

May 8, 2023

## Q4FY23 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,800		1,635	
Sales (Rs. m)	1,22,251	1,32,692	1,23,503	1,32,809
% Chng.	(1.0)	(0.1)		
EBITDA (Rs. m)	12,499	14,571	12,029	13,902
% Chng.	3.9	4.8		
EPS (Rs.)	96.1	128.6	87.7	116.8
% Chng.	9.5	10.1		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	93,634	1,13,149	1,22,251	1,32,692
EBITDA (Rs. m)	7,098	9,738	12,499	14,571
Margin (%)	7.6	8.6	10.2	11.0
PAT (Rs. m)	794	2,098	3,886	5,202
EPS (Rs.)	19.6	51.9	96.1	128.6
Gr. (%)	(82.8)	164.4	85.2	33.9
DPS (Rs.)	3.0	12.0	20.0	22.0
Yield (%)	0.2	0.7	1.2	1.3
RoE (%)	2.4	6.3	10.9	13.2
RoCE (%)	5.3	8.8	12.3	14.5
EV/Sales (x)	1.0	0.8	0.7	0.6
EV/EBITDA (x)	12.9	9.4	6.9	5.6
PE (x)	87.5	33.1	17.9	13.3
P/BV (x)	2.1	2.0	1.9	1.7

### Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.1,981 / Rs.890
Sensex / Nifty	61,054 / 18,069
Market Cap	Rs.69bn/ \$ 849m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.259.98m

### Shareholding Pattern (%)

Promoter's	47.21
Foreign	23.30
Domestic Institution	13.59
Public & Others	15.90
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	21.4	8.5	57.3
Relative	18.7	8.3	43.5

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## Lower RM cost powers solid margin expansion

### Quick Pointers:

- c8-9% drop in RM help margin beat (company had guided for 2%-3% drop).
- Margin may moderate from 4Q levels as RM benefit gets passed on to clients.

**We increase our EPS estimates by c10% each for FY24/25, to factor in strong beat on margins led by lower commodity costs (8-9% lower QoQ) and management commentary. In 4QFY23, CEAT's revenue was helped by volume growth of 7% QoQ, however, blended realizations were lower QoQ due to mix and discount. RM basket was lower by 8-9% QoQ (gets passed on to clients with one quarter lag) and helped EBITDA margin to grow by c560bps. In FY24, CEAT sees mix of higher margin replacement and exports segment to improve and OEM mix to fall. However, volumes growth could be in the range of low to mid-single-digit in major segments. CEAT expects RM cost to remain in a narrow range and may have to pass on benefits to its clients in 1QFY24.**

**In the near-term, impact on export volumes, moderation in growth and higher interest costs may put pressure on profitability. Yet correction in commodity cost coupled with cost control would aid margin expansion, in our view. Maintain 'Accumulate' with revised TP of Rs 1,800 (Rs 1,635 earlier) at 14x Mar-25E consolidated EPS.**

- Revenue at Rs 28.7bn slight miss due to lower mix effect:** CEAT's revenue at Rs 28.7bn was c2% below PLe and 1% below BBG estimates (BBGe) led by lower mix effect. EBITDA margin expanded by c560bps and came above PLe (10.4%) and BBGe (10.2%), helped by c8-9% drop in raw material (management had guided for 2%-3% drop) cost partially offset by higher employee expenses and inferior mix. PAT at Rs. 1.4bn beat estimates on higher EBITDA and was partially offset by higher taxes in 4QFY23.
- Key takeaways:** (1) 4Q volumes grew 7% QoQ largely led by OEM and exports segment, and CEAT expects stable domestic demand in 1QFY24. The company sees replacement and exports segments doing better and improving in mix in FY24, with low single digit to high single digit growth in volumes in FY24, a moderation from FY23 levels. 1Q demand is seasonally strong and exports could pick up in 2HFY24, as new products get launched in new markets. CEAT saw c6% of passenger vehicle tire volume in the replacement market from digital channel. (2) RM cost to remain within a narrow range in 1Q, with risk of upward movement towards fag-end of 1QFY24; it may have to pass on some of the benefits from RM softness in 4QFY23 to customers in 1Q. Though crude prices have corrected in 4Q, crude derivatives are quite stable. Rubber prices have started to increase. (3) CEAT has reduced its planned capex for FY24 in range of Rs. 7bn to Rs. 7.5bn (Rs. 8.9bn in FY23). It sees interest expenses increasing steadily in FY24 from current levels and net debt to remain steady YoY. Advertising expenses may increase in 1Q, due to higher spend during IPL. Depreciation of 4Q levels might persist for next two quarters. CEAT has added 20 new SKUs in 4QFY23 and plans to add another 20 in 1QFY24.

