

Estimate change
TP change
Rating change


Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USD\$)	69.4 / 0.8
52-Week Range (INR)	1981 / 890
1, 6, 12 Rel. Per (%)	18/9/49
12M Avg Val (INR M)	311

Financials & valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	113.1	126.5	138.8
EBITDA	9.7	15.0	16.4
EBITDA Margin (%)	8.6	11.9	11.8
Adj. PAT	2.1	5.3	6.2
EPS (INR)	51.9	130.1	152.3
EPS Growth (%)	164.4	150.8	17.1
BV/Share (INR)	850	968	1,109

Ratios

RoE (%)	6.3	14.3	14.7
RoCE (%)	6.8	11.9	12.5
Payout (%)	26.1	9.2	7.9

Valuations

P/E (x)	33.1	13.2	11.3
P/BV (x)	2.0	1.8	1.5
Div. Yield (%)	0.7	0.7	0.7
FCF Yield (%)	4.7	14.6	12.0

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

FII Includes depository receipts

CMP: INR1,717
TP: INR2,000 (+16%)
Buy
Low RM costs lead to strong earnings beat, margin expansion
Capex guidance for FY24 at INR7-7.5b vs INR8.9b in FY23

- CEAT's healthy 4QFY23 performance was driven by the margin expansion due to lower RM costs (despite high other costs). We believe 4QFY23 EBITDA margin of 12.8% largely factor in the benefits of commodity softening (decline 8-9% QoQ in 4QFY23) and price hikes. This coupled with increase NR prices of late should keep margin range bound around 12%.
- We raise our FY24E/FY25E EPS by 10% each to largely account for better gross margins. Maintain **BUY** with a TP of INR2,000 (based on ~13x Mar'25E EPS).

RM costs decline 8-9% QoQ, leading to gross margin expansion

- 4QFY23 revenue/EBITDA/adj. PAT grew 11%/96%/3.8x YoY to INR28.75b/INR3.7b/INR1.4b. FY23 revenue/EBITDA/adj. PAT grew 25%/16%/37% YoY.
- Overall volumes grew 6% YoY/7% QoQ. Gross margin expanded by 660bp YoY (+560bp QoQ) to 40.1% (est. 36%). The RM basket declined ~8-9% QoQ in 4Q, while prices were largely stable.
- Despite higher other expenses and staff costs, EBITDA margin expanded by 560bp YoY (+410bp QoQ) to 12.8% (est. 10.5%). EBITDA grew 96% YoY to ~INR3.7b (est. INR3b). Adj. PAT stood at INR1.4b (v/s INR290m in 4QFY22 and est. INR1b) in 4Q.
- Debt declined to INR20.9b as of Mar'23 (v/s INR23.4b in Dec'22 and INR21b in Mar'22) despite capex of INR2.1b during the quarter.
- CFO jumped to INR12b (v/s INR6.2b in FY22), mainly due to a decline in WC. FCFF was at INR3.3b (v/s negative INR3.4b in FY22) despite capex of INR8.8b (v/s INR9.6b in FY22), mainly led by improved operating performance.
- The board has declared a dividend of INR12/share (v/s INR3/share in FY22).

Highlights from the management commentary

- **Demand outlook looks stable** but non-farm segment in rural is yet to see recovery. OEM growth should remain strong especially in commercial and passenger segments while 2W would be lower. Exports- Channel de-stocking is largely over. Believe exports to be a key growth contributor.
- **RM costs fell 8-9% QoQ in 4QFY23.** CEAT was largely able to hold on to the prices. RM basket to move in a narrow band, slightly inching up by 1Q end. The company indicated EBITDA margin to stay at low double digits over next few quarters.
- **Reduced capex guidance for FY24 (v/s FY23);** expect capex to be INR7-7.5b (including project capex of INR5-5.5b) largely toward Ambarnath Agri radial expansion and downstream assets in Chennai and Nagpur.
- **Ambarnath plant-** To install additional 20% capacity in next couple of quarters. Current capacity is 105 tons per day and aims to increase to 150 tons per day by end of the year. Order book is healthy hence sales will catch up faster.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

Valuation and view:

- Stable volume growth outlook for domestic OEMs (especially PV and CV) and 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 margin recovery in FY24E (+330bp vs FY23). Moreover, the focus on key strategic areas like PV/2W/OHT (to help margins), along with prudent capex plans (to benefit FCF), should be a long-term growth catalyst for the company.
- Valuations at 13.2x/11.3x FY24E/FY25E consol. EPS do not fully capture the ramp-up of new capacities and lower RM costs. Maintain BUY with a TP of INR2,000 (based on ~13x Mar'25E EPS).

Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY22				FY23				FY22	FY23	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Net Sales	19,064	24,518	24,133	25,920	28,184	28,945	27,272	28,748	93,634	1,13,149	29,031
YoY Change (%)	70.2	23.9	8.6	13.2	47.8	18.1	13.0	10.9	23.0	20.8	12.0
RM cost (%)	61.1	63.1	66.0	66.5	68.3	67.5	65.5	59.9	64.4	65.3	64.0
Employee cost (%)	9.3	7.0	7.1	6.6	6.1	5.8	6.7	7.4	7.4	6.5	6.6
Other expenses (%)	20.9	20.9	21.3	19.7	19.7	19.7	19.2	19.9	20.6	19.6	19.0
EBITDA	1,662	2,203	1,341	1,875	1,653	2,031	2,376	3,678	7,098	9,738	3,037
Margins (%)	8.7	9.0	5.6	7.2	5.9	7.0	8.7	12.8	7.6	8.6	10.5
Depreciation	965	1,206	1,086	1,096	1,114	1,151	1,175	1,253	4,352	4,693	1,180
Interest	460	496	548	566	521	577	657	666	2,070	2,421	660
Other Income	39	28	32	33	28	98	20	24	114	169	35
PBT before EO expense	276	529	-260	246	45	401	565	1,783	790	2,793	1,232
Exceptional item	0	5	65	59	7	237	5	86	129	334	0
PBT	276	524	-326	187	38	164	560	1,698	661	2,459	1,232
Tax Rate (%)	41.8	29.2	10.7	5.2	31.0	64.6	26.7	26.5	36.7	29.2	31.7
Minority Int. & Profit of Asso. Cos.	-79	-49	-91	-75	-67	-20	57	-90	-294	-120	-220
Reported PAT	240	420	-200	253	92	78	354	1,337	712	1,862	1,061
Adj PAT	240	423	-159	290	98	246	357	1,398	794	2,098	1,061
YoY Change (%)	-255	-77	-111	-81	-59	-42	-325	382	-83	164	266.2
Margins (%)	1.3	1.7	-0.7	1.1	0.3	0.9	1.3	4.9	0.8	1.9	3.7

Key Performance Indicators

RM Cost (% of sales)	61.1	63.1	66.0	66.5	68.3	67.5	65.5	59.9	64.4	65.3	64.0
Staff Cost (% of sales)	9.3	7.0	7.1	6.6	6.1	5.8	6.7	7.4	7.4	6.5	6.6
Other Cost (% of sales)	20.9	20.9	21.3	19.7	19.7	19.7	19.2	19.9	20.6	19.6	19.0
Gross margin (%)	38.9	36.9	34.0	33.5	31.7	32.5	34.5	40.1	35.6	34.7	36.0
EBITDA Margins (%)	8.7	9.0	5.6	7.2	5.9	7.0	8.7	12.8	7.6	8.6	10.5
EBIT Margins (%)	3.7	4.1	1.1	3.0	1.9	3.0	4.4	8.4	7.6	8.6	6.4

