

October 19, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	HOLD		HOLD	
Target Price	3,063		3,107	
Sales (Rs. m)	1,47,129	1,62,828	1,46,898	1,60,237
% Chng.	0.2	1.6		
EBITDA (Rs. m)	18,318	21,249	19,684	21,311
% Chng.	(6.9)	(0.3)		
EPS (Rs.)	183.2	225.2	208.4	235.4
% Chng.	(12.1)	(4.3)		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	1,19,435	1,32,908	1,47,129	1,62,828
EBITDA (Rs. m)	16,522	15,284	18,318	21,249
Margin (%)	13.8	11.5	12.5	13.1
Adj. PAT (Rs. m)	6,854	5,654	7,409	9,110
Adj. EPS (Rs.)	169.4	139.8	183.2	225.2
Gr. (%)	226.6	(17.5)	31.0	23.0
DPS (Rs.)	30.0	32.0	38.0	44.0
Yield (%)	1.0	1.1	1.3	1.5
RoE (%)	18.3	13.3	15.5	16.8
RoCE (%)	19.8	15.7	17.7	19.2
EV/Sales (x)	1.2	1.1	1.0	0.9
EV/EBITDA (x)	8.3	9.1	7.7	6.6
PE (x)	17.5	21.3	16.2	13.2
P/BV (x)	3.0	2.7	2.4	2.1

Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.3,263 / Rs.2,060
Sensex / Nifty	81,225 / 24,854
Market Cap	Rs.120bn/ \$ 1,430m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.745.39m

Shareholding Pattern (%)

Promoter's	47.21
Foreign	16.65
Domestic Institution	19.74
Public & Others	16.40
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.1	18.7	35.4
Relative	3.2	6.0	9.8

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Higher input costs pressurizing margins

Quick Pointers:

- Healthy growth in replacement and international markets
- To increase prices across products to offset rise in input cost

CEAT's Q2FY25 revenue increased by 8.2% YoY, driven by healthy demand in the replacement and international markets. Rise in key input prices led to a steep decline in gross margin by 594bps YoY to 37.4%. Higher input costs and rise in staff expenses on account of yearly increments, led to EBITDA margin declining by 398bps YoY to 11%. Further, APAT declined by 41.4% YoY, on weak operational performance.

The management has announced price increases across its product range and plans more hikes, to mitigate some input cost pressure. Additionally, they expect demand momentum in H2FY25 to be robust, which shall aid in better volume and ASP growth in the upcoming months, while margins could be in the similar range given the volatility in input costs. Given the volatility in input costs, we lower our EBITDA & EPS estimates in the range of 7-12% and project revenue/EBITDA/PAT to grow at 10.9%/8%/9.4% CAGR over FY24-27E. We maintain our 'Hold' rating with a revised target price of Rs3,063 (down from Rs3,107), valuing it at 15x on its Sep'26E EPS.

- **Revenue growth led by replacement and export markets:** Q2FY25 revenue grew by 8.2% YoY to Rs33bn against PLe/BBGe of Rs34.2bn/Rs32.87bn. Growth was driven by healthy demand from replacement and export markets, as well as OEMs. Higher input costs and tax expenses led to APAT declining by 41.4% YoY to Rs1.2bn, against PLe/BBGe of Rs1.9bn/Rs1.4bn.
- **Higher input costs continue to impact margins:** Despite pricing action to negate rise in input costs, CEAT's gross profit declined by 6.6% YoY to Rs12.4bn, against PLe of Rs13.6bn. Consequently, EBITDA declined by 20.6% YoY to Rs3.6bn (PLe: Rs4.6bn; BBGe: Rs3.5bn), while margin contracted by 398bps YoY to 11%, recording the 4th consecutive quarter of decline.
- **Pricing action to sustain profitability:** Raw material prices increased by 6% QoQ, while prices increased by 1-2% across the product portfolio. Given the volatility in rubber prices, the management has increased the CV prices by 1.5% and PC prices by 3.5%. They have planned more price hikes in Q3 across the portfolio. This will help offset the significant rise in rubber prices over the last few quarters and improve profitability in the upcoming quarters.

Key Conference Call Highlights:

Domestic business:

- CV tyre replacement volume increased in double digits, mainly driven by TBR tyre while TBB tyre declined. OEM volume declined due to slowdown in the industry.
- PC replacement volume exhibited strong double-digit growth, while OEM demand was soft, which led to a slight decline in volume.
- The company discontinued a few products while expanding production of new products gradually, which shall aid in ASP expansion.
- 2W OEM volume saw strong double-digit growth, while the replacement market grew in high single digits.
- Rural demand continues to improve, which shall aid volume growth in the upcoming quarters.
- H1FY25 capex stood at Rs4.3bn. The management retained the guidance for annual capex at Rs10bn.

