

Estimate change



TP change



Rating change



Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USDb)	88.8 / 1.1
52-Week Range (INR)	2642 / 1357
1, 6, 12 Rel. Per (%)	4/44/32
12M Avg Val (INR M)	569

Financials & valuations (INR b)

INR Billion	FY23	FY24E	FY25E
Sales	113.1	120.3	130.8
EBITDA	9.7	16.5	18.2
EBITDA Margin (%)	8.6	13.8	13.9
Adj. PAT	2.1	6.6	7.6
EPS (INR)	51.9	162.9	186.7
EPS Growth (%)	164.4	213.9	14.6
BV/Share (INR)	850	998	1,167

Ratios

RoE (%)	6.3	17.6	17.2
RoCE (%)	6.8	15.1	15.2
Payout (%)	26.1	9.2	9.6

Valuations

P/E (x)	42.4	13.5	11.8
P/BV (x)	2.6	2.2	1.9
Div. Yield (%)	0.5	0.7	0.8
FCF Yield (%)	3.7	7.1	8.8

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	47.2	47.2	47.2
DII	12.9	12.2	11.7
FII	24.1	26.2	23.8
Others	15.8	14.4	17.3

FII Includes depository receipts

CMP: INR2,195
TP: INR2,950 (+34%)
Buy

Strong beat led by lower RM costs and product mix

EBITDA margin peaked out; uptick in commodity prices to impact profitability

- CEAT's 2QFY24 results surprised positively with a strong EBITDA beat at INR4.6b (vs. est. INR4.2b). This can be attributed to a 2.5-3% QoQ decline in RM prices and a favorable product mix. We believe the EBITDA margin of 14.9% achieved during the quarter (up 170bp QoQ) has reached its peak. The recent uptick in commodity prices is expected to impact profitability in the upcoming quarters.
- We raise our FY24E/FY25E EPS by 7%/3% to account for a) better gross margins, b) higher 'other income', and c) a lower tax rate. We maintain a **BUY** rating with a TP of INR2,950 (based on ~15x Sep'25E EPS).

Revenue in line; healthy beat at EBITDA/PAT

- 2QFY24 revenue/EBITDA/adj. PAT grew 5.5%/2.2x/8.5x YoY to INR30.5b/INR4.6b/INR2.1b. 1HFY24 revenue/EBITDA/Adj. PAT grew 5%/2.3x/10.3x YoY to INR59.9b/8.4b/3.5b.
- Volume during the quarter grew ~7% YoY/3.5% QoQ. Volumes for replacement/OEM/exports grew 4%/10%/7% YoY.
- Gross margins expanded 10.8pp YoY (up 220bp QoQ) to 43.3% (vs. est. 40.9%). This was partially driven by lower commodity cost (down 2.5-3% QoQ) and better product mix.
- Employee cost grew 30% YoY on account of the annual increment cycle in July. Despite this, EBITDA improved 2.2x YoY to ~INR4.6b (vs. est. INR4.2b). Consequently, the EBITDA margin expanded 7.9pp YoY/170bp QoQ to 14.9% (vs. est. 13.4%).
- Further, higher 'other income' boosted adj. PAT, which grew 7.45x YoY to INR2.1b (vs. est. INR1.6b)
- Debt declined INR1b QoQ to INR18.9b, primarily due to healthy cash generation in 2QFY24. Capex for the quarter stood at INR1.7b and working capital remained at similar levels as of 1QFY24.
- 1HFY24 CFO improved to ~INR7.7b (vs. INR3.9b in 1HFY23), driven by strong operating performance. Capex stood at INR3.9b (vs. INR4.5b in 1HFY23), leading to positive FCF of INR3.8b (vs. -INR683m in 1HFY23).

Highlights from the management commentary

- **Outlook:** 2QFY24 volume grew 7% YoY, driven by 4%/10%/7% growth in replacement/OEM/exports. Volumes grew 3.5% QoQ. Replacement growth remained flattish, while domestic volumes experienced a double-digit growth. However, exports saw a marginal decline during the period.
- **RM basket expected to increase by 4% QoQ in 3Q.** Crude prices have increased to USD90-95 from USD75-80, adversely impacting the cost of commodities.

