

July 19, 2024

RESULT REPORT Q1 FY25 | Sector: Automobile

CEAT Ltd

Intend more price hikes to cover RM inflation

View and Valuation – Volume growth and price hikes going hand in hand

CEAT 1QFY25 were mixed bag as revenues/Adj.PAT were in-line while EBITDA margins were below estimates at 12% (est 12.8%, -120bp YoY/ -110bp QoQ) led by RM basket inflation of ~5% in QoQ and higher marketing spends. Overall result disappointed despite healthy volume growth (double digit) in the replacement and exports segments. With the recent volatility in NR prices (while crude derivatives are stable), RM basket inflation of 5-6% QoQ expected in 2QFY25E. This was partially offset by aggressive price hikes of ~2.4% in CV, PCR 2.5-2.8%, 2W/3W ~1%. While full benefit of OEM indexation (~2%) and exports/replacement price hikes to play put in 2QFY25E, it would need 2-3% further hikes to cover up for RM inflation. CEAT has guided a high single-digit volume growth in FY25, fueled mainly by healthy demand in the replacement and export markets. Factoring in increase in RM costs and marketing spends, we cut FY25/26 consol EPS by 3.5%/0.6%. Going forward, focus on high margin segments such as exports ramp-up (~20% of sales) and OHT to aid volumes and margins. Valuations at 16.3x/14.1x (vs 10yr LPA of ~17x) do provide limited upside. Hence, we maintain 'Neutral' on the stock with revised TP at Rs2,851 (vs Rs2,868) based on ~15x Mar-26 EPS.

Result Highlights – Mixed bag despite healthy volume print

- Consol revenues grew by 8.8% YoY (+6.7% QoQ) at Rs31.9b (est ~Rs31.2b) as overall volumes grew 8.2% YoY. Replacement/Exports volumes grew double digit YoY while OEM volumes grew by single digit. Undertook price hikes across segments (including hike taken in July'24) ~2.4% hike in CV segment, PCR – 2.5-2.8%, 2W/3W ~1%. Evaluating further price increase in Aug'24 if needed.
- Consol gross margins contracted ~310bp QoQ (-180bp YoY) at 39.2% (est ~40%) led by RM inflation. RM basket grew ~5% QoQ in 1QFY25 and expect to increase further by 5-6% in 2QFY25.
- Higher other expense due to higher marketing spends (due to IPL/T20 world cup) at Rs6.7b (est Rs6.6b, +8.2%/+2.4% YoY/QoQ) led EBITDA de-growth to 1.1% YoY (-2.2% QoQ) at Rs3.8b (est Rs4b, cons Rs3.9b) with margins at 12% (est 12.8%,-120bp YoY/-110bp QoQ).
- Led by steady operating performance, Adj. PAT came in lower at Rs1.5m (est Rs1.8b, cons ~Rs1.5b). Profit from JV came in at Rs52.9m (v/s Rs94m in 4QFY24 and Rs24m in 1QFY24).
- Consol debt remained largely flat at ~Rs16.5b in 1QFY25 (v/s ~Rs16.3b in 4QFY24). Overall capex for 1QFY25 at Rs2.54b (vs ~Rs2.6b in 4QFY24 and Rs11.2b in FY24).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	31,928	31,153	30,990	2.5	3.0	RM inflation and higher other expenses, led EBITDA margins miss.
EBITDA	3,829	4,010	3,902	-4.5	-1.9	
EBITDA margins %	12.0	12.8	12.6	-80bp	-60bp	
Adjusted PAT	1,482	1,612	1,462	-8.1	1.4	

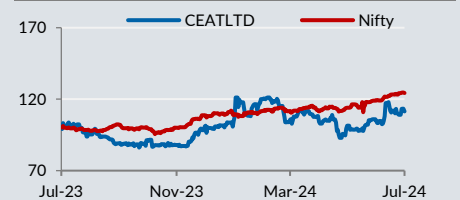
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 2,671
Target Price	: Rs 2,851
Potential Return	: +6.8%