E:MOFSL Estimates

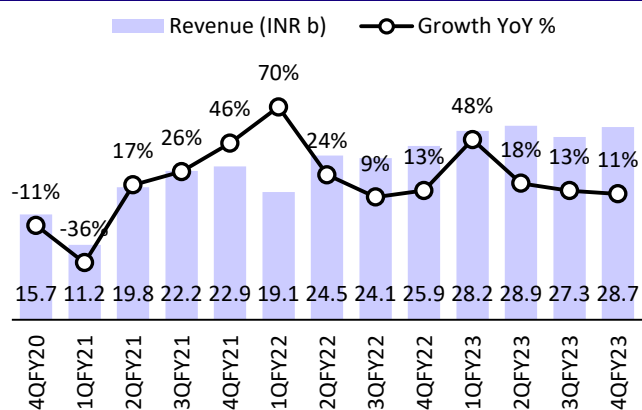


Highlights from the management commentary

- **4QFY23 overall grew 6% YoY/7% QoQ** wherein replacement/OEM/exports grew 5%/8%/15% QoQ. FY23 volumes grew 11% YoY. **Replacement/OEM/exports mix** stands at 51%/32%/18% now. The company is putting a lot of efforts on exports, which will drive exports mix beyond 18% and will be margin lucrative. Looking at 1.5x market share gains in TBR, market leadership in PCR and eventually will move close to it in FY24.
- **Demand outlook looks stable but non-farm segment in rural is yet to see recovery.** OEM growth should remain strong especially in commercial and passenger segments while 2W would be lower. **Exports-** Channel de-stocking is largely over. Believe exports to be a key growth contributor. There is an improvement in USD availability in developing economies, but there are recessionary pressures in EU and NA.
- **RM costs fell 8-9% in 4QFY23 v/s 3QFY23.** CEAT was largely able to hold on to the prices. RM basket to move in a narrow band, slightly inching up by 1Q end. The company indicated EBITDA margin to stay at low double digits over next few quarters.
- **Reduced capex guidance for FY24 (v/s FY23); expect capex to be INR7-7.5b** (including project capex of INR5-5.5b) largely toward Ambernath Agri radial expansion and downstream assets in Chennai and Nagpur.
- **Incurred growth capex of INR7b in FY23 with total capex at INR8.9b** (in line with broad guidance of INR9b). The company has sufficient capacities to take care of the near-term growth. Spent INR2.1b of capex in 4QFY23 (including INR1.28b of project capex).
- **Current utilization levels:** The largest factory is in Halol and its current utilization is ~80%. Utilization is similar in Nagpur and Chennai. Ambernath is in the expansion phase. In Chennai utilization level is ~60%. Overall, the utilization is 75-80% and there is headroom left for capacity increase in most of the plants.
- **Net working capital reduced by INR2.21b in 4Q vs 3Q despite capex.** Overall working capital reduced by INR1.70b in FY23 vs FY22 led by lower inventory and higher payables. Consol net debt declined to INR20.93b (vs INR20.97b in FY22). Ended year with D/E of 0.6x and Debt/EBITDA at 2.1x.
- **Ambernath plant- To install additional 20% capacity in next couple of quarters.** Current capacity is 105 tons per day and aims to increase to 150 tons per day by end of the year. Order book is healthy hence sales will catch up faster. Also adding capacity in Bhandup for the bias range of agri and OTR.
- **The company currently has around 750 STUs-300 radial and 250 bias and 200 OTR.** Added 20 SKUs in 4QFY23 and adding another 20 in 1QFY24. Focus is on getting into new segments such as forestry, lawn and garden, agro industrial application, puddling, etc. All this is largely for the exports market

