

CEAT recorded accelerated revenue growth of 11% in Q3FY25 (~7.9%/1.5% volume /realization growth) with EBITDA ~5% above Consensus, despite the ~60bps QoQ margin decline to 10.3% amid the ~1% higher RM. CEAT has guided to growth momentum continuing, with Truck/Bus, 2W, and Farm/PV replacement seen growing in a high single digit, double digits, and a low single digit, respectively, and further market share gains in consumer OEM categories along with sustained double digit growth in exports. While RM inflation remained ahead of price hikes in Q3FY25, RM is seen as largely stable (+/- 1%) in Q4FY25, with further price hikes on the anvil – including in 2Ws. CEAT expects to return to the higher-end of the 10-15% EBITDA margin band over FY26, if RM prices sustain at current levels. While margin recovery appears slightly delayed, we expect CEAT's consumer-facing product mix and continuing market-leading growth to cushion the impact. We cut FY25E/26E/27E EPS by ~8%/~4%/~2%, respectively, with bulk of the cut being attributable to higher than expected interest costs. We maintain BUY on CEAT, with unchanged TP of Rs4,000 at 18x Dec-26E PER.

CEAT: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	113,149	119,435	131,629	146,064	160,686
EBITDA	9,738	16,523	14,387	18,010	20,809
Adj. PAT	2,196	7,009	5,075	7,367	9,247
Adj. EPS (Rs)	54.3	173.3	125.5	182.1	228.6
EBITDA margin (%)	8.6	13.8	10.9	12.3	13.0
EBITDA growth (%)	39.7	69.7	(12.9)	25.2	15.5
Adj. EPS growth (%)	117.0	245.2	(21.0)	45.1	25.5
RoE (%)	6.5	18.7	12.0	15.6	17.0
RoIC (%)	7.5	16.1	12.2	15.4	17.1
P/E (x)	56.1	17.6	24.3	16.7	13.3
EV/EBITDA (x)	14.9	8.5	9.8	7.7	6.5
P/B (x)	3.6	3.0	2.8	2.4	2.1
FCFF yield (%)	2.3	6.1	2.6	4.3	4.8

Source: Company, Emkay Research

Double-digit revenue growth; QoQ margin decline curtailed via strategic price hikes

Consol revenue grew 11% YoY to Rs33bn (above estimates) aided by 7.9%/1.5% volume/realization growth. EBITDA was down 6% QoQ to Rs3.4bn, but above consensus estimates. EBITDA margin declined by 63bps QoQ to 10.3%, with gross margin contraction restricted to ~59bps QoQ via active pricing actions partially offsetting the ~1.2% QoQ rise in natural rubber prices during the quarter. Adj PAT at ~Rs971mn was 5% below consensus, amid higher than expected interest (due to higher average debt during the quarter) and tax expense.

