

Estimate change

TP change

Rating change



Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USD\$)	65.3 / 0.8
52-Week Range (INR)	1788 / 890
1, 6, 12 Rel. Per (%)	-2/35/25
12M Avg Val (INR M)	227

Financials & valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	93.6	113.7	126.6
EBITDA	7.1	8.7	13.7
EBITDA Margin (%)	7.6	7.6	10.9
Adj. PAT	0.8	1.6	4.8
EPS (Rs)	19.6	39.2	119.0
EPS Growth (%)	-82.8	99.5	203.9
BV/Share (Rs)	809	832	939

Ratios

RoE (%)	2.4	4.8	13.4
RoCE (%)	3.6	5.3	10.7
Payout (%)	17.0	34.2	10.1

Valuations

P/E (x)	80.7	40.4	13.3
P/BV (x)	2.0	1.9	1.7
Div. Yield (%)	0.2	0.8	0.8
FCF Yield (%)	-5.3	4.9	9.7

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	46.8	46.8	46.8
DII	13.2	13.7	16.2
FII	23.4	24.0	23.7
Others	16.5	15.5	13.3

FII Includes depository receipts

CMP: INR1,615

TP: INR1,950 (+21%)

Buy

Result above estimate; margin recovery underway

Commodity inflation peaked out, expect gradual recovery ahead

- CEAT's 2QFY23 performance was driven by healthy growth in OEM and better gross margins. Strong domestic demand coupled with softening RM prices from 3QFY23E would help drive healthy performance in the near term. Moreover, focus on key strategic areas such as PV/2W/OHT (to help margins) along with prudent capex plans (to benefit FCF) should be the long-term growth catalyst for the company.
- We upgrade our FY23E/FY24E EPS by 14%/7% to account for declining RM costs and aggressive price hikes. **Maintain BUY** with a TP of INR1,950 (based on ~13x Dec'24E EPS).

Gross margin improves sequentially after seven quarters of decline

- CEAT's 2QFY23 revenue grew ~18% YoY to INR28.9b while EBITDA/Adj. PAT declined 8%/44% YoY to INR2b/INR237m, respectively. Revenue for 1HFY23 grew ~31% YoY while EBITDA/Adj. PAT declined ~5%/50% YoY.
- Overall volumes rose 7% YoY, entirely driven by the OEM segment. Gross margin expanded 80bp QoQ (-4.4pp YoY) to 32.5% (v/s est. 33%). RM basket grew ~4% QoQ, offset by avg. price hike of ~4%.
- EBITDA margin contracted 200bp YoY to 7% (v/s est. 6.7%). EBITDA declined 8% YoY to ~INR2.03b (v/s est. INR1.85b).
- CEAT's 1HFY23 CFO improved to ~INR3.86b (v/s INR0.8b in 1HFY22), driven by a sharp reduction in W.C. and tax refund. Capex was largely similar at INR4.5b, leading to a negative FCF of just INR0.7b (v/s -INR3.9b in 1HFY22).

Highlights from the management commentary

- **Domestic demand outlook steady:** OEM demand should continue to remain healthy while replacement demand shall improve gradually.
- **Exports demand adversely impacted by macro headwinds:** There were challenges in international markets like Indonesia and sub-continent. Recessionary pressure in Europe is likely to dent demand. Hence, the management expects exports to be subdued over the near term.
- **RM basket was higher by 4% QoQ** but largely negated by price hikes. The management expects RM basket to decline 2.5-3.0% QoQ in 3QFY23.
- **CEAT took an avg. price hike of ~4%** in 2Q spread out between Jul'22 and Sep'22. Major price hike of 8-9% was taken for 2W replacement in the mid of Aug'22, as there were no material price hikes in the 2W segment.

