

BSE SENSEX
62,918

S&P CNX
18,688

CMP: INR2,073

TP: INR2,375 (+15%)

Buy

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Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USDb)	83.8 / 1
52-Week Range (INR)	2182 / 890
1, 6, 12 Rel. Per (%)	15/9/102
12M Avg Val (INR M)	415
Free float (%)	52.8

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	113.1	126.5	138.8
EBITDA	9.7	15.6	17.3
EBIDTA Margin (%)	8.6	12.4	12.5
Adj. PAT	2.1	5.6	7.0
EPS (INR)	51.9	139.5	172.4
EPS Growth (%)	164.4	168.9	23.6
BV/Share (INR)	850	978	1,138

Ratios

RoE (%)	6.3	15.3	16.3
RoCE (%)	6.8	12.6	13.7
Payout (%)	26.1	8.6	7.0

Valuations

P/E (x)	39.9	14.8	12.0
P/BV (x)	2.4	2.1	1.8
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	3.9	12.6	12.4

Strengthening market position with sustained profitability

Bite-sized capex going forward should bode favorably for higher returns

During CEAT's Analyst Meet, the management reiterated its aim of enhancing its market position through FY26 by 1) maintaining leadership in the 2W segment (28% market share now), 2) gaining market share in PV/CV to 18-19%/11-12% from 15%/7% now, and 3) doubling export revenue from INR20b currently. However, CEAT expects to continue to improve margins as it focuses on increasing its market share through premiumization and a better product mix rather than offering discounts. Now that the primary capex cycle is complete, the company will continue to incur small-scale, consistent capex going ahead, which should help CEAT maintain sufficient capacities and stable returns. Here are the key highlights:

To gain market share in PV/TBR while maintaining profitability

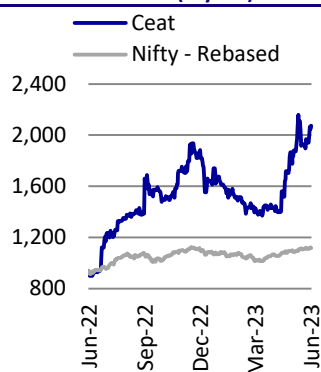
- CEAT expects 2W replacement demand to be flat and start picking up after 2-3 quarters. It expects high single-digit growth for PV/CV replacement. OE demand is healthy, with 2W OE demand likely to have bottomed out.
- The company has a marginal presence in the southern regions, hence it will focus on gaining market share in the region.
- In 2Ws, its market share increased to 28% in FY23 from 26% in FY19, aided by its expansive distribution network. Going forward, the company plans to cover all niche segments, such as adventure biking, Moto GP version, etc. CEAT charges 2-3% premium vs next peer.
- In PVs, its market share expanded to ~15% in FY23 from ~11% in FY19. However, it is still 3-4% lower than the market leader. The company aims for market leadership in the category by achieving a market share of 18-19% by FY26. In SUVs, its market share is 20-25%. Tyres larger than 15 inches will have a 20-25% greater realization than smaller sizes. The company indicated scope of price premium of 1-2% in PV category.
- In TBR, the company currently has a market share of 7% and aims to achieve ~11-12% by FY26. There is scope for improvement in tyre prices as they are below the competition. CEAT is working on improving the product's life cycle by ~10%, which should help it get better pricing.

Exports- Aims to double revenue by FY26 to INR40b

- Africa, Middle East, the SAARC nations were weak, while EU also saw a slowdown in 2HFY23. However, CEAT is seeing a pickup in export markets.
- Export revenue has already grown ~2x in the last three years to INR20b in FY23. CEAT focuses on doubling its export revenue by FY26 to INR40b. The strategy will involve product creation using regional insights from targeted areas and the introduction of new products that will be distinct from the existing ones.

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	47.2	47.2	47.1
DII	13.6	12.9	11.7
FII	23.3	24.1	22.7
Others	15.9	15.8	18.6

Stock Performance (1-year)

- CEAT is currently developing a product for the US in the TBR category. It will be initially tested under a private name. Once finalized, it will be launched under CEAT brand by FY24-end. Earlier, CEAT was restricted to a single distributor but now that contract has ended. For Brazil, sufficient testing has been done and the company has started supplying TBR, which is gaining traction. It has also launched tyres in construction category.
- The recently launched TBR in Europe is receiving good traction too. Margin in domestic replacement is lower than margin in EU but similar to the US.

