

January 27, 2023

Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,825		1,775	
Sales (Rs. m)	1,25,364	1,36,152	1,28,944	1,42,045
% Chng.	(2.8)	(4.1)		
EBITDA (Rs. m)	12,577	14,868	12,513	15,283
% Chng.	0.5	(2.7)		
EPS (Rs.)	98.9	140.9	101.4	152.2
% Chng.	(2.5)	(7.4)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	93,634	1,13,802	1,25,364	1,36,152
EBITDA (Rs. m)	7,098	9,076	12,577	14,868
Margin (%)	7.6	8.0	10.0	10.9
PAT (Rs. m)	794	1,714	4,000	5,698
EPS (Rs.)	19.6	42.4	98.9	140.9
Gr. (%)	(82.8)	116.0	133.4	42.4
DPS (Rs.)	3.0	18.0	20.0	22.0
Yield (%)	0.2	1.1	1.3	1.4
RoE (%)	2.4	5.2	11.4	14.6
RoCE (%)	5.3	7.8	12.5	15.2
EV/Sales (x)	0.9	0.8	0.7	0.6
EV/EBITDA (x)	12.1	9.5	6.5	5.2
PE (x)	80.8	37.4	16.0	11.3
P/BV (x)	2.0	1.9	1.7	1.5

Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.1,981 / Rs.890
Sensex / Nifty	60,205 / 17,892
Market Cap	Rs.64bn/ \$ 786m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.381.33m

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	2.0	31.7	48.3
Relative	1.4	22.0	42.5

Himanshu Singh

himanshuksingh@plindia.com |

Mansi Lall

mansilall@plindia.com | 91-22-66322391

CEAT (CEAT IN)

Rating: ACCUMULATE | CMP: Rs1,585 | TP: Rs1,825

Margins inching up led by RM cost correction

Quick Pointers:

- Revenue at Rs 27bn declined 6% QoQ led by volume decline (-6.5% QoQ, growth of low-single digit YoY).
- Raw material cost basket to witness decline of 2-3% QoQ in 4QFY23.

We reduce our EPS estimates by 2/7% for FY24/25, to factor in weak volumes in replacement, exports and 2W OEM segments. In 3QFY23, CEAT's revenue at Rs 27bn came in 3% below estimates led by higher than expected decline in QoQ volumes (-6.5% QoQ, growth of lower-single digit YoY). Management highlighted that demand for higher prices category i.e. Trucks/Buses/UVs continues to fare better than lower priced 2Ws, especially motorcycles. Replacement demand remains sluggish. In the near-term, exports may face some brunt due to recessionary environment. Margins to improve in quarters ahead, as commodity basket decline 4% QoQ in 3Q; and will further decline by 2-3% in 4Q.

In the near-term, low export volumes, moderate growth in replacement sales and higher interest costs may put pressure on profitability. Yet correction in commodity cost coupled with further price hikes would aid margin expansion, in our view. Maintain 'Accumulate' with revised TP of Rs 1,825 at 14x Dec-24E consolidated EPS (Rs 1,775 earlier 14x on Sep-24E EPS).

- Revenue miss caused by lower-than-expected volumes:** CEAT's revenue at Rs 27bn came in 3% below estimates led by higher than expected decline in volumes (-6.5% QoQ, growth of lower-single digit YoY). No major price hikes were taken during the quarter.
- EBITDA margin expansion driven by softening of RM costs:** Gross margins expanded ~220bps QoQ as benefit of lower commodity costs kicked in during the quarter. CEAT's commodity basket cost reduced by ~4% vs 2QFY23. EBITDA margin came in at 8.7% (+160bps QoQ, PLe: 8%). It reported a PAT of Rs 418mn (+40% QoQ) vs PLe: 485mn.
- Key takeaways:** (1) **3QFY23 volumes:** 3Q, usually being a seasonally weak quarter for the industry, CEAT's volumes declined 6.5% QoQ. YoY growth of lower-single digit, is majorly driven by OEM segment. Replacement was flattish. Exports witnessed a decline YoY. (2) **Demand outlook:** Management highlighted that higher categories (Trucks, Buses, UVs) are performing relatively better compared to the base category of 2Ws – it remains impacted due to inflationary pressure. Domestic scenario is steady and inflationary pressure has moderated. Rural demand is yet to come back to normalcy - rural sentiments are expected to improve with better Rabi output. (3) **Commodity cost softening:** CEAT's commodity basket cost reduced by ~4% QoQ, and is further expected to decline by 2-3% in 4Q. Though crude prices inched up in 3Q, it is still quite stable. Rubber prices have softened. (4) **Exports:** Along with the current weak macros, recessionary pressures could also impact volumes in the near-term.

