

Automobiles & Components

India

Sector View: **Cautious**

NIFTY-50: **21,817**

March 20, 2024

Turning tides

Given the recent uptick in natural rubber and crude oil prices, coupled with muted demand trends in the domestic market, the margins of tire companies may come under pressure if prices sustain at these levels. At current spot prices, our analysis suggests potential gross margin cuts of 100-200 bps to our FY2025 estimates. A reverse DCF analysis suggests that tire companies should maintain or improve 2QFY24 peak profitability in the longer term to justify CMP, which we believe is challenging. The uptick in freight cost remains an incremental headwind for BIL. Retain SELL on APTY, CEAT, MRF and BIL.

Domestic demand growth has moderated for tire companies

In the last three quarters, revenue growth for listed tire companies has moderated to low mid-single digits on account of: (1) demand moderation in select replacement segments, (2) weakness in export markets and (3) decline in ASPs in the OEM segment due to the passthrough of lower RM prices. We expect demand trends to remain muted in the near term, given: (1) weak PV replacement segment demand as the base period of sales are muted, assuming a 3-5 year replacement cycle, (2) demand moderation in the OEM segment and (3) subdued trends in the CV segment, which may also impact TBR and TBB replacement demand, partly offset by the recovery in export markets. Apollo Tyres has underperformed CEAT and MRF, mainly due to market share loss in the PCR replacement segment as it continues to focus on profitability.

Uptick in commodity prices poses risk to tire companies' profitability

International and domestic natural rubber prices (spot) have risen by 22-32% from 2QFY24 average levels, driven by persistent supply concerns. Leading natural-rubber producers (Thailand, Malaysia and Indonesia) are grappling with lower output, owing to adverse weather concerns. In the first two months, global NR supply stood at 2.25 mn tons versus global NR consumption of 2.44 mn tons. Rubber prices may sustain at current levels, given the widening global supply deficit and steady demand trends in the global PV segment. Further, crude prices have witnessed an uptick, which will further weigh on profitability (500-600 bps impact on gross margins at current spot prices from 3QFY24 levels). If the current prices sustain, we see a downside risk to our gross margin assumptions to the tune of 100-200 bps. The uptick in freight cost due to the Red Sea crisis remains an incremental headwind for BKT (~45% volumes are derived from the EU region).

Domestic tire companies have taken prices cuts in TBR segment

In March, domestic tire companies cut prices in the TBR segment to the tune of 1-1.5%, which implies demand challenges in the CV replacement segment currently. Tire companies might be able to pass on commodity price increases in the PCR and 2W replacement segments (B2C segments); however, we believe it will be challenging in the CV segment, given the B2B nature of the business and muted demand trends. We believe APTY has limited scope to raise prices in the PCR segment without impacting its market share,, given its premium pricing versus other domestic tire companies.

Company data and valuation summary

Ticker	CMP (Rs)	Rating	FV (Rs)	Upside (%)
BIL IN	2,285	SELL	1,950	(14.6)
MRF IN	132,680	SELL	90,000	(32.2)
APTY IN	455	SELL	375	(17.6)
CEAT IN	2,551	SELL	1,670	(34.5)

Relative valuations				
Ticker	P/E (X)		EV/EBITDA (X)	
	2025E	2026E	2025E	2026E
BIL IN	29.9	25.8	17.0	14.8
MRF IN	27.4	26.5	12.3	11.5
APTY IN	16.6	16.0	6.9	6.7
CEAT IN	16.2	18.3	7.2	7.6

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of March 19, 2024

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To justify CMP, tire companies should maintain or improve on 2QFY24 peak profitability

A reverse DCF analysis suggests that APTY (standalone) and CEAT must maintain their EBITDA per kg in FY2027-36E compared to 2QFY24 peak profitability levels (~50-55% higher than the 10-year average EBITDA per kg) to justify the current price. Further, MRF must clock in 33% higher profitability over FY2027-36E from FY2024E levels to justify the CMP. We expect capex spends to remain at lower levels over the next 1-2 years; however, we believe that it will be difficult for the company to maintain current profitability/return ratios on a sustainable basis, given: (1) the commoditized nature of the industry, which tends to be cyclical, (2) weak pricing power, especially in OEM and CV replacement segments, (3) elevated competitive intensity in select segments and (4) high capex requirements over the cycle.

