

Previous Coverage	Report Date	Report Price	Buy Range	Target Price
Quick Insight	30-Aug-23	2,269.3	2,260 – 2,280	2,730 – 2,750
Q2FY24	19-Oct-23	2,202.2	-	2,730 – 2,750


**Recommendation** **BOOK PROFITS. Achieved 52-week High Price of ₹2998.5 on 20Jan24**
**Highlights**

- CEAT Q3FY24 Revenue stood at ₹30.5bn up 8.7%/ -3% YoY/ QoQ driven by a 12.5% volume growth and international business which grew by 25%. The replacement grew 11% YoY led by strong growth in 2W and Truck and bus volumes while OEM de-grew 9%. Passenger car tire volumes were affected by smaller RIM size exit.
- The RM basket (Carbon black, synthetic fibre and natural rubber) increased by 2.5%. Going ahead RM basket to be stable and range bound in Q4FY24. ASP was stable except for exports. The company had taken price correction in export market to be competitive. In OEM the company passes on the cost benefit by way of indexation. Replacement is flattish.
- It is upgrading off highway tyres to steel radial for better product mix and margins.
- While margins for the quarter were healthy at 14.1%, witnessed a marginal drop sequentially primarily on account of increase in input cost. Price adjustments in OEM and exports impacted realizations YoY. Gross margins declined 202bps to 41.3% impacted by increase in RM cost and mix impact. During quarter, Lower advertisement expenses and cost optimisation measures reduced the impact of gross margin contraction with EBITDA at ₹4.18bn (+75.7 YoY and ₹8.5% QoQ). PAT stood at ₹1.81bn (+5.1x YoY and -12.8% QoQ).
- Gained market share in 2W scooter and trucks along with motorcycles market share remained flat. It is gaining market share in Passenger cars tyre segment. Focusing on electrification with a strong share of 40% in OEM segment with clients such as Mahindra, Kia, MG and Tata Motors. The absolute top-end motorcycles use steel radial tyres, which form 3% of the overall market, where the OEMs were importing tires due to inadequate supply. Now, the company is focusing on catering to domestic demand in the top-end motorcycle segment. It has started supplying high-end tires to RE for Shot Gun 650 cc and Himalaya 450 cc.
- **Target to double exports volume within 3 years with volume growth for exports to be higher than domestic market** – Regional mix for exports – LATM is largest region. Africa and Europe are big as well. USA and South-East Asia are relatively smaller. The Q3FY24 export volume growth was 25% YoY and has grown robustly. YTD value growth was 24%. International had a robust growth and has 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. There has been headwind in Europe, especially on Agri radial and other categories of PCR. The markets in USA, LATM, Asia, overall growth is still robust. The order book is still intact. The Red sea disruptions have affected in terms of freight rates being going up. The Europe will be impacted and is also undergoing recession so the damage will be in a limited term.
- The coverage for premium and super premium luxury cars -BMW, Audi and Mercedes -is now in the range of 85- 90%, and the company is likely to keep the coverage at this level even with the introduction of new models by the OEMs.
- Capacity utilisation was at 75-80% in each segment barring TBR at Halol (95%). The company is also looking to increase the capacity of 2W tyre (105t to 155t capacity increase at Nagpur) which will be completed by next year.
- In OTR tyre, the company's capacity is currently at 105 tonnes/day (TPD) and plans to reach to 150 TPD. Once it reaches 80% utilisation, the management will further plan expansion.

**CEAT Ltd. – Q3FY24 Result Highlights**

- **Q3FY24 Revenue growth of ~9%YoY driven by 12.5% volume growth and international business** – CEAT Q3FY24 Revenue stood at ₹30.5bn, +8.7%/-3% YoY/ QoQ driven by a 12.5% volume growth and international business which grew by 25%. The replacement grew 11% YoY led by strong growth in 2W and Truck and bus volumes while OEM de-grew 9%. Passenger car tyre volumes were affected by smaller RIM size exit. The RM basket (Carbon black, synthetic fibre and natural rubber) increased by 2.5%. Going ahead RM basket to be stable and range bound in Q4FY24. ASP was stable except for exports. The company had taken price correction in export market to be competitive. In OEM the company passes on the cost benefit by way of indexation. Replacement is flattish. It is upgrading off highway tyres to steel radial for better product mix and margins.
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- **Outlook remain steady, international and export growth to be strong while OEMs demand to be weak on high base** – Q3FY24 was a lean quarter, and the management expects Q4FY24 to be better. 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 and company is seeing some tailwind in off highway segment as well. The company is focusing on launching new products in the premium segment depending on customer needs (targeting Tesla in export market). 163 patents have been filed out of which 33 are approved. Sri Lanka reported strong revenue growth and is getting back to pre-economic crisis period.
- Capacity utilisation was at 75-80% in each segment barring TBR at Halol (95%). The company is also looking to increase the capacity of 2W tyre (105t to 155t capacity increase at Nagpur) which will be completed by next year.
- **Market mix in 9MFY24** – OEM: Replacement: Exports was 28%:54%:18%. Replacement and Export gone up by 2% QoQ.

