

March 05, 2024

Company Update | Sector: Automobile

# CEAT Ltd

## Digital initiatives key to drives efficiencies

### View - Increased focus on digital initiatives over past 2-3 years

We interacted with the management of CEAT alongside our visit to its Tamil Nadu (TV) plant. While TN plant contributes <10% of revenues, the purpose of the visit to dwell more into digital and automation aiding cost controls and manufacturing efficiencies. Key takeaways from interactions are, 1) Revenue growth expected to be single digits in FY25 supported by growth across the OEM, replacement, and exports. 2) CEAT is enhancing focus on EV tyres with platform-wins in 2W, PV and CV segments. 3) RM cost is expected to be flat QoQ for 4QFY24E however, recent volatility in NR and crude can influence margins in 1QFY25E. 4) TN plant to see TBR capacity expansion over 12-18 months.

TV plant visit was centered around, 1) showcasing strong product line-up in TBR, PCR (both for domestic and exports) and EV, 2) recent launches such as motorcycle steel radials for high performance bikes (import substitute and ASP 2x of average segment fitment) where co supply to RE Himalayan 450 and Shotgun 650, and 3) overall cost reduction through digitalization initiatives at plant level. To steer exports growth, co has showcased products in PCR (for touring and SUV segment) and TBR segment (both for US and Europe). We believe, going forward, exports growth will be led by OHT and entry into US markets, however near-term headwinds led by red sea issues could lead to a rise in logistics costs in the Europe route over the 2-3 months. Our FY24/25/26 consol EPS are unchanged and we maintain 'Neutral' on the stock with TP at Rs2,982 based on ~15x Mar-26 EPS. Valuation at 15.4x/14.4x FY25/FY26 consol EPS (v/s 10yr LPA of ~17x) do partially reflects the positives.

### Key takeaways from interaction and plant visit

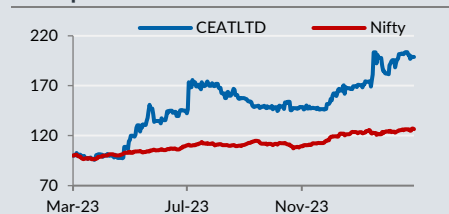
- **Growth strategy intact for domestic and exports** – Co is well-positioned to achieve medium-term targets of, 1) sustaining the leadership in the 2W segment backed by the new product launches in super premium category (350-1,200cc segment), 2) continue market share gains journey in PCR led by new SKU launches including for ultra-high-performance segments for both domestic and exports and 3) growing export market revenues by 2X to ~Rs40b by FY26E. Overall have ~700 SKUs and would expand to 1000+ SKUs. Have launched ~150 SKUs in 9MFY24.
- **Outlook positive (but no change vs 3QFY24 call)** - The domestic replacement market is anticipated to grow in single digits. Within this, scooter segment would grow by double-digit. In exports, the company expects headwinds in the European market. However, Latin America, Africa, South-East Asia and Middle East markets are likely to report positive growth. From 1QFY25, CEAT would start selling its PCR and TBR tyres in addition to agri tyres in the US market. The target is to increase the share of exports from ~18% currently to ~25% in three years. On the margins side, RM is expected to be flat QoQ in 4QFY24E, but are expected to increase slightly QoQ due to higher prices of natural rubber and crude derivatives.
- **Indicative digitalization pay back at 2-3 years** – The impact of used case based digital initiatives are being measured as, 1) finance KPIs (conversion cost and margins etc.) and 2) operational KPIs (throughput, energy, scrap and quality etc.). Some of the notable results over past 2 years are, 1) increase in exports, OE sales, 2) technology platforms and 3) reduction in NPDs and turn around time.
- **Exports to grow on low base and new launches** - CEAT indicated that it expects to increase its exports revenue mix to ~25% from the current ~19%, led by, 1) foraying into new markets, 2) customized product offerings, 3) ramping up capacities and 4) winning orders from legacy OEMs. The company highlighted that it has low presence in the replacement TBR market, which the company will be capitalizing in the coming years to drive growth. New products in TBR and PCR will be launched in the US ahead.