Domestic revenue growth has moderated in the last three quarters on account of demand moderation in select replacement segment and weakness in export markets

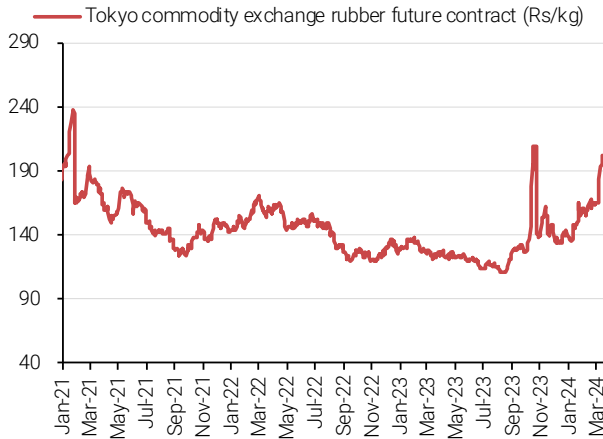
Exhibit 1: Quarterly performance tyre companies, March fiscal year-ends, 1QFY21-3QFY24 (Rs mn, %)

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Tyre companies comparison															
Apollo Tyres (Standalone)															
Revenue (Rs mn)	17,725	29,102	34,191	36,296	32,200	36,497	37,917	39,880	44,362	42,519	42,466	43,662	44,133	44,067	43,319
yoy change (%)	(42.9)	4.9	24.2	49.3	81.7	25.4	10.9	9.9	37.8	16.5	12.0	9.5	(0.5)	3.6	2.0
EBITDA (Rs mn)	1,905	5,483	7,328	5,606	3,336	3,762	3,450	3,761	4,288	4,374	5,483	6,964	7,867	8,414	7,840
EBITDA margin (%)	10.8	18.8	21.4	15.4	10.4	10.3	9.1	9.4	9.7	10.3	12.9	15.9	17.8	19.1	18.1
PAT (Rs mn)	(536)	2,196	3,393	2,253	685	900	492	544	1,043	808	1,376	2,560	3,119	3,518	3,061
CEAT															
Revenue (Rs mn)	11,202	19,785	22,213	22,897	19,064	24,518	24,133	25,920	28,184	28,945	27,272	28,748	29,352	30,533	29,631
yoy change (%)	(36.1)	17.0	26.1	45.5	70.2	23.9	8.6	13.2	47.8	18.1	13.0	10.9	4.1	5.5	8.7
EBITDA (Rs mn)	1,020	2,925	3,277	2,608	1,662	2,203	1,341	1,875	1,653	2,031	2,376	3,678	3,871	4,561	4,175
EBITDA margin (%)	9.1	14.8	14.8	11.4	8.7	9.0	5.6	7.2	5.9	7.0	8.7	12.8	13.2	14.9	14.1
PAT (Rs mn)	(348)	1,819	1,321	1,528	240	420	(200)	253	92	78	354	1,337	1,446	2,080	1,815
MRF															
Revenue (Rs mn)	24,607	42,444	46,416	48,165	41,840	49,078	49,201	53,048	56,959	58,263	56,445	58,417	64,403	62,177	61,625
yoy change (%)	(45.0)	5.9	13.9	30.7	70.0	15.6	6.0	10.1	36.1	18.7	14.7	10.1	13.1	6.7	9.2
EBITDA (Rs mn)	3,322	8,667	9,770	7,664	4,955	5,211	4,930	5,402	4,934	4,806	5,615	8,536	11,299	11,575	10,548
EBITDA margin (%)	13.5	20.4	21.0	15.9	11.8	10.6	10.0	10.2	8.7	8.2	9.9	14.6	17.5	18.6	17.1
PAT (Rs mn)	135	4,109	5,205	3,322	1,656	1,891	1,494	1,652	1,236	1,299	1,748	3,407	5,888	5,867	5,097
JK Tyres															
Revenue (Rs mn)	11,308	22,748	27,693	29,273	26,084	29,867	30,760	33,118	36,430	37,565	36,129	36,325	37,181	38,975	36,877
yoy change (%)	(56.1)	5.6	30.6	63.3	130.7	31.3	11.1	13.1	39.7	25.8	17.5	9.7	2.1	3.8	2.1
EBITDA (Rs mn)	(38)	3,550	5,004	4,547	2,795	2,926	2,735	2,279	2,849	3,004	2,393	3,762	4,571	5,891	5,502
EBITDA margin (%)	(0.3)	15.6	18.1	15.5	10.7	9.8	8.9	6.9	7.8	8.0	6.6	10.4	12.3	15.1	14.9
PAT (Rs mn)	(2,042)	1,097	2,305	1,950	441	650	539	382	351	496	668	1,116	1,586	2,486	2,271
TVS Srichakra															
Revenue (Rs mn)	2,121	5,524	5,727	6,020	4,953	6,913	6,767	6,703	7,374	8,335	7,313	6,829	7,022	7,397	7,189
yoy change (%)	(65.0)	(0.9)	12.4	39.5	133.5	25.2	18.2	11.3	48.9	20.6	8.1	1.9	(4.8)	(11.3)	(1.7)
EBITDA (Rs mn)	(175)	866	801	931	263	633	404	346	311	827	598	553	606	906	684
EBITDA margin (%)	(8.2)	15.7	14.0	15.5	5.3	9.2	6.0	5.2	4.2	9.9	8.2	8.1	8.6	12.3	9.5
PAT (Rs mn)	(372)	398	363	350	11	253	90	80	(22)	382	195	223	210	391	240
Goodyear															
Revenue (Rs mn)	2,269	4,811	5,143	5,693	5,342	6,983	6,051	5,982	8,190	7,669	6,891	6,526	7,197	6,901	5,914
yoy change (%)	(53.7)	6.0	20.7	51.8	135.4	45.1	17.6	5.1	53.3	9.8	13.9	9.1	(12.1)	(10.0)	(14.2)
EBITDA (Rs mn)	15	734	744	675	448	600	337	335	600	460	439	570	641	613	398
EBITDA margin (%)	0.6	15.3	14.5	11.8	8.4	8.6	5.6	5.6	7.3	6.0	6.4	8.7	8.9	8.9	6.7
PAT (Rs mn)	(45)	486	490	432	269	392	195	174	377	271	244	336	393	379	219
Listed companies quarterly performance															
Revenue (Rs mn)	69,232	124,415	141,383	148,344	129,482	153,855	154,829	164,652	181,499	183,296	176,516	180,507	189,287	190,050	184,555
yoy change (%)	(46.7)	6.9	21.4	44.2	87.0	23.7	9.5	11.0	40.2	19.1	14.0	9.6	4.3	3.7	4.6
EBITDA (Rs mn)	6,050	22,226	26,923	22,031	13,458	15,335	13,196	13,999	14,635	15,502	16,905	24,063	28,855	31,961	29,147
EBITDA margin (%)	8.7	17.9	19.0	14.9	10.4	10.0	8.5	8.5	8.1	8.5	9.6	13.3	15.2	16.8	15.8
PAT (Rs mn)	(3,208)	10,105	13,076	9,834	3,301	4,504	2,609	3,084	3,078	3,334	4,585	8,979	12,641	14,720	12,703

