

20 July 2024

India | Equity Research | Q1FY25 results review

CEAT

Auto Ancillaries

Expecting profitability to stabilise around present levels

CEAT's Q1FY25 EBITDAM stood at 12%, down ~350bps QoQ vs. consensus 12.5%, led by ~300bps lower GM. Raw material basket (RMB) cost was higher by 5% QoQ in Q1FY25 led by a surge in natural rubber cost; CEAT took a price hike of ~2% in Jul'24 only to curb that. We believe, limited price hikes driven by competitive reasons amid the rise in RMB cost in Q1 resulted in GM slipping from the highs of Q4. In addition to the RMB inflation, EPR compliance related cost also dented margins. CEAT expects slower OEM growth in FY25 with high base vs. better growth in replacement/exports. CEAT is aiming to increase exports mix from 19% now to 25% in 2–3 years. Retain **REDUCE** with DCF-based revised TP of INR 2,389 (earlier INR 2,232), implying ~15x FY26E EPS. Change in TP driven by earnings rollover.

CEAT conference call takeaways and our views

- Double-digit volume growth in both exports and replacement markets led 9% YoY volume growth, while OEM growth was muted in Q1FY25. CEAT expects double-digit volume growth in the replacement segment in FY25 with: 1) 2W/3W/farm segments growing steadily with rural demand picking up and prediction of favorable monsoon. 2) CV growth led by low base and with Chennai facility expected to add to volume. 3) Single-digit volume growth in PV segment. Ocean freight increase of 3–4x alongside non-availability of containers impacted the exports segment; this is likely to continue till Aug'24. Despite that, CEAT expects double-digit growth in the exports segment in FY25 and increased exports contribution to 25% in 2–3 years. It has started exports of TBR to US, and expects PCR exports to begin by Q1FY26.
- EBITDA margin was down 350bps QoQ, at 12%, led by: 1) contraction in gross margins by 300bps QoQ due to increase in RM prices; and 2) increase in marketing spends related to IPL, T20 Cricket World Cup. RMB price increase was largely due to natural rubber prices inching up (at ~12-year highs recently). CEAT expects RM cost to be higher by 5–6% in Q2FY25; hence, it took a price hike of ~2% in Jul'24 and might need further price hikes (~4% total including hikes in Jul'24) to mitigate the total impact. CEAT expects improved realisation in Q2 with: 1) price hikes taken starting mid-May should reflect in Q2; 2) mix was less favourable in Q1 (higher share of TBR); 3) elevated freight cost in Q1, where CEAT had to absorb some of the additional cost. Capacity utilisation ex-Halol TBR stands at ~80% vs. Halol TBR running at close to full utilisation. CEAT is targeting ~INR 10bn of capex in FY25, with ~INR 2.5bn of capex incurred in Q1FY25.

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Market Data

Market Cap (INR)	113bn
Market Cap (USD)	1,347mn
Bloomberg Code	CEAT IN
Reuters Code	CEAT.BO
52-week Range (INR)	2,998 / 2,055
Free Float (%)	52.0
ADTV-3M (mn) (USD)	7.9

Price Performance (%)	3m	6m	12m
Absolute	11.2	10.4	15.7
Relative to Sensex	(0.1)	(3.0)	(5.6)

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,13,149	1,19,435	1,28,868	1,39,178
EBITDA	9,738	16,522	16,109	16,306
EBITDA %	8.6	13.8	12.5	11.7
Net Profit	2,076	6,727	6,124	6,471
EPS (INR)	51.3	166.3	151.4	160.0
EPS % Chg YoY	279.2	224.0	(9.0)	5.7
P/E (x)	54.3	16.7	18.4	17.4
EV/EBITDA (x)	13.6	7.8	7.8	7.6
RoCE (%)	6.7	14.5	12.5	11.3
RoE (%)	5.4	16.9	14.2	13.3

Previous Reports

09-06-2024: [Company Update](#)03-05-2024: [Q4FY24 results review](#)

Exhibit 1: Q1FY25 result review (consolidated)