Valuation and view

- Cyclical recovery in OEMs and stable replacement demand 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 FY23E with full recovery expected in FY24.
- CEAT's valuations at 40.4x/13.3x FY23E/FY24E consol. EPS do not fully capture the ramp-up of new capacities and softening RM cost. **Maintain BUY with a TP of INR1,950 (based on ~13x Dec-24E EPS).**

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated - Quarterly Earnings

(INR m)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Net Sales	19,064	24,518	24,133	25,920	28,184	28,945	27,753	28,824	93,634	1,13,705	27,460
YoY Change (%)	70.2	23.9	8.6	13.2	47.8	18.1	15.0	11.2	23.0	21.4	12.0
RM cost (%)	61.1	63.1	66.0	66.5	68.3	67.5	65.5	63.5	64.4	66.2	67.0
Employee cost (%)	9.3	7.0	7.1	6.6	6.1	5.8	6.5	6.6	7.4	6.3	6.5
Other expenses (%)	20.9	20.9	21.3	19.7	19.7	19.7	20.0	20.2	20.6	19.9	19.8
EBITDA	1,662	2,203	1,341	1,875	1,653	2,031	2,224	2,790	7,098	8,698	1,850
Margins (%)	8.7	9.0	5.6	7.2	5.9	7.0	8.0	9.7	7.6	7.7	6.7
Depreciation	965	1,206	1,086	1,096	1,114	1,151	1,160	1,175	4,352	4,600	1,125
Interest	460	496	548	566	521	577	600	609	2,070	2,308	575
Other Income	39	28	32	33	28	98	35	40	114	200	35
PBT before EO expense	276	529	-260	246	45	401	499	1,046	790	1,990	185
Exceptional item	0	5	65	59	7	237	0	0	129	244	0
PBT	276	524	-326	187	38	164	499	1,046	661	1,746	185
Tax Rate (%)	41.8	29.2	10.7	5.2	31.0	64.6	31.0	29.1	36.7	33.0	32.0
Minority Int. & Profit of Asso. Cos.	-79	-49	-91	-75	-67	-20	-75	-88	-294	-250	-70
Reported PAT	240	420	-200	253	92	78	419	830	712	1,420	196
Adj PAT	240	423	-159	290	97	237	419	830	794	1,584	196
YoY Change (%)	-255	-77	-111	-81	-59	-44	-364	186	-83	100	-53.8
Margins (%)	1.3	1.7	-0.7	1.1	0.3	0.8	1.5	2.9	0.8	1.4	0.7

Key Performance Indicators

RM Cost (% of sales)	61.1	63.1	66.0	66.5	68.3	67.5	65.5	63.5	64.4	66.2	67.0
Staff Cost (% of sales)	9.3	7.0	7.1	6.6	6.1	5.8	6.5	6.6	7.4	6.3	6.5
Other Cost (% of sales)	21	21	21	20	20	20	20	20	21	20	19.8
Gross margin (%)	38.9	36.9	34.0	33.5	31.7	32.5	34.5	36.5	0.0	0.0	33.0
EBITDA Margins (%)	8.7	9.0	5.6	7.2	5.9	7.0	8.0	9.7	7.6	7.7	6.7
EBIT Margins (%)	3.7	4.1	1.1	3.0	1.9	3.0	3.8	5.6	7.6	7.7	2.6

E:MOFSL Estimates



Highlights from the management commentary

- **Volume growth:** 2QFY23 volumes grew ~7% YoY/ (-1.5% QoQ), largely driven by OEM growth of ~20% YoY while replacement and exports were flattish.
- **Domestic demand outlook steady:** Demand for OEM should continue to remain healthy while replacement demand shall improve. i) Management believes demand for CVs to improve from Nov'22 onwards with money coming back into the system post-festive season. ii) Tractors too shall pick-up led by better monsoon and healthy rural cash flows. iii) Passenger car segment is already doing well along with visible market share growth. iv) 2W/3Ws have stood out on a sequential basis and the company expects the trend to continue.
- **Exports demand adversely impacted by macro headwinds** especially in traditional geographies: There were challenges in international markets such as Indonesia and sub-continent while demand in Europe and the US sustained led by new launches. However, recessionary pressure in Europe is likely to dent demand. Customers have started downtrading, which shall benefit CEAT to some extent due to lower pricing.
- **RM basket was higher by 4% QoQ** but largely negated by price hikes. Expect prices to decline 2.5-3.0% QoQ in 3QFY23. NR, SR and crude prices have started softening but benefits of the same are getting offset by INR depreciation against USD (USD currently at INR83 v/s INR75 at the beginning of FY23). However, prices should continue to correct month by month going forward.

