

RM inflation continues to drag margin

16 January 2025

CEAT's (CEAT IN) revenue grew 11.6% YoY (flat QoQ) to INR 32.9bn in Q3, led by volume growth of 7.9% YoY (flat QoQ). EBITDA margin contracted 70bps QoQ, led by ~1% QoQ inflation in raw material (RM) cost. Going forward, the management expects RM cost to remain flat QoQ, which, in our view, is a negative as we were expecting some benefits from the recent correction in natural rubber (NR) prices to flow through in Q4. Further, CEAT expects to hike price across replacement and export markets to pass on the inflation in RM cost. We retain our cautious stance on the tyre sector, given just 6% EPS CAGR expected through FY24-27E, and expectations of structurally high NR prices in FY26/27. We are yet to factor in the CAMSO acquisition. We reiterate **Reduce** with a higher TP of INR 3,103 as we roll forward to FY27E.

Healthy volume performance led by double-digit growth in replacement and exports: Overall volumes grew by 7.9% YoY to ~123k tones, led by double-digit growth in exports and replacement, even as the OEM segment achieved mid-single digit growth YoY. On the OEM side, while 2Ws posted healthy double-digit growth, the MHCV segment declined by low single-digit due to current demand headwinds. On the replacement side, while MHCV (TBR) posted robust double-digit growth, 2Ws also witnessed strong growth led by robust demand traction from rural areas (40-50% higher than urban areas).

In exports, CEAT experienced growth in most geographies, with demand from Europe remaining strong. It expects the US business to enter a growth phase, with overall share climbing to 20-25% in the next 2-3 years. Exports are expected to inch up to 26% (currently at 19%) of revenue in FY26E, post the CAMSO acquisition in H1FY26. CEAT continues to remain optimistic on demand outlook for 2Ws and PVs in the domestic market. Standalone EBITDA declined 17.6% YoY and 6.2% QoQ, with EBITDA margin contracting 370bps YoY and 70bps QoQ, due to high inflation in RM cost. CEAT expects RM cost to remain flat in Q4FY25, with price hikes expected across segments.

Cost of RM basket up 1.3% QoQ in Q3; outlook flat for Q4: Overall RM cost grew 1.3% QoQ, in line with the earlier guidance. CEAT received an indexation benefit of ~3-4% in Q3 from OEM partners. It expects the inflationary trend to sustain, with RM cost flat in Q4.

Reiterate Reduce; TP raised to INR 3,103: EBITDA margins for the tyre sector and CEAT may remain muted in the next 1-2 quarters. We believe the tyre sector and CEAT would have reported peak margin in FY24 (13.9% for CEAT). We expect EBITDA margin of 11.4% in FY25E, 12.2% in FY26E and 12.8% in FY27E. However, despite the likely recovery in EBITDA margin in FY26-27, we expect EBITDA CAGR of just 5% and PAT CAGR of 6% in FY24-27E. We reduce our FY25E/26E EPS estimates by 3-4%.

Through FY26-27, expect NR prices to be elevated given long-term demand and supply trends of NR (based on historical plantation trend and seven-year gestation). This may keep any sizeable recovery in margin under check. We retain **Reduce** with TP raised to INR 3,103 from INR 3,014 on 15x (unchanged) 2027E P/E as we roll forward to FY27E.

Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	112,633	118,926	131,809	140,565	149,101
YoY (%)	20.9	5.6	10.8	6.6	6.1
EBITDA (INR mn)	9,773	16,557	15,014	17,184	19,106
EBITDA (%)	8.7	13.9	11.4	12.2	12.8
Adj PAT (INR mn)	2,397	6,968	5,509	7,306	8,369
YoY (%)	256.5	190.7	-20.9	32.6	14.5
Fully DEPS (INR)	59.3	172.3	136.2	180.6	206.9
RoE (%)	7.4	19.1	13.2	15.5	15.5
RoCE (%)	9.6	20.9	16.3	17.7	18.2
P/E (x)	51.4	17.7	22.3	16.9	14.7
EV/EBITDA (x)	14.7	8.4	9.2	8.0	7.0

Note: Pricing as on 16 January 2025; Source: Company, Elara Securities Estimate

Rating: **Reduce**

Target Price: **INR 3,103**

Upside: **2%**

CMP: **INR 3,044**

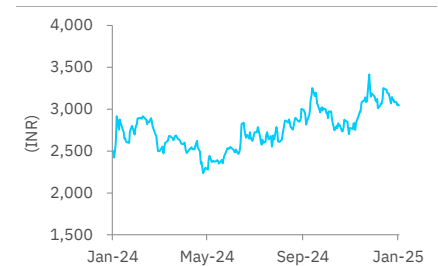
As on 16 January 2025

Key data

Bloomberg	CEAT IN
Reuters Code	CEAT.NS
Shares outstanding (mn)	40
Market cap (INR bn/USD mn)	123/1422
Enterprise Value (INR bn/USD mn)	144/1659
Avg daily volume 3M (INR mn/USD mn)	811/9
52 week high/low	3581/2210
Free float (%)	53