Source: Companies, Kotak Institutional Equities

International rubber prices have risen sharply in past 1 month

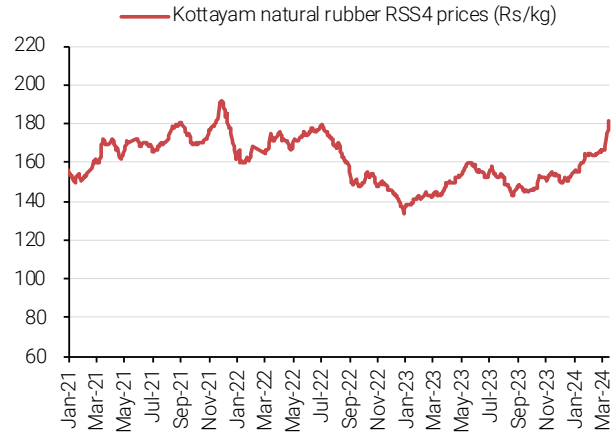
Exhibit 2: Tokyo Commodity Exchange Rubber Futures, 2021-24 (Rs per kg)



Source: Bloomberg, Kotak Institutional Equities

Domestic natural rubber prices rose sharply in past 1 month

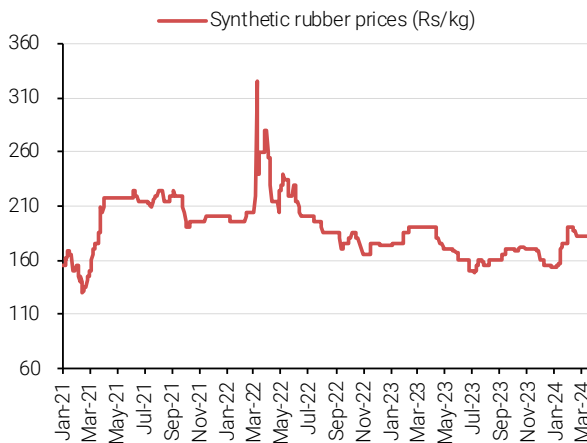
Exhibit 3: Kottayam Natural Rubber RSS4 prices, 2021-24 (Rs per kg)