- **Took effective price hike of ~4%** in 2QFY23 spread out between Jul and Sep'22. Management does not expect any major price hike opportunity going forward except for another 1-2% price hike to be taken in 3Q on an average. Major price hike was taken for 2W replacement by 8-9% in mid of Aug'22. Management can see a push back of ~1% coming from dealers in Nov'22 against 2W price hikes.
- **Maintained project capex guidance of INR7.5b for FY23E** coupled with maintenance capex of INR1.5b. The company has already incurred capex of INR4.5b in 1H and INR2.05b in 2QFY23.
- **Current Off-highway tyre (OHT) expansion plan remains on track-** i) Radial capacity at Ambarnath reached 80 tons/day and expected to increase to 105 tons/day by mid-24. ii) Converting 18 tons/day truck biased capacity in Bhandup to OHT. iii) Took Board approval for adding 55 tons/day radial capacity in Ambarnath facility over next two years, at a cost of INR3.95b. With this total OH radial capacity will reach 160 tons/day.
- **Average capacity utilization is in the range of 75-80%** wherein TBB is underutilized, PC-UV/2Ws at 70-80% level, TBR at 75-80% level.
- **Net debt has gone up by INR1.97b sequentially** in 2QFY23 wherein working capital grew ~INR1.7b due to high inventory values. The management guided net debt to further increase in 3Q/4QFY23.
- **Imports have started to come back largely for truck segment**, but not meaningfully. While the anti-dumping duty is already levied on China, imports from Thailand have started growing.

Key exhibits

Exhibit 1: Trend in revenue

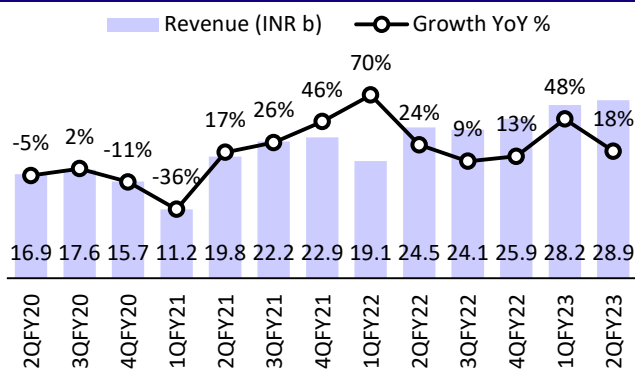


Exhibit 2: Trend in gross margin

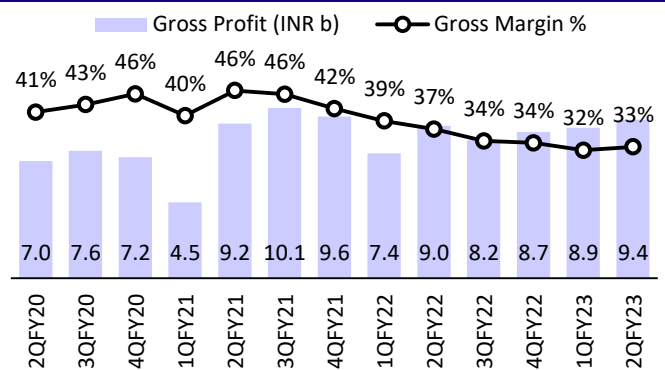
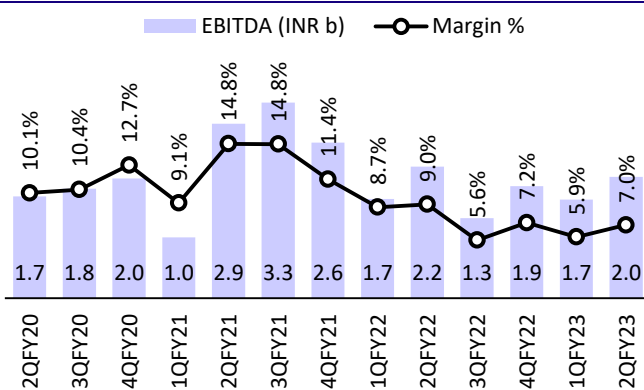
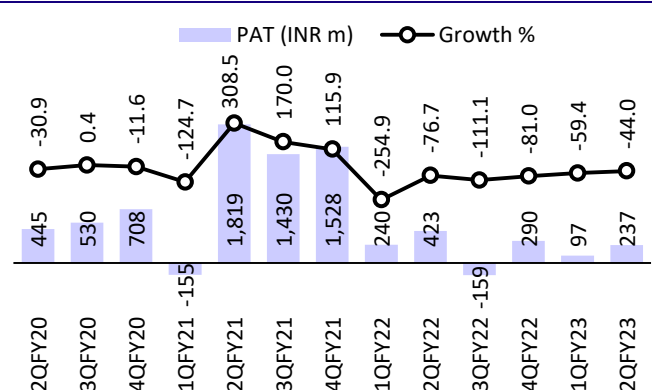