Lower demand from China resulted in decline in global rubber prices

- In 1QFY24, RM prices are expected to increase 1-2% QoQ, in line with earlier guidance. However, higher marketing spending due to IPL should impact EBITDA margin during the quarter. Going forward, overall spends will be maintained between TV and digital.
- Rubber prices in international markets have declined to USD1,350 from USD1,500 due to weakness in Chinese demand. However, prices in the domestic market would be marginally higher by INR4-5/kg at ~INR150-152/kg. If demand from China comes back, then prices are expected to move close to USD1,500.
- Indian capacity for rubber is at 7L tons and ~2L tons would be added over next 6-8 months.
- The company expects EBITDA margin to be affected in the near term by higher marketing spending. Media strategies will undergo some changes as on-air time should increase to 35-36 weeks vs. 25-26 weeks currently. There has been some minor discounting from the competition.

FY24- last lag of major capex; small-scale, consistent capex to follow

- The company has guided for capex of INR7-7.5b in FY24E (vs. ~INR9b in FY23). Now that the primary capex cycle is complete, the company will continue to incur small-scale, consistent capex ahead, which should help it maintain sufficient capacities and stable returns.
- Hence, going forward, capex would be standardized to INR10-12b. This would be needed to sustain growth of ~10% annually over and above revenue of INR110b.
- It currently has sufficient capacities, as capacity utilization for 2W/PV/CV stands at ~70%/75%/85%.

OHT- Target 20-25% of the revenue mix over next 3-5 years

- In the next 3-5 years, CEAT expects OHT segment revenue to account for 20-25% of total revenue (INR30b). The OHT segment is more of Europe currently followed by USA.
- Ambernath capacity is currently at 60-70 tons per day and is expected to increase to ~105 tons per day by 2QFY24 and ~150 tons per day by 2QFY25.
- Agri radial is going to be a key category in future as it commands better margin. The company has got 700+ SKUs and has network of 25/14 countries in EU/ LatAM.

EVs- Currently have over 40% market share with 2W OEMs

- CEAT has made good in-roads in e2W OEMs, resulting in a market share of over 40%. Since e2W supplies have been picking up recently, replacement demand is yet to kick in.
- Customers need to become more informed to comprehend that EV tyres must be installed in EVs and cannot be substituted by standard tyres.
- Although the realization difference between conventional and EV tyres cannot now be assessed, the margin is anticipated to stay the same.

Other highlights

- Debt might rise by INR1-2b due to high working capital. However, its debt-to-EBITDA ratio is expected to remain at a comfortable level of less than 3x.
- At present, the benchmarked IRR rate for approval of any project is 15-16%. Going forward, the company will be in a better position due to its improved market share in PVs and lower incremental capex, which will in turn improve returns.

Valuation & view

- We have upgraded our EPS estimates for FY24E/FY25E by 7%/13% to factor in better-than-expected gross margin and improving product mix.
- A stable volume growth outlook for domestic OEMs (especially PVs and CVs) and an uptick in replacement demand should enable a faster absorption of new capacities and drive benefits of operating leverage. This, coupled with stable RM prices, would lead to a margin recovery in FY24E (+380bp vs. FY23). Moreover, the focus on key strategic areas like PV/OHT (to help margins), along with prudent capex plans (to benefit FCF), should be a long-term growth catalyst for the company.
- Valuations at 14.8x/12x FY24E/FY25E consol. EPS do not fully capture the ramp-up of new capacities and lower RM costs. Maintain BUY with a TP of INR2,375 (roll fwd to ~13x Jun'25E EPS).

