4 March 2024
Sector: Automobiles

CEAT

BSE SENSEX	S&P CNX
73,872	22,406

Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USDb)	117 / 1.4
52-Week Range (INR)	2998 / 1357
1, 6, 12 Rel. Per (%)	8/14/75
12M Avg Val (INR M)	765
Free float (%)	52.8

Financials & Valuations (INR b)

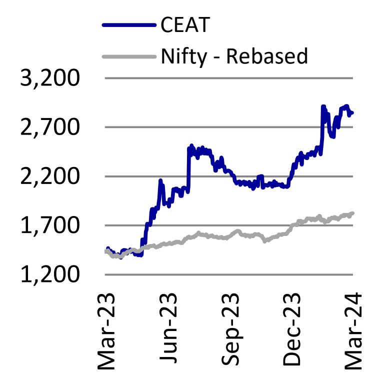
INR Billion	FY23	FY24E	FY25E
Sales	120.3	131.3	143.2
EBITDA	17.0	18.4	20.0
EBIDTA Margin (%)	14.2	14.0	14.0
Adj. PAT	7.1	7.7	8.8
EPS (Rs)	174.6	189.5	217.6
EPS Growth (%)	236.5	8.5	14.9
BV/Share (Rs)	1,010	1,181	1,379
Ratios			
RoE (%)	18.8	17.3	17.0
RoCE (%)	15.8	15.3	15.4
Payout (%)	8.6	9.5	9.2
Valuations			
P/E (x)	16.6	15.3	13.3
P/BV (x)	2.9	2.5	2.1
Div. Yield (%)	0.5	0.6	0.7
FCF Yield (%)	5.7	6.9	7.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	47.2	47.2	47.2
DII	14.3	12.9	12.9
FII	20.0	24.1	24.1
Others	18.5	14.4	15.8

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR2,894 TP: INR3,290 (+14%) Buy

Growth to be driven by digitization/advanced manufacturing

No greenfield capex in FY25/26, but focus on existing capacity expansion

CEAT hosted the investing community, followed by a plant visit to its Chennai facility showcasing its factory, which is focused on digitization and advanced manufacturing processes. Following these practices, OEM approvals from this new plant have now dropped to 25 months (vs. five years from a new greenfield capacity). 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 16.6x/15.3x 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 INR3,290 (roll forward to ~15x FY26E EPS).

- **About the Chennai plant:** The plant spans 160 acres with 25% of its area covered by greenery and operates in three shifts. Primarily, the plant produces PCR tyres for 17 different platforms (e.g., long-lasting tyres, performance tyres) with a production capacity of 20k tyres/day (potentially increasing to 28-28.5k tyres/day). It would also start manufacturing TBR tyres from 2QFY25, initially producing 1,500tyres/day, with plans to ramp up to 3,000 tyres/day. Export from this plant comprises 40% of its output. This plant stands out as digitally and technically advanced, with a special focus on quality management, resulting in OEM approval for its tyres in 25 months (vs. 5 years from a new greenfield plant).
- **Digital initiatives of the company are based on used cases:** CEAT digital initiative focuses more on used cases rather than the technology used. Its KPI-based impact has enabled it to increase both OEM and export sales. The company's initiatives yield a payback period of two to three years and can be replicated across CEAT's other plants. Utilizing virtual reality for new employee training has reduced the training time to two to three months (vs. six months earlier). CEAT has also established a digital centre of excellence, employing 25 individuals across locations in Nagpur, Halol, and Chennai.
- **Advanced manufacturing to drive new process development and focus on quality:** It has developed the new motorcycle steel radial tech, which is used in the 350-1,200cc motorcycle segment (requiring long-range usage) in-house. The recently launched RE Himalayan 450cc motorcycle utilizes this tyre technology, with CEAT serving as the exclusive supplier. Furthermore, CEAT has also developed a new Silica mixing technology, which has helped it meet the EU/US/OEM/EV markets, while maintaining a strong focus on product consistency.

