BP Wealth | STOXBOX

Result Update

Q3 FY24

CEAT Ltd.

Institutional Research

CEAT Ltd.

BP WEALTH

Auto Ancillary / Tyres | Q3FY24 Result Update **29th January 2024**

Result Highlights

CEAT Ltd. demonstrated robust performance in Q3FY24, posting a 9% YoY (down 3% QoQ) increase in revenue led by a notable 12.5% YoY growth in consolidated volume, primarily driven by the international segment, which surged 25% YoY. On a standalone basis, CEAT Ltd. observed marginal declines in volumes and average selling prices, with a sequential decline of approximately 1.7% and 1.4%, respectively.

Replacement sales remained robust, offsetting a marginal decline in OEM volume. We expect export and replacement demand to improve QoQ. Management expects Q4 to be better than Q3 (lean quarter). OHT volume continues to increase with ramp-up in production capacity. Despite meeting market estimates, CEAT Ltd. encountered a ~200 bps QoQ reduction in consolidated gross margins, which stood at 41.3%. Factors contributing to this decline include a ~2.5% QoQ increase in the blended raw material basket, price adjustments in exports to maintain competitiveness, and an unfavorable product mix. However, this was partially mitigated by lower advertising expenses and cost optimization initiatives. Subsequently, the company demonstrated EBITDA growth of 75.7% YoY / down 8.5% QoQ, reaching Rs 417 crores, with margins at 14.1% exhibiting a significant YoY improvement of 530 bps. The consolidated PAT came at Rs 180 crores (up 412% YoY / down 12.8% QoQ). Additionally, the company recorded a profit from the JV amounting to Rs 8.2 crores, reflecting a notable increase compared to Q2FY24 and a significant improvement from the loss incurred in Q3FY23.

Looking ahead, CEAT Ltd. anticipates a stable raw material basket, benefiting from recent stability in crude prices. The management intends to focus on high-margin segments such as exports and OHTs, while continuing with capacity expansion plans in TBR tires. The company remains committed to its capex guidance of Rs 600-650 crores for FY24E, aimed at sustaining growth and enhancing operational efficiency.

Valuation and Outlook

The future outlook for CEAT Ltd. appears promising, anchored by sustained volumes in both OEMs and replacement segments, poised to facilitate the rapid absorption of new capacities and drive operating leverage. The company anticipates maintaining elevated margins in the range of 13-14%, buoyed by robust price retention strategies and a focused approach on high-margin PV tyres, particularly SUVs, which comprise half of the PVs sold, boasting larger sizes and increased profitability. With a record-high PV sales in India in 2023 at 41.08 lakh units, there exists an immediate translation into replacement demand over the next two to three years, underscoring a favorable trajectory for the industry and the company. CEAT Ltd. projects high single to low double-digit volume growth for FY25, with a similar trajectory expected for Q4, driven by a positive outlook on replacement segments, including PCR, 2W, and TBR categories.

Key Highlights

Particulars (Rs. Mn)	Q3FY24	Q2FY24	Q3FY23	YoY (%)	QoQ (%)
Net Sales	29,631	30,533	27,272	8.7%	-3.0%
Gross profit	12,238	10,534	11,809	3.6%	16.2%
Gross margin (%)	41.3%	34.5%	43.3%	680 bps	(200 bps)
EBITDA	4,175	4,561	2,376	75.7%	-8.5%
OPM (%)	14.1%	14.9%	8.7%	538 bps	(85 bps)
Adj. PAT	1,815	2,080	354	-12.8%	487.6%
EPS (Rs.)	6.1%	6.8%	1.3%	371.8%	-10.1%

Source: Company, BP Equities Research

Sector Outlook	Positive

Stock

CMP (Rs.)	2,726
BSE code	520878
NSE Symbol	CEATLTD
Bloomberg	CEAT IN
Reuters	CEAT.BO

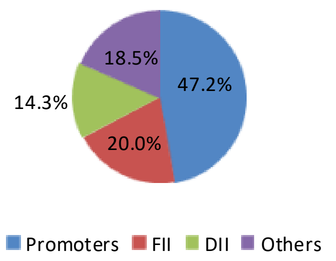
Key Data

Nifty	21,738
52 Week H/L (Rs.)	2,949/1,357
O/s Shares (Mn)	40.5
Market Cap (Rs. bn)	110.2
Face Value (Rs.)	10

Average Volume

3 months	3,14,690
6 months	2,78,250
1 year	3,23,890

Share Holding (%)



Relative Price Chart

Research Analyst

Dhruv Mudaraddi

dhruv.m@bpwealth.com

+022-61596138

The imminent launch in the US market in Q1FY25, encompassing PCUV and TBR segments, promises substantial contributions to the company's overall topline growth. Additionally, a strong revival in export volumes, particularly in OTR and PCR tyres, underscores CEAT's global expansion ambitions. The company's proactive approach towards enhancing market share in 2W scooter and trucks, coupled with steady maintenance and project capex of Rs 800- 820 crores for the full year, positions it favorably amidst evolving market dynamics. While the rise in natural rubber prices poses margin challenges, the strategic initiatives aimed at increasing market share in PCR and TBR segments, expanding capacity in high-margin OHT, and reviving 2W volumes collectively present key positives for CEAT Ltd.'s business outlook going forward.

"Focusing on electrification with a strong share of 40% in OEM segment with clients such as Mahindra, Kia, MG, and Tata."