Earnings call KTAs

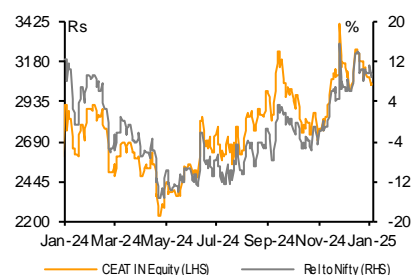
1) The management has guided to continued growth momentum Q4, with the Truck/Bus replacement segment expected to grow in a high single digit, 2W replacement potentially in double digits, Farm/PVs replacement in a low single digits, and margin-accretive exports in double digits. 2) Growth is anticipated to relatively accelerate in the consumer OEM segments (2Ws/4Ws), amid market share gains through increased fitments; TBR segment to consolidate, despite a low single digit decline in MHCV volumes. On the rural front, the farm/2W replacement segment is seeing robust growth owing to favorable macros. 3) CEAT is inching toward double digit market share in a consolidated OHT market; PV segment market share has been largely stable over the quarters. 4) The US market is expected to contribute 20-30% of exports in the next 2-3 years, while the EU is nearing 10% of total turnover (in a single digit now). While LatAm faces headwinds, the US is seeing growth in OTR and TBR, with PCR introduction from FY26. The EU market is performing well in OHT. 5) CEAT aims to retain Camso's premium positioning and pricing, targeting customers in international (EU and US) markets; OHT segment revenue contribution would nearly double (~15% now), with share of exports growing to ~26% (vs 19% now) post consolidation of Camso in Q1FY26. 6) In Q3, CEAT took price hikes across categories in the replacement segment – 1.5% in Farm/CVs and 4% in PVs; further hikes are planned in the export and replacement segments in Q4; owing to robust growth and higher competition in 2Ws, price hikes were restricted to ~1% (at the end of Q3; would continue in Q4FY25); further 5-6 price hikes would be needed to close the pricing gap in 2Ws; price hikes to be enforced in 3Ws by end of Jan-25. CEAT has secured 3-4% price benefit in indexed OEMs and negotiated additional increases with CV OEMs. 7) Business mix improvement and price increases were insufficient to offset the 1.2% QoQ RM inflation in Q3, and RM costs are expected to be flattish (+/-1%) QoQ, contingent on crude prices and currency depreciation; The management expects to reach the higher end of the 10-15% EBITDA margin band over FY26, given that RM prices remain stable at current levels as it would take ~6-9 months to pass-on any price increase. 8) The proposed 30% capacity expansion of 2W/3W tyre capacity to 35mn tyres pa (vs 27mn now) would entail a capex of ~Rs4bn, with completion targeted for FY28. This would be funded by a mix of internal accruals and debt. PCR/TBR capacity at the Chennai plant is also under discussions. However, the management has maintained its guidance of bite-size capex of ~Rs10.5bn for FY25. 9) Overall utilization levels remain above 85%, with the Halol plant functioning at 95% utilization. 10) Working capital / debt has reduced by Rs840mn/500mn in Q3; net debt/EBITDA stands at 1.22x, and net debt/equity at 0.43x.

Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	31.4
CMP (16-Jan-25) (Rs)	3,044.0

Stock Data	Ticker
52-week High (Rs)	3,581
52-week Low (Rs)	2,210
Shares outstanding (mn)	40.5
Market-cap (Rs bn)	123
Market-cap (USD mn)	1,423
Net-debt, FY25E (Rs mn)	17,453
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	874.1
ADTV-3M (USD mn)	10.1
Free float (%)	52.8
Nifty-50	23,312
INR/USD	86.6
Shareholding, Sep-24	
Promoters (%)	47.2
FPIs/MFs (%)	16.7/19.7

Price Performance			
(%)	1M	3M	12M
Absolute	(3.3)	3.4	21.9
Rel. to Nifty	2.3	10.7	15.2

1-Year share price trend (Rs)



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Exhibit 1: Q3FY25 Performance Snapshot – Double digit revenue growth; QoQ margin declined, partially arrested via strategic price hikes

(Rs mn)	Q1 FY24	Q2 FY24	Q3FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	YoY (%)	QoQ (%)
Revenue	29,352	30,533	29,631	29,919	31,928	33,045	32,999	11.4	(0.1)
Expenditure	25,481	25,972	25,456	26,003	28,099	29,423	29,590	16.2	0.6
as % of sales	86.8	85.1	85.9	86.9	88.0	89.0	89.7		
Consumption of RM	17,296	17,298	17,385	17,265	19,401	20,683	20,847	19.9	0.8
as % of sales	58.9	56.7	58.7	57.7	60.8	62.6	63.2		
Employee Cost	1,955	2,177	2,172	2,153	1,956	2,190	2,159	(0.6)	(1.4)
as % of sales	6.7	7.1	7.3	7.2	6.1	6.6	6.5		
Other expenditure	6,230	6,498	5,899	6,585	6,742	6,550	6,584	11.6	0.5
as % of sales	21.2	21.3	19.9	22.0	21.1	19.8	20.0		
EBITDA	3,871	4,561	4,175	3,915	3,829	3,623	3,409	(18.3)	(5.9)
EBITDA margin (%)	13.2	14.9	14.1	13.1	12.0	11.0	10.3		
Depreciation	1,209	1,245	1,273	1,361	1,318	1,371	1,415	11.1	3.2
EBIT	2,662	3,316	2,902	2,555	2,511	2,252	1,994	(31.3)	(11.4)
Other Income	33	105	29	31	62	35	34	16.7	(0.6)
Interest	701	717	656	617	619	665	751	14.6	13.0
PBT	1,993	2,704	2,276	1,969	1,954	1,622	1,278	(43.9)	(21.2)
Total Tax	529	683	544	458	540	463	361	(33.6)	(22.0)
Adjusted PAT	1,464	2,021	1,731	1,510	1,414	1,159	916	(47.1)	(20.9)
MI and Inc from JV	(18)	59	84	157	53	61	55	(34.3)	(9.1)
Adjusted PAT after MI	1,446	2,080	1,815	1,667	1,467	1,219	971	(46.5)	(20.3)
Exceptional Loss/(Gain)	-	-	-	(582)	75	(3)	-		
Reported PAT	1,446	2,080	1,815	1,086	1,542	1,216	971	(46.5)	(20.1)
Adjusted EPS (Rs)	35.8	51.4	44.9	26.8	38.1	30.1	24.0	(46.5)	(20.1)
(%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (bps)	QoQ (bps)
Gross Margin	41.1	43.3	41.3	42.3	39.2	37.4	36.8	(450)	(59)
EBITDAM	13.2	14.9	14.1	13.1	12.0	11.0	10.3	(376)	(63)
EBITM	9.1	10.9	9.8	8.5	7.9	6.8	6.0	(375)	(77)
EBTM	6.8	8.9	7.7	6.6	6.1	4.9	3.9	(381)	(104)
PATM	4.9	6.8	6.1	5.6	4.6	3.7	2.9	(318)	(75)
Effective Tax rate	26.5	25.3	23.9	23.3	27.6	28.6	28.3	437	(27)