Stock data (as on Jul 19, 2024)

Nifty	24,526
52 Week h/l (Rs)	2,994 / 2,056
Market cap (Rs/USD mn)	1,10,314 / 1,319
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	637
Div yield (%):	1.2
Bloomberg code:	CEAT IN
NSE code:	CEATLTD

Stock performance



	1M	3M	1Y
Absolute return	+7.8%	+8.3%	+12.4%

Shareholding pattern (As of Mar'24)

Promoter	47.2%
FII+DII	34.3%
Others	18.5%

Δ in stance

(1-Yr)	New	Old
Rating	Neutral	Neutral
Target Price	2,851	2,868

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	163.7	190.1
EPS (Old)	169.7	191.2
% change	(3.5%)	(0.6%)

Financial Summary

Y/E MAR (Rs b)	FY24	FY25E	FY26E
Sales	119.4	132.6	144.5
EBITDA	16.5	16.3	18.1
Adj. PAT	7.0	6.6	7.7
Adj. EPS (INR)	173.3	163.7	190.1
EPS Gr. (%)	219.1	(5.5)	16.1
BV/Sh. (INR)	1,002	1,131	1,281
RoE (%)	17.3	14.5	14.8
RoCE (%)	18.5	15.9	16.5
Payout (%)	21.7	24.6	24.2
P/E (x)	15.4	16.3	14.1
P/BV (x)	2.7	2.4	2.1
EV/EBITDA (x)	7.6	7.6	6.6
Div. Yield (%)	1.1	1.3	1.5

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Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q1FY25	Q1FY24	YoY chg	Q4FY24	FY24	FY23	YoY chg
Net Revenues	31,928	29,352	8.8	29,919	119,435	113,149	5.6
Raw Materials	19,401	17,296	12.2	17,265	69,244	73,854	(6.2)
% of Net Sales	60.8%	58.9%		57.7%	58.0%	65.3%	
Personnel	1,956	1,955	0.0	2,153	8,457	7,352	15.0
% of Net Sales	6.1%	6.7%		7.2%	7.1%	6.5%	
Manufacturing & Other Exp	6,742	6,230	8.2	6,585	25,212	22,205	13.5
% of Net Sales	21.1%	21.2%		22.0%	21.1%	19.6%	
Total Expenditure	28,099	25,481	10.3	26,003	102,913	103,411	(0.5)
EBITDA	3,829	3,871	(1.1)	3,915	16,522	9,738	69.7
EBITDA Margin (%)	12.0%	13.2%		13.1%	13.8%	8.6%	
Depreciation	1,318	1,209	9.0	1,361	5,088	4,693	8.4
EBIT	2,511	2,662	(5.7)	2,555	11,434	5,045	126.6
Interest Expenses	619	701	(11.8)	617	2,691	2,421	11.1
Non-operating income	62	33	89.2	31	197	169	16.5
Extraordinary Expenses	(75)	0		582	582	334	
PBT	2,029	1,992.8	1.8	1,387	8,359	2,459	239.9
Tax-Total	540	529	2.1	458	2,214	718	208.6
Tax Rate (%) - Total	26.6%	26.5%	0.3	33.0%	26.5%	29.2%	(9.2)
Reported PAT	1,489	1,464	1.7	929	6,145	1,742	252.8
Minority Interest/Share of associates	53	(30)	(277.0)	31	134	44	206.6
PAT after MI	1,542	1,434	7.5	960	6,279	1,786	251.7
Adj. PAT	1,482	1,434	3.4	1,542	6,861	2,053	234.2

