

January 09, 2025

Company Update | Sector: Automobile

CEAT Ltd

Margin expansion levers firming up!

View: Favorable product-mix should help cushion NR inflation

CEAT seems well poised to ride the growth wave while prudently navigating the steep RM inflation trends. Demand outlook stays unchanged; high single to early double digit volume growth is likely in FY25E. Going forward, focus on high-margin segments like exports, PCR (high rim sizes) and OHT over TBR (low ROCE biz) to aid volumes and margins. Exports are a key growth lever, led by new SKU launches for PCR, TBR and agri radials in key markets like Europe and US. We expect consistent price hikes, and recent RM basket correction (both NR and Brent crude declined by 24%/11% from its recent peak) to support margins from 4QFY25 even though gross margins to stay weak even in 3QFY25. We have built in Revenue/EBITDA/Adj.PAT CAGR of ~13%/12%/10% for FY24-27E, tweaking FY25-26 EPS by 2-3% to account for NR volatility, which is partially offset by a favorable mix. Valuations at 19x/13.6x FY26/17 consol EPS (vs 10yr LPA of ~18.6x) seem reasonable and are yet to reflect the improved positioning. Reiterate 'ADD' with TP at Rs3,651 (SoTP).

Growth outlook intact, focus on profitable segments - CEAT volumes grew by 7-8% in 1HFY25 (vs ~6% in FY24), led by double digit growth in replacement and exports. It should continue in 2HFY25E as well. Led by new product launch, revenue share from relatively better margin segments such as 2W/3W, OTR, PCR increased to ~63% in 1H (vs 57% from FY20). CEAT is focused on exports and expects the share to move up to ~25% over the medium term (vs ~19% in 1HFY25). It has guided high single-digit volume growth in FY25, based on healthy demand in replacement and export markets. Going forward, focus on high-margin segments like exports (~19% of sales) and OHT should aid volumes and margins.

Prompt product actions boost market share for 2W, PCR in the domestic market - Led by new products launches, and distribution & marketing spends, CEAT is consistently gaining market share, especially in 2Ws and PCR. Within 2Ws, it has attained leadership in 2W replacement market: (share of ~35% in 2QFY25 vs ~33%/28%/26%/26%/8% in FY24/FY23/FY19/FY17/FY11 respectively); a gap of ~5% separates CEAT from the second seed player. Within PCR, it is number three (share of ~17% in 2QFY25 vs ~16%/15%/11%/8%/3% in FY24/FY23/FY19/FY17/FY11 respectively). Given new launches, it is targeting second position in PCR by FY25 end. We believe CEAT is well poised to capture current high share of SUVs (~56% OEM) that should reflect in the replacement segment with SKU coverage of 90-95% in PCR replacement.

New SKUs launch and expanded distribution to drive exports - OHT remain the largest target segment, wherein CEAT is expanding capacity to 160MT/day (vs 105MT/day), with ~86 SKUs added in 1HFY25 to 920+ SKUs (vs 750+ in FY23) leading to 84-85% coverage in agri segments (vs ~80% in FY23). Further, recent Camso acquisition should add 750+ SKUs ([Our take on Camso's acquisition](#)). Overall, CEAT is likely to maintain healthy SKU launch run-rate going ahead. Besides OHT, it is also focused on PCR (new SKUs launch by 4QFY25 for the US) and TBR through new production line in Chennai in 2QFY25, which will help export ramp up for Europe and US markets. EU, ME, & LATAM are mega exports markets and contribute 2/3rd of exports.