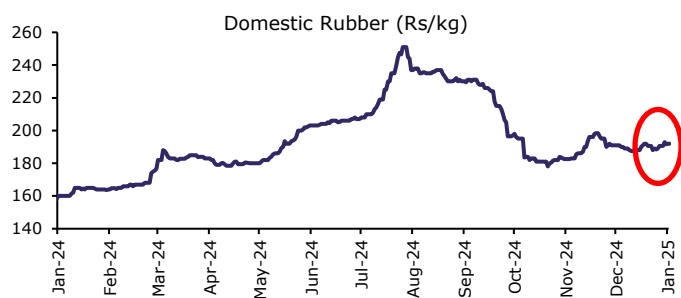
Source: Company, Emkay Research

Exhibit 2: Actual vs Estimates: Margin beat vs consensus

(Rs mn)	Actual	Emkay Est	Variance	Consensus	% Variance
Net sales	32,999	32,002	3.1	33,467	(1.4)
EBITDA	3,409	3,456	(1.4)	3,254	4.8
EBITDA margin (%)	10.3	10.8	-47 bps	9.7	61 bps
Adj net income	971	1,185	(18.1)	1,023	(5.1)
FDEPS (Rs)	24.0	29.3	(18.1)	NA	

Source: Company, Emkay Research

Exhibit 3: Domestic rubber corrected 17% from its recent peak and has now stabilized at lower levels...



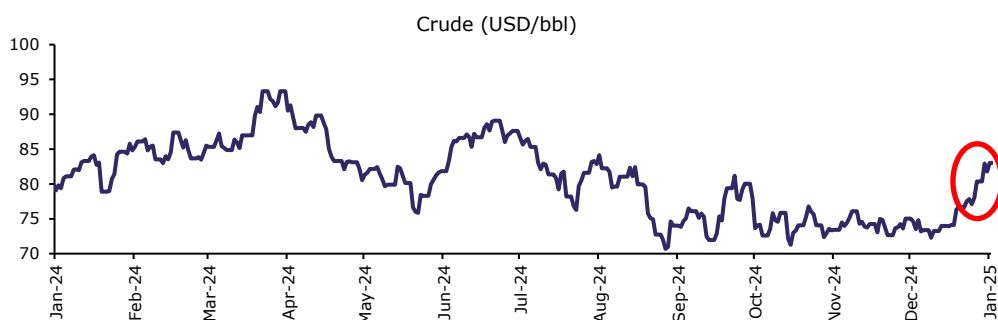
Source: Bloomberg, Emkay Research

Exhibit 4: ...with international rubber prices also down, by 16% from the recent highs



Source: Bloomberg, Emkay Research

Exhibit 5: Crude prices have recently risen due to the unfavorable geo-political situation



