

May 4, 2024

Q4FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		ACCUMULATE	
Target Price	3,017		2,980	
Sales (Rs. m)	1,33,350	1,45,746	1,29,103	1,38,786
% Chng.	3.3	5.0		
EBITDA (Rs. m)	17,792	19,747	17,230	18,462
% Chng.	3.3	7.0		
EPS (Rs.)	185.1	215.5	178.6	198.7
% Chng.	3.6	8.5		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	1,13,149	1,19,435	1,33,350	1,45,746
EBITDA (Rs. m)	9,738	16,522	17,792	19,747
Margin (%)	8.6	13.8	13.3	13.5
Adj. PAT (Rs. m)	2,098	6,854	7,488	8,718
Adj. EPS (Rs.)	51.9	169.4	185.1	215.5
Gr. (%)	164.4	226.6	9.2	16.4
DPS (Rs.)	12.0	30.0	35.0	40.0
Yield (%)	0.5	1.2	1.4	1.6
RoE (%)	6.3	18.3	17.2	17.4
RoCE (%)	9.0	19.8	19.4	20.0
EV/Sales (x)	1.1	1.0	0.9	0.8
EV/EBITDA (x)	12.9	7.3	6.6	5.8
PE (x)	49.1	15.0	13.7	11.8
P/BV (x)	3.0	2.5	2.2	1.9

Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.2,998 / Rs.1,525
Sensex / Nifty	73,878 / 22,476
Market Cap	Rs.103bn/ \$ 1,234m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.447.3m

Shareholding Pattern (%)

Promoter's	47.21
Foreign	20.15
Domestic Institution	15.91
Public & Others	16.72
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.2)	19.6	55.3
Relative	(4.2)	4.2	28.7

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CEAT (CEAT IN)

Rating: BUY | CMP: Rs2,545 | TP: Rs3,017

Decent Q4; profit impacted by provisions

Quick Pointers:

- Healthy growth in replacement market while OEMs remained subdued
- Increase in other expenses & EPR provision suppressed EBITDA and profit

It was a decent Q4FY24 performance from CEAT with revenue growth in line with PLe while it came in 3.2% lower than consensus. The growth in revenue was driven by volume growth in replacement market and exports business. Its RM basket remained similar to Q3FY24, which aided in gross margin expansion of 216bps YoY/96bps QoQ to 42.3% (PLe: 41.4%; Consensus: 41.3%). High other expenses and EPR provisions suppressed EBITDA and profitability during the quarter.

We believe margins could be marginally impacted by rise in rubber prices as well as EPR provisions, however, management aims to mitigate the risk of increasing RM through pricing actions as well as through improved product mix. Overall the demand momentum looks quite optimistic while its focus on scaling its exports business to 25% in the next couple of years shall aid in stable revenue and volume growth. Factoring this, we estimate its revenue/EBITDA/APAT to grow at a CAGR of 10%/9%/13% over FY24-FY26E. Given its focus on improving efficiencies and increase its exports business, we upgrade our rating from "Accumulate" to "Buy" with a revised TP of Rs 3,017 at 14x on its FY26E EPS.

- Decent revenue growth owing to growth in replacement volume:** Its revenue came in at Rs 29.9bn, registering a growth of 4.1% YoY (PLe: 30bn; Consensus: 30.9bn). The growth in revenue was led by 5.3% YoY volume growth mainly led by replacement and export market. APAT was Rs 1.5bn (PLe 1.7bn), lower than our estimates dragged by higher other expenses and EPR provisions.
- Mixed trend of margins:** Its gross profit grew by 9.8% YoY/3.3% QoQ to Rs 12.6bn (PLe: Rs 12.4bn). The RM basket remained similar to Q3FY24 which aided in gross margin expansion by 219bps YoY/96bps QoQ to 42.3%. EBITDA was Rs 3.9bn (PLe: Rs 4.2bn), up by 6.4% YoY while it declined by 6.2% sequentially. Rise in other expenses (+15.3% YoY/11.6% QoQ) owing to EPR provision suppressed the benefit of stable RM basket as its EBITDA margin expanded by 29.2bps YoY while it declined by 100bps QoQ to 13.1%.
- Strong performance in FY24 led by 6.5% volume growth** which aided in revenue growth of 5.6% YoY to Rs 119.4bn. The decline in RM cost coupled with volume growth drove its gross profit higher by 27.7% YoY to Rs 50.2bn while margin expanded by 730bps YoY to 42%. Consequently, EBITDA grew by 69.7% QoQ to Rs 16.5bn with margin expansion of 523bps YoY to 13.8%. Strong overall performance and healthy growth in share of profits of JV aided in APAT growth by 2.3x to Rs 6.9bn.

