

January 16, 2025

**RESULT REPORT Q3 FY25** | Sector: Automobile

# CEAT Ltd

## Price hikes continues, margins accretion likely

### View and valuation – Volume growth and price hikes going hand in hand

CEAT 3QFY25 were steady as revenues/EBITDA were in-line while Adj.PAT miss was led by higher interest and depreciation. EBITDA margins were slightly weak at 10.3% (est 10.7%, -380bp YoY/ -70bp QoQ) led by RM basket inflation of ~1.2% in QoQ. Overall volumes grew by ~8% with double digit growth in the replacement and exports segments. Despite the recent decline in NR prices, RM basket inflation to likely be flat or go-up by 1% QoQ in 4QFY25E. This was partially offset by aggrieve price hikes of ~1-1.5% in TBR (vs 2% in 2Q and ~2.4% for CV in 1Q), PCR by ~4% (vs 3.5% in 2Q and 2.5-2.8% in 1Q), with follow-up price hikes expected in Jan'25. While full benefit of OEM indexation (3-4%) and exports/replacement price hikes to play out in 4QFY25E. CEAT has guided a high single-digit volume growth in FY25, fueled mainly by healthy demand in the replacement and export markets. To factor in higher-than-expected interest and depreciation, we cut FY27 consol EPS by ~1%. Going forward, focus on high margin segments such as exports ramp-up (~19% of sales) and OHT to aid volumes and margins. Valuations at 18.8x/13.7x (vs 10yr LPA of ~18.6x) seem reasonable and are yet to reflect the improved positioning. Reiterate 'ADD' with TP at Rs3,607 (SoTP).

### Result Highlights – Steady result given steep NR inflation

- Consol revenues grew 11.4% YoY (flat QoQ) at ~Rs33b (est ~Rs32.6b, cons ~Rs33.5b). Co indicated ~7.9% overall volumes growth with double digit volume growth in replacement and exports. ASP improved both YoY/QoQ led by price hikes and favorable product mix.
- Consol gross margins contracted ~60bp QoQ (-450bp YoY) at 36.8% (est 36.9%), led by RM basket inflation. Co indicated flat to +1% RM in 4QFY25 (vs ~1.2% in 3Q and 6% QoQ in 2Q). Have taken price hikes in CV and farm 1-1.5%, ~4% in PCR and ~1% in 2W and would take further hike in Jan'25.
- EBITDA declined 18.6% YoY (-6% QoQ) at Rs3.4b (est ~Rs3.45b, cons ~Rs3.25b) with margins at 10.3% (est 10.6%, cons 9.7%, -380p YoY/-70bp QoQ).
- Led by weak gross margins and higher interest cost, Adj.PAT came in lower at Rs970m (est Rs1b, cons Rs1.02b). Profit from JV came in at Rs54.2m (v/s Rs56.2m in 2QFY25 and Rs81.7m in 3QFY24).
- Consol debt remained at ~Rs18.35b (vs ~Rs18.9b in 2QFY25 and Rs17.3b in 3QFY24). QoQ decline in debt was led by reduced working capital.
- 9MFY25 revenue/EBITDA/Adj.PAT grew 9.4%/-14%/-31%.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	32,999	32,572	33,467	1.3	-1.4	RM inflation dented gross margins and EBITDA.
EBITDA	3,409	3,456	3,254	-1.4	4.8	
EBITDA margins %	10.3	10.6	9.7	-30bp	60bp	
Adjusted PAT	970	1,149	1,023	-15.6	-5.2	

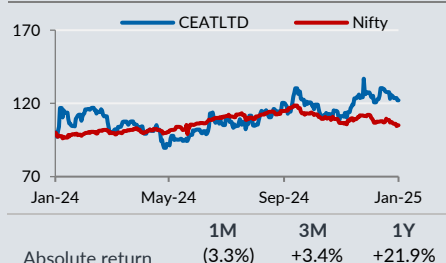
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 3,080
Target Price	: Rs 3,607
Potential Return	: +17.1%

### Stock data (as on Jan 16, 2025)

Nifty	23,312
52 Week h/l (Rs)	3,579 / 2,210
Market cap (Rs/USD mn)	1,23,124 / 1,422
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	745
Div yield (%):	1.0
Bloomberg code:	CEAT IN
NSE code:	CEATLTD

