

November 9, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,775		1,700	
Sales (Rs. m)	1,28,944	1,42,045	1,20,740	1,32,946
% Chng.	6.8	6.8		
EBITDA (Rs. m)	12,513	15,283	12,778	14,948
% Chng.	(2.1)	2.2		
EPS (Rs.)	101.4	152.2	108.5	134.4
% Chng.	(6.6)	13.3		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	93,634	1,13,780	1,28,944	1,42,045
EBITDA (Rs. m)	7,098	8,731	12,513	15,283
Margin (%)	7.6	7.7	9.7	10.8
PAT (Rs. m)	794	1,770	4,102	6,156
EPS (Rs.)	19.6	43.8	101.4	152.2
Gr. (%)	(82.8)	123.1	131.7	50.1
DPS (Rs.)	3.0	18.0	20.0	22.0
Yield (%)	0.2	1.1	1.2	1.4
RoE (%)	2.4	5.3	11.6	15.6
RoCE (%)	5.3	7.3	12.4	15.7
EV/Sales (x)	0.9	0.8	0.6	0.5
EV/EBITDA (x)	12.3	10.0	6.6	5.1
PE (x)	82.4	36.9	15.9	10.6
P/BV (x)	2.0	1.9	1.8	1.6

Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.1,788 / Rs.890
Sensex / Nifty	61,185 / 18,203
Market Cap	Rs.65bn/ \$ 798m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.453.04m

Shareholding Pattern (%)

Promoter's	47.11
Foreign	22.71
Domestic Institution	12.72
Public & Others	17.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.9	48.1	27.4
Relative	(2.1)	32.7	25.1

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CEAT (CEAT IN)

Rating: ACCUMULATE | CMP: Rs1,617 | TP: Rs1,775

Margin recovery in quarters ahead

Quick Pointers:

- Revenue majorly grew 3% QoQ from 4% blended price hike, whereas volumes declined 1.5%.
- Raw material cost basket to witness decline of 2-3% QoQ in 3QFY23.

CEAT reported revenue growth of 3% QoQ at Rs 28.8bn, largely led by ~4% blended price increase over 1Q. Overall volumes declined 1.5% QoQ. EBITDA margin at 7.1% expanded 120bps QoQ, led by improved realization. However, margins still remain below pre-COVID levels owing to reduced share from replacement sales (53% of sales currently vs ~60% earlier). Going ahead, domestic demand is expected to remain steady, whereas, exports could be under pressure in the near term owing to global recessionary scenario. Margins are likely to improve in the quarters ahead, as commodities have corrected within 15-25% range in last 6 months (RM cost basket inflated 4% in 2Q and is expected to decline 2-3% in 3Q). Debt levels may increase in 2HFY23 (up by ~Rs 2bn in 1HFY23) on the back of working capital and capex requirements.

Although near term low export volumes, moderate growth in replacement sales and higher interest costs may put pressure on profitability, yet moderation in commodity cost coupled further price hikes would aid margin expansion, in our view. We increase our FY24/25E revenue estimates by 7% each, to factor demand recovery across segment and price hikes. Maintain 'Accumulate' with revised TP of Rs 1,775 at 14x Sep-24E consolidated EPS.

- 2QFY23 performance:** Standalone revenue at Rs 28.8bn grew 3% QoQ. This was majorly led by blended price hike of 4%, whereas volumes declined by 1.5%. Gross margins expanded 80bps QoQ to 32.4% owing to softening of commodity costs. EBITDA margin came in 7.1% (PLe: 7.3%) vs 5.9% sequentially. The company reported an exceptional loss of Rs 237mn towards VRS (Rs 232mn) and currency devaluation in Sri Lanka (Rs 5mn). APAT came in at Rs 472mn (Rs 363mn YoY).
- Key takeaways: (1) 2QFY23 volumes:** On replacement side – 2W witnessed moderate growth over 1Q, whereas PV remained flat; CV and tractors were weak. OEM demand - 2W continued to see some growth while PV and CV were flattish. Overall volumes decline 1.5% QoQ and grew 7% YoY. Export volumes were impacted by macro headwinds. **(2) Demand outlook:** Management guided that domestic demand environment would remain steady. Rural markets are expected to do well on the back of improved sentiments, water availability and higher agri-output prices. However, export demand may remain under pressure given global recessionary scenario. **(3) Margin improvement in quarters ahead:** 2Q witnessed 120bps QoQ margin expansion despite lower sequential volumes, owing to ~4% blended price hike. 8-9% price was increased for 2Ws. Management plans to take 1% increase in 3Q as well. RM cost basket inflated 4% in 2Q and is expected to decline 2-3% in 3Q. We expect the benefit of these price hikes and 15-25% correction in commodity costs to flow into margins in 2HFY23.