Source: Bloomberg, Kotak Institutional Equities

Synthetic rubber prices have remained stable in past 2 months

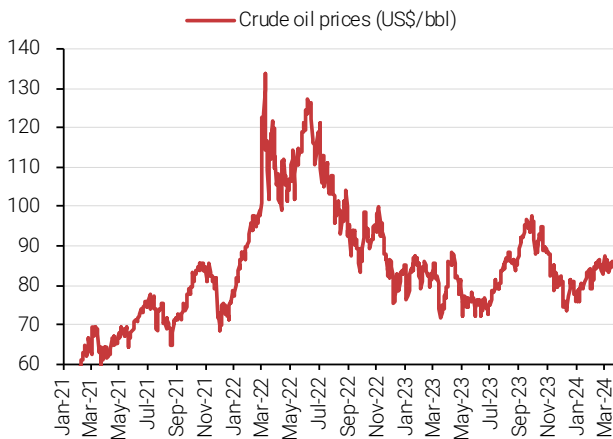
Exhibit 4: Synthetic rubber prices, March fiscal year-ends, 2021-23 (Rs per kg)



Source: Bloomberg, Kotak Institutional Equities

Brent crude oil prices increased in past 1 month

Exhibit 5: Brent crude oil prices, March fiscal year-ends, 2021-23 (USD per bbl.)



Source: Bloomberg, Kotak Institutional Equities

At spot prices and stable pricing, gross margins of tire companies will get negatively impacted by 500-600 bps from 3QFY24 levels

Exhibit 6: RM impact on margins of tire companies, March fiscal-year end, 2024 (Rs per kg, Rs/bbl, %)

		2QFY24 average prices	3QFY24 average prices	Spot prices	Change from 2QFY24 levels (%)	Contribution (%)	Impact (%)
Gross margin impact analysis							
Natural rubber (Rs/kg)	Domestic	149	152	182	22.0	17.50	(1.6)
	International	122	149	162	33.2	17.50	(2.4)
Synthetic rubber (Rs/kg)		168	165	182	8.0	15.00	(0.5)
Crude oil (Rs/bbl)	Brent	6,790	7,011	7,152	5.3	50.00	(1.1)
Total							(5.7)

Note:

(a) We assumed 70% of total crude oil price upswing to be translated to crude-oil derivatives

(b) RM impact generally comes with a quarter lag for the tire companies

Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Gross margins of all the companies have expanded sharply in the last few quarters

Exhibit 7: Quarterly performance of tire companies, March fiscal-year end, 2021-24 (%)

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Apollo standalone - key ratios (%)													
Revenue growth (yoy)	24.2	49.3	81.7	25.4	10.9	9.9	37.8	16.5	12.0	9.5	(0.5)	3.6	2.0
Raw material cost/sales	56.8	61.4	65.8	67.4	69.8	69.4	70.4	70.3	67.3	62.6	60.5	60.2	59.1
Staff cost/sales	6.6	7.5	8.1	7.1	6.7	6.2	5.9	5.8	5.9	6.1	6.3	6.2	6.5
Other expenses/sales	15.2	15.7	15.7	15.2	14.4	15.0	14.1	13.6	13.9	15.3	15.4	14.6	16.2
EBITDA margin (%)	21.4	15.4	10.4	10.3	9.1	9.4	9.7	10.3	12.9	15.9	17.8	19.1	18.1
CEAT - key ratios (%)													
Revenue growth (yoy)	26.4	49.6	70.0	23.8	8.8	13.0	47.7	18.7	12.7	11.1	4.2	5.4	8.8
Raw material cost/sales	54.5	58.2	61.3	63.1	66.2	66.8	68.4	67.6	65.4	59.9	58.9	56.7	58.7
Staff cost/sales	8.1	7.9	9.2	7.0	7.1	6.6	6.1	5.7	6.7	7.4	6.6	7.1	7.3
Other expenses/sales	22.7	22.7	20.7	21.0	21.3	19.5	19.7	19.6	19.2	19.8	21.2	21.2	19.9
EBITDA margin (%)	14.7	11.2	8.7	8.9	5.5	7.2	5.9	7.1	8.7	12.9	13.2	15.0	14.1
MRF - key ratios (%)													
Revenue growth (yoy)	13.9	30.7	69.8	15.4	5.8	9.8	35.6	18.4	14.6	10.1	12.9	6.4	9.3
Raw material cost/sales	55.2	61.5	62.1	64.5	66.6	67.9	68.5	70.3	67.9	63.0	61.2	59.2	59.9
Staff cost/sales	8.6	7.4	8.6	7.8	7.7	7.1	6.5	6.8	7.3	7.0	6.5	7.1	7.2
Other expenses/sales	15.1	15.3	17.5	17.1	15.6	14.9	16.4	14.7	15.0	15.3	14.7	15.1	15.7
EBITDA margin (%)	21.1	15.7	11.8	10.6	10.1	10.1	8.5	8.2	9.9	14.7	17.6	18.5	17.2
BIL - key ratios (%)													
Revenue growth (yoy)	(3.6)	16.9	4.5	13.8	(0.0)	17.0	12.1	2.9	(21.1)	4.9	(9.0)	6.2	3.1
Raw material cost/sales	40.3	41.2	42.8	44.6	46.5	45.3	46.6	48.8	51.4	50.7	48.3	48.1	48.0
Staff cost/sales	5.6	5.0	5.2	4.8	4.7	3.7	3.9	3.6	4.5	4.1	5.0	5.0	4.9
Other expenses/sales	22.3	21.9	22.8	23.5	24.5	27.3	29.5	27.5	25.0	23.9	23.7	22.5	21.8
EBITDA margin (%)	31.8	31.9	29.2	27.2	24.4	23.7	20.0	20.1	19.1	21.3	23.0	24.4	25.3

