

Ceat Ltd | BUY

Margin slightly below estimate; improvement expected from 2Q onwards

CEAT's 1QFY26 EBITDA margin came in at 11.0%, 40bps below JMFe. 40bps QoQ contraction in EBITDA margin was on account of lower realisations and higher marketing spends (seasonal IPL related). Strong momentum in OEM and RE segments, along with steady market share gains, continues to support volume growth. Management remains optimistic on the demand outlook and maintains its double-digit growth expectation for FY26. With respect to the international business, geopolitical and tariff-related headwinds continue to persist. However, seasonal demand in EU and partial completion of channel destocking are expected to drive demand going forward. CEAT plans to hold prices in the near-term. Margins are expected to be supported by softer RM (1-2% benefit from 2Q onwards), volume growth in the international market, and astute cost controls. We expect revenue/EPS CAGR of 10%/25% over FY25-FY28E. Maintain BUY with Mar'27 TP of INR 4,200 (18x PE).

- **1QFY26 – Margin slightly below JMFe:** In 1QFY26, CEAT reported consolidated net sales of INR 35.3bn (+11% YoY, +3% QoQ), c.1% above JMFe. Overall volumes grew by 9% YoY led by healthy growth in OEM and replacement segment. Consol. EBITDA stood at INR 3.9bn (+1% YoY, flat QoQ), c.2% below JMFe. Consol. EBITDA Margin stood at 11.0% (-100bps YoY, -40bps QoQ), 40bps below JMFe. Adj. PAT came-in at INR 1.2bn (-21% YoY; -15% QoQ), after adjusting for VRS expense of INR 33mn.
- **Demand environment:** Domestic demand remained healthy, with early-twenties YoY growth in the OEM segment and strong single-digit growth in the replacement segment. In the OEM segment, the company witnessed robust growth in share of business, led by product approvals in higher rim sizes. In the replacement segment, PC demand remained soft impacted by weak growth in the urban market, and the management expects this trend to persist in the near-term. On the other hand, 2W segment continued to perform well, driven by strong rural and scooter demand. TBR also saw steady mid-single-digit growth. The management highlighted that market share gains in both 2W and PC segments. Overall, the company has maintained its double-digit growth outlook in FY26 on a standalone basis, supported by sustained momentum in the OEM and RE segments. International business remained flat YoY owing to geopolitical and tariff-related headwinds. LATAM and MEA continue to face challenges. CEAT has a limited direct exposure in the US market and hence, the minimal impact of tariff. Going ahead, the company expects international business to improve in 2QFY26, led by seasonal demand of PC tyres in EU and channel destocking getting partially over. However, visibility for 2HFY26 in EU remains limited.
- **Margin outlook:** Gross margin contracted by c.70 bps QoQ in 1QFY26. This was primarily driven by lower realisation due to 1) partial absorption of tariff, 2) one-time execution of a large private label order, and 3) lower EU sales. RM basket remained flattish QoQ. While international NR (60% of CEAT's requirement) prices declined during 1Q (from USD 1,900 to USD 1,700 per metric ton), domestic rubber prices remained elevated. CEAT plans to hold prices, and expects margin improvement from 2Q onwards, led by 1-2% benefit from a softer RM basket, volume growth in intl. market and normalisation of marketing spends.

Financial Summary					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	1,19,435	1,32,179	1,52,177	1,66,096	1,75,269
Sales Growth (%)	5.6	10.7	15.1	9.1	5.5
EBITDA	16,522	14,741	20,355	23,899	25,222
EBITDA Margin (%)	13.8	11.2	13.4	14.4	14.4
Adjusted Net Profit	7,008	5,023	7,570	9,234	9,851
Diluted EPS (INR)	173.3	124.2	187.2	228.3	243.5
Diluted EPS Growth (%)	219.1	-28.3	50.7	22.0	6.7
ROIC (%)	15.5	11.3	13.4	14.6	15.4
ROE (%)	18.7	11.9	16.2	17.2	16.0
P/E (x)	22.1	30.8	20.4	16.8	15.7
P/B (x)	3.8	3.5	3.1	2.7	2.4
EV/EBITDA (x)	10.3	11.8	9.0	7.4	6.6
Dividend Yield (%)	0.8	0.8	0.9	1.0	1.0