Revised forecast (Consol)

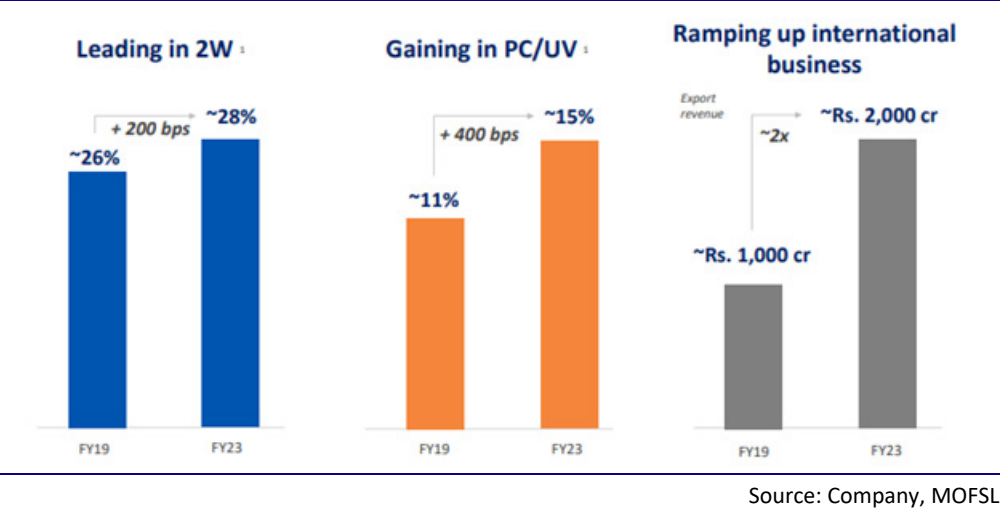
(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,26,453	1,26,453	0.0	1,38,797	1,38,797	0.0
EBITDA	15,617	14,985	4.2	17,280	16,378	5.5
EBITDA (%)	12.4	11.9	50bp	12.5	11.8	70bp
Adj. PAT	5,643	5,263	7.2	6,973	6,162	13.2
EPS (INR)	139.5	130.1	7.2	172.4	152.3	13.2

