Buy Range	**₹2,260 – 2,280**
Target	**₹2,730 – 2,750**
Recommendation	**BUY**
Highlights	

- **CEAT** is one of India's leading tyre manufacturer with a capacity of over 800 tonnes per day and has strong presence in global markets. It has expanded its global footprint by engaging distributors in South Africa, Japan, Vietnam, Sudan, Romania and Russia. **In FY23, 45.07mn tyres were produced with 170 new products and +1900 Store keeping Units (SKUs).** The company has been providing world-class products across more than 110 countries. **Received 39 new OEM approvals in FY23.**The Company with **widespread presence of its channel partners extends to +5,200 dealers, 615 distributors and over 58,000 sales touch points. It has +800 outlets in the country covering +620 districts.**

- **Domestic Tyre industry is likely to grow 6-8% with exports to remain the growth pillar in FY24.** For FY23, the industry is estimated to witness 15-17% YoY growth in revenue primarily supported by an increase in realisations on the back of price hikes taken by players against soaring cost pressures. Going forward, the tyre industry is expected to grow at 6-8% in FY24 (to invest 10% of revenue in capex) and is expected to cross the ₹1tn revenue mark by FY26 and further reaching US$ 22bn in FY32. Replacement demand was tepid in FY23, particularly for commercial vehicles (CV), mainly due to stretched replacement cycles amid rising prices, however expected to recover, particularly in the Truck & Bus segment. Replacement demand for passenger vehicles (PV) expected to remain fairly stable. While the El Nino occurrence and its potential impact on rural demand is monitorable, factors like improving economic activities, increasing freight movement, a higher spend on infrastructure, absence of material price hikes, etc. are slated to support the growth in the replacement segment in FY24.

- **Focus to gain market share in Passenger Vehicles/ Trucks & Buses Radials (PV/TBR) while maintaining profitability by catering to off-highway and premium segments.** In 2Ws, its market share increased to 28% in FY23 from 26% in FY19, aided by its expansive distribution network. **Going forward, the company plans to cover all niche segments, such as adventure biking, Moto GP version, etc. The focus is on the premium motorcycle segment. CEAT charges 2-3% premium v/s next peer. ~ 30% of sales were from the dealer channel where there is scope to grow**. The company has a marginal presence in the southern regions; hence it will focus on gaining market share in the region. **CEAT has ~6% of PC/UV replacement sales are in India and 12-14% in Germany and Europe are from D2C channels**. **In PVs, its market share expanded to ~15% in FY23 from ~11% in FY19**. However, it is still 3-4% lower than the market leader. **The company aims for market leadership in the category by achieving a market share of 18-19% by FY26** with tyres larger than 15 inches will have a 20–25% greater realization than smaller sizes. **For PCR, the focus is on off-highway driving and premium car segments. In SUVs, its market share is 20-25%.CEAT is focusing more on the SUV market while collaboration with OEMs in the PV space, as it sees this strategy having ripple effect in the replacement market in the future.** Its strategy is to associate with prime media properties like IPL, racing leagues, influencer programs, etc.

- The current OHT capacity is 300TPD, including the 150TPD Bhandup bias tyre capacity (of overall installed capacity of 1,600TPD). The primary focus is on catering to the export markets. **CEAT is ramping up its OHT capacity from 60-70TPD currently to 105TPD in some months (150TPD by end-FY24) for export market**. Currently, CEAT has 750+ SKUs. Its products have been well accepted in the European markets.

- **Aims for export revenue of ₹40bn by FY26**.

- **CEAT has +50% market share in two-wheeler EV OEMs.** The company works closely with leading OEMs especially with 2W OEMs to become market leaders in 2W EV space and become the first EV tyre to be approved by an OEM in Commercial EV space.

- Aims to leverage the power of digital technologies, particularly Artificial Intelligence ('AI') and Machine Learning ('ML'), to provide insights to assist in crucial business decisions.

CEAT Ltd.

Company Background

CEAT Ltd, the flagship company of **RPG Enterprises,** was established in 1958. Today, CEAT is one of India's leading tyre manufacturer with a capacity of over 800 tonnes per day and has strong presence in global markets**. In FY23, 45.07mn tyres were produced with 170 new products and +1900 Store Keeping Units (SKUs).** The company has been providing world-class products across more than 110 countries. It has expanded its global footprint by engaging distributors in South Africa, Japan, Vietnam, Sudan, Romania and Russia. CEAT offers the widest range of tyres to all segments and manufactures world-class tyres for: Heavy-duty Trucks and Buses, Light Commercial Vehicles, Earthmovers, Forklifts, Tractors, Trailers, Cars, Utility Vehicles, Motorcycles, Scooters as well as Auto-rickshaws. **Received 39 new OEM approvals in FY23.**The Company has widespread presence of its channel partners extends to +5,200 dealers, 615 distributors and over 58,000 sales touch points. It has +800 outlets in the country covering +620 districts. **CEAT enjoys a major market share in Passenger Cars/Utility vehicle (PC/UV -15%) and 2-wheeler segment (28.3%) in FY23** and its tubes and flaps are renowned for their superior quality and durability. **With premiumisation in its product range, the company saw more than 2x increase in contribution from premium range over the last 4 years together in PV (28%) and 2Ws (23%). The revenue contribution from its 2Ws and Passenger Vehicles tyre segments has risen from 38% in FY16 to 46% in FY23.** The company was first to launch India's first electric vehicles (EV) range of tyres designed for two and four-wheelers. **CEAT has 40% share of business with EV 2W OEMs. In the Trucks & Buses Radials (TBR) segment, CEAT has a 7-8% share and aims to increase it to 12% in the medium term. In the Passenger Vehicle (PV) replacement market share moved up by 1% in the past year – CEAT is now 3.5% behind the leader.** It intends to excel in the market with three major strengths: a strong brand, excellent product quality and network. **Exports revenue was 18% of overall revenues in FY23 at ₹20bn (up 2x since FY19). The focus is on ramping up the exports business. As a result of strong traction for its Off-Highway tyres (OHT) range, it has been expanding Ambernath capacity for Off Highway Tyres, which is a high margin business**. The international market is important with OHT being the largest followed by passenger and Truck. **CEAT is implementing Industry 4.0 across its Halol, Nagpur, and Chennai facilities with the aim of enhancing productivity, ensure better quality assurance and traceability, higher equipment uptime, and efficiency improvement by eliminating the material variance.**

Investment Arguments

1. **Domestic Tyre industry is likely to grow 6-8% with exports to remain the growth pillar in FY24**

