

BSE SENSEX 76,693 S&P CNX 23,290

**CMP: INR2,456 TP: INR2,930 (+19%) Buy**



Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USDb)	99.3 / 1.2
52-Week Range (INR)	2998 / 1885
1, 6, 12 Rel. Per (%)	0/-4/1
12M Avg Val (INR M)	725
Free float (%)	52.8

**Financials & Valuations (INR b)**

Y/E March	FY24	FY25E	FY26E
Sales	119.4	134.4	148.0
EBITDA	16.5	15.5	17.0
EBIDTA Margin (%)	13.8	11.5	11.5
Adj. PAT	6.9	6.5	7.9
EPS (INR)	169.4	160.9	195.6
EPS Growth (%)	226.6	-5.0	21.6
BV/Share (INR)	999	1,130	1,291

**Ratios**

RoE (%)	18.3	15.1	16.2
RoCE (%)	15.3	13.2	14.4
Payout (%)	18.9	18.6	17.9

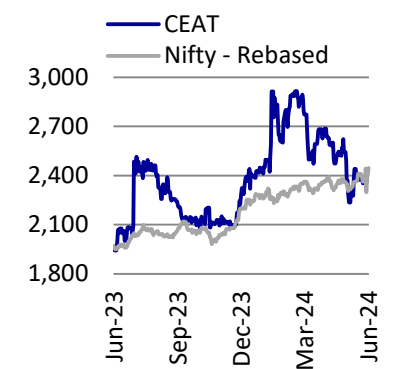
**Valuations**

P/E (x)	14.5	15.3	12.6
P/BV (x)	2.5	2.2	1.9
Div. Yield (%)	1.2	1.2	1.4
FCF Yield (%)	8.6	4.7	7.0

**Shareholding pattern (%)**

As On	Mar-24	Dec-23	Mar-23
Promoter	47.2	47.2	47.2
DII	15.9	14.3	13.6
FII	20.2	20.0	23.3
Others	16.7	18.5	15.9

**Stock Performance (1-year)**



**Strengthening position in domestic replacement; expanding into export markets**

**Prudent bite-sized capex plans to help sustain double-digit ROCE**

At its analyst meet, CEAT management highlighted its focus on: i) strengthening its brand presence in the domestic replacement segment, ii) expanding into export markets, particularly in the US, EU, and LatAM, and iii) reaffirming its cautious approach to capex, which should help CEAT sustain its double-digit ROCE. The company aims to achieve market leadership in the PCR segment over the next 2-3 years, maintain its leadership in 2W replacement, and increase the contribution of export revenue to around 25% from the current 19% over the coming years. The management is optimistic about the growth prospects, driven by anticipated double-digit growth in replacement volumes and expansion into key markets. However, despite the price increase, we are wary of the impact of rising commodity prices on overall profitability and will be closely monitoring it. Here are the key highlights:

**2W/PV replacement volumes likely to grow in double digits**

- Overall volume growth is expected to be close to double digits in FY25, driven by healthy growth in replacement demand while OEM growth is expected to moderate. OEM demand for 4W is expected to be muted, while the demand for 2W is picking up.
- There has been a structural change happening across the categories as the distance covered per day has been increasing. The shortening of replacement cycle is a result of a rising trend of weekend drives or off-roading in cars and an increase in average daily distance covered by CVs.
- T&B replacement:** Growth is expected to be in the range of 6-8%, lower than 2W and passenger cars. The average daily distance covered by a truck has increased to 700km now from ~400km in earlier periods. It may go up to 1,100-1,200km per day over the next 3-5 years.
- PVs:** Replacement growth is expected to be in double digits. While PV OEM volume growth has been healthy for the last few years, it has now started to moderate. However, replacement demand is expected to be healthy.
- 2Ws:** The segment has been little cyclical due to weak rural demand; however, it has now started to pick up. The segment is expected to grow by double digits.