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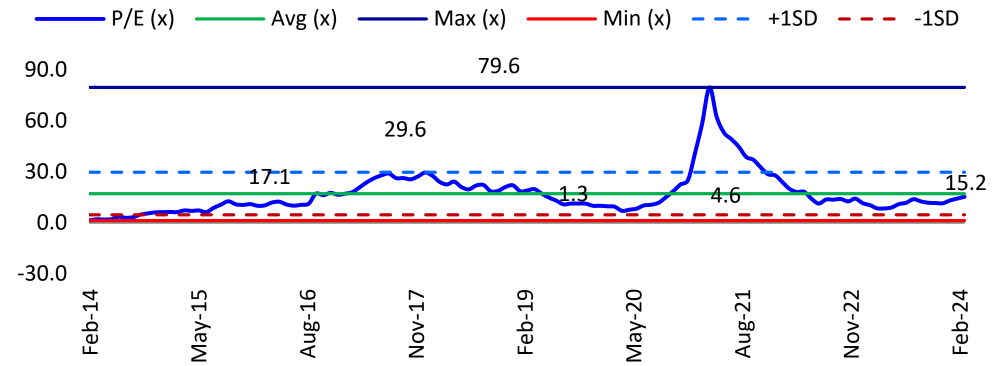
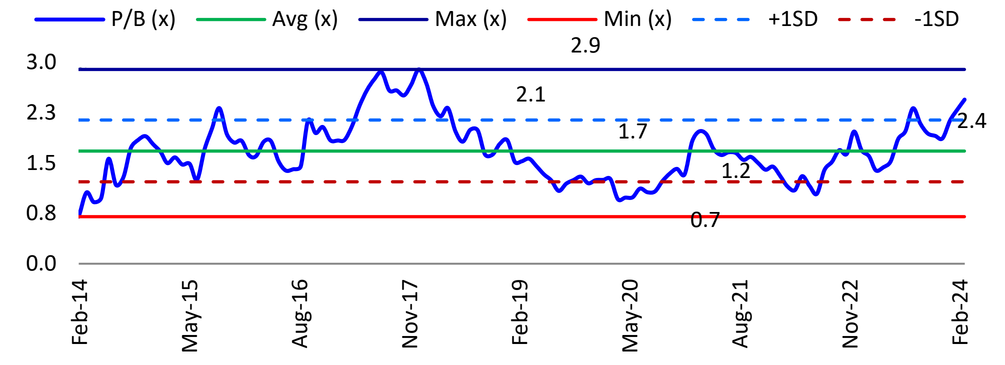
- The company’s focus on higher rim sizes (~40% of the PCR supply is for the greater than 15 inches tyre sizes) in the PCR segment was met by the development of the unistage tyre building machine. Presently, overall rejection rates at the Chennai plant stand at ~1.75% (Halol plant has lesser rejections) and the company is actively working to further reduce these rejection rates. Specifically, the rejection rate stands at 0.5% at the finished good stage and is 0.2-0.3% at the RM stage.
- **Domestic demand remains a mixed bag; RM costs could see an uptick in 1QFY25:** 4Q remains the best quarter for the company in terms of replacement demand and this time, it is no different. There has been a steady uptick in the 2W replacement demand; 2W OEM demand is recovering well. It has gained market share in the PCR segment. The OHT segment remains weak. NR prices and crude oil have been volatile in 4Q, which would impact gross margins in 1QFY25.
- **Exports contribution target at 25% of revenues (vs. 18% in FY23):** FY23 was a weak year for exports and this low base led to a 25% YoY growth in 3QFY24 for exports. The company would be launching two of its tyre categories (PCR and TBR) in the US/LatAm markets, leveraging its presence in OHT. Operations in Africa and the Middle East are performing well. It took a price cut in the exports market to focus on the value segment. Presently, Red-Sea crisis has a limited impact on the profitability for CEAT.
- **No major greenfield capex in FY25/FY26, but focus on capacity expansion:** Capex/tonne is lower by 35-40% in case of capacity expansion at its existing plant. The company would be focusing on ramping up TBR capacity in Chennai from 2QFY25. Ambernath OHT capacity is expected to be ramped up to 160 tyres/day from its current 105 tyres/day. Nagpur 2W capacity would be ramped up to 80k tyres/day from its current 25k tyres/day.
- **Valuation & 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 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 the company. Valuations at 15.3x/13.3x FY25E/FY26E consol. EPS does 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 INR3,290 (roll forward to ~15x FY26E EPS).