Key Conference Call Highlights:

Domestic business:

- The management expects robust Q1FY25 with summer season driving the bulk of the replacement demand. Additionally, it expects its volume growth to be in high single digit to low double-digit for FY25.
- The company foresees headwinds in 2W segment as well as healthy recovery in rural and small towns could aid in volume growth.
- It has entered in the EV segment through tyre partnership for Tata Punch EV. It currently has a market share of ~20% in PV EV, 27% in 2W EV and has also entered in the CV segment through collaboration with Switch Mobility and VECV.

Exports:

- It has 3 main focus geographies in international markets namely; Europe, LATAM and USA.
- The company launched ~55 SKUs in Q4FY24 in its focused international markets.
- Exports volume grew by 22% YoY with notable growth in Brazil, Europe, US and Middle East.
- The contribution from export stood at 19% which the company aims to increase it to 25% in the next couple of years.
- As export business in margin accretive to the company, it aims to increase export volume of Agri-radial, TBR and TCR products to drive the growth.
- It is in the process of increasing its channel in the US market by establishing distribution network and partnership with dealers.

Pricing action and margin outlook:

- Going forward, the EPR (Extended Producer Responsibility) expenses are expected to 1.2-1.4% of the overall domestic sales which could have some impact on its margins.
- It aims to mitigate the risk of increased cost of EPR through better product mix, pricing action and improve its internal efficiencies.
- As the prices of RM have increased during Q4FY24, it has taken marginal price hike in Q4FY24 while it has taken 1.5% price hike in replacement segment in Q1FY25 and is also in the process of converting 1.5% price hike in the international market.

Capex:

- For FY24, the capex stood at Rs 8.6bn of which ~Rs 2.6bn was in Q4FY24. For FY25, the capex guidance is of Rs 10bn of which Rs 2.5bn will be towards maintenance capex while Rs 7.5bn will be utilized towards expanding its manufacturing capacity and product development of PCR, TRB etc.
- Post the completion of TBR capacity expansion of Chennai plant, the overall TBR capacity will increase from 130k tyres per month to 170k tyres per month. It aims to commission the Chennai TBR facility by Q2FY25.

Exhibit 1: 4QFY24 Result Overview (Rs mn)