**Aims to achieve market leadership in PCR category over next 2-3 years**

- The company believes that tyre players are now more independent in pricing power vs. earlier periods, and branding will play a key role, which would be the key investment areas for CEAT.
- Passenger cars:** In terms of market share, CEAT ranks third with a market share of ~17%, with Bridgestone and APTY being the top two players. It aims to achieve the second position by the end of FY25 and be a market leader over the next 2-3 years. This will be driven by higher focus on marketing, expansion of retail network (currently 580 stores) and dealer support. It commands 8-9% pricing premium over MRF, which has around 12-13% market share.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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- **2Ws:** CEAT is the market leader in 2W replacement with ~35% market share, while MRF is the challenger brand. It commands ~2-3% price premium over MRF. While it does not see much scope for market share expansion from hereon, it aims to retain its market leadership in the category. It has to be noted that there is a shift happening toward the cruiser category from the commuter category. It is addressing the opportunity by launching new products and conducting rides and events.
- The company has similar market share in both motorcycle and scooter replacement. In OEMs, CEAT has a higher market share in motorcycle than in scooters. The company commands 75-80% market share with Royal Enfield and it is now focusing on premium products of HMCL, HMSI, BJAUT, Suzuki and Yamaha. These models use steel radial tyres, which would be margin lucrative.
- **T&B:** CEAT holds ~7% market share in the replacement category and it aims to achieve a market share of ~12-13% over the next few years. It also has a market share of ~13% in OEMs. As demand is healthy in markets like the Middle East and LatAm, most of the new capacities will be geared toward these export markets, which are also margin lucrative.

#### Exports: Aims to increase revenue share to 25% from 19% now

- Exports currently contribute ~19% of the revenue and the company aims to take it to ~25% in the coming years. The key geographies include the US, EU and LatAM.
- **EU:** The region is shaping up well for CEAT and would be the focus areas as the company expects EU to succeed first among all export markets. Agri radial and PCR are doing well and the TBR category is gradually taking off. It has a decent presence in Italy for PCR/TBR with ~1.5% market share and it is also expanding in Spain, Germany and France.
- **US:** CEAT has been present in the agri radial category over the last three years; a TBR range will be introduced in 2Q and PCR in 4Q. It is reasonably well covered in the UAE, Iran, Iraq, and Africa, including Nigeria.
- CEAT has ~850 SKUs for agri exports and would add 100-200 each year.

#### Focus on bite-sized capex to sustain double-digit ROCE

- At the current capacity, CEAT can achieve a turnover of ~INR150b (vs. ~INR119b in FY24). The management indicated that there is **no need for any greenfield capex for the next four years in passenger cars and T&B segments and for next two years in 2Ws**. The payback period on capex is typically 5-6 years.
- Capex guidance for FY25 is INR10b (vs. INR8.6b in FY24) and the similar range for FY26. The capex incurred during these two years would potentially add INR30-40b to revenue without any greenfield. Most of the growth capex incurred during these years would take care of demand for FY26 and beyond.
- Unlike in the past, the company will avoid multiple projects simultaneously and the company will continue to focus on bite-sized capex.
- The company stands comfortable at mid-teen ROCE level and aims to sustain double-digit ROCE even in the coming years.
- Capex per ton is the lowest for the 2W category (~INR55m in 2014), while it is the highest for passenger cars at INR100-110m. Capex per ton for T&B and farm radial is in between the range of 2W and passenger cars.

**Rubber prices are again at elevated level**

- The management reiterated its guidance of 2-3% increase in commodity prices for 1QFY25. Rubber prices currently stand at ~193 per kg vs. ~150-160 per kg in 4QFY24.
- CEAT expects some benefits of its low-priced inventory; however, any further increase in rubber prices will dent 2Q profitability. The company has already taken ~1.5% price increase in 1QFY25.
- A better product mix driven by- i) higher rim sizes in 4Ws, ii) increasing share of steel radial tyres, and iii) increasing salience of exports, which have higher margins than the domestic replacement category.

**Other highlights**

- **EPR-** It is applicable only on domestic sales and an approximate impact would be ~1% of selling price. Certificates are not sufficiently available and companies have just made the provisions. CEAT expects the actual cost of EPR certificates would be largely similar for all tyre players.
- **Premiumization in 4Ws:** CEAT has launched multiple tyres for premium cars and it now has ~95% SKU coverage for the segment. The premiumization trend has been increasing: the share of >17 inch tyres in cars is already at 50% in OEMs, and in replacement it is expected to go up to 25-30% in few years from the current level of 7-8 years.
- **CEAT would not like to have any EV exclusive product range in the future.**

**Valuation and view**

- CEAT has guided for double-digit volume growth in the replacement category for FY25, driven by 2Ws and passenger cars. The company intensifies its focus on expanding in export markets.
- A stable growth outlook for domestic OEMs and a healthy growth in replacement demand will enable a faster absorption of new capacities and drive operating leverage benefits
- CEAT's focus on strategic areas such as PV/2W/OHT/exports (to help margins), along with prudent capex plans (to benefit FCF), should continue to improve its returns in the long run. Valuations, at 15.3x/12.6x FY25E/FY26E consol. EPS, also appear attractive. Hence, we reiterate our BUY rating on the stock with a TP of INR2,930 (based on ~15x Mar'26E EPS).

