

CEAT LIMITED | Auto Components

On a smooth terrain

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CEAT posted a robust performance in Q4 FY23 wherein margins were the highlight at 12.8%, 420 bps up qoq and 560 bps up yoy. This was a result of lower rubber and crude prices in the quarter and improvement in the underlying auto volumes. Topline went up by 11% yoy and 5.6% qoq in the quarter to ₹28.5 bn. Volumes were up by 6% yoy as TBR and PCR tyres both showed traction. Raw material to sales declined to 59.9% down from 65.6% qoq and 66.5% yoy. This was somewhat offset by employee costs (7.4% v/s 6.7% qoq and 6.6% yoy) and other expenses (19.9% v/s 19.2% qoq and 19.7% yoy) on higher ad spends led by WPL and other aggressive ad campaigns. Depreciation and interest costs moved up by 12% and 28% respectively yoy. Adjusted PAT moved up strongly at ₹1.34 bn on the back of strong operating profits.

Volume growth to show an all-round performance in the ensuing years

In Q4, CEAT reported overall volume growth of 6% (in FY23 11%). Structurally, we believe the demand is expected to improve further over the medium-term with increasing fleet utilization levels and personal mobility trends. Also, in farm segment, performance is expected to improve with improving volumes from Q1 FY24 onwards. CEAT is targeting to improve its market share in PCR segment from 15% levels currently to ~20% levels over the next three-four years with launch of premium range of tyres in passenger car segment. In TBR segment, CEAT is targeting market share increase from 8% levels currently to ~13% levels. CEAT is also working extensively on building a strong brand image through extensive and innovative marketing campaigns. CEAT Shoppes are being revamped across India to act as premium touch-points for consumers with an aim to deliver interactive and engaging digital experience.

Within exports, the company expects demand for OTR to accelerate. The company has taken several initiatives to expand overseas market presence and is further focused on improving the exports contribution to ~25% levels structurally. CEAT has launched truck radial tyres for European markets which will further help the company make greater inroads in these larger export markets. CEAT has also launched "Winter Drive" range of products in Europe which will provide complete range of winter tyres for the automotive segment.

Key Financials	FY 22	FY 23	FY 24E	FY 25E
Total sales (₹ bn)	94	113	128	143
EBITDA margins (%)	7.6%	8.6%	10.3%	11.2%
PAT margins (%)	0.9%	1.9%	3.5%	4.2%
EPS (₹)	20.6	53.3	110.3	149.4
P/E (x)	83.0	32.1	15.5	11.4
P/BV (x)	2.1	2.0	1.8	1.6
EV/EBITDA (x)	13.1	9.5	7.1	5.6
ROE (%)	2.5%	6.2%	11.7%	14.2%
ROCE (%)	4.2%	7.3%	10.9%	13.5%
Dividend yield (%)	1.1%	0.2%	1.3%	2.2%

Rating	BUY
Current Market Price (₹)	1,710
12 M Price Target (₹)	2,091
Potential upside (%)	22

Stock Data

FV (₹) :	10
Total Market Cap (₹ bn) :	6,923
Free Float Market Cap (₹ bn) :	3,600
52-Week High / Low (₹) :	1,981 / 890
1 Yr Avg. Dly Traded Volume (in lakh)	2.1
BSE Code / NSE Symbol	500878 / CEAT
Bloomberg :	CEAT IN

Shareholding Pattern

(%)	Mar-23	Dec-22	Sep-22	Jun-22
Promoter	47.21	47.21	47.21	47.21
FPIs	23.29	24.08	23.77	22.45
MFs	11.08	10.39	9.45	7.53
Insurance	2.36	2.44	2.18	3.49
Others	16.06	15.88	17.39	19.32

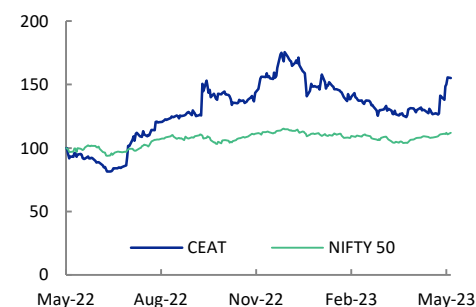
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
CEAT	19.5%	11.4%	5.9%	55.2%
Nifty 50	3.8%	2.2%	0.3%	12.0%

* To date / current date : May 8, 2023

CEAT vs Nifty 50



Capacity expansion

CEAT will increase OTR capacity from 105 tonne/day to 150 tonne/day by the end of FY24 at Ambernath plant. For capacity expansion, the company will spend ₹5-5.5 bn in FY24 (including Ambernath plant), which is less than what the company incurred in FY 23 at ₹7 bn as growth capex.