**Exhibit 1: Q4FY23 Result Overview (Rs mn)**

Y/e March	4QFY23	4QFY22	YoY gr. (%)	3QFY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
<b>Net Revenues</b>	<b>28,748</b>	<b>25,920</b>	<b>10.9</b>	<b>27,272</b>	<b>5.4</b>	<b>1,13,149</b>	<b>93,634</b>	<b>20.8</b>
Raw Materials	17,219	17,231	(0.1)	17,852	(3.5)	73,854	60,276	22.5
<i>% of Net Sales</i>	<i>59.9</i>	<i>66.5</i>		<i>65.5</i>		<i>65.3</i>	<i>64.4</i>	
Personnel	2,138	1,719	24.4	1,818	17.6	7,352	6,938	6.0
<i>% of Net Sales</i>	<i>7.4</i>	<i>6.6</i>		<i>6.7</i>		<i>6.5</i>	<i>7.4</i>	
Manufacturing & Other Exp	5,713	5,094	12.1	5,226	9.3	22,205	19,322	14.9
<i>% of Net Sales</i>	<i>19.9</i>	<i>19.7</i>		<i>19.2</i>		<i>19.6</i>	<i>20.6</i>	
Total Expenditure	25,070	24,045	4.3	24,896	0.7	1,03,411	86,536	19.5
<b>EBITDA</b>	<b>3,678</b>	<b>1,875</b>	<b>96.2</b>	<b>2,376</b>	<b>54.8</b>	<b>9,738</b>	<b>7,098</b>	<b>37.2</b>
<i>EBITDA Margin (%)</i>	<i>12.8</i>	<i>7.2</i>		<i>8.7</i>		<i>8.6</i>	<i>7.6</i>	
Depreciation	1,253	1,096	14.4	1,175	6.7	4,693	4,352	7.8
<b>EBIT</b>	<b>2,425</b>	<b>779</b>	<b>211.1</b>	<b>1,201</b>	<b>101.9</b>	<b>5,045</b>	<b>2,746</b>	<b>83.7</b>
Interest Expenses	666	566	17.6	657	1.4	2,421	2,070	17.0
Non-operating income	24	33	(27.4)	20	18.3	169	114	48.6
Extraordinary Expenses	(86)	(59)	45.6	(5)		(334)	(129)	158.9
<b>PBT</b>	<b>1,698</b>	<b>187</b>	<b>805.9</b>	<b>560</b>	<b>203.1</b>	<b>2,459</b>	<b>661</b>	<b>271.9</b>
Tax-Total	450	10	4,495.9	150	200.9	718	243	195.3
<i>Tax Rate (%) - Total</i>	<i>26.5</i>	<i>5.2</i>		<i>26.7</i>		<i>29.2</i>	<i>36.7</i>	
<b>Reported PAT before MI &amp; associates</b>	<b>1,247</b>	<b>178</b>	<b>602.3</b>	<b>410</b>	<b>203.9</b>	<b>1,742</b>	<b>418</b>	<b>316.4</b>
<b>Adj. PAT</b>	<b>1,310</b>	<b>233</b>	<b>461.5</b>	<b>414</b>	<b>216.7</b>	<b>1,978</b>	<b>500</b>	<b>295.7</b>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>93,634</b>	<b>1,13,149</b>	<b>1,22,251</b>	<b>1,32,692</b>
YoY gr. (%)	23.0	20.8	8.0	8.5
Cost of Goods Sold	60,276	73,854	78,119	84,127
Gross Profit	33,358	39,295	44,133	48,565
Margin (%)	35.6	34.7	36.1	36.6
Employee Cost	6,938	7,352	7,917	8,517
Other Expenses	19,322	22,205	23,717	25,477
<b>EBITDA</b>	<b>7,098</b>	<b>9,738</b>	<b>12,499</b>	<b>14,571</b>
YoY gr. (%)	(27.8)	37.2	28.4	16.6
Margin (%)	7.6	8.6	10.2	11.0
Depreciation and Amortization	4,352	4,693	5,156	5,649
<b>EBIT</b>	<b>2,746</b>	<b>5,045</b>	<b>7,343</b>	<b>8,922</b>
Margin (%)	2.9	4.5	6.0	6.7
Net Interest	2,070	2,421	2,477	2,273
Other Income	114	169	200	220
<b>Profit Before Tax</b>	<b>661</b>	<b>2,459</b>	<b>5,066</b>	<b>6,868</b>
Margin (%)	0.7	2.2	4.1	5.2
Total Tax	243	718	1,368	1,854
Effective tax rate (%)	36.7	29.2	27.0	27.0
<b>Profit after tax</b>	<b>418</b>	<b>1,742</b>	<b>3,698</b>	<b>5,014</b>
Minority interest	(6)	(38)	(38)	(38)
