

October 17, 2023

RESULT REPORT Q2 FY24 | Sector: Automobile

CEAT Ltd

Favorable mix and RM drive gross margins

View and Valuation – Working towards maintaining favorable mix

CEAT 2QFY24 results were better than estimates as consol gross margins expansion of 230bp QoQ at 43.3% (est 41.4%) surprised positively. This was led by ~1-1.2% decline in blended RM basket QoQ and ~120bp due to favorable mix. On S/A basis, volumes/ASPs grew ~3.4%/0.5% QoQ, within sub segments, export/replacement volumes were flattish QoQ while OEMs volume grew double digit. With the recent increase in crude prices, the management indicated ~4% increase in RM basket. 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 Rs5-5.5b 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 (13-15%). 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 largely maintained our FY24/25 EPS as better than expected volumes to partially offset by RM inflation in 2HFY24E. However, valuations at 14.4x/13.1x (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 unchanged TP at Rs2,344 based on ~14x Mar-25 EPS.

Result Highlights - Above Est led by better than expected gross margins

- Consol revenues grew 5.5% YoY (+4% QoQ) at Rs30.5b (in-line). This was led by ~7% YoY (~3.5% QoQ) growth in volumes while average realizations fell by ~1.5% YoY (~0.5% QoQ). On YoY basis, replacement/OEM/exports grew 4%/ 10%/ 7% respectively. On QoQ basis, while headwinds continued in Europe specially in agriculture segment, co indicated demand improvement to come in from 3QFY24. On the ASP side, PCR saw a price hike of 2% in 2QFY24 while CEAT have reduced price by ~1% in TBR segment (vs competition has reduced prices by 2%) and there was 1% negative price change for LCV.
- Consol gross margins expanded ~230bp QoQ (+10.8% QoQ) to 8 quarter high at ~43.3% (est 41.4%) as led by fall in RM basket and favorable mix. Half of gross margins was led by favorable product mix while the balance was led by RM benefits. This lead to 17.8% QoQ (+1.2x YoY) EBITDA growth at Rs4.6b (est Rs3.9b, cons Rs3.6b) with 11 quarter high margins at 14.9% (est 13.3%, cons 11.9%). Consequently, consol Adj.PAT came in higher at Rs2.1b (est Rs1.5b, cons Rs1.54b). Profit from JV came in at Rs563m (v/s loss of Rs240m in 1Q).
- Consol debt declined to Rs18.9b (v/s Rs19.9b in 1QFY24 and Rs23b in 2QFY23) led by controlled capex at Rs1.7b and stable WC QoQ.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	30,533	29,430	30,336	3.7	0.7	EBITDA margins beat was led by higher than expected gross margins.
EBITDA	4,561	3,923	3,638	16.3	25.4	
EBITDA margins %	14.9	13.3	11.9	160bp	300bp	
Adjusted PAT	2,074	1,481	1,548	40.0	34.0	

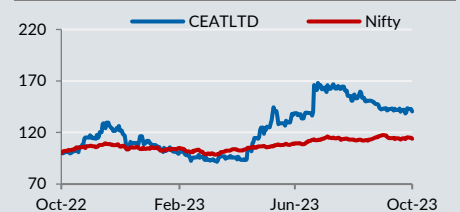
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 2,197
Target Price	: Rs 2,344
Potential Return	: +6%

Stock data (as on October 16, 2023)

Nifty	19,812
52 Week h/l (Rs)	2642 / 1357
Market cap (Rs/USD mn)	85024 / 1022
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	604
Div yield (%):	0.5
Bloomberg code:	CEAT IN
NSE code:	CEATLTD

Stock performance



	1M	3M	1Y
Absolute return	2.6%	-10.4%	46.8%

Shareholding pattern (As of Sep'23)

Promoter	47.2%
FII+DII	36.9%
Others	15.9%

Δ in stance

(1-Yr)	New	Old
Rating	Neutral	Neutral
Target Price	2,344	2,344

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	138	167
EPS (Old)	138	167
% change	-	-

Financial Summary

Y/E MARCH (Rs b)	2023	2024E	2025E
Sales	113.1	133.5	145.5
EBITDA	9.7	16.1	17.8
Adj. PAT	2.2	6.2	6.8
Adj. EPS (INR)	54.3	153.0	167.4
EPS Gr. (%)	161.1	181.9	9.4
BV/Sh. (INR)	855	983	1,127
RoE (%)	6.4	15.6	14.9
RoCE (%)	8.2	14.4	13.9
Payout (%)	30.0	12.7	11.6
P/E (x)	40.5	14.4	13.1
P/BV (x)	2.6	2.2	2.0
EV/EBITDA (x)	11.4	7.1	6.4
Div. Yield (%)	0.5	0.7	0.7