Exhibit 3: EBITDA and EBITDA margin trends



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trends



Source: MOFSL, Company

Valuation and view

Focus on improving brand equity to drive market share gains: CEAT has laid a strong emphasis on effective marketing and branding of its products. To position its products competitively, CEAT has developed creative ad campaigns based on extensive research/consumer insights and invested in innovative marketing programs. Since the 2W and Passenger Car segments are consumer-facing, factors such as brand loyalty, visibility, and recall go a long way in creating replacement market demand and improving market share, which would in turn benefit its margin profile.

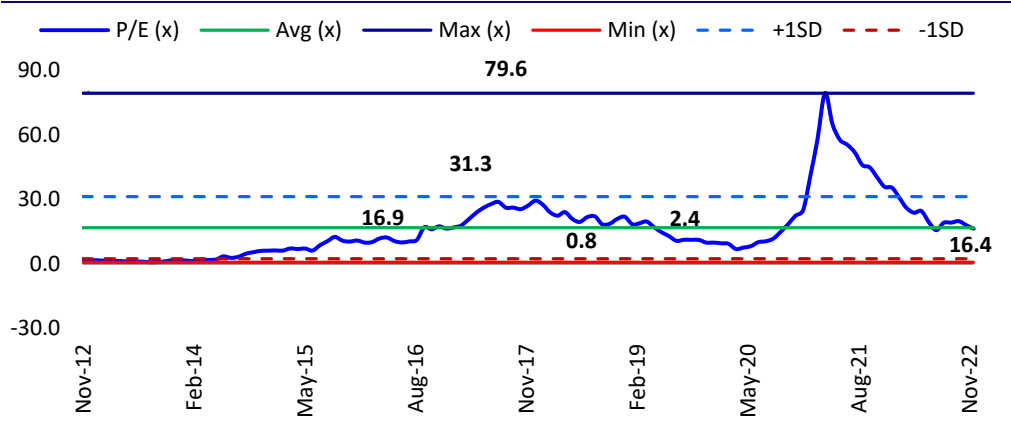
Ramp-up in strategic focus areas to continue: The management has identified the 2W, Passenger Car, and OTR (truck/off-road) tyre segments as strategic focus areas, given their abilities to boost margin and to lower CEAT's dependence on the Truck segment. Revenue contribution from these focus areas has increased significantly over the years (to 60% in FY22 from 20% in FY10). This is also reflected in market share gain in the PCR segment that stood at greater than 15% (v/s 11% a few years back). Expansion in TBR, despite being not a strategic focus area, is done to maintain overall market share in T&B tyres. CEAT's market share stood at 8-9% (v/s 5% a few years ago) in the TBR category. With current capex plan, contribution from focus areas could scale up to 60-65% over the next 4-5 years, which would reflect positively in its operating performance. Further, CEAT's expansion plan for OHT vertical is on track. Benefit of this capex is not fully reflected in our FY23/FY24 estimates. We expect revenue/EBITDA/PAT CAGR of ~14%/32%/101% over FY22-25E, respectively.

Valuation and view: Cyclical recovery in OEMs and stable replacement demand 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 FY23E with full recovery expected in FY24. CEAT's valuations at 40.4x/13.3x FY23E/FY24E consol. EPS do not fully capture the ramp-up of new capacities and softening RM cost. **Maintain BUY with a TP of INR1,950 (based on ~13x Dec-24E EPS).**

Exhibit 5: Changes in our estimates (Consolidated)

