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Company update, rating
and price target revision

Automobiles

Target price: Rs1,414

Target price revision

Rs1,414 from Rs1,377

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	47.2	47.2	47.2
Institutional			
Investors	33.6	35.5	36.9
MFs and other	7.5	9.5	10.4
FIs/Banks/Ins	3.5	2.2	2.4
FII	22.6	23.8	24.1
Others	19.2	17.3	15.9

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	52.4	49.3	(3.1)
Environment	47.7	44.3	(3.4)
Social	30.9	24.9	(6.0)
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score
indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA

CEAT

 **ICICI Securities**

HOLD

Upgrade from *Reduce*

Rs1,440

Profitability on a comeback trail

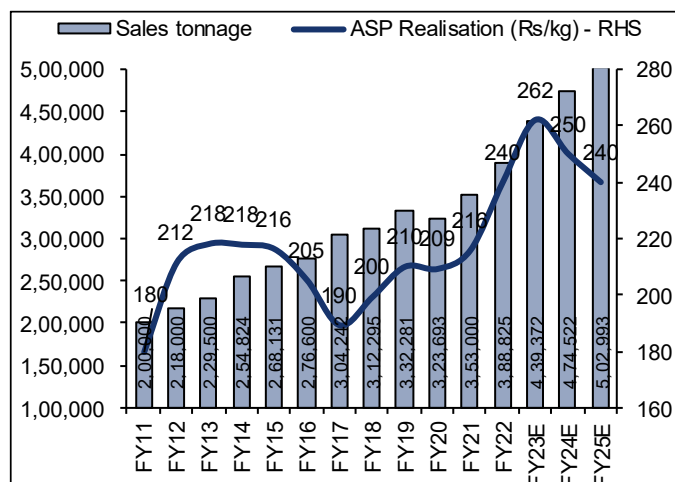
CEAT has corrected ~16% in past three months and during this period, though outlook on demand did not change, raw material basket (RMB) cost declined by ~7-8%, resulting in limited scope of cut in FY24-25E earnings. Additionally, CEAT is expanding into OHT exports space with rising SKUs and wider distribution network and is planning to expand capacity in its all radial Ambarnath (Maharashtra) facility from 60TPD to 140TPD in next 12-18 months. We believe, amidst low growth and high competition in domestic replacement tyre market, CEAT is looking forward to ramp-up exports briskly in FY24-25 from current ~20% revenue mix. CEAT has its portfolio of EV-dedicated tyres ready, across categories, with low rolling resistance and higher silica content. With capacity utilisation in TBR space across FY23 set to be in the band of 75-80% for CEAT, capex for FY23-24E is likely to be sub-Rs10bn p.a., helping it avoid any increase in debt on books. We upgrade the stock to **HOLD** from *Reduce* with DCF-based TP of Rs1,414 (earlier: Rs1,377), implying ~14x FY25E earnings, with increase in TP being driven by a quarter's rollover in our DCF.

- ▶ As per our analysis, post eight quarters of increase in RM/kg cost till Q1FY23 for CEAT, EBITDAM declined ~900bps from its H1FY21 highs to ~6%. In Q3, RM/kg declined ~4% QoQ and is set to see similar decline QoQ in Q4, too, resulting in GM expansion of ~500bps from its Q1FY23 lows and ~200bps over Q3FY23. Thus, amidst subdued replacement demand environment, weaker demand in higher margin 2W segment and lower off-take from higher margin exports, favourable moves in RMB costing is helping CEAT resurrect its profitability. With focus increasing towards higher margin OHT segment tyres and PCR/TBR exports, we believe, directionally, CEAT is moving towards a better revenue mix, aiding its EBITDAM.
- ▶ CEAT is planning to ramp up its current capacity of 60TPD to 140TPD in radial OHT segment in phases through its Ambarnath facility over the next 12-18 months. Thus, from current revenue mix of ~7-8% from radial OHTs, we believe it can move up to 15%+ levels from FY25E, giving profitability a larger cushion against highly the competitive domestic T&B tyre space. With OHT product quality being well established in export markets for CEAT, capacity building, increasing SKU options (currently a third of BKT), enhancing brand image/distribution reach are the key drivers for CEAT to ramp up OHT revenue, we believe.
- ▶ CEAT is planning to consolidate capex of ~Rs8.5-9bn in FY23E and is aiming for a sub-Rs9bn capex in FY24E. With TBR operating at sub-80% utilisation, CEAT's plan to avoid further investment into TBRs in the near term is a welcome move, amidst improving EBITDAM, we believe. This should help CEAT avoid adding further debt on books and remain largely FCF neutral, taking RoCE up ~12% by FY25E.