Source: Companies, Kotak Institutional Equities

At current spot prices, we see a downside risk to our profitability assumptions

Exhibit 8: Profitability ratios on per kg basis of tyre companies, March fiscal year-ends, 2017-26E (Rs per kg)

	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Per ton analysis for tyre companies										
Apollo tyres (Standalone)										
Sales volumes (tons)	465,546	512,636	596,296	544,652	550,099	632,614	653,490	660,272	693,991	724,251
Yoy growth (%)	7	10	16	(9)	1	15	3	1	5	4
Net realizations (Rs per kg)	191.9	201.0	207.2	203.2	213.3	231.6	264.7	268.4	266.2	266.5
RM cost (Rs per kg)	112.0	127.7	135.1	125.5	126.2	157.9	179.1	162.0	163.4	165.4
Gross profit (Rs per kg)	79.9	73.3	72.0	77.7	87.1	73.6	85.7	106.5	102.8	101.1
Employee cost (Rs per kg)	13.3	13.8	12.4	15.2	16.6	16.2	15.7	16.9	16.9	17.0
Other expenses (Rs per kg)	38.0	35.1	34.9	36.8	33.6	34.8	37.7	40.8	43.8	43.7
EBITDA (Rs per kg)	28.5	24.4	24.8	25.7	37.0	22.6	32.3	48.8	42.2	40.4
CEAT tyres										
Sales volumes (tons)	295,798	309,834	329,715	315,354	358,026	384,700	429,700	459,876	486,892	511,810
Yoy growth (%)	10.2	4.7	6.4	(4.4)	13.5	7.5	11.7	7.0	5.9	5.1
Net realizations (Rs per kg)	192.8	200.5	207.2	214.0	211.5	242.1	262.1	259.7	259.7	262.2
RM cost (Rs per kg)	114.1	122.8	125.6	123.8	118.7	156.3	171.2	151.5	155.0	160.2
Gross profit (Rs per kg)	78.6	77.8	81.6	90.1	92.8	85.8	90.9	108.2	104.7	102.0
Employee cost (Rs per kg)	13.0	13.3	14.9	16.9	18.6	17.8	16.9	18.3	18.5	18.6
Other expenses (Rs per kg)	43.4	44.2	47.4	50.4	46.9	49.8	51.3	53.5	52.7	52.8
EBITDA (Rs per kg)	22.3	20.2	19.3	22.8	27.2	18.2	22.7	36.4	33.6	30.5
MRF tyres										
Sales volumes (tons)	642,302	683,808	727,750	711,562	703,889	783,508	851,379	897,804	940,433	981,475
Yoy growth (%)	4.6	6.5	6.4	(2.2)	(1.1)	11.3	8.7	5.5	4.7	4.4
Net realizations	208.7	218.7	220.7	228.2	229.6	246.5	270.2	278.7	279.3	280.1
RM cost	116.7	133.2	133.4	135.2	132.4	160.6	181.3	166.5	172.1	173.9
Gross profit	92.0	85.5	87.3	93.1	97.2	86.0	88.9	112.2	107.3	106.2
Employee cost	15.6	16.0	16.0	18.9	20.1	19.2	18.7	19.5	19.5	19.7
Other expenses	35.4	36.1	39.6	40.8	35.3	40.6	42.1	43.5	43.7	43.9
EBITDA	41.0	33.4	31.7	33.4	41.8	26.2	28.1	49.1	44.1	42.7
Balkrishna Industries										
Sales volumes (tons)	172,420	199,213	211,261	201,760	227,132	288,795	301,181	284,062	309,971	338,466
Yoy growth (%)	16.9	15.5	6.0	(4.5)	12.6	27.1	4.3	(5.7)	9.1	9.2
Net realizations	219.9	234.2	250.9	244.2	253.8	292.5	332.7	318.9	321.5	324.5
RM cost	91.6	107.6	115.7	106.0	101.7	130.8	163.2	151.6	151.8	153.7
Gross profit	128.3	126.6	135.2	138.2	152.1	161.7	169.5	167.3	169.8	170.8
Employee cost	14.9	14.1	14.2	16.3	16.3	14.9	15.3	17.7	16.8	15.9
Other expenses	43.0	44.9	53.8	52.3	55.0	70.1	87.2	70.1	70.9	70.3
EBITDA	70.5	67.6	67.2	69.6	80.8	76.7	67.1	79.5	82.1	84.7