### Stock performance



### Shareholding pattern (As of Sep'24)

Promoter	47.2%
FII+DII	36.4%
Others	16.9%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	3,607	3,651

### Δ in earnings estimates

	FY26E	FY27E
EPS (New)	163.6	224.5
EPS (Old)	163.0	227.4
% change	+0.4%	(1.3%)

### Financial Summary

Y/E MAR (Rs b)	FY25E	FY26E	FY27E
Sales	132.6	146.4	174.3
EBITDA	14.2	17.9	22.3
Adj. PAT	5.0	6.6	9.1
Adj. EPS (INR)	123.0	163.6	224.5
EPS Gr. (%)	(29.0)	33.0	37.2
BV/Sh. (INR)	1,090	1,213	1,393
RoE (%)	11.3	13.5	16.1
RoCE (%)	12.3	13.3	16.6
Payout (%)	32.2	28.1	23.1
P/E (x)	25.0	18.8	13.7
P/BV (x)	2.8	2.5	2.2
EV/EBITDA (x)	10.1	8.2	6.6
Div. Yield (%)	1.1	1.3	1.5

### DEEP SHAH

Lead Analyst

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## Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q3FY25	Q3FY24	YoY chg	Q2FY25	9MFY25	9MFY24	YoY chg
Net Revenues	32,999	29,631	11.4	33,045	97,973	89,516	9.4
Raw Materials	20,847	17,385	19.9	20,683	60,930	51,979	17.2
% of Net Sales	63.2%	58.7%		62.6%	62.2%	58.1%	
Personnel	2,159	2,172	(0.6)	2,190	6,305	6,304	0.0
% of Net Sales	6.5%	7.3%		6.6%	6.4%	7.0%	
Manufacturing & Other Exp	6,584	5,899	11.6	6,550	19,877	18,627	6.7
% of Net Sales	20.0%	19.9%		19.8%	20.3%	20.8%	
Total Expenditure	29,590	25,456	16.2	29,423	87,112	76,909	13.3
EBITDA	3,409	4,175	(18.3)	3,623	10,861	12,607	(13.9)
EBITDA Margin (%)	10.3%	14.1%		11.0%	11.1%	14.1%	
Depreciation	1,415	1,273	11.1	1,371	4,104	3,728	10.1
EBIT	1,994	2,902	(31.3)	2,252	6,757	8,880	(23.9)
Interest Expenses	751	656	14.6	665	2,034	2,074	(1.9)
Non-operating income	34	29	16.7	35	130	167	(21.8)
Extraordinary Expenses	0	0		0	(74)	0	
PBT	1,278	2,275.5	(43.9)	1,621	4,928	6,972	(29.3)
Tax-Total	361	544	(33.6)	463	1,364	1,756	(22.3)
Tax Rate (%) - Total	28.3%	23.9%	18.2	28.6%	27.7%	25.2%	9.9
Reported PAT	916	1,731	(47.1)	1,158	3,563	5,216	(31.7)
Minority Interest/Share of associates	53	80	(33.0)	52	158	103	53.5
PAT after MI	970	1,811	(46.5)	1,210	3,722	5,319	(30.0)
Adj. PAT	970	1,811	(46.5)	1,210	3,662	5,319	(31.2)