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Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q2FY24	Q2FY23	YoY chg	Q1FY24	1HFY24	1HFY23	YoY chg
Net Revenues	30,533	28,945	5.5	29,352	59,885	57,129	4.8
Raw Materials	17,298	19,533	(11.4)	17,296	34,593	38,783	(10.8)
% of Net Sales	56.7%	67.5%		58.9%	57.8%	67.9%	
Personnel	2,177	1,669	30.5	1,955	4,132	3,396	21.7
% of Net Sales	7.1%	5.8%		6.7%	6.9%	5.9%	
Manufacturing & Other Exp	6,498	5,712	13.8	6,230	12,727	11,266	13.0
% of Net Sales	21.3%	19.7%		21.2%	21.3%	19.7%	
Total Expenditure	25,972	26,913	(3.5)	25,481	51,453	53,445	(3.7)
EBITDA	4,561	2,031	124.5	3,871	8,432	3,684	128.9
EBITDA Margin (%)	14.9%	7.0%		13.2%	14.1%	6.4%	
Depreciation	1,245	1,151	8.1	1,209	2,454	2,265	8.3
EBIT	3,316	880	276.8	2,662	5,978	1,419	321.4
Interest Expenses	717	577	24.3	701	1,419	1,099	29.1
Non-operating income	105	98	7.2	33	137	125	9.5
Extraordinary Expenses	0	237		0	0	244	
PBT	2,704	163.7	1,551.7	1,993	4,697	201	2,232.0
Tax-Total	683	106	546.1	529	1,212	117	932.0
Tax Rate (%) - Total	25.3%	64.6%	(60.9)	26.5%	25.8%	58.3%	(55.7)
Reported PAT	2,021	58	3,384.3	1,464	3,485	84	4,048.8
Minority Interest/Share of associates	54	(8)	(813.3)	(30)	24	48	(50.6)
PAT after MI	2,074	50	4,007.7	1,434	3,509	132	2,566.0
Adj. PAT	2,074	240	764.0	1,434	3,509	327	973.3