Source: Company, YES Sec

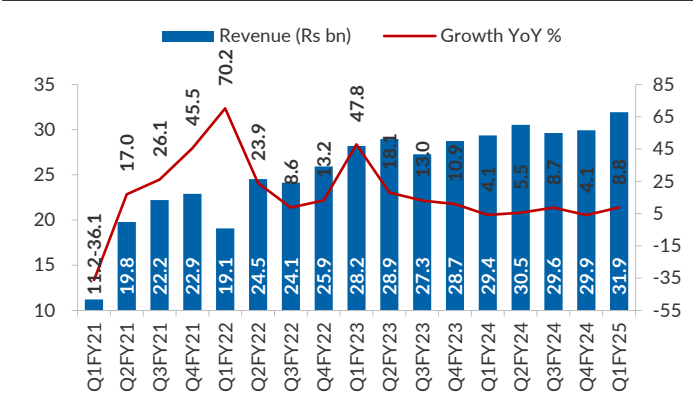
KEY CON-CALL HIGHLIGHTS

- Volumes – Expect healthy replacement growth and OEM in FY25E. Overall volumes grew by **~8.7% volume growth YoY led by replacement and exports which grew double digit while OEM volume grew in lower single digits.**
 - **Replacement volumes expected to be healthy even ahead** with stable rural demand which should help farm and 2W. PCR growth will be in single digit led by extra traveling and brand spends. TBR saw healthy growth and with new capacity on stream by 2H as Halol plant is sold out and low base, expect healthy growth.
 - **Replacement volume growth was led by CV and 2W.**
 - Rural demand seems to be coming back and expect to sustain.
- **Exports volume growth healthy (double digit) in 1QFY25** – LATAM, Europe and US markets doing well.
 - **US** – TBR channel build has happened (~60%) with excellent product feedback. PCR – channel build has started, and product development have started, Agri – growing on low base.
 - **EU** - CETA doing well in replacement and for OEM have set up the capacity in Ambernath will take care of the growth by 4QFY25.
 - **LATAM** – TBR grew healthy, and 2W/PCR have low base with significant upside to growth.
 - Have launched +35 SKUs in OHT and 30+ SKUs in various international markets in 2QFY25.
 - **Seeing increased freight cost and constrained container availability hampered growth in exports.** Freight rates from SE Asia have increased from USD45-50/ton to USD110/ton whereas transit time too have increased to ~60 days vs ~3 weeks earlier.
- **Recent price increase to helped mitigate RM inflation in 2QFY25E**
 - **Replacement** - Undertook price hikes across segments (including hike taken in July'24) ~2.4% hike in CV segment, PCR – 2.5-2.8%, 2W/3W ~1%. Evaluating further price increase in Aug'24 if needed and 2W/PCR price hike by end of July'24.
 - **OEM did not see price change in 1Q and indexation benefit of ~2% is expected in 2QFY25.**
 - **Full benefit of exports and replacement price hike impact will also flow though in 2QFY25.**
 - **Would require another ~2-3% price hike (in addition to recent price hike)** to fully cover up for RM inflation.
 - **Price positioning across segments** - 2W – price leader and 2-4% higher vs next best competition, PCR – Bridgestone has price premium of 8-12% vs CEAT/Apollo which have similar price points, TBR – CEAT pricing would be lower by 1-2% vs competition. Will go for opportunistic price increase in PCR (segment by segment).
- **Expect further RM basket inflation of 5-6% in 2QFY25**
 - RM basket grew ~5% QoQ in 1QFY25 which impacted gross margins.
 - Domestic Natural Rubber (NR) increased +25-30% in past 2 months. NR at Rs207/kg in India and at premium to international prices by Rs10-12/kg. Expect NR prices to cool of by end of 2QFY25 but expect basket inflation of 5-6%.
 - Crude derivatives price remained range bound.

- **Capacity utilization** - Highest ever production across plant leading to average plant utilization at ~80% whereas TBR utilization from Halol plant is sold out.
- **Marketing spends to exceed further** – Expect to increase marketing spends which is expected to be ~1% over and above past year level.
- **EV** - ~30% MS in 2W, 3W and PV OEMs. Expect to get breakthrough order from international OEMs.
- **SL operations** – Seeing positive volume traction with profitability maintained.
- **Premiumization** – coverage is ~95%. Premium saliency continues to increase in PCR and 2W.