Y/e March	4Q FY24	4Q FY23	YoY gr. (%)	4Q FY24E	% Var	3Q FY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Net Revenue	29,919	28,748	4.1	30,024	(0.4)	29,631	1.0	1,19,435	1,13,149	5.6
Raw Materials	17,265	17,219	0.3	17,594	(1.9)	17,385	(0.7)	69,244	73,854	(6.2)
<i>% of Net Sales</i>	<i>57.7</i>	<i>59.9</i>		<i>58.6</i>		<i>58.7</i>		<i>58.0</i>	<i>65.3</i>	
Personnel	2,153	2,138	0.7	2,156	(0.1)	2,172	(0.9)	8,457	7,352	15.0
<i>% of Net Sales</i>	<i>7.2</i>	<i>7.4</i>		<i>7.2</i>		<i>7.3</i>		<i>7.1</i>	<i>6.5</i>	
Manufacturing & Other Exp	6,585	5,713	15.3	6,118	7.6	5,899	11.6	25,212	22,205	13.5
<i>% of Net Sales</i>	<i>22.0</i>	<i>19.9</i>		<i>20.4</i>		<i>19.9</i>		<i>21.1</i>	<i>19.6</i>	
Total Expenditure	26,003	25,070	3.7	25,868	0.5	25,456	2.1	1,02,913	1,03,411	(0.5)
EBITDA	3,915	3,678	6.4	4,156	(5.8)	4,175	(6.2)	16,522	9,738	69.7
<i>EBITDA Margin (%)</i>	<i>13.1</i>	<i>12.8</i>		<i>13.8</i>		<i>14.1</i>		<i>13.8</i>	<i>8.6</i>	
Depreciation	1,361	1,253	8.6	1,306	4.2	1,273	6.8	5,088	4,693	8.4
EBIT	2,555	2,425	5.3	2,850	(10.4)	2,902	(12.0)	11,434	5,045	126.6
Interest Expenses	617	666	(7.4)	714	(13.7)	656	(5.9)	2,691	2,421	11.1
Non-operating income	31	24	28.5	93	(67.1)	29	4.4	197	169	16.5
Extraordinary Expenses	(582)	(86)	579.6	-	-	-	-	(582)	(334)	74.1
PBT	1,387	1,698	(18.3)	2,229	(37.8)	2,276	(39.1)	8,359	2,459	239.9
Tax-Total	458	450	1.7	560	(18.2)	544	(15.8)	2,214	718	208.6
<i>Tax Rate (%) - Total</i>	<i>33.0</i>	<i>26.5</i>		<i>25.1</i>		<i>23.9</i>		<i>26.5</i>	<i>29.2</i>	
PAT before MI & associates	929	1,247	(25.5)	1,669	(44.4)	1,731	(46.4)	6,145	1,742	252.8
Minority Interest	(63)	(13)	-	(3)	-	(2)	-	(74)	(38)	-
Profit / loss of associates	94	77	22.2	76	23.7	82	15.1	208	82	153.0
Adj. PAT	1,475	1,400	5.4	1,748	(15.6)	1,815	(18.7)	6,854	2,098	226.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	1,13,149	1,19,435	1,33,350	1,45,746
YoY gr. (%)	20.8	5.6	11.7	9.3
Cost of Goods Sold	73,854	69,244	78,010	85,480
Gross Profit	39,295	50,191	55,340	60,266
Margin (%)	34.7	42.0	41.5	41.4
Employee Cost	7,352	8,457	9,278	10,131
Other Expenses	22,205	25,212	28,270	30,388
EBITDA	9,738	16,522	17,792	19,747
YoY gr. (%)	37.2	69.7	7.7	11.0
Margin (%)	8.6	13.8	13.3	13.5
Depreciation and Amortization	4,693	5,088	6,073	6,723
EBIT	5,045	11,434	11,719	13,023
Margin (%)	4.5	9.6	8.8	8.9
Net Interest	2,421	2,691	2,199	1,939
Other Income	169	197	290	330
Profit Before Tax	2,459	8,359	9,810	11,414
Margin (%)	2.2	7.0	7.4	7.8
Total Tax	718	2,214	2,472	2,876
Effective tax rate (%)	29.2	26.5	25.2	25.2
Profit after tax	1,742	6,145	7,338	8,538
Minority interest	(38)	(74)	-	-
Share Profit from Associate	82	208	150	180
Adjusted PAT	2,098	6,854	7,488	8,718
YoY gr. (%)	164.4	226.6	9.2	16.4
Margin (%)	1.9	5.7	5.6	6.0
Extra Ord. Income / (Exp)	237	428	-	-
Reported PAT	1,862	6,427	7,488	8,718
YoY gr. (%)	161.5	245.2	16.5	16.4
Margin (%)	1.6	5.4	5.6	6.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,862	6,427	7,488	8,718
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	51.9	169.4	185.1	215.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	-	-	-	-
Tangibles	81,599	88,437	98,437	1,08,437
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	(20,638)	(25,727)	(31,800)	(38,523)
Intangibles	-	-	-	-
Net fixed assets	60,961	62,711	66,637	69,914
Tangibles	60,961	62,711	66,637	69,914
Intangibles	-	-	-	-
Capital Work In Progress	5,961	6,835	8,202	9,433
Goodwill	-	-	-	-
Non-Current Investments	1,696	1,821	1,821	2,094
Net Deferred tax assets	(3,886)	(4,509)	(4,284)	(4,070)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	11,378	11,505	13,518	14,774
Trade receivables	13,070	12,832	14,327	15,659
Cash & Bank Balance	719	591	725	3,155
Other Current Assets	1,962	2,886	3,175	3,492
Total Assets	96,278	99,945	1,09,284	1,19,531
Equity				
Equity Share Capital	405	405	405	405
Other Equity	33,992	40,022	46,094	53,194
Total Network	34,396	40,426	46,498	53,598
Non-Current Liabilities				
Long Term borrowings	22,955	17,915	15,915	13,915
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	22,683	23,321	26,670	29,549
Other current liabilities	12,184	13,676	15,820	18,303
Total Equity & Liabilities	96,278	99,945	1,09,284	1,19,531

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	5,165	11,716	11,869	13,203
Add. Depreciation	4,693	5,088	6,073	6,723
Add. Interest	169	197	290	330
Less Financial Other Income	169	197	290	330
Add. Other	(334)	(582)	-	-
Op. profit before WC changes	9,693	16,420	18,232	20,257
Net Changes-WC	2,220	1,085	1,581	2,324
Direct tax	(9)	(1,591)	(2,698)	(3,091)
Net cash from Op. activities	11,904	15,913	17,116	19,490
Capital expenditures	(9,634)	(7,713)	(11,367)	(11,230)
Interest / Dividend Income	-	-	-	-
Others	96	(125)	-	(273)
Net Cash from Invt. activities	(9,538)	(7,838)	(11,367)	(11,503)
Issue of share cap. / premium	230	740	-	-
Debt changes	666	(5,040)	(2,000)	(2,000)
Dividend paid	(485)	(1,214)	(1,416)	(1,618)
Interest paid	(2,421)	(2,691)	(2,199)	(1,939)
Others	-	-	-	-
Net cash from Fin. activities	(2,010)	(8,204)	(5,615)	(5,557)
Net change in cash	356	(128)	134	2,430
Free Cash Flow	2,270	8,201	5,749	8,260