Globally, China dominates the global tyre market, making up around 50% of the sector, followed by Europe, US, India and Japan. India's tyre business has showed strong resilience against the Covid-19 pandemic, supported by robust growth in exports, driven by the globally adopted China+1 policy, and improved tyre performance by Indian tyre manufacturers and is anticipated to grow at 7-9% from 2020 to 2024 and overtake US to become the third-largest market worldwide. **The industry has started witnessing growth from 2HFY21, which continued into FY22 driven by replacement demand, major revenue generator for the industry, and sharp boost in exports.** This growth is also driven by a steep decline in imports, particularly from China, following the application of customs duty and restrictions on imports by the Government of India to promote domestic manufacturing. **As a result, imports fell from 8.7mn tyres in FY20 to 2.1mn tyres and 2.6 mn tyres in FY21 and FY22, respectively. However, Tyre Imports in India went up by 15% in value terms in FY23.The surge in imports was boosted by increase in import of Motorcycle and Industrial/ OTR tyres during the period. Over ₹21bn worth of tyres were imported in the country. With 47% share, Passenger Car Radials (PCR) accounted for the largest share in overall tyre import volumes in India.**OTR/ Industrial tyres represented the second largest category in number terms. The tyre industry recorded a 14% YoY volume growth in FY22 and is estimated to have witnessed 4-5% growth YoY in volumes for FY23. The Indian tyre industry generated ~₹774.3bn in consolidated revenues in FY22, growing by a remarkable 24% YoY albeit at

Important Data

Nifty	19,446
Sensex	65,450

Key Stock Data

CMP	₹2,269.3
Market Cap (₹)	₹91.8bn
52W High/Low	₹2640/1,344
Shares o/s (mn)	40.45
Daily Vol. (3M NSE Avg.)	438,087
BSE Code	500878
NSE Code	CEAT
Bloomberg Code	CEAT:IN

Shareholding Pattern (%) – Jun'23

Promoter	47.2
DIIs	12.2
FIIs	26.2
Public	14.4

Financials

(₹ mn)

Particulars	FY20	FY21	FY22
Revenue	**67,788**	**76,096**	**93,634**
EBITDA	**7,238**	**9,830**	**7,098**
EBITDA Margin (%)	***10.7***	***12.9***	***7.6***
Net Profit	**2,313**	**4,320**	**712**
EPS (₹)	57.2	106.8	17.6
DPS (₹)	12.0	18.0	3.0
RoE (%)	7.9	12.9	2.2
RoCE (%)	8.9	12.7	5.0
P/E (x)	39.7	21.2	128.9
EV/EBITDA (x)	16.4	11.6	17.2
P/BV (x)	3.1	2.7	2.8

Particulars	FY23	FY24E	FY25E
Revenue	**113,149**	**122,258**	**129,594**
EBITDA	**9,738**	**15,681**	**16,123**
EBITDA Margin (%)	***8.6***	***12.8***	***12.4***
Net Profit	**1,862**	**5,628**	**6,315**
EPS (₹)	46.0	139.1	156.1
DPS (₹)	12.0	24	30
RoE (%)	5.4	15.9	16.1
RoCE (%)	9.2	15	15.5
P/E (x)	49.3	16.3	14.5
EV/EBITDA (x)	12.6	7.4	6.7
P/BV (x)	2.7	2.3	2.1

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3 Yr	5 Yr
CEAT	**63.2**	**142.1**	**63.7**
Nifty 50	9.5	66.9	66.5
Sensex	9.9	65.8	69.4

Source: Company, Way2Wealth

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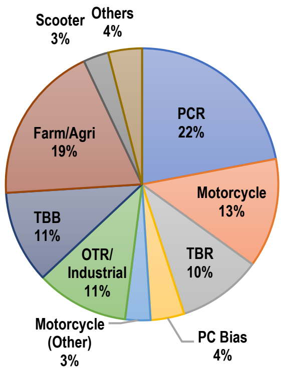
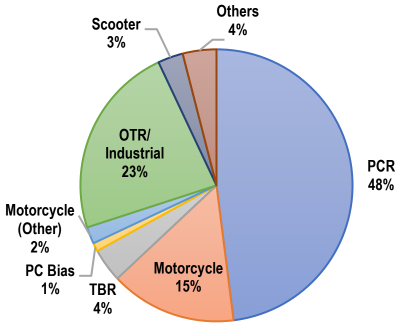
a lower base. It was mainly driven by rising volumes from the commercial vehicle (CV) and passenger vehicle (PV) segments, along with significant contributions from the export segment. **For FY23, the industry is estimated to have witnessed 15-17% YoY growth in revenue primarily supported by an increase in realisations on the back of price hikes taken by players against soaring cost pressures. Going forward, the tyre industry is expected to grow at 6-8% in FY24 (to invest 10% of revenue in capex) and is expected to cross the ₹1tn revenue mark by FY26 and further reaching US$ 22bn in FY32**. Replacement demand was tepid in FY23, particularly for commercial vehicles (CV), mainly due to stretched replacement cycles amid rising prices, however expected to recover, particularly in the Truck & Bus segment. Replacement demand for passenger vehicles (PV) is expected to remain fairly stable. While the El Nino occurrence and its potential impact on rural demand is monitorable, factors like improving economic activities, increasing freight movement, a higher spend on infrastructure, absence of material price hikes, etc. are slated to support the growth in the replacement segment in FY24.

Chinese tyre imports in Trucks & Buses radials (TBR) increasing MoM since Apr'23 while government's embargo is still not lifted on imported tyres. The imported TBR volumes were almost nil in past 2-3 years led by complete ban on Chinese imports. No clarity yet from the Government on renewal of the embargo or otherwise. If imports are allowed, expect Indian TBR replacement markets to get flooded fast likewise the case pre-2019. However, the government has not issued any new import license off-let. How its shapes up going forward is key to watch for as it has contributed ~25-30% of TBR replacement in 2019. **Recent Chinese imported tyres have maintained price gap of 35-40% to Indian brands. No PCR imports started yet (ex of trims which is not manufactured in India).**

Category wise India Tyre Exports and % share in quantity in FY23



Category wise India Tyre Imports and % share in quantity in FY23



Source: ATMA reports (Tyre Imports)

India Tyre Exports (₹ mn)	FY23	FY22	YoY (%)
Radial Truck & Bus	37,830	35,849	5.5
Agriculture (Tractor Front, Rear & Trailer)	86,290	87,398	(1.3)
Tyres for construction, mining or industrial handling vehicles and machines	45,829	42,150	8.7
Passenger Car (PCR)	13,612	12,830	6.1
Total Exports	***183,561***	***178,226***	***3.0***

India Tyre Imports (₹ mn)	FY23	FY22	YoY (%)
Radial Truck & Bus	741	1,261	(41.3)
Agriculture (Tractor Front, Rear & Trailer)	93	90	2.7
Tyres for construction, mining or industrial handling vehicles and machines	11,938	7,808	52.9
Passenger Car (PCR)	3,787	7,106	(46.7)
Total Exports	***16,559***	***16,266***	***1.8***