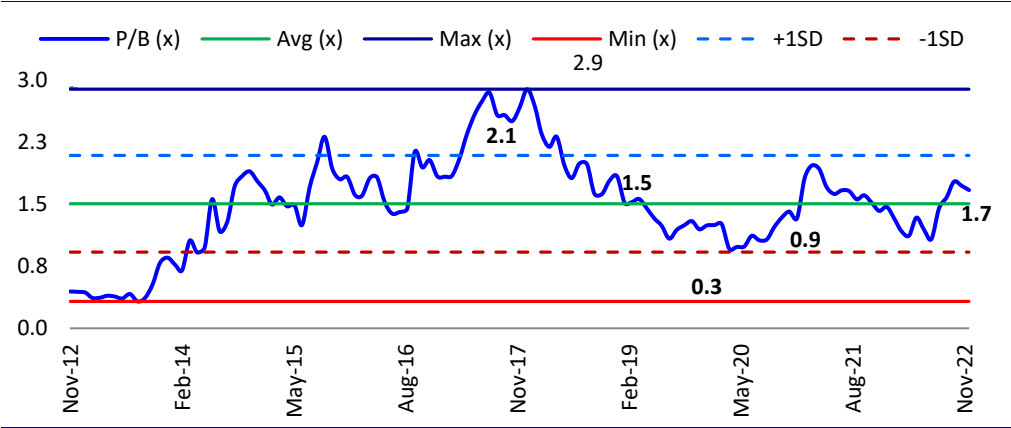
(INR m)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,13,705	1,09,923	3.4	1,26,633	1,21,454	4.3
EBITDA	8,698	8,299	4.8	13,740	13,299	3.3
EBITDA (%)	7.6	7.6	10bp	10.9	11.0	-10bp
Adj. PAT	1,584	1,390	13.9	4,812	4,492	7.1
EPS (INR)	39.2	34.4	13.9	119.0	111.1	7.1