- **Pricing:** The PCR experienced a price hike of 2% in 2Q. In the TBR segment despite CEAT's pricing being lower than competitors, there was a price decline of 2% by competition leading to a relative price difference of 1% between CEAT and competition. Similarly this was the case in LCVs.
- **Capex-** The company provided a capex guidance of INR8b in FY24 (earlier guidance of INR7.5b). This includes INR2b allocated for maintenance. Out of the remaining amount, INR1b/2.5b will be utilized for TBR/OTR segments, while INR2.5b will be allocated for PCR/2W and small debottlenecking initiatives.

Valuation and view

- A stable volume growth outlook for OEMs and an uptick in replacement demand should enable a faster absorption of new capacities and drive benefits of operating leverage. Moreover, the focus on strategic areas such as PV/2W/OHT/exports (to help margins), along with prudent capex plans (to benefit FCF), should be a long-term growth catalyst for CEAT.
- Valuations at 13.5x/11.8x FY24E/FY25E consol. EPS do not fully capture the benefits from ramp-up of new capacities and prudent capex plan. We reiterate our **BUY** rating with a TP of INR2,950 (based on ~15x Sep'25E EPS).

Consolidated - Quarterly Earning Model

Y/E March	(INR M)										
	FY23				FY24E				FY23	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Net Sales	28,184	28,945	27,272	28,748	29,352	30,533	29,726	30,717	1,13,149	1,20,328	31,260
YoY Change (%)	47.8	18.1	13.0	10.9	4.1	5.5	9.0	6.8	20.8	6.3	8.0
RM cost (%)	68.3	67.5	65.5	59.9	58.9	56.7	58.5	58.0	65.3	58.0	59.1
Employee cost (%)	6.1	5.8	6.7	7.4	6.7	7.1	7.2	7.0	6.5	7.0	6.7
Other expenses (%)	19.7	19.7	19.2	19.9	21.2	21.3	21.3	21.2	19.6	21.3	20.9
EBITDA	1,653	2,031	2,376	3,678	3,871	4,561	3,864	4,248	9,738	16,545	4,173
Margins (%)	5.9	7.0	8.7	12.8	13.2	14.9	13.0	13.8	8.6	13.8	13.4
Depreciation	1,114	1,151	1,175	1,253	1,209	1,245	1,260	1,304	4,693	5,018	1,240
Interest	521	577	657	666	701	717	700	690	2,421	2,809	700
Other Income	28	98	20	24	33	105	45	63	169	245	40
PBT before EO expense	45	401	565	1,783	1,993	2,704	1,949	2,317	2,793	8,963	2,273
Exceptional item	7	237	5	86	0	0	0	0	334	0	0
PBT	38	164	560	1,698	1,993	2,704	1,949	2,317	2,459	8,963	2,273
Tax Rate (%)	31.0	64.6	26.7	26.5	26.5	25.3	26.2	26.2	29.2	26.0	27.0
Minority Int. & Profit of Asso. Cos.	-67	-20	57	-90	18	-59	30	56	-120	45	25
Reported PAT	92	78	354	1,337	1,446	2,080	1,409	1,653	1,862	6,588	1,634
Adj PAT	98	246	357	1,398	1,446	2,080	1,409	1,653	2,098	6,588	1,634
YoY Change (%)	-59	-42	-325	382	1,383	745	294	18	164	214	564.0
Margins (%)	0.3	0.9	1.3	4.9	4.9	6.8	4.7	5.4	1.9	5.5	5.2
Key Performance Indicators											
RM Cost (% of sales)	68.3	67.5	65.5	59.9	58.9	56.7	58.5	58.0	65.3	58.0	59.1
Staff Cost (% of sales)	6.1	5.8	6.7	7.4	6.7	7.1	7.2	7.0	6.5	7.0	6.7
Other Cost (% of sales)	19.7	19.7	19.2	19.9	21.2	21.3	21.3	21.2	19.6	21.3	20.9
Gross margin (%)	31.7	32.5	34.5	40.1	41.1	43.3	41.5	42.0	34.7	41.1	40.9
EBITDA Margins (%)	5.9	7.0	8.7	12.8	13.2	14.9	13.0	13.8	8.6	13.8	13.4
EBIT Margins (%)	1.9	3.0	4.4	8.4	9.1	10.9	8.8	9.6	8.6	13.8	9.4