Note: *as on 16 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q3	Q4	Q1	Q2
	FY24	FY24	FY25	FY25
Promoter	47.2	47.2	47.2	47.2
% Pledged	-	-	-	-
FII	20.0	20.2	18.8	16.7
DII	14.3	15.9	17.1	19.7
Others	18.5	16.7	16.9	16.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(6.6)	(5.3)	5.8
CEAT	3.4	11.6	21.9
NSE Mid-cap	(8.4)	(5.5)	14.3
NSE Small-cap	(8.6)	(7.4)	13.6

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	112,633	118,926	131,809	140,565	149,101
EBITDA	9,773	16,557	15,014	17,184	19,106
Add: - Non operating Income	387	263	410	445	445
OPBIDTA	10,159	16,820	15,423	17,629	19,551
Less:- Depreciation & Amortization	4,693	5,084	5,504	5,959	6,596
EBIT	5,467	11,736	9,920	11,670	12,955
Less: - Interest Expenses	2,390	2,659	2,539	1,929	1,797
PBT	3,076	9,078	7,380	9,741	11,158
Less:- Taxes	679	2,109	1,871	2,435	2,790
Adjusted PAT	2,397	6,968	5,509	7,306	8,369
Add/Less: - Extra-ordinaries	(334)	(425)	-	-	-
Reported PAT	2,063	6,543	5,509	7,306	8,369
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	405	405	405	405	405
Reserves	33,052	39,107	43,605	49,900	57,257
Net worth	33,456	39,511	44,009	50,304	57,662
Borrowings	20,657	15,930	16,930	15,430	13,930
Deferred Tax (Net)	3,800	4,389	4,389	4,389	4,389
Other liabilities	2,065	2,044	2,044	2,044	2,044
Total Liabilities	59,978	61,875	67,373	72,167	78,025
Gross Block	90,264	96,820	106,820	117,820	127,820
Less: - Accumulated Depreciation	29,030	34,114	39,617	45,576	52,171
Net Block	61,234	62,706	67,203	72,244	75,649
Add: - Capital work in progress	5,093	6,591	6,591	6,591	6,591
Investments	1,303	1,557	1,557	1,713	1,884
Net Working Capital	(10,500)	(12,521)	(16,827)	(17,179)	(16,699)
Cash and Cash Equivalents	531	347	1,686	1,426	3,016
Other Assets	2,317	3,193	7,162	7,373	7,584
Total Assets	59,978	61,875	67,373	72,167	78,025
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	9,776	14,762	13,143	14,748	16,316
Add/Less: Working Capital Changes	2,377	2,477	4,174	344	(489)
Operating Cash Flow	12,152	17,239	17,317	15,092	15,828
Less: - Capex	(8,892)	(8,223)	(10,000)	(11,000)	(10,000)
Free Cash Flow	3,261	9,016	7,317	4,092	5,828
Financing Cash Flow	(3,180)	(9,263)	(2,753)	(4,642)	(4,510)
Investing Cash Flow	(8,599)	(8,739)	(9,590)	(10,711)	(9,726)
Net change in Cash	373	(763)	4,974	(261)	1,591
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	20.9	5.6	10.8	6.6	6.1
EBITDA Growth	39.4	69.4	(9.3)	14.5	11.2
PAT Growth	256.5	190.7	(20.9)	32.6	14.5
EBITDA Margin	8.7	13.9	11.4	12.2	12.8
Net Margin	2.1	5.9	4.2	5.2	5.6
Return & Liquidity Ratios					
Net Debt/Equity (x)	0.6	0.4	0.3	0.3	0.2
ROE (%)	7.4	19.1	13.2	15.5	15.5
ROCE (%)	9.6	20.9	16.3	17.7	18.2
Per Share data & Valuation Ratios					
Diluted EPS (INR)	59.3	172.3	136.2	180.6	206.9
EPS Growth (%)	256.5	190.7	(20.9)	32.6	14.5
DPS (INR)	18.0	30.0	25.0	25.0	25.0
P/E Ratio (x)	51.4	17.7	22.3	16.9	14.7
EV/EBITDA (x)	14.7	8.4	9.2	8.0	7.0
EV/Sales (x)	1.3	1.2	1.0	1.0	0.9
Price/Book (x)	3.7	3.1	2.8	2.4	2.1
Dividend Yield (%)	0.6	1.0	0.8	0.8	0.8

Note: Pricing as on 16 January 2025; Source: Company, Elara Securities Estimate

Price hikes to be implemented across segments, so as to offset RM cost inflation

CEAT undertook a blended price hike of 1.5% QoQ to offset the increase in RM cost. CEAT hiked prices within ~1-1.5% for the farm segment, 4% for the PV segment and a slight 1% as at end-Q3 (full impact to be visible in Q4). Inability to take greater price hikes in the 2W category was mainly due to intensifying competition. Price hikes were insufficient to fully pass on the inflation in RM cost and hence, the management has guided for further price hikes in the replacement and export market in Q4.