Source: Company, YES Sec

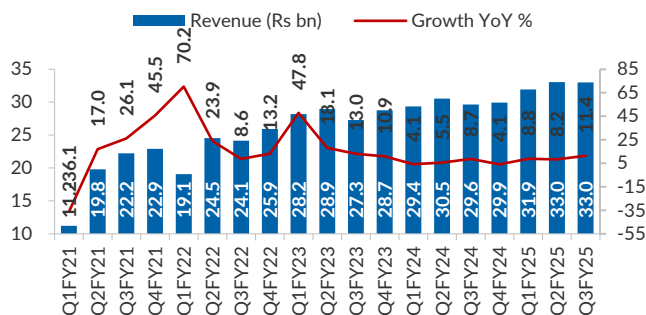
## KEY CON-CALL HIGHLIGHTS

- Overall volumes grew 7.9% growth YoY. Exports and replacement grew in double digit in value while OEM grew mid-single digit.
  - **Replacement** – double digit in TBR, 2W led by rural (~40-50% higher vs urban) with good traction in scooter segment led to good capacity utilization of 95% at Halol.
  - **Segmental replacement growth outlook** - TBR high single digit, 2W double digit, Farm and PCR low single digit in next few quarters. MHCV mid to high single digits. Seasonally saw dip in North and South.
  - **OEM** - 2W saw increased market share. Expect OEM growth in 2W and PV while CV is negative. Within OEM MHCV grew low single digit, 2Ws grew close to double digit, PCR grew low double digit.
  - **Within OEMs, CEAT growing fast in 2W and PCR due to accelerated fitments programs.**
  - **Exports** grew double digit YoY where PV and TBR volumes grew healthy
- **Exports (~19% revenue share) – expect strong growth in Europe to continue while OEM volume to accelerate.**
  - Seeing growth in TBR in US while stable growth in OHT.
  - Have launched 48+ SKUs in OHT. OHT account for ~15% of exports revenues currently.
  - Have entered Vietnam and Peru in 3Q. Some issues in ME and currency impact in Brazil is impacting exports volumes.
  - Go to market (GTM) in the US market is on track.
  - Expect share of exports to increase to 26% post Camso consolidation.
  - Revenue share of Europe (high margin) and LATAM is higher than the US today. But with ramp-up in OHT, TBR and PCR, expect share of US to increase ahead.
  - Overall healthy order book would result in continued double digit exports growth in exports.
- **Market share** – TBR gaining share with market share still in single digit, PCR stable with plus minus 0.5% QoQ.
- **SL operations** – macro situation is improving with tourism and remittances is at record level in past 5 years.
- **Premiumization – Camso acquisition will help retain premium pricing and positioning.**
  - Have launched premium range of tyres for Scooter segment named as Secura.
  - **Share of 17 inch+ rim sizes at ~25% of PCR OEM volumes** which should help replacement mix. CEAT have won OEM fitment for Mahindra Roxx.
- **RM basket grew ~1.2% in 3Q (vs 6% QoQ in 2Q) and expect the same to be flat to 1% in 4QFY25.**
  - **Have taken price hikes in CV and farm 1-1.5%, ~4% in PCR and no hikes in 2W. But have taken ~1% hike towards end of 3Q and would take further hike in Jan'25.** Will look to take further hike in replacement and exports segments as well.
  - 2W/3W have high proportion of synthetic rubber (vs NR) and it may not require to take same price hike as in other segments.
  - **Have received OEM indexation benefit of 3-4%.**
  - ~50% of price hikes taken in 3Q would be reflected in 4Q.

- Indian rubber is called as sheet rubber (Rs190/kg) and international rubber is called as block rubber priced at USD 1,900-2,000 (Rs205-210/kg).
- Synthetic Rubber (SR) is ~Rs200-225/kg basis on grade.
- NR and SR exposure in RM at ~25% each in volume terms and 30% each in value terms.
- EV – SOB is ~25% and intend to maintain the same in OEMs segment.
- Capex target maintained at Rs10-10.5b for FY25E of which ~Rs7.3b spent in 9MFY25. 3QFY25 capex at Rs2.83b.
  - **Brownfield capacity expansion projects under implementation** – 1) enabling resolution for Nagpur for which capex is ~Rs4b with capacity of ~20k tyres per annum for 2W/3W. 2) Ambarnath OHT and 3) Chennai PCR (peak capacity of 20k per day) and TBR (peak capacity of 3k tyres per day).
  - **Utilization** - TBR Halol fully utilized while Chennai is ramping up, 2W – Nagpur 90%, PCR – Halol 90-95% while Chennai ramping up.
- Debt declined to ~Rs18.5b in 3QFY25 (vs ~Rs18.9b in 1HFY25 and Rs18.6b in FY24) due to reduced working capital on normalization of NR inventory. Have reduced WC by Rs840m in 3QFY25.
  - Debt EBITDA of 1.22x and DE 0.43x.
- Camso tyres acquisition deal is expected to complete by 1QFY26.