Exhibit 1: Q2FY23 Result Overview (Rs mn)

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Net Revenues	28,864	24,323	18.7	28,031	3.0	56,895	43,301	31.4
Raw Materials	19,511	15,359	27.0	19,165	1.8	38,676	26,997	43.3
<i>% of Net Sales</i>	<i>67.6</i>	<i>63.1</i>		<i>68.4</i>		<i>68.0</i>	<i>62.3</i>	
Personnel	1,638	1,700	(3.6)	1,696	(3.4)	3,334	3,452	(3.4)
<i>% of Net Sales</i>	<i>5.7</i>	<i>7.0</i>		<i>6.1</i>		<i>5.9</i>	<i>8.0</i>	
Manufacturing & Other Exp	5,656	5,102	10.9	5,528	2.3	11,184	9,034	23.8
<i>% of Net Sales</i>	<i>19.6</i>	<i>21.0</i>		<i>19.7</i>		<i>19.7</i>	<i>20.9</i>	
Total Expenditure	26,805	22,161	21.0	26,389	1.6	53,194	39,483	34.7
EBITDA	2,059	2,163	(4.8)	1,642	25.4	3,701	3,818	(3.1)
<i>EBITDA Margin (%)</i>	<i>7.1</i>	<i>8.9</i>		<i>5.9</i>		<i>6.5</i>	<i>8.8</i>	
Depreciation	1,151	1,206	(4.6)	1,114	3.3	2,265	2,171	4.3
EBIT	907	957	(5.1)	528	71.7	1,436	1,648	(12.9)
Interest Expenses	568	487	16.6	514	10.5	1,082	940	15.1
Non-operating income	307	26	1,077.8	28	1,013.8	335	65	418.6
Extraordinary Expenses	(237)	(5)	4,547.1	(7)		(244)	(5)	4,686.3
PBT	410	491	(16.4)	35	1,075.1	445	768	(42.0)
Tax-Total	111	131	(15.4)	9	1,080.9	120	208	(42.2)
<i>Tax Rate (%) - Total</i>	<i>27.1</i>	<i>26.7</i>		<i>26.9</i>		<i>27.1</i>	<i>27.1</i>	
Reported PAT	299	360	(16.8)	26	1,072.9	325	559	(42.0)
Adj. PAT	472	363	29.9	31	1,437.9	503	563	(10.7)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	93,634	1,13,780	1,28,944	1,42,045
YoY gr. (%)	23.0	21.5	13.3	10.2
Cost of Goods Sold	60,276	76,119	84,200	91,335
Gross Profit	33,358	37,661	44,744	50,710
Margin (%)	35.6	33.1	34.7	35.7
Employee Cost	6,938	7,084	7,732	8,438
Other Expenses	19,322	21,846	24,499	26,988
EBITDA	7,098	8,731	12,513	15,283
YoY gr. (%)	(27.8)	23.0	43.3	22.1
Margin (%)	7.6	7.7	9.7	10.8
Depreciation and Amortization	4,352	4,598	5,156	5,561
EBIT	2,746	4,133	7,356	9,722
Margin (%)	2.9	3.6	5.7	6.8
Net Interest	2,070	2,260	2,429	2,229
Other Income	114	251	200	240
Profit Before Tax	661	1,880	5,127	7,733
Margin (%)	0.7	1.7	4.0	5.4
Total Tax	243	451	1,282	1,933
Effective tax rate (%)	36.7	24.0	25.0	25.0
Profit after tax	418	1,429	3,845	5,800
Minority interest	(6)	(6)	(6)	(6)
Share Profit from Associate	288	150	250	350
Adjusted PAT	794	1,770	4,102	6,156
YoY gr. (%)	(82.8)	123.1	131.7	50.1
Margin (%)	0.8	1.6	3.2	4.3
Extra Ord. Income / (Exp)	82	186	-	-
Reported PAT	712	1,585	4,102	6,156
YoY gr. (%)	(83.5)	122.6	158.8	50.1
Margin (%)	0.8	1.4	3.2	4.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	712	1,585	4,102	6,156
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	19.6	43.8	101.4	152.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	-	-	-	-
Tangibles	69,167	79,167	87,167	95,167
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	(15,945)	(20,544)	(25,700)	(31,261)
Intangibles	-	-	-	-
Net fixed assets	53,222	58,623	61,467	63,906
Tangibles	53,222	58,623	61,467	63,906
Intangibles	-	-	-	-
Capital Work In Progress	8,759	7,299	5,615	4,319
Goodwill	-	-	-	-
Non-Current Investments	1,792	1,792	1,792	1,792
Net Deferred tax assets	(3,177)	(3,177)	(3,177)	(3,177)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	13,096	15,913	18,034	19,866
Trade receivables	11,543	12,469	12,364	13,621
Cash & Bank Balance	363	2,997	5,741	9,016
Other Current Assets	2,047	2,211	2,388	2,579
Total Assets	91,534	1,02,087	1,08,263	1,16,046
Equity				
Equity Share Capital	405	405	405	405
Other Equity	32,324	33,180	36,473	41,739
Total Network	32,728	33,585	36,877	42,144
Non-Current Liabilities				
Long Term borrowings	22,289	25,289	23,289	21,289
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	21,576	27,120	30,735	33,857
Other current liabilities	11,529	12,681	13,949	15,344
Total Equity & Liabilities	91,533	1,02,087	1,08,263	1,16,046