Source: https://tradestat.commerce.gov.in/eidb/ecom.asp

The Indian tyre industry exports to over 170 countries, with major destinations being the USA, Germany, Brazil, France, and Bangladesh. **Export tyre volumes had remained steady at 13-16mn tyres per annum over the four fiscal years through FY21, but almost doubled to 30.5 mn in FY22, driven by increasing adoption of China + 1 policy, stringent anti- dumping duties against Chinese products, and efforts by players to enhance exports**. The faster recovery of demand in the European and North American markets from the pandemic-led slump also contributed to the surge in exports. **As a result, the value of exports also rose by around 50% to ₹204.63bn. It was secular export growth across all segments in FY22, including CV, PC & UV, 2W, Agri, and Off-Road. The challenges to the global economy due to recessionary conditions, rising interest rates & Crude prices, political turmoil and slowing of external demand had its impact on the growth momentum of Indian tyre exports witnessed a growth of 9% in FY23**. High base effect (50% growth in FY22) also contributed to the muting of growth. In number terms, Passenger Car Radial (PCR) tyres accounted for the largest exported category from India followed by Farm/Agri tyres in FY23. **Industry experts expects export demand to be subdued for the next one to two quarters, although the long-term outlook remains favourable, given the strong acceptance of Indian tyres in the overseas markets.**

2. Price Hikes & Easing Cost Pressures to drive Profitability in FY24

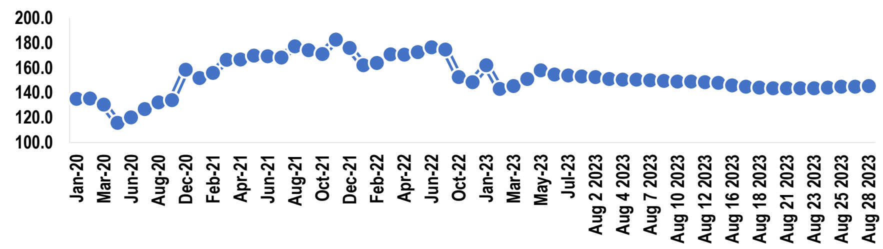
Raw material prices, including natural rubber (NR), synthetic rubber (SR), and carbon black, have been relentlessly rising over the past 2-2.5 yrs. A deficit in the supply of NR, due to erratic seasonal rains in key rubber-producing geographies, Covid-19 lockdowns, and strong demand from China (which consumes over 40% of global rubber produced), had led to higher NR prices globally and in domestic markets. In FY23, Import duties and restrictions, along with an acute container shortage and higher freight rates, have also kept imported NR expensive, allowing higher domestic NR prices. Further, the Russia-Ukraine war has led to higher crude oil prices, which in turn have pushed up prices of SR and other crude derivatives-based raw materials.

The production of Natural Rubber in India has increased by 12.2% during the first three quarters of FY23, compared to the same period in the previous year. **Consumption of Natural Rubber has also increased by 9.5% during the same period in the previous year, with a 5% increase in the tyre sector and a 21.8% increase in the general rubber goods sector. The stock held with growers, traders, processors and consumers is estimated to be around 450,000 tons. On the other hand, Synthetic Rubber production has decreased by 5.8% for the first three quarters of FY23** compared to the previous year. **Indian capacity for rubber is at 700,000 tons and ~200,000 tonnes is expected be added over next 6-8 months.**

However, the reversal of crude prices due to recessionary expectations in key global economies, along with lower freight rates allowing higher NR imports by domestic companies, has resulted in twin benefits for Indian tyre manufacturers: falling NR and SR prices. Additionally, rising Covid-19 infections in China had resulted in softer demand from China and, consequently, lower crude oil and NR prices. The tyre industry has started reporting a decline in the cost of the raw material basket in Q3FY23 on the back of moderation in raw materials costs. The prices of Carbon black price have started declining from Q3FY23 due to the decrease in crude oil prices, in addition to drop in premiums in the commodity market.

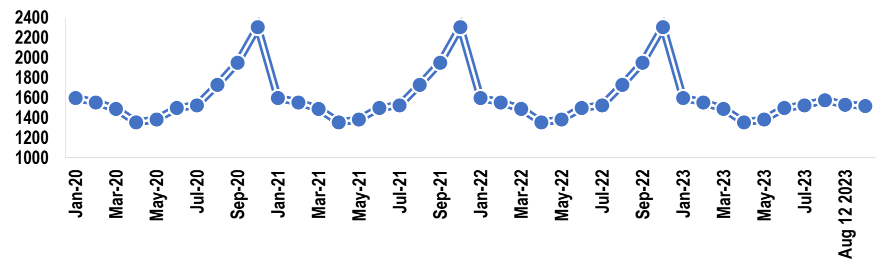
Rubber prices in international markets had declined to US$1,350 from US$1,500 later on remaining stable at current levels due to weakness in Chinese demand. However, prices in the domestic market would be marginally higher at ~₹145-150/kg. If demand from China comes back, then prices are expected to move close to US$1,600 as per the management.

Average Domestic Rubber (RSS-4) Price (₹ per kg) – from Jan'20 to Aug'23



Source – The Rubber board, Ministry of Commerce & Industry

Average International Rubber(RSS-4) Price(USD per tonne) – from Jan'20 to Aug'23



Source – The Rubber board, Ministry of Commerce & Industry

While the prices of natural rubber and crude oil derivatives softened since Jul'22, the effects of high-cost inventory, higher OEM skew in revenue mix, and fall in exports limited the margin expansion during Q3FY23. Nevertheless, with better product mix and stable input prices, and pricing environment, **industry expects margins to expand by 150-200 basis points to around 12-14% in FY24.**

3. Focus to gain market share in Passenger Vehicles/ Trucks & Buses Radials (PV/TBR) while maintaining profitability by catering to off-highway and premium segments

CEAT expects 2W replacement demand to be flat and start picking up after 2-3 quarters. It expects high single-digit growth for PV/CV replacement. OEM demand is healthy, with 2W OEM demand likely to have bottomed out. For 2Ws, there is scope to leverage the existing 2W network. Approximately 30% of sales were from the dealer channel (there is scope to grow). **In 2Ws, its market share increased to 28% in FY23 from 26% in FY19**, aided by its expansive distribution network. Going forward, the company plans to cover all niche segments, such as adventure biking, Moto GP version, etc. **The focus is on the premium motorcycle segment. CEAT charges 2-3% premium v/s next peer. ~ 30% of sales were from the dealer channel where there is scope to grow.** The company has a marginal presence in the southern regions, hence it will focus on gaining market share in the region. **~6% of PC/UV replacement sales are in India and 12-14% in Germany and Europe are from D2C channels. In PVs, its market share expanded to ~15% in FY23 from ~11% in FY19**. However, it is still 3-4% lower than the market leader. **The company aims for market leadership in the category by achieving a market share of 18-19% by FY26 with tyres larger than 15 inches will have a 20–25% greater realization than smaller sizes.** The company indicated scope of price premium of 1-2% in PV category. **Current Passenger Car radials (PCR) capacity is ~2mn PC/UV tyres per annum with PC/UV SKUs up ~1.5x since FY19. For PCR, the focus is on off-highway driving and premium car segments. In SUVs, its market share is 20-25%.**CEAT is focusing more on the SUV market while collaboration with OEMs in the PV space, as it sees this strategy having ripple effect in the replacement market in the future. Its strategy is to associate with prime media properties like IPL, racing leagues, influencer programs, etc .