E: MOFSL Estimates



Highlights from the management commentary

- **2QFY24 volume grew 7% YoY, driven by 4%/10%/7% YoY growth in replacement/OEM/exports.**
 - Replacement - 2Q is a seasonally weak quarter. The T&B segment witnessed a low single-digit growth, whereas the agricultural segment demonstrated robust growth. 2W/3W segments, as well as PCR segment, showed healthy mid-single digit YoY growth.
 - **Overall volume grew 3.5% QoQ;** replacement growth was flattish; domestic volumes grew by double digits and exports declined marginally.
 - **Segment wise-** OE volumes for 2W remained relatively stable, with a slight decline; 4Ws performed strongly and the truck segment showed signs of recovery in 2Q, growing by single digits YoY.
- **Exports-** Expect overall demand to improve from the end of 3Q.
 - Headwinds continue in Europe specially in the agri segment. However, it has not had any significant impact on CEAT in the PCR/TBR category due to low market share base. The company has added 40+ SKUs in 2Q for off-highway.
 - LatAm- Volumes declined because of increased duty on TBR tyres; however, it is expected to do well in 3Q.
 - Africa and Asia- Already started normalizing; expect to sustain healthy performance in 2H.
 - US- The company will start supplying PCR/TBR tyres from 4QFY24/1QFY25 onwards.
 - Sri Lanka- Better quarter in terms of revenue and EBITDA. Volumes have started growing, leading to improvement in profitability.
- **RM costs declined 2.5-3% vs 1Q. RM basket to increase by 4% in 3Q vs 2Q:** Crude prices have increased to USD90-95 from USD75-80, adversely impacting the cost of commodities in 3Q.
- **Capex- Incurred INR8b in FY24 (vs. earlier guidance of INR7.5b).**
 - This includes INR2b for routine capex. The remaining INR6b will be distributed as follows: INR1b for TBR and INR2.5b for OTR projects. The remaining funds will be utilized for expanding PCR/2W capacity in Nagpur, along with minor debottlenecking initiatives at Halol.
 - The OH tyre capacity at Ambernath will increase from 105 tons per day to 160 tons per day. The plant will be ready by next year.
 - Incurred INR1.7b capex in 2Q. Overall capex incurred in 1H stood at INR3.9b.
 - Current production utilization stands at 80%, wherein TBR is over 90%, Farm radial is 65% (Lower as the first round of expansion has recently been completed). 2W/PCR utilization stands at 80%.
 - The company currently has a revenue potential of INR140b, excluding the upcoming capacities. With the addition of these capacities, there is a potential incremental opportunity of INR20b.
- **Net debt stands at INR18.9b as of Sep'23 (-INR1.03b vs 1Q).** Debt/Equity stands at 0.2x and debt/EBITDA at 0.5x. The company has no plans to bring it down below INR10b.
- **Expect ROCE to improve further** and should sustain at around 14-16% in FY25/26.

- **Market share-** The company has successfully gained market share in the 2W segment, benefitting from a positive trend in the replacement market over the last 4-5 months. Market share remained stable for PCR/TBR tyres, while the company gained in the TBB/Farm segments. In the EV market, the company achieved a market share of 40% in 2W and a high double-digit market share in Passenger cars.