Exports:

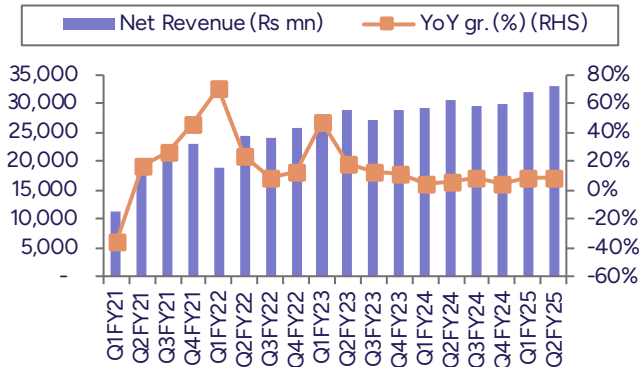
- The company reported double-digit growth in its international business with key geographies like the EU, Middle East and LATAM exhibiting strong overall growth.
- Its top 3 markets – EU, Middle East and LATAM – together account for ~65% of its business.
- The company's order base exceeds one month, suggesting healthy demand outlook for the upcoming quarters.
- Freight rates were elevated during the quarter, while container availability impacted its order fulfillment. The management expects the situation to improve gradually in the coming months.
- It launched ~46 SKUs in the international markets and plans to launch more SKUs for TBR and PCR in Q3 and Q4, mainly targeted towards the international markets.

Exhibit 1: Q2FY25 Result Overview (Rs mn)

Y/e March	Q2FY25	Q2FY24	YoY gr. (%)	Q2FY25E	% Var	Q1FY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
Net Revenue	33,045	30,533	8.2	34,197	(3.4)	31,928	3.5	64,974	59,885	8.5
Raw Materials	20,683	17,298	19.6	20,587	0.5	19,401	6.6	40,083	34,593	15.9
% of Net Sales	62.6	56.7		60.2		60.8		61.7	57.8	
Personnel	2,190	2,177	0.6	2,018	8.5	1,956	11.9	4,146	4,132	0.3
% of Net Sales	6.6	7.1		5.9		6.1		6.4	6.9	
Manufacturing & Other Exp	6,550	6,498	0.8	7,010	(6.6)	6,742	(2.9)	13,292	12,727	4.4
% of Net Sales	19.8	21.3		20.5		21.1		20.5	21.3	
Total Expenditure	29,423	25,972	13.3	29,615	(0.6)	28,099	4.7	57,522	51,453	11.8
EBITDA	3,623	4,561	(20.6)	4,582	(20.9)	3,829	(5.4)	7,452	8,432	(11.6)
EBITDA Margin (%)	11.0	14.9		13.4		12.0		11.5	14.1	
Depreciation	1,371	1,245	10.1	1,464	(6.4)	1,318	4.1	2,689	2,454	9.6
EBIT	2,252	3,316	(32.1)	3,118	(27.8)	2,511	(10.3)	4,763	5,978	(20.3)
Interest Expenses	665	717	(7.3)	724	(8.3)	619	7.4	1,283	1,419	(9.6)
Non-operating income	35	105	(67.0)	89	(61.2)	62	(43.9)	96	137	(30.0)
Extraordinary Expenses	(0)	-	#DIV/0!	-		75		74	-	#DIV/0!
PBT	1,621	2,704	(40.0)	2,483	(34.7)	2,029	(20.1)	3,650	4,697	(22.3)
Tax-Total	463	683	(32.2)	540	(14.2)	540	(14.2)	1,003	1,212	(17.2)
Tax Rate (%) - Total	28.6	25.3		21.7		26.6		27.5	25.8	
PAT before MI & associates	1,158	2,021	(42.7)	1,943	(40.4)	1,489	(22.2)	2,647	3,485	(24.0)
Minority Interest	(4)	(3)	-	0	-	0	-	(4)	(9)	-
Profit / loss of associates	56	56	(0.2)	53	6.2	53	6.2	109	32	237.8
Adj. PAT	1,219	2,080	(41.4)	1,996	(38.9)	1,487	(18.0)	2,707	3,526	(23.2)