Exhibit 1: Q3FY23 Result Overview (Rs mn)

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Revenues	27,111	24,061	12.7	28,864	(6.1)	84,005	67,362	24.7
Raw Materials	17,734	15,919	11.4	19,511	(9.1)	56,410	42,916	31.4
<i>% of Net Sales</i>	<i>65.4</i>	<i>66.2</i>		<i>67.6</i>		<i>67.2</i>	<i>63.7</i>	
Personnel	1,807	1,701	6.3	1,638	10.3	5,141	5,153	(0.2)
<i>% of Net Sales</i>	<i>6.7</i>	<i>7.1</i>		<i>5.7</i>		<i>6.1</i>	<i>7.6</i>	
Manufacturing & Other Exp	5,204	5,120	1.6	5,656	(8.0)	16,388	14,153	15.8
<i>% of Net Sales</i>	<i>19.2</i>	<i>21.3</i>		<i>19.6</i>		<i>19.5</i>	<i>21.0</i>	
Total Expenditure	24,745	22,739	8.8	26,805	(7.7)	77,938	62,221	25.3
EBITDA	2,366	1,322	78.9	2,059	14.9	6,067	5,141	18.0
<i>EBITDA Margin (%)</i>	<i>8.7</i>	<i>5.5</i>		<i>7.1</i>		<i>7.2</i>	<i>7.6</i>	
Depreciation	1,175	1,086	8.2	1,151	2.0	3,440	3,256	5.6
EBIT	1,191	237	402.9	907	31.3	2,627	1,885	39.4
Interest Expenses	650	541	20.2	568	14.4	1,732	1,480	17.0
Non-operating income	29	189	(84.5)	307	(90.5)	364	253	43.8
Extraordinary Expenses	(5)	(65)	(93.1)	(237)		(249)	(70)	253.6
PBT	566	(180)	(414.5)	410	38.1	1,011	588	72.1
Tax-Total	148	(31)	(572.3)	111	33.6	269	177	51.8
<i>Tax Rate (%) - Total</i>	<i>26.2</i>	<i>17.4</i>		<i>27.1</i>		<i>26.6</i>	<i>30.1</i>	
Reported PAT	418	(149)	(381.2)	299	39.8	743	411	80.8
Adj. PAT	421	(95)	(544.2)	472	(10.7)	925	460	101.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	93,634	1,13,802	1,25,364	1,36,152
YoY gr. (%)	23.0	21.5	10.2	8.6
Cost of Goods Sold	60,276	75,792	80,985	87,001
Gross Profit	33,358	38,010	44,379	49,151
Margin (%)	35.6	33.4	35.4	36.1
Employee Cost	6,938	7,084	7,732	8,277
Other Expenses	19,322	21,850	24,070	26,005
EBITDA	7,098	9,076	12,577	14,868
YoY gr. (%)	(27.8)	27.9	38.6	18.2
Margin (%)	7.6	8.0	10.0	10.9
Depreciation and Amortization	4,352	4,635	5,156	5,561
EBIT	2,746	4,440	7,421	9,307
Margin (%)	2.9	3.9	5.9	6.8
Net Interest	2,070	2,450	2,477	2,273
Other Income	114	171	200	220
Profit Before Tax	661	1,912	5,144	7,254
Margin (%)	0.7	1.7	4.1	5.3
Total Tax	243	511	1,373	1,886
Effective tax rate (%)	36.7	26.7	26.7	26.0
Profit after tax	418	1,402	3,770	5,368
Minority interest	(6)	(30)	(30)	(30)
Share Profit from Associate	288	100	200	300
Adjusted PAT	794	1,714	4,000	5,698
YoY gr. (%)	(82.8)	116.0	133.4	42.4
Margin (%)	0.8	1.5	3.2	4.2
Extra Ord. Income / (Exp)	82	182	-	-
Reported PAT	712	1,532	4,000	5,698
YoY gr. (%)	(83.5)	115.1	161.1	42.4
Margin (%)	0.8	1.3	3.2	4.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	712	1,532	4,000	5,698
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	19.6	42.4	98.9	140.9

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)	(20,581)	(25,737)	(31,298)
Intangibles	-	-	-	-
Net fixed assets	53,222	58,586	61,430	63,869
Tangibles	53,222	58,586	61,430	63,869
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	15,916	17,533	19,042
Trade receivables	11,543	12,471	12,021	13,056
Cash & Bank Balance	363	2,980	5,614	8,425
Other Current Assets	2,047	2,211	2,388	2,579
Total Assets	91,534	1,02,040	1,07,255	1,14,029
Equity				
Equity Share Capital	405	405	405	405
Other Equity	32,324	33,127	36,319	41,126
Total Network	32,728	33,532	36,723	41,531
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	27,125	29,881	32,453
Other current liabilities	11,529	12,681	13,949	15,344
Total Equity & Liabilities	91,533	1,02,040	1,07,255	1,14,029