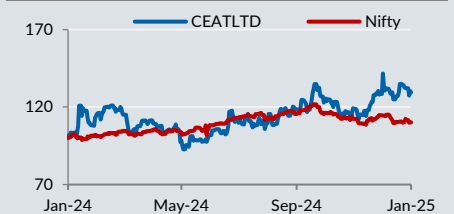
Price hikes & recent NR correction to support margins from 4QFY25 - While margins in 1HFY25 have corrected by ~260bps in 1HFY25 YoY to 11.5% and likely to contract in 3QFY25, we expect 1) Gradual price hikes of 4.5-5% in replacement (ex TBB) and OEM indexation benefit of ~3% in 2Q & ~4% expected in 3Q, 2) Favorable mix led by exports & premiumization and 3) Operating leverage to contribute towards margin expansion. Recent RM basket correction as both NR and Brent crude have declined by ~24%/11% from its recent peak should also support margins. We build in ~140bp margins expansion to 12.8% in FY26E (vs ~11.5% expected in 1HFY25). Sustainance of price hikes and NR volatility remain the key thing to watch for margins ahead.

Reco	: ADD
CMP	: Rs 3,111
Target Price	: Rs 3,651
Potential Return	: +17.4%

Stock data (as on Jan 9, 2025)

Nifty	23,522
52 Week h/l (Rs)	3,579 / 2,210
Market cap (Rs/USD mn)	126,206 / 1,470
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	744
Div yield (%):	1.1
Bloomberg code:	CEAT IN
NSE code:	CEATLTD

Stock performance



	1M	3M	1Y
Absolute return	(8.6%)	+3.3%	+27.1%

Shareholding pattern (As of Sep'24)

Promoter	47.2%
FII+DII	36.4%
Others	16.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	3,651	3,597

Δ in earnings estimates

	FY26E	FY27E
EPS (New)	163.0	227.4
EPS (Old)	164.7	222.2
% Change	(1.0)%	+2.3%

Financial Summary

Y/E MARCH (Rs b)	FY25E	FY26E	FY27E
Sales	132.6	146.4	172.9
EBITDA	15.9	18.7	23.2
Adj. PAT	5.9	6.6	9.2
Adj. EPS (INR)	146.7	163.0	227.5
EPS Gr. (%)	(15.3)	11.1	39.5
BV/Sh. (INR)	1,114	1,237	1,419
RoE (%)	13.2	13.2	16.0
RoCE (%)	12.9	13.8	16.7
Payout (%)	27.4	28.2	22.8
P/E (x)	21.2	19.1	13.7
P/BV (x)	2.8	2.5	2.2
EV/EBITDA (x)	9.0	7.8	6.4
Div. Yield (%)	1.1	1.3	1.4

DEEP SHAH

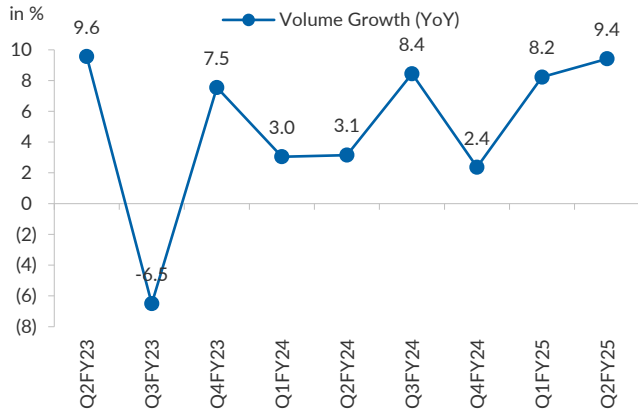
Lead Analyst

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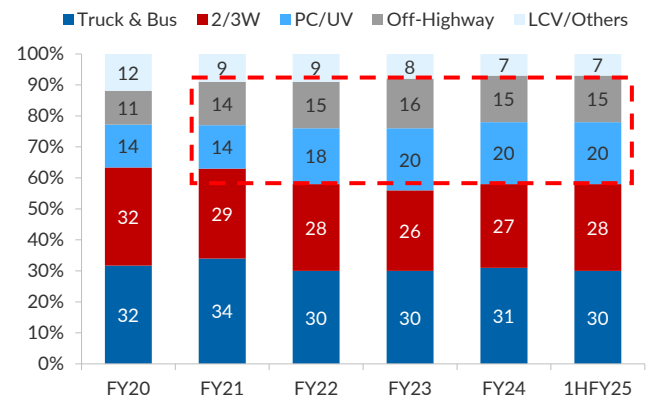
MEGHNA GUNDU, Associate