Key exhibits

Exhibit 1: Trend in revenues

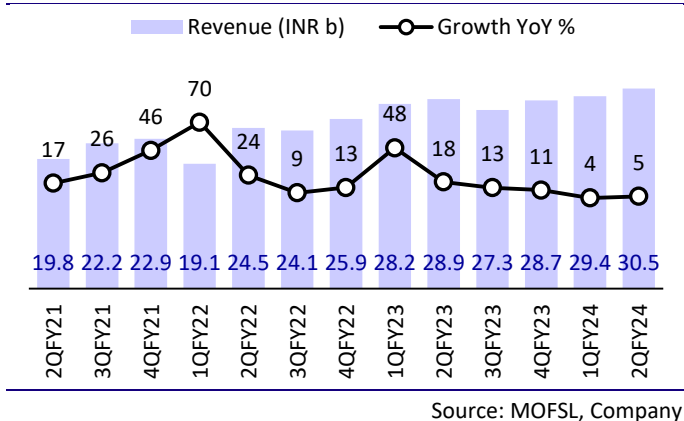


Exhibit 2: Trend in gross margin

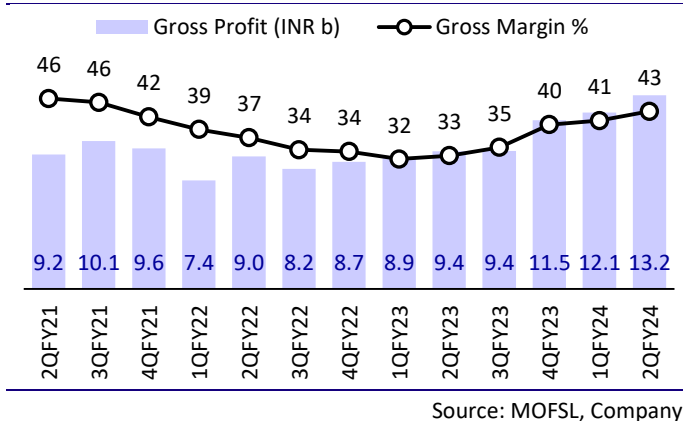


Exhibit 3: EBITDA and EBITDA margin trends

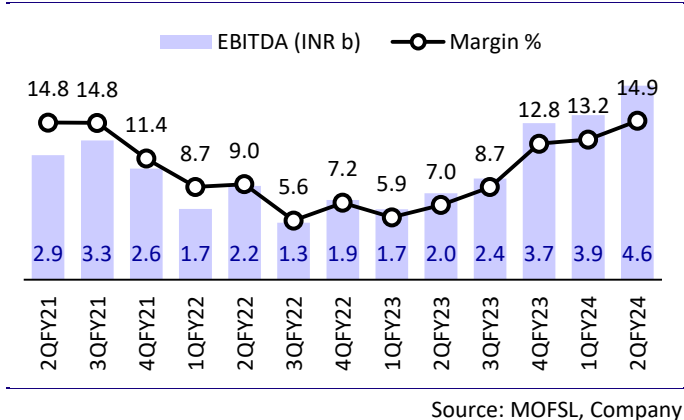
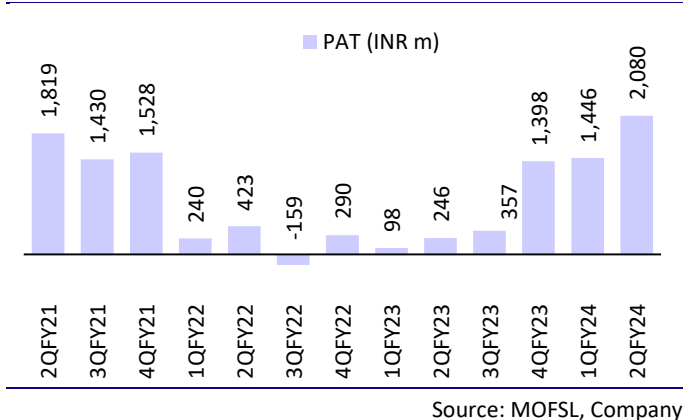


Exhibit 4: PAT and PAT growth trends



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, it 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 the company's 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