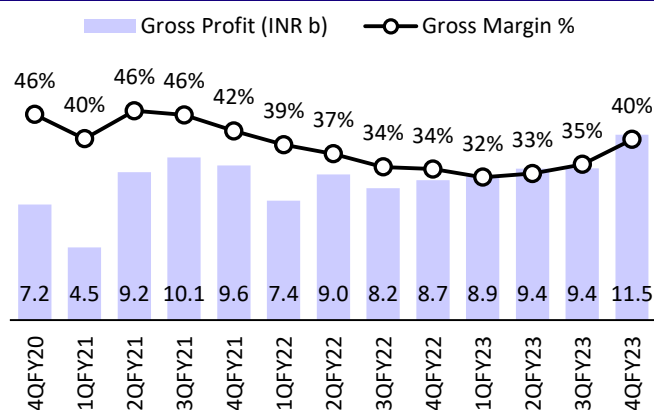
Key exhibits

Exhibit 1: Trend in revenues



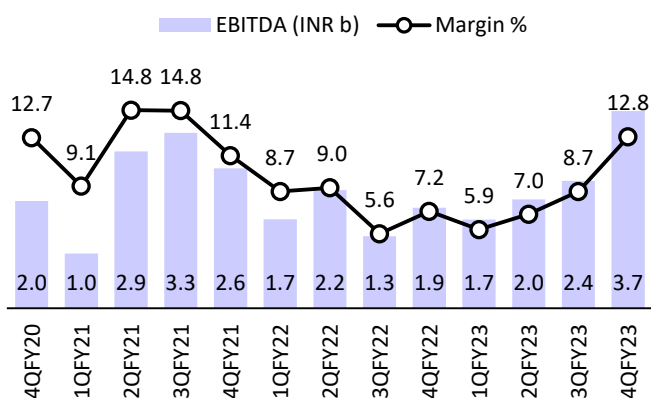
Source: MOFSL, Company

Exhibit 2: Trend in gross margin



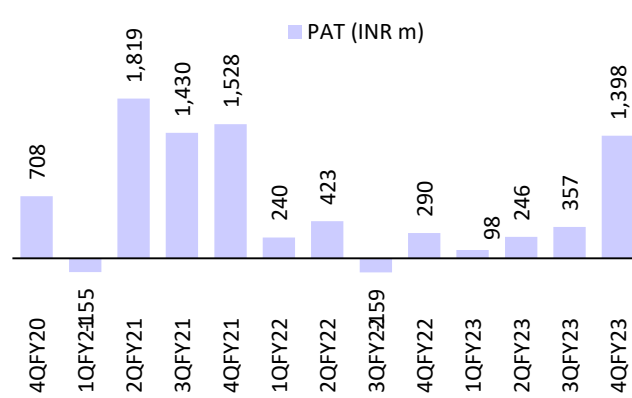
Source: MOFSL, Company

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, 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 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 62% in FY23 from 20% in FY10). This is also reflected in market share gain in the PCR segment (over 15% now v/s 11% a few years back). The expansion in TBR, despite not being a strategic focus area, is done to maintain overall market share in T&B tyres. Its market share stood at 8-9% (v/s 5% a few years ago) in the TBR category. With the current capex plan, the contribution from

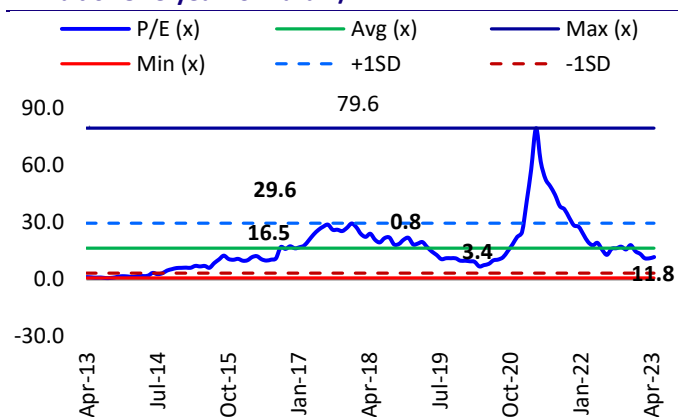
focus areas could rise to 60-65% over the next 4-5 years, which would reflect positively in its operating performance. CEAT's expansion plan for the OHT vertical is on track. Benefits of this capex are not fully reflected in our FY24/FY25 estimates. We expect a revenue/EBITDA/PAT CAGR of ~11%/30%/71% over FY23-25.

Valuation and view: Stable growth outlook for domestic OEMs especially for PVs and CVs and pickup in replacement demand will enable a faster absorption of new capacities and drive benefits of operating leverage. This, coupled with softening RM prices, should lead to margin expansion in FY24E (vs FY23). Moreover, the focus on key strategic areas like PV/2W/OHT (to help margins), along with prudent capex plans (to benefit FCF), should be a long-term growth catalyst for the company. Valuations at 13.2x/11.3x FY24E/FY25E consol. EPS do not fully capture the benefits from the ramp-up of new capacities and growth in exports market. Maintain BUY with a TP of INR2,000 (based on ~13x Mar'25E EPS).

