BUY **CEAT**

Emkay
Your success is our success

Emerging 'consumer' leader; best-placed to resist RM volatility

Auto & Auto Ancillaries ▸ Initiating Coverage ▸ **September 3, 2024**

TARGET PRICE (Rs): 3,650

We initiate coverage on CEAT with BUY and TP of Rs3,650 (17x Sep-26E PER; likely upside: 31%). Despite street concerns about margin volatility due to spike in RM prices, our analysis points to gradual de-linking of tyre industry profitability from the underlying RM (gross margin 4-5% higher now than the corresponding RM level 2Y ago). Backed by best-in-class R&D, industry-leading marketing spends, and OEM relationship focus, CEAT has outperformed across parameters in the last 5Y, with leadership in consumer categories (now #1 in 2Ws; strong #3 in PCR), and is showing greater resilience to RM volatility vs peers. We build in RM-led pressure in the near term; price hikes, accelerating growth, and sustained high utilization are seen driving margins back to FY24 levels thereafter (30% EPS CAGR over FY25E-27E), with RoCE at ~19%.

CEAT: Financial Snapshot (Consolidated)

	FY23	FY24	FY25E	FY26E	FY27E
Revenue	113,149	119,435	132,190	145,556	158,707
EBITDA	9,738	16,523	15,070	18,340	20,949
Adj. PAT	2,196	7,009	5,704	7,821	9,574
Adj. EPS (Rs)	54.3	173.3	141.0	193.3	236.7
EBITDA margin (%)	8.6	13.8	11.4	12.6	13.2
EBITDA growth (%)	39.7	69.7	(8.8)	21.7	14.2
Adj. EPS growth (%)	117.0	245.2	(11.2)	37.1	22.4
RoE (%)	6.5	18.7	13.4	16.2	17.2
RoIC (%)	7.5	16.1	12.9	15.7	17.2
P/E (x)	51.5	16.1	19.8	14.5	11.8
EV/EBITDA (x)	13.9	7.9	8.6	6.9	5.9
P/B (x)	3.3	2.8	2.5	2.2	1.9
FCFF yield (%)	2.4	6.5	3.6	4.7	5.3

Source: Company, Emkay Research

Tyre profitability gradually getting delinked from RM on structural changes

While the street is concerned about tyre industry margins due to persistent RM price inflation in the past 6 months, our analysis points to gradual de-linking of tyre profitability vs underlying RM price movement, visible in gross margins now being ~4-5% higher than the corresponding RM level 2 years ago (refer to *Exhibit 1*). We believe this is on account of the ongoing structural transformation in the tyre space, in the form of i) a more balanced industry structure (dilution in dominance of MRF; refer to *Exhibit 2*), ii) focus on capital discipline with calibrated capex plans (unlike lumpy spends of the past), iii) premiumization trend (eg SUV-shift in PVs, rising radialization in Truck-Bus), iv) GoI thrust on local production (import restrictions levied in CY20 continue; CVD extended by 5 years), and v) emerging export opportunity (China +1, higher focus by Indian players).

CEAT: Consistent outperformer; focused actions driving improved positioning

Led by its thrust on i) best-in-class R&D, ii) industry-leading sustained marketing spends, iii) OEM relationship focus (particularly in the fast-growing SUV/EV segments), CEAT has outperformed the industry over the past 5 years across business/financial parameters, emerging as the leader in 2Ws (~33% market share now vs. ~8% in 2011; MRF now at ~25%), and a strong #3 in PCR (~16% share vs 3% in 2011), while also displaying the highest resilience to RM price volatility (has gained gross profit market share over the years). CEAT now targets leadership in PCs/UVs as well, amid a) focused marketing spends, and b) further thrust on higher rim sizes (16"-17" already the largest segment). Bulk of R&D is now geared toward better positioning in areas like US exports and TBR.

Growth accelerating; multiple profitability drivers in place

CEAT posted 9% volume growth in Q1 (6% in FY24) backed by replacement and exports; outlook is improving, with expectation of double-digit replacement growth and continued exports recovery. The ongoing 2W revival and OHT export thrust (expansion under way for 160MT/day vs 105MT/day now) are added growth drivers. Pricing flexibility (aided by a more balanced industry structure), rising demand, and controlled capex (resulting in sustained high utilization levels), and better mix (exports, larger SUV tyres that command 5-8% higher margin) are enabling companies (incl. CEAT) to pass on the rise in RM costs via calibrated hikes (being absorbed in the market, per channel checks).

All-around improvement to continue; initiate with BUY and 31% upside

We build-in 10%/30% revenue/EPS CAGR over FY25E-27E. Healthy profitability growth along with calibrated capex spends (growth over coming 2-3 years to be supported by brownfield) would help further strengthen the balance sheet and boost RoCE to ~19%. Holistic improvement in positioning and financials would drive a re-rating in our view; we initiate coverage on CEAT with BUY and TP of Rs3,650/sh at 17x Sep-26E EPS, with potential upside of 31%.

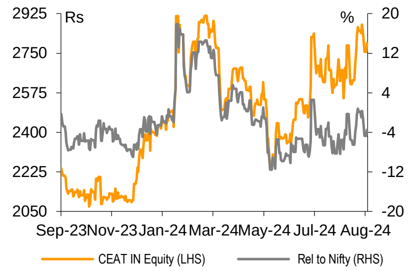
Target Price – 12M	Sep-25
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NOT RATED
Upside/(Downside) (%)	30.6
CMP (02-Sep-24) (Rs)	2,795.7

Stock Data	**Ticker**
52-week High (Rs)	2,998
52-week Low (Rs)	2,055
Shares outstanding (mn)	40.5
Market-cap (Rs bn)	113
Market-cap (USD mn)	1,347
Net-debt, FY25E (Rs mn)	16,081
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	794.5
ADTV-3M (USD mn)	9.5
Free float (%)	52.8
Nifty-50	25,279
INR/USD	83.9
Shareholding, Jun-24	
Promoters (%)	47.2
FPIs/MFs (%)	18.8/17.1

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	4.5	18.6	23.9
Rel. to Nifty	2.2	5.7	(4.7)

1-Year share price trend (Rs)



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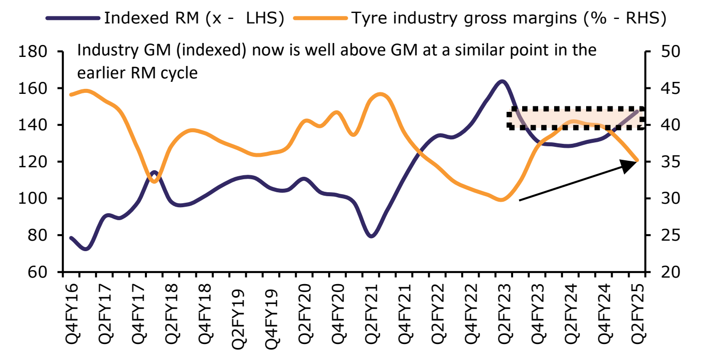
This report is intended for team.emkay@whitemarquesolutions.com use and downloaded at 09/23/2024 11:08 AM

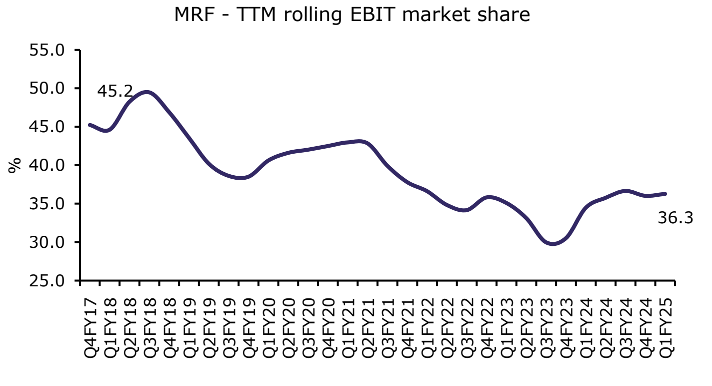
Story in Charts

Exhibit 1: Tyre industry profitability gradually getting de-linked from underlying RMs; gross margins now 4-5pps higher than a similar point in the earlier RM cycle



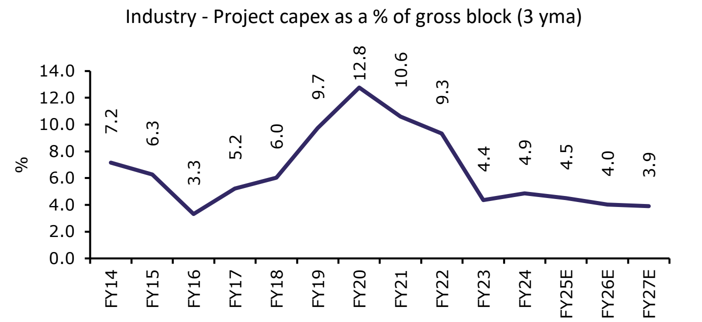
Source: Company, Bloomberg, Emkay Research; Note: Industry = MRF, APTY, JKI and CEAT combined (all standalone basis)

Exhibit 2: MRF's share of the industry profit pool, on the decline



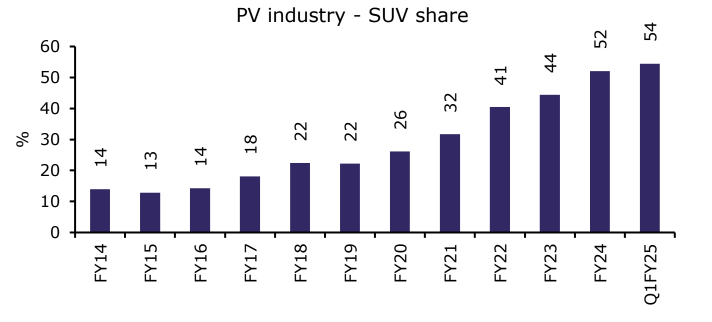
Source: Company, Emkay Research; Note: Comparison vs APTY standalone, CEAT standalone, and JK Tyre India operations

Exhibit 3: Capex intensity in the tyre industry is on the wane



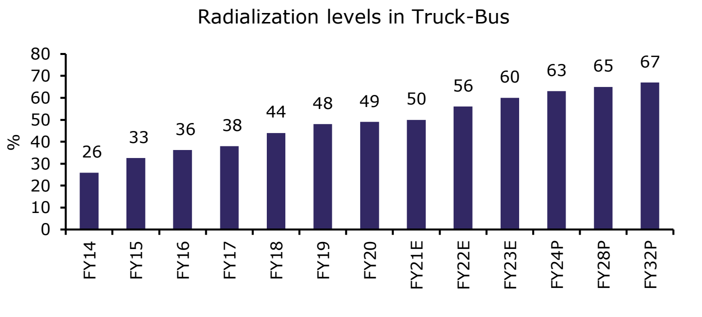
Source: Company, Emkay Research; Note: yma = year moving average

Exhibit 4: Rising SUV penetration to benefit tyre sizes/mix, amid customers increasingly willing to pay for premium performance



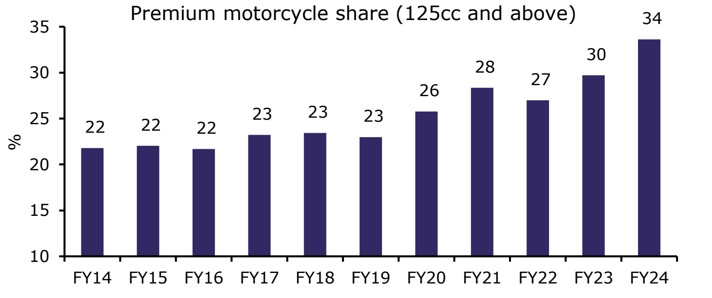
Source: SIAM, Emkay Research

Exhibit 5: In the truck/bus segments, share of radial tyres has grown to ~59% vs ~22%/~44% in FY13/FY18, respectively



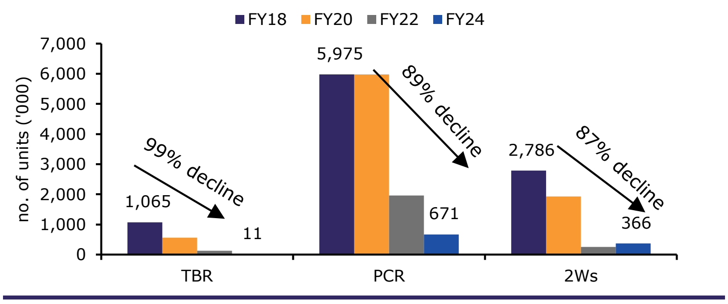
Source: CRISIL (JK Tyre QIP document), Emkay Research

Exhibit 6: Share of premium bikes rising within domestic 2Ws



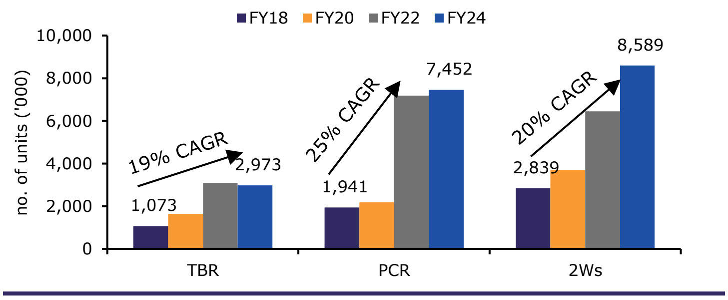
Source: SIAM, Emkay Research

Exhibit 7: Led by the government's import restrictions, TBR and PCR imports have collapsed more than 80% since FY20



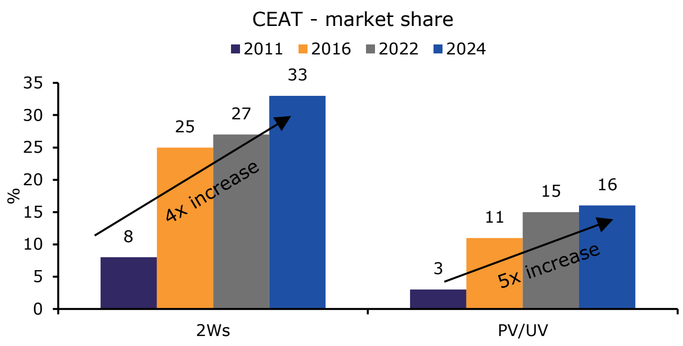
Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 8: Tyre exports from India in key categories have grown multifold since FY18



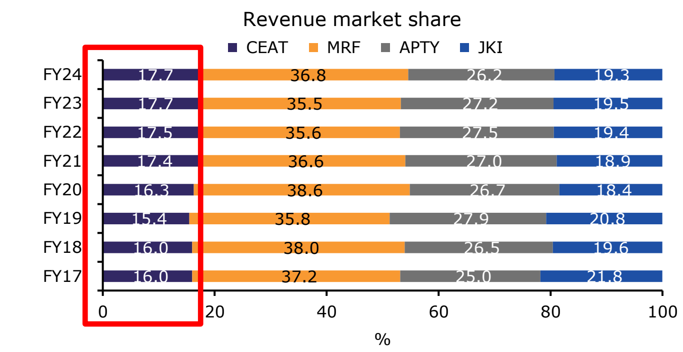
Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 9: CEAT is the leader in 2Ws/3Ws; now targeting leadership in the PC/UV segments



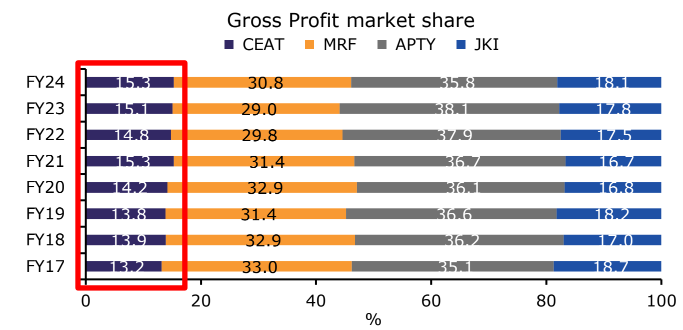
Source: Company, Emkay Research

Exhibit 10: CEAT has gained revenue share vs peers over FY17-24



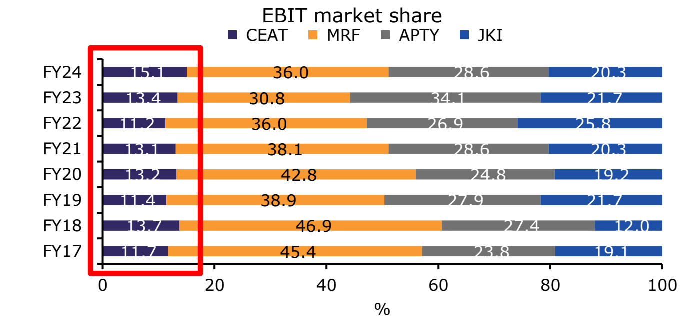
Source: Company, Emkay Research; Note: India operations for JK Tyre, standalone for the rest

Exhibit 11: CEAT's resilience to RM volatility, the highest among peers; has gained gross profit market share over the years