Exhibit 1: Volume growth remain healthy recently



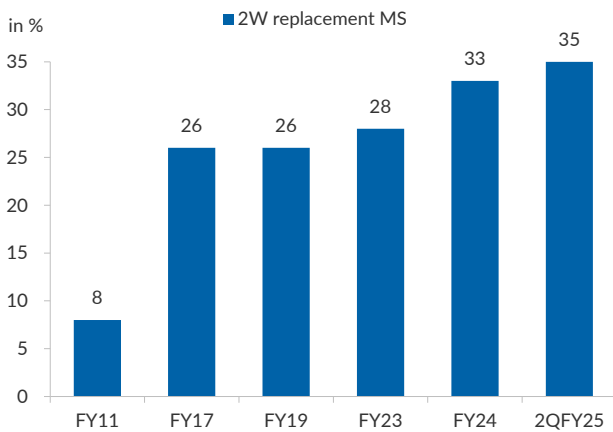
Source: Company, YES Sec

Exhibit 2: Share of profitable segments inching up



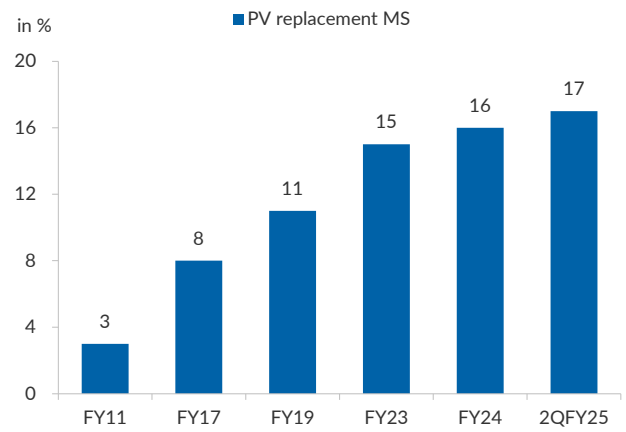
Source: Company, YES Sec

Exhibit 3: Product launches drive leadership in 2Ws...