OEM partnerships for new launches to provide strong headroom for growth

CEAT has partnered as a preferred tyre player with OEMs for launches like Mahindra Thar, Mahindra XUV 400, Daimler Trucks, Renault Kiger, Nissan Magnite, MG Comet, MG ZS EV, Citroen E-C3, Hyundai i20, Royal Enfield Meteor and many others. Considering the end consumers preference to replace the tyres with OE fitment, CEAT is expected to benefit from this strategy in the long run. CEAT will be supplying tyres for many new model upgrades that are to be launched in the market, which is expected to drive volume growth in the OEM segment. The company has also launched tyres for EV platform across segments under Ceat Energy drive: Winenergy X3-R EV for electric buses, energy ride for e-2W segment. The company has ~50%+ market share in the e-2W OEM segment.

Margin improvement is on the cards

CEAT's margins grew handsomely in Q4 at 12.8%. During full year, the margins came in at 8.6%. The company's focus now lies in improving it. CEAT has diversified into high margin OTR tyres and is targeting to improve revenue contribution from OTR to ~10% levels, up from ~5% currently. Further, increasing exports business is likely to drive margin improvement going forward. ~18% cumulative price hikes have been taken in the last 21 months to pass-through the elevated commodity prices. Advertising spending likely to be increased during Q1 FY24 due to IPL. Raw material basket cost reduced ~8-9% over Q3 FY23 which resulted in gross margin expansion. Going forward, we expect raw material basket to be stable for Q1 FY24 as growth in natural rubber prices (from its lows in the last quarter) is expected to be offset by fall in crude prices. In the OEM segment, the company has automatic pass-through at a quarter lag. In the medium-term, we expect EBITDA margin to improve to 11-12% levels mainly on improved product mix, price hikes and launches of high margin products.

Outlook and Valuation

CEAT posted robust performance in Q4. Going forward, CEAT is expected to improve performance in both OEM and replacement demand aided by increase in the capacity. Export market is expected to show upticks in the coming quarters and rising demand in its underlying segments. CEAT is well placed to improve the market standing with strong brand equity developed over the last decade and improving its product portfolio targeting premium vehicle segments and new markets like EV tyre. Going forward, we expect the margin profile to stabilize ~12% levels with cost control measures and better operating leverage. We believe the company is in the right direction to improve the market share in PCR/TBR tyres and expect CEAT to outperform the industry. With outlook of reduced capex, dipping financial leverage, improving return ratios and positive FCF, we remain sanguine on the stock. At CMP, the stock is trading at 11.5x FY25E. We assign a target multiple of 14x to value to the stock with a target price of ₹2,091. Maintain BUY.

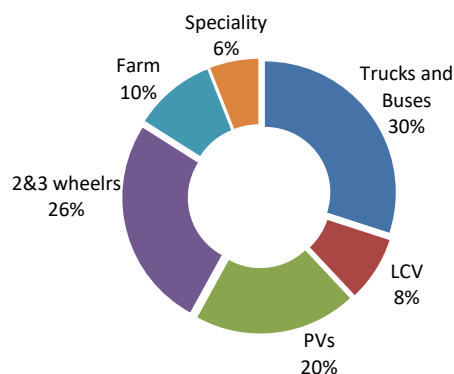
Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY23	Q3 FY23	% qoq	Q4 FY22	% yoy
Revenues	28,748	27,227	5.6%	25,920	11%
Total RM costs	17,217	17,852	-4%	17,231	0%
Employee expenses	2,138	1,818	18%	1,719	24%
Other expenses	5,713	5,226	9%	5,094	12%
EBITDA	3,680	2,331	58%	1,875	96%
% margins	12.8%	8.6%	420 bps	7.2%	560 bps
Depreciation	1,253	1,175	7%	1,096	14%
EBIT	2,427	1,156	110%	779	211%
Other income	24	20	18%	33	-27%
Interest costs	666	657	1%	566	18%
PBT	1,785	520	244%	246	625%
Tax	450	150	201%	10	4496%
Adj net profits	1,335	370	261%	236	465%
Share of profits fro JVs & subs	77	(62)	-224%	77	0%
Recurring PAT	1,412	308	358%	254	455%
Exceptionaal items	86	5	N/A	(59)	N/A
Reported PAT	1,249	374	234%	178	603%

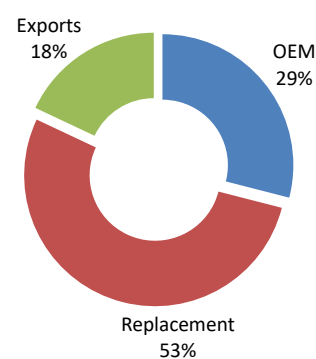
Source: Company, LKP Research

Revenue mix FY23

Revenue mix by product segment (%)



Revenue mix by channel (%)



