

Key takeaways from Investor Day 2024

We recently attended CEAT's Investor Day to understand company's medium-term growth strategy. Over the next 2 years, the company aims to gain leadership position in PV replacement segment (currently it is No.3 player with 16% mkt. share) and targets c.400bps market share expansion in T&B replacement market. Medium-term focus is on growing OHT/ exports and entering new export markets (incl. US). Near-term demand remains strong led by healthy replacement segment. Industry has witnessed good pricing discipline in the recent past. Given the RM basket has once again started to increase, we see this pricing discipline to continue. Bite-size capex strategy is expected to maintain / drive ROCE. We maintain BUY with unchanged Mar'25 TP of INR 3,200 (15x FY26e EPS). Ability to mitigate inflationary pressure through price hikes remains a key monitorable.

- Aims for leadership in PV tyres and market share expansion in T&B tyres:** CEAT indicated that its position in 2W replacement segment continues to remain strong with 33% market share, leading No.2 player (MRF) by c.500bps (CEAT tyres are priced at 2-3% premium). In the PV replacement segment, CEAT is marginally behind No.2 player with 16% market share and is aiming for leadership position over the medium term (FY26). To attain leadership position, focus is to a) capture customer's mindshare (through marketing campaign), b) expand retail presence (through CEAT Shoppe) and c) improve dealer profitability. Its TBR market share currently stands at c.7% and the company aims for 12-13% market share (i.e. similar to CV OEM mkt. share currently) in the medium-term. This will be led by deepening geographical penetration (esp. southern India) where it's positioning is relatively weak.
- Medium-term focus on expanding OHT / International business:** CEAT currently has 850+ SKUs for OHT tyres and plans to add 100+ SKUs every year. Strategy is to focus on emerging segments and fast-go-to-market approach. This is expected to drive rapid growth in global OHT market. Over the next 2 years, the company aims to increase revenue share from OHT segment from c.16% in FY23 to c.25%. Overall, in the international business, LATAM and Middle-East remains key geographies so far. EU remains a large opportunity area esp. for OHT segment (both OE and replacement). Further, CEAT is aiming to expand its presence in US with the launch TBR tyres in 2QFY25 followed by PCR tyres in 4QFY25. Rising share of OHT tyres / Exports segment is likely to be margin accretive for the company.
- Targeting double-digit replacement growth in FY25:** CEAT has guided for double-digit growth in 2W and PV replacement segment led by recovery in underlying replacement demand (PVs are travelling more kms/day) and rising premiumisation (in both 2Ws and PVs). In 2W segment, CEAT is pivoting into premium tyres used in cruising and touring, away from commuter bikes. In the PV replacement segment, CEAT expects larger rim size (>17 inch) tyres share to increase from 7-8% currently to 25-30% over next 2-3 years. In the CV segment, OEM growth is expected to moderate but it expects CV replacement demand to grow by 6-8% (similar to LT avg.).

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,200
Upside/(Downside)	30.3%
Previous Price Target	3,200
Change	0.0%

Key Data – CEAT IN

Current Market Price	INR2,456
Market cap (bn)	INR99.3/US\$1.2
Free Float	48%
Shares in issue (mn)	40.5
Diluted share (mn)	40.5
3-mon avg daily val (mn)	INR424.0/US\$5.1
52-week range	2,998/1,911
Sensex/Nifty	76,693/23,290
INR/US\$	83.4

Price Performance

%	1M	6M	12M
Absolute	3.6	5.7	26.3
Relative*	-1.8	-3.7	3.2

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	93,634	1,13,149	1,19,435	1,31,217	1,41,902
Sales Growth (%)	23.0	20.8	5.6	9.9	8.1
EBITDA	7,098	9,738	16,522	17,762	19,491
EBITDA Margin (%)	7.6	8.6	13.8	13.5	13.7
Adjusted Net Profit	841	2,196	7,008	7,592	8,656
Diluted EPS (INR)	20.8	54.3	173.3	187.7	214.0
Diluted EPS Growth (%)	-82.0	161.1	219.1	8.3	14.0
ROIC (%)	3.9	6.9	15.5	15.4	15.8
ROE (%)	2.6	6.5	18.7	17.4	17.2
P/E (x)	118.1	45.2	14.2	13.1	11.5
P/B (x)	3.0	2.9	2.5	2.1	1.8
EV/EBITDA (x)	17.0	12.4	7.0	6.4	5.6
Dividend Yield (%)	0.1	0.5	1.2	1.2	1.2