Source: Company, YES Sec

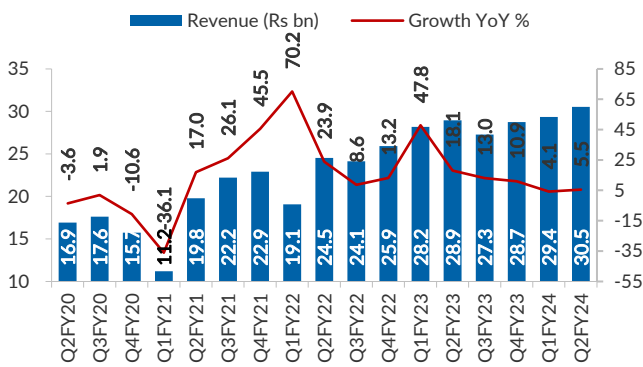
KEY CON-CALL HIGHLIGHTS

- **Volume offtake - 2QFY24 volume grew 7% YoY** driven by 4%/10%/7% YoY growth in replacement/OEM and exports respectively.
 - **Replacement** - 2QFY24 is a seasonally weak quarter. Truck and Bus segment witnessed a low single digit growth while there was healthy growth for agriculture segment. 2W/3W and PCR grew by mid-single digit YoY.
 - **Overall volume grew 3.5% QoQ** wherein replacement growth was flattish, domestic volumes grew by double digit and exports declined marginally.
 - **Segment wise-** 2W OEM volumes saw flattish to slight de-growth; 4Ws doing well, truck segment has recovered in 2Q and grew by single digit.
- **Exports** - Expect overall demand to improve from end of 3QFY24E. Headwinds continue in Europe specially in agri. However, it has not impacted CEAT much in PCR/TBR due to low market share base. Added 40+ SKUs in 2QFY24 for Off-highway.
 - **LatAM-** Some headwinds because of duty on TBR tyres, however it should do well in 3Q.
 - **Africa and Asia-** Already normalizing, expected to do good in 2H as well, similar to 1H.
 - **US-** Will start supplying PCR/TBR from 4QFY24 end or 1QFY25 onwards.
 - **Sri Lanka-** Better quarter in terms of revenue and EBITDA. Volumes have started growing leading to improvement in profitability.
- **RM declined 2.5-3% in 2QFY24 vs 1QFY24.** RM basket to increase by ~4% in 3QFY24E vs 2QFY24.
 - Crude prices have increased to USD90-95 from USD75-80, impacting the cost of commodities in 3Q.
 - 2Q gross margin improvement- 220bp, half of that was due to product mix improvement and remaining due to RM benefits.
- **Pricing-** There has been some change in price positioning. In PCR there was a price hike of 2% in 2Q, TBR relative price change of -1% (competition has reduced prices by 2%) similarly there was 1% negative price change for LCV.
- **Market share-** Gaining market share in 2W as last 4-5 months have been positive in replacement market. It was steady in PCR/TBR, while the company gained in TBB/Farm.
- **Capex- Incurred INR8b in FY24 (vs earlier guidance of INR7.5b).**
 - This includes Rs2b routine capex. The balance Rs6b will be spent- Rs1b towards TBR and Rs2.5b towards OTR. The remaining amount will be utilized towards PCR/2W capacity in Nagpur and small debottlenecking at Halol.
 - The OH tyre capacity at Ambernath will increase from 105 tonnes per day to 160 tonnes per day. Plant will be ready by next year at Ambernath.
 - Incurred Rs1.7b capex in 2Q. Overall capex incurred in 1H was Rs3.9b in 1H.
 - Current production utilizations stands at 80% wherein TBR is over 90%, Farm radial- 1 round of expansion has recently completed hence utilization is low at 65%.2W/PCR is at 80%.
 - Revenue potential is Rs140b without adding into account the coming capacities. The upcoming capacities will add another Rs20b of opportunity.
- **Others-**

- Net debt stands at Rs18.9b as of Sep'23 (Rs1.03b vs 1Q). D/E stands at 0.2x and D/EBITDA at 0.5x. No plans to bring it down below Rs10b.
- Expect ROCE improvement in FY25/26, and it should be in the range of 14-16%.
- EV market share- 40% in 2W, high double digit in PV.C

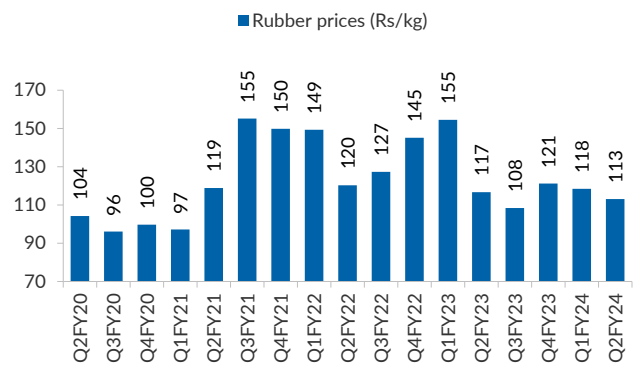
CHARTS

Exhibit 1: 2Q revenue recorded at Rs30.5b (+4% QoQ)