Source: Bloomberg, Emkay Research

Exhibit 6: Revenue Model — We build in 10%/20%/35% revenue/EBITDA/EPS CAGR over FY25-27E

Segment (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Truck and Bus	20,336	25,873	28,090	33,945	37,025	39,987	43,186	46,641
% of Revenues	30.0	34.0	30.0	30.0	31.0	30.4	29.6	29.0
Growth YoY (%)	-9.0	27.2	8.6	20.8	9.1	8.0	8.0	8.0
2/3Ws	21,692	22,068	27,154	29,419	32,247	36,762	42,093	47,144
% of Revenues	32.0	29.0	29.0	26.0	27.0	27.9	28.8	29.3
Growth YoY (%)	0.2	1.7	23.0	8.3	9.6	14.0	14.5	12.0
PC/UV	9,490	10,653	16,854	22,630	23,887	25,858	28,314	31,004
% of Revenues	14.0	14.0	18.0	20.0	20.0	19.6	19.4	19.3
Growth YoY (%)	-2.9	12.3	58.2	34.3	5.6	8.3	9.5	9.5
OHT/Speciality	8,135	10,653	13,109	18,104	17,915	20,244	23,078	25,848
% of Revenues	12.0	14.0	14.0	16.0	15.0	15.4	15.8	16.1
Growth YoY (%)	5.9	31.0	23.0	38.1	-1.0	13.0	14.0	12.0
LCV/others	8,135	6,849	8,427	9,052	8,360	8,778	9,393	10,050
% of Revenues	12.0	9.0	9.0	8.0	7.0	6.7	6.4	6.3
Growth YoY (%)	-2.9	-15.8	23.0	7.4	-7.6	5.0	7.0	7.0
Total Consolidated Revenues	67,788	76,096	93,634	113,149	119,435	131,629	146,064	160,686
Growth YoY (%)	-2.9	12.3	23.0	20.8	5.6	10.2	11.0	10.0
EBITDA	6,970	9,522	6,969	9,738	16,523	14,387	18,010	20,809
EBITDA margin (%)	10.3	12.5	7.4	8.6	13.8	10.9	12.3	13.0
EBIT	4,205	6,125	2,617	5,045	11,434	8,864	11,686	13,811
EBIT margin (%)	6.2	8.0	2.8	4.5	9.6	6.7	8.0	8.6
Interest	1,539	1,788	2,070	2,421	2,691	2,594	2,416	2,078
PBT	3,043	4,839	949	2,793	8,941	6,469	9,472	11,937
Tax rate (%)	24	11	26	26	25	25	25	25
PAT	2,312	4,320	712	2,196	7,009	5,075	7,367	9,247
PAT margin (%)	3.4	5.7	0.8	1.9	5.9	3.9	5.0	5.8
EPS (Rs)	57.2	106.8	17.6	54.3	173.3	125.5	182.1	228.6

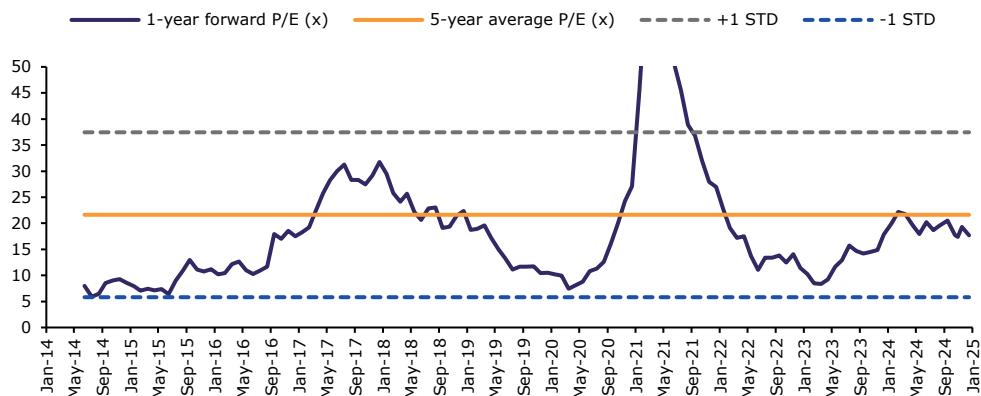
Source: Company, Emkay Research; Our estimates currently do not include the effect of consolidation of Camso.

