

CMP: INR 1,384

View : Positive

Stock Info

BSE	500878
NSE	CEAT
Bloomberg	CEAT.IN
Reuters	CEAT.BO
Sector	Tyres and Rubber
Face Value (INR)	10
Equity Capital (INR cr)	40.45
Mkt Cap (INR cr)	5797.71
52w H/L (INR)	1981/890
Avg Yearly Vol (in 000')	190

Shareholding Pattern %

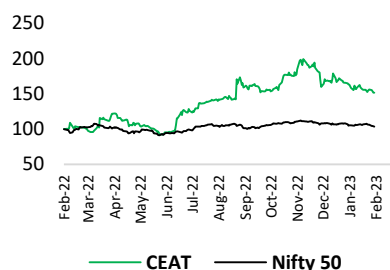
(As on Dec, 2022)

Promoters	47.21
FII	24.09
DII	12.92
Public & Others	15.79

Stock Performance (%)

	1m	6m	12m
CEAT	-7.6	2.7	45.8
Nifty 50	-1.1	0.4	3.5

CEAT Vs Nifty



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We visited the CEAT Plant and R&D center which was organized in Halol Vadodara on 28th Tuesday 2023. The event was attended by the sell side and buy side analysts of the Auto Sector. The session was handled by the plant head and management of the company.

Focus on improving brand equity to drive market share gains: The company has a strong emphasis on effective marketing and branding of its products. To position its products competitively, CEAT has developed creative ad campaigns based on extensive research/consumer insights and invested in innovative marketing programs. Since the 2W and Passenger Car segments are consumer-facing, factors such as brand loyalty, visibility, and recall going a long way in creating replacement market demand and improving market share, which would in turn benefit its margin profile.

Ramp-up in strategic focus areas to continue: The management has identified the 2W, Passenger Car, and OTR (truck/off-road) tire segments as strategic focus areas, given their abilities to boost margin and to lower CEAT's dependence on the Truck segment. The company revenue contribution from these focus areas has increased significantly over the years (to 60% in FY22 from 20% in FY10). This is also reflected in market share gain in the PCR segment that stood at >15% (earlier 11% a few years back). Expansion in TBR, despite being not a strategic focus area, is done to maintain the overall market share in T&B tires. CEAT's market share stood at 8-9% (earlier 5% a few years ago) in the TBR category. With the current capex plan (FY23 INR 9000 Mn out of this INR 6750 Mn has been completed in 9MFY23. The remaining Capex will be done in the Q4FY23e and INR 2000 Mn will be project oriented)

Exports are on recovery path: 12-14% of revenue comes from exports. The major revenue contributor is Europe. Recession may play out in major economies with the already going on geo-political situation. The pricing environment in export markets has been positive. Similar to replacement markets

Valuations: : The cyclical recovery in OEMs and stable replacement demand will enable faster absorption of new capacities and drive the benefit of operating leverage. This, coupled with softening RM prices, would help a partial recovery in margins in FY23E with a full recovery expected in FY24. Expansion in gross margin is the primary reason for the improvement in EBITDA margin. Crude derivatives declined along with rubber. Optimistic of gradual growth. Good rabi corps would aid rural demand. 2w demand would come back. EV market share CEAT ~70%.The stock at a CMP of INR 1,384 trading at a PE of 13x/10x to its EPS of INR 104/137 FY24E/FY25E consolidate (Bloomberg estimates).

Exhibit 1: Financial Performance

Year End- March	FY21	FY22	FY23E *	FY24E*	FY25E*
Revenue	76,096	93634	113171	123842	135315
EBITDA	9,830	7098	8958	12774	14748
Margin (%)	12.90%	7.58%	7.92%	10.31%	10.90%
Adj PAT	4622	794	1684	4067	5360
ROE (%)	14.90%	2.40%	5.09%	11.30%	13.10%
EPS	114	20	44	104	137
PE(x)	12	71	31	13	10

Source: Arihant Research, Compan & Bloomberg estimates

Exhibit 1 : Q3FY23 - Quarterly Performance (Consolidated)

