

BSE SENSEX 58,962
S&P CNX 17,304

CMP: INR1,385 TP: INR1,860 (+34%) BUY



Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USDb)	56 / 0.7
52-Week Range	1981 / 890
1, 6, 12 Rel. Per (%)	-9/2/39
12M Avg Val (INR)	293
Free float (%)	52.8

Financials & Valuations (INR b)

INR Billion	FY23E	FY24E	FY25E
Sales	113.2	126.6	138.9
EBITDA	8.9	13.7	15.8
Margin (%)	7.9	10.9	11.4
Adj. PAT	1.6	4.8	6.1
EPS (Rs)	40.6	119.0	151.0
EPS Growth (%)	106.7	193.3	26.9
BV/Share (Rs)	834	941	1,080

Ratios

RoE (%)	4.9	13.4	15.0
RoCE (%)	5.5	10.7	12.2
Payout (%)	32.9	10.1	7.9

Valuations

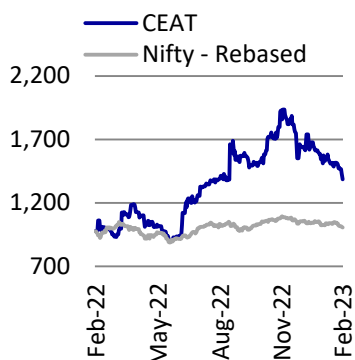
P/E (x)	34.2	11.6	9.2
P/BV (x)	1.7	1.5	1.3
Div. Yield (%)	0.9	0.9	0.9
FCF Yield (%)	6.6	12.1	12.2

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	47.2	47.2	47.1
DII	12.9	11.7	12.7
FII	24.1	23.8	22.7
Others	15.8	17.3	17.5

FII Includes depository receipts

Stock Performance (1-year)



R&D capabilities to drive growth in Exports and EVs

FY24 capex is expected to be lower than FY23

CEAT hosted the investing community, followed by a plant visit to its Halol facility and an the overview of its R&D center. The company showcased its R&D capabilities (including its design studio capabilities, tyre performance evaluation) through which it aims to explore incremental business avenues such as exports (scale international business to INR35b) and EVs (new product launches and increasing share in premium segment). Moreover, the company indicated its improved efficiency at its Halol plant, as overall energy cost fell by 15% due to digitization and ~22% including productivity. The company continues to focus on key strategic areas such as PV/2W/OHT (to help margins), along with the expansion in international markets and increasing business in EVs. This, along with prudent capex plans (to benefit FCF), should be a long-term growth catalyst for the company. Valuations at 11.6x/9.2x FY24E/FY25E consolidated EPS do not fully capture the benefits from the new capacities and softening of RM costs. We reiterate our BUY rating with a TP of INR1,860 (based on ~13x Dec-24 EPS).

- **To scale international businesses to INR35b by FY26 (v/s INR18.7b in FY22) along with achieving leadership position** in 2W, PV, and UV. Its R&D strategy focuses on Manufacturing, Technology and new product development roadmap. The company has been benchmarking products against global companies such as Good year, Micheline, and Continental. The company is testing tyres in Europe through its technical center and in the US through tie-ups with three companies. It is working with global experts (for motorcycle steel process), intelligent tyres (in partnership with global ancillary company), and other sponsored PhDs.
- **Improved efficiency in Halol plant:** The company indicated about improved efficiency in the Halol plant, wherein the overall energy cost has fallen by ~15% due to digitization and ~22% including productivity. In terms of capacity, Halol is the second largest radial plant in India. Its all three phases of expansions are close to completion with PCR/TBR capacity now close to 20k/4.5k tyres per day, leaving no further scope of capacity expansion (apart from de-bottlenecking).
- **Launches in EV segments:** The company highlighted its recent platform wins for Tata Punch EV, Citroen (single source), and MG ZS EV. In 2Ws, the company has 60% SOB with OLA, while its focus is on increasing share in premium vehicles. In the bus segment, the company has approval from Olectra (with 100% SOB), TTMT and JBM.
- **Demand outlook - Mixed back with weak 2W demand; other segments better off:** Replacement demand in 2Ws, coupled with recent production cut announcements by OEMs, have adversely impacted 2W demand. However, CVs have been witnessing a recovery from July. While TBR replacement has been growing in single digits, the company aims to grow it to double digits. However, capacity remains a key constraint. TBR OEM has been doing well. The PV segment demand has been steady, while demand in the farm segment is expected to improve in the coming months.