Consolidated (INR mn)	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Net Sales	31,928	29,352	8.8%	29,919	7%
Cost of Materials	19,401	17,296	12%	17,265	12%
As % of sales	60.8%	58.9%	184 bps	57.7%	306 bps
Gross profit	12,527	12,056	4%	12,653	-1%
Gross margin	39.2%	41.1%	-184 bps	42.3%	-306 bps
Employees Cost	1,956	1,955	0%	2,153	-9%
As % of sales	6.1%	6.7%	-53 bps	7.2%	-107 bps
Other expenditure	6,742	6,230	8%	5,859	15%
As % of sales	21.1%	21.2%	-11 bps	19.6%	154 bps
EBITDA	3,829	3,871	-1%	4,642	-18%
EBITDA margin	12.0%	13.2%	-120 bps	15.5%	-352 bps
Depreciation & Amortisation	1,318	1,209	9%	1,361	-3%
EBIT	2,511	2,662	-6%	3,281	-23%
EBIT margin	7.9%	9.1%	-120 bps	11.0%	-310 bps
Other Income	62	33	89%	31	100%
Interest	619	701	-12%	617	0%
PBT	1,954	1,993	-2%	2,695	-27%
Tax	540	529	2%	785	-31%
Exceptionals	(75)	-	N.M.	981	N.M.
MI/share of Associates	53	(24)	N.M.	94	-44%
Adj PAT	1,467	1,440	2%	2,004	-27%
Reported PAT	1,542	1,440	7%	1,023	51%

Source: Company data, I-Sec research

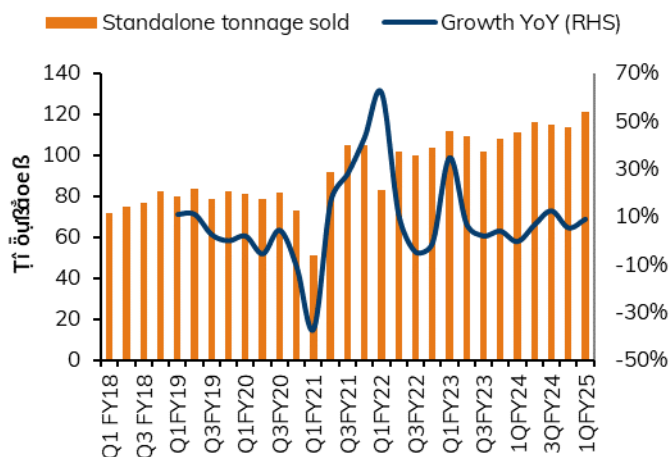
Exhibit 2: Q1FY25 result review (standalone)

Standalone details	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Standalone tonnage sold	1,21,376	1,11,354	9%	1,13,949	7%
Realization/kg (INR)	261	262	0%	261	0%
Raw Material Cost/kg (INR)	158	155	2%	151	5%
Gross Profit/kg (INR)	103	108	-5%	111	-7%
EBITDA/kg (INR)	31	35	-9%	35	-9%