**Exhibit 1: Revised estimates (Consol)**

(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,34,374	1,34,374	0.0	1,48,026	1,48,026	0.0
EBITDA	15,453	15,453	0.0	17,023	17,023	0.0
EBITDA (%)	11.5	11.5	0bp	11.5	11.5	0bp
Adj. PAT	6,508	6,508	0.0	7,912	7,912	0.0
EPS (INR)	160.9	160.9	0.0	195.6	195.6	0.0

**Exhibit 2: FY26 vision: To achieve market leadership in domestic PV/UV**

**Leadership in 2W Domestic Market**



**Leadership in PC/UV Domestic Market**



**>25% International Business**



Source: Company, MOFSL

**Exhibit 3: Aims to take exports revenue mix to 25% from 19% now**

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



TBR grew by 15%



Europe, Canada & expanding in US



4 SEASONDRIVE + RANKED 14TH Autobild Test



Targeting TBR launch in US Q2 FY25



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



Source: Company, MOFSL

**Exhibit 4: Tyre range covers 95% of super premium cars in replacement market**

BMW X3



Mercedes V Class



Mercedes E Class



BMW X5



Audi A4



Audi Q7



Skoda Kodiaq



Volkswagen Tiguan

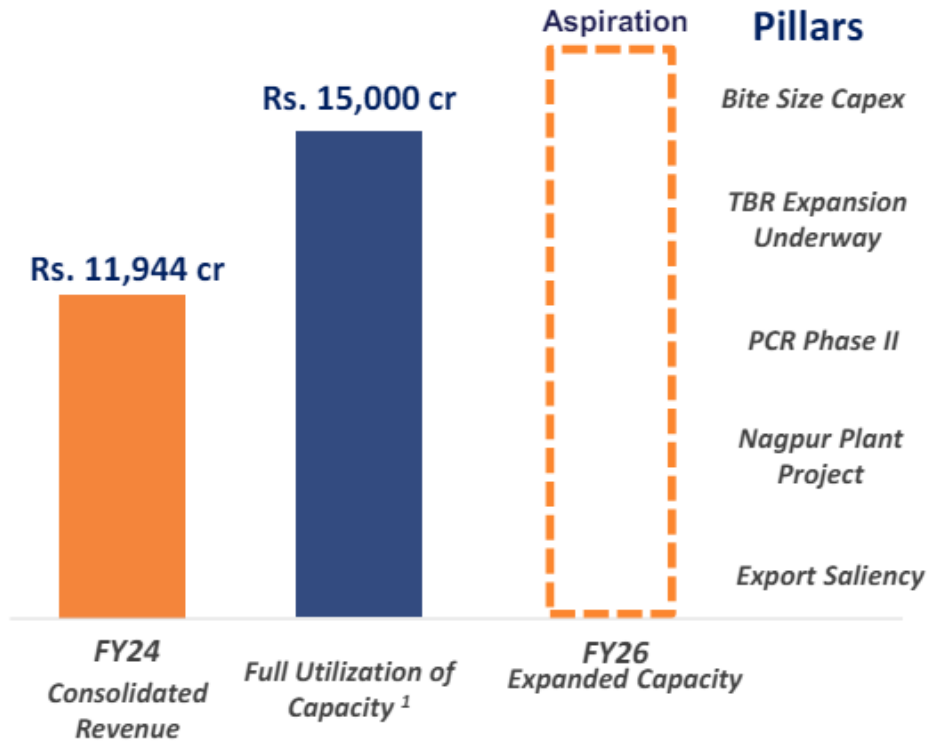


Skoda Kushaq



Source: Company, MOFSL

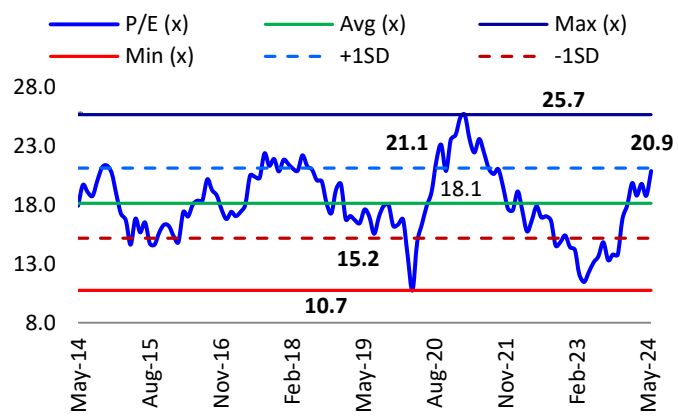
Exhibit 5: Potential turnover of INR150b at current capacity



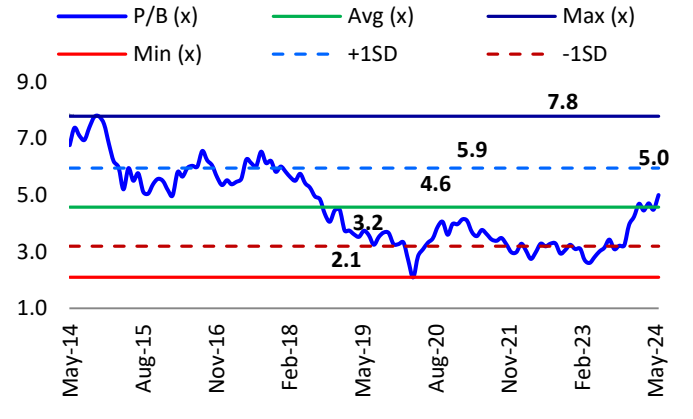
1. Potential revenue at current capacity

Source: Company, MOFSL

Exhibit 6: P/E and P/B band



Source: MOFSL



Source: MOFSL



