5.6	9.0	7.0
EBITDA	9,830	7,098	9,738	16,522	16,664	17,830
Margin (%)	12.9	7.6	8.6	13.8	12.8	12.8
Depreciation	3,396	4,352	4,693	5,088	5,672	6,038
EBIT	6,433	2,746	5,045	11,434	10,991	11,792
Int. and Finance Charges	1,755	2,070	2,421	2,691	2,350	2,332
Other Income - Rec.	138	114	169	197	217	226
PBT bef. EO Exp.	4,816	790	2,793	8,941	8,858	9,686
EO Expense/(Income)	341	129	334	582	-	-
PBT after EO Exp.	4,476	661	2,459	8,359	8,858	9,686
Tax	516	243	718	2,214	2,215	2,421
Tax Rate (%)	11.5	36.7	29.2	26.5	25.0	25.0
Reported PAT	3,960	418	1,742	6,145	6,644	7,264
PAT Adj	4,661	841	2,196	7,008	6,934	7,559
Change (%)	78.5	(82.0)	161.1	219.1	(1.1)	9.0

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs m)	FY21	FY22	FY23	FY24	FY25E	FY26E
NP/ (Loss) bef Tax and EO	4,476	661	2,793	8,941	8,858	9,686
Depreciation	3,396	4,352	4,693	5,088	5,672	6,038
Interest & Finance Charges	1,755	2,070	2,421	2,691	2,350	2,332
Direct Taxes Paid	(516)	(243)	377	(1,630)	(2,215)	(2,421)
(Inc)/Dec in WC	4,958	(956)	1,298	748	(92)	(78)
Others	(493)	305	(106)	10	327	332
CF from Operations	13,577	6,189	12,055	17,193	14,989	15,976
(inc)/dec in FA	(6,676)	(10,840)	(8,791)	(8,673)	(10,000)	(7,000)
Free Cash Flow	6,901	(4,651)	3,264	8,520	4,989	8,976
(Pur)/Sale of Investments	495	1,396	299	136	(26)	(27)
CF from Investments	(6,181)	(9,444)	(8,492)	(8,537)	(10,026)	(7,027)
(Inc)/Dec in Debt	(5,677)	5,821	(977)	(5,556)	(138)	(133)
Interest Paid	(1,628)	(1,944)	(2,093)	(2,669)	(2,350)	(2,332)
Dividend Paid	(4)	(746)	(126)	(485)	(1,416)	(1,618)
CF from Fin. Activity	(7,309)	3,132	(3,195)	(8,710)	(3,904)	(4,083)
Inc/Dec of Cash	87	(123)	368	(55)	1,058	4,866
Add: Beginning Balance	274	361	238	605	551	1,609
Closing Balance	361	238	605	551	1,609	6,475

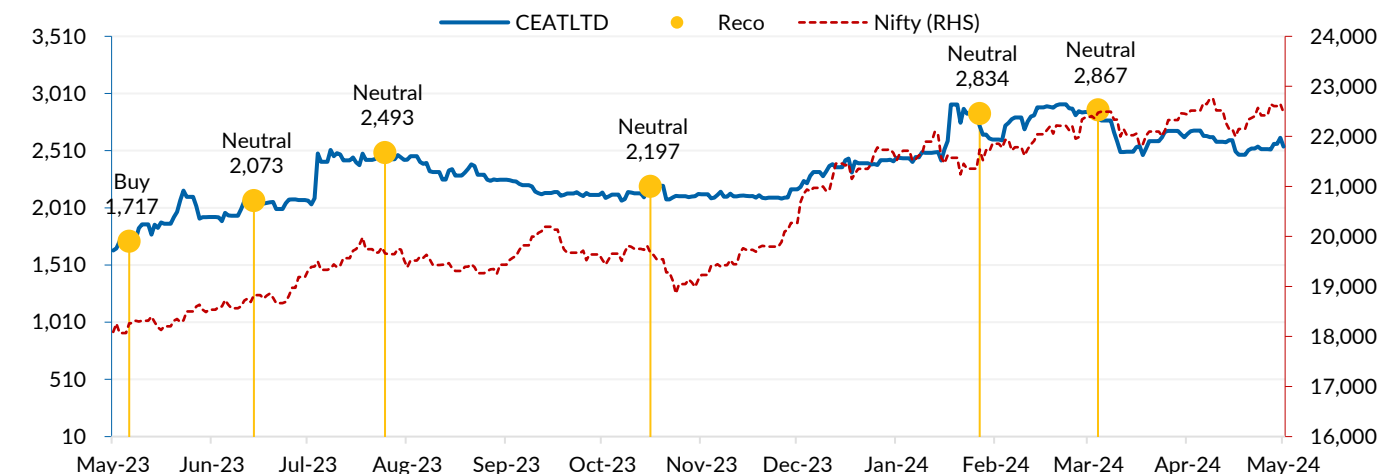
Source- Company, Yes Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)						
EPS	115.2	20.8	54.3	173.3	171.4	186.9
Growth (%)	78.5	(82.0)	161.1	219.1	(1.1)	9.0
Cash EPS	199.2	128.4	170.3	299.0	311.7	336.1
BV/Share	825.6	814.9	854.6	1,001.8	1,138.2	1,285.1
DPS	18.0	3.0	12.0	30.0	35.0	40.0
Payout (%)	19.4	19.6	30.0	21.7	23.5	24.6
Valuation (x)						
P/E	22.1	122.4	46.9	14.7	14.8	13.6
Cash P/E	12.8	19.8	14.9	8.5	8.2	7.6
P/BV	3.1	3.1	3.0	2.5	2.2	2.0
EV/Sales	1.5	1.3	1.1	1.0	0.9	0.8
EV/EBITDA	12.0	17.6	12.9	7.3	7.1	6.4
Dividend Yield (%)	0.7	0.1	0.5	1.2	1.4	1.6
Return Ratios (%)						
EBITDA Margins (%)	12.9	7.6	8.6	13.8	12.8	12.8
Net Profit Margins (%)	6.1	0.9	1.9	5.9	5.3	5.4
RoE	14.0	2.6	6.4	17.3	15.1	14.5
RoCE	12.8	4.9	8.5	18.5	16.4	16.2
Operating Ratios						
Fixed Asset Turnover (x)	1.5	1.7	1.9	1.9	1.9	2.0
Inventory (Days)	54.2	51.0	36.7	35.2	35.2	35.2
Debtor (Days)	44.2	45.0	42.2	39.2	39.2	39.2
Creditor (Days)	88.2	84.1	73.2	71.3	71.3	71.3
Working Capital (Days)	10.2	11.9	5.7	3.1	3.1	3.1
Leverage Ratio (x)						
Current Ratio	0.7	0.7	0.6	0.6	0.7	0.8
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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