Exhibit 1: CEAT Vision – FY26



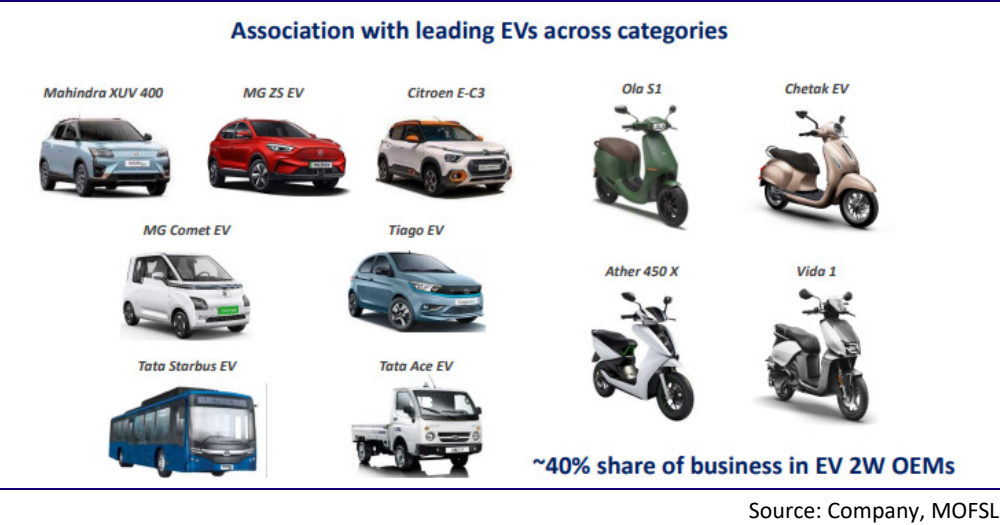
Source: Company, MOFSL

Exhibit 2: Growth in key segments despite challenging years



Source: Company, MOFSL

Exhibit 3: Market leader in e2W OE tyre category with 40% market share



MG Comet EV



Tiago EV



Ather 450 X



Vida 1



Tata Starbus EV



Tata Ace EV

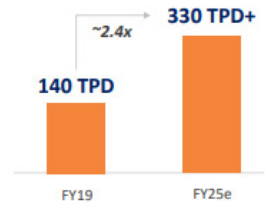


~40% share of business in EV 2W OEMs

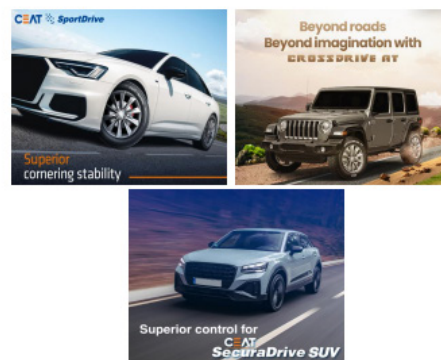
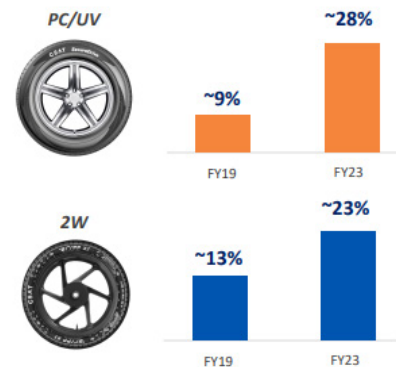
Source: Company, MOFSL

Exhibit 4: 18% contribution from international business (~1.5x vs FY19)**Strong base in Europe, expanding in US****Extensive Product Rollout**

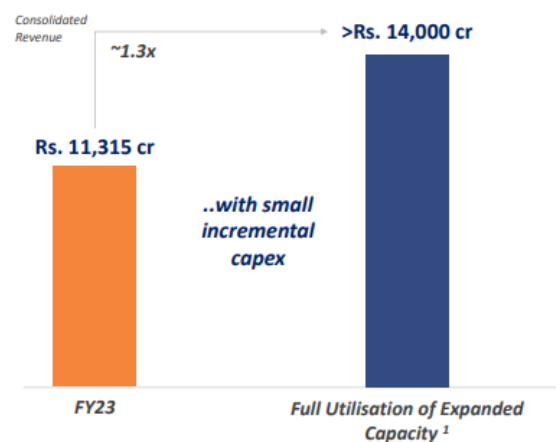
750+ Off Highway SKUs
 ~1.7x since FY19
 ~80% coverage in global agricultural segments

Ramping up capacities**Prestigious OEM entries**

Source: Company, MOFSL

Exhibit 5: Focus on gaining market share through premiumization and new launches**Premiumising product range****Contribution from premium ranges >2x in last 4 years**

Source: Company, MOFSL

Exhibit 6: Bite-sized capex should bode favorably for better ROCE**Way Forward**

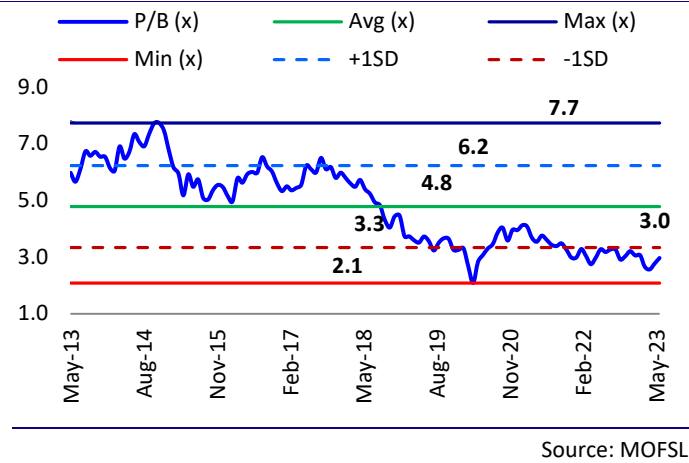
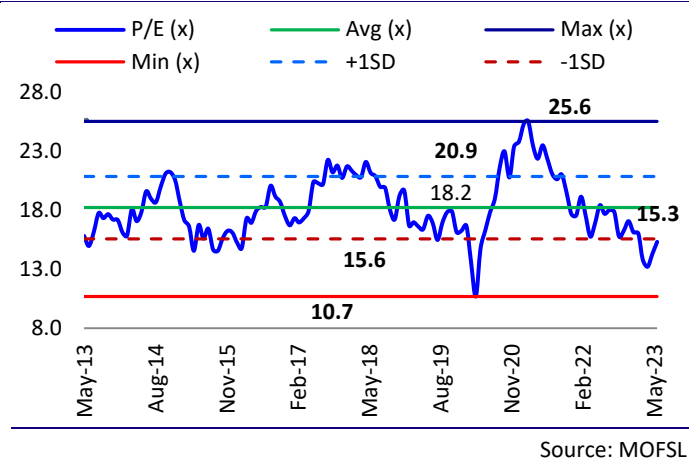
Benefits from operating leverage