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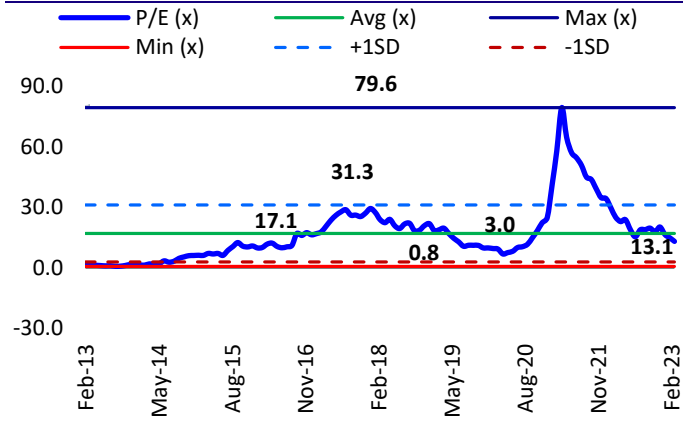
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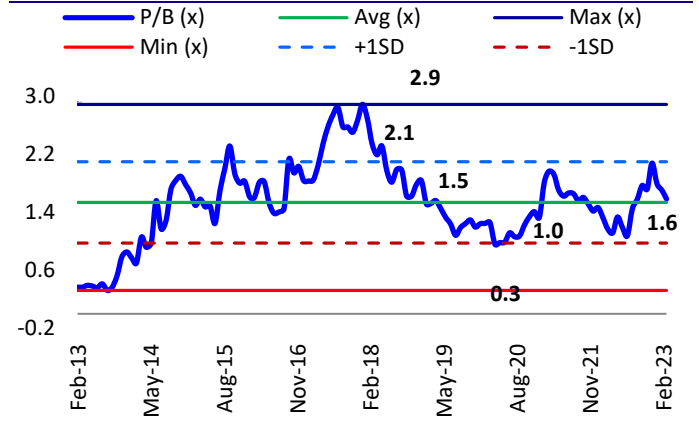
- **Exports - Plans to reach the US market through new launches in FY24:** The company is looking forward to leverage its experience and expand its presence through partnership with private players. Earlier in 2QFY23, the company had launched TBR tyres in Europe and aims to launch more tyres of different sizes in the coming months. However, the current exports outlook is weak as countries such as Sri Lanka, Nigeria, and other African countries are under pressure due to unavailability of Fx.
- **Not looking to pass on the benefits of softening RM prices:** There is no rational reason to pass on the benefits of softening RM prices in replacement because margins are continue to be below their normal levels. However, the company might choose to lower its prices if peers do. There was 5-6% under recovery in replacement segment at the start of the quarter largely led by 2W segment. Under recovery in TBR was at 2-3%. Further, an anticipated price hike of ~3% in 4Q should help in partial recovery of margins. However, the company does not expect full margin recovery in FY23.
- **OHT segment - To scale up capacity to 160 tyres per day by FY24-end at its Ambernath facility** v/s 80 tyres per day currently and 105 tyres per day by 2QFY24. This will be fully radial and dedicated to exports markets. The company indicated that the gross margin of the radial OHT segment in general is 8-10% higher than other segments. Currently, CEAT's tyres are priced at discounts to Indian players in the domestic market. Similarly, it is priced lower in the EU and US markets as well. CEAT has 350 SKU for radial OHT as compared to 1000+ SKU for peers. The company believes that its product quality is largely similar to its peers, hence, its growth can be driven by better branding, distribution, and pricing.
- **Capex - Lower capex expected in FY24 as compared to FY23:** The company has maintained its capex guidance of INR9b for FY23 (including INR1.5-2b of maintenance capex), which has largely been incurred for specialty tyres. It has incurred a capex of INR6.5b till Dec'22. The company is currently operating at the utilization level of ~80%/90% for PCR/TBR. Moreover, the company might need further capacities for TBR, wherein it is trying to evaluate ways for deleveraging.
- **Change in RM composition in EVs:** Torque requirement in EVs is expected to be high, and hence, usage of ICE-specific tyres for EVs will result in reduced life. The RM mix will change in EVs as share of Silica (10-15% of RM mix) will go up, at least in PCR.
- **Valuation & view:** Cyclical recovery in both OEMs and replacement will enable faster absorption of new capacities and drive the benefit of operating leverage. This, coupled with softening RM prices, would help a partial recovery in margins in FY23 with full recovery expected in FY24. The company continues to focus on key strategic areas such as i) PV/2W/OHT (to help margins), ii) expansion in international markets and iii) increasing business in EVs. This, along with prudent capex plans (to benefit FCF), should be a long-term growth catalyst for the company. Valuations at 11.6x/9.2x FY24E/FY25E consolidated EPS do not fully capture the benefits of new capacities and softening RM costs. We reiterate our BUY rating with a TP of INR1,860 (based on ~13x Dec-24 EPS).