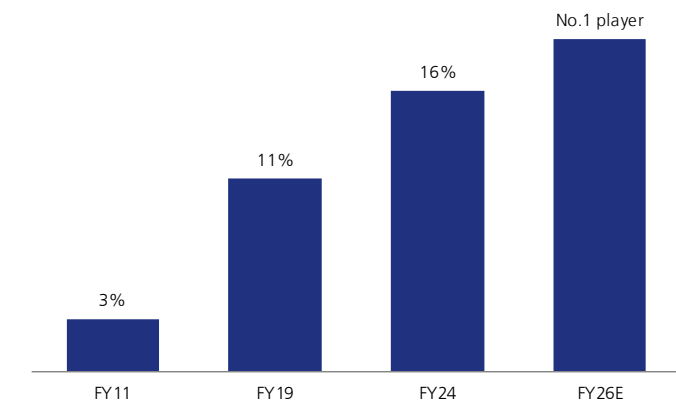
Source: Company data, JM Financial. Note: Valuations as of 07/Jun/2024

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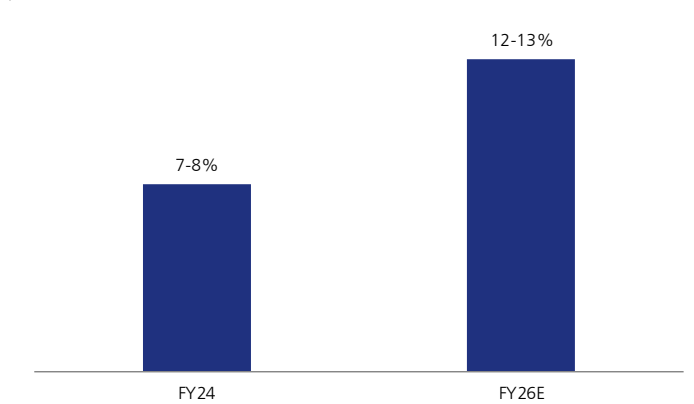
- **Margins to come-off in 1H; ability to take price hikes remain a key monitorable:** CEAT indicated that recent increase in NR prices (to INR 193/kg) is beyond company's own expectation. Moderation in crude oil prices has given some respite though. Overall, RM basket is expected to increase by 2-3% in 1QFY25. Company has already taken a price hike of c.3% in May'24 to pass-through RM inflation and EPR-related costs. Basis the recent increase in NR prices, RM basket is expected to increase further during 2Q. CEAT's ability to further increase prices remains a key monitorable in the near-term.
- **Capex intensity to remain low; debt to largely remain steady:** Peak revenue potential of the current capacity stands at INR 150bn (26% above FY24 topline). Capex guidance of INR 10bn for FY25 is largely to cater to demand for FY26/FY27. The company does not expect any greenfield expansion for 2W/PV/TBR segment over next 2-3 years. Total Debt declined by INR c.4.7bn during FY24 to INR 16.3bn. Debt/EBITDA ratio stands at ~1x. The company re-iterated its focus on 'bite-sized' capex and investing ahead for future growth.

Exhibit 1. Aims leadership position in PV replacement tyres



Source: Company, JM Financial

Exhibit 2. Targets market share gain in T&B replacement tyres



Source: Company, JM Financial

Exhibit 3. Targets exports to be >25% of revenue by FY26 (c.20% currently)