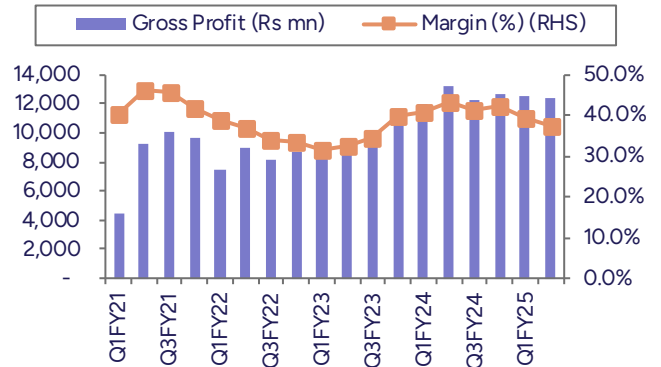
Source: Company, PL

Exhibit 2: Growth led by replacement & international market



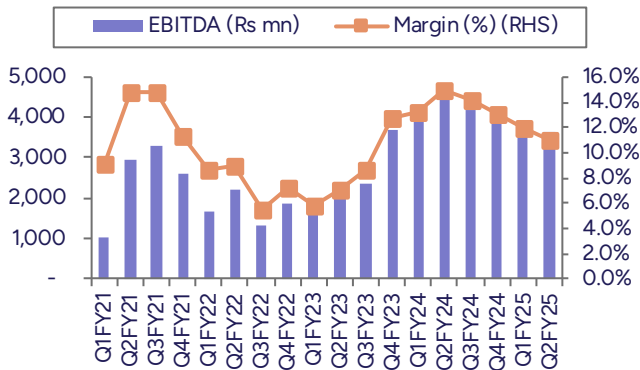
Source: Company, PL

Exhibit 3: Rise in input costs impacts gross margin



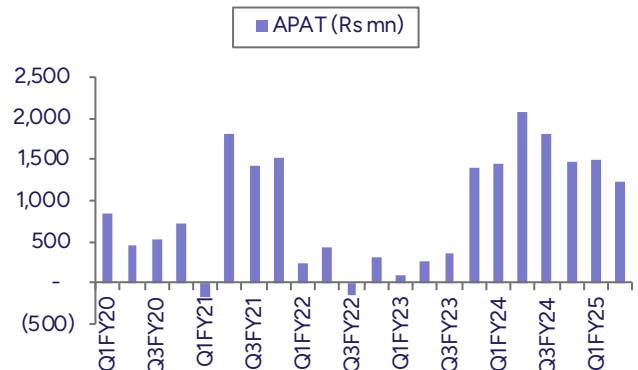
Source: Company, PL

Exhibit 4: Margin contracts for 4th consecutive quarter



Source: Company, PL

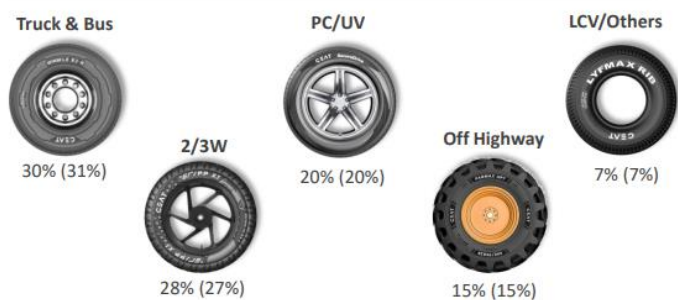
Exhibit 5: Weak operational performance affects profitability