Reco	: <b>NEUTRAL</b>
CMP	: Rs 2,867
Target Price	: Rs 2,982
Potential Return	: +4%

### Stock data (as on March 05, 2024)

Nifty	22,386
52 Week h/l (Rs)	2994 / 1357
Market cap (Rs/USD mn)	115014 / 1388
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	782
Div yield (%):	0.5
Bloomberg code:	CEAT IN
NSE code:	CEATLTD

### Stock performance



	1M	3M	1Y
Absolute return	11.1%	28.7%	101.6%

### Shareholding pattern (As of Dec'23)

Promoter	47.2%
FII+DII	34.3%
Others	18.5%

### Δ in stance

(1-Yr)	New	Old
Rating	Neutral	Neutral
Target Price	2,982	2,982

### Δ in earnings estimates

	FY25E	FY26E
EPS (New)	186	199
EPS (Old)	186	199
% change	-	-

### Financial Summary

Y/E MARCH (Rs b)	FY24E	FY25E	FY26E
Sales	122.2	133.2	145.2
EBITDA	16.6	18.0	19.3
Adj. PAT	7.0	7.5	8.0
Adj. EPS (INR)	171.8	186.1	198.8
EPS Gr. (%)	216.5	8.3	6.8
BV/Sh. (INR)	1,002	1,164	1,339
RoE (%)	17.1	16.0	14.8
RoCE (%)	18.6	18.0	17.5
Payout (%)	11.2	10.3	9.7
P/E (x)	16.5	15.2	14.3
P/BV (x)	2.8	2.4	2.1
EV/EBITDA (x)	7.8	7.0	5.9
Div. Yield (%)	0.6	0.6	0.6

### DEEP SHAH

Lead Analyst

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- **Product premiumization in PCR and 2Ws** - In the PCR (OEM), there has been a notable shift towards large diameter tyres. The company has discontinued lower rim size tyres in the PV OEM space. As the industry shifts towards UVs, it should support product mix ahead. The product coverage in super premium cars (Mercedes, BMW, and Audi) currently stands at 85–90%.
  - **Manufacturing of Steel radials for premium bikes – an import substitute** - In the 2W space, there is a new product launched in the domestic market to cater to premium and super premium motorcycles (>350cc). Our interactions indicate, 2x price realization (v/s average standard fitment for the segment). CEAT is supplying this product to recently launched RE's Himalayan 450 and Shotgun 650 as an OE fitment. But for aftermarkets, it has launched products for KTM Duke 400, Suzuki and Yamaha premium line-up. Currently, these tyres are imported.
- **Tamil Nadu (TN) plant focusing on digitization and automation** – TN plant currently contributes < 10% of revenues. The objective of the visit was to understand automation and digitization efforts that are aiding cost savings and enhancing productivity. The digitization efforts are supporting faster product development, improving throughput, reducing energy usage, raising manpower productivity, improving quality, etc. Over 200 SKUs have been launched from this plant in the past one year with more likely to be introduced ahead. The plant's PCR capacity is 20k tyres per day (tpd) and expanded to 28.5k tpd. The 2W capacity is 2.5k tpd, and steel radial 2W capacity is ~1k tpd. Furthermore, CEAT is setting up TBR capacity of ~1.5k expected to be commissioned in 12–18 months.

