

CEAT (CEAT IN)

Rating: HOLD | CMP: Rs1,296 | TP: Rs1,344

October 27, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		HOLD	
Target Price	1,344		1,461	
Sales (Rs. m)	1,06,439	1,14,991	98,695	1,08,260
% Chng.	7.8	6.2		
EBITDA (Rs. m)	11,499	13,065	11,102	13,133
% Chng.	3.6	(0.5)		
EPS (Rs.)	89.4	95.9	91.8	111.3
% Chng.	(2.6)	(13.8)		

Key Financials - Consolidated

Y/e Mar (Rs bn)	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	76,096	96,360	1,06,439	1,14,991
EBITDA (Rs. m)	9,830	8,772	11,499	13,065
Margin (%)	12.9	9.1	10.8	11.4
PAT (Rs. m)	3,581	2,467	3,617	3,878
EPS (Rs.)	88.5	61.0	89.4	95.9
Gr. (%)	17.8	(31.1)	46.6	7.2
DPS (Rs.)	-	16.0	18.0	20.0
Yield (%)	-	1.2	1.4	1.5
RoE (%)	11.4	7.3	10.1	10.0
RoCE (%)	14.2	9.2	12.0	12.2
EV/Sales (x)	0.8	0.7	0.7	0.7
EV/EBITDA (x)	6.5	7.8	6.3	5.7
PE (x)	14.6	21.2	14.5	13.5
P/BV (x)	1.6	1.5	1.4	1.3

Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.1,763 / Rs.1,019
Sensex / Nifty	61,350 / 18,268
Market Cap	Rs.52bn/ \$ 699m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.394.67m

Shareholding Pattern (%)

Promoter's	46.82
Foreign	23.42
Domestic Institution	13.24
Public & Others	16.52
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.7)	(7.2)	14.8
Relative	(3.7)	(26.8)	(24.9)

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Growth & Margin Headwinds to continue amid rising Debt

Quick Pointers:

- Debt levels to go up in the coming quarters amidst rising working capital and capex requirement.
- Demand outlook remains strong, however increasing input costs to keep margins under pressure.

CEAT's 2QFY22 consol. revenue came ahead of our estimates at Rs 24.5B (24% YoY/ 29% QoQ, PLe 22.5B) led by volume growth of 9% YoY/ 23% QoQ, while realizations grew ~5% sequentially. Margins came lower at 9.0% (-580bp YoY/ 27bp QoQ) led by gross margin compression. RM inflation is expected to continue in 3Q, partly offset by price hikes (+3-3.5% impact on margins in 3Q). We expect full pass through of commodity cost inflation only by next year. Furthermore, weak OEM production due to chip shortage to impact volume growth in 2H. Going ahead higher capex levels and increasing working capital requirement will lead to increasing debt levels and negative FCF, in our view. CEAT has approved the plan to raise ~Rs 5bn through NCD issue.

We cut FY22/23 consol. EPS by ~17%/3% as we built in i) high RM cost ii) impact of chip shortage on PV and 2W OEM demand and iii) high interest cost during increasing debt burden. We retain 'HOLD' rating on CEAT to factor in the risk of negative FCF generation amidst higher capex levels and revise TP to Rs1,344 (earlier Rs1,461) based on 15x Jun-23 consol. EPS (Unchanged).