The current OHT capacity is 300TPD, including the 150TPD Bhandup bias tyre capacity (of overall installed capacity of 1,600TPD). The primary focus is on catering to the export markets. **CEAT is ramping up its OHT capacity from 60-70TPD currently to 105TPD**

in some months (150TPD by end-FY24) for export market. Currently, CEAT has 750+ SKUs. Its products have been well accepted in the European markets. The initial product feedback from the US markets is also good.

In TBR, the company currently has a market share of 6.3% and aims to achieve ~11-12% by FY26. There is scope for improvement in tyre prices as they are below the competition. **CEAT is working on improving the product's life cycle by ~10%, which should help it get better pricing.**

Vision 2026: The aim is to achieve leadership in 2W and PC/UV segments.

Domestic market share (%)	2017	2018	2019	2020	2021	2022	2023
Truck Bus Radial tyres (TBR)							
Apollo Tyres	28.5	30.7	32	29.5	30.8	29.9	26.4
MRF	17.6	17.6	15.8	17.2	17.8	18.4	17.7
JK Tyre	28.5	29.0	28.6	28.6	27.6	26.9	25.9
CEAT	4.6	4.6	4.2	5.6	7.0	6.8	6.3
Imports & other players	22.1	18.1	9.4	19.2	16.8	18.1	23.7
Truck Bus Bias tyres (TBB)							
Apollo Tyres	27.0	24.7	24.5	26.5	26.9	26.6	24.9
MRF	34.9	32.5	30.3	35.3	34.8	33.5	34.1
JK Tyre	23.0	20.3	20.7	22.4	21.6	21.4	20.9
CEAT	14.4	12.6	12.0	10.1	13.1	10.8	10.9
Imports & other players	0.7	9.8	12.6	5.7	3.6	7.7	9.2
Truck Bus tyres - Total (TBR+TBB)							
Apollo Tyres	27.7	27.5	28.2	28.1	28.9	28.4	25.7
MRF	26.5	25.3	23.0	25.9	26.0	25.3	24.9
JK Tyre	25.0	24.5	24.6	25.6	24.7	24.3	23.7
CEAT	9.7	8.8	8.1	7.7	9.9	8.6	8.3
Imports & other players	11.0	13.8	16.0	12.7	10.4	13.3	17.3
Passenger Vehicle tyres (PCR)							
Bridgestone	23.3	22.6	21.0	21.7	19.9	19.1	18.1
MRF	24.6	25.7	23.9	23.6	24.5	24.5	24.3
Apollo Tyres	18.5	19.6	20.0	20.2	20.5	21.1	19.1
JK Tyre	19.8	19.4	22.4	19.6	22.2	21.3	19.3
CEAT	6.7	7.8	8.3	8.9	11.5	12.2	12.4
Imports & other players	7.1	4.9	4.5	6.0	1.5	1.8	6.8
Two-wheeler/Three-wheeler tyres							
MRF	32.6	33.3	32.3	34.7	34.1	34.3	34.7
CEAT	24.9	25.8	25.2	25.5	28.7	27.2	28.3
TVS Srichakra	24.9	25.2	24.4	24.5	23.3	24.7	25.0
JK Tyre	2.0	3.0	3.8	4.2	4.4	4.6	4.7
Apollo Tyres	1.3	1.9	2.4	2.6	3.0	3.5	3.4
Imports & other players	14.3	10.8	12.0	8.4	6.4	5.6	3.9
OVERALL							
MRF	26.8	26	24.8	26.6	26.7	25.4	26.1
Apollo Tyres	21.6	21.6	22.5	22.4	22.0	22.1	22.1
JK Tyre	15.5	16.6	15.7	16.8	16.0	16.4	16.2
CEAT	13.3	12.7	12.1	12.5	15.8	15.0	15.0
Imports & other players	22.8	23.2	24.8	21.6	19.6	21.1	20.5

Source: Industry, Way2Wealth

4. Aims for export revenue of ₹40bn by FY26

CEAT has presence in 25 countries in Europe, and 14 countries in Latin America and is present across segments different segments in Off highway (OHT) and Passenger Vehicle (PV). International operations contributed ~18% to CEAT's revenues in FY23, ~2ppt lower YoY but 1.5x compared to FY19 levels. Vision 2026: Expect exports revenue at ₹40bn in FY26.The strategy will involve product creation using regional insights from targeted areas and the introduction of new products that will be distinct from the existing ones.

In the PV, TBR international business, CEAT has achieved run rate of ~2 mn PV tyres per annum and increased PV SKUs by ~1.5x since FY19. CEAT is currently developing a product for the US in the TBR category and is developing more than 200 SKUs and dedicated platforms for the international business. It will be initially tested under a private name. Once finalized, it will be launched under CEAT brand by FY24-end. Earlier, CEAT was restricted to a single distributor but now that contract has ended. For Brazil, sufficient testing has been done and the company has started supplying TBR, which is gaining traction. It has also launched tyres in construction category. The recently launched TBR in Europe is receiving good traction too. Margin in domestic replacement is lower than margin in EU but similar to the US.

In the Off Highway international business, it has strong base in Europe and is expanding in US with extensive product rollout with more than 750+ Off Highway SKUs with a growth of over ~70% since FY19 and now has ~80% coverage in global agricultural segments. **In the Off Highway segment it has gained entry with OEM like John Deere, CNH Industrial, AGCO, Bourgault and LS Tractor.**

The management expects global macros to turn favourable in 2HFY24. The international business focuses on increasing CEAT's presence in Europe, LATAM and the US for OHT Agri radials. CEAT has been focusing on ramping up capacities and aims to reach from 33 tons per day (TPD) in FY19 to +140TPD in FY25 to cater to the international demand.