Exhibit 6: One-year forward P/E



Source: MOFSL, Company

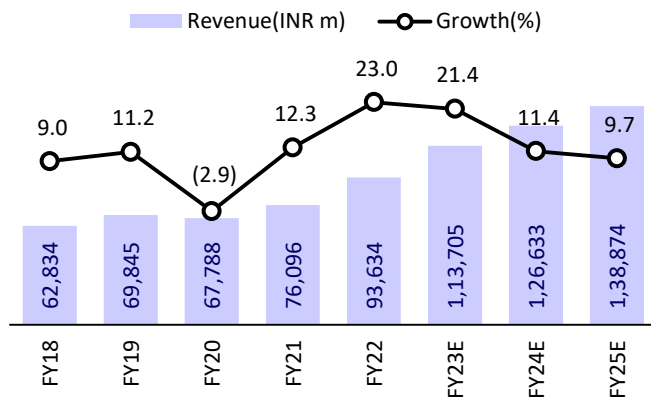
Exhibit 7: One-year forward P/B band



Source: MOFSL, Company

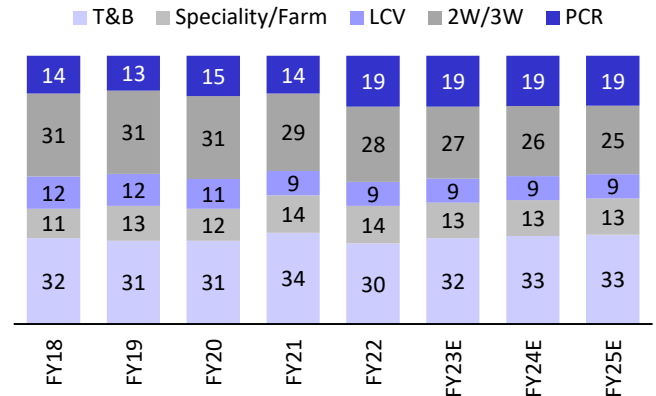
Story in charts

Exhibit 8: Revenue and growth trends



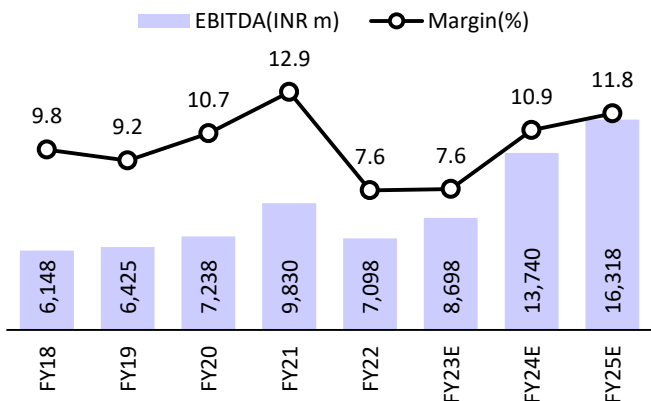
Source: MOFSL, Company

Exhibit 9: Key revenue segments



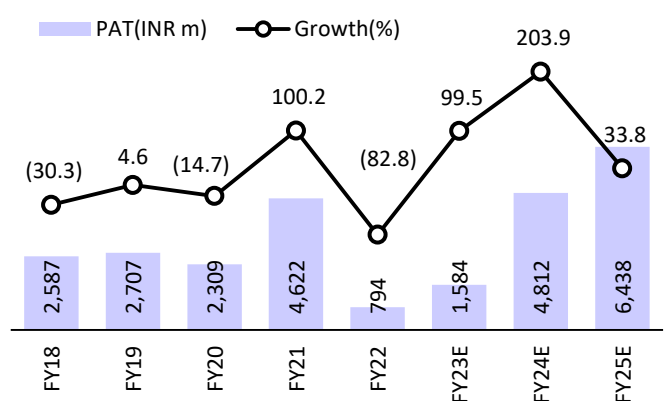
Source: MOFSL, Company

Exhibit 10: EBITDA and EBITDA margin trends



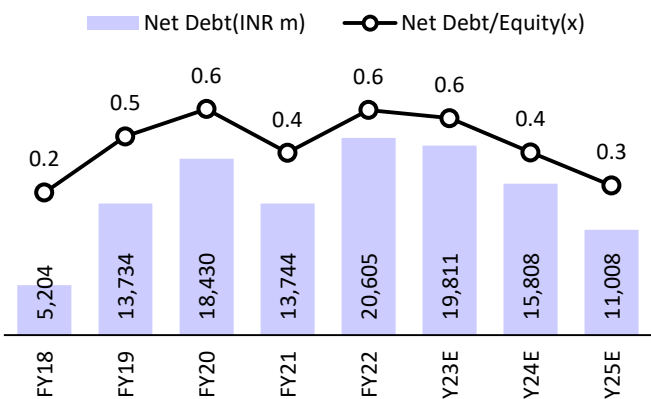
Source: MOFSL, Company

Exhibit 11: PAT and PAT growth trends



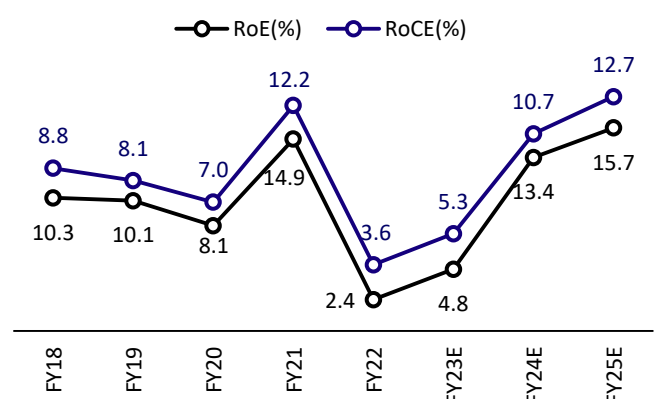
Source: MOFSL, Company

Exhibit 12: Trend in debt levels



Source: MOFSL, Company

Exhibit 13: 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	1,13,705	1,26,633	1,38,874
Change (%)	11.2	-2.9	12.3	23.0	21.4	11.4	9.7
EBITDA	6,425	7,238	9,830	7,098	8,698	13,740	16,318
EBITDA Margin (%)	9.2	10.7	12.9	7.6	7.6	10.9	11.8
Depreciation	1,927	2,765	3,396	4,352	4,600	5,094	5,605
EBIT	4,498	4,473	6,433	2,746	4,098	8,646	10,712
EBIT Margin (%)	6.4	6.6	8.5	2.9	3.6	6.8	7.7
Int. and Finance Charges	880	1,509	1,755	2,070	2,308	2,211	1,887
Other Income	390	205	138	114	200	200	200
PBT bef. EO Exp.	4,008	3,169	4,816	790	1,990	6,635	9,026
EO Items	-297	5	-341	-129	-244	0	0
PBT after EO Exp.	3,711	3,174	4,476	661	1,746	6,635	9,026
Total Tax	1,402	1,046	516	243	576	2,123	2,888
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	1,420	4,812	6,438
Adjusted PAT	2,707	2,309	4,622	794	1,584	4,812	6,438
Change (%)	4.6	-14.7	100.2	-82.8	99.5	203.9	33.8
Margin (%)	3.9	3.4	6.1	0.8	1.4	3.8	4.6