Bite-sized capex

RoCE improvement

Source: Company, MOFSL

Exhibit 7: P/E and P/B band



Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Revenues from Ops	69,845	67,788	76,096	93,634	1,13,149	1,26,453	1,38,797
Change (%)	11.2	-2.9	12.3	23.0	20.8	11.8	9.8
EBITDA	6,425	7,238	9,830	7,098	9,738	15,617	17,280
EBITDA Margin (%)	9.2	10.7	12.9	7.6	8.6	12.4	12.5
Depreciation	1,927	2,765	3,396	4,352	4,693	5,334	5,708
EBIT	4,498	4,473	6,433	2,746	5,045	10,283	11,572
EBIT Margin (%)	6.4	6.6	8.5	2.9	4.5	8.1	8.3
Int. and Finance Charges	880	1,509	1,755	2,070	2,421	2,331	1,889
Other Income	390	205	138	114	169	200	350
PBT bef. EO Exp.	4,008	3,169	4,816	790	2,793	8,152	10,033
EO Items	-297	5	-341	-129	-334	0	0
PBT after EO Exp.	3,711	3,174	4,476	661	2,459	8,152	10,033
Total Tax	1,402	1,046	516	243	718	2,609	3,211
Tax Rate (%)	37.8	33.0	11.5	36.7	29.2	32.0	32.0
Minority Int./Share JV PAT	-213	-184	-361	-294	-120	-100	-150
Reported PAT	2,522	2,312	4,320	712	1,862	5,643	6,973
Adjusted PAT	2,707	2,309	4,622	794	2,098	5,643	6,973
Change (%)	4.6	-14.7	100.2	-82.8	164.4	168.9	23.6
Margin (%)	3.9	3.4	6.1	0.8	1.9	4.5	5.0

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	405	405	405	405	405	405	405
Total Reserves	27,257	28,675	32,758	32,324	33,992	39,150	45,637
Net Worth	27,661	29,079	33,163	32,728	34,396	39,554	46,042
Minority Interest	238	237	232	235	174	174	174
Total Loans	14,469	18,772	14,176	20,968	20,927	17,927	14,927
Deferred Tax Liabilities	2,198	2,744	2,800	3,177	3,886	3,886	3,886
Capital Employed	44,566	50,832	50,371	57,108	59,383	61,541	65,028
Gross Block	37,663	49,795	58,732	67,748	80,110	90,571	96,571
Less: Accum. Deprn.	5,868	8,197	11,097	14,456	19,149	24,483	30,190
Net Fixed Assets	31,795	41,598	47,634	53,292	60,961	66,088	66,380
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	8,329	10,685	7,929	8,759	5,961	3,000	3,000
Total Investments	1,814	1,837	2,101	1,792	1,696	1,696	1,696
Curr. Assets, Loans&Adv.	22,111	19,410	23,087	27,176	27,519	40,091	48,064
Inventory	10,056	9,257	11,299	13,096	11,378	15,942	16,646
Account Receivables	7,064	6,744	9,216	11,543	13,070	12,126	13,309
Cash and Bank Balance	735	342	431	363	719	5,701	11,169
Loans and Advances	4,256	3,067	2,141	2,174	2,353	6,323	6,940
Curr. Liability & Prov.	19,484	22,697	30,380	33,910	36,754	49,334	54,112
Account Payables	10,529	11,948	18,395	21,576	22,683	30,366	33,292
Other Current Liabilities	7,566	9,114	10,444	10,654	12,154	16,439	18,044
Provisions	1,389	1,635	1,541	1,680	1,917	2,529	2,776
Net Current Assets	2,627	-3,288	-7,293	-6,734	-9,234	-9,243	-6,048
Appl. of Funds	44,566	50,832	50,371	57,108	59,383	61,541	65,028