Exhibit 1: One-year forward P/E



Source: MOFSL, Company

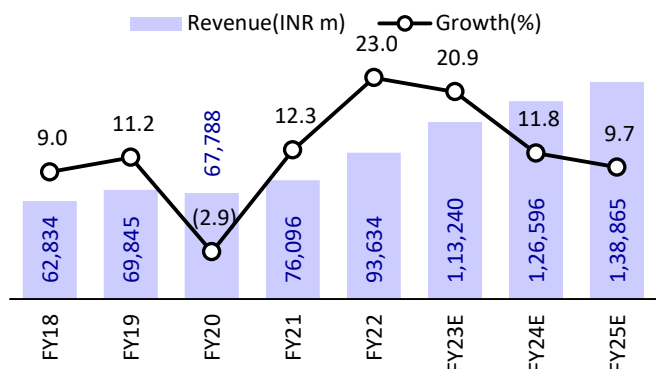
Exhibit 2: One-year forward P/B band



Source: MOFSL, Company

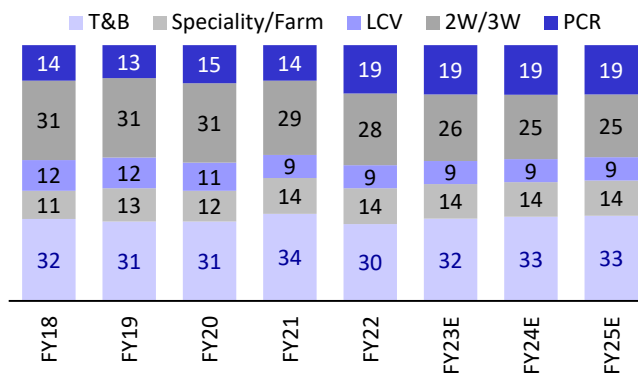
Story in charts

Exhibit 1: Revenue and growth trends



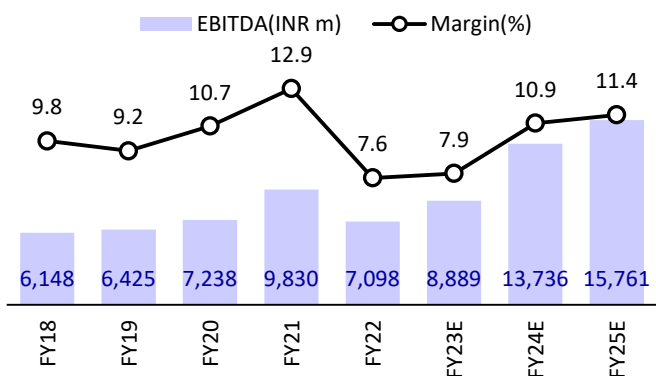
Source: MOFSL, Company

Exhibit 2: Key revenue segments



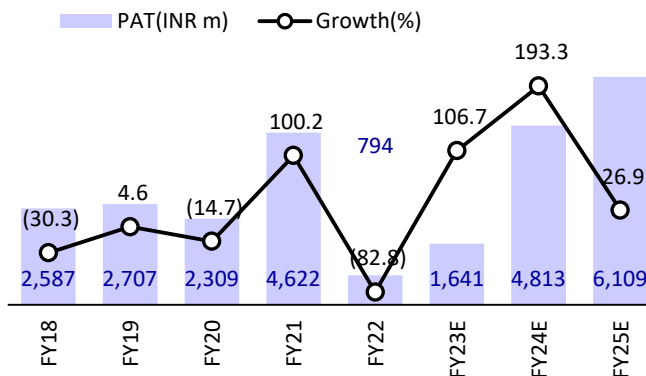
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trends