Share Profit from Associate	288	82	150	150
<b>Adjusted PAT</b>	<b>794</b>	<b>2,098</b>	<b>3,886</b>	<b>5,202</b>
YoY gr. (%)	(82.8)	164.4	85.2	33.9
Margin (%)	0.8	1.9	3.2	3.9
Extra Ord. Income / (Exp)	82	237	-	-
<b>Reported PAT</b>	<b>712</b>	<b>1,862</b>	<b>3,886</b>	<b>5,202</b>
YoY gr. (%)	(83.5)	161.5	108.7	33.9
Margin (%)	0.8	1.6	3.2	3.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	712	1,862	3,886	5,202
<b>Equity Shares O/s (m)</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>
<b>EPS (Rs)</b>	<b>19.6</b>	<b>51.9</b>	<b>96.1</b>	<b>128.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	-	-	-	-
Tangibles	69,167	79,167	87,167	95,167
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	-	-	-	-
Tangibles	(15,945)	(20,638)	(25,795)	(31,444)
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>53,222</b>	<b>58,529</b>	<b>61,372</b>	<b>63,723</b>
Tangibles	53,222	58,529	61,372	63,723
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	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	13,096	15,825	17,098	18,558
Trade receivables	11,543	12,400	11,723	12,724
Cash & Bank Balance	363	3,618	6,122	8,524
Other Current Assets	2,047	2,211	2,388	2,579
<b>Total Assets</b>	<b>91,534</b>	<b>1,02,456</b>	<b>1,06,971</b>	<b>1,13,166</b>
<b>Equity</b>				
Equity Share Capital	405	405	405	405
Other Equity	32,324	33,700	36,777	41,088
<b>Total Networkth</b>	<b>32,728</b>	<b>34,104</b>	<b>37,181</b>	<b>41,493</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	22,289	25,289	23,289	21,289
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	21,576	26,970	29,139	31,628
Other current liabilities	11,529	12,681	13,949	15,344
<b>Total Equity &amp; Liabilities</b>	<b>91,533</b>	<b>1,02,456</b>	<b>1,06,971</b>	<b>1,13,166</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	3,040	5,165	7,531	9,110
Add. Depreciation	4,352	4,693	5,156	5,649
Add. Interest	114	169	200	220
Less Financial Other Income	114	169	200	220
Add. Other	(129)	(334)	-	-
Op. profit before WC changes	7,377	9,693	12,887	14,979
Net Changes-WC	(1,424)	2,726	2,587	1,145
Direct tax	134	(718)	(1,368)	(1,854)
<b>Net cash from Op. activities</b>	<b>6,087</b>	<b>11,702</b>	<b>14,106</b>	<b>14,269</b>
Capital expenditures	(10,770)	(8,540)	(6,316)	(6,704)
Interest / Dividend Income	-	-	-	-
Others	309	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(10,460)</b>	<b>(8,540)</b>	<b>(6,316)</b>	<b>(6,704)</b>
Issue of share cap. / premium	(1,022)	-	-	-
Debt changes	7,519	3,000	(2,000)	(2,000)
Dividend paid	(121)	(485)	(809)	(890)
Interest paid	(2,070)	(2,421)	(2,477)	(2,273)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>4,305</b>	<b>94</b>	<b>(5,286)</b>	<b>(5,163)</b>
<b>Net change in cash</b>	<b>(68)</b>	<b>3,255</b>	<b>2,504</b>	<b>2,402</b>
Free Cash Flow	(4,683)	3,161	7,790	7,565