Source: Company, LKP Research

Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Total Revenues	93,634	1,13,149	1,28,311	1,42,784
Raw Material Cost	60,276	73,854	82,761	90,668
Employee Cost	6,938	7,352	7,442	7,853
Other Exp	19,322	22,205	24,892	28,271
EBITDA	7,098	9,738	13,216	15,992
EBITDA Margin(%)	7.6%	8.6%	10.3%	11.2%
Depreciation	4,352	4,693	5,334	6,074
EBIT	2,746	5,045	7,882	9,918
EBIT Margin(%)	2.9%	4.5%	6.1%	6.9%
Other Income	114	169	175	190
Interest	2070	2421	2157	2068
PBT	790	2,794	5,901	8,040
PBT Margin(%)	0.8%	2.5%	4.6%	5.6%
Tax	243	718	1,534	2,090
Adjusted PAT	547	2,076	4,366	5,949
APAT Margins (%)	0.9%	1.9%	3.5%	4.2%
Minority and share of associates	287	82	100	100
Recurring PAT	834	2,158	4,466	6,049
% margins	0.9%	1.9%	3.5%	4.2%
Exceptional items	-129	-334	0	0
Reported PAT	547	2,076	4,366	5,949
Reported PAT Margins (%)	0.6%	1.8%	3.4%	4.2%

Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 24E
Per Share Data (₹)				
EPS	20.6	53.3	110.3	149.4
CEPS	128.1	169.2	242.0	299.4
BVPS	813.9	853.6	941.8	1053.8
DPS	18.4	3.1	22.1	37.3
Growth Ratios(%)				
Total revenues	23.0%	20.8%	13.4%	11.3%
EBITDA	-27.8%	37.2%	35.7%	21.0%
EBIT	-57.3%	83.7%	56.2%	25.8%
PAT	-87.3%	279.3%	110.3%	36.3%
Valuation Ratios (X)				
PE	83.0	32.1	15.5	11.4
P/CEPS	13.4	10.1	7.1	5.7
P/BV	2.1	2.0	1.8	1.6
EV/Sales	1.0	0.8	0.7	0.6
EV/EBITDA	13.1	9.5	7.1	5.6
Operating Ratios (Days)				
Inventory days	79.3	56.2	60.0	64.0
Receivable Days	45.0	42.2	43.0	43.0
Payables day	81.0	70.6	72.0	73.0
Net Debt/Equity (x)	0.73	0.70	0.66	0.60
Profitability Ratios (%)				
ROCE	4.2%	7.3%	10.9%	13.5%
ROE	2.5%	6.2%	11.7%	14.2%
Dividend payout ratio (%)	105.8%	6.9%	20.0%	25.0%
Dividend yield(%)	1.1%	0.2%	1.3%	2.2%

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities				
Equity Share Capital	405	405	405	405
Reserves & Surplus	32,324	33,992	37,565	42,102
Minority interest	235	174	174	174
Total Networkth	32,964	34,570	38,143	42,681
Total debt	17,608	14,594	15,594	16,094
Deferred tax assets/liabilities	3,177	3,886	3,886	3,886
Other current liabilities	1,222	1,784	1,784	1,784
Total non-current liab and provs	22,007	20,264	21,264	21,764
Current Liabilities				
Trade payables	20,771	21,871	25,311	28,557
Short term provs+ borrowings	7,716	11,153	11,153	11,153
Other current liabilities	8,146	8,421	8,421	8,421
Total current liab and provs	36,634	41,444	44,884	48,131
Total Equity & Liabilities	91,604	96,278	1,04,466	1,12,749
Assets				
Net block	50,166	57,163	59,329	59,255
Capital WIP	8,293	5,686	6,686	7,686
Other non current assets	15,021	12,229	13,229	14,229
Total fixed assets				
Cash and cash equivalents	238	606	1,354	4,714
Other bank balance	125	113	113	113
Inventories	13,096	11,378	13,604	15,898
Trade receivables	11,543	13,070	15,116	16,821
Other current assets	1,415	1,719	1,719	1,719
Total current Assets	26,417	26,886	31,907	39,265
Total Assets	91,604	96,278	1,04,466	1,12,749

Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
PBT	661	2,459	5,901	8,040
Depreciation	4,352	4,693	5,334	6,074
Interest	2,070	2,421	2,157	2,068
Chng in working capital	(966)	2,117	(558)	(652)
Tax paid	(200)	377	(1,534)	(2,090)
Other operating activities	271	(12)	-	-
Cash flow from operations (a)	6,189	12,055	11,299	13,439
Capital expenditure	(9,587)	(8,791)	(8,500)	(7,000)
Chng in investments	(74)	(24)	-	-
Other investing activities	188	312	-	-
Cash flow from investing (b)	(9,444)	(8,491)	(8,500)	(7,000)
Free cash flow (a+b)	(3,255)	3,564	2,799	6,439
Inc/dec in borrowings	6,792	(41)	1,000	500
Dividend paid (incl. tax)	(746)	(126)	(893)	(1,512)
Interest paid	(1,944)	(2,093)	(2,157)	(2,068)
Other financing activities	(971)	(936)	-	-
Cash flow from financing (c)	3,132	(3,195)	(2,050)	(3,080)
Net chng in cash (a+b+c)	(124)	368	748	3,359
Closing cash & cash equivalents	237	606	1,354	4,714

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