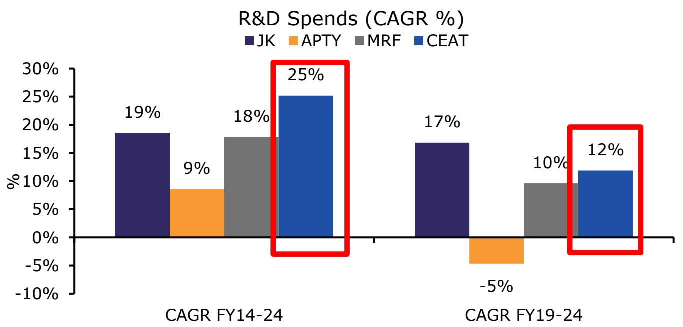
Source: Company, Emkay Research; Note: Consolidated operations for all

Exhibit 12: Company has also improved its EBIT pool share



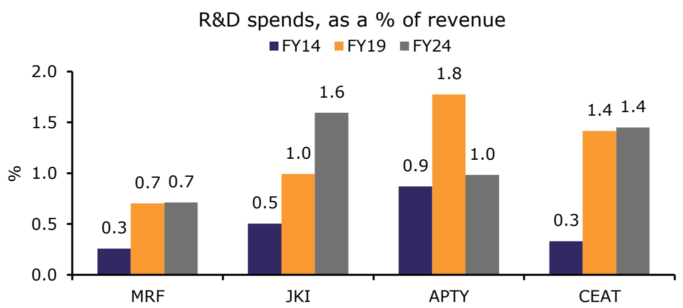
Source: Company, Emkay Research; Note: India operations for JK Tyre, standalone for the rest

Exhibit 13: CEAT – R&D spends among the best-in-class



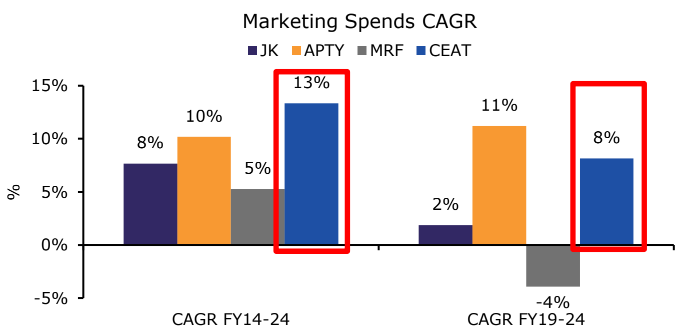
Source: Company, Emkay Research; Note: Standalone operations

Exhibit 14: R&D spends as a % of revenue consistently among the highest



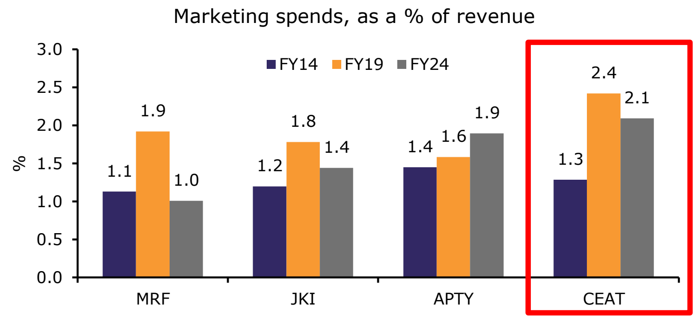
Source: Company, Emkay Research; Note: Standalone operations

Exhibit 15: CEAT – Marketing spends ahead of most peers'



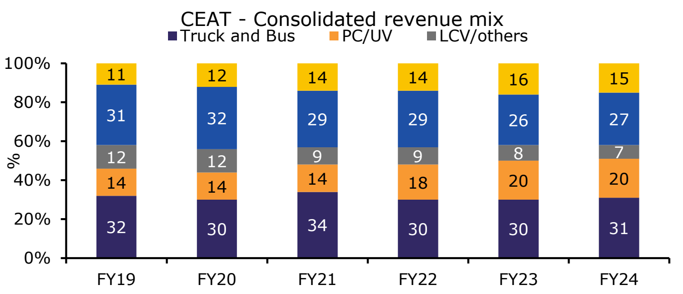
Source: Company, Emkay Research; Note: Standalone operations

Exhibit 16: Marketing spends as a % of sales, the highest



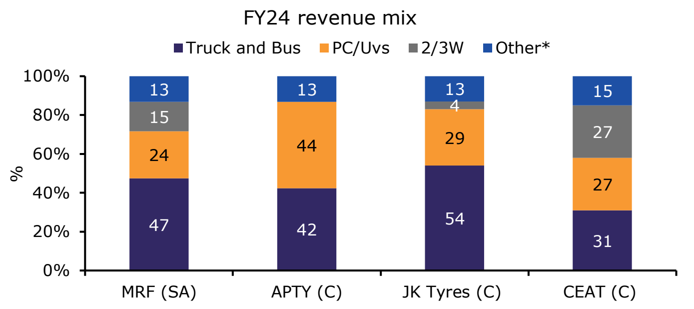
Source: Company, Emkay Research; Note: Standalone operations

Exhibit 17: CEAT – Share of consumer categories (PC/UVs) and Off-highway/speciality revenue, on the rise



Source: Company, Emkay Research; OHT = off highway tyres

Exhibit 18: Other tyre companies have greater exposure to the commercial category (ie CVs)



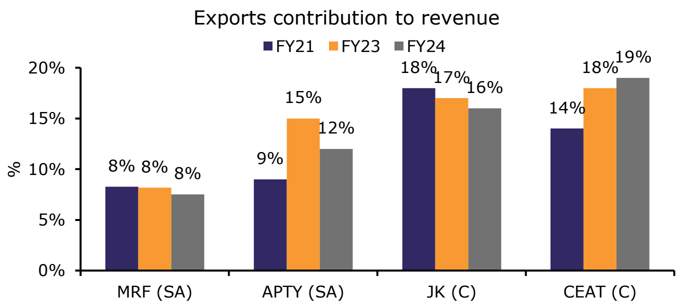
*Source: Company, Emkay Research; Note: *Other includes OHT and Agri tyres mix for MRF is for FY23; C = Consol, SA = Standalone*

Exhibit 19: CEAT is emerging as a leader in 'consumer' categories, and looking to address white spaces in others like TBR and OHT

Segment	Revenue mix (FY24, %)	Current positioning	Market share	Comment	Action plan
2W	27	Market leader	~33%	Has emerged as the leader over the years, with ~4x increase in market share (~8% in 2011)	Enjoys price leadership as well in 2Ws
PCR	20	Number 3 player	~16%	~5x increase in market share (~3% in 2011)	Only marginally behind APTY; now looking to become leader in 2-3 years
Truck-Bus	31	Relatively smaller player	Single-digit	Current capacities fully utilized; expansion underway	Looking to improve positioning; category to receive disproportionate R&D focus
Off Highway	15	Small player	Single-digit	Capacity has grown 2.5x vs 5 years ago	Receiving disproportionate focus including current capacity expansion

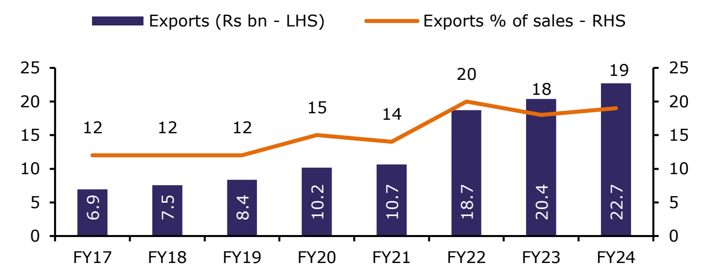
Source: Company, Emkay Research

Exhibit 20: CEAT is ahead of peers, in terms of exposure to exports



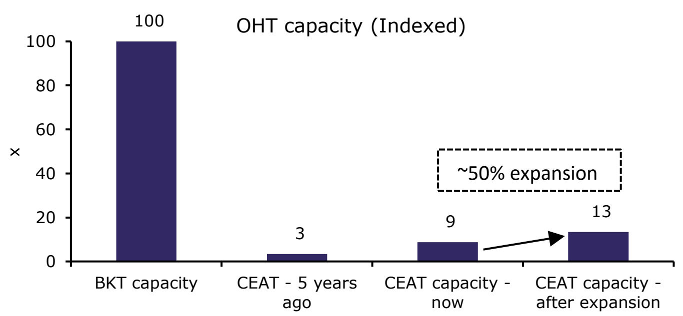
Source: Company, Emkay Research; Note: C = Consolidated, SA = Standalone

Exhibit 21: CEAT targets 25% revenue contribution from exports going forward vs 19% now



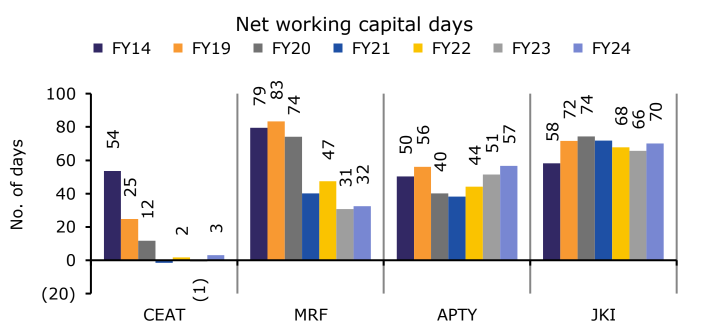
Source: Company, Emkay Research; Note: C = Consolidated, SA = Standalone

Exhibit 22: Company is undertaking ~50% expansion in OHT capacity; would help address the exports opportunity



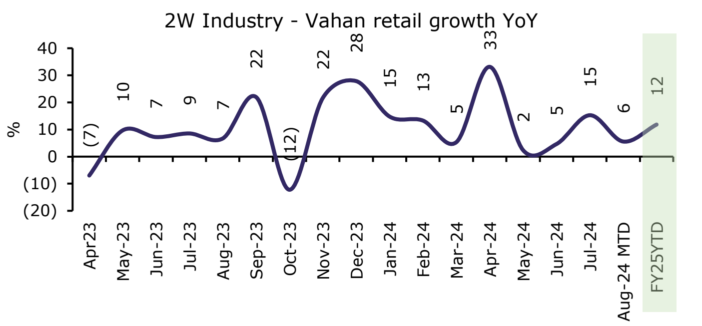
Source: Company, Emkay Research

Exhibit 23: CEAT enjoys a much leaner working capital cycle than tyre peers



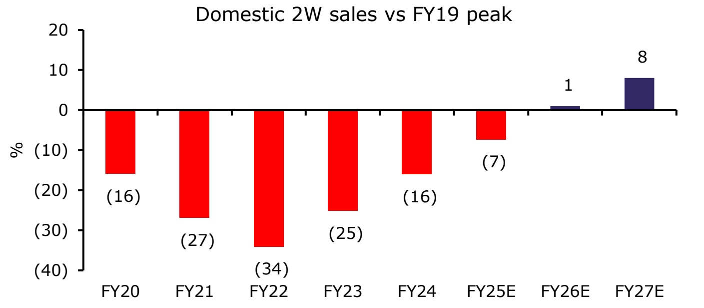
Source: Company, Emkay Research; Note: Consolidated operations for all; net working capital cycle based on revenue

Exhibit 24: Two-wheeler industry retails have started to recover since FY23



Source: Vahan, Emkay Research

Exhibit 25: Domestic 2W industry volumes still 16% below the FY19 peak, as of FY24; offers a 2-3-year replacement-led growth runway



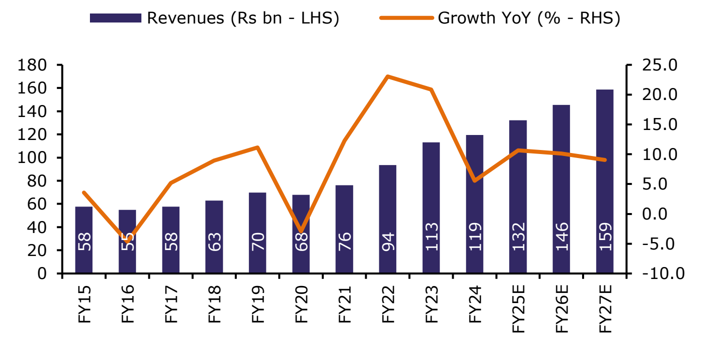
Source: SIAM, Emkay Research

Exhibit 26: Two-wheeler OEMs expect acceleration in growth, led by rural demand revival

OEM	Comment	Source
HMCL (Q1FY25)	"We are optimistic about the growth prospects of the two-wheeler industry…we are seeing an uptick in rural…With the kind of the economic movements that the government has made, with the kind of rainfall that we are seeing even as we get into the festival season, we see a better outlook from rural, so the sentiment is stronger, continues to be so. And we can see that the progress is pretty strong … both across rural and urban. Of course, it's a stronger uptick on rural."	Link
TVSL (Q1FY25)	"The recent budget laid by the Government of India focused on employment generation, continued higher commitment to infrastructure and rural economy. This will add to the present momentum. We are expecting rural to recover. With expected normal monsoon, we could witness robust growth in Q2. For the first time we are seeing rural doing slightly better than the urban. The improving road infrastructure and economic environment will drive the demand for two-wheeler mobility. And two-wheeler has got a huge opportunity in the medium and the long term given … Till 2019 we have seen as CAGR of close to 10%. I am of the view that medium to long term, that kind of growth you can see. Currently, first quarter was 13%, this year could be more than 10%."	Link
BJAUT (Q1FY25)	"The industry outlook…we think it should be 6% to 8%. And the top half the 125cc plus segment will grow much faster."	Link

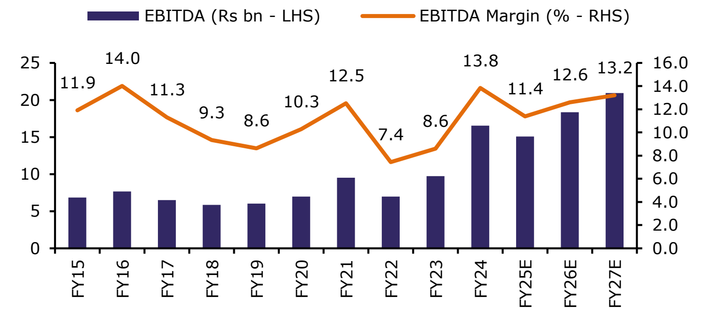
Source: Company, Emkay Research

Exhibit 27: We build-in 10% revenue CAGR over FY24-27E



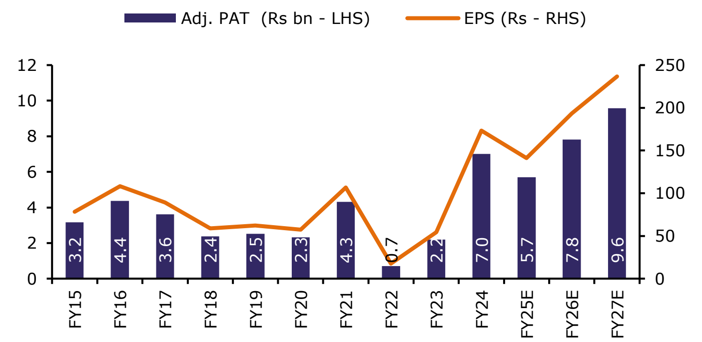
Source: Company, Emkay Research

Exhibit 28: We expect margins to recover after an RM-led dip in FY25E



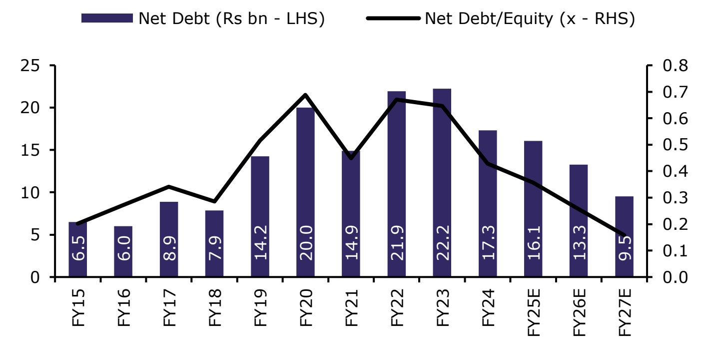
Source: Company, Emkay Research

Exhibit 29: We expect 30% EPS CAGR over FY25E-27E



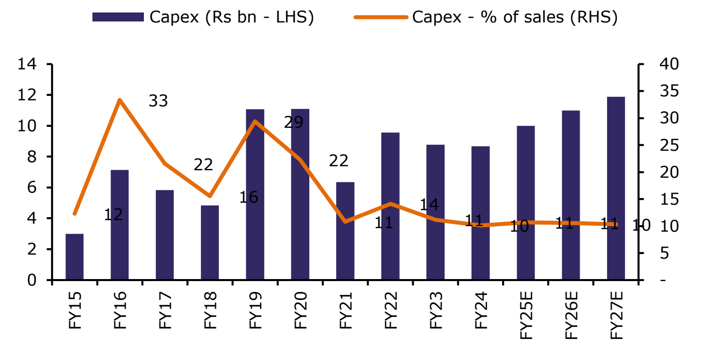
Source: Company, Emkay Research

Exhibit 30: Net D/E to continue improving over FY24-27E



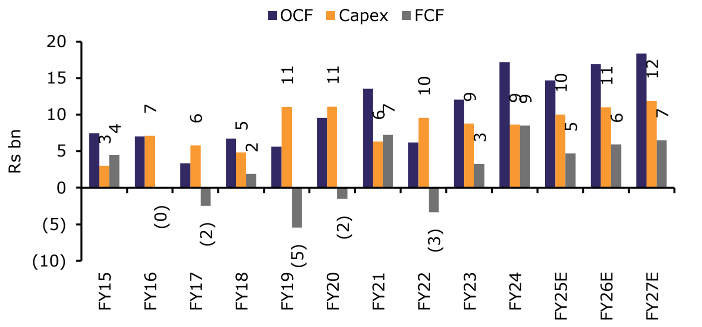
Source: Company, Emkay Research

Exhibit 31: Capex intensity on the decline



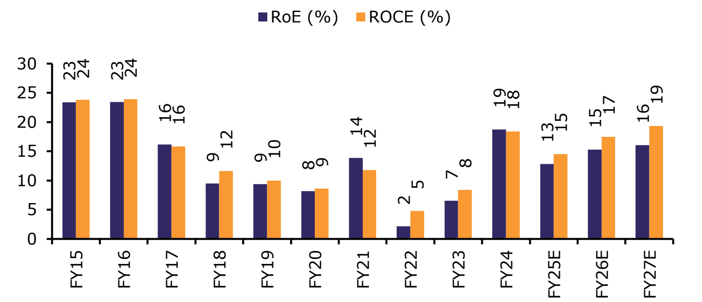
Source: Company, Emkay Research

Exhibit 32: Controlled capex to drive cash-flow generation; we expect cumulative FCF generation of ~Rs17bn over FY25E-27E