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,040	4,289	7,612	10,078
Add. Depreciation	4,352	4,598	5,156	5,561
Add. Interest	114	251	200	240
Less Financial Other Income	114	251	200	240
Add. Other	(129)	(244)	-	-
Op. profit before WC changes	7,377	8,894	12,969	15,879
Net Changes-WC	(1,424)	2,719	2,611	1,152
Direct tax	134	(451)	(1,282)	(1,933)
Net cash from Op. activities	6,087	11,162	14,298	15,098
Capital expenditures	(10,770)	(8,540)	(6,316)	(6,704)
Interest / Dividend Income	-	-	-	-
Others	309	-	-	-
Net Cash from Invst. activities	(10,460)	(8,540)	(6,316)	(6,704)
Issue of share cap. / premium	(1,022)	-	-	-
Debt changes	7,519	3,000	(2,000)	(2,000)
Dividend paid	(121)	(728)	(809)	(890)
Interest paid	(2,070)	(2,260)	(2,429)	(2,229)
Others	-	-	-	-
Net cash from Fin. activities	4,305	12	(5,238)	(5,119)
Net change in cash	(68)	2,634	2,744	3,275
Free Cash Flow	(4,683)	2,622	7,982	8,394

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	19.6	43.8	101.4	152.2
CEPS	127.2	157.4	228.9	289.7
BVPS	809.1	830.3	911.7	1,041.9
FCF	(115.8)	64.8	197.3	207.5
DPS	3.0	18.0	20.0	22.0
Return Ratio(%)				
RoCE	5.3	7.3	12.4	15.7
ROIC	3.4	5.8	10.3	13.8
RoE	2.4	5.3	11.6	15.6
Balance Sheet				
Net Debt : Equity (x)	0.7	0.7	0.5	0.3
Net Working Capital (Days)	12	4	(1)	(1)
Valuation(x)				
PER	82.4	36.9	15.9	10.6
P/B	2.0	1.9	1.8	1.6
P/CEPS	12.7	10.3	7.1	5.6
EV/EBITDA	12.3	10.0	6.6	5.1
EV/Sales	0.9	0.8	0.6	0.5
Dividend Yield (%)	0.2	1.1	1.2	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	24,061	25,764	28,031	28,864
YoY gr. (%)	8.8	13.0	47.7	18.7
Raw Material Expenses	15,919	17,206	19,165	19,511
Gross Profit	8,143	8,559	8,866	9,353
Margin (%)	33.8	33.2	31.6	32.4
EBITDA	1,322	1,853	1,642	2,059
YoY gr. (%)	(59.4)	(27.4)	(0.8)	(4.8)
Margin (%)	5.5	7.2	5.9	7.1
Depreciation / Depletion	1,086	1,095	1,114	1,151
EBIT	237	758	528	907
Margin (%)	1.0	2.9	1.9	3.1
Net Interest	541	560	514	568
Other Income	189	46	28	307
Profit before Tax	(180)	185	35	410
Margin (%)	(0.7)	0.7	0.1	1.4
Total Tax	(31)	52	9	111
Effective tax rate (%)	17.4	28.2	26.9	27.1
Profit after Tax	(149)	133	26	299
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(95)	175	31	472
YoY gr. (%)	(107.0)	(87.7)	(84.6)	29.9
Margin (%)	(0.4)	0.7	0.1	1.6
Extra Ord. Income / (Exp)	54	42	5	173
Reported PAT	(149)	133	26	299
YoY gr. (%)	(111.7)	(90.6)	(87.2)	(16.8)
Margin (%)	(0.6)	0.5	0.1	1.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(149)	133	26	299
Avg. Shares O/s (m)	40	40	-	-
EPS (Rs)	(2.3)	4.3	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	Accumulate	1,700	1,561
2	08-Jul-22	UR	-	1,122
3	11-Apr-22	UR	-	1,108
4	20-Jan-22	Hold	1,174	1,135
5	12-Jan-22	Hold	1,316	1,214

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	156
2	Bajaj Auto	Hold	3,865	3,571
3	Bharat Forge	BUY	875	707
4	CEAT	Accumulate	1,700	1,561
5	Eicher Motors	BUY	4,225	3,548
6	Endurance Technologies	BUY	1,590	1,412
7	Exide Industries	UR	-	157
8	Hero Motocorp	BUY	3,175	2,598
9	InterGlobe Aviation	Accumulate	2,015	1,798
10	Mahindra & Mahindra	BUY	1,500	1,262
11	Maruti Suzuki	BUY	10,230	9,493
12	Tata Motors	BUY	570	408
13	TVS Motors	BUY	1,275	1,114

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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