## FINANCIALS

### Exhibit 1: Balance Sheet

Y/E March (Rs m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	405	405	405	405	405	405
Total Reserves & other equity	32,991	32,559	34,166	40,135	46,683	53,741
Net Worth	33,395	32,964	34,570	40,540	47,087	54,146
Deferred Liabilities	4,116	4,491	5,196	5,296	5,396	5,496
Total Loans	15,837	22,800	23,466	17,383	18,300	18,300
Capital Employed	53,348	60,255	63,232	63,218	70,782	77,941
Gross Block	58,732	67,748	79,307	88,082	98,082	98,082
Less: Accum. Deprn.	11,097	14,456	19,149	24,217	29,691	35,603
Net Fixed Assets	47,634	53,292	60,158	63,864	68,390	62,478
Capital WIP	7,929	8,759	5,961	-	-	-
Total Investments	2,101	1,792	1,696	1,716	1,738	1,763
Curr. Assets, Loans&Adv.	24,968	29,076	28,961	33,527	39,432	55,557
Inventory	11,299	13,096	11,378	11,718	12,772	13,922
Account Receivables	9,216	11,543	13,070	16,070	17,517	19,093
Cash and Bank Balance	431	363	719	2,445	6,099	19,748
Loans and Advances	-	-	-	-	-	-
Others	4,022	4,074	3,794	3,294	3,044	2,794
Curr. Liability & Prov.	29,284	32,663	33,543	35,889	38,778	41,857
Account Payables	18,395	21,576	21,871	23,436	25,545	27,844
Provisions	1,541	1,680	1,917	1,942	1,967	1,992
Others	9,348	9,407	9,756	10,511	11,266	12,021
Net Current Assets	(4,316)	(3,587)	(4,583)	(2,362)	654	13,700
Appl. of Funds	53,347	60,255	63,232	63,218	70,782	77,941

Source: Company, YES Sec

## Exhibit 2: Income statement

Y/E March (Rs m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	76,096	93,634	113,149	122,201	133,199	145,187
Change (%)	12.3	23.0	20.8	8.0	9.0	9.0
EBITDA	9,830	7,098	9,738	16,596	17,970	19,303
Margin (%)	12.9	7.6	8.6	13.6	13.5	13.3
Depreciation	3,396	4,352	4,693	5,069	5,474	5,912
EBIT	6,433	2,746	5,045	11,528	12,496	13,391
Int. and Finance Charges	1,755	2,070	2,421	2,736	2,955	3,191
Other Income - Rec.	138	114	169	203	224	246
PBT bef. EO Exp.	4,816	790	2,793	8,995	9,765	10,446
EO Expense/(Income)	341	129	334	334	334	334
PBT after EO Exp.	4,476	661	2,459	8,661	9,430	10,112
Tax	516	243	718	2,165	2,358	2,528
Tax Rate (%)	11.5	36.7	29.2	25.0	25.0	25.0
Reported PAT	3,960	418	1,742	6,496	7,073	7,584
PAT Adj	4,661	841	2,196	6,951	7,529	8,040
Change (%)	78.5	(82.0)	161.1	216.5	8.3	6.8

Source: Company, YES Sec

## Exhibit 3: Cash Flow Statement

Y/E March (Rs m)	FY21	FY22	FY23	FY24E	FY25E	FY26E
NP/ (Loss) bef Tax and EO	4,476	661	2,793	8,995	9,765	10,446
Depreciation	3,396	4,352	4,693	5,069	5,474	5,912
Interest & Finance Charges	1,755	2,070	2,421	2,736	2,955	3,191
Direct Taxes Paid	(460)	133	(13)	(2,065)	(2,258)	(2,428)
(Inc)/Dec in WC	4,516	(736)	485	(1,775)	(392)	(427)
Others	(106)	(291)	1,144	121	122	122
CF from Operations	13,577	6,189	12,055	14,026	16,361	17,512
(inc)/dec in FA	(6,395)	(9,587)	(8,791)	(2,814)	(10,000)	(0)
Free Cash Flow	7,182	(3,398)	3,264	10,878	6,027	17,178
(Pur)/Sale of Investments	214	143	299	(20)	(22)	(25)
CF from Investments	(6,181)	(9,444)	(8,492)	(2,834)	(10,022)	(25)
(Inc)/Dec in Debt	(5,677)	5,821	(979)	(6,083)	917	-
Interest Paid	(1,628)	(1,944)	(2,093)	(2,736)	(2,955)	(3,191)
Dividend Paid	(4)	(746)	(126)	(647)	(647)	(647)
CF from Fin. Activity	(7,309)	3,132	(3,197)	(9,466)	(2,685)	(3,838)
Inc/Dec of Cash	87	(123)	366	1,392	3,320	13,315
Add: Beginning Balance	274	361	238	719	2,445	6,099
Closing Balance	361	238	603	2,111	5,765	19,414