Market Cap	Rs58bn/US\$705mn	Year to Mar (Std)	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	CEAT.BO/CEAT IN	Revenue (Rs mn)	93,634	1,15,116	1,18,631	1,20,718
Shares Outstanding (mn)	40.5	Rec. Net Income (Rs mn)	547	1,205	3,519	4,131
52-week Range (Rs)	1938/898	Rec. EPS (Rs)	17.4	29.8	87.0	102.1
Free Float (%)	52.8	% Chg YoY	(83.7)	70.8	192.0	17.4
FII (%)	24.1	P/E (x)	84.0	49.2	16.8	14.3
Daily Volume (US\$/'000)	4,953	CEPS (Rs)	121.1	146.5	213.4	240.3
Absolute Return 3m (%)	(26.0)	EV/E (x)	10.2	8.1	5.9	5.4
Absolute Return 12m (%)	46.3	Dividend Yield (%)	0.2	0.3	0.5	0.8
Sensex Return 3m (%)	(4.7)	RoCE (%)	3.7	4.9	8.3	8.6
Sensex Return 12m (%)	9.9	RoE (%)	2.1	3.6	9.9	10.6

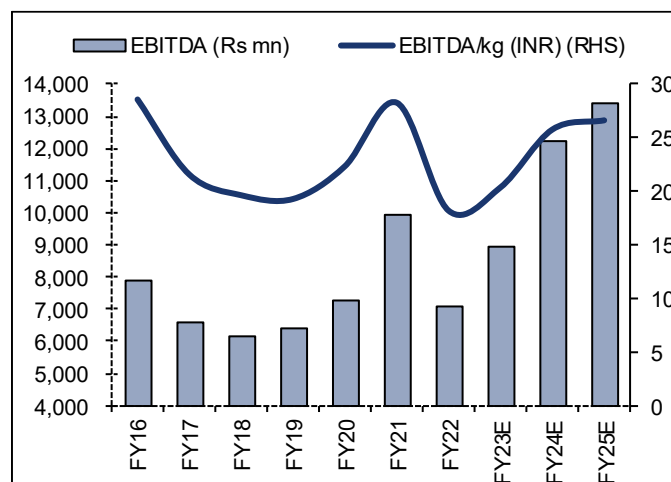
Please refer to important disclosures at the end of this report

Chart 1: ASP/kg to moderate with RMB deflation



Source: Company data, I-Sec research

Chart 2: EBITDA margin remained subdued



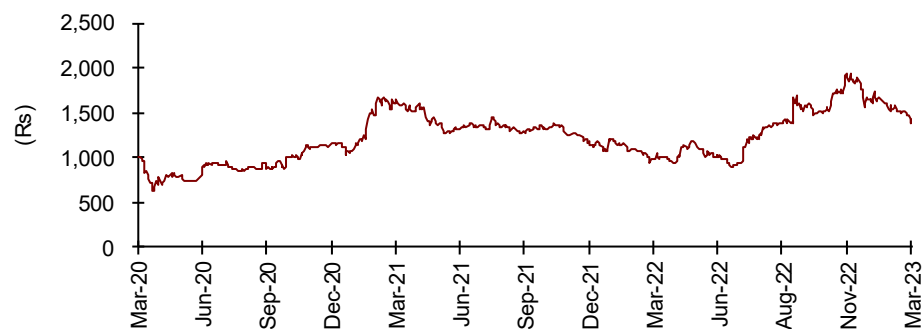
Source: Company data, I-Sec research

Table 1: Key business assumptions

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Tonnage	3,32,281	3,23,693	3,53,000	3,88,825	4,39,372	4,74,522	5,02,993
ASP/kg (Rs)	210	209	216	240	262	250	240
GP/kg (Rs)	84	88	95	85	88	92	95
EBITDA margin	9.2%	10.7%	12.9%	7.6%	7.8%	10.3%	11.1%
Capex (Rs mn)	11,714	14,924	6,676	10,840	9,000	9,000	9,000
PAT Rs mn	2,757	2,427	4,301	547	1,205	3,519	4,131
FCF (Rs mn)	(6,872)	(5,375)	5,922	(6,868)	(3,095)	(107)	2,204

Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Upside risks: Continued fall in RMB cost, able to grow exports to ~25%+ of revenue mix, improved pricing power in TBRs, able to expand OTR business profitably.

Downside risks: Rise in RMB cost, loss in PCR market share to peers, further decline in T&B segment market share and pricing power, TBR capex in near term.