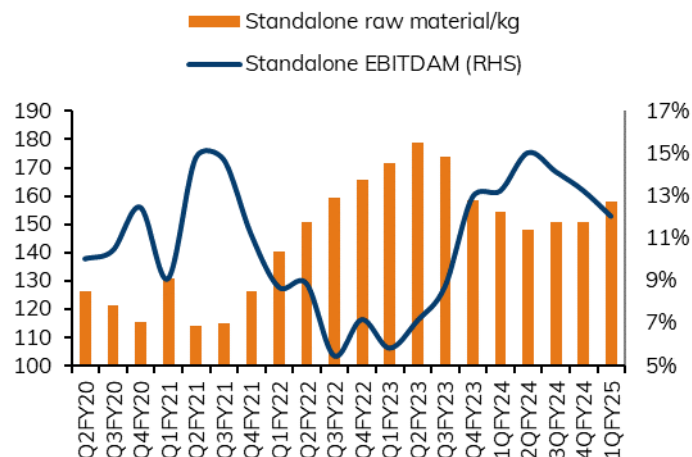
Source: Company data, I-Sec research

Upside risks

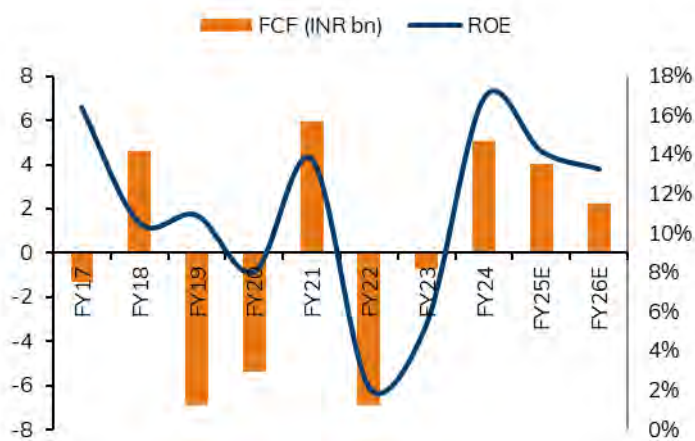
- Further reduction in RMB cost and then sustaining at those benign levels for more than a year.
- Ability to execute a structural shift in product mix by enhancing OHT tyres and export mix and, in turn, taking EBITDA margin above 12% on a sustainable basis.
- Gaining market share in PCR and TBR segments with better pricing power.

Exhibit 3: Building in 8% volume CAGR in FY24-26E

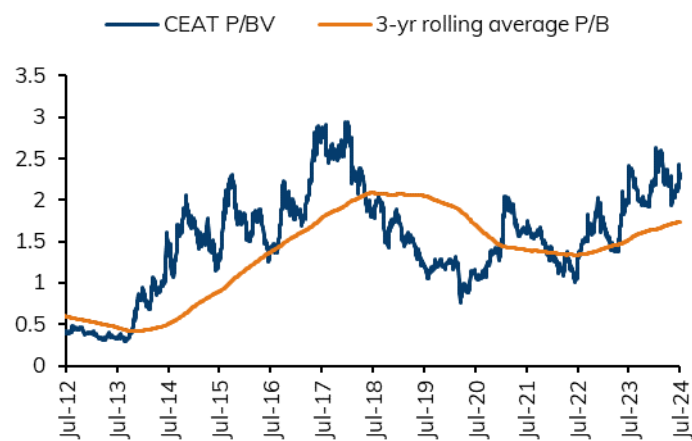
Source: Company data, I-Sec research

Exhibit 4: We expect EBITDAM to stabilise at current ~12% levels in FY25

Source: Company data, I-Sec research

Exhibit 5: Strong profitability is helping CEAT deliver FCF from FY24

Source: Company data, I-Sec research

Exhibit 6: Three-year moving P/B

Source: Company data, I-Sec research

Exhibit 7: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	47.2	47.2	47.0
Institutional investors	34.4	36.1	35.0
MFs and others	11.0	11.6	12.0
FIs/Banks	0.0	0.0	0.0
Insurance	2.9	3.8	4.0
FIIIs	20.5	20.7	19.0
Others	18.4	16.7	18.0

Source: Bloomberg

Exhibit 8: Price chart

Source: Bloomberg

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,13,149	1,19,435	1,28,868	1,39,178
Operating Expenses	(96,059)	(94,455)	(1,03,739)	(1,13,130)
EBITDA	9,738	16,522	16,109	16,306
EBITDA Margin (%)	8.6	13.8	12.5	11.7
Depreciation & Amortization	(4,693)	(5,088)	(5,550)	(6,000)
EBIT	5,045	11,434	10,559	10,306
Interest expenditure	2,421	2,691	2,500	1,800
Other Non-operating Income	169	197	217	239
Recurring PBT	2,793	8,941	8,276	8,744
Profit / Loss from Associates	-	-	-	-
Less: Taxes	718	2,214	2,152	2,274
PAT	2,076	6,727	6,124	6,471
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(252)	(374)	-	-
Net Income (Reported)	1,824	6,353	6,124	6,471
Net Income (Adjusted)	2,076	6,727	6,124	6,471