5. CEAT leading tyre maker catering the needs of EV ecosystem in India

CEAT has +50% market share in two-wheeler EV OEMs and has established itself as a strong brand in the EV segments. The company were on the first tyre brands to roll out EV specific tyre range across all vehicle segments. CEAT foresees electric vehicles as one of the megatrends in the automotive industry over the next few years. It works closely with leading OEMs especially with 2W OEMs to become market leaders in 2W EV space and become the first EV tyre to be approved by an OEM in Commercial EV space. **The company has continued its range expansion in premium passenger space with the launch of SportDrive and CrossDrive AT which have received excellent feedback from customers.** India has been making steady progress in the adoption of Electric Vehicles (EVs) as part of its efforts to reduce greenhouse gas emissions and air pollution. There have been multiple interventions across Central and State Governments in this regard. As an example Tamil Nadu has announced its EV Policy CY23, which aims to electrify public and commercial transport and promote the formation of EV cities. Furthermore, the Indian government aims to install a total of 46,397 public charging stations for EVs in nine major cities by 2030, representing a nine-fold jump from the current levels. India has also set a roadmap to achieve 80% electrification of 2-wheelers by 2030, which could significantly reduce the country's dependence on fossil fuels. The ownership cost savings of electric 2-wheelers ranging from 20-70% over petrol 2-wheelers have piqued the interest of the average buyer, while B2B players, such as food aggregators and last-mile delivery services, have already jumped on the opportunity. The emphasis on upgrading the highway network, installing public charging stations and attracting investments in the EV ecosystem could pave the way for a cleaner, greener and more sustainable transportation system in India. The Union Budget 2023 also has several provisions to promote EV industry in the country. One of the most significant announcements in the budget is the reduction in customs duty on lithium batteries from 21% to 13%. This move could significantly reduce the cost of manufacturing EVs in India, as lithium-ion batteries account for a significant portion of the total cost of EV. The government has also reduced the Goods and Services Tax ('GST') on the sale of EVs from 12% to 5%, which is likely to make them more affordable for buyers. The reduction in customs duty could make it more feasible for manufacturers to produce EVs locally, which could also create more job opportunities in the sector.

6. CEAT aims to leverage the power of digital technologies, particularly Artificial Intelligence ('AI') and Machine Learning ('ML'), to provide insights to assist in crucial business decisions

CEAT is implementing Industry 4.0 across its Halol, Nagpur, and Chennai facilities with the aim of enhancing productivity, ensure better quality assurance and traceability, higher equipment uptime, and efficiency improvement by eliminating the material variance. The journey has managed to touch End-to-End ('E2E') operator touchpoints and convert this in digital form to ensure real time monitoring for improved insights and decision. **CEAT has joined an elite list of 132 global Lighthouses**, or frontrunners in advanced manufacturing. Organisations have invested several years towards adopting 'Industry 4.0' by leveraging industrial automation. Manufacturing and other industries have begun a new era of digitisation and advanced technological adoption such as robotic process automation. **Through the Industry 4.0 technologies CEAT could record, bring real time visibility and connect large data sets across departments.** This has helped CEAT to create breakthrough impact and evolved a new way of continuous improvement for the plant teams. Keeping pace with the evolving **trends, CEAT has persistently made significant investments in analytics, thereby enabling real-time decision making based on data.** Across various business functions, the Company has expanded its analytics footprint to ensure smarter real-time decisions. With substantial investments in both technology and human resources, encompassing data science, data engineering, data architecture, data visualisation, and cloud platform skills, **CEAT aims to leverage the power of digital technologies, particularly Artificial Intelligence ('AI') and Machine Learning ('ML'), to provide insights to assist in crucial business decisions.** Aligned with its sustainability initiatives, the Company has prioritized the development of energy-efficient and environmentally friendly Information Technology ('IT') infrastructure. **Embracing the public cloud extensively, CEAT has migrated over 60% of its data to this platform.** The **Project Spring** at CEAT **is designed to improve efficiencies in manufacturing such as utilities and scrap to de-bottleneck the processes.** The Project Spring has helped in improving cost efficiencies at CEAT with the help of Quality Based Management (QBM) approach, as it is efficient to deploy a Cross Function Team ('CFT') projects across the organisation. The project also resulted in optimising the network, redesign of the processes and improvement in capital productivity. CEAT has undertaken the modernisation of data centers in its factories, incorporating environmentally conscious designs that take into account factors such as temperature, humidity, air flow, power, and cooling data. **Leveraging Hyper-Converged Infrastructure ('HCI'), CEAT has consolidated its application landscape, leading to efficient resource pooling and utilisation, resulting in 40% reduction in power consumption**. CEAT plans to reduce carbon footprint by 50% by 2030 and has made good progress on the same. During FY23, CEAT has achieved 33% plant power through renewable sources, ~10% reduction in overall tCO2e per MT of production; ~17% reduction in water consumption per MT of production and was able to source 24% of its natural rubber via alternate transport, thus moving closer to its goals.

KEY RISKS

- Lower-than-expected volume growth in M&LCV &2Ws can hamper profitability and squeeze operating performance.
- A meaningful increase in rubber and crude oil prices can dent operating margins and adversely impact profitability.
- Inverted duty structure: Since Natural Rubber is in negative list under various trade agreements, 25% import duty is levied on Natural Rubber. Indian tyre industry is the only industry with inverted structure & is failing the Make in India initiative of the government.

- The ability to pass on sharp rises in raw material prices to OEMs remains a challenge for industry players. Generally, many tyre manufacturers are unable to pass on higher raw material prices to OEMs, due to bulk demand fearing loss of market share.
- As many players in the tyre industry like CEAT have plans to further expand their capacities which will be partly funded by debt. Any further increase interest rates due to macro issues by RBI could lead to increase in finance costs of the companies.
- The biggest threat to Indian Tyre industry is from dumping of tyres from China. In case of Truck & Bus radials (TBR), the Chinese tyres are accounting for over 40% of the replacement market while the Indian capacities, put with huge investments in recent years are lying underutilised.

VIEW

For FY24, CEAT expects 2W replacement demand to be flat and start picking up after 2-3 quarters. It expects high single-digit growth for PV/CV replacement. OEM demand is healthy, with 2W OEM demand likely to have bottomed out. The company has a marginal presence in the southern regions; hence it will focus on gaining market share in the region. In TBR, the company currently has a market share of 7% and aims to achieve ~11-12% by FY26. There is scope for improvement in tyre prices as they are below the competition. CEAT is working on improving the product's life cycle by ~10%, which should help it get better pricing. A stable volume growth outlook for domestic OEMs (especially PVs and CVs) and an uptick in replacement demand should enable a faster absorption of new capacities and drive benefits of operating leverage. This, coupled with stable RM prices, would lead to a margin recovery in FY24. Moreover, the focus on key strategic areas like PV/OHT (to help margins), along with prudent capex plans (to benefit FCF), should be a long-term growth catalyst for the company. **Hence, we view it as a BUY with Target Range of ₹2730-2750 trading at P/E 14.5x FY25E EPS ₹156.1.**