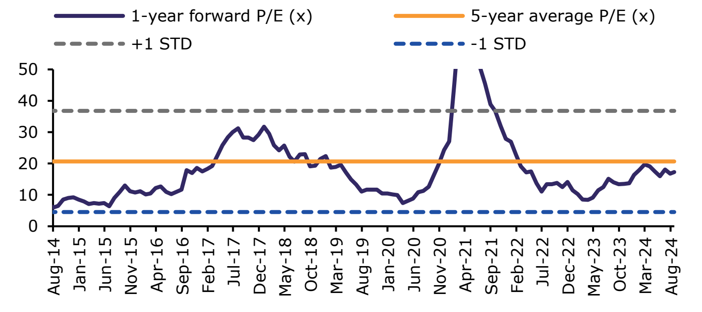
Source: Company, Emkay Research

Exhibit 33: RoCE expected to touch ~19% by FY27E



Source: Company, Emkay Research

Exhibit 34: CEAT currently trades below its LTA on 1YF basis



Source: Bloomberg, Emkay Research

Exhibit 35: Valuation comparison — Domestic and global peers

Company name	P/E (x)			EV/EBITDA (x)			ROE (%)			Adj PAT CAGR
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY24-FY27E
Indian companies										
APTY	17.3	14.5	12.9	7.7	6.6	5.6	12.5	13.5	13.5	11%
BIL	34.0	27.7	23.7	21.4	17.7	15.2	17.3	18.6	18.9	14%
MRF	30.4	24.9	21.8	13.1	11.0	9.9	10.6	11.7	11.9	8%
CEAT	19.8	14.5	11.8	8.7	7.0	6.0	13.4	16.2	17.2	11%
JKI	10.1	8.5	7.5	6.3	5.5	4.9	21.1	20.8	20.0	19%
Average	**23.9**	**19.6**	**17.0**	**11.5**	**9.8**	**8.6**	**13.7**	**14.8**	**15.0**	**12%**
Global companies	**CY24**	**CY25**	**CY26**	**CY24**	**CY25**	**CY26**	**CY24**	**CY25**	**CY26**	**CY23-CY26E**
Bridgestone	10.7	9.8	9.2	5.1	4.8	4.5	10.5	10.4	10.7	7%
Goodyear	8.4	5.9	4.8	4.9	4.6	4.3	6.5	9.4	10.3	112%
Michelin	10.5	9.7	8.9	5.4	5.1	4.9	12.8	13.2	13.6	13%

Source: Bloomberg, Emkay Research; Note: Bloomberg consensus estimates, except for CEAT, APTY, and JKI

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Initiate coverage with BUY; 31% upside

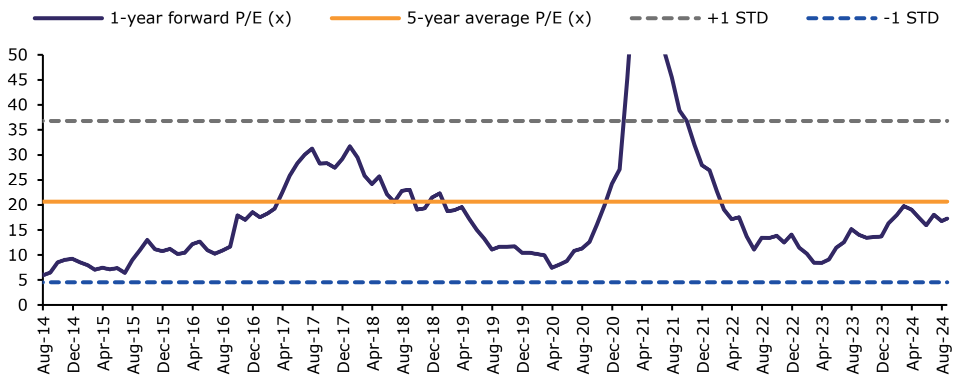
- **Tyre profitability gradually getting delinked vs RM on structural transformation:** While the street is concerned about tyre industry margins due to persistent RM inflation over the past 6 months, our analysis points to gradual de-linking of tyre profitability vs underlying RM movement, visible in gross margins now being ~4-5% higher than at corresponding similar RM level 2 years ago (refer Exhibit 1). We believe this is on account of structural transformation underway in the tyre space, in the form of a) a more balanced industry structure (dilution in dominance of MRF; refer Exhibit 2), b) focus on capital discipline with calibrated capex plans (unlike lumpy spends of the past), c) premiumization trend (eg SUV-shift in PVs, rising radialization in Truck-Bus), d) GoI thrust on local production (import restrictions levied in CY20 continue; CVD extended by 5 years), and e) emerging export opportunity (China +1, higher focus by Indian players).
- **CEAT: Consistent outperformer; focused actions driving improved positioning:** Led by its thrust on i) best-in-class R&D, ii) industry-leading sustained marketing spends, iii) OEM relationship focus (particularly in the fast-growing SUV/EV segments), CEAT has outperformed the industry over the past 5 years across business/financial parameters, emerging as the leader in 2Ws (~33% market share now vs. ~8% in 2011; MRF now at ~25%), and a strong #3 in PCR (~16% share vs. 3% in 2011) – while also displaying the greatest resilience to RM volatility (has gained gross profit market share over the years). CEAT now targets leadership in PCs/UVs as well, amid a) focused marketing spends, and b) further thrust on higher rim sizes (16”-17” already the largest segment). Bulk of R&D is now geared toward better positioning in areas like US exports and TBR.
- **Growth accelerating; multiple profitability drivers in place:** CEAT posted 9% volume growth in Q1 (6% in FY24) backed by replacement and exports; outlook is improving, with expectation of double-digit replacement growth and continued exports recovery. The ongoing 2W revival and OHT export thrust (expansion under way for 160MT/day vs 105MT/day now) are added growth drivers. Pricing flexibility (aided by a more balanced industry structure), rising demand, and controlled capex (resulting in sustained high utilization levels), and better mix (exports, larger SUV tyres that command 5-8% higher margin) are enabling companies incl. CEAT to pass on the rise in RM costs via calibrated hikes (being absorbed in the market, per channel checks).
- **All-around improvement to continue; initiate with BUY; 31% upside:** We build-in 10%/30% revenue/EPS CAGR over FY25E-27E. Healthy profitability growth along with calibrated capex spends (no greenfield over coming 2-3 years) would help further strengthen the balance sheet and boost the RoCE to ~19%. Holistic improvement in positioning and financials would drive a re-rating in our view; we initiate coverage on CEAT with BUY and TP of Rs3,650/share at 17x Sep-26E EPS, with potential upside of 31%.

Exhibit 36: We build-in 10%/30% CAGR in consolidated revenue/EPS, respectively, over FY25E-27E

(Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Revenue	**62,834**	**69,845**	**67,788**	**76,096**	**93,634**	**113,149**	**119,435**	**132,190**	**145,556**	**158,707**
Growth YoY (%)	9.0	11.2	-2.9	12.3	23.0	20.8	5.6	10.7	10.1	9.0
EBITDA	5,871	6,026	6,970	9,522	6,969	9,738	16,523	15,070	18,340	20,949
EBITDA margin (%)	**9.3**	**8.6**	**10.3**	**12.5**	**7.4**	**8.6**	**13.8**	**11.4**	**12.6**	**13.2**
EBIT	4,185	4,099	4,205	6,125	2,617	5,045	11,434	9,346	11,841	13,757
EBIT margin (%)	6.7	5.9	6.2	8.0	2.8	4.5	9.6	7.1	8.1	8.7
Interest	1,036	929	1,539	1,788	2,070	2,421	2,691	2,235	1,932	1,541
PBT	3,673	3,762	3,043	4,839	949	2,793	8,941	7,311	10,110	12,420
Tax rate (%)	36	33	24	11	26	26	25	25	25	25
PAT	2,380	2,522	2,312	4,320	712	2,196	7,009	5,704	7,821	9,574
PAT margin (%)	3.8	3.6	3.4	5.7	0.8	1.9	5.9	4.3	5.4	26
EPS (Rs)	**59**	**62**	**57**	**107**	**18**	**54**	**173**	**141**	**193**	**237**
Capex	3,943	11,770	14,488	6,180	9,754	8,406	7,713	10,000	11,000	11,886
% of sales	6.3	16.9	21.4	8.1	10.4	7.4	6.5	7.6	7.6	7.5
Net debt	7,854	14,245	20,008	14,894	21,926	22,236	17,324	16,081	13,278	9,517
Net D/E (x)	0.3	0.5	0.7	0.4	0.7	0.6	0.4	0.4	0.3	0.2
FCF	1,885	(5,459)	(1,536)	7,230	(3,369)	3,276	8,525	4,692	5,948	6,515
ROCE (pre-tax, %)	**11.6**	**10.0**	**8.6**	**11.8**	**4.8**	**8.4**	**18.4**	**14.5**	**17.5**	**19.3**
ROE (%)	**9.5**	**9.4**	**8.2**	**13.9**	**2.2**	**6.5**	**18.7**	**12.7**	**15.2**	**16.0**

Source: Company, Emkay Research

Exhibit 37: CEAT currently trades below its long-term average on one-year forward basis



Source: Bloomberg, Emkay Research

Exhibit 38: Valuation comparison — Domestic and global peers

Company name	P/E (x)			EV/EBITDA (x)			ROE (%)			Adj PAT CAGR
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY24-FY27E
Indian companies										
APTY	17.3	14.5	12.9	7.7	6.6	5.6	12.5	13.5	13.5	11%
BIL	34.0	27.7	23.7	21.4	17.7	15.2	17.3	18.6	18.9	14%
MRF	30.4	24.9	21.8	13.1	11.0	9.9	10.6	11.7	11.9	8%
CEAT	19.8	14.5	11.8	8.7	7.0	6.0	13.4	16.2	17.2	11%
JKI	10.1	8.5	7.5	6.3	5.5	4.9	21.1	20.8	20.0	19%
Average	**23.9**	**19.6**	**17.0**	**11.5**	**9.8**	**8.6**	**13.7**	**14.8**	**15.0**	**12%**
Global companies	**CY24**	**CY25**	**CY26**	**CY24**	**CY25**	**CY26**	**CY24**	**CY25**	**CY26**	**CY23-CY26E**
Bridgestone	10.7	9.8	9.2	5.1	4.8	4.5	10.5	10.4	10.7	7%
Goodyear	8.4	5.9	4.8	4.9	4.6	4.3	6.5	9.4	10.3	112%
Michelin	10.5	9.7	8.9	5.4	5.1	4.9	12.8	13.2	13.6	13%

Source: Bloomberg, Emkay Research; Note: Bloomberg consensus estimates, except for CEAT, APTY, and JKI

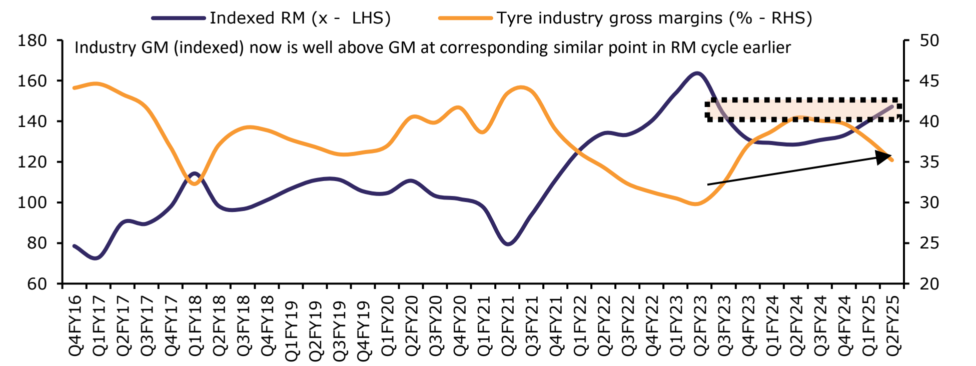
Tyre profitability getting de-linked from RM price volatility amid ongoing structural transformation

- **While the street is concerned about tyre industry margins due to persistent RM price inflation over the past 6 months, our analysis points to gradual de-linking of tyre profitability from the underlying RM price movement, visible in gross margins now ~4-5% higher than the corresponding RM level 2 years ago.**
- **We believe this is on account of the structural transformation under way in the tyre space, in the form of i) a more balanced industry structure (dilution in dominance of MRF), ii) focus on capital discipline with calibrated capex plans (unlike lumpy spends of the past), iii) premiumization trend (eg SUV-shift in PVs, rising radialization in Truck-Bus), iv) GoI thrust on local production (import restrictions levied in CY20 continue; CVD extended by 5 years), and v) emerging export opportunity (China +1, higher focus by Indian players).**

[A] Profitability gradually delinking from underlying RM price movements

- Unlike in the past when margins have tended to be dictated by commodity price movements, we note that profitability levels have displayed greater resilience in the current RM cycle; we note that gross margins for the tyre industry are now ~4-5% higher than the earlier corresponding stage in the RM cycle.
- Domestic rubber prices have surged ~50% in the past six months (having cooled slightly in recent weeks), and international rubber prices are at a fresh-high; however, brent crude prices are ~11% below the recent peaks. Further, CEAT expects potential easing of rubber prices post Q3FY25 which, combined with a) the recent price increases, b) reasonably-high capacity-utilization rates (75-80%, or higher for most players), and c) continued demand recovery (especially on the replacement front), would help protect margins after the usual lag in pass-through, in our view.