Source: Company data, JM Financial. Note: Valuations as of 18/Jul/2025



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	4,200
Upside/(Downside)	10%
Previous Price Target	3,700
Change	13.5%

Key Data – CEAT IN

Current Market Price	INR3,827
Market cap (bn)	INR154.8/US\$1.8
Free Float	51%
Shares in issue (mn)	40.5
Diluted share (mn)	40.5
3-mon avg daily val (mn)	INR854.9/US\$9.9
52-week range	4,049/2,322
Sensex/Nifty	81,758/24,968
INR/US\$	86.2

Price Performance

%	1M	6M	12M
Absolute	8.4	27.0	43.0
Relative*	9.3	17.8	41.0

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Other highlights, capex and debt:** 1) Overall capacity utilization stands at 80%+. Capex in 1QFY26 stood at INR 2.31bn. Capex guidance for FY26 stands at INR 10bn (including maintenance capex and INR 4.5bn for Chennai plant to be spent over the next 18-24 months. 2) Debt reduced by INR c.1.15bn during 1Q. Debt/EBITDA ratio improved from 1.29x to 1.21x. 3) CAMSO's consolidation is expected from 1st September (Annual revenue rate: USD 150mn with mid-teens margin). The prevailing tariff rate for SL stands at 30% (vs. 44% previously) and the company remains hopeful for further reductions.

Exhibit 1. Quarterly financial results (standalone)

(INR mn)

	1QFY26	1QFY25	% YoY	4QFY25	% QoQ	1QFY26E	% A/E
Sales	35,207	31,682	11.1	34,136	3.1	34,800	1.2
RM	22,237	19,202	15.8	21,327	4.3	21,427	3.8
As a % of sales	63.2	60.6	260bps	62.5	70bps	61.6	160bps
Employee Exp	2,248	1,934	16.2	2,220	1.3	2,263	(0.7)
As a % of sales	6.4	6.1	30bps	6.5	-10bps	6.5	-10bps
Other Costs	6,812	6,731	1.2	6,642	2.6	7,030	(3.1)
As a % of sales	19.3	21.2	-190bps	19.5	-10bps	20.2	-90bps
EBITDA	3,911	3,815	2.5	3,946	(0.9)	4,079	(4.1)
EBITDA Margin (%)	11.1	12.0	-90bps	11.6	-50bps	11.7	-60bps
Other Income	261	60	331.3	44	498.9	50	421.0
Interest	820	613	33.9	744	10.3	725	13.2
Depreciation	1,513	1,317	14.9	1,522	(0.6)	1,522	(0.6)
PBT	1,838	1,946	(5.6)	1,723	6.6	1,882	(2.4)
Tax	452	529	(14.6)	349	29.3	480	(5.9)
Tax rate (%)	24.6	27.2		20.3		25.5	
Exceptional (gain)/loss	33	-75		370		0	
PAT Reported	1,354	1,492	(9.3)	1,004	34.8	1,402	(3.5)
Adj. PAT after MI	1,386	1,418	(2.2)	1,374	0.9	1,402	(1.1)
PAT Margin (%)	3.9	4.5	-50bps	4.0	-10bps	4.0	-10bps
EPS	33.5	36.9	-9.3	24.8	34.8	34.7	-3.5

Source: Company, JM Financial.