INR Mn (Consolidate)	Q3 FY23	Q2 FY23	Q3 FY22	Q-o-Q	Y-o-Y
Net Revenue	2,72,720	2,89,448	2,41,327	-5.8%	13.0%
Material Cost	1,78,515	1,95,332	1,59,319	-8.6%	12.0%
Employee cost	18,184	16,687	17,210	9.0%	5.7%
Other Expenses	52,261	57,115	51,386	-8.5%	1.7%
EBITDA	23,760	20,314	13,412	17.0%	77.2%
EBITDA margin %	8.7%	7.0%	5.6%	169bps	315bps
Other Income	202	977	317	-79.3%	-36.3%
Depreciation	11,748	11,512	10,856	2.1%	8.2%
EBIT	12,214	9,779	2,873	-	-
EBIT Margin	4.5%	3.4%	1.2%	110bps	329bps
Finance cost	6,568	5,772	5,477	13.8%	19.9%
Exceptional Item	45	2,370	652	-	-
PBT	5,601	1,637	-3,256	242.2%	-272.0%
Tax Expense	1,497	1,057	-349	41.6%	-528.9%
Effective tax rate %	26.7%	64.6%	10.7%	-3784bps	1601bps
PAT	4104	580	-2907	607.6%	-241.2%
Share of Profit/Loss From Associate	-619.0	64.0	889.0	-1067.2%	-169.6%
Actual PAT	3,485.0	644.0	-2,018.0	441.1%	-272.7%
Net margin %	-0.2%	0.0%	0.4%	-25bps	-60bps
Reported EPS (INR)	8.75	1.93	-4.95	353.4%	-276.8%

Source: Arianth Research, Company Filings

Plant Visit Key Takeaways

Exports

CEAT International business contribute to about 12-13%.The production in Ambernath factory will be more dedicated to Exports.

Capex

They had planned a Capex of INR 9,000 Mn in the FY 23 out of which INR 6,750 Mn of Capex was done till Q3FY23.The remaining Capex will be done in this Quarter and out of which INR 2,000 Mn will be project Oriented. They are new Plant capacity in Chennai but the Capex will be little lower than previous year.

Expansion- PCR (Passenger Car Radial)

In Phase 1 they had capacity of 8400 per day
 In Phase 2 they had capacity of 20000 per day
 In Phase 3 they had capacity of 20000 per day
 They are currently operating at 80% Capacity.

TBR (Truck Bus Radial)

In Phase 1 they had capacity of 1400 per day
 In Phase 2 they had capacity of 1400 per day
 In Phase 3 they had capacity of 4500 per day
 They are operating at 90% Capacity

Raw Material

The company has reduced carbon footprint by 20%,and they plan to reduce >50% in the coming years. Their 1/3 of the Raw Material are Imported and the rest are localised.

Plant Visit Key Takeaways

Focus on the automation

The company's Plant in Halol is Automation Driven. They have Installed many software and Chips to ensure better and Quick production with Minimum Errors. The company's 60% of the plant is green covered, with 2000+ of employee and 12% gender diversity.

Composite Mix for tyer

The composite is composed of 25% Natural Rubber, 20-22% of Synthetic Rubber, Filler which contains black carbon and Silica comprises of 25%. 9% are Chemicals like Accilator and Zinc Oxide, and the rest are Fibre.

Training Programme

They have a VR Training Centre in which the employees are given training using Virtual Reality which led to reduce the training time has reduced from 40 Days to just 22 Days and Cost has also got decreased from INR 1.5 Cr to INR 25-30 lacs. The result of this is that they have reduced Scrap by 8%.

Sensors driven plant

They have around 540 sensors in their Halol Plant which tells them if there are any temperature alerts, any variation which can hinder the production, they will be notified Via their App. These a multi axes sensors are manufactured by Infinite. They are Paying rental cost of INR 25 lakh for the sensors.

Growth on the top line

The company is growing top line but there is still pain in 2w segment. Their 38% of revenue is from OEM and the rest is from replacement. Growth is coming from OEM more than replacement

Demand

The demand are their in the truck and bus segments. The company is planning to expand in this segments and CEAT was the 1st one to manufacture EV tyre for Tata Motors.

Research and Development

On the EVs tyre side the company focuses more on noise reduction and ride comfort. They have real time testing machine in which they analyse 10-12 parameters. After completing all the parameters then only the tyre is send for final production.

They have opened a new R&D plant in Germany and are working with OEM like Volkswagen, BMW etc. They are extending their testing to buses and trucks also.

New Launches

iTyre- One of the intelligence tyre which optimise the tyre capabilities. These are especially used in buses. They have collaborated with Bosch to make this Sensor. These Sensor gave instructions that helps in fuel benefit improve tyre life upto 20%. These tyres cost INR 60k-65k extra as compared to normal tyre.

The company has launched EV tyres for the buses that are approved Olectra, JBM, These EV tyre provide 10% energy saving and Better fuel efficiency of 6% in ICE.