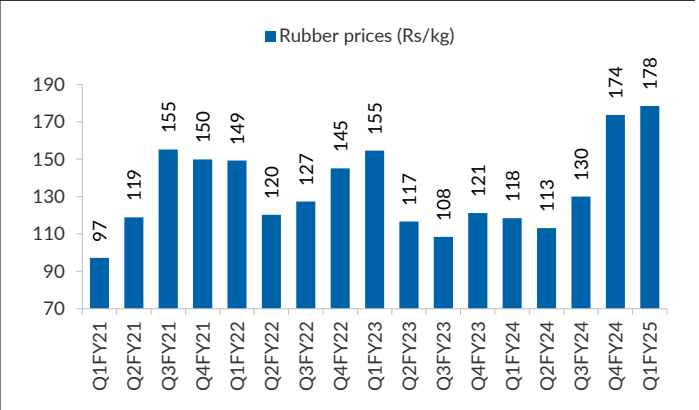
CHARTS

Exhibit 1: 1Q Revenue led by volumes as pricing is flat



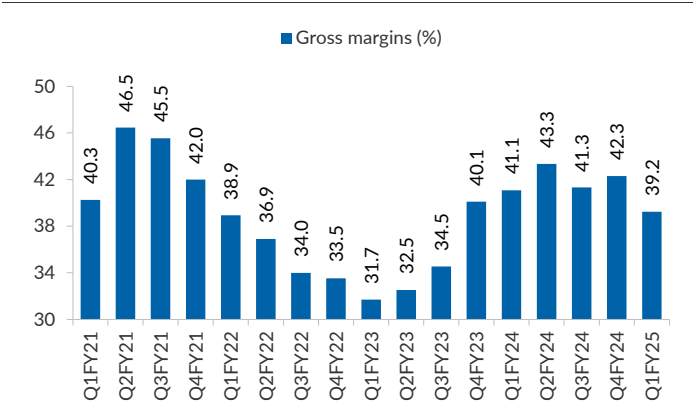
Source: Company, YES Sec

Exhibit 2: NR prices grew by 2.8% QoQ to Rs178/kg



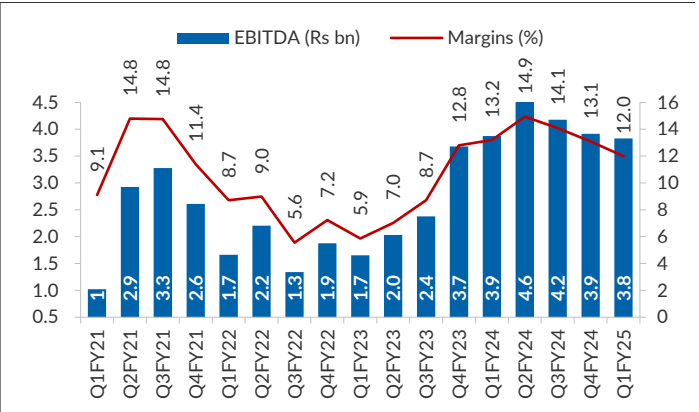
Source: Bloomberg, YES Sec

Exhibit 3: GM contracted 310bps QoQ led RM inflation



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)	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	45,325	51,396	58,282
Net Worth	32,964	34,570	40,524	45,729	51,801	58,686
Deferred Liabilities	3,177	3,886	4,509	4,554	4,600	4,646
Total Loans	22,289	22,955	17,915	17,777	17,643	17,515
Capital Employed	58,429	61,411	62,948	68,060	74,044	80,847
Gross Block	71,462	79,004	87,103	97,103	104,103	111,103
Less: Accum. Deprn.	13,004	16,155	21,243	26,916	32,954	39,398
Net Fixed Assets	58,458	62,849	65,859	70,187	71,149	71,705
Goodwill			231	231	231	231
Capital WIP	3,593	4,073	3,456	3,466	3,476	3,486
Total Investments	1,792	1,696	1,821	1,837	1,854	1,871
Curr. Assets, Loans&Adv.	27,761	27,661	28,578	32,028	39,480	47,805
Inventory	13,096	11,378	11,505	12,770	13,920	14,894
Account Receivables	11,543	13,070	12,832	14,244	15,526	16,612
Cash Balance	238	606	552	1,276	6,249	12,462
Bank Balance	125	113	39	39	39	39
Loans and Advances	-	-	-	-	-	-
Others	2,759	2,494	3,650	3,698	3,747	3,797
Curr. Liability & Prov.	33,174	34,868	36,997	39,689	42,146	44,251
Account Payables	21,576	22,683	23,320	25,886	28,215	30,190
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
Net Current Assets	(5,413)	(7,207)	(8,419)	(7,661)	(2,666)	3,554
Appl. of Funds	58,430	61,411	62,949	68,060	74,044	80,847

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	144,504	154,619