## Financials and valuations

### Consolidated - Income Statement

(INR Million)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net Revenues from Ops</b>	<b>69,845</b>	<b>67,788</b>	<b>76,096</b>	<b>93,634</b>	<b>1,13,149</b>	<b>1,19,435</b>	<b>1,34,374</b>	<b>1,48,026</b>
Change (%)	11.2	-2.9	12.3	23.0	20.8	5.6	12.5	10.2
<b>EBITDA</b>	<b>6,425</b>	<b>7,238</b>	<b>9,830</b>	<b>7,098</b>	<b>9,738</b>	<b>16,522</b>	<b>15,453</b>	<b>17,023</b>
EBITDA Margin (%)	9.2	10.7	12.9	7.6	8.6	13.8	11.5	11.5
Depreciation	1,927	2,765	3,396	4,352	4,693	5,088	5,297	5,584
<b>EBIT</b>	<b>4,498</b>	<b>4,473</b>	<b>6,433</b>	<b>2,746</b>	<b>5,045</b>	<b>11,434</b>	<b>10,156</b>	<b>11,439</b>
EBIT Margin (%)	6.4	6.6	8.5	2.9	4.5	9.6	7.6	7.7
Int. and Finance Charges	880	1,509	1,755	2,070	2,421	2,691	1,911	1,445
Other Income	390	205	138	114	169	197	280	400
<b>PBT bef. EO Exp.</b>	<b>4,008</b>	<b>3,169</b>	<b>4,816</b>	<b>790</b>	<b>2,793</b>	<b>8,941</b>	<b>8,525</b>	<b>10,395</b>
EO Items	-297	5	-341	-129	-334	-582	0	0
<b>PBT after EO Exp.</b>	<b>3,711</b>	<b>3,174</b>	<b>4,476</b>	<b>661</b>	<b>2,459</b>	<b>8,359</b>	<b>8,525</b>	<b>10,395</b>
Total Tax	1,402	1,046	516	243	718	2,214	2,216	2,703
Tax Rate (%)	37.8	33.0	11.5	36.7	29.2	26.5	26.0	26.0
Minority Int./Share JV PAT	-213	-184	-361	-294	-120	-282	-200	-220
<b>Reported PAT</b>	<b>2,522</b>	<b>2,312</b>	<b>4,320</b>	<b>712</b>	<b>1,862</b>	<b>6,427</b>	<b>6,508</b>	<b>7,912</b>
<b>Adjusted PAT</b>	<b>2,707</b>	<b>2,309</b>	<b>4,622</b>	<b>794</b>	<b>2,098</b>	<b>6,854</b>	<b>6,508</b>	<b>7,912</b>
Change (%)	4.6	-14.7	100.2	-82.8	164.4	226.6	-5.0	21.6
Margin (%)	3.9	3.4	6.1	0.8	1.9	5.7	4.8	5.3