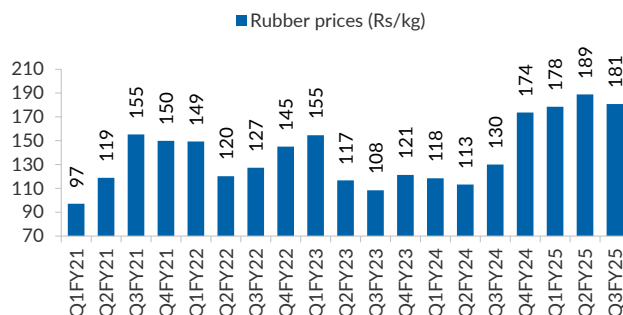
## CHARTS

**Exhibit 1: 3Q revenue growth led by healthy volumes**



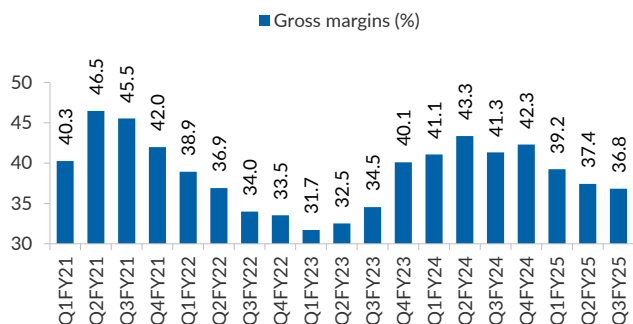
Source: Company, YES Sec

**Exhibit 2: NR prices degred by 4.2% QoQ to Rs181/kg**



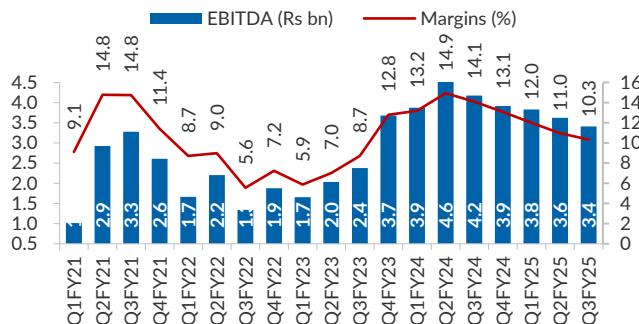
Source: Bloomberg, YES Sec

**Exhibit 3: GM contracted 60bps QoQ led RM inflation**



Source: Company, YES Sec

**Exhibit 4: Weak gross margins dented EBITDA margins**



Source: Company, YES Sec

## FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	405	405	405	405	405	405
Total Reserves & other equity	32,559	34,166	40,119	43,679	48,680	55,942
<b>Net Worth</b>	<b>32,964</b>	<b>34,570</b>	<b>40,524</b>	<b>44,084</b>	<b>49,085</b>	<b>56,346</b>
Deferred Liabilities	3,177	3,886	4,509	4,554	4,600	4,646
Total Loans	22,289	22,955	17,915	23,094	36,384	33,568
<b>Capital Employed</b>	<b>58,429</b>	<b>61,411</b>	<b>62,948</b>	<b>71,732</b>	<b>90,069</b>	<b>94,560</b>
Gross Block	71,462	79,004	85,812	96,312	111,312	126,312
Less: Accum. Deprn.	13,004	16,155	19,967	25,553	31,676	38,496
<b>Net Fixed Assets</b>	<b>58,458</b>	<b>62,849</b>	<b>65,845</b>	<b>70,759</b>	<b>79,637</b>	<b>87,816</b>
<b>Goodwill</b>			<b>244</b>	<b>244</b>	<b>244</b>	<b>244</b>
Capital WIP	3,593	4,073	3,456	3,466	3,476	3,486
<b>Total Investments</b>	<b>1,792</b>	<b>1,696</b>	<b>1,821</b>	<b>1,837</b>	<b>1,854</b>	<b>1,871</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>27,761</b>	<b>27,661</b>	<b>28,578</b>	<b>35,113</b>	<b>47,369</b>	<b>49,240</b>
Inventory	13,096	11,378	11,505	12,770	14,100	16,792
Account Receivables	11,543	13,070	12,832	14,244	15,727	18,729
Cash Balance	238	606	552	4,362	13,755	9,883
Bank Balance	125	113	39	39	39	39
Loans and Advances	-	-	-	-	-	-
Others	2,759	2,494	3,650	3,698	3,747	3,797
<b>Curr. Liability &amp; Prov.</b>	<b>33,174</b>	<b>34,868</b>	<b>36,997</b>	<b>39,689</b>	<b>42,513</b>	<b>48,098</b>
Account Payables	21,576	22,683	23,320	25,886	28,582	34,037
Provisions	1,680	1,917	1,840	1,851	1,861	1,872
Others	9,918	10,267	11,836	11,952	12,070	12,188
<b>Net Current Assets</b>	<b>(5,413)</b>	<b>(7,207)</b>	<b>(8,419)</b>	<b>(4,575)</b>	<b>4,857</b>	<b>1,142</b>
<b>Appl. of Funds</b>	<b>58,430</b>	<b>61,411</b>	<b>62,947</b>	<b>71,731</b>	<b>90,067</b>	<b>94,559</b>