Source: Company, PL

Exhibit 6: Revenue mix remains stable

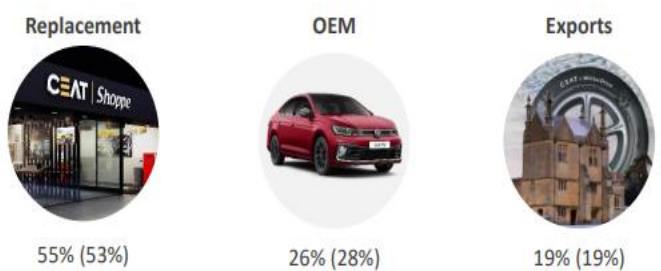
Diversified Product Mix ¹



Source: Company

Exhibit 7: 25% exports contribution targeted in 2-3 years

Balanced Market Mix ¹



Source: Company

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	1,19,435	1,32,908	1,47,129	1,62,828
YoY gr. (%)	5.6	11.3	10.7	10.7
Cost of Goods Sold	69,244	81,074	88,425	96,883
Gross Profit	50,191	51,834	58,705	65,945
Margin (%)	42.0	39.0	39.9	40.5
Employee Cost	8,457	8,639	9,711	10,909
Other Expenses	25,212	27,911	30,676	33,787
EBITDA	16,522	15,284	18,318	21,249
YoY gr. (%)	69.7	(7.5)	19.8	16.0
Margin (%)	13.8	11.5	12.5	13.1
Depreciation and Amortization	5,088	5,606	6,236	6,926
EBIT	11,434	9,678	12,081	14,323
Margin (%)	9.6	7.3	8.2	8.8
Net Interest	2,691	2,459	2,654	2,660
Other Income	197	227	254	285
Profit Before Tax	8,359	7,371	9,681	11,947
Margin (%)	7.0	5.5	6.6	7.3
Total Tax	2,214	1,990	2,517	3,106
Effective tax rate (%)	26.5	27.0	26.0	26.0
Profit after tax	6,145	5,381	7,164	8,841
Minority interest	(74)	-	-	-
Share Profit from Associate	208	218	245	269
Adjusted PAT	6,854	5,654	7,409	9,110
YoY gr. (%)	226.6	(17.5)	31.0	23.0
Margin (%)	5.7	4.3	5.0	5.6
Extra Ord. Income / (Exp)	428	55	-	-
Reported PAT	6,427	5,599	7,409	9,110
YoY gr. (%)	245.2	(12.9)	32.3	23.0
Margin (%)	5.4	4.2	5.0	5.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,427	5,599	7,409	9,110
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	169.4	139.8	183.2	225.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	-	-	-	-
Tangibles	88,437	98,437	1,09,437	1,21,437
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	(25,727)	(31,333)	(37,569)	(44,495)
Intangibles	-	-	-	-
Net fixed assets	62,711	67,105	71,868	76,942
Tangibles	62,711	67,105	71,868	76,942
Intangibles	-	-	-	-
Capital Work In Progress	6,835	8,202	9,105	10,106
Goodwill	-	-	-	-
Non-Current Investments	1,821	1,821	2,094	2,513
Net Deferred tax assets	(4,509)	(4,284)	(4,070)	(3,866)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	11,505	13,837	15,318	16,952
Trade receivables	12,832	14,929	16,527	18,290
Cash & Bank Balance	591	525	573	778
Other Current Assets	2,886	3,175	3,492	3,842
Total Assets	99,945	1,10,472	1,19,986	1,30,585
Equity				
Equity Share Capital	405	405	405	405
Other Equity	40,022	44,327	50,198	57,528
Total Networth	40,426	44,731	50,603	57,933
Non-Current Liabilities				
Long Term borrowings	17,915	19,915	20,915	20,015
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	23,321	26,217	29,023	32,119
Other current liabilities	13,676	15,228	15,279	16,554
Total Equity & Liabilities	99,945	1,10,472	1,19,986	1,30,585

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	11,716	9,897	12,326	14,592
Add. Depreciation	5,088	5,606	6,236	6,926
Add. Interest	197	227	254	285
Less Financial Other Income	197	227	254	285
Add. Other	(582)	(75)	-	-
Op. profit before WC changes	16,420	15,655	18,816	21,803
Net Changes-WC	1,085	(384)	(671)	473
Direct tax	(1,591)	(2,216)	(2,731)	(3,310)
Net cash from Op. activities	15,913	13,055	15,414	18,967
Capital expenditures	(7,713)	(11,367)	(11,902)	(13,002)
Interest / Dividend Income	-	-	-	-
Others	(125)	-	(273)	(419)
Net Cash from Invt. activities	(7,838)	(11,367)	(12,175)	(13,420)
Issue of share cap. / premium	740	-	-	-
Debt changes	(5,040)	2,000	1,000	(900)
Dividend paid	(1,214)	(1,294)	(1,537)	(1,780)
Interest paid	(2,691)	(2,459)	(2,654)	(2,660)
Others	-	-	-	-
Net cash from Fin. activities	(8,204)	(1,753)	(3,191)	(5,340)
Net change in cash	(128)	(66)	48	206
Free Cash Flow	8,201	1,688	3,512	5,965