Exhibit 1: One-year forward P/E



Source: MOFSL, Company

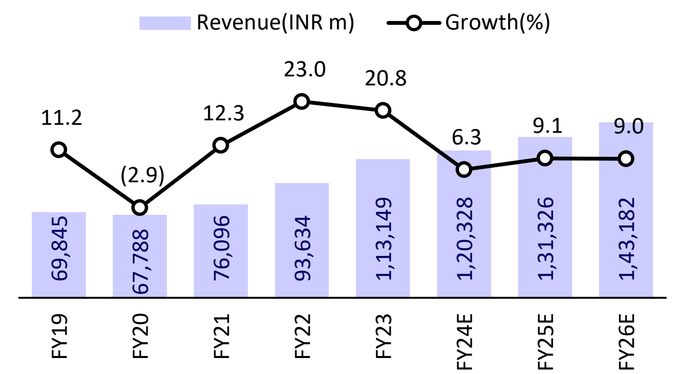
Exhibit 2: One-year forward P/B band



Source: MOFSL, Company

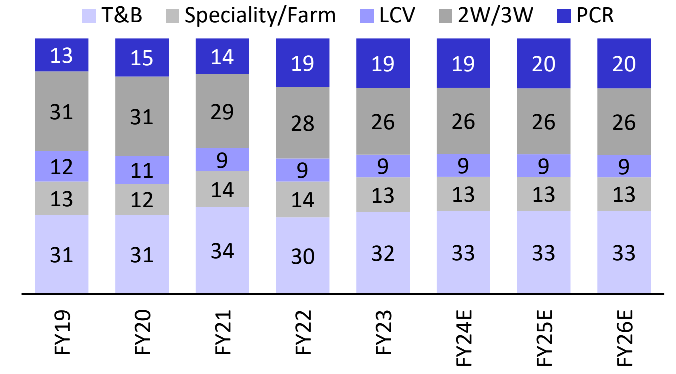
Story in charts

Exhibit 3: Revenue and growth trends



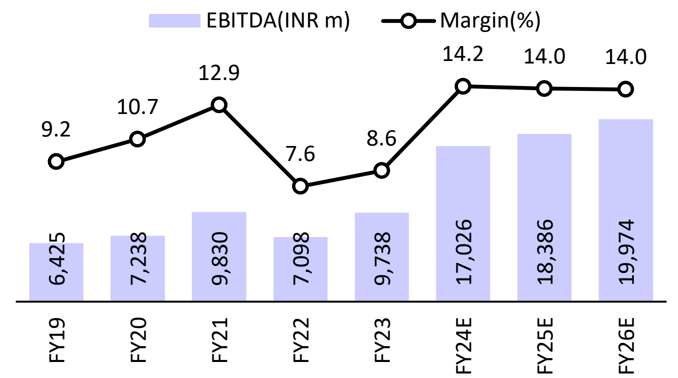
Source: MOFSL, Company

Exhibit 4: Key revenue segments



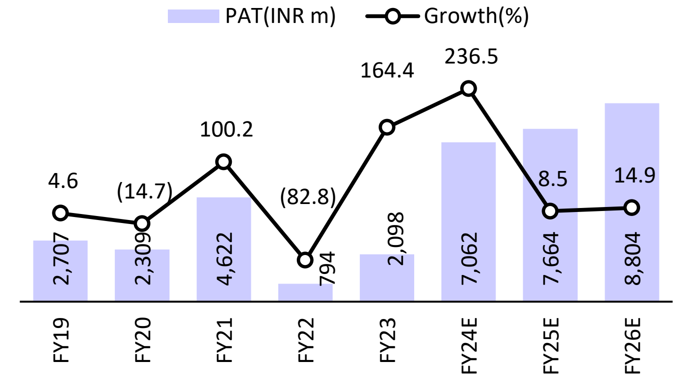
Source: MOFSL, Company

Exhibit 5: EBITDA and EBITDA margin trends



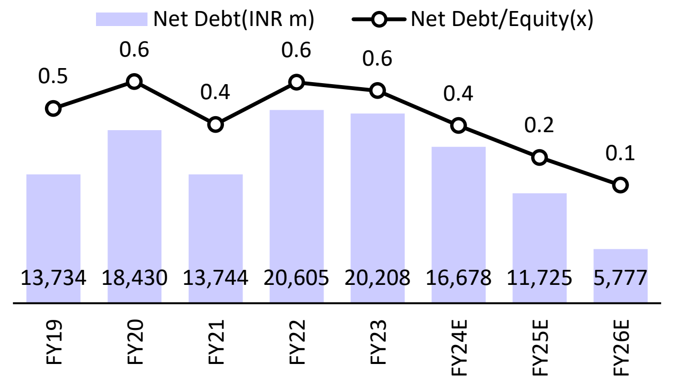
Source: MOFSL, Company

Exhibit 6: PAT and PAT growth trends



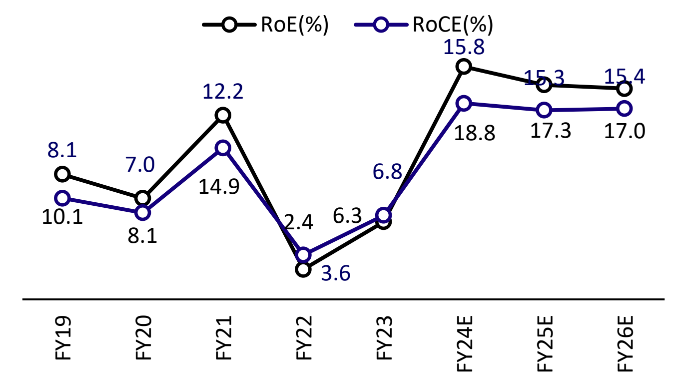
Source: MOFSL, Company

Exhibit 7: Trend in debt levels



Source: MOFSL, Company

Exhibit 8: Trend in return profile



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement								(INR Million)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Net Revenues from Ops	**69,845**	**67,788**	**76,096**	**93,634**	**1,13,149**	**1,20,328**	**1,31,326**	**1,43,182**
Change (%)	11.2	-2.9	12.3	23.0	20.8	6.3	9.1	9.0
EBITDA	**6,425**	**7,238**	**9,830**	**7,098**	**9,738**	**17,026**	**18,386**	**19,974**