Exhibit 39: Tyre industry profitability gradually getting de-linked from underlying RM price movement



Source: Company, Bloomberg, Emkay Research; Note: Industry = MRF, APTY, JKI and CEAT combined (all standalone basis)

CEAT has hinted at growing pricing independence in the tyre industry

*"**The pricing…is not totally 100% dependent on competition as it used to be some 5-7 years back.** There is some degree of pricing in demand that is possible. There is some degree of net share movements also that are possible. But individual players decide on their relative strengths and take those calls. **So it has played out over the last 7- 8 quarters, and it will play out in the future as well.**"*

"When I say independent, it is increasingly independent, let's say, over the last 4 years-5 years. And this is an industry phenomena. It's not just about CEAT"

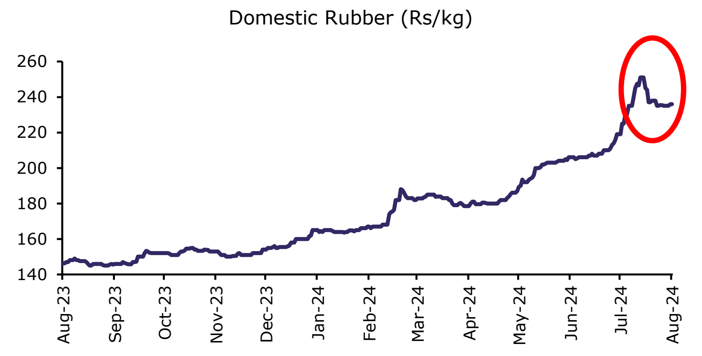
– Comments by Arnab Banerjee, MD & CEO, CEAT, (*link*) and (*link*)

Exhibit 40: Tyre companies have been taking regular and gradual price increases, to pass on the spike in RM costs

	CEAT	APTY	MRF	JKI
Q1FY25	~1.5% in replacement in Apr-24 across categories	Up to 3% blended price increase, including that for EPR		1.5-2.0% across categories
Q2FY25	- TBR replacement: 2.4% (FY25 till July); PC segment: 2.5-3.0% (FY25 till July); 2W replacement: 1%; also seeing ~2% indexation benefit in OEM category in Q2	~1% taken in Q2	2% in TBB, 5% in PCR, and 5% in Farm	Taken a 1.0-1.5% price increase till July
	- Expects that further 2-3% increases would be needed to cover RM price inflation in Q1 and Q2	**- Would require ~4% hike to counter the increase in RM prices till Q2**	**- As per channel checks, a 2W price hike of ~1.0-1.5% has been recently taken; one more round of hikes expected in Sep-24, if RM prices do not correct**	**Assessing another increase for balance Q2**

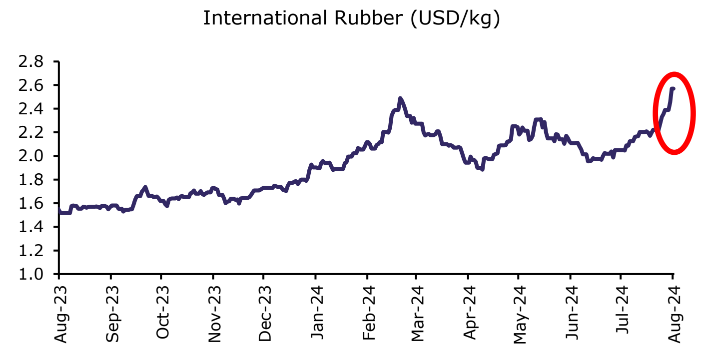
Source: Company, Emkay Research

Exhibit 41: Domestic rubber has recently seen marginal cooling



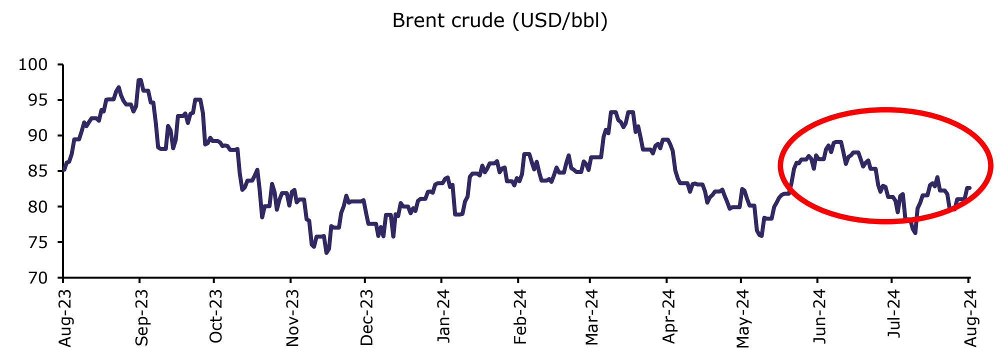
Source: Bloomberg, Emkay Research

Exhibit 42: International rubber prices are at a fresh high



Source: Bloomberg, Emkay Research

Exhibit 43: Crude oil prices are 11% below the recent peak

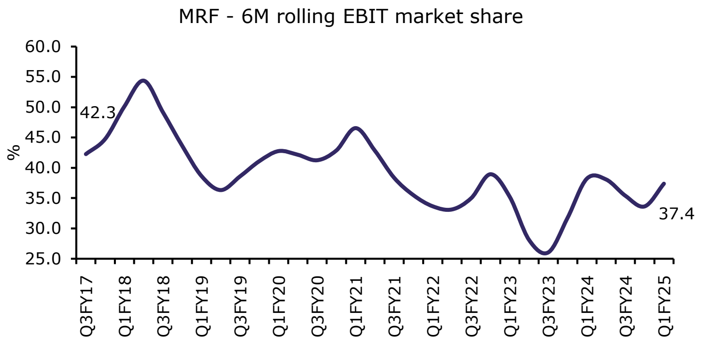


Source: Bloomberg, Emkay Research

[B] Tyre industry competitive structure becoming more balanced

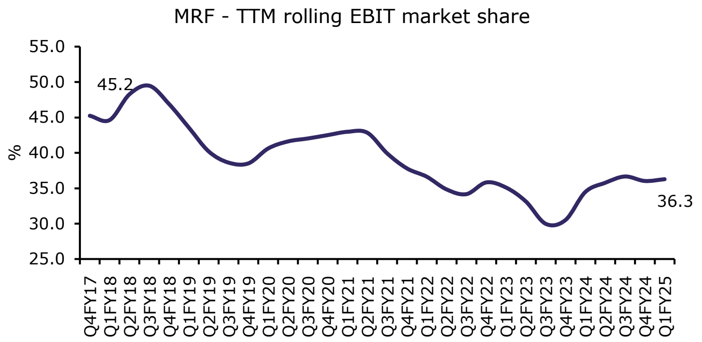
- The domestic tyre industry structure has become more balanced over the past 5-7 years, amid consistent improvement in performance of Indian companies across product quality/technology/performance as well as positioning, as reflected in their higher revenue and profit pool share, stronger balance sheets across the board, as well as reduced gap in pricing, per our extensive channel checks. Moreover, among domestic manufacturers, performance and positioning of players other than the market leader (i.e., MRF) have also been improving. Emergence of local leaders (eg CEAT in 2/3Ws) has enabled greater independence in pricing actions.

Exhibit 44: MRF's EBIT market share substantially below the peak



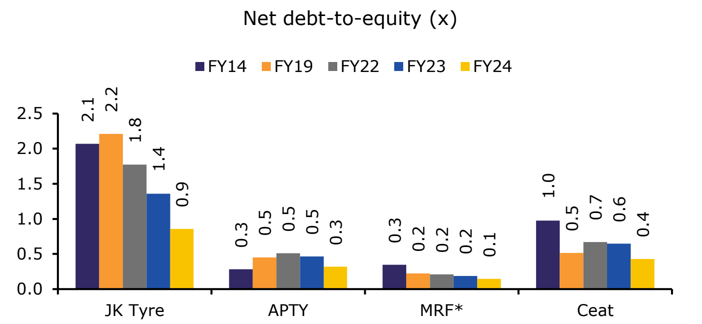
Source: Company, Emkay Research; Note: Comparison vs APTY standalone, CEAT standalone, and JK Tyre India operations

Exhibit 45: MRF's share of industry profit pool is on the decline



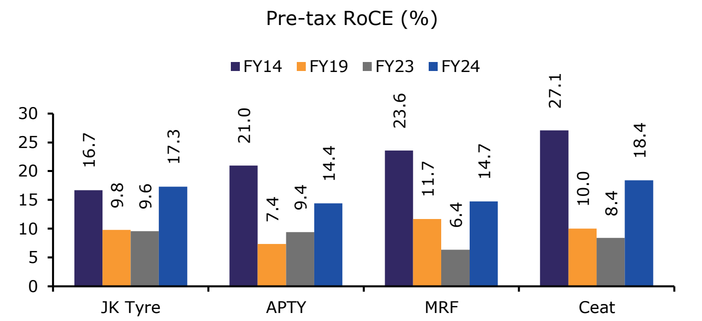
Source: Company, Emkay Research; Note: Comparison vs APTY standalone, CEAT standalone, and JK Tyre India operations

Exhibit 46: Leverage ratios in the Indian tyre space have improved substantially over the past 5 years



Source: Company, Emkay Research; Note: Consolidated operations

Exhibit 47: Sharp improvement in RoCE amid higher profitability and controlled capex spends in the past few years

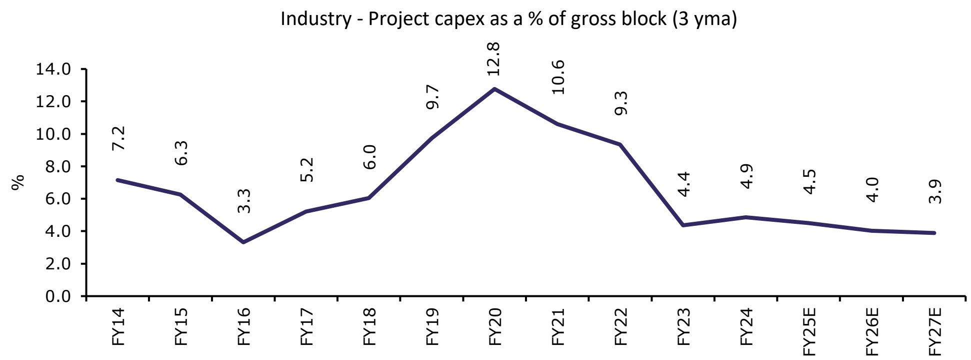


Source: Company, Emkay Research

[C] Calibrated capex approach in the tyre industry, unlike the past

- We note that unlike past cycles, capacity additions across the space now are controlled/calibrated, with a tendency to prioritize brownfields/de-bottlenecking over large-ticket greenfield expansions amid a general focus on improving profitability, cash generation and return ratios. Leading players have indicated small capacity additions targeted for specific white spaces.
- This is resulting in reducing capex intensity (also on account of the company scale improving over the years); based on our estimates, industry project capex as a proportion of gross block is seen as stable, at ~4% over FY25E-27E vs the highs of 10-12% in FY19-21, which was when the last major greenfield projects were announced.
- With limited incremental capacity additions in store, current high utilizations (75-80% across categories) would inch up further, driving continued pricing discipline.

Exhibit 48: Tyre industry's capex intensity is seen stabilizing going forward



Source: Company, Emkay Research; Note: Industry = MRF, JK, APTY, and CEAT (all standalone)

Unlike the past, no major greenfield additions are being planned by tyre players; increased focus on debottlenecking and improving balance sheet strength

*"The expansion projects are all on plan. **And we want to reiterate our strategy of doing bite-size capex every year**, which will help us to maintain a steady growth while maintaining the financial ratios."*

– Arnab Banerjee, MD & CEO, CEAT (comments in Q3FY24): (*link*)

*" …We've been mentioning in the same forum about AI and machine learning and the enhancement we are doing through these tools on productivity increases in all our PCR plants. And we believe that we could look at close to a 10% to 15% increase in productivity from the current equipments that are already in the plants through AI and machine learning. And that's our target that we are taking**. So, any growth that is coming, first, we will look at a Capex-light model, which is investments in technology and in digital, and then only go for these small expansions**…"*

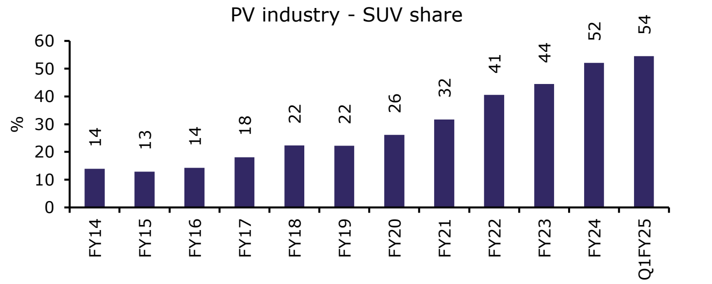
*"…but a small amount is budgeted, which will lay the foundation for a capacity that we need in FY27. **We are well covered for FY25 and FY26**."*

– APTY management (comments in Q4FY24): (*link*)

[D] Tyres to benefit from premiumization trends in underlying industries

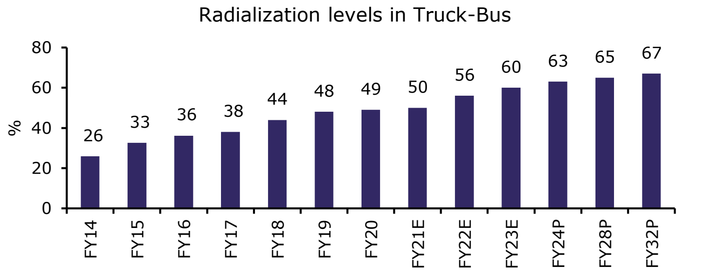
- Premiumization is under way across all underlying vehicle segments (eg SUVs now form ~54% of PV industry volumes vs ~22% as of FY18; 'radialization' levels in the Truck-Bus segment now estimated at ~60% vs ~44%/~26% five/ten years ago; share of category 125cc & above motorcycles in domestic 2Ws now at 34% vs a stable ~22% over FY14-19) – pointing to improving willingness by customers to pay for performance/features, etc (shift away from focus on just costs, including toward 'cost/km' in case of CVs).
- Upgrades in tyre sizes/technology pursuant to premiumization and resulting improved product mix for tyre companies would contribute towards structurally lifting profitability (eg larger SUV tyres command 5-8% higher pricing for CEAT).

Exhibit 49: Rising SUV penetration to benefit tyre sizes/mix, amid customers increasingly willing to pay for premium performance



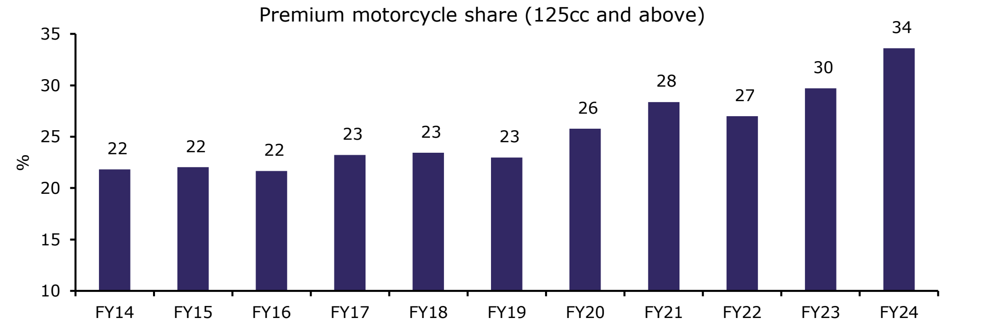
Source: SIAM, Emkay Research

Exhibit 50: In the truck/bus segments, share of radial tyres has grown to ~59% vs ~22%/~44% in FY13/FY18, respectively



Source: CRISIL (JK Tyre QIP), Emkay Research

Exhibit 51: Share of premium motorcycles in domestic 2Ws has been rising



Source: SIAM, Emkay Research

Tyre product mix has been improving structurally over the years

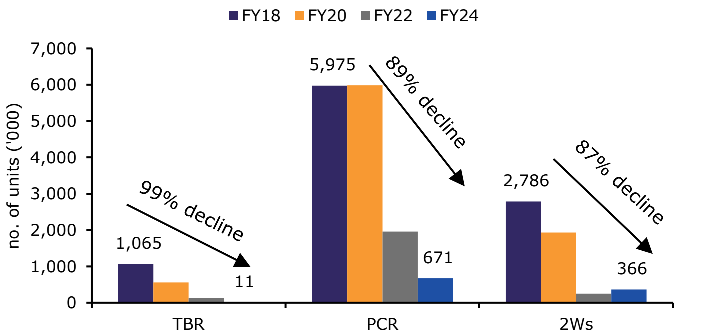
"But 10 years back, 12 inch was the largest selling size which was about 30% of our portfolio. It then moved to 13 inch. Currently, within our portfolio, 14 inch is the largest selling by diameter. And the 12, 13 inch, which used to be almost 50% would now be lower than 25% as a broad indicator."

– APTY management (comments in Q3FY24) (link)

[E] Local manufacturing thrust, improving export competitiveness are expanding addressable market

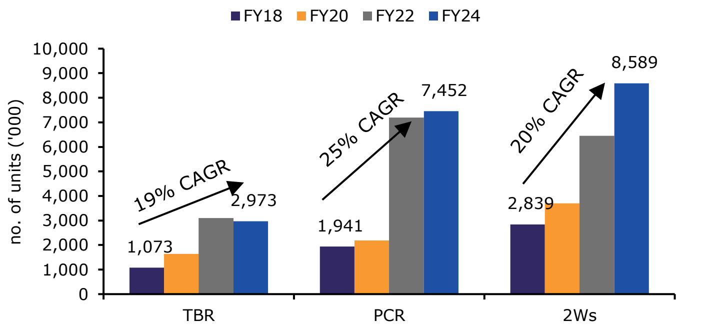
- With a view to protect the domestic auto industry, the government: i) imposed an anti-dumping duty (ADD) on certain TBR tyre imports from China over 2017-22; and ii) placed imports of tyres belonging to certain segments in the 'Restricted' category' (vs. 'Free' category earlier) from Jun-20, thereby helping improve the demand and profitability prospects of Indian manufacturers over the past 5 years. Imports, which formed a sizable ~13% of the domestic consumption in FY18 in key categories like TBR and PCR, now stand reduced to ~1-2%.
- Concurrent to the period of import protection, the industry has been able to clock healthy double-digit CAGR in exports over FY19-24. This points to enhanced global competitiveness and positioning, driven by increasing adoption of 'China +1' (incl anti-dumping and countervailing duties on Chinese/other Asian tyres by various global economies), India's inherent cost advantage, market seeding efforts by major players, as well as improvement in product quality of tyres, courtesy investments in newer technologies like radials as evidenced by developed economies like USA (19%), Germany (7%), UK (4%), and France (4%) being among the top importers of Indian tyres. Industry body Automotive Tyre Manufacturers' Association (ATMA) expects India's share in the global tyre trade to double to ~6% by 2030. (*refer to* link)

Exhibit 52: Led by the GoI's import restrictions, TBR and PCR imports have collapsed more than 80% since FY20



Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 53: Tyre exports from India in key categories have grown multifold since FY18



Source: Ministry of Commerce and Industry, Emkay Research

Exhibit 54: Types of imported tyres placed under the 'Restricted' category since Jun-2020 by the GoI

ITC HS Code	Item description	Existing policy	Revised policy
40111010	Of a kind used on motor cars (including station wagons and racing cars): Radials	Free	Restricted
40111090	Of a kind used on motor cars (including station wagons and racing cars): Other	Free	Restricted
40112010	Of a kind used on buses and lorries: Radials	Free	Restricted
40112090	Of a kind used on buses and lorries: Other	Free	Restricted
40114010	Of a kind used on motorcycles: For motorcycles	Free	Restricted
40114020	Of a kind used on motorcycles: For scooters	Free	Restricted
40114090	Of a kind used on motorcycles: Other	Free	Restricted
40115010	Of a kind used on bicycles: Multi-cellular Polyurethane (MCP) tubeless Tyres	Free	Restricted
40115090	Of a kind used on bicycles: Other	Free	Restricted

Source: Ministry of Commerce & Industry, Emkay Research

In Jun-20, the Government had moved tyre imports from the 'free' to the 'restricted' category, with a view to protect the domestic industry

"What we are trying to do is make sure our domestic industry gets a fair play. How can it be that one country does not allow tyres to be exported to them but wants free imports of tyres from that country into India? There has to be equal, fair and reciprocal arrangement. If other countries are desirous of 1.3 billion- Indian market opportunity, they will also have to give our country's businesses equal opportunity to engage in their countries. They can't put overarching technical barriers or overarching regulations on our products and then complain if we put any standards in our country"

– Piyush Goyal, Minister of Commerce & Industry (comments in 2020) (link)

[F] Move toward becoming more of a consumer play to reduce volatility in tyre financials

- We believe the rising de-linkage with underlying RMs puts the Indian tyre space on a path toward gradually becoming more of a consumer play (vs. its current status of a 'reverse commodity' play). This, in our view, would help reduce volatility in financial performance and impart increasing consistency over coming years (akin to stability seen in global players like Michelin).