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	19.6	51.9	96.1	128.6
CEPS	127.2	167.9	223.5	268.3
BVPS	809.1	843.1	919.2	1,025.8
FCF	(115.8)	78.2	192.6	187.0
DPS	3.0	12.0	20.0	22.0
<b>Return Ratio(%)</b>				
RoCE	5.3	8.8	12.3	14.5
ROIC	3.4	6.7	10.0	12.3
RoE	2.4	6.3	10.9	13.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.7	0.6	0.5	0.3
Net Working Capital (Days)	12	4	(1)	(1)
<b>Valuation(x)</b>				
PER	87.5	33.1	17.9	13.3
P/B	2.1	2.0	1.9	1.7
P/CEPS	13.5	10.2	7.7	6.4
EV/EBITDA	12.9	9.4	6.9	5.6
EV/Sales	1.0	0.8	0.7	0.6
Dividend Yield (%)	0.2	0.7	1.2	1.3

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
<b>Net Revenue</b>	<b>28,031</b>	<b>28,864</b>	<b>27,111</b>	<b>28,627</b>
YoY gr. (%)	47.7	18.7	12.7	11.1
Raw Material Expenses	19,165	19,511	17,734	17,147
Gross Profit	8,866	9,353	9,377	11,481
Margin (%)	31.6	32.4	34.6	40.1
<b>EBITDA</b>	<b>1,642</b>	<b>2,059</b>	<b>2,366</b>	<b>3,706</b>
YoY gr. (%)	(0.8)	(4.8)	78.9	100.0
Margin (%)	5.9	7.1	8.7	12.9
Depreciation / Depletion	1,114	1,151	1,175	1,253
<b>EBIT</b>	<b>528</b>	<b>907</b>	<b>1,191</b>	<b>2,453</b>
Margin (%)	1.9	3.1	4.4	8.6
Net Interest	514	568	650	659
Other Income	28	307	29	23
<b>Profit before Tax</b>	<b>35</b>	<b>410</b>	<b>566</b>	<b>1,732</b>
Margin (%)	0.1	1.4	2.1	6.0
Total Tax	9	111	148	411
Effective tax rate (%)	26.9	27.1	26.2	23.7
<b>Profit after Tax</b>	<b>26</b>	<b>299</b>	<b>418</b>	<b>1,321</b>
Minority interest	-	-	-	1
Share Profit from Associates	-	-	-	1
<b>Adjusted PAT</b>	<b>31</b>	<b>472</b>	<b>421</b>	<b>1,386</b>
YoY gr. (%)	(84.6)	29.9	(544.2)	691.5
Margin (%)	0.1	1.6	1.6	4.8
Extra Ord. Income / (Exp)	5	173	3	65
<b>Reported PAT</b>	<b>26</b>	<b>299</b>	<b>418</b>	<b>1,321</b>
YoY gr. (%)	(87.2)	(16.8)	(381.2)	894.0
Margin (%)	0.1	1.0	1.5	4.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>26</b>	<b>299</b>	<b>418</b>	<b>1,321</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Apr-23	Accumulate	1,635	1,432
2	27-Jan-23	Accumulate	1,825	1,585
3	05-Jan-23	Accumulate	1,775	1,611
4	09-Nov-22	Accumulate	1,775	1,617
5	06-Oct-22	Accumulate	1,700	1,561
6	08-Jul-22	UR	-	1,122

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	138
2	Bajaj Auto	Hold	4,130	4,342
3	Bharat Forge	BUY	960	764
4	CEAT	Accumulate	1,635	1,432
5	Eicher Motors	BUY	4,050	3,054
6	Endurance Technologies	BUY	1,570	1,254
7	Exide Industries	UR	-	185
8	Hero Motocorp	BUY	3,200	2,470
9	Mahindra & Mahindra	BUY	1,560	1,202
10	Maruti Suzuki	BUY	10,300	8,507
11	Tata Motors	BUY	590	459
12	TVS Motor Company	BUY	1,300	1,169

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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