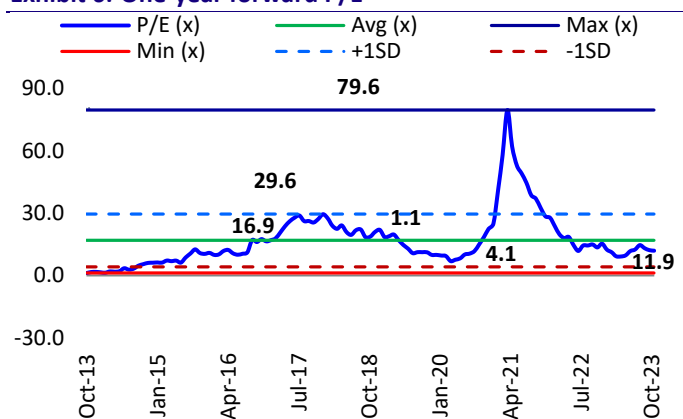
areas has increased significantly over the years (to 62% in FY23 from 20% in FY10). This is also reflected in market share gain in the PCR segment (over 15% now vs. 11% a few years back). The expansion in the TBR segment, despite not being a strategic focus area, has been undertaken to sustain the overall market share in T&B tyres. Its market share stood at 8-9% (vs. 5% a few years ago) in the TBR category. With the current capex plan, the contribution from focus areas could rise to 60-65% over the next 4-5 years, which would reflect positively in its operating performance. CEAT's expansion plan for the OHT vertical is on track. Benefits of this capex are not fully reflected in our FY24/FY25 estimates. We expect a revenue/EBITDA/PAT CAGR of ~8%/37%/90% over FY23-25.

- **Valuation and view:** A stable growth outlook for domestic OEMs and a pickup in replacement demand will enable a faster absorption of new capacities and drive benefits of operating leverage. Along with softening RM prices, these factors should lead to margin expansion in FY24E (vs. FY23). Moreover, the focus on strategic areas like PV/2W/OHT/exports (to help margins), along with prudent capex plans (to benefit FCF) should be a long-term growth catalyst for the company. Valuations at 13.5x/11.8x FY24E/FY25E consol. EPS do not fully capture the ramp-up of new capacities and prudent capex plans. We reiterate our **BUY** rating on the stock with a TP of INR2,950 (based on ~15x Sep'25E EPS).

Exhibit 5: Changes in estimates

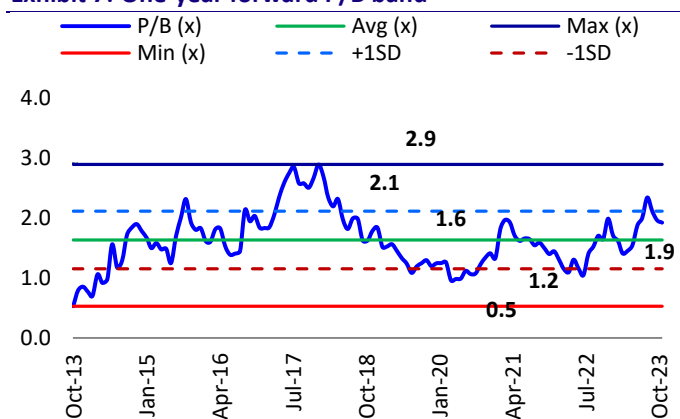
(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,20,328	1,22,278	-1.6	1,30,777	1,34,202	-2.6
EBITDA	16,545	16,202	2.1	18,178	17,849	1.8
EBITDA (%)	13.8	13.3	50bp	13.9	13.3	60bp
Adj. PAT	6,588	6,176	6.7	7,552	7,309	3.3
EPS (INR)	162.9	152.7	6.7	186.7	180.7	3.3