EBITDA Margin (%)	9.2	10.7	12.9	7.6	8.6	14.2	14.0	14.0
Depreciation	1,927	2,765	3,396	4,352	4,693	5,018	5,629	6,007
EBIT	**4,498**	**4,473**	**6,433**	**2,746**	**5,045**	**12,008**	**12,756**	**13,967**
EBIT Margin (%)	6.4	6.6	8.5	2.9	4.5	10.0	9.7	9.8
Int. and Finance Charges	880	1,509	1,755	2,070	2,421	2,758	2,517	2,201
Other Income	390	205	138	114	169	225	280	320
PBT bef. EO Exp.	**4,008**	**3,169**	**4,816**	**790**	**2,793**	**9,476**	**10,519**	**12,086**
EO Items	-297	5	-341	-129	-334	0	0	0
PBT after EO Exp.	**3,711**	**3,174**	**4,476**	**661**	**2,459**	**9,476**	**10,519**	**12,086**
Total Tax	1,402	1,046	516	243	718	2,369	2,735	3,142
Tax Rate (%)	37.8	33.0	11.5	36.7	29.2	25.0	26.0	26.0
Minority Int./Share JV PAT	-213	-184	-361	-294	-120	45	120	140
Reported PAT	**2,522**	**2,312**	**4,320**	**712**	**1,862**	**7,062**	**7,664**	**8,804**
Adjusted PAT	**2,707**	**2,309**	**4,622**	**794**	**2,098**	**7,062**	**7,664**	**8,804**
Change (%)	4.6	-14.7	100.2	-82.8	164.4	236.5	8.5	14.9
Margin (%)	3.9	3.4	6.1	0.8	1.9	5.9	5.8	6.1