Exhibit 55: Michelin – Consistency in profitability, cash generation, return ratios over decades

€ mn	CY04	CY08	CY13	CY18	CY23
Revenue	15,048	16,408	20,247	22,028	28,343
Gross Profit	4,836	4,384	6,406	6,511	7,948
Gross margin (%)	**32.1**	**26.7**	**31.6**	**29.6**	**28.0**
EBITDA	2,039	1,847	3,025	3,894	4,569
EBITDA margin (%)	**13.5**	**11.3**	**14.9**	**17.7**	**16.1**
Free Cash Flow	277	(374)	1,247	1,316	3,251
Return On Capital Employed (%)	**—**	**5.7**	**9.2**	**11.4**	**11.6**
Return on Common Equity (%)	**16.5**	**6.9**	**12.7**	**14.2**	**11.3**

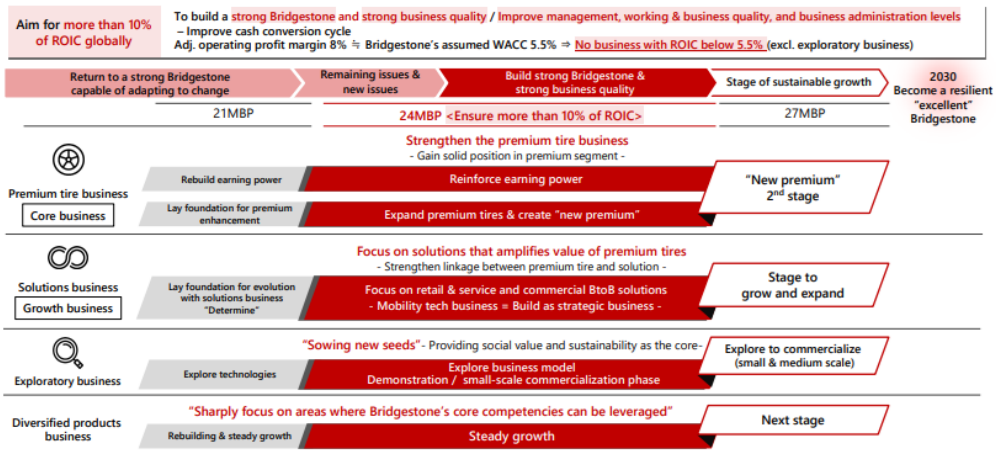
Source: Company, Emkay Research

Global tyre players also remain focused on profitability

"…ensuring a focus on premium, rather than pursuing overall sales volume, such as reduction of unprofitable business"

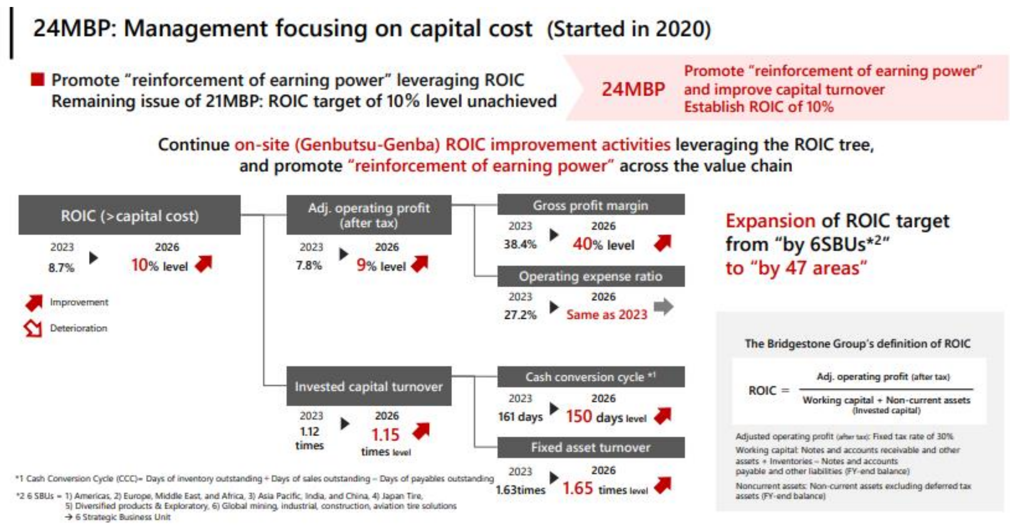
– Bridgestone, in its Jan-24 earnings call

Exhibit 56: Bridgestone (global) is focused on profitability as against growth; would minimize exposure to low return (below 5.5% RoIC) businesses



Source: Company, Emkay Research

Exhibit 57: It aims to improve operating profit margins to 9% by 2026 vs 7.8% in 2023



Source: Company, Emkay Research

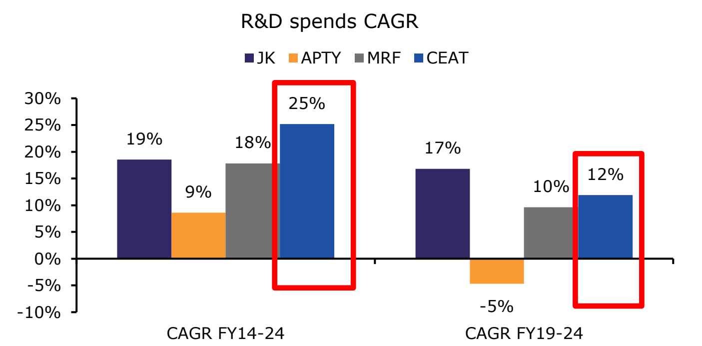
CEAT: 2W/3W market leader, now targets leadership in cars/UVs

- **CEAT, led by its thrust on best-in-class R&D and industry-leading sustained marketing spends, together with focus on building OEM relationships (particularly in fast-growing SUV/EV segments), has outperformed the industry over the past 5 years across business/financial parameters, with particular improvement seen in the consumer-facing segments.**
- **It has emerged as the leader in 2Ws (~33% market share now vs. ~8% in 2011; MRF now at ~25%) and as a strong #3 in PCRs (~16% market share now vs. ~3% in 2011; now marginally behind APTY).**
- **Moreover, this has been achieved while also displaying the greatest resilience to RM volatility among peers (has gained gross profit market share over the years).**
- **CEAT now targets leadership in PCs/UVs as well, amid a) focus on marketing spends as an enabling investment, and b) further thrust on higher rim sizes (16"-17" already the largest product segment; product range covers over 95% of super-premium cars in the replacement segment).**
- **Bulk of R&D spends are now geared toward product development targeting improved positioning in areas like TBR and exports (particularly to USA; currently strong in Europe, Latin America).**

[A] Best-in-class focus on R&D/innovation and marketing

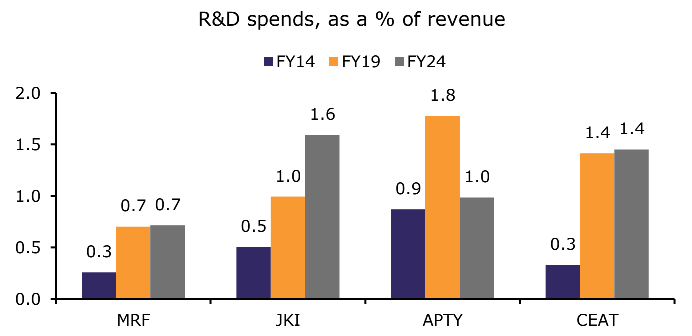
- CEAT has maintained strong thrust on innovation, reflected in a) the industry-leading R&D spends (25% CAGR over FY14-24; spends as a % of revenue also among the highest among peers), and b) ~5x growth in the SKU-count in the past 5 years (in part driven by increased focus on OHT, which is a high variety-low volume category).
- Similarly, the company has also consistently been ahead of peers with regard to marketing spends (eg decade-long association with 'Strategic Timeout' in the Indian Premier League (IPL); FY14-24 marketing spends CAGR at 13% is ahead of competition's).
- CEAT's fresh positioning—'Crafted for the Curious'—is representative of a growing segment of consumers that prioritizes aspects like exploration and discovery over mere transportation.

Exhibit 58: CEAT's R&D spends have been among the best-in-class



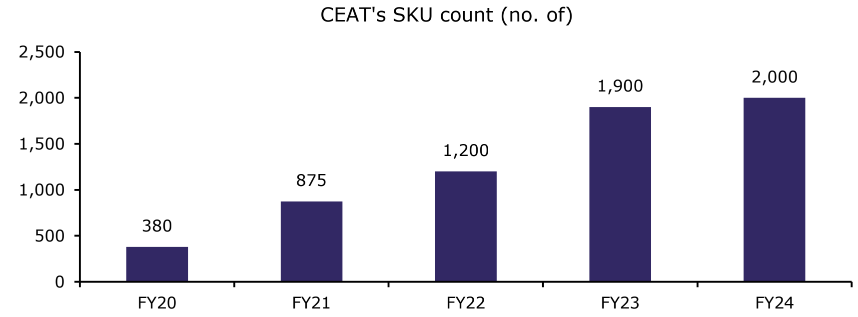
Source: Company, Emkay Research; Note – standalone operations

Exhibit 59: CEAT's R&D spends one of the highest among peers



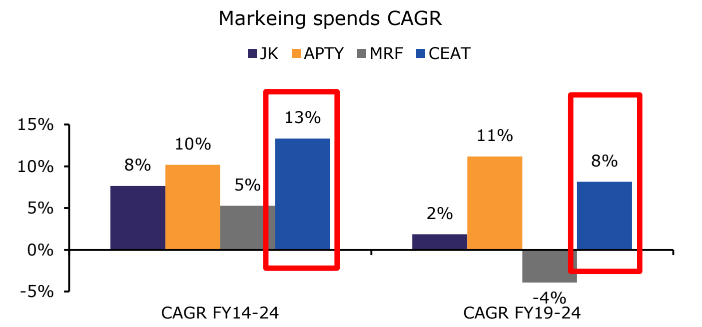
Source: Company, Emkay Research; Note – standalone operations

Exhibit 60: Company has been making significant additions to its SKUs



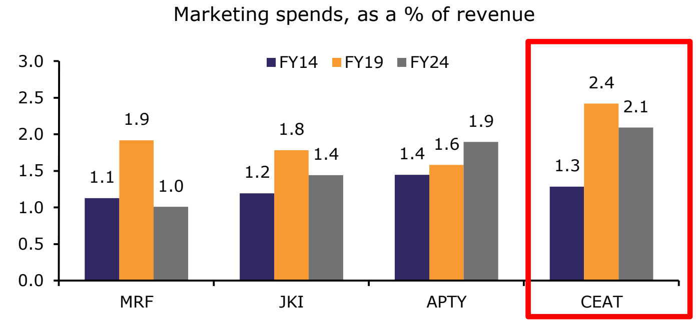
Source: Company, Emkay Research

Exhibit 61: CEAT's marketing spends ahead of most peers



Source: Company, Emkay Research; Note: Standalone operations

Exhibit 62: Marketing spends as a % of sales, the highest



Source: Company, Emkay Research; Note: Standalone operations

Exhibit 63: CEAT has had a decade-long association with the IPL's 'Strategic Timeout'

Source: Company, Emkay Research

Exhibit 64: Title sponsorship of overland pioneer *Wander Beyond Boundaries*

Source: Company, Emkay Research

Exhibit 65: Official racing partner of KTM RC Cup

Source: Company, Emkay Research

[B] Strong positioning improvement in 'consumer categories'; emerged as 2/3W market leader and close #3 player in PCR

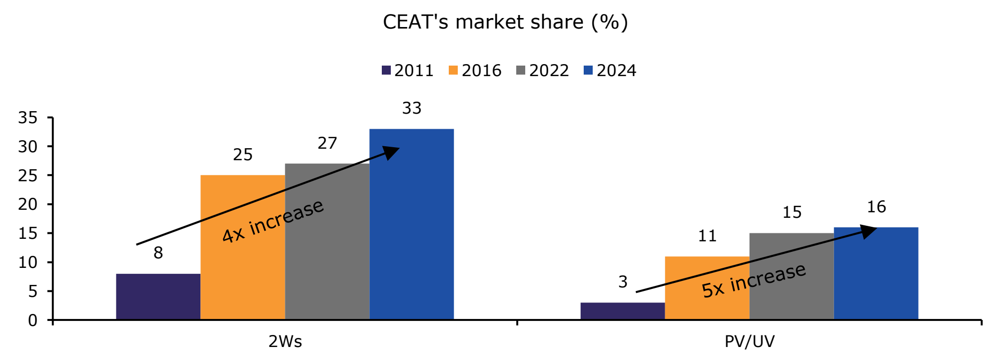
- Driven by its strong focus on innovation and marketing, the company has witnessed strong improvement in positioning across business/financial parameters – with 'consumer' categories i.e., 2/3W and PCR displaying particularly strong improvement.
- CEAT has emerged as the leader in 2Ws (~33% market share now vs. ~8% in 2011; MRF now at ~25%) and as a strong #3 in PCRs (~16% market share now vs. ~3% in 2011; now only marginally behind APTY).
- The company has gained revenue market share vs competition over the past 7 years (at both standalone as well as consolidated level); moreover, it has also gained gross profit market share – reflecting its greater resilience to RM volatility when compared with peers.

Exhibit 66: CEAT is emerging as a leader in 'consumer' categories, and looking to address white spaces in others like TBR and OHT

Segment	Revenue mix (FY24, %)	Current positioning	Market share	Comment	Action plan
2W	27	Market leader	~33%	Has emerged as the leader over the years, with ~4x increase in market share (~8% in 2011)	Enjoys price leadership as well in 2Ws
PCR	20	Number 3 player	~16%	~5x increase in market share (~3% in 2011)	Only marginally behind APTY; now looking to become leader in 2-3 years
Truck-Bus	31	Relatively smaller player	Single-digit	Current capacities fully utilized; expansion underway	Looking to improve positioning; category to receive disproportionate R&D focus
Off Highway	15	Small player	Single-digit	Capacity has grown 2.5x vs 5 years ago	Receiving disproportionate focus including current capacity expansion

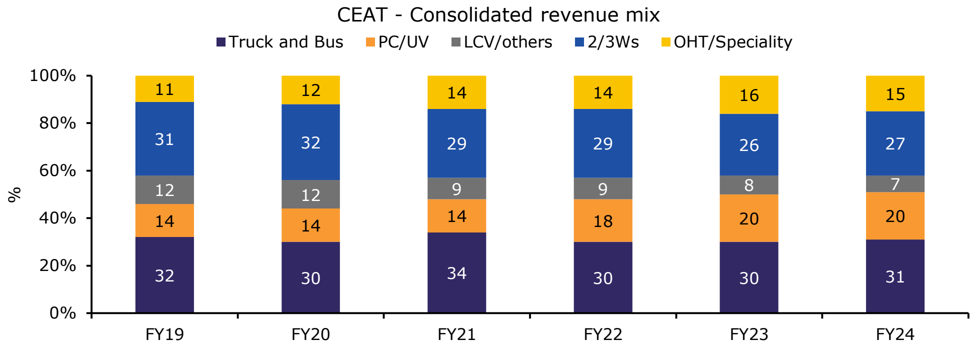
Source: Company, Emkay Research

Exhibit 67: CEAT is the leader in 2Ws/3Ws; now targeting leadership in PC/UV segments