Exhibit 6: One-year forward P/E



Source: MOFSL, Company

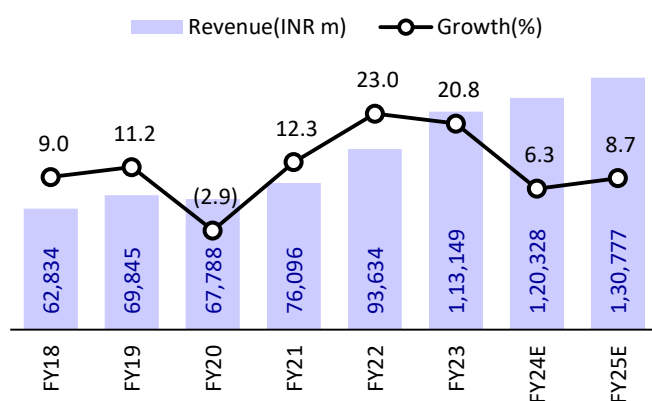
Exhibit 7: One-year forward P/B band



Source: MOFSL, Company

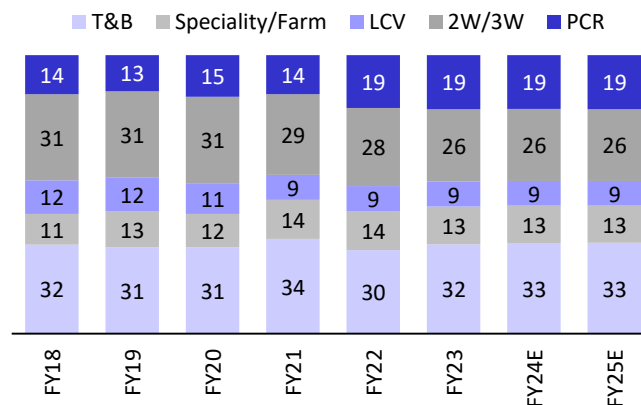
Story in charts

Exhibit 8: Revenue and growth trends



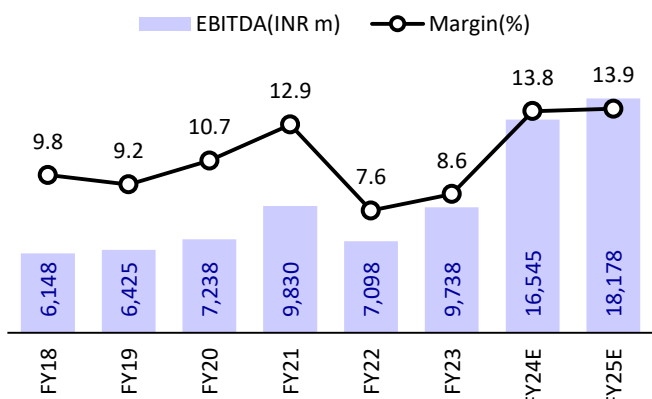
Source: MOFSL, Company

Exhibit 9: Key revenue segments



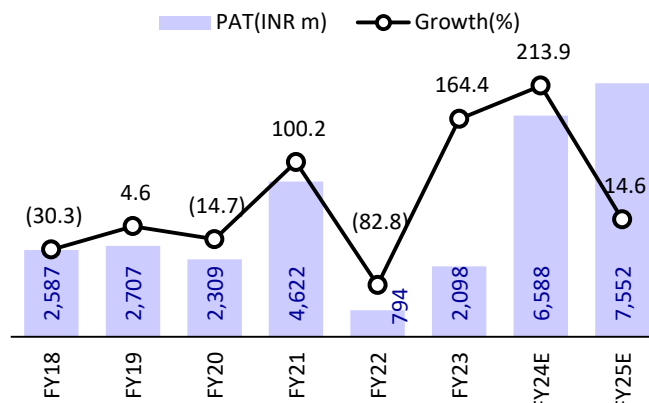
Source: MOFSL, Company

Exhibit 10: EBITDA and EBITDA margin trends



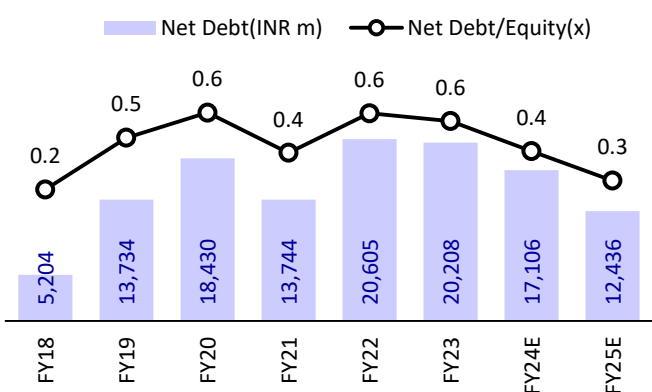
Source: MOFSL, Company

Exhibit 11: PAT and PAT growth trends



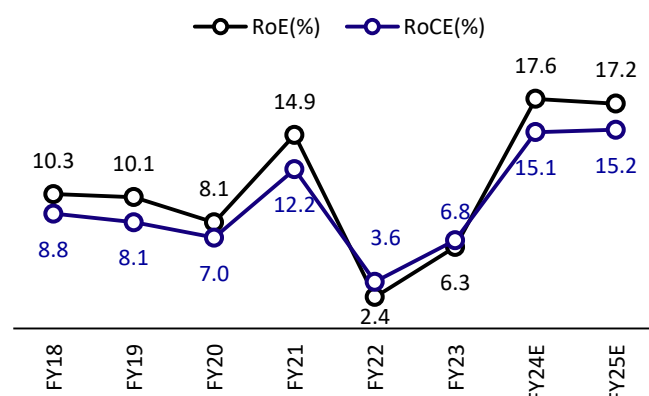
Source: MOFSL, Company

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	FY23	FY24E	FY25E
Net Revenues from Ops	69,845	67,788	76,096	93,634	1,13,149	1,20,328	1,30,777
Change (%)	11.2	-2.9	12.3	23.0	20.8	6.3	8.7
EBITDA	6,425	7,238	9,830	7,098	9,738	16,545	18,178
EBITDA Margin (%)	9.2	10.7	12.9	7.6	8.6	13.8	13.9
Depreciation	1,927	2,765	3,396	4,352	4,693	5,018	5,535
EBIT	4,498	4,473	6,433	2,746	5,045	11,527	12,643
EBIT Margin (%)	6.4	6.6	8.5	2.9	4.5	9.6	9.7
Int. and Finance Charges	880	1,509	1,755	2,070	2,421	2,809	2,555
Other Income	390	205	138	114	169	245	280
PBT bef. EO Exp.	4,008	3,169	4,816	790	2,793	8,963	10,367
EO Items	-297	5	-341	-129	-334	0	0
PBT after EO Exp.	3,711	3,174	4,476	661	2,459	8,963	10,367
Total Tax	1,402	1,046	516	243	718	2,330	2,696
Tax Rate (%)	37.8	33.0	11.5	36.7	29.2	26.0	26.0
Minority Int./Share JV PAT	-213	-184	-361	-294	-120	45	120