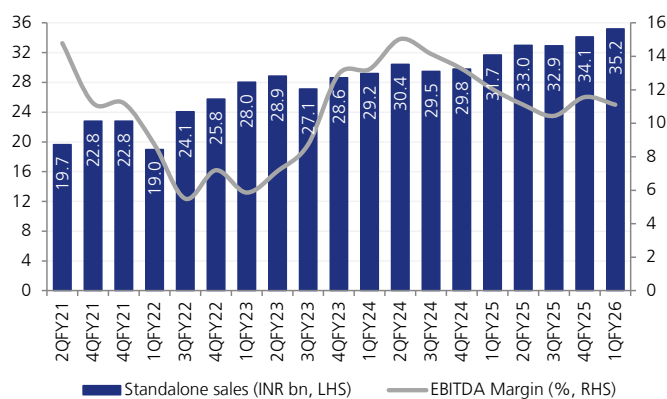
Exhibit 2. Quarterly financial results (Consolidated)

(INR mn)

	1QFY26	1QFY25	% YoY	4QFY25	% QoQ	1QFY26E	% A/E
Sales	35,294	31,928	10.5	34,206	3.2	34,915	1.1
RM	22,311	19,401	15.0	21,391	4.3	21,490	3.8
As a % of sales	63.2	60.8	250bps	62.5	70bps	61.6	170bps
Employee exp.	2,268	1,956	15.9	2,257	0.5	2,304	(1.6)
As a % of sales	6.4	6.1	30bps	6.6	-20bps	6.6	-20bps
Other Costs	6,838	6,742	1.4	6,677	2.4	7,158	(4.5)
As a % of sales	19.4	21.1	-170bps	19.5	-10bps	20.5	-110bps
EBITDA	3,877	3,829	1.3	3,881	(0.1)	3,963	(2.2)
EBITDA Margin (%)	11.0	12.0	-100bps	11.3	-40bps	11.4	-40bps
Other Income	47	62	(23.1)	45	4.6	50	(5.4)
Interest	821	619	32.7	744	10.3	725	13.2
Depreciation	1,514	1,318	14.9	1,523	(0.6)	1,425	6.2
PBT	1,590	1,954	(18.6)	1,659	(4.1)	1,863	(14.6)
Tax	419	540	(22.3)	356	17.8	475	(11.8)
Tax rate (%)	26.4	27.6		21.5		25.5	86bps
Exceptional (gain)/loss	33	-75	NA	370	(91.1)	0	NA
Minority interest	14	-53	NA	-63	NA	-50	NA
PAT Reported	1,125	1,542	(27.1)	995	13.0	1,438	(21.8)
Adj. PAT after MI	1,157	1,467	(21.1)	1,365	(15.2)	1,438	(19.5)
PAT Margin (%)	3.3	4.6	-130bps	4.0	-70bps	4.1	
EPS	28.6	36.3	(21.1)	33.8	(15.2)	35.5	(19.5)

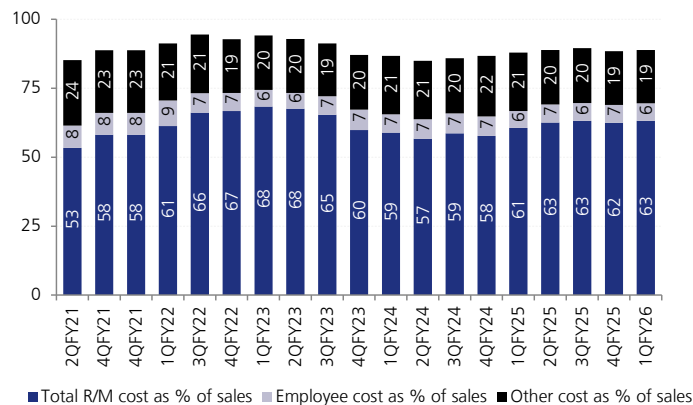
Source: Company, JM Financial.

Exhibit 3. Standalone sales & margin trends



Source: Company, JM Financial

Exhibit 4. Standalone cost analysis



Source: Company, JM Financial

Exhibit 5. 1-yr forward PE chart



Source: Bloomberg, JM Financial

Exhibit 6. CEAT – change in estimates

CEAT	New assumption			Old assumption			% change		
	FY25A	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INR mn)	132,179	152,177	166,096	132,179	152,739	166,454	0.0%	-0.4%	-0.2%
EBITDA (INR mn)	14,741	20,355	23,899	14,741	21,162	23,954	0.0%	-3.8%	-0.2%
EBITDAM (%)	11.2%	13.4%	14.4%	11.2%	13.9%	14.4%	0bps	-50bps	0bps
PAT (INR mn)	5,023	7,570	9,234	5,023	7,728	9,276	0.0%	-2.0%	-0.4%
EPS (INR)	124	187	228	124	191	229	0.0%	-2.0%	-0.4%