Quarterly financials

Standalone (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Variance (%)
Revenue	32,918	29,490	11.6	32,981	(0.2)	32,483	1.3
Operating costs	29,481	25,319	16.4	29,317	0.6	29,008	1.6
EBITDA	3,436	4,171	(17.6)	3,664	(6.2)	3,476	(1.1)
EBITDA margin (%)	10.4	14.1	-370	11.1	(67)	10.7	(26)
Depn & amort.	1,414	1,273	11.1	1,370	3.2	1,400	1.0
EBIT	2,022	2,898	(30.2)	2,294	(11.9)	2,076	(2.6)
Interest expense	751	648	15.8	665	12.9	650	15.5
Other income	32	35	(6.1)	197	(83.6)	200	(83.8)
Pretax profit	1,304	2,284	(42.9)	1,827	(28.6)	1,626	(19.8)
Tax	344	517	(33.4)	461	(25.4)	406	(15.3)
Tax rate (%)	26.4	22.6	16.6	25.3	4.5	25.0	
Adjusted net profit	960	1,767	(45.7)	1,365	(29.7)	1,219	(21.3)
Exceptional	-	-		(0.3)			
Reported net profit	960	1,767	(45.7)	1,365	(29.7)	1,219	(21.3)
EPS (INR)	23.7	43.7	(45.7)	33.7	(29.7)	30.1	(21.3)

Source: Company, Elara Securities Estimate

Q3FY25 conference call highlights

- ▶ **Volume growth:** Overall volumes rose by 7.9% YoY, with exports and the replacement segment achieving double-digit growth, even as the OEM segment recorded mid-single-digit growth YoY.
- ▶ **Demand outlook:** The T&B segment is projected to post high single-digit YoY growth and 2W may see double-digit growth. The Farm and PV segments are likely to grow in low single-digit YoY.
- ▶ **Replacement:** The commercial segment achieved double-digit YoY growth, led by higher growth in the radial category, even as the Bias segment remained stable. The 2W segment saw strong growth due to an effective distribution network in rural areas, where growth was 40-50% higher than in urban areas. Also, the share of the TBR market has increased to high single digit.
- ▶ **OEM:** The MHCV segment is seeing a drop in the OEM category, while growth in the 2W segment has slowed down but is in double-digits. The PV segment's growth has decelerated to low single-digit. In Q4, strong growth is anticipated in the 2W and PV OEM segments.
- ▶ **Exports:** CEAT experienced robust growth across most geographies, with Europe showing particularly strong performance, including growth in the truck and bus segment. The US market is entering a growth phase. This is expected to significantly increase exports, potentially raising its share to 20-25% of total exports. Initial regional distributors have been established in the US, product feedback is positive, and commitments from channel partners are visible for FY26. Additionally, >46 SKUs were added in the OHT segment. However, challenges remain in the international markets due to geopolitical conflicts in the Middle East and currency depreciation in Brazil. On a positive note, Sri Lanka's macroeconomic situation is improving.
- ▶ **Camso:** The realization from Camso is higher than for CEAT, and the latter plans to maintain *Camso* as a premium brand. Currently, exports contribute 19% to total revenue, which is expected to rise to 26% after the consolidation of Camso.