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	66.9	57.1	114.3	19.6	51.9	139.5	172.4
Cash EPS	114.6	125.4	198.2	127.2	167.9	271.4	313.5
BV/Share	683.8	718.9	819.8	809.1	850.3	977.9	1,138.2
DPS	12.0	12.0	18.0	3.0	12.0	12.0	12.0
Payout (%)	23.2	25.3	16.9	17.0	26.1	8.6	7.0
Valuation (x)							
P/E	30.9	36.3	18.1	105.5	39.9	14.8	12.0
Cash P/E	18.1	16.5	10.4	16.3	12.3	7.6	6.6
P/BV	3.0	2.9	2.5	2.6	2.4	2.1	1.8
EV/Sales	1.4	1.5	1.3	1.1	0.9	0.8	0.6
EV/EBITDA	15.2	14.1	9.9	14.7	10.7	6.1	5.1
Dividend Yield (%)	0.6	0.6	0.9	0.1	0.6	0.6	0.6
Return Ratios (%)							
RoE	10.1	8.1	14.9	2.4	6.3	15.3	16.3
RoCE (post tax)	8.1	7.0	12.2	3.6	6.8	12.6	13.7
RoIC	9.0	8.4	14.6	4.0	7.4	13.7	15.7
Working Capital Ratios							
Fixed Asset Turnover (x)	1.9	1.4	1.3	1.4	1.4	1.4	1.4
Asset Turnover (x)	1.6	1.3	1.5	1.6	1.9	2.1	2.1
Inventory (Days)	53	50	54	51	37	46	44
Debtor (Days)	37	36	44	45	42	35	35
Creditor (Days)	55	64	88	84	73	88	88
Leverage Ratio (x)							
Current Ratio	1.1	0.9	0.8	0.8	0.7	0.8	0.9
Interest Cover Ratio	5.1	3.0	3.7	1.3	2.1	4.4	6.1
Net Debt/Equity	0.5	0.6	0.4	0.6	0.6	0.3	0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	3,560	2,871	4,476	661	2,459	8,152	10,033
Depreciation	1,927	2,765	3,396	4,352	4,693	5,334	5,708
Interest & Finance Charges	880	1,509	1,755	2,070	2,421	2,131	1,539
Direct Taxes Paid	-808	-181	-512	-200	377	-2,609	-3,211
(Inc)/Dec in WC	235	2,582	4,516	-736	2,211	4,990	2,273
CF from Operations	5,794	9,546	13,631	6,147	12,161	17,999	16,343
Others	-267	17	-54	42	-106	0	0
CF from Operating incl EO	5,527	9,563	13,577	6,189	12,055	17,999	16,343
(Inc)/Dec in FA	-11,073	-11,183	-6,395	-9,558	-8,779	-7,500	-6,000
Free Cash Flow	-5,547	-1,620	7,182	-3,369	3,276	10,499	10,343
(Pur)/Sale of Investments	320	9	-27	-89	-11	0	0
Others	236	419	241	203	299	200	350
CF from Investments	-10,517	-10,755	-6,181	-9,444	-8,491	-7,300	-5,650
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	6,260	3,854	-5,677	5,821	-41	-3,000	-3,000
Interest Paid	-889	-1,925	-1,628	-1,944	-2,093	-2,331	-1,889
Dividend Paid	-526	-1,139	-4	-746	-126	-485	-485
Others	0	0	0	0	-936	100	150
CF from Fin. Activity	4,844	790	-7,309	3,132	-3,195	-5,717	-5,225
Inc/Dec of Cash	-146	-402	87	-123	368	4,982	5,468
Opening Balance	822	675	274	361	238	606	5,588
Closing Balance	675	274	361	238	606	5,588	11,056

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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