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	169.4	139.8	183.2	225.2
CEPS	295.2	278.4	337.3	396.4
BVPS	999.4	1,105.8	1,251.0	1,432.2
FCF	202.7	41.7	86.8	147.5
DPS	30.0	32.0	38.0	44.0
Return Ratio(%)				
RoCE	19.8	15.7	17.7	19.2
ROIC	14.7	11.6	13.2	14.3
RoE	18.3	13.3	15.5	16.8
Balance Sheet				
Net Debt : Equity (x)	0.4	0.4	0.4	0.3
Net Working Capital (Days)	3	7	7	7
Valuation(x)				
PER	17.5	21.3	16.2	13.2
P/B	3.0	2.7	2.4	2.1
P/CEPS	10.1	10.7	8.8	7.5
EV/EBITDA	8.3	9.1	7.7	6.6
EV/Sales	1.2	1.1	1.0	0.9
Dividend Yield (%)	1.0	1.1	1.3	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	44,429	48,162	56,688	62,602
YoY gr. (%)	6.6	27.4	40.3	30.9
Raw Material Expenses	18,015	18,263	25,516	28,072
Gross Profit	26,413	29,898	31,171	34,531
Margin (%)	137.1	136.8	114.5	112.4
EBITDA	7,318	8,190	7,587	7,549
YoY gr. (%)	75.7	6.4	(16.1)	(13.2)
Margin (%)	35.3	36.5	27.2	24.2
Depreciation / Depletion	1,500	1,601	1,543	1,620
EBIT	5,818	6,589	6,044	5,929
Margin (%)	29.5	30.7	22.1	19.3
Net Interest	687	622	631	677
Other Income	2,254	1,792	2,285	2,461
Profit before Tax	7,384	7,178	7,773	7,713
Margin (%)	42.2	36.4	29.6	25.5
Total Tax	2,351	2,416	2,553	2,230
Effective tax rate (%)	59.3	66.8	61.7	57.6
Profit after Tax	5,033	4,762	5,220	5,483
Minority interest	(2)	(63)	-	(4)
Share Profit from Associates	82	94	53	56
Adjusted PAT	5,117	5,309	5,184	5,544
YoY gr. (%)	439.2	21.5	(32.1)	(15.8)
Margin (%)	28.4	25.9	19.6	18.3
Extra Ord. Income / (Exp)	-	390	(21)	-
Reported PAT	5,117	4,919	5,273	5,544
YoY gr. (%)	443.9	(2.7)	(28.6)	(16.9)
Margin (%)	28.4	24.6	19.9	18.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,117	4,919	5,273	5,544
Avg. Shares O/s (m)	672	672	672	672
EPS (Rs)	50.1	42.5	42.6	37.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Hold	3,107	2,938
2	20-Jul-24	Accumulate	2,992	2,667
3	08-Jul-24	Accumulate	3,017	2,693
4	04-May-24	BUY	3,017	2,545
5	08-Apr-24	Accumulate	2,980	2,686
6	05-Mar-24	Accumulate	2,980	2,870
7	26-Jan-24	Accumulate	2,980	2,830
8	08-Jan-24	Accumulate	2,640	2,443

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	512	551
2	Ashok Leyland	Accumulate	257	222
3	Bajaj Auto	Hold	11,859	11,617
4	Bharat Forge	Accumulate	1,369	1,437
5	Bharat Petroleum Corporation	Sell	279	335
6	Bharti Airtel	Accumulate	1,831	1,657
7	CEAT	Hold	3,107	2,938
8	Clean Science and Technology	Hold	1,561	1,579
9	Deepak Nitrite	Reduce	2,582	3,000
10	Divgi Torqtransfer Systems	Hold	633	591
11	Eicher Motors	BUY	5,416	4,668
12	Endurance Technologies	Accumulate	2,569	2,182
13	Exide Industries	Hold	520	481
14	Fine Organic Industries	Accumulate	5,568	5,142
15	GAIL (India)	Sell	205	224
16	Gujarat Fluorochemicals	Reduce	3,771	4,065
17	Gujarat Gas	Hold	646	596
18	Gujarat State Petronet	Hold	422	411
19	Hero Motocorp	Accumulate	5,906	5,495
20	Hindustan Petroleum Corporation	Sell	362	394
21	Indian Oil Corporation	Reduce	156	163
22	Indraprastha Gas	Sell	407	543
23	Jubilant Ingrevia	Hold	770	794
24	Laxmi Organic Industries	Sell	218	276
25	Mahanagar Gas	Hold	2,050	1,825
26	Mahindra & Mahindra	BUY	3,458	3,060
27	Mangalore Refinery & Petrochemicals	Sell	128	173
28	Maruti Suzuki	BUY	15,045	12,528
29	Navin Fluorine International	Accumulate	3,680	3,419

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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