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	1,19,435	1,32,179	1,52,177	1,66,096	1,75,269
Sales Growth	5.6%	10.7%	15.1%	9.1%	5.5%
Other Operating Income	0	0	0	0	0
Total Revenue	1,19,435	1,32,179	1,52,177	1,66,096	1,75,269
Cost of Goods Sold/Op. Exp	69,244	82,321	90,557	96,045	1,00,409
Personnel Cost	8,457	8,562	9,838	10,954	11,707
Other Expenses	25,212	26,554	31,426	35,198	37,931
EBITDA	16,522	14,741	20,355	23,899	25,222
EBITDA Margin	13.8%	11.2%	13.4%	14.4%	14.4%
EBITDA Growth	69.7%	-10.8%	38.1%	17.4%	5.5%
Depn. & Amort.	5,088	5,627	7,580	8,494	9,209
EBIT	11,434	9,115	12,775	15,405	16,014
Other Income	197	176	193	230	270
Finance Cost	2,691	2,778	2,880	3,294	3,137
PBT before Excep. & Forex	8,941	6,512	10,089	12,341	13,147
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	8,941	6,512	10,089	12,341	13,147
Taxes	2,214	1,720	2,618	3,206	3,397
Extraordinary Inc./Loss(-)	-582	-296	0	0	0
Assoc. Profit/Min. Int.(-)	-282	-231	-100	-100	-100
Reported Net Profit	6,427	4,726	7,570	9,234	9,851
Adjusted Net Profit	7,008	5,023	7,570	9,234	9,851
Net Margin	5.9%	3.8%	5.0%	5.6%	5.6%
Diluted Share Cap. (mn)	40.5	40.5	40.5	40.5	40.5
Diluted EPS (INR)	173.3	124.2	187.2	228.3	243.5
Diluted EPS Growth	219.1%	-28.3%	50.7%	22.0%	6.7%
Total Dividend + Tax	1,214	1,214	1,416	1,618	1,618
Dividend Per Share (INR)	30.0	30.0	35.0	40.0	40.0

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	8,941	6,512	10,089	12,341	13,147
Depn. & Amort.	5,088	5,627	7,580	8,494	9,209
Net Interest Exp. / Inc. (-)	2,691	2,778	2,880	3,294	3,137
Inc (-) / Dec in WCap.	1,598	-2,473	3,859	901	1,458
Others	-377	-86	100	100	100
Taxes Paid	-2,214	-1,720	-2,618	-3,206	-3,397
Operating Cash Flow	15,727	10,638	21,889	21,924	23,654
Capex	-7,713	-11,299	-27,500	-9,075	-9,075
Free Cash Flow	8,014	-661	-5,611	12,849	14,579
Inc (-) / Dec in Investments	-125	-78	0	0	0
Others	-2,691	-2,778	-2,880	-3,294	-3,137
Investing Cash Flow	-10,528	-14,155	-30,380	-12,369	-12,212
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-1,214	-1,214	-1,416	-1,618	-1,618
Inc / Dec (-) in Loans	-5,040	3,449	12,300	-5,500	0
Others	1,376	712	160	79	88
Financing Cash Flow	-4,877	2,948	11,044	-7,039	-1,530
Inc / Dec (-) in Cash	321	-569	2,553	2,516	9,912
Opening Cash Balance	719	591	532	3,086	5,601
Closing Cash Balance	1,040	22	3,086	5,601	15,513