Exhibit 5: Changes in estimates

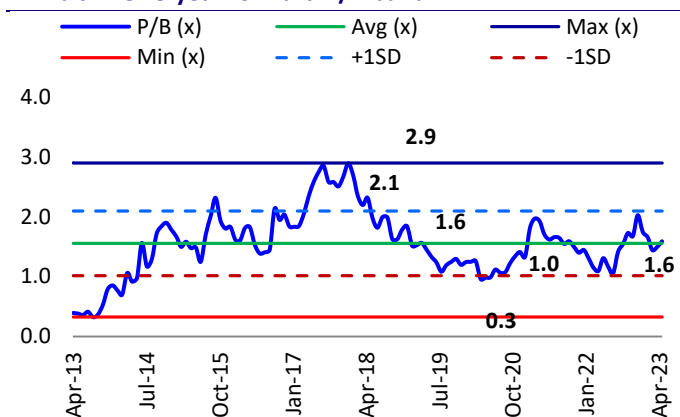
(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,26,453	1,26,136	0.3	1,38,797	1,37,617	0.9
EBITDA	14,985	13,686	9.5	16,378	15,000	9.2
EBITDA (%)	11.9	10.9	100bp	11.8	10.9	90bp
Adj. PAT	5,263	4,779	10.1	6,162	5,592	10.2
EPS (INR)	130.1	118.1	10.1	152.3	138.2	10.2