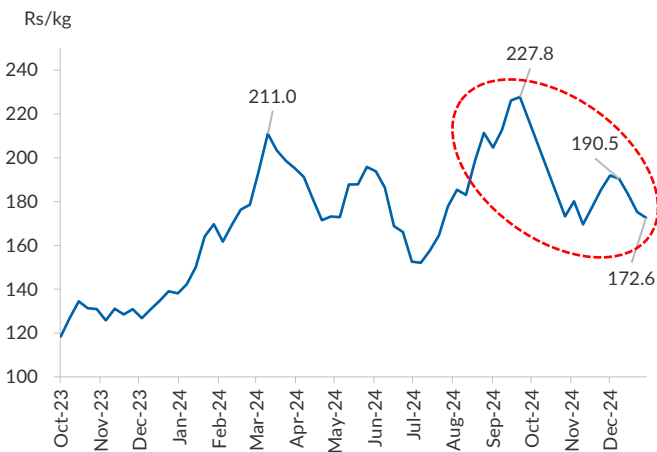
Source: Company, YES Sec

Exhibit 4: ...and consistent market share in PCR



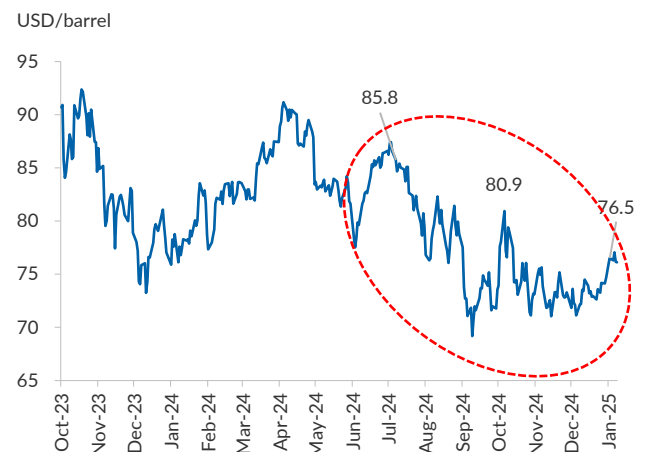
Source: Company, YES Sec

Exhibit 5: NR price remain volatile but have corrected



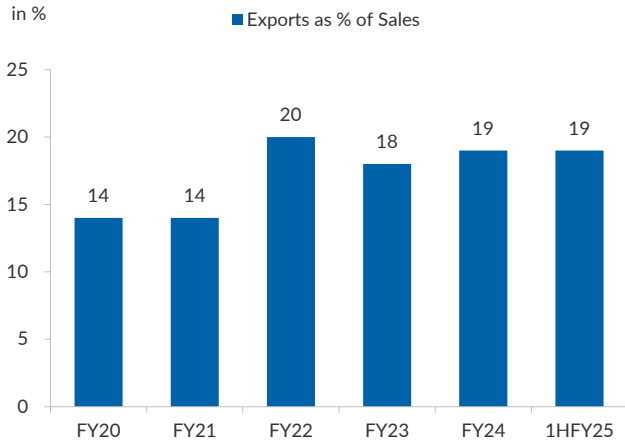
Source: Company, YES Sec

Exhibit 6: Soft Brent crude prices too help RM basket



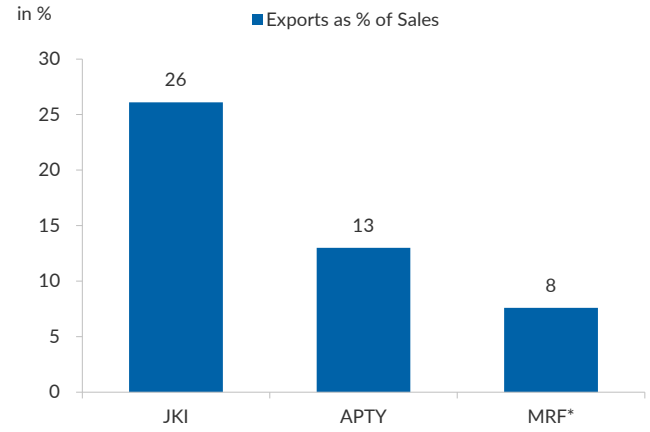
Source: Company, YES Sec, *As % of exports for FY24

Exhibit 7: Share of exports to scale up further



Source: Bloomberg, YES Sec

Exhibit 8: ...and highest among the peers



Source: Bloomberg, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/E March (Rs m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	405	405	405	405	405	405
Total Reserves & other equity	32,559	34,166	40,119	44,638	49,615	56,995
Net Worth	32,964	34,570	40,524	45,043	50,019	57,399
Deferred Liabilities	3,177	3,886	4,509	4,554	4,600	4,646
Total Loans	22,289	22,955	17,915	32,306	36,135	33,917
Capital Employed	58,429	61,411	62,948	81,903	90,754	95,962
Gross Block	71,462	79,004	85,812	96,312	111,312	126,312
Less: Accum. Deprn.	13,004	16,155	19,967	25,553	32,010	39,336
Net Fixed Assets	58,458	62,849	65,845	70,759	79,303	86,977
Goodwill			244	244	244	244
Capital WIP	3,593	4,073	3,456	3,466	3,476	3,486
Total Investments	1,792	1,696	1,821	1,837	1,854	1,871
Curr. Assets, Loans&Adv.	27,761	27,661	28,578	45,284	48,388	51,195
Inventory	13,096	11,378	11,505	12,770	14,100	16,651
Account Receivables	11,543	13,070	12,832	14,244	15,727	18,572
Cash Balance	238	606	552	14,533	14,775	12,136
Bank Balance	125	113	39	39	39	39
Loans and Advances	-	-	-	-	-	-
Others	2,759	2,494	3,650	3,698	3,747	3,797
Curr. Liability & Prov.	33,174	34,868	36,997	39,689	42,513	47,812
Account Payables	21,576	22,683	23,320	25,886	28,582	33,751
Provisions	1,680	1,917	1,840	1,851	1,861	1,872
Others	9,918	10,267	11,836	11,952	12,070	12,188
Net Current Assets	(5,413)	(7,207)	(8,419)	5,595	5,876	3,384
Appl. of Funds	58,430	61,411	62,947	81,901	90,753	95,961