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	51.9	169.4	185.1	215.5
CEPS	167.9	295.2	335.3	381.7
BVPS	850.3	999.4	1,149.5	1,325.0
FCF	56.1	202.7	142.1	204.2
DPS	12.0	30.0	35.0	40.0
Return Ratio(%)				
RoCE	9.0	19.8	19.4	20.0
ROIC	6.4	14.7	14.7	15.8
RoE	6.3	18.3	17.2	17.4
Balance Sheet				
Net Debt : Equity (x)	0.6	0.4	0.3	0.2
Net Working Capital (Days)	6	3	3	2
Valuation(x)				
PER	49.1	15.0	13.7	11.8
P/B	3.0	2.5	2.2	1.9
P/CEPS	15.2	8.6	7.6	6.7
EV/EBITDA	12.9	7.3	6.6	5.8
EV/Sales	1.1	1.0	0.9	0.8
Dividend Yield (%)	0.5	1.2	1.4	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	29,352	30,533	29,631	29,919
YoY gr. (%)	4.1	5.5	8.7	4.1
Raw Material Expenses	17,296	17,298	17,385	17,265
Gross Profit	12,056	13,236	12,246	12,653
Margin (%)	41.1	43.3	41.3	42.3
EBITDA	3,871	4,561	4,175	3,915
YoY gr. (%)	134.2	124.5	75.7	6.4
Margin (%)	13.2	14.9	14.1	13.1
Depreciation / Depletion	1,209	1,245	1,273	1,361
EBIT	2,662	3,316	2,902	2,555
Margin (%)	9.1	10.9	9.8	8.5
Net Interest	701	717	656	617
Other Income	33	105	29	31
Profit before Tax	1,993	2,704	2,276	1,387
Margin (%)	6.8	8.9	7.7	4.6
Total Tax	529	683	544	458
Effective tax rate (%)	26.5	25.3	23.9	33.0
Profit after Tax	1,464	2,021	1,731	929
Minority interest	(6)	(3)	(2)	(63)
Share Profit from Associates	(24)	56	82	94
Adjusted PAT	1,446	2,080	1,815	1,475
YoY gr. (%)	4,580.5	1,181.8	408.1	5.4
Margin (%)	4.9	6.8	6.1	4.9
Extra Ord. Income / (Exp)	-	-	-	390
Reported PAT	1,446	2,080	1,815	1,086
YoY gr. (%)	5,461.9	2,556.4	412.8	(18.8)
Margin (%)	4.9	6.8	6.1	3.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,446	2,080	1,815	1,086
Avg. Shares O/s (m)	40	40	40	40
EPS (Rs)	35.8	51.4	44.9	36.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-24	Accumulate	2,980	2,686
2	05-Mar-24	Accumulate	2,980	2,870
3	26-Jan-24	Accumulate	2,980	2,830
4	08-Jan-24	Accumulate	2,640	2,443
5	17-Oct-23	Accumulate	2,515	2,195
6	09-Oct-23	Accumulate	2,450	2,125
7	26-Jul-23	Hold	2,430	2,496
8	07-Jul-23	Hold	2,330	2,485
9	16-Jun-23	Accumulate	2,260	2,073
10	08-May-23	Accumulate	1,800	1,717

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	599	705
2	Ashok Leyland	BUY	210	176
3	Bajaj Auto	Sell	7,267	9,021
4	Bharat Forge	Accumulate	1,270	1,146
5	Bharat Petroleum Corporation	Sell	504	592
6	Bharti Airtel	Accumulate	1,269	1,204
7	CEAT	Accumulate	2,980	2,686
8	Clean Science and Technology	Hold	1,386	1,335
9	Deepak Nitrite	Reduce	1,985	2,208
10	Divgi Torqtransfer Systems	BUY	1,135	843
11	Eicher Motors	Accumulate	4,215	4,031
12	Endurance Technologies	Hold	1,980	1,900
13	Exide Industries	Accumulate	495	472
14	Fine Organic Industries	Hold	4,351	4,361
15	GAIL (India)	Sell	162	201
16	Gujarat Fluorochemicals	Hold	3,313	3,270
17	Gujarat Gas	Hold	548	565
18	Gujarat State Petronet	BUY	392	378
19	Hero Motocorp	Accumulate	5,070	4,525
20	Hindustan Petroleum Corporation	Reduce	400	462
21	Indian Oil Corporation	Reduce	151	169
22	Indraprastha Gas	Sell	383	475
23	Jubilant Ingrevia	Hold	480	486
24	Laxmi Organic Industries	Sell	206	251
25	Mahanagar Gas	Sell	1,125	1,485
26	Mahindra & Mahindra	BUY	2,306	2,013
27	Mangalore Refinery & Petrochemicals	Sell	142	233
28	Maruti Suzuki	BUY	14,432	12,703
29	Navin Fluorine International	BUY	3,929	3,093

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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