**Important Data**

Nifty	21,659
Sensex	71,662

**Key Stock Data**

CMP	₹2,736.7
Market Cap	₹110.8bn
52W High/Low	₹2,999/1,358
Shares o/s (mn)	40.45
Daily Vol. (3M NSE Avg.)	1,034,916
BSE Code	500878
NSE Code	CEAT
Bloomberg Code	CEAT:IN

**Shareholding Pattern (%) – Dec'23**

Promoter	47.2
DIs	14.3
FIs	20.0
Public	18.5

**Financials**

Particulars	FY21	FY22	FY23
Operating Revenue	76,096	93,634	113,149
EBITDA	9,830	7,098	9,738
EBITDA Margin (%)	12.9	7.6	8.6
Net Profit	4,320	712	1,862
EPS (₹)	106.8	17.6	46.0
DPS (₹)	18.0	3.0	12.0
RoE (%)	12.9	2.2	5.4
RoCE (%)	12.7	5.0	9.2
P/E (x)	25.6	155.5	59.5
EV/EBITDA (x)	13.5	19.9	14.5
P/BV (x)	3.3	3.4	3.2

Particulars	FY24E	FY25E	FY26E
Operating Revenue	120,319	127,339	135,135
EBITDA	16,921	16,874	17,507
EBITDA Margin (%)	14.1	13.3	13.0
Net Profit	7,011	7,173	7,336
EPS (₹)	173.3	177.3	181.4
DPS (₹)	24.0	26.0	28.0
RoE (%)	19.0	17.6	17.3
RoCE (%)	15.9	14.3	14.2
P/E (x)	15.8	15.4	15.1
EV/EBITDA (x)	7.6	7.5	7.1
P/BV (x)	2.8	2.5	2.5

Source: Company, Way2Wealth

**Relative Performance**

Return (%)	1 Yr	3Yr	5 Yr
CEAT	82.3	87.8	159.5
Nifty 50	22.7	58.9	103.3
Sensex	20.4	54.8	101.3

Source: Company, Way2Wealth

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- **Product mix in 9MFY24** – Truck & Bus contributed 31%; 2/3W at 28%;PCR/UV at 20%; Off-Highway at 14% and LCV at 7%.
- Capex in Q3FY24 stood at ₹2.15bn v/s ₹1.7bn (Capex for 9MFY24 stood at ₹6.05 bn). FY24 capex likely to be ₹8-8.2bn (a combination of routine capex of which ₹2-2.5bn (maintenance), 6bn capex is project capex). With continuous focus on generating healthy cash flows has helped company to fund capex from internal accruals and also in the reduction of gross debt in the quarter.
- In OTR tyre, the company's capacity is currently at 105 tonnes/day (TPD) and plans to reach to 150 TPD. Once it reaches 80% utilisation, the management will further plan expansion.
- Net Debt stood at ₹17.29 bn in Q3FY24 v/s ₹18.90bn in Q2FY24 v/s ₹19.89bn in Q1FY24. Debt/ Equity stood 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 ₹1.63bn v/s ₹970mn in Q2FY24.

## VIEW

CEAT saw strong Q3FY24 posting revenue growth of ~9% YoY led by volume growth of 12.5% YoY and international business which grew 25%.The management aims for single to low double digit volume growth in FY25 and is looking at a similar kind of volume growth in Q4FY24 as well. Management sounded positive and expected volume to pick up in replacement (PCR, 2W and TBR) segment. Export volume is also showing strong revival and management expects recovery to continue in coming quarters, especially in OTR/PCR tyre. Increase in market share for PCR and TBR segment, expanding capacity in high margin OHT segment and revival in 2W volume are key positives for business. However, revival in the Natural rubber prices are negative from a margin perspective in the near to medium term. The management's growing focus on expanding channels in North America, Europe, and increasing exports of OHT is likely to lead to stronger exports in the next 2–3 years. **Hence, we continue to remain POSITIVE on the stock and recommend long term investors to continue to stay invested, while investors intending to exit can BOOK PROFITS and enter at lower levels as the stock had reached 52-week High price of ₹2998.5 on 20Jan24 thereby surpassing the Target range of ₹2730-2750.The stock is trading at P/E 15.1x FY26E EPS of ₹181.4.**

**Q3FY24 FINANCIALS**

(₹ mn)