They are about to launch tyres for Royal Enfield. Their new 650 cc bike, Himalayan and many more launches. CEAT is the single source for them.

They have created all weather tyre especially for Europe as they see huge opportunity in that Market. Also the replacement demand in Europe is very high.

Key Financials

Exhibit 2 : Income Statement (Consolidated)

Year End- March	FY19	FY20	FY21	FY22
Revenue from Operations	69845	67788	76096	93634
Change(%)	11.2	-2.9	12.3	23
EBITDA	6425	7238	9830	7098
EBITDA Margin(%)	9.2	10.7	12.9	7.6
Depreciation	1927	2765	3396	4352
EBIT	4498	4473	6433	2746
EBIT Margin(%)	6.4	6.6	8.5	2.9
Intrest and Finance Cost	880	1509	1755	2070
Other Income	390	205	138	114
PBT Before EO Exp	4008	3169	4816	790
EO Items	-297	5	-341	-129
PBT after EO Exp	3711	3174	4476	661
Total Tax	1042	1046	516	243
Tax Rate (%)	37.8	33	11.5	36.7
Minority Intrest	-213	-184	-361	-294
Reported PAT	2522	2312	4320	712
Adjusted PAT	2707	2309	4622	794
Change(%)	4.6	-14.7	100.2	-82.8
Margin(%)	3.9	3.4	6.1	0.8

Exhibit 3 : Balance Sheet (Consolidated)

Year End- March	FY19	FY20	FY21	FY22
Equity Share Capital	405	405	405	405
Total Reserve	27257	28675	32758	32324
Net Worth	27661	29079	33163	33728
Minority Intrest	238	237	232	235
Toatl Loans	14469	18772	14176	20968
Deffered Tax Liabilities	2198	2744	2800	3177
Capital Employed	44566	50832	50371	57108
Gross Block	37663	49795	58732	67748
Less Accum DepReciation	5868	8179	11097	14456
Net Fixed Assets	31795	41598	47634	53292
Capital WIP	8329	10685	7929	8759
Total Investments	1814	1837	2101	1792
Current Assets	22111	19410	23087	27176
Inventory	10056	9257	11299	13096
Account Recivable	7064	6744	9216	11543
Cash and Bank Balance	735	342	431	363
Loans and Advences	4256	3067	2141	2174
Current Liability and Prov	19484	22697	30380	33910
Account Payable	10529	11948	18395	21576
Other Current Liability	7566	9114	10444	10654
Provisions	1389	1635	1541	1680
Net Current Assets	2627	-3288	-7293	-6734
Appl Of Funds	44566	50832	50371	57108

Source: Arihant Research, Company Filings

Key Financials

Exhibit 4 : Cash Flow Statement (Consolidated)

Year End- March	FY19	FY20	FY21	FY22
PBT	3560	2871	4476	661
Depreciation	1927	2765	3396	4352
Interest and Finance Charges	880	1509	1755	2070
Direct Taxes Paid	-808	-181	-512	-200
Inc/Dec in Wc	235	2582	4516	-736
Cash Flow From Operations	5794	9546	13631	6147
Others	-267	17	-54	42
Cash Flow From Operations Including Others	5527	9563	13577	6189
Inc/Dec in FA	-11073	-11183	-6395	-9558
Free Cash Flow	-5547	-1620	7182	-3369
Purchase/ Sale of Investments	320	9	-27	-89
Others	236	419	241	203
Cash Flow From Investments	-10517	-10755	-6181	-9444
Inc/Dec in Debt	6260	3854	-5677	5821
Interest Paid	-889	-1925	-1628	-1944
Dividend Paid	-526	-1139	-4	-746
Cash Flow From Financing	4844	790	-7309	3132
Inc/Dec of Cash	-146	-402	87	-123
Opening Balance	822	675	274	361
Closing Balance	675	274	361	238

Exhibit 5 : Financial Ratios

Year End- March	FY19	FY20	FY21	FY22
Per Share (INR)				
EPS	66.9	57.1	114.3	19.6
BV/Shares	683.8	718.9	819.8	809.1
Valuations				
P/E	23.6	27.7	13.9	80.7
P/BV	2.3	2.2	1.9	2
Return Ratio(%)				
ROE	10.1	8.1	14.9	2.4
ROCE	8.1	7	12.2	3.6
ROIC	9	8.4	14.6	4
Leverage Ratio(%)				
Current Ratio	1.1	0.9	0.8	0.8
Net Debt/Equity	0.5	0.6	0.4	0.6

Source: Arian Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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