Source: Companies, Kotak Institutional Equities estimates

To justify CMP, APTY has to clock in EBITDA of Rs51.9 per kg (similar to peak profitability achieved in 2QFY24) over FY2027-35E

Exhibit 9: Reverse DCF analysis, Apollo Tyres, March fiscal year-ends, 2023-35, (Rs mn, %)

	2021	2022	2023	2024E	2025E	2026E	2027E	CAGR (%)	
								2035E	2023-35E
Volumes (MT)	550,099	632,614	653,490	660,272	693,991	724,251	774,948	1,331,505	6.1
ASPs (Rs per MT)	213,296	231,569	264,748	268,449	266,204	266,524	271,855	318,521	1.6
Standalone revenues	117,334	146,494	173,010	177,249	184,743	193,030	210,673	424,112	7.8
Subs revenues	56,636	62,982	72,671	78,331	83,151	87,641	92,023	135,960	5.4
Consolidated revenues	173,970	209,476	245,681	255,581	267,894	280,671	302,696	560,072	7.1
Standalone EBITDA	20,343	14,308	21,109	32,197	29,257	29,267	40,220	69,105	10.4
Standalone EBITDA margin (%)	17.3	9.8	12.2	18.2	15.8	15.2	19.1	16.3	
Standalone EBITDA per kg	37.0	22.6	32.3	48.8	42.2	40.4	51.9	51.9	4.0
Subs EBITDA	7,631	11,433	12,027	13,020	13,879	14,625	15,644	23,113	5.6
Subs EBITDA margin (%)	13.5	18.2	16.6	16.6	16.7	16.7	17.0	17.0	
Consolidated EBITDA	27,975	25,741	33,137	45,217	43,135	43,892	55,864	92,218	8.9
Consolidated EBITDA margin (%)	16.1	12.3	13.5	17.7	16.1	15.6	18.5	16.5	
EBIT	16,119	12,979	19,356	31,614	28,704	28,669	38,164	62,024	10.2
Tax expense	(2,910)	(3,179)	(5,255)	(9,484)	(8,611)	(8,601)	(11,449)	(18,607)	
EBIT (1-tax)	13,209	9,800	14,101	22,130	20,093	20,068	26,715	43,417	9.8
EBIT margin (%)	9.3	6.2	7.9	12.4	10.7	10.2	12.6	11.1	
Depreciation	(13,150)	(13,997)	(14,191)	(14,575)	(15,603)	(16,495)	(17,699)	(30,194)	
Change in working capital	4,616	(1,829)	(7,890)	(166)	(577)	(608)	8,865	294	
Capex	(11,563)	(18,164)	(7,604)	(11,000)	(12,000)	(23,000)	(24,216)	(39,205)	
FCFF	19,412	3,804	12,798	25,539	23,119	12,956	29,064	34,700	8.7
WACC	12.1								
Discounted free cash flow	160,041								
Terminal cash flow	10,755								
Terminal growth rate (%)	4.5								
Terminal value	141,376								
Enterprise value	301,417								
Net debt/(cash) - March 2025	10,618								
Equity value	290,799								
CMP (Rs)	455								

Source: Companies, Kotak Institutional Equities estimates

To justify CMP, MRF has to clock in EBITDA of Rs65 per kg (33% higher than profitability achieved in FY2024E) over FY2027-35E