Run rate of ~2.2 mn PC/UV tyres, PC/UV SKUs 2.5x since FY19

4 SEASONDRIVE + RANKED 14TH
Autobild Test

TBR grew by 15%

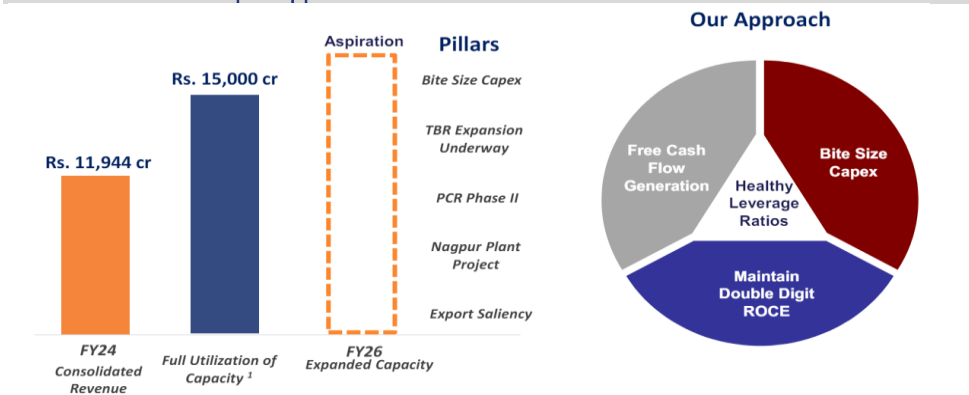
Targeting TBR launch in US
Q2 FY25

Europe, Canada & expanding in US

875+ Off Highway SKUs
~84% coverage in agri segments

Source: Company, JM Financial

Exhibit 4. Bite-sized capex approach and maintain current ROCE levels



¹. Potential revenue at current capacity
Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	93,634	1,13,149	1,19,435	1,31,217	1,41,902	
Sales Growth	23.0%	20.8%	5.6%	9.9%	8.1%	
Other Operating Income	0	0	0	0	0	
Total Revenue	93,634	1,13,149	1,19,435	1,31,217	1,41,902	
Cost of Goods Sold/Op. Exp	60,276	73,854	69,244	76,426	82,137	
Personnel Cost	6,938	7,352	8,457	9,226	9,996	
Other Expenses	19,322	22,205	25,212	27,802	30,278	
EBITDA	7,098	9,738	16,522	17,762	19,491	
EBITDA Margin	7.6%	8.6%	13.8%	13.5%	13.7%	
EBITDA Growth	-27.8%	37.2%	69.7%	7.5%	9.7%	
Depn. & Amort.	4,352	4,693	5,088	5,587	6,246	
EBIT	2,746	5,045	11,434	12,175	13,245	
Other Income	114	169	197	213	230	
Finance Cost	2,070	2,421	2,691	2,301	1,971	
PBT before Excep. & Forex	790	2,793	8,941	10,087	11,503	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	790	2,793	8,941	10,087	11,503	
Taxes	243	718	2,214	2,595	2,947	
Extraordinary Inc./Loss(-)	-129	-334	-582	0	0	
Assoc. Profit/Min. Int.(-)	-294	-120	-282	-100	-100	
Reported Net Profit	712	1,862	6,427	7,592	8,656	
Adjusted Net Profit	841	2,196	7,008	7,592	8,656	
Net Margin	0.9%	1.9%	5.9%	5.8%	6.1%	
Diluted Share Cap. (mn)	40.5	40.5	40.5	40.5	40.5	
Diluted EPS (INR)	20.8	54.3	173.3	187.7	214.0	
Diluted EPS Growth	-82.0%	161.1%	219.1%	8.3%	14.0%	
Total Dividend + Tax	121	485	1,214	1,214	1,214	
Dividend Per Share (INR)	3.0	12.0	30.0	30.0	30.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	790	2,793	8,941	10,087	11,503	
Depn. & Amort.	4,352	4,693	5,088	5,587	6,246	
Net Interest Exp. / Inc. (-)	2,070	2,421	2,691	2,301	1,971	
Inc (-) / Dec in WCap.	-1,417	1,360	1,598	-542	132	
Others	168	-276	-377	100	100	
Taxes Paid	-243	-718	-2,214	-2,595	-2,947	
Operating Cash Flow	5,719	10,274	15,727	14,939	17,006	
Capex	-10,840	-9,564	-7,713	-10,414	-9,035	
Free Cash Flow	-5,121	710	8,014	4,524	7,970	
Inc (-) / Dec in Investments	309	96	-125	0	0	
Others	-2,070	-2,421	-2,691	-2,301	-1,971	
Investing Cash Flow	-12,600	-11,890	-10,528	-12,715	-11,007	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-121	-485	-1,214	-1,214	-1,214	
Inc / Dec (-) in Loans	7,519	666	-5,040	-1,000	-4,000	
Others	-511	1,233	1,376	135	49	
Financing Cash Flow	6,886	1,414	-4,877	-2,079	-5,164	
Inc / Dec (-) in Cash	6	-201	321	144	835	
Opening Cash Balance	431	363	719	591	735	
Closing Cash Balance	437	162	1,040	735	1,570	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	32,728	34,396	40,426	46,737	54,112	
Share Capital	405	405	405	405	405	
Reserves & Surplus	32,324	33,992	40,022	46,333	53,708	
Preference Share Capital	0	0	0	0	0	
Minority Interest	235	174	97	97	97	
Total Loans	22,289	22,955	17,915	16,915	12,915	
Def. Tax Liab. / Assets (-)	3,169	3,873	4,509	4,509	4,509	
Total - Equity & Liab.	58,421	61,398	62,948	68,259	71,634	
Net Fixed Assets	62,051	66,922	69,546	74,373	77,162	
Gross Fixed Assets	69,630	81,992	88,599	99,013	1,08,049	
Intangible Assets	0	0	231	231	231	
Less: Depn. & Amort.	16,338	21,031	26,119	31,706	37,952	
Capital WIP	8,759	5,961	6,835	6,835	6,835	
Investments	1,792	1,696	1,821	1,821	1,821	
Current Assets	27,753	27,648	28,578	31,927	35,070	
Inventories	13,096	11,378	11,505	12,867	13,901	
Sundry Debtors	11,543	13,070	12,832	14,591	15,773	
Cash & Bank Balances	363	719	591	735	1,570	
Loans & Advances	1,534	1,821	2,540	2,624	2,717	
Other Current Assets	1,218	661	1,110	1,110	1,110	
Current Liab. & Prov.	33,174	34,868	36,997	39,863	42,420	
Current Liabilities	21,576	22,683	23,321	24,838	26,019	
Provisions & Others	11,599	12,184	13,676	15,024	16,401	
Net Current Assets	-5,421	-7,219	-8,419	-7,936	-7,349	
Total - Assets	58,421	61,398	62,948	68,259	71,634	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	0.9%	1.9%	5.9%	5.8%	6.1%	
Asset Turnover (x)	1.8	1.9	2.0	2.1	2.1	
Leverage Factor (x)	1.6	1.7	1.6	1.4	1.3	
RoE	2.6%	6.5%	18.7%	17.4%	17.2%	