Change (%)	23.0	20.8	5.6	11.0	9.0	7.0
EBITDA	7,098	9,738	16,522	16,306	18,063	19,791
Margin (%)	7.6	8.6	13.8	12.3	12.5	12.8
Depreciation	4,352	4,693	5,088	5,672	6,038	6,444
EBIT	2,746	5,045	11,434	10,634	12,025	13,347
Int. and Finance Charges	2,070	2,421	2,691	2,409	2,391	2,373
Other Income - Rec.	114	169	197	217	226	235
PBT bef. EO Exp.	790	2,793	8,941	8,442	9,860	11,209
EO Expense/(Income)	129	334	582	-	-	-
PBT after EO Exp.	661	2,459	8,359	8,442	9,860	11,209
Tax	243	718	2,214	2,110	2,465	2,802
Tax Rate (%)	36.7	29.2	26.5	25.0	25.0	25.0
Reported PAT	418	1,742	6,145	6,331	7,395	8,407
PAT Adj	841	2,196	7,008	6,622	7,690	8,706
Change (%)	(82.0)	161.1	219.1	(5.5)	16.1	13.2

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	8,442	9,860	11,209
Depreciation	4,352	4,693	5,088	5,672	6,038	6,444
Interest & Finance Charges	2,070	2,421	2,691	2,409	2,391	2,373
Direct Taxes Paid	(243)	377	(1,630)	(2,110)	(2,465)	(2,802)
(Inc)/Dec in WC	(956)	1,298	748	(112)	(102)	(86)
Others	305	(106)	10	327	332	336
CF from Operations	6,189	12,055	17,193	14,715	16,141	17,562
(inc)/dec in FA	(10,840)	(8,791)	(8,673)	(10,000)	(7,000)	(7,000)
Free Cash Flow	(4,651)	3,264	8,520	4,715	9,141	10,562
(Pur)/Sale of Investments	1,396	299	136	(26)	(27)	(27)
CF from Investments	(9,444)	(8,492)	(8,537)	(10,026)	(7,027)	(7,027)
(Inc)/Dec in Debt	5,821	(977)	(5,556)	(138)	(133)	(128)
Interest Paid	(1,944)	(2,093)	(2,669)	(2,409)	(2,391)	(2,373)
Dividend Paid	(746)	(126)	(485)	(1,416)	(1,618)	(1,820)
CF from Fin. Activity	3,132	(3,195)	(8,710)	(3,963)	(4,142)	(4,322)
Inc/Dec of Cash	(123)	368	(55)	725	4,973	6,213
Add: Beginning Balance	361	238	605	551	1,276	6,249
Closing Balance	238	605	551	1,276	6,249	12,462