Exhibit 10: Reverse DCF analysis, MRF Tyres, March fiscal year-ends, 2023-35, (Rs mn, %)

	2021	2022	2023	2024E	2025E	2026E	2027E	2035E	CAGR (%) 2023-35E
Volumes (MT)	703,889	783,508	851,379	897,804	940,433	981,475	1,040,363	1,658,181	5.7
ASPs (Rs per MT)	226,191	238,673	263,357	271,500	271,853	272,376	277,824	325,515	1.8
Standalone revenues	159,214	187,002	224,216	243,754	255,659	267,330	289,038	539,763	7.6
Subs revenues	2,418	3,272	4,303	4,733	5,112	5,521	5,907	10,149	7.4
Consolidated revenues	161,632	190,274	228,519	248,487	260,771	272,851	294,945	549,912	7.6
Yoy growth (%)	(0.5)	17.7	20.1	8.7	4.9	4.6	8.1	8.1	
EBITDA	29,423	20,498	23,891	44,098	41,436	41,880	67,977	108,346	
EBITDA margin (%)	18.2	10.8	10.5	17.7	15.9	15.3	23.0	19.7	
EBITDA per kg	41.8	26.2	28.1	49.1	44.1	42.7	65.3	65.3	7.3
EBIT	18,016	8,447	11,361	29,957	26,818	26,610	52,106	94,137	
Tax expense	(4,769)	(2,221)	(3,194)	(7,506)	(6,709)	(6,661)	(13,339)	(24,099)	
EBIT (1-tax)	13,247	6,227	8,166	22,451	20,109	19,949	38,767	70,038	19.6
Depreciation	(11,408)	(12,051)	(12,531)	(14,142)	(14,617)	(15,270)	(15,871)	(14,209)	
Change in working capital	18,222	(25,088)	6,357	(3,174)	(1,758)	(1,709)	8,701	(2,472)	
Capex	(8,516)	(17,046)	(32,901)	(10,000)	(8,000)	(8,000)	(8,648)	(16,123)	
FCFF	34,361	(23,857)	(5,847)	23,418	24,969	25,510	54,692	65,651	
WACC	12.0								
Discounted free cash flow	271,647								
Terminal cash flow	17,335								
Terminal growth rate (%)	5.0								
Terminal value	247,646								
Enterprise value	519,294								
Net debt/(cash) - March 2025	(43,271)								
Equity value	562,564								
CMP (Rs)	132,680								

Source: Companies, Kotak Institutional Equities estimates

To justify CMP, CEAT has to clock in EBITDA of Rs39 per kg (2% lower than peak profitability achieved in 2QFY24) over FY2027-35E

Exhibit 11: Reverse DCF analysis, CEAT Tyres, March fiscal year-ends, 2023-35, (Rs mn, %)

	2021	2022	2023	2024E	2025E	2026E	2027E	2035E	2023-35E
Volumes (MT)	358,026	384,700	429,700	459,876	486,892	511,810	552,755	1,013,637	7.4
ASPs (Rs per MT)	211,515	242,075	262,119	259,698	259,750	262,218	267,462	313,374	1.5
Standalone revenues	75,728	93,126	112,633	119,429	126,470	134,206	147,841	317,648	9.0
Subs revenues	368	508	516	774	836	903	993	2,130	12.5
Consolidated revenues	76,096	93,634	113,149	120,203	127,306	135,109	148,834	319,778	9.0
Yoy growth (%)	12.3	23.0	20.8	6.2	5.9	6.1	10.2	9.1	
EBITDA	9,830	7,098	9,738	16,865	16,583	15,898	21,466	39,365	12.3
EBITDA margin (%)	13.0	7.6	8.6	14.1	13.1	11.8	14.5	12.4	
EBITDA per kg	27.5	18.5	22.7	36.7	34.1	31.1	38.8	38.8	4.6
EBIT	6,433	2,746	5,045	11,834	10,900	9,565	13,532	22,791	13.4
Tax expense	(742)	(1,009)	(1,472)	(2,987)	(2,751)	(2,414)	(3,416)	(5,753)	
EBIT (1-tax)	5,692	1,737	3,573	8,847	8,149	7,151	10,116	17,038	13.9
EBIT margin (%)	8.5	2.9	4.5	9.8	8.6	7.1	9.1	7.1	
Share of profit from associates	363	288	82	125	150	200	210	310	
Depreciation	(3,396)	(4,352)	(4,693)	(5,031)	(5,682)	(6,333)	(7,934)	(16,573)	
Change in working capital	4,516	(736)	2,211	497	(383)	280	(1,525)	1,608	
Capex	(6,347)	(9,558)	(8,779)	(8,000)	(9,000)	(12,000)	(10,418)	(21,585)	
FCFF	7,620	(3,917)	1,780	6,500	4,598	1,964	6,317	13,944	18.7
WACC (%)	12.0								
Terminal growth rate (%)	5.0								
Sum of discounted free cash flow	55,382								
Terminal cash flow	4,490								
Terminal value	64,139								
Enterprise value	119,521								
Net debt/(cash) - March 2025	16,303								
Equity value	103,218								
CMP (Rs)	2,552								