- 2QFY22 revenue growth led by volume growth and price hikes:** Consolidated revenue at Rs 24.3bn grew by 24%/29% YoY/QoQ, driven by mix of volumes (blended, +23% QoQ, -3% YoY) and price hikes (4-5% in the quarter).
- High RM cost impacts EBITDAM:** Consol. margins came in at 9% (-580bps YoY, +27bps QoQ), affected by higher commodity costs (RM ratio at 63.1% vs 53.5/61.1% YoY/QoQ) and increasing other expenses (A&P and Freight costs).
- Higher depreciation and interest cost pulled down the PAT to Rs 417mn (-78% YoY).
- Key takeaways: (1) Demand scenario:** Replacement demand (+23% QoQ, -3% YoY) for PVs and 2Ws witnessed a recovery, however, lagged for truck (TBB) and farm segment. For OEM segment volumes grew by 35%/17% QoQ/YoY majorly led by CV recovery; PV volumes are struggling due to semiconductor shortage issue. **(2) Higher commodity costs suppressing margins:** Commodity costs have witnessed increased MoM, due to which raw materials basket was up by 6.5% in 2QFY22 **(3) Price Hikes:** 4-5% of price hike was taken in the quarter and 2-3% in Oct-21. More price hike is expected in the current quarter due to 3-3.5% increase in RM costs. **(4) Heavy capex plans:** ~Rs 10bn of capex is marked for the year towards capacity expansion, of which Rs 3bn has been utilized in 1HFY22. **(5) Debt levels:** Debt increased by ~2.4b sequentially.

Exhibit 1: Q2FY22 Result Overview - Consolidated (Rs m)