Consolidated - Balance Sheet								(INR Million)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Equity Share Capital	405	405	405	405	405	405	405	405
Total Reserves	27,257	28,675	32,758	32,324	33,992	40,447	47,383	55,378
Net Worth	**27,661**	**29,079**	**33,163**	**32,728**	**34,396**	**40,851**	**47,787**	**55,782**
Minority Interest	238	237	232	235	174	174	174	174
Total Loans	14,469	18,772	14,176	20,968	20,927	19,927	17,927	15,927
Deferred Tax Liabilities	2,198	2,744	2,800	3,177	3,886	3,886	3,886	3,886
Capital Employed	**44,566**	**50,832**	**50,371**	**57,108**	**59,383**	**64,838**	**69,774**	**75,769**
Gross Block	37,663	49,795	58,732	67,748	80,110	88,571	99,071	1,08,071
Less: Accum. Deprn.	5,868	8,197	11,097	14,456	19,149	24,167	29,796	35,803
Net Fixed Assets	**31,795**	**41,598**	**47,634**	**53,292**	**60,961**	**64,404**	**69,274**	**72,267**
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	8,329	10,685	7,929	8,759	5,961	5,000	3,000	3,000
Total Investments	**1,814**	**1,837**	**2,101**	**1,792**	**1,696**	**1,696**	**1,696**	**1,696**
Curr. Assets, Loans&Adv.	**22,111**	**19,410**	**23,087**	**27,176**	**27,519**	**34,641**	**40,491**	**47,544**
Inventory	10,056	9,257	11,299	13,096	11,378	14,151	15,471	16,878
Account Receivables	7,064	6,744	9,216	11,543	13,070	14,835	16,191	17,653
Cash and Bank Balance	735	342	431	363	719	3,249	6,202	10,150
Loans and Advances	4,256	3,067	2,141	2,174	2,353	2,407	2,627	2,864
Curr. Liability & Prov.	**19,484**	**22,697**	**30,380**	**33,910**	**36,754**	**40,902**	**44,687**	**48,738**
Account Payables	10,529	11,948	18,395	21,576	22,683	24,057	26,301	28,692
Other Current Liabilities	7,566	9,114	10,444	10,654	12,154	14,439	15,759	17,182
Provisions	1,389	1,635	1,541	1,680	1,917	2,407	2,627	2,864
Net Current Assets	**2,627**	**-3,288**	**-7,293**	**-6,734**	**-9,234**	**-6,261**	**-4,196**	**-1,194**
Appl. of Funds	**44,566**	**50,832**	**50,371**	**57,108**	**59,383**	**64,838**	**69,774**	**75,769**