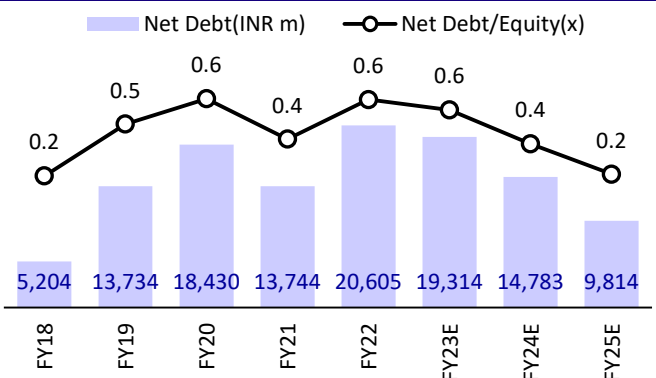
Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trends



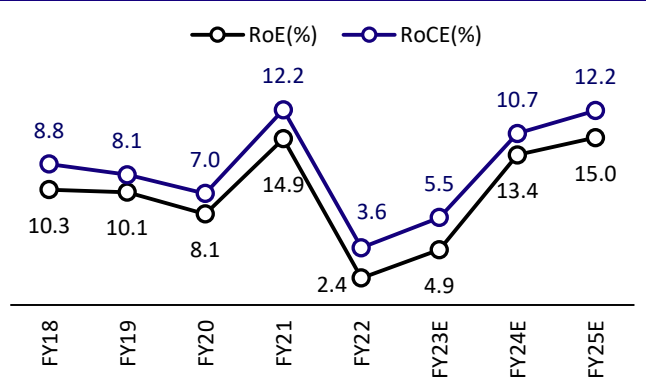
Source: MOFSL, Company

Exhibit 5: Trend in debt levels



Source: MOFSL, Company

Exhibit 6: Trend in return profile



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues from Ops	69,845	67,788	76,096	93,634	1,13,240	1,26,596	1,38,865
Change (%)	11.2	-2.9	12.3	23.0	20.9	11.8	9.7
EBITDA	6,425	7,238	9,830	7,098	8,889	13,736	15,761
EBITDA Margin (%)	9.2	10.7	12.9	7.6	7.9	10.9	11.4
Depreciation	1,927	2,765	3,396	4,352	4,620	5,048	5,532
EBIT	4,498	4,473	6,433	2,746	4,269	8,688	10,230
EBIT Margin (%)	6.4	6.6	8.5	2.9	3.8	6.9	7.4
Int. and Finance Charges	880	1,509	1,755	2,070	2,394	2,251	1,887
Other Income	390	205	138	114	200	200	200
PBT bef. EO Exp.	4,008	3,169	4,816	790	2,076	6,636	8,543
EO Items	-297	5	-341	-129	-249	0	0
PBT after EO Exp.	3,711	3,174	4,476	661	1,827	6,636	8,543
Total Tax	1,402	1,046	516	243	603	2,124	2,734
Tax Rate (%)	37.8	33.0	11.5	36.7	33.0	32.0	32.0
Minority Int./Share JV PAT	-213	-184	-361	-294	-250	-300	-300
Reported PAT	2,522	2,312	4,320	712	1,474	4,813	6,109
Adjusted PAT	2,707	2,309	4,622	794	1,641	4,813	6,109
Change (%)	4.6	-14.7	100.2	-82.8	106.7	193.3	26.9
Margin (%)	3.9	3.4	6.1	0.8	1.4	3.8	4.4

Consolidated - Balance Sheet

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	405	405	405	405	405	405	405
Total Reserves	27,257	28,675	32,758	32,324	33,312	37,639	43,263
Net Worth	27,661	29,079	33,163	32,728	33,717	38,044	43,668
Minority Interest	238	237	232	235	235	235	235
Total Loans	14,469	18,772	14,176	20,968	21,968	18,968	15,968
Deferred Tax Liabilities	2,198	2,744	2,800	3,177	3,177	3,177	3,177
Capital Employed	44,566	50,832	50,371	57,108	59,097	60,424	63,048
Gross Block	37,663	49,795	58,732	67,748	75,506	90,006	97,506
Less: Accum. Deprn.	5,868	8,197	11,097	14,456	19,076	24,124	29,656
Net Fixed Assets	31,795	41,598	47,634	53,292	56,431	65,883	67,851
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	8,329	10,685	7,929	8,759	10,000	3,000	3,000
Total Investments	1,814	1,837	2,101	1,792	1,792	1,792	1,792
Curr. Assets, Loans&Adv.	22,111	19,410	23,087	27,176	36,450	39,660	44,963
Inventory	10,056	9,257	11,299	13,096	15,724	17,006	18,550
Account Receivables	7,064	6,744	9,216	11,543	12,410	12,139	13,316
Cash and Bank Balance	735	342	431	363	2,654	4,185	6,154
Loans and Advances	4,256	3,067	2,141	2,174	5,662	6,330	6,943
Curr. Liability & Prov.	19,484	22,697	30,380	33,910	45,575	49,910	54,557
Account Payables	10,529	11,948	18,395	21,576	28,589	30,921	33,727
Other Current Liabilities	7,566	9,114	10,444	10,654	14,721	16,457	18,053
Provisions	1,389	1,635	1,541	1,680	2,265	2,532	2,777
Net Current Assets	2,627	-3,288	-7,293	-6,734	-9,125	-10,250	-9,594
Appl. of Funds	44,566	50,832	50,371	57,108	59,097	60,424	63,048