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	QoQ gr. (%)	H1FY22	H1FY21	YoY gr. (%)
Net Revenues	24,323	19,651	23.8	18,978	28.2	43,301	30,813	40.5
Raw Materials	15,359	10,493	46.4	11,638	32.0	26,997	17,189	57.1
<i>% of Net Sales</i>	<i>63.1</i>	<i>53.4</i>		<i>61.3</i>		<i>62.3</i>	<i>55.8</i>	
Personnel	1,700	1,589	7.0	1,753	(3.0)	3,452	3,081	12.0
<i>% of Net Sales</i>	<i>7.0</i>	<i>8.1</i>		<i>9.2</i>		<i>8.0</i>	<i>10.0</i>	
Manufacturing & Other Exp	5,102	4,665	9.4	3,932	29.8	9,034	6,620	36.5
<i>% of Net Sales</i>	<i>21.0</i>	<i>23.7</i>		<i>20.7</i>		<i>20.9</i>	<i>21.5</i>	
Total Expenditure	22,161	16,746	32.3	17,322	27.9	39,483	26,890	46.8
EBITDA	2,163	2,905	(25.6)	1,655	30.7	3,818	3,923	(2.7)
<i>EBITDA Margin (%)</i>	<i>8.9</i>	<i>14.8</i>		<i>8.7</i>		<i>8.8</i>	<i>12.7</i>	
Depreciation	1,206	839	43.7	965	25.0	2,171	1,624	33.6
EBIT	957	2,066	(53.7)	691	38.5	1,648	2,298	(28.3)
Interest Expenses	487	444	9.7	453	7.6	940	927	1.4
Non-operating income	26	42	(38.2)	39	(32.2)	65	191	(66.2)
Extraordinary Expenses	0	32		0		0	32	
PBT	496	1,664.40	(70.2)	277	79.2	773	1,562	(50.6)
Tax-Total	131	-37	(453.6)	77	69.9	208	-98	(312.7)
<i>Tax Rate (%) - Total</i>	<i>26.5</i>	<i>-2.2</i>	<i>(1,286.9)</i>	<i>27.9</i>	<i>(5.2)</i>	<i>27.0</i>	<i>-6.3</i>	<i>(530.0)</i>
Reported PAT	365	1,702	(78.6)	199	82.8	564	1,660	(66.0)
Minority Interest/Share of associates	49	130	(62.4)	79	(38.3)	128	170	(24.4)
PAT after MI	414	1,831	(77.4)	279	48.4	692	1,830	(62.2)
Adj. PAT	419	1,879	(77.7)	250	67.2	669	2,123	(68.5)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	76,096	96,360	1,06,439	1,14,991
YoY gr. (%)	12.3	26.6	10.5	8.0
Cost of Goods Sold	42,663	60,501	64,424	68,959
Gross Profit	33,433	35,859	42,016	46,032
Margin (%)	43.9	37.2	39.5	40.0
Employee Cost	6,755	7,149	8,035	8,572
Other Expenses	16,849	19,937	22,481	24,395
EBITDA	9,830	8,772	11,499	13,065
YoY gr. (%)	35.8	(10.8)	31.1	13.6
Margin (%)	12.9	9.1	10.8	11.4
Depreciation and Amortization	3,396	4,214	4,724	5,349
EBIT	6,433	4,558	6,775	7,716
Margin (%)	8.5	4.7	6.4	6.7
Net Interest	1,755	2,059	2,582	3,203
Other Income	138	176	218	315
Profit Before Tax	4,240	2,751	4,412	4,828
Margin (%)	5.6	2.9	4.1	4.2
Total Tax	516	739	1,112	1,217
Effective tax rate (%)	12.2	26.9	25.2	25.2
Profit after tax	3,724	2,012	3,300	3,611
Minority interest	-	-	-	-
Share Profit from Associate	363	398	317	267
Adjusted PAT	3,581	2,467	3,617	3,878
YoY gr. (%)	17.8	(31.1)	46.6	7.2
Margin (%)	4.7	2.6	3.4	3.4
Extra Ord. Income / (Exp)	506	(56)	-	-
Reported PAT	4,087	2,410	3,617	3,878
YoY gr. (%)	43.9	(41.0)	50.1	7.2
Margin (%)	5.4	2.5	3.4	3.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,087	2,410	3,617	3,878
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	88.5	61.0	89.4	95.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	-	-	-	-
Tangibles	57,924	72,457	82,957	92,457
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	(11,370)	(15,584)	(20,307)	(25,656)
Intangibles	-	-	-	-
Net fixed assets	46,554	56,872	62,649	66,801
Tangibles	46,554	56,872	62,649	66,801
Intangibles	-	-	-	-
Capital Work In Progress	7,279	4,000	4,000	4,000
Goodwill	-	-	-	-
Non-Current Investments	1,270	1,245	1,245	1,245
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	2,107	2,422	2,422	2,422
Current Assets				
Investments	-	-	-	-
Inventories	11,125	16,491	17,553	18,927
Trade receivables	9,223	11,123	13,023	15,447
Cash & Bank Balance	1,934	1,593	3,848	2,750
Other Current Assets	1,238	1,547	1,646	1,775
Total Assets	80,729	95,292	1,06,386	1,13,366
Equity				
Equity Share Capital	405	405	405	405
Other Equity	32,922	34,257	36,816	39,605
Total Networkth	33,326	34,661	37,220	40,010
Non-Current Liabilities				
Long Term borrowings	13,686	17,531	23,831	25,131
Provisions	-	-	-	-
Other non current liabilities	3,625	4,140	4,140	4,140
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	19,436	22,453	23,899	25,770
Other current liabilities	10,445	12,243	13,031	14,051
Total Equity & Liabilities	80,729	95,292	1,06,386	1,13,366