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	33,258	37,585	43,537
Net Worth	27,661	29,079	33,163	32,728	33,663	37,989	43,942
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	59,043	60,369	63,322
Gross Block	37,663	49,795	58,732	67,748	76,006	91,006	99,006
Less: Accum. Deprn.	5,868	8,197	11,097	14,456	19,056	24,150	29,755
Net Fixed Assets	31,795	41,598	47,634	53,292	56,950	66,857	69,251
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	36,125	38,646	43,687
Inventory	10,056	9,257	11,299	13,096	15,823	17,011	18,467
Account Receivables	7,064	6,744	9,216	11,543	12,461	12,143	13,317
Cash and Bank Balance	735	342	431	363	2,157	3,160	4,959
Loans and Advances	4,256	3,067	2,141	2,174	5,685	6,332	6,944
Curr. Liability & Prov.	19,484	22,697	30,380	33,910	45,825	49,925	54,408
Account Payables	10,529	11,948	18,395	21,576	28,769	30,930	33,577
Other Current Liabilities	7,566	9,114	10,444	10,654	14,782	16,462	18,054
Provisions	1,389	1,635	1,541	1,680	2,274	2,533	2,777
Net Current Assets	2,627	-3,288	-7,293	-6,734	-9,699	-11,279	-10,721
Appl. of Funds	44,566	50,832	50,371	57,108	59,043	60,369	63,322

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	39.2	119.0	159.1
Cash EPS	114.6	125.4	198.2	127.2	152.9	244.9	297.7
BV/Share	683.8	718.9	819.8	809.1	832.2	939.2	1,086.3
DPS	12.0	12.0	18.0	3.0	12.0	12.0	12.0
Payout (%)	23.2	25.3	16.9	17.0	34.2	10.1	7.5
Valuation (x)							
P/E	23.6	27.7	13.9	80.7	40.4	13.3	9.9
Cash P/E	13.8	12.6	8.0	12.4	10.4	6.5	5.3
P/BV	2.3	2.2	1.9	2.0	1.9	1.7	1.5
EV/Sales	1.1	1.2	1.0	0.9	0.7	0.6	0.5
EV/EBITDA	12.1	11.4	7.9	11.9	9.6	5.8	4.6
Dividend Yield (%)	0.8	0.8	1.1	0.2	0.8	0.8	0.8
Return Ratios (%)							
RoE	10.1	8.1	14.9	2.4	4.8	13.4	15.7
RoCE	8.1	7.0	12.2	3.6	5.3	10.7	12.7
RoIC	9.0	8.4	14.6	4.0	6.0	12.1	13.7
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	88
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	5.7
Net Debt/Equity	0.5	0.6	0.4	0.6	0.6	0.4	0.3

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	3,560	2,871	4,476	661	1,990	6,635	9,026
Depreciation	1,927	2,765	3,396	4,352	4,600	5,094	5,605
Interest & Finance Charges	880	1,509	1,755	2,070	2,108	2,011	1,687
Direct Taxes Paid	-808	-181	-512	-200	-576	-2,123	-2,888
(Inc)/Dec in WC	235	2,582	4,516	-736	4,759	2,583	1,242
CF from Operations	5,794	9,546	13,631	6,147	12,881	14,199	14,671
Others	-267	17	-54	42	-244	0	0
CF from Operating incl EO	5,527	9,563	13,577	6,189	12,637	14,199	14,671
(Inc)/Dec in FA	-11,073	-11,183	-6,395	-9,558	-9,500	-8,000	-8,000
Free Cash Flow	-5,547	-1,620	7,182	-3,369	3,137	6,199	6,671
(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	-9,300	-7,800	-7,800
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	-2,308	-2,211	-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	-1,543	-5,396	-5,072
Inc/Dec of Cash	-146	-402	87	-123	1,793	1,004	1,799
Opening Balance	822	675	274	361	238	2,031	3,035
Closing Balance	675	274	361	238	2,031	3,035	4,834

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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