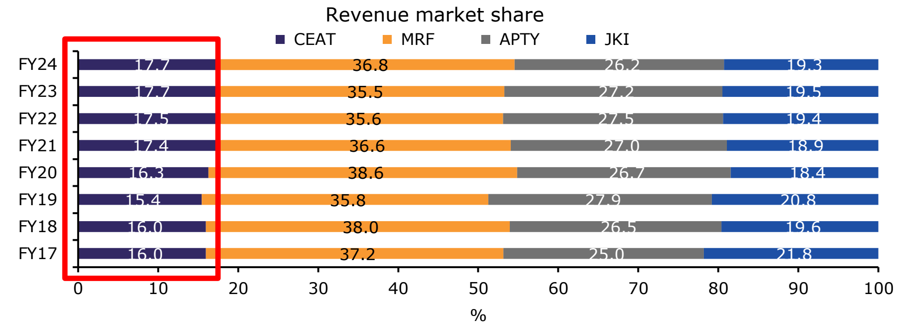
Source: Company, Emkay Research

Exhibit 68: For CEAT, share of consumer categories (PC/UV) has been on the rise



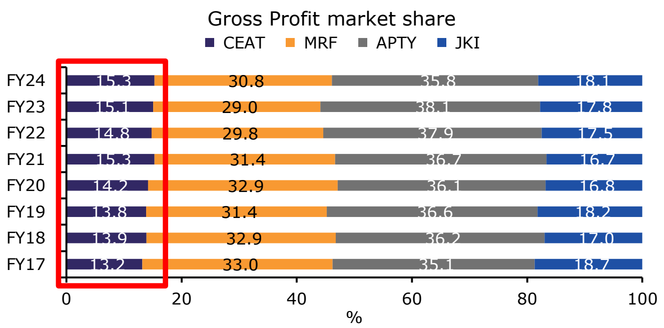
Source: Company, Emkay Research

Exhibit 69: For CEAT, share of consumer categories (PC/UV) has been on the rise



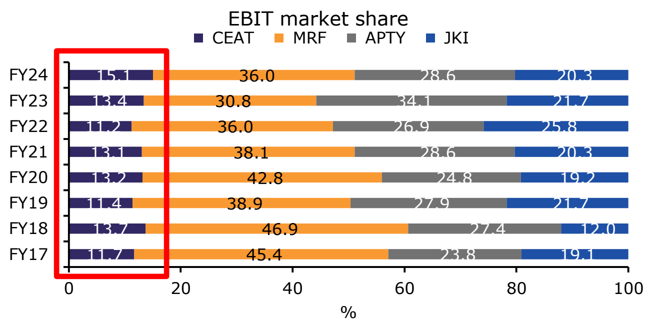
Source: Company, Emkay Research; Note: India operations for JK Tyre, standalone for the rest

Exhibit 70: CEAT's resilience to RM price volatility the highest among peers; gained gross profit market share over the years



Source: Company, Emkay Research; Note: Consolidated operations for all

Exhibit 71: Company has also improved its EBIT pool share



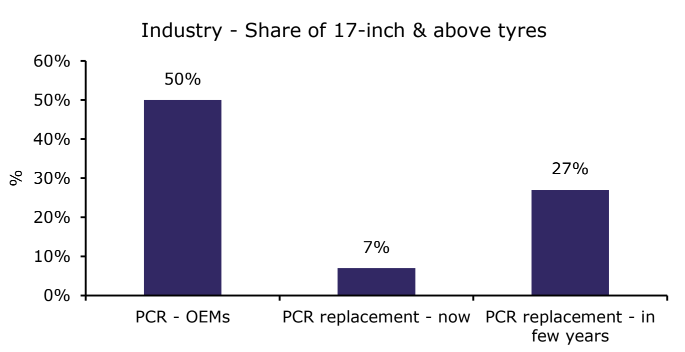
Source: Company, Emkay Research; Note: India operations for JK Tyre, standalone for the rest

[C] Now targets leadership in PCR, along with addressing opportunity areas in exports and TBR

- CEAT now targets leadership in the PCR category in coming 2-3 years (vs its current, strong #3 player status), via i) continued thrust on marketing as an enabler (seen as an investment and not a cost), ii) further focus on SUVs/higher rim sizes (SUV share in OEMs is already above 50%; would reflect in the replacement segment with the usual 2-3-year lag), iii) strong OEM relationships, and iv) appropriate product interventions (eg CEAT already has coverage for 95% of the addressable premium car SKUs in the replacement segment).
- Apart from PCR, the company is looking to improve its positioning in other spaces like TBR (current capacity at Halol fully utilized; expansion under way at Chennai, expected to come on stream from Q2), and OHT (undertaking capacity expansion to 160MT/day from the current 105MT/day), including that for exports.

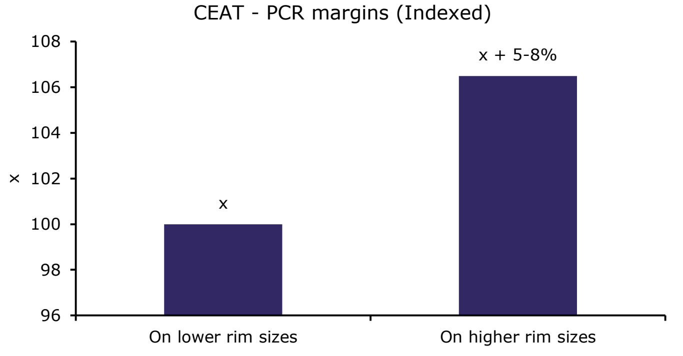
- In exports, USA is receiving disproportionate focus; here, TBR and OHT exports have started seeing good traction; PCR exports are expected to commence by Q1FY26. CEAT targets 25% revenue contribution from exports in coming years (vs 19% now).

Exhibit 72: Premiumization to accelerate with sharp increase in share of 17" & above tyres



Source: Company, Emkay Research

Exhibit 73: Larger SUV tyres command premium margins for CEAT



Source: Company, Emkay Research

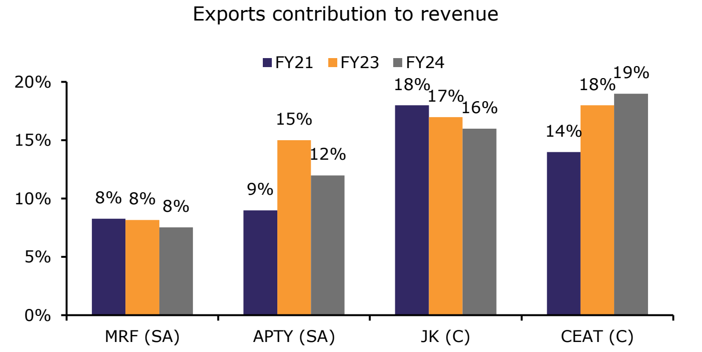
Exhibit 74: CEAT's product range covers 95% of the addressable market for premium cars in the domestic replacement market

Source: Company, Emkay Research

Exhibit 75: CEAT now supplies to all local EV manufacturers; has an over 20% market share

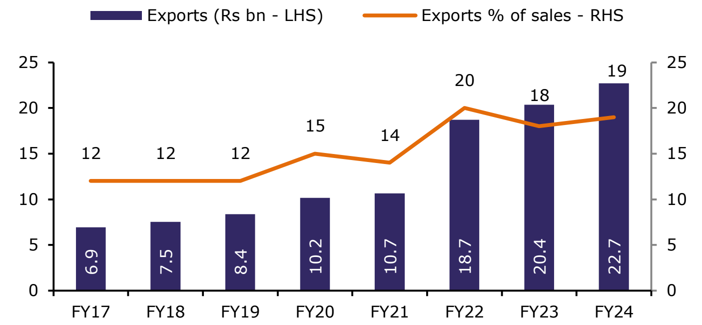
Source: Company, Emkay Research

Exhibit 76: CEAT is ahead of peers, in terms of exposure to exports



Source: Company, Emkay Research; Note: C = Consolidated, SA = Standalone

Exhibit 77: CEAT targets 25% revenue contribution from exports going forward vs 19% now



Source: Company, Emkay Research

CEAT (leader in 2Ws/3Ws) is eyeing leadership in PVs/UVs within the next 2-3 years, on increased focus on premiumization aided by structural tailwinds (increasing share of SUVs in domestic PVs)

"We already have a 40 per cent market share with two-wheeler original equipment makers (OEMs) in the electric vehicle space. ***For passenger vehicles (PVs), we now have a 14-15 per cent share. We aim to continue increasing these shares consistently and aspire to become the market leaders within the next two years****."*

"Premium tyres have been a focus area for a few quarters and the category is moving well. Across categories, consumers are willing to pay more for tyres. The steel radial tyres are 3 per cent of the overall motorcycle segment but it is gaining saliency. The product is premium including the technology that it offers. The segment is margin accretive and we see a big opportunity. We would want to be market leaders in the segment."

"We will be focusing on launching new products at the premium end based on customer needs. ***Off-highway and premium passenger tyres, including SUVs for India and export markets would see the most activities.*** *We have about 160 patents filed out of which 33 have been granted. On the ground, about 340 exclusive outlets were present in FY21, which has since grown to 550 by end of -- by this year"*

– Comments by Arnab Banerjee, MD & CEO, CEAT, (*link*), (*link*), and (*link*)

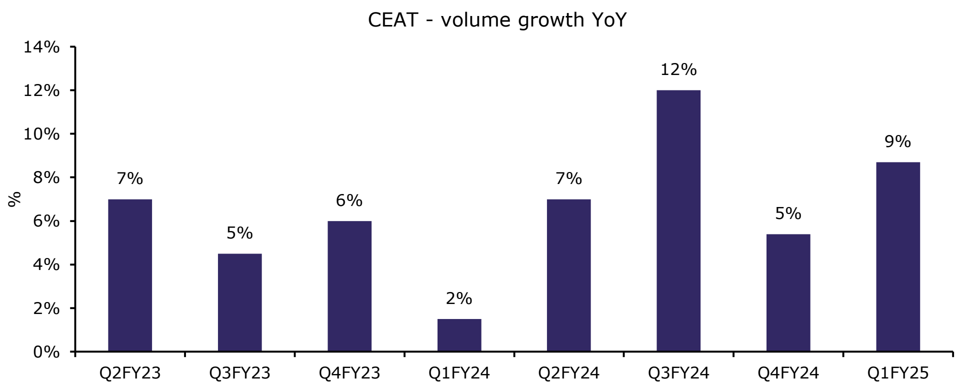
Growth accelerating; multiple margin tailwinds

- **A double-digit volume growth in replacement and strong exports drove a 9% YoY growth in CEAT's volumes in Q1FY25 (vs ~5% in Q4FY24; 6% in FY24). The outlook is improving, with expectations of double-digit replacement volume growth as well as continued recovery in export markets during the year. Going forward, CEAT expects exports to form 25% of the revenue mix in coming years vs ~19% now.**
- **We believe the ongoing 2W industry recovery along with the company's increased focus on off-highway tyres (OHT) would act as an additional growth driver. In OHT, the company is expanding capacity, from 105MT/day to 160MT/day in Phase 2; it is also ramping up new SKU launches (42 OHT/30 PV SKUs launched in Q1FY25 for international markets).**
- **Pricing flexibility (aided by a more balanced industry structure), rising demand, controlled capex (thereby resulting in sustained high utilization levels), and better mix eg exports, larger SUV tyres (command a 5-8% higher margin), are enabling companies incl. CEAT to pass on the higher costs (RM and EPR) through calibrated price hikes (getting absorbed in the market, per channel checks).**

[A] Growth outlook improving across replacement and exports

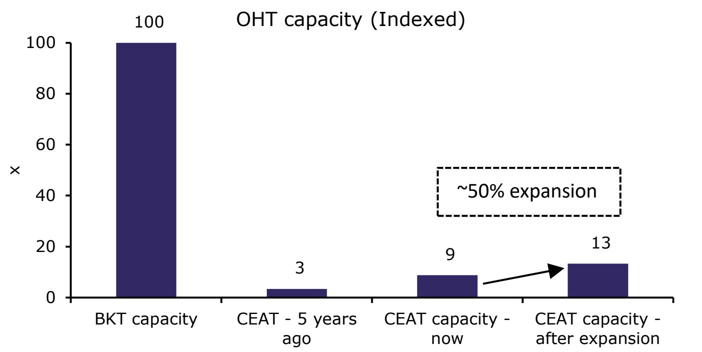
- CEAT's volume performance in recent quarters has been ahead of most peers'; overall volume growth stood at 9% YoY in Q1 (as against 6% for FY24), led by double-digit growth in the replacement segment and strong exports. Growth outlook is accelerating, with expectations of continued double-digit growth in the replacement segment as well as recovery in exports. Expanded capacities in OHT would also lead to growth acceleration, in our view.

Exhibit 78: Volume growth at CEAT has been accelerating in recent quarters



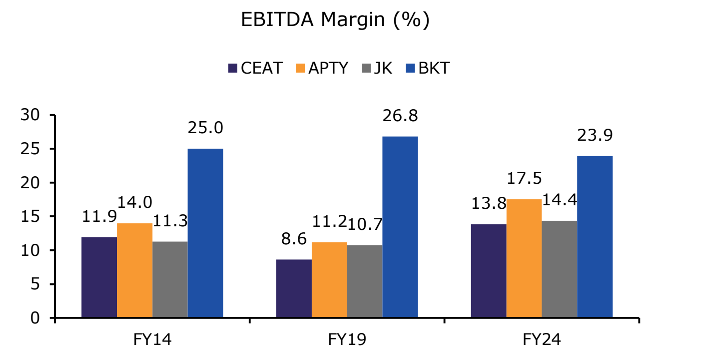
Source: Company, Emkay Research

Exhibit 79: Company is undertaking ~50% expansion in OHT capacity; would help address the exports opportunity



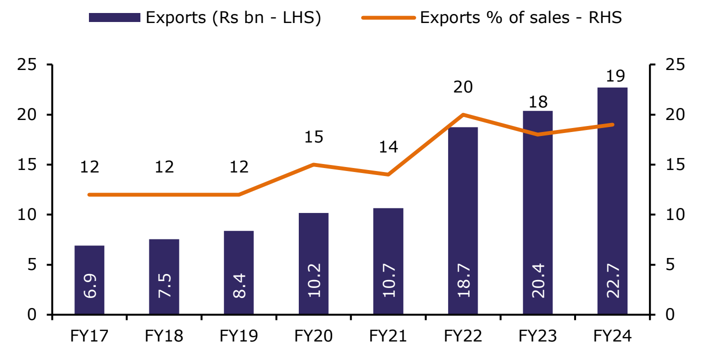
Source: Company, Emkay Research

Exhibit 80: OHT players like BKT have historically demonstrated better margins vs other tyre players



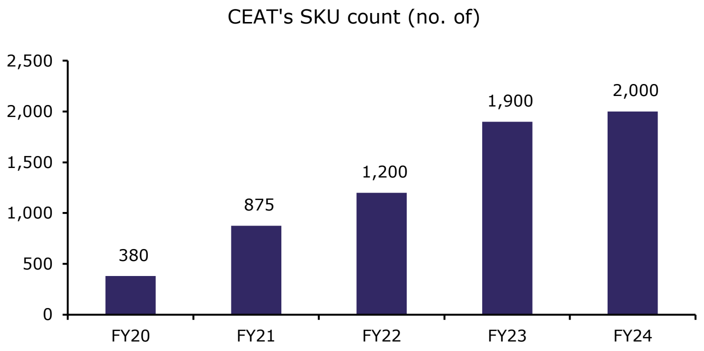
Source: Company, Emkay Research

Exhibit 81: CEAT expects to further improve share of exports in revenue to 25% in coming years vs 19% now



Source: Company, Emkay Research

Exhibit 82: Company has been making significant additions to its SKUs



Source: Company, Emkay Research

Tyre players expect replacement-led healthy uptick in demand

"Rural demand seems to be coming back gradually. With good monsoons, we expect rural demand to keep coming back as sustainably as a high level as compared to urban demand. We expect FY '25 volume growth in replacement segment to remain healthy and OEM growth in most categories, led by 2-wheelers and passengers and MHCV will continue to be good."

– Arnab Banerjee, MD & CEO, CEAT (comments in Q1FY25; *link*)

"PCR replacement should be doing well because overall replacement cycle is getting shortened. So in the replacement market, the demand should be good. Also, we saw that a couple of years that the SUVs were becoming the larger population of the overall sales. Going forward, things should improve further … [Truck] In quarter 2, we are hoping that the smart recovery would happen. But I think, we should be hopeful for somewhere growth between the middle to high single digit."

– JK Tyre management (comments in Q1FY25; *link*)

"So, the replacement demand overall should be at high single digits and we would recover some of the lost ground. Exports, though facing challenging conditions on account of freight rates, disruptions, but definitely is at a higher trajectory compared to last year, so that would see growth. Where the demand momentum suffering is on account of OEMs. It had a negative growth in the first quarter. Particularly on the truck OE side, the demand is significantly lower than what it was being projected out to be. And that probably a better part of the year would still be in the negative zone. It would recover towards the second half."