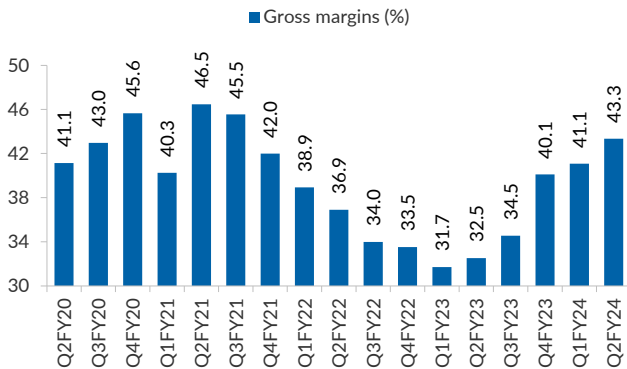
Source: Company, YES Sec

Exhibit 2: NR prices fell by 4.2% QoQ to Rs113/kg



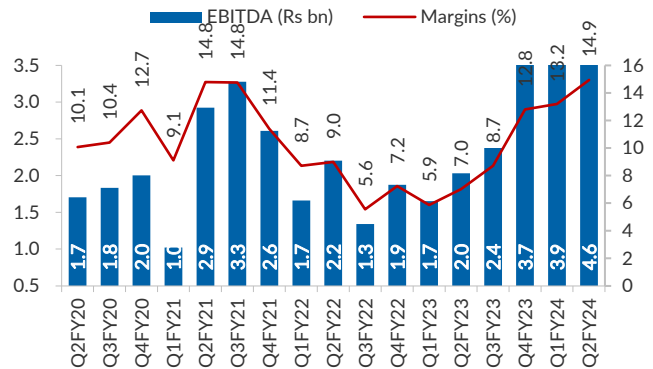
Source: Bloomberg, YES Sec

Exhibit 3: 2Q GM expanded by 220bps QoQ at 43.3%



Source: Company, YES Sec

Exhibit 4: EBITDAM expanded 170bp QoQ at 14.9%



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	405	405	405	405	405
Total Reserves & other equity	32,991	32,559	34,166	39,375	45,165
Net Worth	33,395	32,964	34,570	39,779	45,569
Deferred Liabilities	4,116	4,491	5,196	5,296	5,396
Total Loans	15,837	22,800	23,466	28,583	32,700
Capital Employed	53,348	60,255	63,232	73,658	83,665
Gross Block	58,732	67,748	79,307	88,582	97,582
Less: Accum. Deprn.	11,097	14,456	19,149	24,781	31,201
Net Fixed Assets	47,634	53,292	60,158	63,801	66,381
Capital WIP	7,929	8,759	5,961	-	-
Total Investments	2,101	1,792	1,696	1,716	1,738
Curr. Assets, Loans&Adv.	24,968	29,076	28,961	40,713	49,512
Inventory	11,299	13,096	11,378	16,461	19,936
Account Receivables	9,216	11,543	13,070	17,558	19,138
Cash and Bank Balance	431	363	719	3,400	7,394
Loans and Advances	-	-	-	-	-
Others	4,022	4,074	3,794	3,294	3,044
Curr. Liability & Prov.	29,284	32,663	33,543	32,572	33,966
Account Payables	18,395	21,576	21,871	20,119	20,733
Provisions	1,541	1,680	1,917	1,942	1,967
Others	9,348	9,407	9,756	10,511	11,266
Net Current Assets	(4,316)	(3,587)	(4,583)	8,141	15,546
Appl. of Funds	53,347	60,255	63,232	73,658	83,665

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	76,096	93,634	113,149	133,516	145,532
Change (%)	12.3	23.0	20.8	18.0	9.0
EBITDA	9,830	7,098	9,738	16,066	17,847
Margin (%)	12.9	7.6	8.6	12.0	12.3
Depreciation	3,396	4,352	4,693	5,632	6,420
EBIT	6,433	2,746	5,045	10,434	11,426
Int. and Finance Charges	1,755	2,070	2,421	2,639	2,876
Other Income - Rec.	138	114	169	186	205
PBT bef. EO Exp.	4,816	790	2,793	7,981	8,755
EO Expense/(Income)	341	129	334	334	334
PBT after EO Exp.	4,476	661	2,459	7,647	8,421
Tax	516	243	718	1,912	2,105
Tax Rate (%)	11.5	36.7	29.2	25.0	25.0
Reported PAT	3,960	418	1,742	5,735	6,316
PAT Adj	4,661	841	2,196	6,190	6,771
Change (%)	78.5	(82.0)	161.1	181.9	9.4

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs m)	FY21	FY22	FY23	FY24E	FY25E
NP/ (Loss) bef Tax and EO	4,476	661	2,793	7,981	8,755
Depreciation	3,396	4,352	4,693	5,632	6,420
Interest & Finance Charges	1,755	2,070	2,421	2,639	2,876
Direct Taxes Paid	(460)	133	(13)	(1,812)	(2,005)
(Inc)/Dec in WC	4,516	(736)	485	(11,323)	(4,441)
Others	(106)	(291)	1,144	121	122
CF from Operations	13,577	6,189	12,055	4,184	12,423
(inc)/dec in FA	(6,395)	(9,587)	(8,791)	(3,314)	(9,000)
Free Cash Flow	7,182	(3,398)	3,264	536	3,089
(Pur)/Sale of Investments	214	143	299	(20)	(22)
CF from Investments	(6,181)	(9,444)	(8,492)	(3,334)	(9,022)
(Inc)/Dec in Debt	(5,677)	5,821	(979)	5,117	4,117
Interest Paid	(1,628)	(1,944)	(2,093)	(2,639)	(2,876)
Dividend Paid	(4)	(746)	(126)	(647)	(647)
CF from Fin. Activity	(7,309)	3,132	(3,197)	1,831	593
Inc/Dec of Cash	87	(123)	366	2,347	3,660
Add: Beginning Balance	274	361	238	719	3,400
Closing Balance	361	238	603	3,066	7,060