Source: Company, YES Sec

Exhibit 10: Income statement

Y/E March (Rs m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	93,634	113,149	119,435	132,573	146,380	172,858
Change (%)	23.0	20.8	5.6	11.0	10.4	18.1
EBITDA	7,098	9,738	16,522	15,909	18,737	23,163
Margin (%)	7.6	8.6	13.8	12.0	12.8	13.4
Depreciation	4,352	4,693	5,088	5,586	6,456	7,326
EBIT	2,746	5,045	11,434	10,323	12,281	15,837
Int. and Finance Charges	2,070	2,421	2,691	3,013	4,106	4,203
Other Income - Rec.	114	169	197	217	226	235
PBT bef. EO Exp.	790	2,793	8,941	7,526	8,400	11,868
EO Expense/(Income)	129	334	582	-	-	-
PBT after EO Exp.	661	2,459	8,359	7,526	8,400	11,868
Tax	243	718	2,214	1,882	2,100	2,967
Tax Rate (%)	36.7	29.2	26.5	25.0	25.0	25.0
Reported PAT	418	1,742	6,145	5,645	6,300	8,901
PAT Adj	841	2,196	7,008	5,935	6,594	9,200
Change (%)	(82.0)	161.1	219.1	(15.3)	11.1	39.5

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/E March (Rs m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NP/ (Loss) bef Tax and EO	661	2,793	8,941	7,526	8,400	11,868
Depreciation	4,352	4,693	5,088	5,586	6,456	7,326
Interest & Finance Charges	2,070	2,421	2,691	3,013	4,106	4,203
Direct Taxes Paid	(243)	377	(1,630)	(1,882)	(2,100)	(2,967)
(Inc)/Dec in WC	(956)	1,298	748	(112)	(118)	(225)
Others	305	(106)	10	327	332	336
CF from Operations	6,189	12,055	17,193	14,546	17,164	20,630
(inc)/dec in FA	(10,840)	(8,791)	(8,673)	(10,500)	(15,000)	(15,000)
Free Cash Flow	(4,651)	3,264	8,520	4,046	2,164	5,630
(Pur)/Sale of Investments	1,396	299	136	(26)	(27)	(27)
CF from Investments	(9,444)	(8,492)	(8,537)	(10,526)	(15,027)	(15,027)
(Inc)/Dec in Debt	5,821	(977)	(5,556)	14,391	3,829	(2,218)
Interest Paid	(1,944)	(2,093)	(2,669)	(3,013)	(4,106)	(4,203)
Dividend Paid	(746)	(126)	(485)	(1,416)	(1,618)	(1,820)
CF from Fin. Activity	3,132	(3,195)	(8,710)	9,962	(1,895)	(8,241)
Inc/Dec of Cash	(123)	368	(55)	13,982	242	(2,638)
Add: Beginning Balance	361	238	605	551	14,533	14,775
Closing Balance	238	605	551	14,533	14,775	12,136