Q1FY24 Revenue/ EBITDA/ PAT grew 4.1%/2.3x/~16x to ₹29.4bn/₹3.9bn/₹1.45bn

Volumes increased 3%QoQ, with exports up 11% and replacement sales up 4% QoQ. OEM sales were down 3% QoQ primarily due to portfolio change in the PC/UV segments where company is exiting its small-size tyres and entering higher-size tyres (this transition should take 1-2 quarters more). Weakness in the M&HCV segment was also a reason for lower OEM sales. Replacement demand has been stable across categories with 2Ws/PVs doing well although the CV segment has been showing some constraint in growth.On the OEM side,2W segment is growing well whereas PV/CV have been weak. Export markets have been steady and are expected to pick up in the latter part of FY24,with demand from Middle East / Africa / SAARC improving amidst improving currency situation.US/LATAM markets are also doing well; however, Europe is seeing some weakness.For the next few quarters as per the management,2Ws and PV volumes are expected to grow at high single digits, whereas CV volumes are likely to be subdued.
Gross margin improvement of ~938/97 bps YoY/QoQ was driven by decline in RM cost amidst maintaining pricing in the replacement market. EBITDA Margin at 13.2% (+732/39 bps YoY/QoQ) was marginally impacted by higher ad spend in Q1FY24 due to IPL-related expenses. Carbon black prices saw an uptick in Jul'23 and there was some increase in crude derivative-based input material prices. CEAT expects RM cost to be in a narrow range of +/-1% QoQ in Q2FY24.
Halol Trucks & Buses Radials (TBR) plant capacity utilisation has reached +90%. Company plans to resume Chennai plant TBR expansion for Phase-1 of ~45k tyres capacity at a capex of ₹7bn (₹5.5bn capex to be done over the next few years with ₹1.5bn already incurred). Company plans to expand capacity of its OHT Ambernath plant from ~105tpd currently to 160tpd by FY25. Capex in Q1FY24 was ~₹2.2bn with targeted capex for the year at ~₹7.5bn. CEAT has funded the capex internally and also slightly reduced debt levels to ₹19.8bn.

Q1FY24 FINANCIALS

(₹ mn)

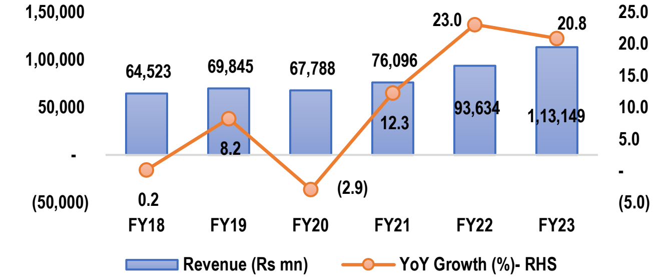
Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	**29,351.7**	**28,183.8**	**4.1**	**28,748.2**	**2.1**	**113,148.8**	**93,634.1**	**20.8**
Cost of Matl	17,457.5	20,374.6	(14.3)	16,611.8	5.1	73,507.4	61,869.0	18.8
Stock Purchases	58.9	94.2	(37.5)	74.2	(20.6)	302.9	286.8	5.6
Inventory changes	(220.7)	(1,219.0)	81.9	533.4	(141.4)	43.6	(1,879.9)	102.3
Employee Exps	1,955.4	1,726.9	13.2	2,138.0	(8.5)	7,352.0	6,938.0	6.0
Other Exps	6,229.6	5,554.5	12.2	5,712.7	9.0	22,204.8	19,322.3	14.9
EBITDA	**3,871.0**	**1,652.6**	**134.2**	**3,678.1**	**5.2**	**9,738.1**	**7,097.9**	**37.2**
EBITDA Margin (%)	***13.2***	***5.9***	***732***	***12.8***	***39***	***8.6***	***7.6***	***103***
Other Income	32.5	27.6	17.8	23.9	36.0	169.4	114.0	48.6
Depreciation	1,209.4	1,114.1	8.6	1,253.0	(3.5)	4,693.1	4,352.0	7.8
Finance Cost	701.3	521.3	34.5	665.7	5.3	2,421.0	2,069.5	17.0
Exceptional item	-	7.1	(100.0)	85.6	(100.0)	334.2	129.1	158.9
PBT	1,992.8	37.7	5,185.9	1,697.7	17.4	2,459.2	661.3	271.9
Tax	528.7	11.7	4,418.8	450.4	17.4	717.5	243.0	195.3
JV- Profit/ (Loss)	(24.0)	60.8	(139.5)	76.9	(131.2)	82.2	287.5	(71.4)
Minority Interest- (Profit)/loss	(6.0)	(5.7)	5.3	(12.8)	(53.1)	(37.8)	(6.2)	509.7
Net Profit	**1,446.1**	**92.5**	**1,463.4**	**1,337.0**	**8.2**	**1,861.7**	**712.0**	**161.5**
EPS (₹)	35.8	2.3	1,463.4	33.1	8.2	46.0	17.6	161.5
Adjus Net Profit	1,446.1	99.6	1,351.9	1,422.6	1.7	2,195.9	841.1	161.1
Adjus.EPS (₹)	35.8	2.5	1,351.9	35.2	1.7	54.3	20.8	161.1

As % of Sales	Q1FY24	Q1FY23	YoY(bps)	Q4FY23	QoQ(bps)	FY23	FY22	YoY (bps)
Raw Matl Cost	58.9	68.3	(938)	59.9	(97)	65.3	64.4	90
Gross Profit	41.1	31.7	938	40.1	97	34.7	35.6	(90)
Employee Exps	6.7	6.1	53	7.4	(78)	6.5	7.4	(91)
Other Exps	21.2	19.7	152	19.9	135	19.6	20.6	(101)

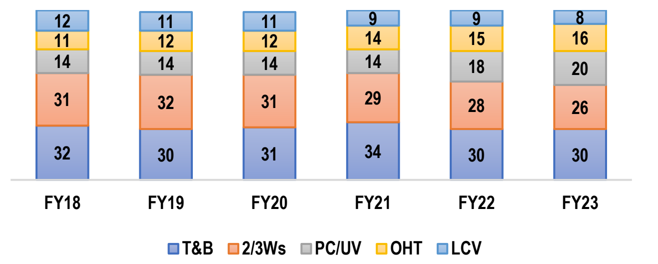
Source: Company, Way2Wealth

PAST PERFORMANCE

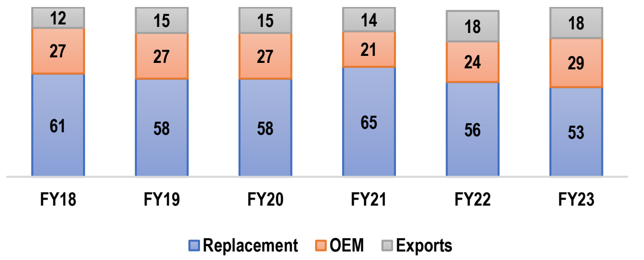
Revenue ~12% CAGR FY18-23



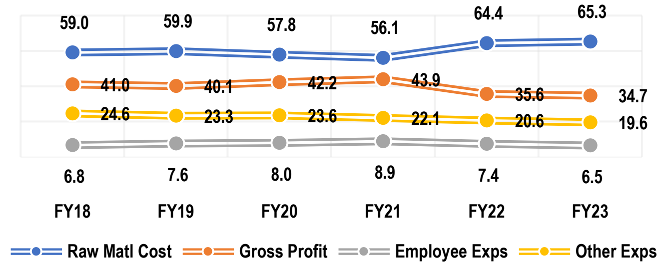
Revenue by Product Mix



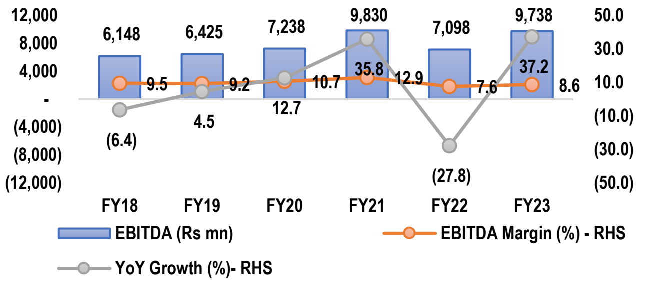
Revenue by Market Mix (%)