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	3,040	4,570	7,651	9,637
Add. Depreciation	4,352	4,635	5,156	5,561
Add. Interest	114	171	200	220
Less Financial Other Income	114	171	200	220
Add. Other	(129)	(249)	-	-
Op. profit before WC changes	7,377	9,128	13,007	15,418
Net Changes-WC	(1,424)	2,719	2,602	1,146
Direct tax	134	(511)	(1,373)	(1,886)
Net cash from Op. activities	6,087	11,336	14,236	14,678
Capital expenditures	(10,770)	(8,540)	(6,316)	(6,704)
Interest / Dividend Income	-	-	-	-
Others	309	-	-	-
Net Cash from Invt. 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)	(2,450)	(2,477)	(2,273)
Others	-	-	-	-
Net cash from Fin. activities	4,305	(178)	(5,286)	(5,163)
Net change in cash	(68)	2,617	2,634	2,811
Free Cash Flow	(4,683)	2,796	7,920	7,974

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	19.6	42.4	98.9	140.9
CEPS	127.2	157.0	226.4	278.3
BVPS	809.1	829.0	907.9	1,026.7
FCF	(115.8)	69.1	195.8	197.1
DPS	3.0	18.0	20.0	22.0
Return Ratio(%)				
RoCE	5.3	7.8	12.5	15.2
ROIC	3.4	6.0	10.1	13.0
RoE	2.4	5.2	11.4	14.6
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	80.8	37.4	16.0	11.3
P/B	2.0	1.9	1.7	1.5
P/CEPS	12.5	10.1	7.0	5.7
EV/EBITDA	12.1	9.5	6.5	5.2
EV/Sales	0.9	0.8	0.7	0.6
Dividend Yield (%)	0.2	1.1	1.3	1.4

Source: Company Data, PL Research

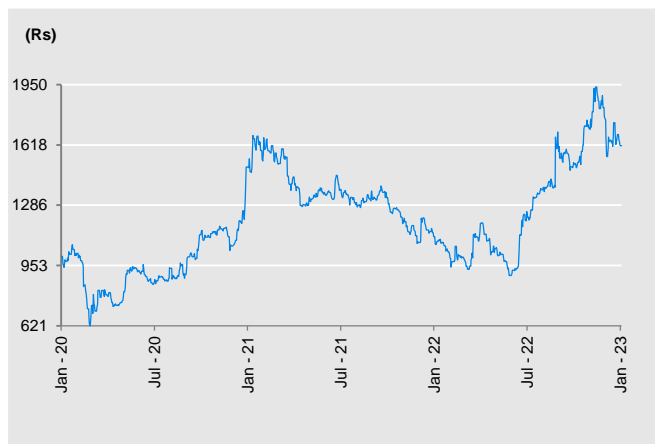
Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	25,764	28,031	28,864	27,111
YoY gr. (%)	13.0	47.7	18.7	12.7
Raw Material Expenses	17,206	19,165	19,511	17,734
Gross Profit	8,559	8,866	9,353	9,377
Margin (%)	33.2	31.6	32.4	34.6
EBITDA	1,853	1,642	2,059	2,366
YoY gr. (%)	(27.4)	(0.8)	(4.8)	78.9
Margin (%)	7.2	5.9	7.1	8.7
Depreciation / Depletion	1,095	1,114	1,151	1,175
EBIT	758	528	907	1,191
Margin (%)	2.9	1.9	3.1	4.4
Net Interest	560	514	568	650
Other Income	46	28	307	29
Profit before Tax	185	35	410	566
Margin (%)	0.7	0.1	1.4	2.1
Total Tax	52	9	111	148
Effective tax rate (%)	28.2	26.9	27.1	26.2
Profit after Tax	133	26	299	418
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	175	31	472	421
YoY gr. (%)	(87.7)	(84.6)	29.9	(544.2)
Margin (%)	0.7	0.1	1.6	1.6
Extra Ord. Income / (Exp)	42	5	173	3
Reported PAT	133	26	299	418
YoY gr. (%)	(90.6)	(87.2)	(16.8)	(381.2)
Margin (%)	0.5	0.1	1.0	1.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	133	26	299	418
Avg. Shares O/s (m)	40	-	-	-
EPS (Rs)	4.3	-	-	-

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	Accumulate	1,775	1,611
2	09-Nov-22	Accumulate	1,775	1,617
3	06-Oct-22	Accumulate	1,700	1,561
4	08-Jul-22	UR	-	1,122
5	11-Apr-22	UR	-	1,108

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Maruti Suzuki	BUY	10,600	8,699
2	TVS Motors	BUY	1,240	984

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

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Himanshu Singh- MMS-Finance, Ms. Mansi Lall- MBA Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have 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

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Himanshu Singh- MMS-Finance, Ms. Mansi Lall- MBA Finance Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com