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	26,886	27,388	31,882	37,040
of which cash & cash eqv.	719	591	3,879	5,348
Total Current Liabilities & Provisions	36,895	38,623	41,172	43,645
Net Current Assets	(10,009)	(11,236)	(9,290)	(6,605)
Investments	2,458	3,011	3,011	3,011
Net Fixed Assets	60,961	62,480	65,930	68,930
ROU Assets	-	-	-	-
Capital Work-in-Progress	5,961	6,835	6,835	6,835
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	13	231	231	231
Total Assets	59,383	61,322	66,718	72,402
Liabilities				
Borrowings	20,927	16,289	16,289	16,289
Deferred Tax Liability	3,886	4,509	4,509	4,509
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	405	405	405	405
Reserves & Surplus	34,166	40,119	45,515	51,199
Total Net Worth	34,570	40,524	45,919	51,604
Minority Interest	-	-	-	-
Total Liabilities	59,383	61,322	66,718	72,402

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	30,533	29,631	29,919	31,928
% growth (YOY)	5.5	8.7	4.1	8.8
EBITDA	4,561	4,175	4,642	3,829
Margin %	14.9	14.1	15.5	12.0
Other Income	105	29	31	62
Extraordinaries	-	-	981	(75)
Adjusted Net Profit	2,077	1,813	2,004	1,467

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	8,803	12,540	13,016	11,256
Working Capital Changes	2,286	1,099	1,342	(1,215)
Capital Commitments	(9,564)	(7,482)	(9,000)	(9,000)
Free Cashflow	(761)	5,059	4,016	2,256
Other investing cashflow	679	(554)	-	-
Cashflow from Investing Activities	(8,886)	(8,035)	(9,000)	(9,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(41)	(4,638)	-	-
Dividend paid	(485)	(1,214)	(728)	(786)
Others	965	1,219	-	-
Cash flow from Financing Activities	439	(4,633)	(728)	(786)
Chg. in Cash & Bank balance	356	(128)	3,288	1,470
Closing cash & balance	719	591	3,879	5,348

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	51.3	166.3	151.4	160.0
Adjusted EPS (Diluted)	51.3	166.3	151.4	160.0
Cash EPS	(64.7)	40.5	14.2	11.6
Dividend per share (DPS)	12.0	30.0	18.0	19.4
Book Value per share (BV)	854.6	1,001.8	1,135.2	1,275.7
Dividend Payout (%)	26.6	19.1	11.9	12.2
Growth (%)				
Net Sales	20.8	5.6	7.9	8.0
EBITDA	37.2	69.7	(2.5)	1.2
EPS (INR)	279.2	224.0	(9.0)	5.7
Valuation Ratios (x)				
P/E	54.3	16.7	18.4	17.4
P/CEPS	(43.0)	68.8	196.2	239.2
P/BV	3.3	2.8	2.5	2.2
EV / EBITDA	13.6	7.8	7.8	7.6
EV / Sales	1.2	1.1	1.0	0.9
Profitability Ratios				
Gross Profit Margins (%)	93.5	92.9	93.0	93.0
EBITDA Margins (%)	8.6	13.8	12.5	11.7
EBIT Margins (%)	4.5	9.6	8.2	7.4
Net Profit Margins (%)	1.8	5.6	4.8	4.6
RoCE (%)	6.7	14.5	12.5	11.3
RoE (%)	5.4	16.9	14.2	13.3
Dividend Yield (%)	0.4	1.1	0.6	0.7

Operating Ratios

Fixed Asset Turnover (x)	1.7	1.7	1.8	1.8
Inventory Turnover Days	37	35	36	40
Receivables Days	42	39	36	36
Payables Days	73	71	70	68
Effective Tax Rate (%)	25.7	24.8	26.0	26.0
Net Debt / Equity (x)	0.6	0.4	0.3	0.2
Net Debt / EBITDA (x)	2.1	1.0	0.8	0.7

Source Company data, I-Sec research

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