Source: Companies, Kotak Institutional Equities estimates

While BIL and MRF are trading at 26-27X on 2-year forward EPS, whereas CEAT and APTY are trading at 16-18X on 2-year forward EPS

Exhibit 12: Valuation comparison of tyre companies, March fiscal year-ends, 2023-26E (Rs, X, %, USD mn)

Company	Stock price		Fair value (Rs)	Market cap (USD mn)	P/E (X)				EV/EBITDA (X)				P/B (X)				RoE (%)			
	(Rs)	Rating			2023	2024E	2025E	2026E	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E
Indian tyre companies																				
Balkrishna Industries	2,285	SELL	1,950	5,318	41.8	34.4	29.9	25.8	22.5	19.6	17.0	14.8	5.8	5.2	4.6	4.1	14.6	16.0	16.3	16.7
MRF	132,680	SELL	90,000	6,776	73.2	25.4	27.4	26.5	23.2	12.1	12.3	11.5	3.8	3.4	3.0	2.7	5.4	14.1	11.6	10.8
Apollo Tyres	455	SELL	375	3,479	28.2	15.7	16.6	16.0	10.1	7.0	6.9	6.7	2.3	2.0	1.8	1.7	8.4	13.6	11.6	11.0
CEAT	2,551	SELL	1,670	1,243	49.2	14.7	16.2	18.3	12.7	7.2	7.2	7.6	3.0	2.6	2.3	2.1	6.3	18.9	15.2	12.1
Mean					48.1	22.6	22.5	21.7	17.1	11.5	10.9	10.1	3.7	3.3	2.9	2.6	8.6	15.6	13.7	12.7
Median					45.5	20.5	22.0	22.1	17.6	9.6	9.7	9.6	3.4	3.0	2.7	2.4	7.3	15.0	13.4	11.6

Source: Companies, Kotak Institutional Equities estimates

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

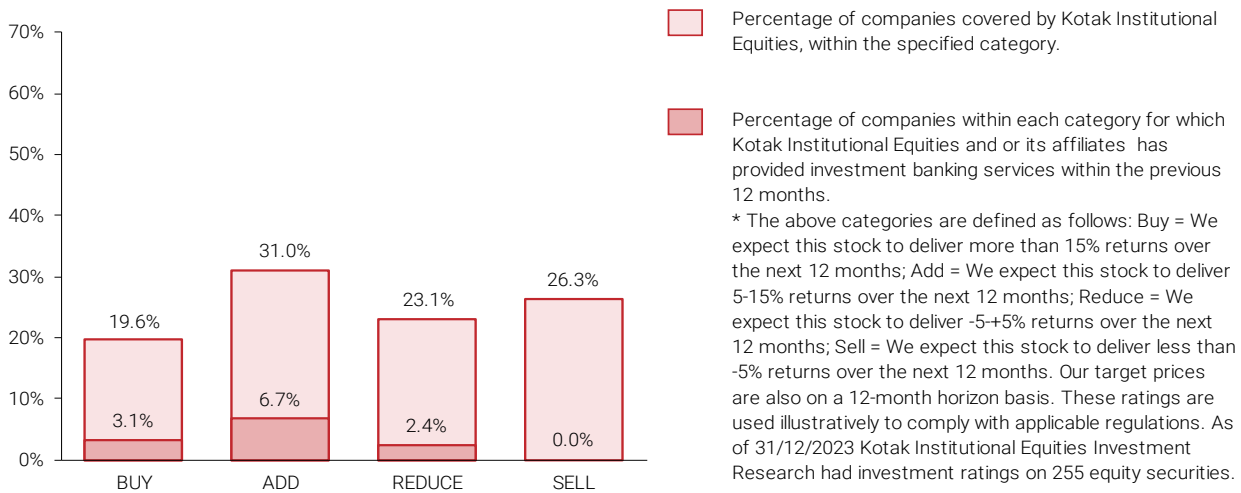
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