Key Concall Highlights

- **Demand outlook-** Volume growth remain strong in 3Q at 12.5% YoY led by 25% growth in export and 11% growth in replacement segment, offset by 9% de-growth in OEMs. Passenger car tire volumes were affected by smaller RIM size exit. Outlook remain steady, international and export growth to be strong while OEMs demand to be weak on high base.
- Q3 is a lean quarter, and the company expects Q4 would be better than Q3. Domestic replacement market, CV, 2W Motorcycle and PCs, segment are growing in mid-single digit and scooter tyre to grow in double digit. 2W & 3W have shown 20% growth YoY.
- The company is seeing some tailwind in off highway segment.
- The company is focusing on launching new products in the premium segment depending on customer needs (targeting Tesla in the export market). 163 patents have been filed out of which 33 are approved. Sri Lanka reported strong revenue growth and is getting back to the pre-economic crisis period.
- **Exports-** The Q3 export volume growth was 25% YoY and YTD value growth was 24%. Volume growth for exports will be higher than the domestic market. Target to double exports volume within 3 years. International experienced robust growth that the company plans to accelerate with the launches ahead. 150+ SKUs in USA.
- The export market is improving in Asia and Africa while Europe is still impacted by recessionary trends especially on Agri radial and other categories of PCR. The order book is still intact. The red sea disruptions have affected in terms of rising freight rates.
- **RM cost-** Company expects RM basket to be stable and range bound in 4Q. ASP is stable except exports. The company has taken price correction in export market to be competitive. In OEM, the company pass on the cost benefit by way of indexation. Replacement is flattish. Company is upgrading off highway tyres to steel radial for better product mix and better margin.
- **Market share-** Gained market share in 2W scooters while market share in trucks along with motorcycles remained flat. Company is gaining market share in PV segment. Focusing on electrification with a strong share of 40% in OEM segment with clients such as Mahindra, Kia, MG, and Tata.
- **Debt and working capital-** Net Debt stood at Rs 1,729 crores in Q3 vs 1,890 crores in Q2FY24 vs Rs. 1,989 crores in Q1FY24. Debt/ Equity stands at 0.6x and Debt/EBITDA at 1.05x in Q3FY24. Net working capital is at similar levels as Q2FY24. The standalone debt has been reduced by Rs 163 crores vs Rs 97 crores in Q2FY24.
- **Capex-** Capex in Q3 stood at Rs 215 crores (Capex for 9MFY24 stood at Rs 605 crores). All expansion projects are on track.
- TBR (Halol) – Commissioned and completed, 2W (Nagpur) – only Rs 30 crores remaining of Rs 520 crores capex incurred, PCR (Chennai) – Committed Rs 2,060 crores of which ~Rs 200 crores yet to be spent, TBR – have announced Rs 700 crores of which Rs 250-260 crores completed and expect the balance to complete by end of 2QFY25, Speciality – increasing capacity from 95tpd to 105tpd to 155tpd (the project will be over by end of FY25).

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"The imminent launch in the US market in Q1FY25, encompassing PCUV and TBR segments, promises substantial contributions to the company's overall topline growth."

- For full-year, capex to be Rs 800- 820 crores (a combination of routine capex of which Rs 200- 250 crores (maintenance), 600 crores is project capex).
- Continuous focus on generating healthy cash flows has helped the company to fund capex from internal accruals and also in the reduction of gross debt in the quarter. The balance sheet and leverage ratios have strengthened in Q3.

Key Financials						
YE March (Rs. millions)	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Revenue	**67,788**	**75,785**	**91,971**	**1,12,105**	**1,20,733**	**1,30,409**
Revenue Growth (Y-oY)	*(2.9%)*	*11.8%*	*21.4%*	*21.9%*	*7.7%*	*8.0%*
EBIDTA	**7,238**	**9,895**	**7,205**	**9,742**	**16,677**	**17,039**
EBIDTA Growth (Y-o-Y)	*11.8%*	*36.7%*	*(27.2%)*	*35.2%*	*71.2%*	*2.2%*
Net Profit	**2,380**	**4,464**	**877**	**2,098**	**6,928**	**7,150**
Net Profit Growth (Y-o-Y)	*(17.1%)*	*87.6%*	*(80.3%)*	*139.1%*	*230.2%*	*3.2%*
Diluted EPS	**58.8**	**110.3**	**21.7**	**51.9**	**171.3**	**176.7**
Diluted EPS Growth (Y-o-Y)	*(64.6%)*	*87.6%*	*(80.3%)*	*139.1%*	*230.2%*	*3.2%*
Key Ratios						
EBIDTA margin (%)	**10.7%**	**13.1%**	**7.8%**	**8.7%**	**13.8%**	**13.1%**
NPM (%)	3.5%	5.9%	1.0%	1.9%	5.7%	5.5%
RoE (%)	**8.2%**	**13.9%**	**2.2%**	**5.6%**	**18.1%**	**15.9%**
RoA (%)	3.4%	5.6%	0.8%	2.0%	9.1%	8.8%
Valuation Ratios						
P/E (x)	**46.4x**	**24.7x**	**125.8x**	**52.6x**	**15.9x**	**15.4x**
EV/EBITDA	7.2x	7.9x	8.4x	8.3x	7.8x	7.7x
P/BV (x)	**3.8x**	**3.3x**	**3.4x**	**3.2x**	**2.7x**	**2.4x**
Market Cap. / Sales (x)	1.6x	1.5x	1.2x	1.0x	0.9x	0.8x

Source: Company, BP Equities Research

BP WEALTH

Research Desk Tel: +91 22 61596138

Institutional Sales Desk Tel: +91 22 61596403/04/05

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Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392