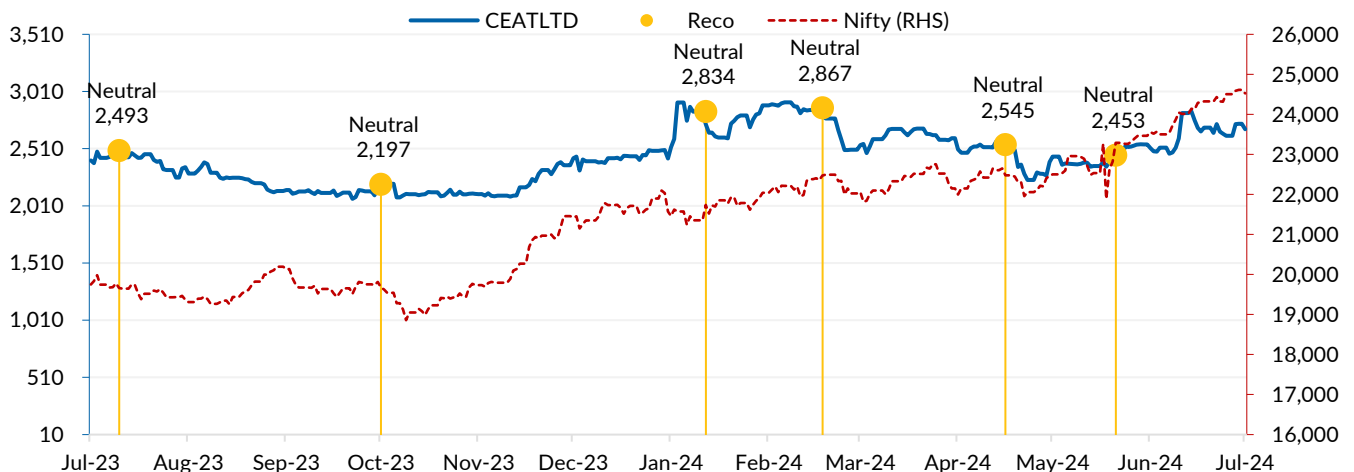
Source- Company, Yes Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)						
EPS	20.8	54.3	173.3	163.7	190.1	215.2
Growth (%)	(82.0)	161.1	219.1	(5.5)	16.1	13.2
Cash EPS	128.4	170.3	299.0	303.9	339.4	374.5
BV/Share	814.9	854.6	1,001.8	1,130.5	1,280.6	1,450.8
DPS	3.0	12.0	30.0	35.0	40.0	45.0
Payout (%)	19.6	30.0	21.7	24.6	24.2	24.0
Valuation (x)						
P/E	128.5	49.2	15.4	16.3	14.1	12.4
Cash P/E	20.8	15.7	8.9	8.8	7.9	7.1
P/BV	3.3	3.1	2.7	2.4	2.1	1.8
EV/Sales	1.4	1.2	1.0	0.9	0.8	0.7
EV/EBITDA	18.3	13.4	7.6	7.6	6.6	5.7
Dividend Yield (%)	0.1	0.4	1.1	1.3	1.5	1.7
Return Ratios (%)						
EBITDA Margins (%)	7.6	8.6	13.8	12.3	12.5	12.8
Net Profit Margins (%)	0.9	1.9	5.9	5.0	5.3	5.6
RoE	2.6	6.4	17.3	14.5	14.8	14.8
RoCE	4.9	8.5	18.5	15.9	16.5	16.8
Operating Ratios						
Fixed Asset Turnover (x)	1.7	1.9	1.9	1.9	2.0	2.2
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
Leverage Ratio (x)						
Current Ratio	0.7	0.6	0.6	0.7	0.8	0.9
Debt/Equity	0.7	0.7	0.4	0.4	0.3	0.3

Source: Company, YES Sec

Recommendation Tracker



Source – YES Sec

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Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |
AMFI ARN Code - 94338.

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DISCLOSURE OF INTEREST

Name of the Research Analyst : Deep Shah

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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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

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