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)							
EPS	66.9	57.1	114.3	19.6	40.6	119.0	151.0
Cash EPS	114.6	125.4	198.2	127.2	154.8	243.8	287.8
BV/Share	683.8	718.9	819.8	809.1	833.5	940.5	1,079.5
DPS	12.0	12.0	18.0	3.0	12.0	12.0	12.0
Payout (%)	23.2	25.3	16.9	17.0	32.9	10.1	7.9
Valuation (x)							
P/E	20.7	24.3	12.1	70.6	34.1	11.6	9.2
Cash P/E	12.1	11.0	7.0	10.9	8.9	5.7	4.8
P/BV	2.0	1.9	1.7	1.7	1.7	1.5	1.3
EV/Sales	1.0	1.1	0.9	0.8	0.7	0.6	0.5
EV/EBITDA	10.9	10.3	7.1	10.8	8.5	5.2	4.2
Dividend Yield (%)	0.9	0.9	1.3	0.2	0.9	0.9	0.9
Return Ratios (%)							
RoE	10.1	8.1	14.9	2.4	4.9	13.4	15.0
RoCE	8.1	7.0	12.2	3.6	5.5	10.7	12.2
RoIC	9.0	8.4	14.6	4.0	6.3	12.3	13.4
Working Capital Ratios							
Fixed Asset Turnover (x)	1.9	1.4	1.3	1.4	1.5	1.4	1.4
Asset Turnover (x)	1.6	1.3	1.5	1.6	1.9	2.1	2.2
Inventory (Days)	53	50	54	51	51	49	49
Debtor (Days)	37	36	44	45	40	35	35
Creditor (Days)	55	64	88	84	92	89	89
Leverage Ratio (x)							
Current Ratio	1.1	0.9	0.8	0.8	0.8	0.8	0.8
Interest Cover Ratio	5.1	3.0	3.7	1.3	1.8	3.9	5.4
Net Debt/Equity	0.5	0.6	0.4	0.6	0.6	0.4	0.2

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
(INR M)							
OP/(Loss) before Tax	3,560	2,871	4,476	661	2,076	6,636	8,543
Depreciation	1,927	2,765	3,396	4,352	4,620	5,048	5,532
Interest & Finance Charges	880	1,509	1,755	2,070	2,194	2,051	1,687
Direct Taxes Paid	-808	-181	-512	-200	-603	-2,124	-2,734
(Inc)/Dec in WC	235	2,582	4,516	-736	4,682	2,655	1,313
CF from Operations	5,794	9,546	13,631	6,147	12,969	14,267	14,341
Others	-267	17	-54	42	-249	0	0
CF from Operating incl EO	5,527	9,563	13,577	6,189	12,720	14,267	14,341
(Inc)/Dec in FA	-11,073	-11,183	-6,395	-9,558	-9,000	-7,500	-7,500
Free Cash Flow	-5,547	-1,620	7,182	-3,369	3,720	6,767	6,841
(Pur)/Sale of Investments	320	9	-27	-89	0	0	0
Others	236	419	241	203	200	200	200
CF from Investments	-10,517	-10,755	-6,181	-9,444	-8,800	-7,300	-7,300
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	6,260	3,854	-5,677	5,821	1,000	-3,000	-3,000
Interest Paid	-889	-1,925	-1,628	-1,944	-2,394	-2,251	-1,887
Dividend Paid	-526	-1,139	-4	-746	-485	-485	-485
Others	0	0	0	0	250	300	300
CF from Fin. Activity	4,844	790	-7,309	3,132	-1,629	-5,437	-5,072
Inc/Dec of Cash	-146	-402	87	-123	2,291	1,531	1,969
Opening Balance	822	675	274	361	238	2,529	4,059
Closing Balance	675	274	361	238	2,529	4,059	6,028

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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