### Consolidated - Balance Sheet

(INR Million)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	405	405	405	405	405	405	405	405
Total Reserves	27,257	28,675	32,758	32,324	33,992	40,022	45,316	51,813
<b>Net Worth</b>	<b>27,661</b>	<b>29,079</b>	<b>33,163</b>	<b>32,728</b>	<b>34,396</b>	<b>40,426</b>	<b>45,721</b>	<b>52,217</b>
Minority Interest	238	237	232	235	174	97	97	97
Total Loans	14,469	18,772	14,176	20,968	20,927	16,289	14,289	9,789
Deferred Tax Liabilities	2,198	2,744	2,800	3,177	3,886	4,245	4,245	4,245
<b>Capital Employed</b>	<b>44,566</b>	<b>50,832</b>	<b>50,371</b>	<b>57,108</b>	<b>59,383</b>	<b>61,057</b>	<b>64,352</b>	<b>66,348</b>
Gross Block	37,663	49,795	58,732	67,748	80,110	86,717	99,152	1,07,652
Less: Accum. Deprn.	5,868	8,197	11,097	14,456	19,149	24,237	29,534	35,118
<b>Net Fixed Assets</b>	<b>31,795</b>	<b>41,598</b>	<b>47,634</b>	<b>53,292</b>	<b>60,961</b>	<b>62,480</b>	<b>69,618</b>	<b>72,534</b>
Goodwill on Consolidation	0	0	0	0	0	231	231	231
Capital WIP	8,329	10,685	7,929	8,759	5,961	6,835	3,000	3,000
<b>Total Investments</b>	<b>1,814</b>	<b>1,837</b>	<b>2,101</b>	<b>1,792</b>	<b>1,696</b>	<b>1,821</b>	<b>1,821</b>	<b>1,821</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>22,111</b>	<b>19,410</b>	<b>23,087</b>	<b>27,176</b>	<b>27,519</b>	<b>28,314</b>	<b>36,188</b>	<b>39,993</b>
Inventory	10,056	9,257	11,299	13,096	11,378	11,505	16,291	17,946
Account Receivables	7,064	6,744	9,216	11,543	13,070	12,832	16,567	18,250
Cash and Bank Balance	735	342	431	363	719	591	644	837
Loans and Advances	4,256	3,067	2,141	2,174	2,353	3,386	2,687	2,961
<b>Curr. Liability &amp; Prov.</b>	<b>19,484</b>	<b>22,697</b>	<b>30,380</b>	<b>33,910</b>	<b>36,754</b>	<b>38,623</b>	<b>46,506</b>	<b>51,231</b>
Account Payables	10,529	11,948	18,395	21,576	22,683	23,321	27,694	30,508
Other Current Liabilities	7,566	9,114	10,444	10,654	12,154	13,462	16,125	17,763
Provisions	1,389	1,635	1,541	1,680	1,917	1,840	2,687	2,961
<b>Net Current Assets</b>	<b>2,627</b>	<b>-3,288</b>	<b>-7,293</b>	<b>-6,734</b>	<b>-9,234</b>	<b>-10,310</b>	<b>-10,318</b>	<b>-11,238</b>
<b>Appl. of Funds</b>	<b>44,566</b>	<b>50,832</b>	<b>50,371</b>	<b>57,108</b>	<b>59,383</b>	<b>61,057</b>	<b>64,352</b>	<b>66,348</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>66.9</b>	<b>57.1</b>	<b>114.3</b>	<b>19.6</b>	<b>51.9</b>	<b>169.4</b>	<b>160.9</b>	<b>195.6</b>
Cash EPS	114.6	125.4	198.2	127.2	167.9	295.2	291.9	333.6
BV/Share	683.8	718.9	819.8	809.1	850.3	999.4	1,130.3	1,290.9
DPS	12.0	12.0	18.0	3.0	12.0	30.0	30.0	35.0
Payout (%)	23.2	25.3	16.9	17.0	26.1	18.9	18.6	17.9
<b>Valuation (x)</b>								
P/E	36.7	43.0	21.5	125.1	47.3	14.5	15.3	12.6
Cash P/E	21.4	19.6	12.4	19.3	14.6	8.3	8.4	7.4
P/BV	3.6	3.4	3.0	3.0	2.9	2.5	2.2	1.9
EV/Sales	1.6	1.7	1.5	1.3	1.1	1.0	0.8	0.7
EV/EBITDA	17.6	16.3	11.5	16.9	12.3	7.0	7.3	6.4
Dividend Yield (%)	0.5	0.5	0.7	0.1	0.5	1.2	1.2	1.4
<b>Return Ratios (%)</b>								
RoE	10.1	8.1	14.9	2.4	6.3	18.3	15.1	16.2
RoCE (post tax)	8.1	7.0	12.2	3.6	6.8	15.3	13.2	14.4
RoIC	9.0	8.4	14.6	4.0	7.4	16.3	13.6	14.2
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	1.9	1.4	1.3	1.4	1.4	1.4	1.4	1.4
Asset Turnover (x)	1.6	1.3	1.5	1.6	1.9	2.0	2.1	2.2
Inventory (Days)	53	50	54	51	37	35	44	44
Debtor (Days)	37	36	44	45	42	39	45	45
Creditor (Days)	55	64	88	84	73	71	75	75
<b>Leverage Ratio (x)</b>								
Current Ratio	1.1	0.9	0.8	0.8	0.7	0.7	0.8	0.8
Interest Cover Ratio	5.1	3.0	3.7	1.3	2.1	4.2	5.3	7.9
Net Debt/Equity	0.5	0.6	0.4	0.6	0.6	0.4	0.3	0.2

### Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	3,560	2,871	4,476	661	2,459	8,359	8,525	10,395
Depreciation	1,927	2,765	3,396	4,352	4,693	5,088	5,297	5,584
Interest & Finance Charges	880	1,509	1,755	2,070	2,421	2,691	1,631	1,045
Direct Taxes Paid	-808	-181	-512	-200	377	-1,630	-2,216	-2,703
(Inc)/Dec in WC	235	2,582	4,516	-736	2,211	2,674	61	1,114
<b>CF from Operations</b>	<b>5,794</b>	<b>9,546</b>	<b>13,631</b>	<b>6,147</b>	<b>12,161</b>	<b>17,183</b>	<b>13,298</b>	<b>15,434</b>
Others	-267	17	-54	42	-106	10	0	0
<b>CF from Operating incl EO</b>	<b>5,527</b>	<b>9,563</b>	<b>13,577</b>	<b>6,189</b>	<b>12,055</b>	<b>17,193</b>	<b>13,298</b>	<b>15,434</b>
(Inc)/Dec in FA	-11,073	-11,183	-6,395	-9,558	-8,779	-8,668	-8,600	-8,500
<b>Free Cash Flow</b>	<b>-5,547</b>	<b>-1,620</b>	<b>7,182</b>	<b>-3,369</b>	<b>3,276</b>	<b>8,525</b>	<b>4,698</b>	<b>6,934</b>
(Pur)/Sale of Investments	320	9	-27	-89	-11	-47	0	0
Others	236	419	241	203	299	178	280	400
<b>CF from Investments</b>	<b>-10,517</b>	<b>-10,755</b>	<b>-6,181</b>	<b>-9,444</b>	<b>-8,491</b>	<b>-8,537</b>	<b>-8,320</b>	<b>-8,100</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	6,260	3,854	-5,677	5,821	-41	-4,638	-2,000	-4,500
Interest Paid	-889	-1,925	-1,628	-1,944	-2,093	-2,669	-1,911	-1,445
Dividend Paid	-526	-1,139	-4	-746	-126	-485	-1,214	-1,416
Others	0	0	0	0	-936	-918	200	220
CF from Fin. Activity	4,844	790	-7,309	3,132	-3,195	-8,710	-4,925	-7,140
<b>Inc/Dec of Cash</b>	<b>-146</b>	<b>-402</b>	<b>87</b>	<b>-123</b>	<b>368</b>	<b>-55</b>	<b>53</b>	<b>194</b>
Opening Balance	822	675	274	361	238	606	552	605
<b>Closing Balance</b>	<b>675</b>	<b>274</b>	<b>361</b>	<b>238</b>	<b>606</b>	<b>552</b>	<b>605</b>	<b>798</b>

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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