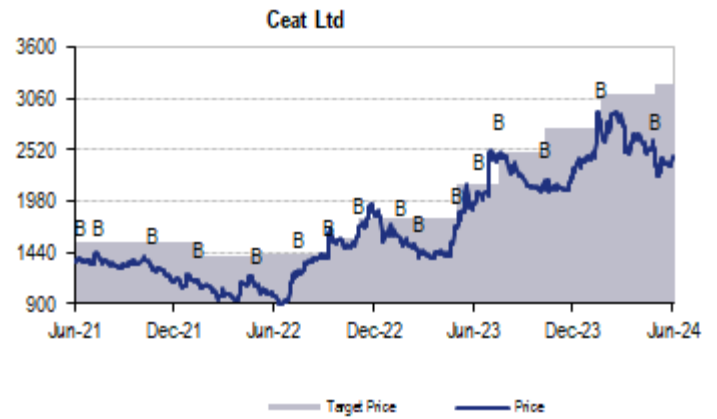
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	809.1	850.3	999.4	1,155.4	1,337.8	
ROIC	3.9%	6.9%	15.5%	15.4%	15.8%	
ROE	2.6%	6.5%	18.7%	17.4%	17.2%	
Net Debt/Equity (x)	0.7	0.6	0.4	0.3	0.2	
P/E (x)	118.1	45.2	14.2	13.1	11.5	
P/B (x)	3.0	2.9	2.5	2.1	1.8	
EV/EBITDA (x)	17.0	12.4	7.0	6.4	5.6	
EV/Sales (x)	1.3	1.1	1.0	0.9	0.8	
Debtor days	45	42	39	41	41	
Inventory days	51	37	35	36	36	
Creditor days	91	80	83	80	78	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
28-Oct-20	Buy	1,260	
10-Dec-20	Buy	1,300	3.2
20-Jan-21	Buy	1,650	26.9
6-May-21	Buy	1,550	-6.1
17-Jun-21	Buy	1,550	0.0
22-Jul-21	Buy	1,550	0.0
26-Oct-21	Buy	1,550	0.0
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

Recommendation History



APPENDIX I

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