Financial summary (consolidated)

Table 2: Profit and loss statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Net Sales	93,634	1,15,116	1,18,631	1,20,718
RM cost	60,276	76,451	74,974	72,934
Staff cost	6,938	7,252	7,711	8,450
Other expenses	19,322	22,448	23,726	25,954
Operating expenditure	86,536	1,06,151	1,06,412	1,07,339
EBITDA	7,098	8,965	12,219	13,380
EBITDA Margin (%)	7.6%	7.8%	10.3%	11.1%
Depreciation	4,352	4,722	5,112	5,589
EBIT	2,746	4,243	7,107	7,791
Interest expenditure	2,070	2,597	2,550	2,427
Non-operating income	114	180	198	218
Adjusted PBT	790	1,826	4,755	5,582
Tax	243	621	1,236	1,451
Adjusted PAT	547	1,205	3,519	4,131
Exceptionals	158	-	-	-
Reported PAT	706	1,205	3,519	4,131

Source: Company data, I-Sec research

Table 3: Balance sheet
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Shareholders' equity	405	405	405	405
Reserves & surpluses	32,559	33,562	36,757	40,403
Total networth	32,964	33,967	37,162	40,807
Debt	20,968	25,968	26,968	26,968
Deferred tax liability	3,177	3,177	3,177	3,177
Total liabilities	57,108	63,111	67,307	70,952
Gross block	78,444	87,444	96,444	1,05,444
Net block	53,292	57,570	61,458	64,870
CWIP	8,759	8,759	8,759	8,759
Investments (non-current)	3,136	3,136	3,136	3,136
Cash & equivalents	363	2,066	2,635	4,354
Debtors	11,543	12,615	13,001	11,906
Inventory	13,096	15,138	15,601	15,875
Loans & advances	1,415	1,486	1,560	1,638
Total current assets	26,417	31,305	32,797	33,774
Current liabilities	32,815	35,895	36,991	37,642
Provisions	1,680	1,764	1,852	1,945
Total current liabilities	34,495	37,659	38,843	39,587
Net current assets	(8,079)	(6,353)	(6,047)	(5,813)
Total assets	57,108	63,111	67,307	70,952

Source: Company data, I-Sec research

Table 4: 5-stage du-pont analysis
(year ending March 31)

All figures in %	FY22	FY23E	FY24E	FY25E
Tax Burden	69.3	66.0	74.0	74.0
Interest Burden	28.8	43.0	66.9	71.6
EBIT Margin	2.9	3.7	6.0	6.5
Asset Turnover	164.0	182.4	176.3	170.1
Financial Leverage	1.7	1.9	1.8	1.7
ROE	2.1	3.6	9.9	0.0

Source: Company data, I-Sec research

Table 5: Cashflow statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating cash flow before WC changes	5,058	5,927	8,631	9,719
(Incr) / decr in net working capital	(1,086)	(22)	263	1,485
Cash flow from operations	3,972	5,905	8,893	11,204
Capex (net)	(10,840)	(9,000)	(9,000)	(9,000)
(Incr) / decrease in investments	213	-	-	-
Cash flow from investments	(10,626)	(9,000)	(9,000)	(9,000)
Dividend paid	(121)	(202)	(324)	(485)
Net borrowings	7,347	5,000	1,000	-
Issue of Equity	-	-	-	-
Other items	-	-	-	-
Cash flow from financing	7,226	4,798	676	(485)
Net change in cash	571	1,703	569	1,719
Free cash flow	(6,868)	(3,095)	(107)	2,204

Source: Company data, I-Sec research

Table 6: Key ratios
(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (in Rs.)				
EPS (Rs)	17.4	29.8	87.0	102.1
Cash EPS (Rs)	121.1	146.5	213.4	240.3
Dividend per share (Rs)	3.0	5.0	8.0	12.0
Book value per share (Rs)	814.9	839.7	918.7	1008.8
Growth Ratios (%)				
Total Op. Income (Sales)	23	23	3	2
EBITDA	-28	26	36	9
Net Income (Adjusted)	-87	120	192	17
EPS (Adjusted)	-84	71	192	17
Cash EPS	-36	21	46	13
BVPS (Adjusted)	-1	3	9	10
Valuation Ratios (x)				
P/E (x)	84.0	49.2	16.8	14.3
P/BV (x)	1.8	1.7	1.6	1.5
EV/EBITDA (x)	10.2	8.1	5.9	5.4
EV/Sales (x)	0.8	0.6	0.6	0.6

Return/Profitability Ratio (%)

EBITDA Margin	7.6	7.8	10.3	11.1
Net Income Margin (Adjusted)	0.6	1.0	3.0	3.4
RoCE	3.7	4.9	8.3	8.6
RoNW	2.1	3.6	9.9	10.6
Dividend Payout Ratio	17.2	16.8	9.2	11.8
Dividend Yield	0.2	0.3	0.5	0.8

Solvency/Wkg. Cap. Ratios (x)

Net D/E	0.6	0.7	0.7	0.6
Gross Debt/EBITDA	3.0	2.9	2.2	2.0
EBIT/Interest	1.3	1.6	2.8	3.2
Current ratio	0.9	0.9	0.9	0.9
Inventory (days)	51.0	48.0	48.0	48.0
Receivables (days)	45.0	40.0	40.0	36.0
Payables (days)	84.1	70.0	70.0	70.0

Source: Company data, I-Sec research

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