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	40,426	43,685	49,772	57,322	65,487
Share Capital	405	405	405	405	405
Reserves & Surplus	40,022	43,281	49,368	56,917	65,082
Preference Share Capital	0	0	0	0	0
Minority Interest	97	77	77	77	77
Total Loans	17,915	21,364	33,664	28,164	28,164
Def. Tax Liab. / Assets (-)	4,509	5,004	5,004	5,004	5,004
Total - Equity & Liab.	62,948	70,130	88,517	90,566	98,731
Net Fixed Assets	69,546	75,218	95,138	95,719	95,585
Gross Fixed Assets	88,599	1,01,359	1,28,859	1,37,934	1,47,009
Intangible Assets	231	231	231	231	231
Less: Depn. & Amort.	26,119	31,746	39,326	47,821	57,029
Capital WIP	6,835	5,375	5,375	5,375	5,375
Investments	1,821	1,898	1,898	1,898	1,898
Current Assets	28,578	35,007	35,762	40,026	51,801
Inventories	11,505	14,115	13,452	14,246	15,091
Sundry Debtors	12,832	16,533	15,357	16,265	17,231
Cash & Bank Balances	591	532	3,086	5,601	15,513
Loans & Advances	2,540	3,227	3,269	3,315	3,366
Other Current Assets	1,110	599	599	599	599
Current Liab. & Prov.	36,997	41,994	44,282	47,078	50,554
Current Liabilities	23,321	27,402	28,266	29,598	31,470
Provisions & Others	13,676	14,592	16,016	17,480	19,083
Net Current Assets	-8,419	-6,987	-8,520	-7,051	1,247
Total - Assets	62,948	70,130	88,517	90,566	98,731

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	5.9%	3.8%	5.0%	5.6%	5.6%
Asset Turnover (x)	2.0	2.1	2.0	1.9	1.9
Leverage Factor (x)	1.6	1.5	1.6	1.6	1.5
RoE	18.7%	11.9%	16.2%	17.2%	16.0%

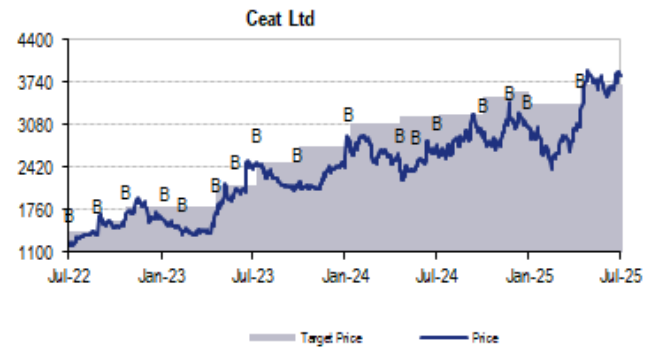
Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	999.4	1,080.0	1,230.5	1,417.1	1,619.0
ROIC	15.5%	11.3%	13.4%	14.6%	15.4%
ROE	18.7%	11.9%	16.2%	17.2%	16.0%
Net Debt/Equity (x)	0.4	0.5	0.6	0.4	0.2
P/E (x)	22.1	30.8	20.4	16.8	15.7
P/B (x)	3.8	3.5	3.1	2.7	2.4
EV/EBITDA (x)	10.3	11.8	9.0	7.4	6.6
EV/Sales (x)	1.4	1.3	1.2	1.1	0.9
Debtor days	39	46	37	36	36
Inventory days	35	39	32	31	31
Creditor days	83	85	78	76	77

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
26-Oct-21	Buy	1,550	
20-Jan-22	Buy	1,400	-9.7
8-May-22	Buy	1,425	1.8
21-Jul-22	Buy	1,415	-0.7
14-Sep-22	Buy	1,600	13.1
8-Nov-22	Buy	1,800	12.5
26-Jan-23	Buy	1,800	0.0
1-Mar-23	Buy	1,800	0.0
7-May-23	Buy	2,150	19.4
16-Jun-23	Buy	2,150	0.0
26-Jul-23	Buy	2,500	16.3
18-Oct-23	Buy	2,750	10.0
28-Jan-24	Buy	3,100	12.7
6-May-24	Buy	3,200	3.2
9-Jun-24	Buy	3,200	0.0
21-Jul-24	Buy	3,250	1.6
20-Oct-24	Buy	3,500	7.7
11-Dec-24	Buy	3,600	2.9
17-Jan-25	Buy	3,400	-5.6
1-May-25	Buy	3,700	8.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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