Source: Company, YES Sec

## Exhibit 6: Income statement

Y/E March (Rs m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	93,634	113,149	119,435	132,573	146,380	174,322
Change (%)	23.0	20.8	5.6	11.0	10.4	19.1
EBITDA	7,098	9,738	16,522	14,185	17,858	22,313
Margin (%)	7.6	8.6	13.8	10.7	12.2	12.8
Depreciation	4,352	4,693	5,088	5,586	6,122	6,821
EBIT	2,746	5,045	11,434	8,599	11,736	15,492
Int. and Finance Charges	2,070	2,421	2,691	2,358	3,420	3,882
Other Income - Rec.	114	169	197	205	213	222
PBT bef. EO Exp.	790	2,793	8,941	6,446	8,530	11,832
EO Expense/(Income)	129	334	582	(75)	-	-
PBT after EO Exp.	661	2,459	8,359	6,521	8,530	11,832
Tax	243	718	2,214	1,761	2,218	3,076
Tax Rate (%)	36.7	29.2	26.5	27.0	26.0	26.0
Reported PAT	418	1,742	6,145	4,760	6,312	8,756
PAT Adj	841	2,196	7,008	4,976	6,619	9,081
Change (%)	(82.0)	161.1	219.1	(29.0)	33.0	37.2

Source: Company, YES Sec

## Exhibit 7: Cash Flow Statement

Y/E March (Rs m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NP/ (Loss) bef Tax and EO	661	2,793	8,941	6,446	8,530	11,832
Depreciation	4,352	4,693	5,088	5,586	6,122	6,821
Interest & Finance Charges	2,070	2,421	2,691	2,358	3,420	3,882
Direct Taxes Paid	(243)	377	(1,630)	(1,761)	(2,218)	(3,076)
(Inc)/Dec in WC	(956)	1,298	748	(112)	(118)	(238)
Others	305	(106)	10	252	344	363
CF from Operations	6,189	12,055	17,193	12,932	16,169	19,672
(inc)/dec in FA	(10,840)	(8,791)	(8,673)	(10,500)	(15,000)	(15,000)
Free Cash Flow	(4,651)	3,264	8,520	2,432	1,169	4,672
(Pur)/Sale of Investments	1,396	299	136	(26)	(27)	(27)
CF from Investments	(9,444)	(8,492)	(8,537)	(10,526)	(15,027)	(15,027)
(Inc)/Dec in Debt	5,821	(977)	(5,556)	5,179	13,290	(2,816)
Interest Paid	(1,944)	(2,093)	(2,669)	(2,358)	(3,420)	(3,882)
Dividend Paid	(746)	(126)	(485)	(1,416)	(1,618)	(1,820)
CF from Fin. Activity	3,132	(3,195)	(8,710)	1,405	8,252	(8,518)
Inc/Dec of Cash	(123)	368	(55)	3,811	9,394	(3,873)
Add: Beginning Balance	361	238	605	551	4,362	13,755
Closing Balance	238	605	551	4,362	13,755	9,883