– APTY management (comments in Q1FY25; *link*)

CEAT aims to capitalize on the improving domestic demand via new SKU launches; thrust on margin accretive exports business is also increasing

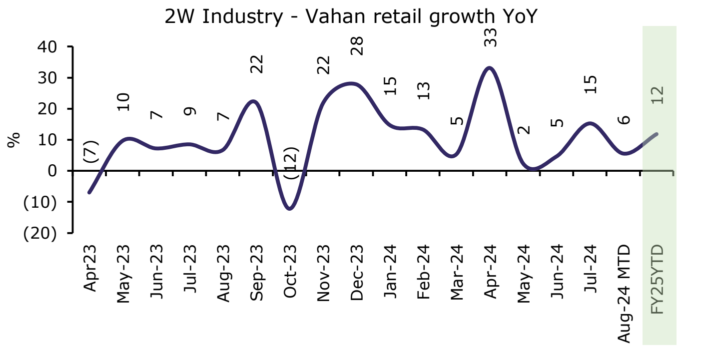
"The export business is margin-accretive even at this moment. All the product categories, which is agri radial, passenger radial and truck bus radial have a superior margin profile … we plan to further accelerate the growth with product launches in off-highway, passenger as well as TBR tyre. Our US GTM rollout plan is on time with PCR and TBR. Launching with -- for 150-plus SKUs in the US"

– Comments by Arnab Banerjee, MD & CEO, CEAT (*link*)

[B] Major beneficiary of ongoing 2W industry revival

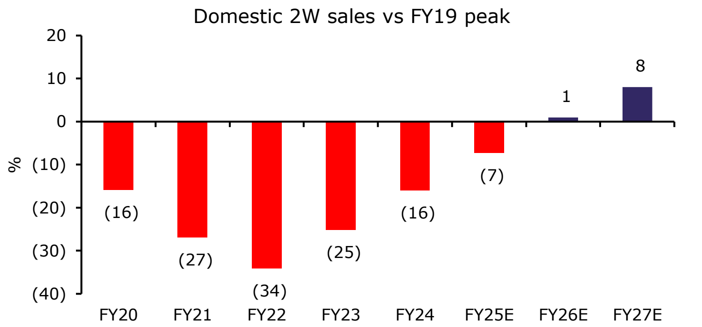
- We believe CEAT would benefit from the ongoing 2W recovery over coming 2-3 years (industry remains well below previous peaks), given its strong OEM presence and sizable revenue contribution from the segment (27%, as of FY24).

Exhibit 83: 2W industry retails have started to recover since FY23



Source: Vahan, Emkay Research

Exhibit 84: Domestic 2W industry volumes still 16% below FY19 peak as of FY24; offers 2-3 year replacement-led growth runway



Source: SIAM, Emkay Research

Exhibit 85: Two-wheeler OEMs expect acceleration in growth ahead, led by rural demand revival

OEM	Comment	Source
HMCL (Q1FY25)	"We are optimistic about the growth prospects of two-wheeler industry…we are seeing an uptick in rural…With the kind of the economic movements that the government has made, with the kind of rainfall that we are seeing even as we get into the festival season, we see a better outlook from rural, so the sentiment is stronger, continues to be so. And we can see that the progress is pretty strong…both across rural and urban. Of course, it's a stronger uptick on rural."	Link
TVSL (Q1FY25)	"The recent budget laid by the Government of India focused on employment generation, continued higher commitment to infrastructure and rural economy. This will add to the present momentum. We are expecting rural to recover. With expected normal monsoon, we could witness robust growth in Q2. For the first time we are seeing rural doing slightly better than the urban. The improving road infrastructure and economic environment will drive the demand for two-wheeler mobility. And two-wheeler has got a huge opportunity in the medium and the long term given…Till 2019 we have seen as CAGR of close to 10%. I am of the view that medium to long term, that kind of growth you can see. Currently, first quarter was 13%, this year could be more than 10%."	Link
BJAUT (Q1FY25)	"The industry outlook…we think it should be 6% to 8%. And the top half the 125cc plus segment will grow much faster."	Link

Source: Company, Emkay Research

[C] Margins to recover after the near-term RM-led weakness

- Pricing flexibility (aided by a more balanced industry structure), rising demand, controlled capex (thereby resulting in sustained high utilization levels), and better mix, eg exports, larger SUV tyres (command a 5-8% higher margin), are enabling companies including CEAT to pass on the higher costs (RM and EPR) through calibrated price hikes (getting absorbed in the market, per channel checks). We believe this would drive clawback in margins once near-term softness due to the sustained sharp RM increase is behind

Exhibit 86: Tyre companies have been taking regular and gradual price increases, to pass on the spike in RM costs

	CEAT	APTY	MRF	JKI
Q1FY25	~1.5% in replacement in Apr-24 across categories	Up to 3% blended price increase incl. for EPR		1.5-2.0% across categories
Q2FY25	- TBR replacement: 2.4% (FY25 till July); PC segment: 2.5-3.0% (FY25 till July); 2W replacement: 1%; also seeing ~2% indexation benefit in OEM category in Q2	~1% taken in Q2	2% in TBB, 5% in PCR, and 5% in Farm	Taken a 1.0-1.5% price increase till July
	- Expects further 2-3% increases would be needed to cover RM price inflation in Q1 and Q2	**- Would require ~4% hike to counter the increase in RM prices till Q2**	**- As per channel checks, the 2W price hike of ~1.0-1.5% has been taken recently; one more round of hikes expected in Sep-24 if RM prices do not correct**	**Assessing another increase for remaining Q2**

Source: Company, Emkay Research

Financials: We expect 10%/30% CAGR over FY25E-27E in revenue/EPS, respectively

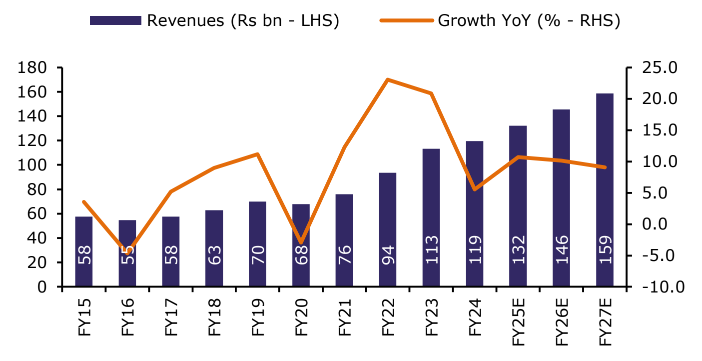
- CEAT clocked 9% YoY volume growth in Q1; the outlook is improving, especially for the replacement and exports segments. We believe that this, along with the ongoing 2W OEM recovery, would drive 10% revenue CAGR over FY24-27E for the company.
- While margins have come under pressure in recent quarters (down by ~210bps in Q1FY25 vs Q3FY24; expected to see a further dip in the near term due to RM price inflation), we believe i) mix improvement (on premiumization, exports), ii) gradual price hikes, and iii) sustained high capacity utilization levels would contribute to the improvement from current levels. We build in ~120bps improvement in margins from Q1 to FY27E.
- Our EPS CAGR over FY25E-27E stands at 30%.
- Healthy growth in profitability along with calibrated bite-size capex spends (expects no greenfield requirement over coming 2-3 years) would help further strengthen the balance sheet and drive strong cash generation (cumulative FCF of Rs17bn over FY25E-27E).
- All-around structural improvement to drive RoCE to ~19% vs ~15% in FY25E.

Exhibit 87: We build-in 10%/30% CAGR in consolidated revenue/EPS, respectively, over FY25E-27E

(Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Revenue	**62,834**	**69,845**	**67,788**	**76,096**	**93,634**	**113,149**	**119,435**	**132,190**	**145,556**	**158,707**
Growth YoY (%)	9.0	11.2	-2.9	12.3	23.0	20.8	5.6	10.7	10.1	9.0
EBITDA	5,871	6,026	6,970	9,522	6,969	9,738	16,523	15,070	18,340	20,949
EBITDA margin (%)	**9.3**	**8.6**	**10.3**	**12.5**	**7.4**	**8.6**	**13.8**	**11.4**	**12.6**	**13.2**
EBIT	4,185	4,099	4,205	6,125	2,617	5,045	11,434	9,346	11,841	13,757
EBIT margin (%)	6.7	5.9	6.2	8.0	2.8	4.5	9.6	7.1	8.1	8.7
Interest	1,036	929	1,539	1,788	2,070	2,421	2,691	2,235	1,932	1,541
PBT	3,673	3,762	3,043	4,839	949	2,793	8,941	7,311	10,110	12,420
Tax rate (%)	36	33	24	11	26	26	25	25	25	25
PAT	2,380	2,522	2,312	4,320	712	2,196	7,009	5,704	7,821	9,574
PAT margin (%)	3.8	3.6	3.4	5.7	0.8	1.9	5.9	4.3	5.4	26
EPS (Rs)	**59**	**62**	**57**	**107**	**18**	**54**	**173**	**141**	**193**	**237**
Capex	3,943	11,770	14,488	6,180	9,754	8,406	7,713	10,000	11,000	11,886
% of sales	6.3	16.9	21.4	8.1	10.4	7.4	6.5	7.6	7.6	7.5
Net debt	7,854	14,245	20,008	14,894	21,926	22,236	17,324	16,081	13,278	9,517
Net D/E (x)	0.3	0.5	0.7	0.4	0.7	0.6	0.4	0.4	0.3	0.2
FCF	1,885	(5,459)	(1,536)	7,230	(3,369)	3,276	8,525	4,692	5,948	6,515
ROCE (pre-tax, %)	**11.6**	**10.0**	**8.6**	**11.8**	**4.8**	**8.4**	**18.4**	**14.5**	**17.5**	**19.3**
ROE (%)	**9.5**	**9.4**	**8.2**	**13.9**	**2.2**	**6.5**	**18.7**	**12.7**	**15.2**	**16.0**

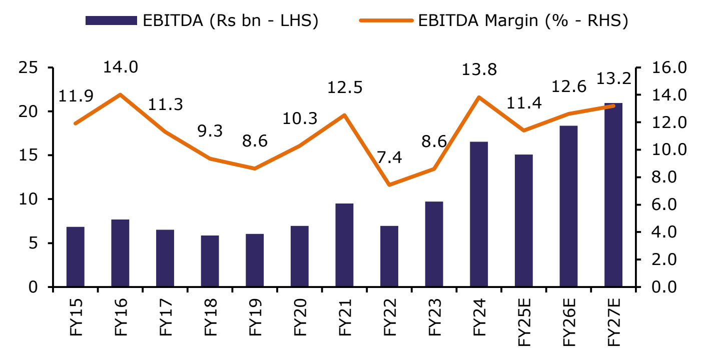
Source: Company, Emkay Research

Exhibit 88: We build in 10% revenue CAGR over FY24-27E



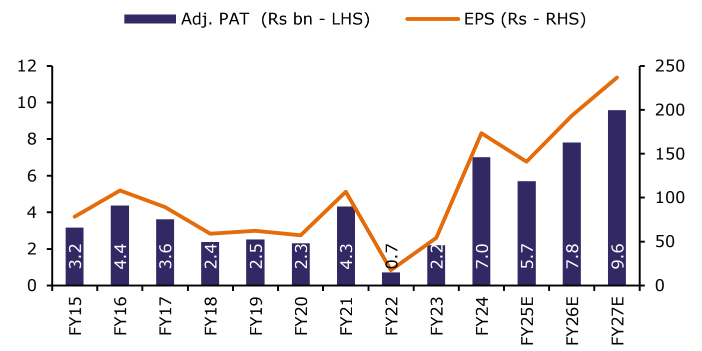
Source: Company, Emkay Research

Exhibit 89: We expect margins to recover after the RM-led dip in FY25E



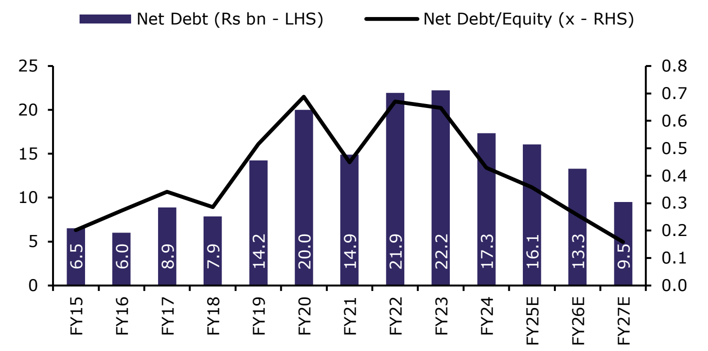
Source: Company, Emkay Research

Exhibit 90: We expect 30% EPS and PAT CAGR over FY25E-27E



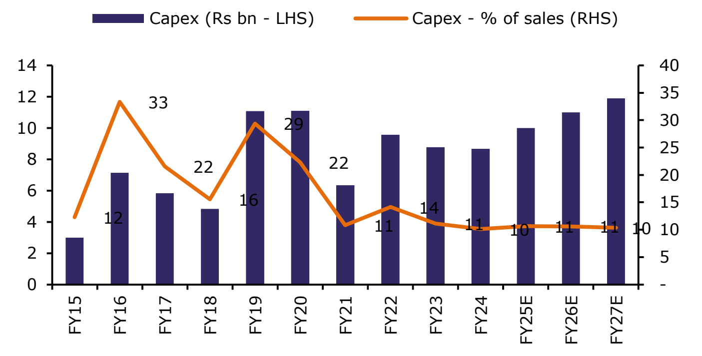
Source: Company, Emkay Research

Exhibit 91: Net D/E to continue improving over FY24-27E



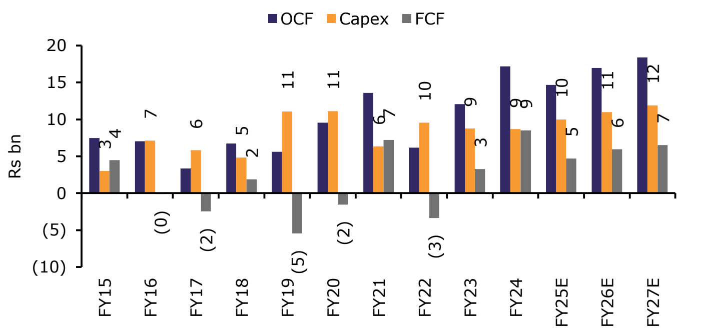
Source: Company, Emkay Research

Exhibit 92: Capex intensity on the decline



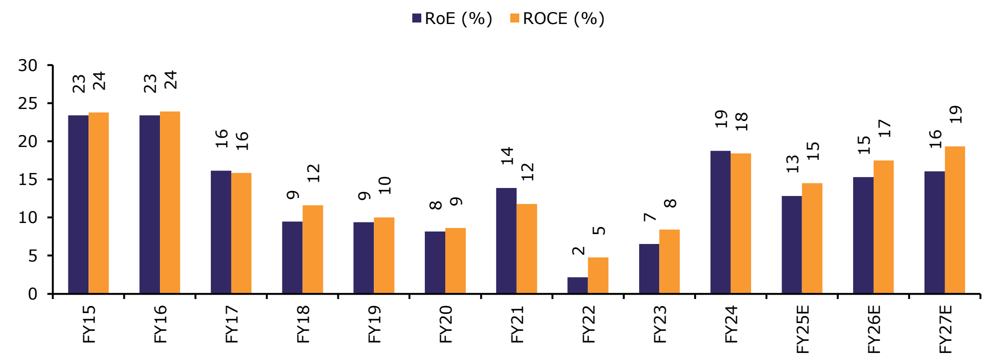
Source: Company, Emkay Research

Exhibit 93: Controlled capex to drive cash flow generation; we expect cumulative FCF generation of ~Rs18bn over FY25E-27E



Source: Company, Emkay Research

Exhibit 94: RoCE expected to approach ~20% by FY27E



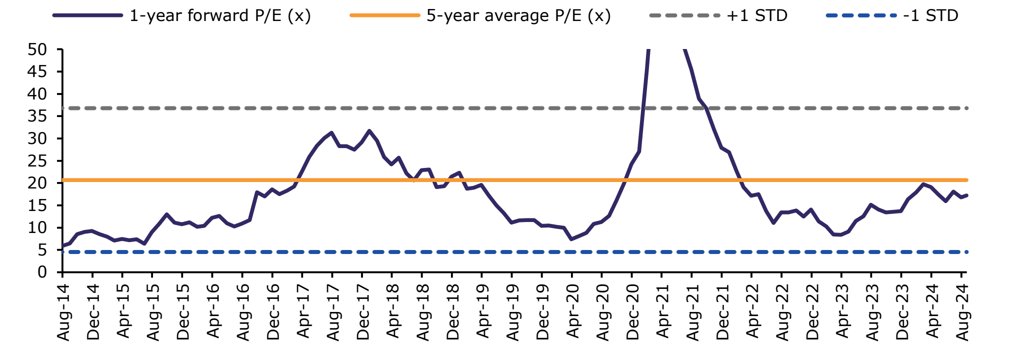
Source: Company, Emkay Research

Exhibit 95: Emkay vs Consensus estimates

CEAT (Rs mn)	Emkay Estimates			Bloomberg estimates			Difference		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net revenue	132,190	145,556	158,707	132,017	143,498	154,719	0.1%	1.4%	2.6%
EBITDA	15,070	18,340	20,949	16,139	18,142	19,716	-6.6%	1.1%	6.3%
EBITDA margin (%)	11.4	12.6	13.2	12.2	12.6	12.7			
EPS (Rs)	141	193.3	236.7	157.5	191.3	218.0	-10.5%	1.1%	8.6%

Source: Bloomberg, Emkay Research

Exhibit 96: CEAT currently trades below its long-term average on one-year forward basis



Source: Bloomberg, Emkay Research

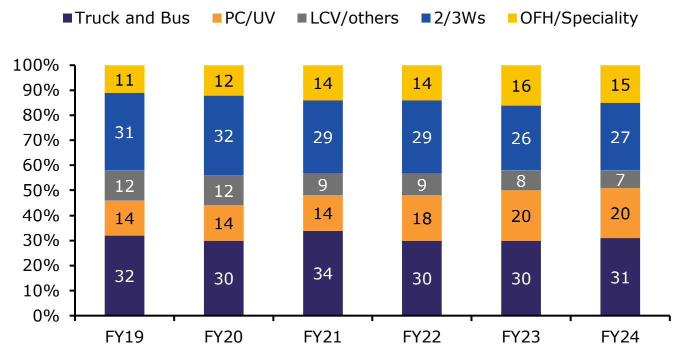
Key risks and concerns

- **Sustained, sharp increases in commodity prices** – There has been a significant run-up in commodity prices over the last few months (eg domestic rubber prices at an all-time- high). While tyre companies have been gradually passing on the RM price increase (they intend to continue this for the unabsorbed portion), any further sustained and sharp RM price increase from current levels would delay margin recovery.
- **Resumption of large-ticket greenfield capex –** The tyre industry's shift in preference toward calibrated capex additions has helped improve balance-sheet strength and return ratios across the board; any change in this preference toward large-ticket greenfield expansions and the resultant capacity slack may increase price competitiveness (especially in case of rising RM prices), thus delaying margin improvement.
- **Prolonged slowdown in OEM and exports –** While domestic replacement demand is expected to be reasonably healthy over the medium term, any prolonged slowdown in 4W (CV, PV) channels or in exports would pose a downside risk to our growth estimates for the company (especially in case of PCR, where CEAT has been concentrating its efforts).
- **Relaxation of import restrictions –** While tyre imports continue to be restricted (and CVD has been extended for 5 years), any relaxation in the stance would increase competitiveness from imports and impact the growth prospects of domestic players.
- **Adverse outcome of the CCI order –** The Competition Commission of India (CCI), in Feb-22, published an order for the alleged contravention of Section 3 of the Competition Act, 2002 against CEAT and certain other domestic tyre manufacturing companies; a penalty of ~Rs2.5bn was imposed on the company. CEAT filed an appeal to the National Company Law Appellate Tribunal (NCLAT) against the said CCI order. The NCLAT, through an order dated Dec-22, had remanded the matter to the CCl, to re-examine the order and to consider reviewing the penalty, pointing out certain errors leading to wrong conclusions. The CCI has filed an appeal before the Supreme Court against the NCLAT order; CEAT is also a Respondent in the said appeal and filed its reply to the CCI's appeal in Dec-23. No interim order has been passed by the Supreme Court, where the appeal is pending. The company believes that it has a strong case and that there are no adverse orders against the company for indulging in anticompetitive practices.