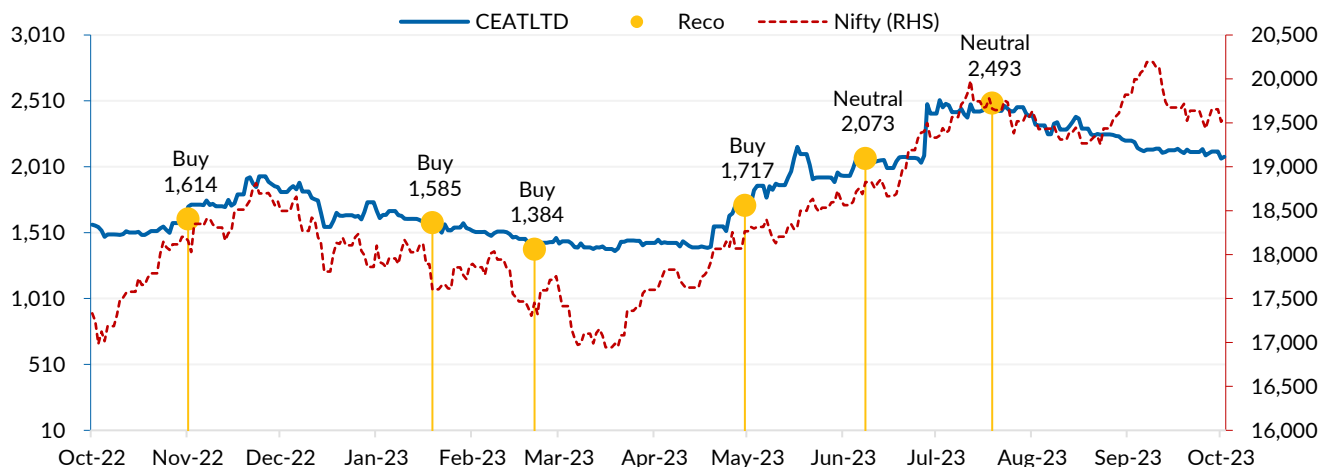
Source- Company, Yes Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)					
EPS	115.2	20.8	54.3	153.0	167.4
Growth (%)	78.5	(82.0)	161.1	181.9	9.4
Cash EPS	199.2	128.4	170.3	292.3	326.1
BV/Share	825.6	814.9	854.6	983.4	1,126.6
DPS	18.0	3.0	12.0	16.0	16.0
Payout (%)	19.4	19.6	30.0	12.7	11.6
Valuation (x)					
P/E	19.1	105.7	40.5	14.4	13.1
Cash P/E	11.0	17.1	12.9	7.5	6.7
P/BV	2.7	2.7	2.6	2.2	2.0
EV/Sales	1.4	1.2	1.0	0.9	0.8
EV/EBITDA	10.6	15.7	11.4	7.1	6.4
Dividend Yield (%)	0.8	0.1	0.5	0.7	0.7
Return Ratios (%)					
EBITDA Margins (%)	12.9	7.6	8.6	12.0	12.3
Net Profit Margins (%)	6.1	0.9	1.9	4.6	4.7
RoE	14.0	2.6	6.4	15.6	14.9
RoCE	12.3	4.7	8.2	14.4	13.9
Operating Ratios					
Fixed Asset Turnover (x)	1.7	1.9	2.0	2.2	2.2
Inventory (Days)	53.6	50.4	55.0	55.0	55.0
Debtor (Days)	44.5	45.2	42.2	50.0	50.0
Creditor (Days)	88.5	84.5	73.6	77.0	77.0
Working Capital (Days)	9.6	11.1	5.1	38.0	46.0
Leverage Ratio (x)					
Current Ratio	0.8	0.8	0.8	1.2	1.4
Debt/Equity	0.5	0.7	0.7	0.7	0.7

Source: Company, YES Sec

Recommendation Tracker



Source – YES Sec

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6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

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RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.