Reported PAT	2,522	2,312	4,320	712	1,862	6,588	7,552
Adjusted PAT	2,707	2,309	4,622	794	2,098	6,588	7,552
Change (%)	4.6	-14.7	100.2	-82.8	164.4	213.9	14.6
Margin (%)	3.9	3.4	6.1	0.8	1.9	5.5	5.8

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	39,973	46,797
Net Worth	27,661	29,079	33,163	32,728	34,396	40,377	47,201
Minority Interest	238	237	232	235	174	174	174
Total Loans	14,469	18,772	14,176	20,968	20,927	19,927	17,927
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	64,364	69,188
Gross Block	37,663	49,795	58,732	67,748	80,110	88,571	99,071
Less: Accum. Deprn.	5,868	8,197	11,097	14,456	19,149	24,167	29,703
Net Fixed Assets	31,795	41,598	47,634	53,292	60,961	64,404	69,368
Capital WIP	8,329	10,685	7,929	8,759	5,961	5,000	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	34,279	39,655
Inventory	10,056	9,257	11,299	13,096	11,378	14,217	15,425
Account Receivables	7,064	6,744	9,216	11,543	13,070	14,835	16,123
Cash and Bank Balance	735	342	431	363	719	2,821	5,491
Loans and Advances	4,256	3,067	2,141	2,174	2,353	2,407	2,616
Curr. Liability & Prov.	19,484	22,697	30,380	33,910	36,754	41,015	44,530
Account Payables	10,529	11,948	18,395	21,576	22,683	24,169	26,222
Other Current Liabilities	7,566	9,114	10,444	10,654	12,154	14,439	15,693
Provisions	1,389	1,635	1,541	1,680	1,917	2,407	2,616
Net Current Assets	2,627	-3,288	-7,293	-6,734	-9,234	-6,735	-4,876
Appl. of Funds	44,566	50,832	50,371	57,108	59,383	64,364	69,188