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	4,930	2,638	4,394	4,811
Add. Depreciation	3,396	4,214	4,723	5,349
Add. Interest	-	-	-	-
Less Financial Other Income	138	176	218	315
Add. Other	(425)	23	-	-
Op. profit before WC changes	7,900	6,875	9,118	10,159
Net Changes-WC	6,411	(2,760)	(827)	(1,036)
Direct tax	(453)	(678)	(1,107)	(1,212)
Net cash from Op. activities	13,859	3,436	7,183	7,911
Capital expenditures	(7,535)	(11,569)	(10,500)	(9,500)
Interest / Dividend Income	-	-	-	-
Others	(1,574)	25	-	-
Net Cash from Invt. activities	(9,109)	(11,544)	(10,500)	(9,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,069)	7,899	6,300	1,300
Dividend paid	-	-	-	-
Interest paid	-	-	-	-
Others	(1,013)	(132)	(728)	(809)
Net cash from Fin. activities	(3,082)	7,767	5,572	491
Net change in cash	1,668	(341)	2,255	(1,098)
Free Cash Flow	6,324	(8,133)	(3,317)	(1,589)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	88.5	61.0	89.4	95.9
CEPS	172.5	165.2	206.2	228.1
BVPS	823.9	856.9	920.2	989.1
FCF	156.3	(201.1)	(82.0)	(39.3)
DPS	-	16.0	18.0	20.0
Return Ratio(%)				
RoCE	14.2	9.2	12.0	12.2
ROIC	13.1	6.9	9.6	9.6
RoE	11.4	7.3	10.1	10.0
Balance Sheet				
Net Debt : Equity (x)	0.4	0.5	0.5	0.6
Net Working Capital (Days)	4	20	23	27
Valuation(x)				
PER	14.6	21.2	14.5	13.5
P/B	1.6	1.5	1.4	1.3
P/CEPS	7.5	7.8	6.3	5.7
EV/EBITDA	6.5	7.8	6.3	5.7
EV/Sales	0.8	0.7	0.7	0.7
Dividend Yield (%)	-	1.2	1.4	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	22,125	22,790	18,978	24,323
YoY gr. (%)	26.4	49.6	70.0	23.8
Raw Material Expenses	12,065	13,259	11,638	15,359
Gross Profit	10,060	9,531	7,339	8,965
Margin (%)	45.5	41.8	38.7	36.9
EBITDA	3,258	2,553	1,655	2,163
YoY gr. (%)	78.5	34.4	62.7	(25.6)
Margin (%)	14.7	11.2	8.7	8.9
Depreciation / Depletion	873	899	965	1,206
EBIT	2,386	1,655	691	957
Margin (%)	10.8	7.3	3.6	3.9
Net Interest	412	392	453	487
Other Income	100	31	39	26
Profit before Tax	1,951	1,284	305	491
Margin (%)	8.8	5.6	1.6	2.0
Total Tax	675	(125)	77	131
Effective tax rate (%)	34.6	(9.7)	25.3	26.7
Profit after Tax	1,276	1,409	228	360
Minority interest	2	2	(9)	3
Share Profit from Associates	117	78	70	52
Adjusted PAT	1,310	1,475	328	405
YoY gr. (%)	108.6	256.7	(173.1)	(76.7)
Margin (%)	5.9	6.5	1.7	1.7
Extra Ord. Income / (Exp)	80	10	(21)	4
Reported PAT	1,391	1,485	307	409
YoY gr. (%)	135.9	138.3	(224.4)	(77.1)
Margin (%)	6.3	6.5	1.6	1.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,391	1,485	307	409
Avg. Shares O/s (m)	40	40	40	40
EPS (Rs)	32.4	36.5	8.1	10.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-21	Hold	1,461	1,348
2	22-Jul-21	Hold	1,383	1,367
3	07-Jul-21	Accumulate	1,589	1,338
4	06-May-21	Accumulate	1,472	1,340
5	07-Apr-21	Accumulate	1,667	1,542
6	20-Jan-21	Accumulate	1,434	1,310
7	11-Jan-21	Accumulate	1,297	1,201
8	28-Oct-20	Accumulate	1,223	1,148

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	156	136
2	Bajaj Auto	Hold	3,923	3,829
3	Bharat Forge	Accumulate	897	742
4	CEAT	Hold	1,461	1,348
5	Eicher Motors	Accumulate	2,758	2,821
6	Endurance Technologies	BUY	1,844	1,605
7	Exide Industries	UR	-	184
8	Hero Motocorp	Accumulate	3,057	2,842
9	Mahindra & Mahindra	BUY	978	878
10	Maruti Suzuki	Accumulate	7,888	7,493
11	Motherson Sumi Systems	BUY	249	207
12	Tata Motors	BUY	592	421
13	TVS Motors	BUY	682	577

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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