Exhibit 6: One-year forward P/E



Source: MOFSL, Company

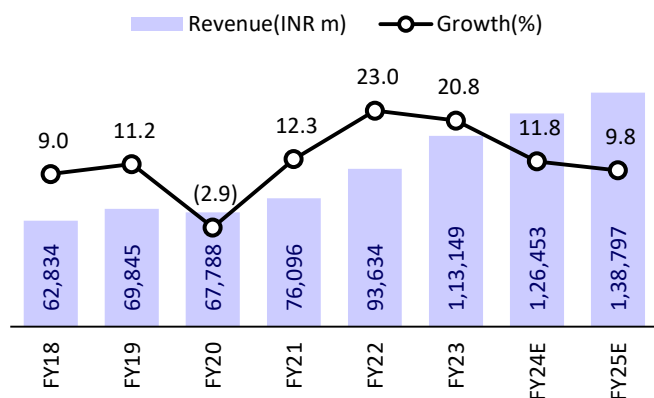
Exhibit 7: One-year forward P/B band



Source: MOFSL, Company

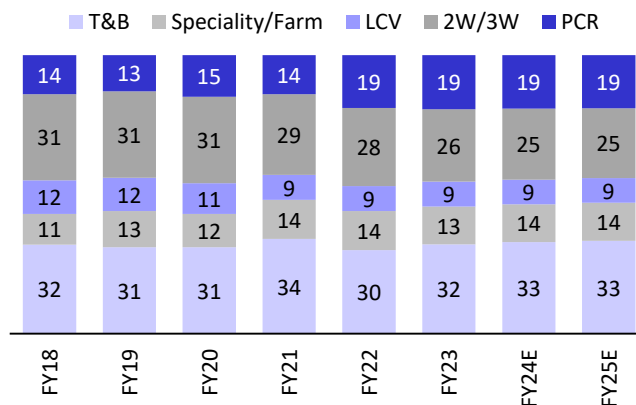
Story in charts

Exhibit 8: Revenue and growth trends



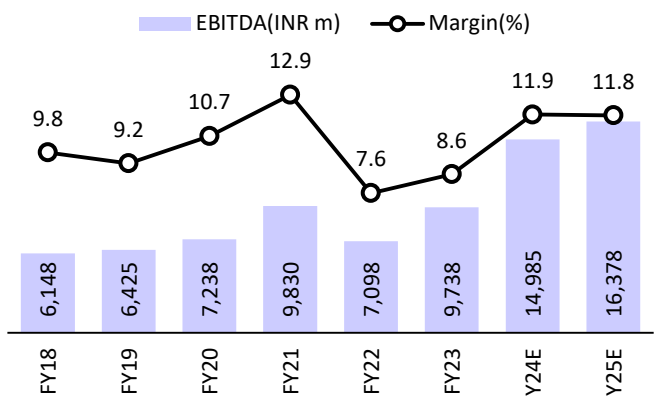
Source: MOFSL, Company

Exhibit 9: Key revenue segments



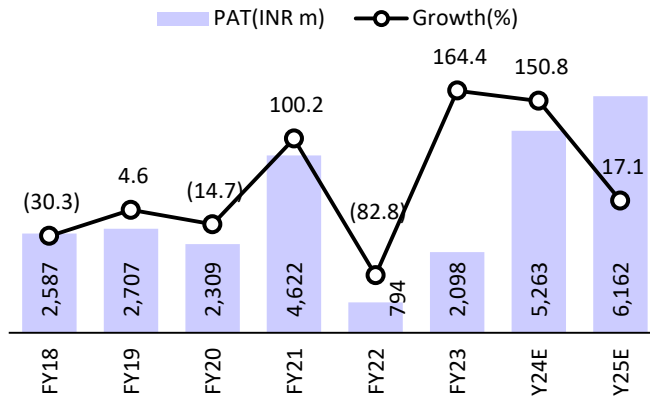
Source: MOFSL, Company

Exhibit 10: EBITDA and EBITDA margin trends



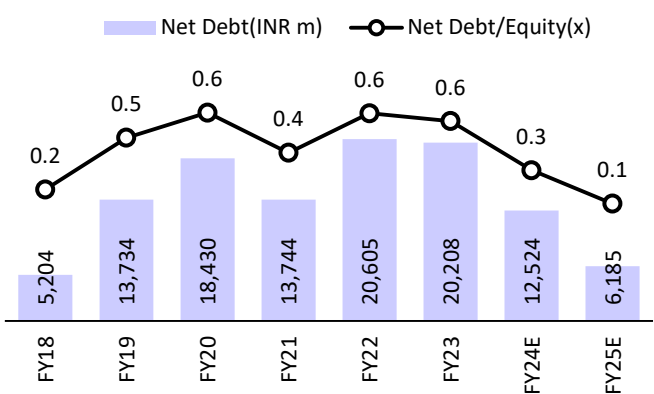
Source: MOFSL, Company

Exhibit 11: PAT and PAT growth trends



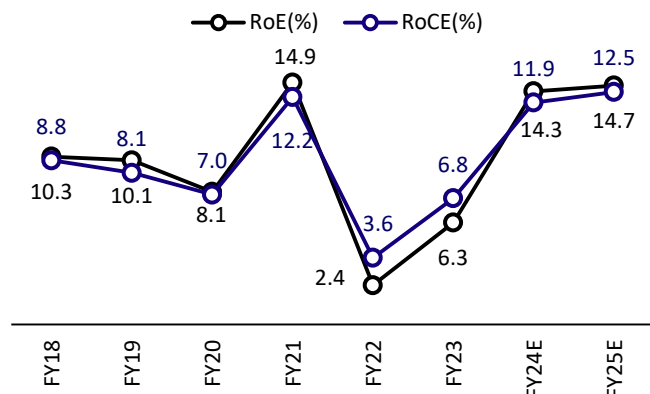
Source: MOFSL, Company

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	1,26,453	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	14,985	16,378
EBITDA Margin (%)	9.2	10.7	12.9	7.6	8.6	11.9	11.8
Depreciation	1,927	2,765	3,396	4,352	4,693	5,334	5,848
EBIT	4,498	4,473	6,433	2,746	5,045	9,651	10,530
EBIT Margin (%)	6.4	6.6	8.5	2.9	4.5	7.6	7.6
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	200
PBT bef. EO Exp.	4,008	3,169	4,816	790	2,793	7,520	8,841
EO Items	-297	5	-341	-129	-334	0	0
PBT after EO Exp.	3,711	3,174	4,476	661	2,459	7,520	8,841
Total Tax	1,402	1,046	516	243	718	2,406	2,829
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	-150	-150
Reported PAT	2,522	2,312	4,320	712	1,862	5,263	6,162
Adjusted PAT	2,707	2,309	4,622	794	2,098	5,263	6,162
Change (%)	4.6	-14.7	100.2	-82.8	164.4	150.8	17.1
Margin (%)	3.9	3.4	6.1	0.8	1.9	4.2	4.4