Financials and valuations

Ratios								
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Basic (INR)								
EPS	**66.9**	**57.1**	**114.3**	**19.6**	**51.9**	**174.6**	**189.5**	**217.6**
Cash EPS	114.6	125.4	198.2	127.2	167.9	298.6	328.6	366.2
BV/Share	683.8	718.9	819.8	809.1	850.3	1,009.9	1,181.4	1,379.0
DPS	12.0	12.0	18.0	3.0	12.0	15.0	18.0	20.0
Payout (%)	23.2	25.3	16.9	17.0	26.1	8.6	9.5	9.2
Valuation (x)								
P/E	43.3	50.7	25.3	147.5	55.8	16.6	15.3	13.3
Cash P/E	25.3	23.1	14.6	22.8	17.2	9.7	8.8	7.9
P/BV	4.2	4.0	3.5	3.6	3.4	2.9	2.5	2.1
EV/Sales	1.9	2.0	1.7	1.5	1.2	1.1	1.0	0.9
EV/EBITDA	20.4	18.7	13.3	19.4	14.1	7.9	7.0	6.2
Dividend Yield (%)	0.4	0.4	0.6	0.1	0.4	0.5	0.6	0.7
Return Ratios (%)								
RoE	10.1	8.1	14.9	2.4	6.3	18.8	17.3	17.0
RoCE (post tax)	8.1	7.0	12.2	3.6	6.8	15.8	15.3	15.4
RoIC	9.0	8.4	14.6	4.0	7.4	17.0	16.6	17.3
Working Capital Ratios								
Fixed Asset Turnover (x)	1.9	1.4	1.3	1.4	1.4	1.4	1.3	1.3
Asset Turnover (x)	1.6	1.3	1.5	1.6	1.9	1.9	1.9	1.9
Inventory (Days)	53	50	54	51	37	43	43	43
Debtor (Days)	37	36	44	45	42	45	45	45
Creditor (Days)	55	64	88	84	73	73	73	73
Leverage Ratio (x)								
Current Ratio	1.1	0.9	0.8	0.8	0.7	0.8	0.9	1.0
Interest Cover Ratio	5.1	3.0	3.7	1.3	2.1	4.4	5.1	6.3
Net Debt/Equity	0.5	0.6	0.4	0.6	0.6	0.4	0.2	0.1

Consolidated - Cash Flow Statement								(INR Million)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
OP/(Loss) before Tax	3,560	2,871	4,476	661	2,459	9,476	10,519	12,086
Depreciation	1,927	2,765	3,396	4,352	4,693	5,018	5,629	6,007
Interest & Finance Charges	880	1,509	1,755	2,070	2,421	2,533	2,237	1,881
Direct Taxes Paid	-808	-181	-512	-200	377	-2,369	-2,735	-3,142
(Inc)/Dec in WC	235	2,582	4,516	-736	2,211	-443	888	946
CF from Operations	**5,794**	**9,546**	**13,631**	**6,147**	**12,161**	**14,214**	**16,539**	**17,777**
Others	-267	17	-54	42	-106	0	0	0
CF from Operating incl EO	**5,527**	**9,563**	**13,577**	**6,189**	**12,055**	**14,214**	**16,539**	**17,777**
(Inc)/Dec in FA	-11,073	-11,183	-6,395	-9,558	-8,779	-7,500	-8,500	-9,000
Free Cash Flow	**-5,547**	**-1,620**	**7,182**	**-3,369**	**3,276**	**6,714**	**8,039**	**8,777**
(Pur)/Sale of Investments	320	9	-27	-89	-11	0	0	0
Others	236	419	241	203	299	225	280	320
CF from Investments	**-10,517**	**-10,755**	**-6,181**	**-9,444**	**-8,491**	**-7,275**	**-8,220**	**-8,680**
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	6,260	3,854	-5,677	5,821	-41	-1,000	-2,000	-2,000
Interest Paid	-889	-1,925	-1,628	-1,944	-2,093	-2,758	-2,517	-2,201
Dividend Paid	-526	-1,139	-4	-746	-126	-607	-728	-809
Others	0	0	0	0	-936	-45	-120	-140
CF from Fin. Activity	4,844	790	-7,309	3,132	-3,195	-4,409	-5,365	-5,150
Inc/Dec of Cash	**-146**	**-402**	**87**	**-123**	**368**	**2,530**	**2,953**	**3,948**
Opening Balance	822	675	274	361	238	606	3,136	6,090
Closing Balance	**675**	**274**	**361**	**238**	**606**	**3,136**	**6,090**	**10,037**

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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