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	162.9	186.7
Cash EPS	114.6	125.4	198.2	127.2	167.9	286.9	323.5
BV/Share	683.8	718.9	819.8	809.1	850.3	998.2	1,166.9
DPS	12.0	12.0	18.0	3.0	12.0	15.0	18.0
Payout (%)	23.2	25.3	16.9	17.0	26.1	9.2	9.6
Valuation (x)							
P/E	32.8	38.5	19.2	112.0	42.4	13.5	11.8
Cash P/E	19.2	17.5	11.1	17.3	13.1	7.7	6.8
P/BV	3.2	3.1	2.7	2.7	2.6	2.2	1.9
EV/Sales	1.5	1.6	1.3	1.2	1.0	0.9	0.8
EV/EBITDA	16.0	14.8	10.4	15.4	11.2	6.4	5.6
Dividend Yield (%)	0.5	0.5	0.8	0.1	0.5	0.7	0.8
Return Ratios (%)							
RoE	10.1	8.1	14.9	2.4	6.3	17.6	17.2
RoCE (post tax)	8.1	7.0	12.2	3.6	6.8	15.1	15.2
RoIC	9.0	8.4	14.6	4.0	7.4	16.1	16.4
Working Capital Ratios							
Fixed Asset Turnover (x)	1.9	1.4	1.3	1.4	1.4	1.4	1.3
Asset Turnover (x)	1.6	1.3	1.5	1.6	1.9	1.9	1.9
Inventory (Days)	53	50	54	51	37	43	43
Debtor (Days)	37	36	44	45	42	45	45
Creditor (Days)	55	64	88	84	73	73	73
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	4.1	4.9
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	FY23	FY24E	FY25E
OP/(Loss) before Tax	3,560	2,871	4,476	661	2,459	8,963	10,367
Depreciation	1,927	2,765	3,396	4,352	4,693	5,018	5,535
Interest & Finance Charges	880	1,509	1,755	2,070	2,421	2,564	2,275
Direct Taxes Paid	-808	-181	-512	-200	377	-2,330	-2,696
(Inc)/Dec in WC	235	2,582	4,516	-736	2,211	-397	811
CF from Operations	5,794	9,546	13,631	6,147	12,161	13,818	16,294
Others	-267	17	-54	42	-106	0	0
CF from Operating incl EO	5,527	9,563	13,577	6,189	12,055	13,818	16,294
(Inc)/Dec in FA	-11,073	-11,183	-6,395	-9,558	-8,779	-7,500	-8,500
Free Cash Flow	-5,547	-1,620	7,182	-3,369	3,276	6,318	7,794
(Pur)/Sale of Investments	320	9	-27	-89	-11	0	0
Others	236	419	241	203	299	245	280
CF from Investments	-10,517	-10,755	-6,181	-9,444	-8,491	-7,255	-8,220
Inc/(Dec) in Debt	6,260	3,854	-5,677	5,821	-41	-1,000	-2,000
Interest Paid	-889	-1,925	-1,628	-1,944	-2,093	-2,809	-2,555
Dividend Paid	-526	-1,139	-4	-746	-126	-607	-728
Others	0	0	0	0	-936	-45	-120
CF from Fin. Activity	4,844	790	-7,309	3,132	-3,195	-4,460	-5,403
Inc/Dec of Cash	-146	-402	87	-123	368	2,102	2,670
Opening Balance	822	675	274	361	238	606	2,708
Closing Balance	675	274	361	238	606	2,708	5,379

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Explanation of Investment Rating	
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SELL	< - 10%
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