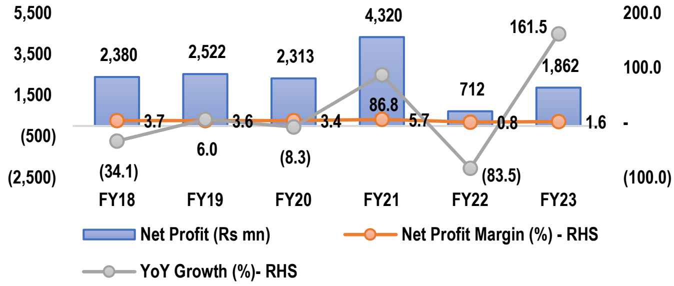
Cost as % of Sales



EBITDA ~10% CAGR FY18-23

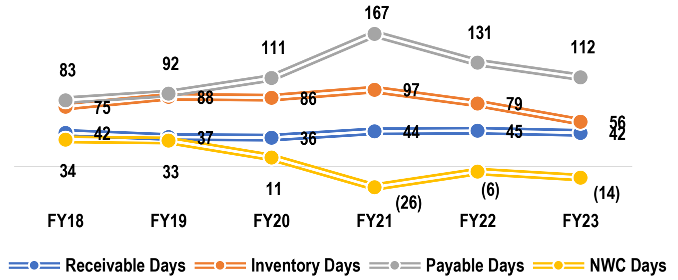


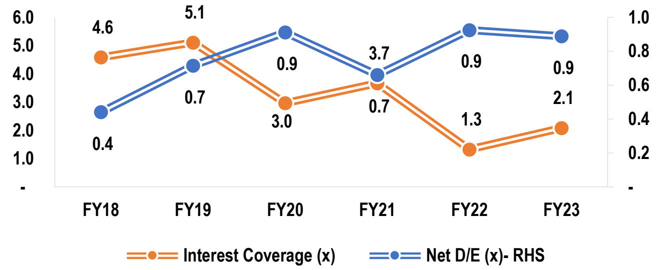
PAT ~-5% CAGR FY18-23

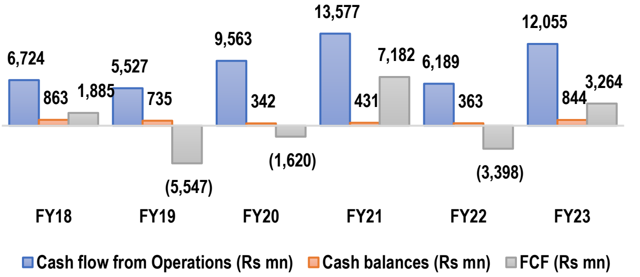


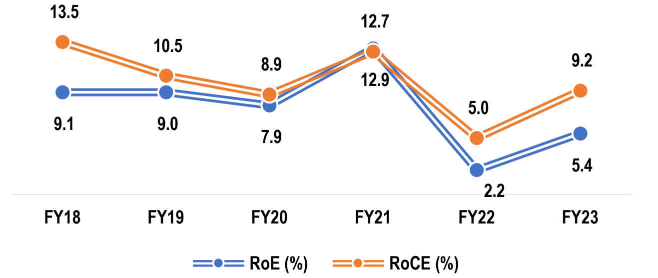
Source: Company, Way2Wealth

Stable WC and Debt management enabling strong cash flows & return ratios









Source: Company, Way2Wealth

FINANCIALS & FORECASTING

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
T&B	*20,647*	*20,954*	*21,014*	*25,873*	*28,090*	*33,945*	*35,455*	*36,286*
2/3Ws	*20,002*	*22,350*	*21,014*	*22,068*	*26,218*	*29,419*	*30,565*	*31,103*
PC/UV	*9,033*	*9,778*	*9,490*	*10,653*	*16,854*	*22,630*	*25,674*	*28,511*
OHT	*7,098*	*8,381*	*8,135*	*10,653*	*14,045*	*18,104*	*20,784*	*23,327*
LCV	*7,743*	*7,683*	*7,457*	*6,849*	*8,427*	*9,052*	*9,781*	*10,368*
Revenue	**64,523**	**69,845**	**67,788**	**76,096**	**93,634**	**113,149**	**122,258**	**129,594**
EBITDA	**6,148**	**6,425**	**7,238**	**9,830**	**7,098**	**9,738**	**15,681**	**16,123**
EBITDA Margin (%)	***9.5***	***9.2***	***10.7***	***12.9***	***7.6***	***8.6***	***12.8***	***12.4***
Net Profit	**2,380**	**2,522**	**2,313**	**4,320**	**712**	**1,862**	**5,628**	**6,315**
EPS (₹)	58.8	62.4	57.2	106.8	17.6	46.0	139.1	156.1
DPS (₹)	11.5	12.0	12.0	18.0	3.0	12.0	24.0	30.0
RoE (%)	9.1	9.0	7.9	12.9	2.2	5.4	15.9	16.1
RoCE (%)	13.5	10.5	8.9	12.7	5.0	9.2	15.0	15.5
Cash Balances	863	735	342	431	363	844	1,236	1,821
FCF	1,885	(5,547)	(1,620)	7,182	(3,398)	3,264	3,512	5,471
Receivable Days	42	37	36	44	45	42	44	44
Inventory Days	75	88	86	97	79	56	54	53
Payable Days	83	92	111	167	131	112	108	107
Net Debt/ Equity (x)	0.4	0.7	0.9	0.7	0.9	0.9	0.7	0.6
P/E (x)	38.6	36.4	39.7	21.2	128.9	49.3	16.3	14.5
EV/EBITDA (x)	16.8	17.4	16.4	11.6	17.2	12.6	7.4	6.7
P/BV (x)	3.5	3.3	3.1	2.7	2.8	2.7	2.3	2.1