Exhibit 7: We cut FY25E/26E/27E EPS by 8%/4%/2.4%, largely led by slight delay in margin recovery and higher than expected interest cost

(Rs mn)	FY25E				FY26E				FY27E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Revenue	130,112	131,629	1.2	10.2	144,604	146,064	1.0	11.0	157,886	160,686	1.8	10.0
EBITDA	14,833	14,387	(3.0)	(12.9)	18,220	18,010	(1.2)	25.2	20,841	20,809	(0.2)	15.5
Margin (%)	11.4	10.9	(47)bps	(47)bps	12.6	12.3	(27)bps	140bps	13.2	13.0	(25)bps	62bps
APAT	5,519	5,075	(8.0)	(27.6)	7,676	7,367	(4.0)	45.1	9,475	9,247	(2.4)	25.5
EPS (Rs)	136	125	(8.0)	(27.6)	190	182	(4.0)	45.1	234	229	(2.4)	25.5

Source: Company, Emkay Research

Exhibit 8: CEAT currently trades below its 5-year average PER



Source: Company, Emkay Research

CEAT: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	113,149	119,435	131,629	146,064	160,686
Revenue growth (%)	20.8	5.6	10.2	11.0	10.0
EBITDA	9,738	16,523	14,387	18,010	20,809
EBITDA growth (%)	39.7	69.7	(12.9)	25.2	15.5
Depreciation & Amortization	4,693	5,088	5,523	6,323	6,998
EBIT	5,045	11,434	8,864	11,686	13,811
EBIT growth (%)	92.8	126.6	(22.5)	31.8	18.2
Other operating income	0	0	0	0	0
Other income	169	197	199	201	203
Financial expense	2,421	2,691	2,594	2,416	2,078
PBT	2,793	8,941	6,469	9,472	11,937
Extraordinary items	334	582	0	0	0
Taxes	718	2,214	1,630	2,368	2,984
Minority interest	(38)	(74)	(7)	(7)	(7)
Income from JV/Associates	82	208	229	256	287
Reported PAT	1,862	6,427	5,075	7,367	9,247
PAT growth (%)	117.0	245.2	(21.0)	45.1	25.5
Adjusted PAT	2,196	7,009	5,075	7,367	9,247
Diluted EPS (Rs)	54.3	173.3	125.5	182.1	228.6
Diluted EPS growth (%)	117.0	245.2	(21.0)	45.1	25.5
DPS (Rs)	12.0	30.0	30.0	30.0	30.0
Dividend payout (%)	26.1	18.9	23.9	16.5	13.1
EBITDA margin (%)	8.6	13.8	10.9	12.3	13.0
EBIT margin (%)	4.5	9.6	6.7	8.0	8.6
Effective tax rate (%)	25.7	24.8	25.2	25.0	25.0
NOPLAT (pre-IndAS)	3,749	8,603	6,630	8,765	10,358
Shares outstanding (mn)	40.5	40.5	40.5	40.5	40.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,793	8,941	6,469	9,472	11,937
Others (non-cash items)	7,008	7,789	8,117	8,739	9,075
Taxes paid	377	(1,630)	(1,630)	(2,368)	(2,984)
Change in NWC	2,211	2,674	994	783	199
Operating cash flow	12,055	17,193	14,179	16,883	18,514
Capital expenditure	(8,779)	(8,668)	(10,500)	(11,000)	(12,000)
Acquisition of business	(11)	(44)	0	0	0
Interest & dividend income	299	175	175	175	175
Investing cash flow	(8,491)	(8,537)	(10,500)	(11,000)	(12,000)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(977)	(5,556)	1,224	376	(2,898)
Payment of lease liabilities	936	918	918	918	918
Interest paid	(2,093)	(2,669)	(2,594)	(2,416)	(2,078)
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)	(2,583)	(3,253)	(6,189)
Net chg in Cash	369	(54)	1,095	2,630	325
OCF	12,055	17,193	14,179	16,883	18,514
Adj. OCF (w/o NWC chg.)	9,844	14,518	13,185	16,099	18,315
FCFF	3,276	8,525	3,679	5,883	6,514
FCFE	1,154	6,009	1,260	3,641	4,611
OCF/EBITDA (%)	123.8	104.1	98.6	93.7	89.0
FCFE/PAT (%)	62.0	93.5	24.8	49.4	49.9
FCFF/NOPLAT (%)	87.4	99.1	55.5	67.1	62.9