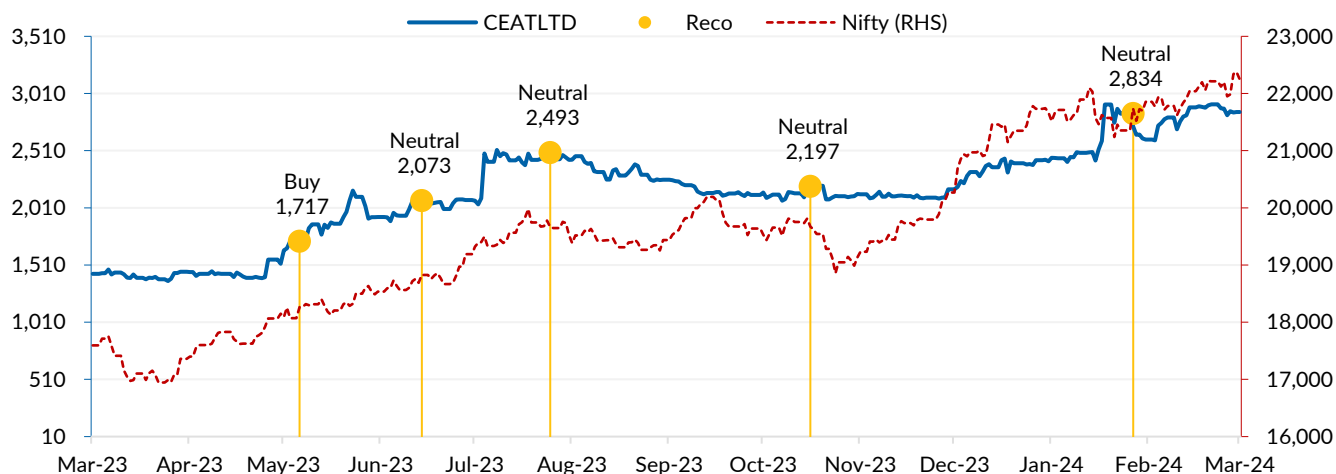
Source- Company, YES Sec

## Exhibit 4: Growth and Ratio matrix

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>						
EPS	115.2	20.8	54.3	171.8	186.1	198.8
Growth (%)	78.5	(82.0)	161.1	216.5	8.3	6.8
Cash EPS	199.2	128.4	170.3	297.1	321.4	344.9
BV/Share	825.6	814.9	854.6	1,002.2	1,164.1	1,338.6
DPS	18.0	3.0	12.0	16.0	16.0	16.0
Payout (%)	19.4	19.6	30.0	11.2	10.3	9.7
<b>Valuation (x)</b>						
P/E	24.6	136.3	52.2	16.5	15.2	14.3
Cash P/E	14.2	22.1	16.6	9.5	8.8	8.2
P/BV	3.4	3.5	3.3	2.8	2.4	2.1
EV/Sales	1.7	1.5	1.2	1.1	1.0	0.8
EV/EBITDA	13.2	19.3	14.1	7.8	7.0	5.9
Dividend Yield (%)	0.6	0.1	0.4	0.6	0.6	0.6
<b>Return Ratios (%)</b>						
EBITDA Margins (%)	12.9	7.6	8.6	13.6	13.5	13.3
Net Profit Margins (%)	6.1	0.9	1.9	5.7	5.7	5.5
RoE	14.0	2.6	6.4	17.1	16.0	14.8
RoCE	12.3	4.7	8.2	18.6	18.0	17.5
<b>Operating Ratios</b>						
Fixed Asset Turnover (x)	1.7	1.9	2.0	2.0	2.0	2.2
Inventory (Days)	53.6	50.4	55.0	55.0	55.0	55.0
Debtor (Days)	44.5	45.2	42.2	50.0	50.0	50.0
Creditor (Days)	88.5	84.5	73.6	77.0	77.0	77.0
Working Capital (Days)	9.6	11.1	5.1	13.0	13.0	13.0
<b>Leverage Ratio (x)</b>						
Current Ratio	0.8	0.8	0.8	0.9	1.0	1.3
Debt/Equity	0.5	0.7	0.7	0.4	0.4	0.3

Source: Company, YES Sec

## Recommendation Tracker



Source - YES Sec

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**ADD:** Upside between 10% to 20% over 12 months

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