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	38,770	44,446
Net Worth	27,661	29,079	33,163	32,728	34,396	39,174	44,851
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	61,161	63,838
Gross Block	37,663	49,795	58,732	67,748	80,110	90,571	98,071
Less: Accum. Deprn.	5,868	8,197	11,097	14,456	19,149	24,483	30,331
Net Fixed Assets	31,795	41,598	47,634	53,292	60,961	66,088	67,740
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	39,885	45,761
Inventory	10,056	9,257	11,299	13,096	11,378	16,033	16,770
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	5,403	8,742
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	49,507	54,359
Account Payables	10,529	11,948	18,395	21,576	22,683	30,539	33,539
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	-9,623	-8,598
Appl. of Funds	44,566	50,832	50,371	57,108	59,383	61,161	63,838

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	130.1	152.3
Cash EPS	114.6	125.4	198.2	127.2	167.9	262.0	296.9
BV/Share	683.8	718.9	819.8	809.1	850.3	968.5	1,108.8
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	9.2	7.9
Valuation (x)							
P/E	25.7	30.1	15.0	87.5	33.1	13.2	11.3
Cash P/E	15.0	13.7	8.7	13.5	10.2	6.6	5.8
P/BV	2.5	2.4	2.1	2.1	2.0	1.8	1.5
EV/Sales	1.2	1.3	1.1	1.0	0.8	0.6	0.5
EV/EBITDA	12.9	12.1	8.5	12.7	9.2	5.5	4.6
Dividend Yield (%)	0.7	0.7	1.0	0.2	0.7	0.7	0.7
Return Ratios (%)							
RoE	10.1	8.1	14.9	2.4	6.3	14.3	14.7
RoCE	8.1	7.0	12.2	3.6	6.8	11.9	12.5
RoIC	9.0	8.4	14.6	4.0	7.4	12.9	14.1
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	2.2
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	0.8
Interest Cover Ratio	5.1	3.0	3.7	1.3	2.1	4.1	5.6
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	7,520	8,841
Depreciation	1,927	2,765	3,396	4,352	4,693	5,334	5,848
Interest & Finance Charges	880	1,509	1,755	2,070	2,421	2,131	1,689
Direct Taxes Paid	-808	-181	-512	-200	377	-2,406	-2,829
(Inc)/Dec in WC	235	2,582	4,516	-736	2,211	5,073	2,314
CF from Operations	5,794	9,546	13,631	6,147	12,161	17,651	15,863
Others	-267	17	-54	42	-106	0	0
CF from Operating incl EO	5,527	9,563	13,577	6,189	12,055	17,651	15,863
(Inc)/Dec in FA	-11,073	-11,183	-6,395	-9,558	-8,779	-7,500	-7,500
Free Cash Flow	-5,547	-1,620	7,182	-3,369	3,276	10,151	8,363
(Pur)/Sale of Investments	320	9	-27	-89	-11	0	0
Others	236	419	241	203	299	200	200
CF from Investments	-10,517	-10,755	-6,181	-9,444	-8,491	-7,300	-7,300
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	150	150
CF from Fin. Activity	4,844	790	-7,309	3,132	-3,195	-5,667	-5,225
Inc/Dec of Cash	-146	-402	87	-123	368	4,684	3,339
Opening Balance	822	675	274	361	238	606	5,291
Closing Balance	675	274	361	238	606	5,291	8,629

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Explanation of Investment Rating	
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BUY	>=15%
SELL	< - 10%
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