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	43,883	50,037	58,070
Net worth	34,396	40,426	44,288	50,441	58,475
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	19,139	19,515	16,617
Total liabilities & equity	61,398	62,948	68,026	74,549	79,677
Net tangible fixed assets	30,880	59,268	61,775	66,008	70,124
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	9,306	9,749	10,635
Goodwill	0	0	0	0	0
Investments [JV/Associates]	1,696	1,821	1,821	1,821	1,821
Cash & equivalents	719	591	1,686	4,316	4,641
Current assets (ex-cash)	26,929	27,987	30,845	34,541	38,879
Current Liab. & Prov.	34,868	36,997	40,849	45,328	49,866
NWC (ex-cash)	(7,938)	(9,010)	(10,004)	(10,787)	(10,987)
Total assets	61,398	62,948	68,026	74,549	79,677
Net debt	22,236	17,324	17,453	15,200	11,976
Capital employed	61,398	62,948	68,026	74,549	79,677
Invested capital	53,023	53,701	55,213	58,664	62,581
BVPS (Rs)	850.3	999.4	1,094.9	1,247.0	1,445.6
Net Debt/Equity (x)	0.6	0.4	0.4	0.3	0.2
Net Debt/EBITDA (x)	2.3	1.0	1.2	0.8	0.6
Interest coverage (x)	0.5	0.2	0.3	0.2	0.1
RoCE (%)	8.4	18.4	13.5	16.4	18.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	56.1	17.6	24.3	16.7	13.3
P/CE(x)	17.9	10.2	11.6	9.0	7.6
P/B (x)	3.6	3.0	2.8	2.4	2.1
EV/Sales (x)	1.3	1.2	1.1	0.9	0.8
EV/EBITDA (x)	14.9	8.5	9.8	7.7	6.5
EV/EBIT(x)	28.8	12.3	15.9	11.8	9.8
EV/IC (x)	2.7	2.6	2.5	2.4	2.2
FCFF yield (%)	2.3	6.1	2.6	4.3	4.8
FCFE yield (%)	0.9	4.9	1.0	3.0	3.7
Dividend yield (%)	0.4	1.0	1.0	1.0	1.0
DuPont-RoE split					
Net profit margin (%)	1.9	5.9	3.9	5.0	5.8
Total asset turnover (x)	1.9	1.9	2.0	2.0	2.1
Assets/Equity (x)	1.8	1.7	1.5	1.5	1.4
RoE (%)	6.5	18.7	12.0	15.6	17.0
DuPont-RoIC					
NOPLAT margin (%)	3.3	7.2	5.0	6.0	6.4
IC turnover (x)	2.1	2.2	2.4	2.5	2.6
RoIC (%)	7.5	16.1	12.2	15.4	17.1
Operating metrics					
Core NWC days	(25.6)	(27.5)	(27.7)	(27.0)	(25.0)
Total NWC days	(25.6)	(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	26.6	26.4	26.7

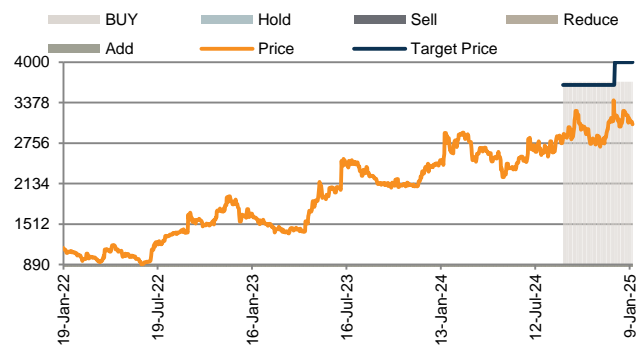
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
10-Jan-25	3,084	4,000	Buy	Chirag Jain
11-Dec-24	3,149	4,000	Buy	Chirag Jain
08-Dec-24	3,096	3,650	Buy	Chirag Jain
21-Oct-24	2,972	3,650	Buy	Chirag Jain
03-Sep-24	2,849	3,650	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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