Annexure: Company background

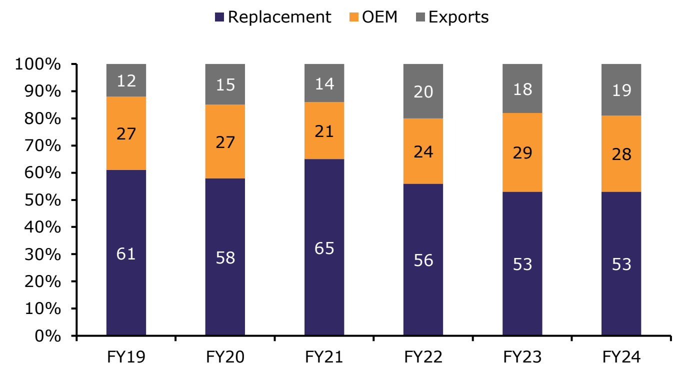
Established in 1958, CEAT is flagship entity under the RPG Group (Rama Prasad Goenka Group). The RPG Group acquired CEAT in 1982. CEAT is engaged in the manufacture of tyres, tubes, and flaps, and is one of the leading tyre manufacturers in the domestic market. Products manufactured find application across auto segments. CEAT has six state-of-the-art manufacturing facilities in India located in Chennai, Nashik, Nagpur, Halol, Ambernath, and Bhandup, and one in Sri Lanka (through a joint venture). The company has over >55K touchpoints and >50 OEM relations.

Exhibit 97: 2/3Ws, and the Truck and Bus segments are key contributors to CEAT's revenue



Source: Company, Emkay Research

Exhibit 98: Consolidated revenue mix, by channel



Source: Company, Emkay Research

Exhibit 99: Key events in company history

Year	Milestone
1924	CEAT International was commissioned at Turino, Italy to manufacture cables for the telephone and railways industries
1958	CEAT was founded in 1958, with headquarters in Mumbai
1972	The R&D unit was set up at Bhandup, Maharashtra
1981	The RPG group took over control of CEAT Tyres in India
1990	The company was rechristened 'CEAT'
2009	Halol plant operations (primarily passenger and truck-bus radial plant) start
2012	Worldwide rights of CEAT acquired from Pirelli
2016	Europe PCR launch; entered Spain and Italy
2016	Nagpur plant (primarily 2W plant) operations start
2017	1st Indian company to receive the Deming Award and the JD Power award, for customer satisfaction
2017	Ambernath plant (primarily 2Ws and Off Highway radial tyres) started operations
2019	Expanded Truck-Bus Radial capacity at Halol plant
2020	Chennai plant (primarily passenger radial plant) starts operations
2023	World's 1st tyre manufacturer to win the Deming Grand Prize

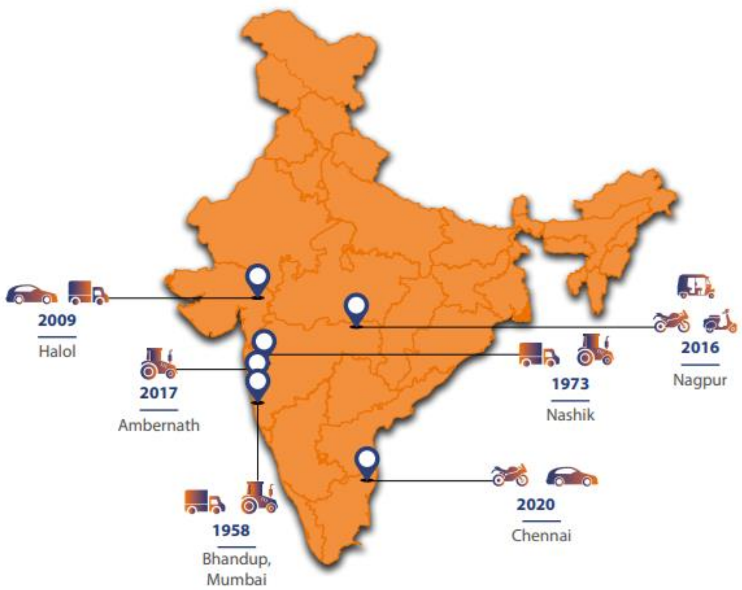
Source: Company, Emkay Research

Exhibit 100: CEAT could clock Rs150bn revenue from current capacities; focus remains on bite-sized capex, consistent FCF, and double-digit RoCE

Management profile	Designation	Profile
Anant Goenka	Vice Chairman	Anant Goenka is an MBA from the Kellogg School of Management and a BS (Economics) from the Wharton School, University of Pennsylvania. He is Member of the Management Board at RPG Enterprises. He is also the former Chairman of Automotive Tyre Manufacturers' Association (ATMA). He joined CEAT Limited as Regional Manager - Sales. He went on to lead the Off Highway tyres business in 2005. He then moved to KEC in 2007. In 2010, he moved back to CEAT as Deputy Managing Director, and was then appointed Managing Director in Apr-12. He also led CEAT to win the Deming Prize in 2017, one of the most prestigious global quality awards in the world
Arnab Banerjee	MD & CEO	Arnab Banerjee has a total experience of over 30 years, during which he has worked in CEAT, Marico, and Berger Paints. He is an alumnus of the Harvard Business School (AMP190), IIM Kolkata, and IIT Kharagpur. He joined CEAT in 2005 as Vice President - Sales and Marketing.
Kumar Subbiah	CFO	Kumar Subbiah is Executive Director and Chief Financial Officer at CEAT. He brings experience from previous roles at CEAT and Unilever. He holds a Chartered Accountant degree.

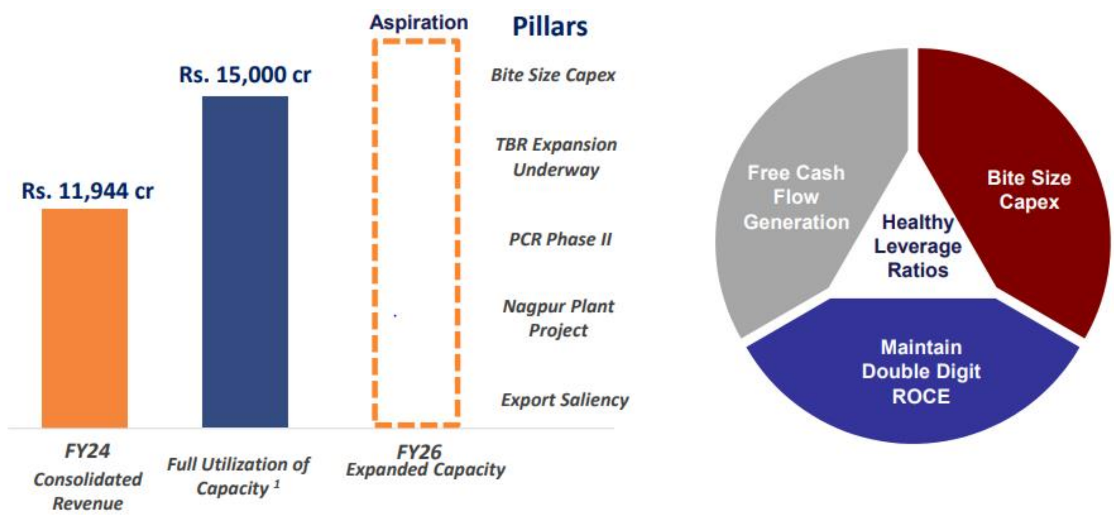
Source: Company, Emkay Research

Exhibit 101: CEAT's manufacturing presence in India



Source: Company, Emkay Research

Exhibit 102: Company can clock Rs150bn revenue from current capacities; focus remains on bite-sized capex, consistent FCF, and double-digit RoCE



Source: Company, Emkay Research; Note: 1crore = 10million

CEAT: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**113,149**	**119,435**	**132,190**	**145,556**	**158,707**
Revenue growth (%)	20.8	5.6	10.7	10.1	9.0
EBITDA	**9,738**	**16,523**	**15,070**	**18,340**	**20,949**
EBITDA growth (%)	39.7	69.7	(8.8)	21.7	14.2
Depreciation & Amortization	4,693	5,088	5,723	6,499	7,192
EBIT	**5,045**	**11,434**	**9,346**	**11,841**	**13,757**
EBIT growth (%)	92.8	126.6	(18.3)	26.7	16.2
Other operating income	0	0	0	0	0
Other income	169	197	199	201	203
Financial expense	2,421	2,691	2,235	1,932	1,541
PBT	**2,793**	**8,941**	**7,311**	**10,110**	**12,420**
Extraordinary items	334	582	0	0	0
Taxes	718	2,214	1,842	2,548	3,130
Minority interest	(38)	(74)	(7)	(7)	(7)
Income from JV/Associates	82	208	229	252	277
Reported PAT	**1,862**	**6,427**	**5,704**	**7,821**	**9,574**
PAT growth (%)	117.0	245.2	(11.2)	37.1	22.4
Adjusted PAT	**2,196**	**7,009**	**5,704**	**7,821**	**9,574**
Diluted EPS (Rs)	**54.3**	**173.3**	**141.0**	**193.3**	**236.7**
Diluted EPS growth (%)	117.0	245.2	(11.2)	37.1	22.4
DPS (Rs)	**12.0**	**30.0**	**30.0**	**30.0**	**30.0**
Dividend payout (%)	**26.1**	**18.9**	**21.3**	**15.5**	**12.7**
EBITDA margin (%)	8.6	13.8	11.4	12.6	13.2
EBIT margin (%)	4.5	9.6	7.1	8.1	8.7
Effective tax rate (%)	25.7	24.8	25.2	25.2	25.2
NOPLAT (pre-IndAS)	**3,749**	**8,603**	**6,991**	**8,857**	**10,290**
Shares outstanding (mn)	40.5	40.5	40.5	40.5	40.5

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	405	405	405	405	405
Reserves & Surplus	33,992	40,022	44,513	51,120	59,481
Net worth	**34,396**	**40,426**	**44,917**	**51,524**	**59,885**
Minority interests	174	97	90	83	76
Deferred tax liability (net)	3,873	4,509	4,509	4,509	4,509
Total debt	**22,955**	**17,915**	**16,293**	**13,505**	**10,444**
Total liabilities & equity	**61,398**	**62,948**	**65,809**	**69,622**	**74,915**
Net tangible fixed assets	30,880	59,268	61,517	65,132	68,940
Net intangible assets	878	973	973	973	973
Net ROU assets	29,203	2,470	2,470	2,470	2,470
Capital WIP	5,961	6,835	8,863	9,749	10,635
Goodwill	0	0	0	0	0
Investments [JV/Associates]	1,653	1,821	1,821	1,821	1,821
Cash & equivalents	**719**	**591**	**212**	**227**	**927**
Current assets (ex-cash)	26,929	27,987	30,976	34,421	38,400
Current Liab. & Prov.	34,825	36,997	41,023	45,170	49,251
NWC (ex-cash)	**(7,895)**	**(9,010)**	**(10,047)**	**(10,749)**	**(10,851)**
Total assets	**61,398**	**62,948**	**65,809**	**69,622**	**74,915**
Net debt	22,236	17,324	16,081	13,278	9,517
Capital employed	61,398	62,948	65,809	69,622	74,915
Invested capital	**53,066**	**53,701**	**54,914**	**57,826**	**61,532**
BVPS (Rs)	850.3	999.4	1,110.4	1,273.8	1,480.5
Net Debt/Equity (x)	0.6	0.4	0.4	0.3	0.2
Net Debt/EBITDA (x)	2.3	1.0	1.1	0.7	0.5
Interest coverage (x)	0.5	0.2	0.2	0.2	0.1
RoCE (%)	**8.4**	**18.4**	**14.5**	**17.5**	**19.3**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,793	8,941	7,311	10,110	12,420
Others (non-cash items)	7,008	7,789	7,958	8,431	8,733
Taxes paid	377	(1,630)	(1,842)	(2,548)	(3,130)
Change in NWC	2,211	2,674	1,036	703	102
Operating cash flow	**12,055**	**17,193**	**14,692**	**16,948**	**18,401**
Capital expenditure	(8,779)	(8,668)	(10,000)	(11,000)	(11,886)
Acquisition of business	(11)	(44)	0	0	0
Interest & dividend income	299	175	175	175	175
Investing cash flow	**(8,491)**	**(8,537)**	**(10,000)**	**(11,000)**	**(11,886)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(977)	(5,556)	(1,622)	(2,787)	(3,061)
Payment of lease liabilities	936	918	918	918	918
Interest paid	(2,093)	(2,669)	(2,235)	(1,932)	(1,541)
Dividend paid (incl tax)	(126)	(485)	(1,214)	(1,214)	(1,214)
Others	0	0	0	0	0
Financing cash flow	**(3,195)**	**(8,710)**	**(5,071)**	**(5,933)**	**(5,815)**
Net chg in Cash	369	(54)	(379)	16	700
OCF	12,055	17,193	14,692	16,948	18,401
Adj. OCF (w/o NWC chg.)	9,844	14,518	13,656	16,245	18,300
FCFF	3,276	8,525	4,692	5,948	6,515
FCFE	1,154	6,009	2,632	4,191	5,149
OCF/EBITDA (%)	123.8	104.1	97.5	92.4	87.8
FCFE/PAT (%)	62.0	93.5	46.1	53.6	53.8
FCFF/NOPLAT (%)	**87.4**	**99.1**	**67.1**	**67.2**	**63.3**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	51.5	16.1	19.8	14.5	11.8
P/CE(x)	16.4	9.3	9.9	7.9	6.7
P/B (x)	3.3	2.8	2.5	2.2	1.9
EV/Sales (x)	1.2	1.1	1.0	0.9	0.8
EV/EBITDA (x)	13.9	7.9	8.6	6.9	5.9
EV/EBIT(x)	26.8	11.4	13.8	10.7	8.9
EV/IC (x)	2.6	2.4	2.4	2.2	2.0
FCFF yield (%)	2.4	6.5	3.6	4.7	5.3
FCFE yield (%)	1.0	5.3	2.3	3.7	4.6
Dividend yield (%)	0.4	1.1	1.1	1.1	1.1
DuPont-RoE split					
Net profit margin (%)	1.9	5.9	4.3	5.4	6.0
Total asset turnover (x)	1.9	1.9	2.1	2.1	2.2
Assets/Equity (x)	1.8	1.7	1.5	1.4	1.3
RoE (%)	**6.5**	**18.7**	**13.4**	**16.2**	**17.2**
DuPont-RoIC					
NOPLAT margin (%)	3.3	7.2	5.3	6.1	6.5
IC turnover (x)	2.1	2.2	2.4	2.5	2.6
RoIC (%)	**7.5**	**16.1**	**12.9**	**15.7**	**17.2**
Operating metrics					
Core NWC days	(25.5)	(27.5)	(27.7)	(27.0)	(25.0)
Total NWC days	**(25.5)**	**(27.5)**	**(27.7)**	**(27.0)**	**(25.0)**
Fixed asset turnover	1.5	1.5	1.5	1.5	1.5
Opex-to-revenue (%)	26.1	28.2	27.9	27.4	27.3

Source: Company, Emkay Research

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Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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