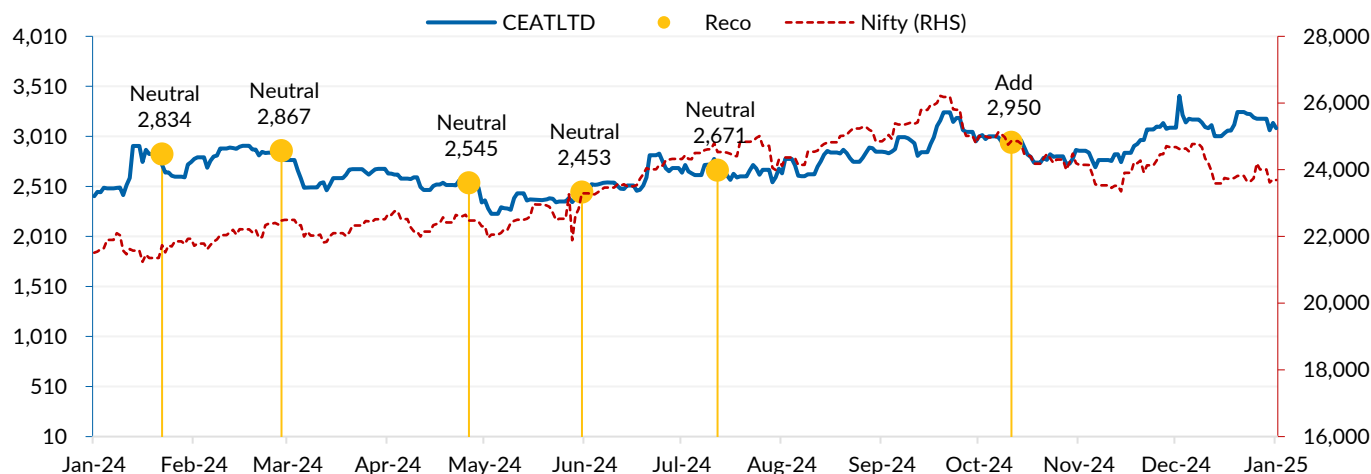
Source- Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)						
EPS	20.8	54.3	173.3	146.7	163.0	227.5
Growth (%)	(82.0)	161.1	219.1	(15.3)	11.1	39.5
Cash EPS	128.4	170.3	299.0	284.8	322.6	408.6
BV/Share	814.9	854.6	1,001.8	1,113.5	1,236.6	1,419.0
DPS	3.0	12.0	30.0	35.0	40.0	45.0
Payout (%)	19.6	30.0	21.7	27.4	28.2	22.8
Valuation (x)						
P/E	149.6	57.3	18.0	21.2	19.1	13.7
Cash P/E	24.2	18.3	10.4	10.9	9.6	7.6
P/BV	3.8	3.6	3.1	2.8	2.5	2.2
EV/Sales	1.6	1.3	1.2	1.1	1.0	0.9
EV/EBITDA	20.8	15.2	8.7	9.0	7.9	6.4
Dividend Yield (%)	0.1	0.4	1.0	1.1	1.3	1.4
Return Ratios (%)						
EBITDA Margins (%)	7.6	8.6	13.8	12.0	12.8	13.4
Net Profit Margins (%)	0.9	1.9	5.9	4.5	4.5	5.3
RoE	2.6	6.4	17.3	13.2	13.2	16.0
RoCE	4.9	8.5	18.5	12.9	13.8	16.7
Operating Ratios						
Fixed Asset Turnover (x)	1.7	1.9	1.9	1.9	2.0	2.1
Inventory (Days)	51.0	36.7	35.2	35.2	35.2	35.2
Debtor (Days)	45.0	42.2	39.2	39.2	39.2	39.2
Creditor (Days)	84.1	73.2	71.3	71.3	71.3	71.3
Working Capital (Days)	11.9	5.7	3.1	3.1	3.1	3.1
Leverage Ratio (x)						
Current Ratio	0.7	0.6	0.6	1.0	1.0	0.9
Debt/Equity	0.7	0.7	0.4	0.7	0.7	0.6

Source: Company, YES Sec

Recommendation Tracker



Source - YES Sec

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Name of the Research Analyst : Deep Shah, Meghna Gundu

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

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

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

Analyst signature

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