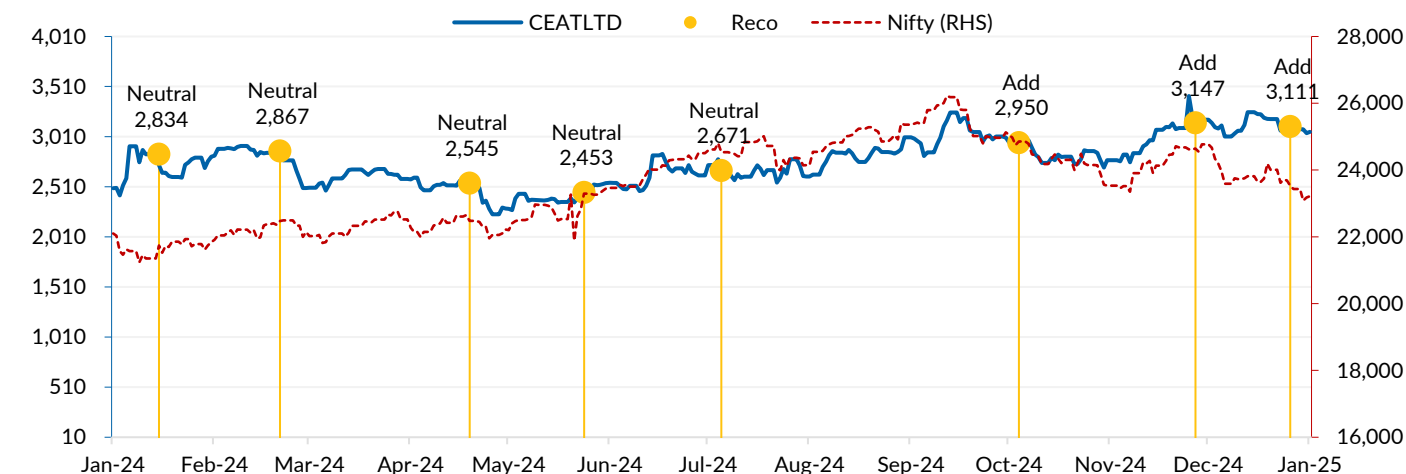
Source- Company, Yes Sec

**Exhibit 8: Growth and Ratio matrix**

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Basic (INR)</b>						
EPS	20.8	54.3	173.3	123.0	163.6	224.5
Growth (%)	(82.0)	161.1	219.1	(29.0)	33.0	37.2
Cash EPS	128.4	170.3	299.0	261.1	315.0	393.1
BV/Share	814.9	854.6	1,001.8	1,089.8	1,213.5	1,393.0
DPS	3.0	12.0	30.0	35.0	40.0	45.0
Payout (%)	19.6	30.0	21.7	32.2	28.1	23.1
<b>Valuation (x)</b>						
P/E	148.1	56.7	17.8	25.0	18.8	13.7
Cash P/E	24.0	18.1	10.3	11.8	9.8	7.8
P/BV	3.8	3.6	3.1	2.8	2.5	2.2
EV/Sales	1.6	1.3	1.2	1.1	1.0	0.9
EV/EBITDA	20.6	15.1	8.6	10.1	8.2	6.6
Dividend Yield (%)	0.1	0.4	1.0	1.1	1.3	1.5
<b>Return Ratios (%)</b>						
EBITDA Margins (%)	7.6	8.6	13.8	10.7	12.2	12.8
Net Profit Margins (%)	0.9	1.9	5.9	3.8	4.5	5.2
RoE	2.6	6.4	17.3	11.3	13.5	16.1
RoCE	4.9	8.5	18.5	12.3	13.3	16.6
<b>Operating Ratios</b>						
Fixed Asset Turnover (x)	1.7	1.9	1.9	1.9	1.9	2.1
Inventory (Days)	51.0	36.7	35.2	35.2	35.2	35.2
Debtor (Days)	45.0	42.2	39.2	39.2	39.2	39.2
Creditor (Days)	84.1	73.2	71.3	71.3	71.3	71.3
Working Capital (Days)	11.9	5.7	3.1	3.1	3.1	3.1
<b>Leverage Ratio (x)</b>						
Current Ratio	0.7	0.6	0.6	0.7	0.9	0.9
Debt/Equity	0.7	0.7	0.4	0.5	0.7	0.6

Source: Company, YES Sec

## Recommendation Tracker



Source - YES Sec

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Analyst signature

Analyst signature

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