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>Revenue</b>	<b>29,631.4</b>	<b>27,272.0</b>	<b>8.7</b>	<b>30,533.2</b>	<b>(3.0)</b>	<b>89,516.3</b>	<b>84,400.6</b>	<b>6.1</b>
Cost of Matl	16,949.1	16,503.6	2.7	17,297.7	(2.0)	51,704.3	56,895.6	(9.1)
Stock Purchases	81.4	43.6	86.7	62.2	30.9	202.5	228.7	(11.5)
Inventory changes	354.8	1,304.3	72.8	(62.4)	(668.6)	71.7	(489.8)	114.6
Employee Exps	2,171.7	1,818.4	19.4	2,177.0	(0.2)	6,304.1	5,214.0	20.9
Other Exps	5,899.4	5,226.1	12.9	6,497.5	(9.2)	18,626.5	16,492.1	12.9
<b>EBITDA</b>	<b>4,175.0</b>	<b>2,376.0</b>	<b>75.7</b>	<b>4,561.2</b>	<b>(8.5)</b>	<b>12,607.2</b>	<b>6,060.0</b>	<b>108.0</b>
<b>EBITDA Margin (%)</b>	<b>14.1</b>	<b>8.7</b>	<b>538</b>	<b>14.9</b>	<b>(85)</b>	<b>14.1</b>	<b>7.2</b>	<b>690</b>
Other Income	29.4	20.2	45.5	104.7	(71.9)	166.6	145.5	14.5
Depreciation	1,273.4	1,174.8	8.4	1,244.9	2.3	3,727.7	3,440.1	8.4
Finance Cost	655.5	656.8	(0.2)	717.2	(8.6)	2,074.0	1,755.3	18.2
Exceptional item	-	4.5	(100.0)	-	-	-	248.6	(100.0)
PBT	2,275.5	560.1	306.3	2,703.8	(15.8)	6,972.1	761.5	815.6
Tax	544.4	149.7	263.7	682.9	(20.3)	1,756.0	267.1	557.4
JV- Profit/ (Loss)	81.7	(61.9)	(232.0)	56.3	45.1	114.0	5.3	2,050.9
Minority Interest- (Profit)/loss	(2.0)	(5.4)	(63.0)	(2.8)	(28.6)	(10.8)	(25.0)	(56.8)
<b>Net Profit</b>	<b>1,814.8</b>	<b>353.9</b>	<b>412.8</b>	<b>2,080.0</b>	<b>(12.8)</b>	<b>5,340.9</b>	<b>524.7</b>	<b>917.9</b>
EPS (₹)	44.9	8.7	412.8	51.4	(12.8)	132.0	13.0	917.9
Adjus Net Profit	1,814.8	358.4	406.4	2,080.0	(12.8)	5,340.9	773.3	590.7
Adjus.EPS (₹)	44.9	8.9	406.4	51.4	(12.8)	132.0	19.1	590.7

Source: Company, Way2Wealth

**FINANCIALS & FORECASTING**

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>64,523</b>	<b>69,845</b>	<b>67,788</b>	<b>76,096</b>	<b>93,634</b>	<b>113,149</b>	<b>120,319</b>	<b>127,339</b>	<b>135,135</b>
<b>EBITDA</b>	<b>6,148</b>	<b>6,425</b>	<b>7,238</b>	<b>9,830</b>	<b>7,098</b>	<b>9,738</b>	<b>16,921</b>	<b>16,874</b>	<b>17,507</b>
<b>EBITDA Margin (%)</b>	<b>9.5</b>	<b>9.2</b>	<b>10.7</b>	<b>12.9</b>	<b>7.6</b>	<b>8.6</b>	<b>14.1</b>	<b>13.3</b>	<b>13.0</b>
<b>Net Profit</b>	<b>2,380</b>	<b>2,522</b>	<b>2,313</b>	<b>4,320</b>	<b>712</b>	<b>1,862</b>	<b>7,011</b>	<b>7,173</b>	<b>7,336</b>
EPS (₹)	58.8	62.4	57.2	106.8	17.6	46.0	173.3	177.3	181.4
DPS (₹)	11.5	12.0	12.0	18.0	3.0	12.0	24.0	26.0	28.0
RoE (%)	9.1	9.0	7.9	12.9	2.2	5.4	19.0	17.6	17.3
RoCE (%)	13.5	10.5	8.9	12.7	5.0	9.2	15.9	14.3	14.2
Cash Balances	863	735	342	431	363	844	3,722	3,169	2,928
FCF	1,885	(5,547)	(1,620)	7,182	(3,398)	3,264	4,036	6,127	7,624
Receivable Days	42	37	36	44	45	42	44	43	42
Inventory Days	75	88	86	97	79	56	54	52	52
Payable Days	83	92	111	167	131	112	110	111	112
Net Debt/ Equity (x)	0.4	0.7	0.9	0.7	0.9	0.9	0.5	0.4	0.4
P/E (x)	46.5	43.9	47.9	25.6	155.5	59.5	15.8	15.4	15.1
EV/EBITDA (x)	19.9	20.3	19.0	13.5	19.9	14.5	7.6	7.5	7.1
P/BV (x)	4.2	4.0	3.8	3.3	3.4	3.2	2.8	2.5	2.5

Source: Company, Way2Wealth

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Name of the Security	<b>CEAT LTD</b>
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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