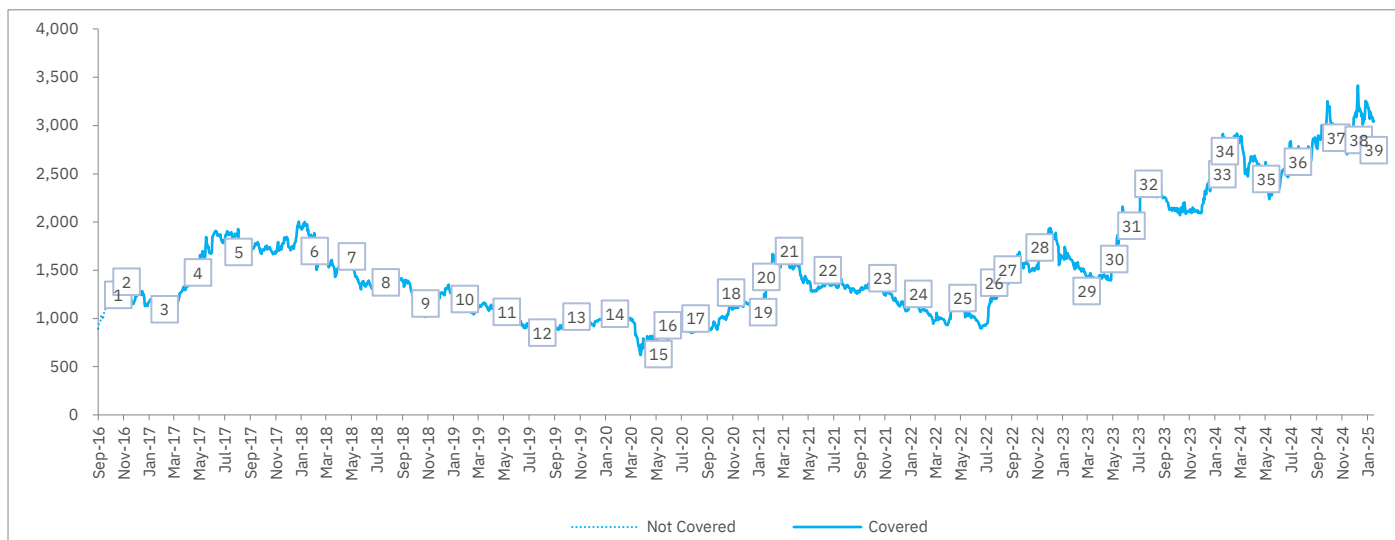
- ▶ **Margins and pricing action:** Inflation in raw material stood at 1.2% QoQ and the business mix along with price hikes was insufficient to fully offset the rise in raw material prices. Price hikes were as follows: 1-1.5% in the Farm segment, 4% in the PV segment, and a nominal increase of ~1% in the 2W segment, which was implemented at the end of Q3 and will fully reflect in Q4. The blended realization increased by 1.5% QoQ. Price hikes in the 2W/3W segments were lower due to strong demand and a lower share of natural rubber. The OEM indexation benefit in Q3 was 3-4%. In Q4, further price hikes are planned in the replacement and export markets. Half of the price hikes have already been implemented, with the remaining set to take effect in Q4. Raw material costs are expected to remain flat or grow by a modest 1%.
- ▶ **Capex:** Most plants are operating at 75-80% capacity utilization, with the Halol plant reaching 95% utilization. CEAT incurred a capex of INR 2,830mn in Q3FY25, with a total of INR 10,500mn allocated for FY25, and INR 7,130mn already spent in the first nine months of FY25. The board has approved a 30% capacity increase at the Nagpur 2W plant, at an estimated cost of ~INR 4,000mn. CEAT will continue focusing on bite-sized capex investments.
- ▶ **Working capital** has been reduced by INR 84mn in Q3, following an earlier increase due to higher natural rubber inventory.
- ▶ **Debt** has been reduced by INR 500mn to INR 18,350mn (reduction taking place at the end of the Q3). Interest costs increased due to higher average debt in Q3 and a 10-20bps rise in MCLR. The average cost of debt stands at ~8%, reflecting a mix of both long-term and short-term borrowings.
- ▶ **Depreciation** increased due to the commissioning of the new truck and bus radial plant in Chennai. It is expected to remain at similar levels, going forward.

Exhibit 1: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	131,054	139,654	148,127	131,809	140,565	149,101	0.6	0.7	0.7
EBITDA	15,295	17,442	19,065	15,014	17,184	19,106	(1.8)	(1.5)	0.2
EBITDA margin (%)	11.7	12.5	12.9	11.4	12.2	12.8	(28)	(26)	(5.7)
PAT	5,719	7,500	8,338	5,509	7,306	8,369	(3.7)	(2.6)	0.4
EPS (INR)	141.4	185.4	206.1	136.2	180.6	206.9	(3.7)	(2.6)	0.4
Volumes	457,269	499,726	532,979	457,269	494,353	527,231	-	(1.1)	(1.1)
TP (INR)			3,014			3,103			3

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
29	28-Feb-2023	Buy	INR 1,800	INR 1,384
30	5-May-2023	Buy	INR 2,285	INR 1,717
31	15-Jun-2023	Accumulate	INR 2,285	INR 2,073
32	27-Jul-2023	Reduce	INR 2,435	INR 2,468
33	25-Jan-2024	Reduce	INR 2,850	INR 2,834
35	3-May-2024	Reduce	INR 2,632	INR 2,545
36	19-Jul-2024	Reduce	INR 2,705	INR 2,676
37	18-Oct-2024	Reduce	INR 2,813	INR 2,973
38	11-Dec-2024	Reduce	INR 3,014	INR 3,149
39	16-Jan-2025	Reduce	INR 3,103	INR 3,044

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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