Source: Company, Way2Wealth

PEER COMPARISON

COMPANY	CMP	MCAP	Revenue (₹ mn)						EBITDA (₹ mn)						EBITDA Margin (%)					
	(₹)	(₹ mn)	FY19	FY20	FY21	FY22	FY23	Q1FY24	FY19	FY20	FY21	FY22	FY23	Q1FY24	FY19	FY20	FY21	FY22	FY23	Q1FY24
CEAT Ltd	**2,269.3**	**91,791.4**	**69,845**	**67,788**	**76,096**	**93,634**	**1,13,149**	**29,352**	**6,425**	**7,238**	**9,830**	**7,098**	**9,738**	**3,871**	**9**	**11**	**13**	**8**	**9**	**13**
JK Tyre Industries	269.2	66,273.0	1,03,678	87,249	91,022	1,19,830	1,46,449	37,180	11,119	9,876	13,063	10,733	12,978	4,570	11	11	14	9	9	12
MRF Ltd	1,09,347.5	4,63,758.4	1,60,625	1,62,394	1,61,632	1,93,167	2,30,085	64,403	23,054	23,740	29,432	20,498	23,891	11,299	14	15	18	11	10	18
Apollo Tyres	390.5	2,47,975.2	1,75,488	1,63,502	1,72,820	2,09,476	2,45,681	62,446	19,586	19,387	26,825	25,741	33,137	10,515	11	12	16	12	14	17

COMPANY	CMP	MCAP	PAT (₹ mn)						EPS (₹)						DPS (₹)				
	(₹)	(₹ mn)	FY19	FY20	FY21	FY22	FY23	Q1FY24	FY19	FY20	FY21	FY22	FY23	Q1FY24	FY19	FY20	FY21	FY22	FY23
CEAT Ltd	**2,269.3**	**91,791.4**	**2,522.0**	**2,313.0**	**4,320.0**	**712.0**	**1,862.0**	**1,446.0**	**62.4**	**57.2**	**106.8**	**17.6**	**46.0**	**35.8**	**12.0**	**12.0**	**18.0**	**3.0**	**12.0**
JK Tyre Industries	269.2	66,273.0	974.0	400.0	974.0	1,631.0	2,624.0	1,590.0	7.2	6.1	13.0	8.5	11.0	6.5	1.5	0.7	2.0	1.5	2.0
MRF Ltd	1,09,347.5	4,63,758.4	11,306.0	14,226.0	12,771.0	6,692.0	7,690.0	5,998.0	2,667.0	3,355.0	3,012.0	1,578.0	1,814.0	1,388.2	60.0	65.0	150.0	150.0	175.0
Apollo Tyres	390.5	2,47,975.2	8,328.0	4,764.0	6,576.0	6,429.0	10,869.0	3,968.0	14.6	8.3	11.5	11.2	17.1	6.2	3.0	6.2	3.5	3.3	4.3

COMPANY	CMP	MCAP	RoE (%)					RoCE (%)					P/E (x)					EV/EBITDA (x)				
	(₹)	(₹ mn)	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23
CEAT Ltd	**2,269.3**	**91,791.4**	**9.0**	**7.9**	**12.9**	**2.2**	**5.4**	**10.5**	**8.9**	**12.7**	**5.0**	**9.2**	**36.4**	**39.7**	**21.2**	**128.9**	**49.3**	**17.4**	**16.4**	**11.6**	**17.2**	**12.6**
JK Tyre Industries	269.2	66,273.0	7.3	6.2	11.5	7.1	8.4	9.8	8.7	11.9	8.8	10.9	37.6	44.0	20.8	31.6	24.5	11.6	13.3	9.5	11.8	11.5
MRF Ltd	1,09,347.5	4,63,758.4	11.0	12.3	10.0	4.9	5.4	10.6	12.7	10.0	5.3	5.9	41.0	32.6	36.3	69.3	60.3	21.0	19.8	16.4	23.9	20.3
Apollo Tyres	390.5	2,47,975.2	8.4	4.8	6.2	5.5	8.8	6.4	4.5	5.4	5.4	8.2	26.7	47.0	34.0	34.9	22.8	15.0	15.9	10.9	11.6	8.9

COMPANY	CMP	MCAP	P/BV (x)					MCAP/Sales(x)					Cash flow from Operations (₹ mn)					FCF (₹ mn)				
	(₹)	(₹ mn)	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23
CEAT Ltd	**2,269.3**	**91,791.4**	**3.3**	**3.1**	**2.7**	**2.8**	**2.6**	**1.3**	**1.3**	**1.2**	**1.0**	**0.8**	**5,527**	**9,563**	**13,577**	**6,189**	**12,055**	**-5,547**	**-1,620**	**7,182**	**-3,398**	**3,264**
JK Tyre Industries	269.2	66,273.0	2.7	2.7	2.4	2.2	2.1	0.1	0.1	0.1	0.1	0.0	7,968	13,457	15,984	3,461	6,555	2,324	10,659	14,054	318	1,216
MRF Ltd	1,09,347.5	4,63,758.4	4.3	3.8	3.4	3.3	3.1	2.9	2.8	2.9	2.4	2.0	12,529	22,726	43,246	-5,780	27,555	-7,105	-4,773	34,730	-22,787	-5,346
Apollo Tyres	390.5	2,47,975.2	2.0	2.0	1.8	1.7	1.6	1.4	1.5	1.5	1.2	1.0	10,711	25,174	24,469	21,535	21,344	-12,028	-2,881	12,906	4,224	13,739

COMPANY	CMP	MCAP	Cash Balances (₹ mn)					Net D/E (x)					Interest Coverage (x)					NWC Days				
	(₹)	(₹ mn)	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23
CEAT Ltd	**2,269.3**	**91,791.4**	**735**	**342**	**431**	**363**	**844**	**0.7**	**0.9**	**0.7**	**0.9**	**0.9**	**5.1**	**3**	**3.7**	**1.3**	**2.1**	**33**	**11**	**-26**	**-6**	**-14**
JK Tyre Industries	269.2	66,273.0	1,697	1,365	1,738	1,757	2,658	2.6	2.7	2.1	2.1	2.5	1.5	1.1	2	1.6	2	73	73	78	71	45
MRF Ltd	1,09,347.5	4,63,758.4	1,045	11,811	1,694	1,804	2,585	-0.2	-0.1	-0.3	-0.1	0.1	5.6	4.8	6.6	3.3	3.6	37	26	-15	50	81
Apollo Tyres	390.5	2,47,975.2	5,627	7,496	21,458	10,807	8,462	0.5	0.6	0.4	0.4	0.4	7	2.9	3.6	6.1	3.6	56	41	40	37	53

Source: Company, Way2Wealth

Tyre companies – FY22 performance

YoY (%)	APOLLO (C)	CEAT	MRF	JK (S)
Revenue Growth	29	23	19	31
Gross Margin Change (bps)	-513	-831	-747	-717
EBITDA Margin Change (bps)	-379	-534	-758	-515
EBITDA Growth	-8	-28	-30	-18
PAT growth	-33	-80	-48	-24

Tyre companies – FY23 performance

YoY (%)	APOLLO (C)	CEAT	MRF	JK (S)
Revenue Growth	17	21	19	22
Gross Margin Change (bps)	(45)	(90)	(200)	(127)
EBITDA Margin Change (bps)	120	103	(20)	(10)
EBITDA Growth	29	37	4	21
PAT growth	73	162	14	25

Player-wise revenue break-down by Product (%)

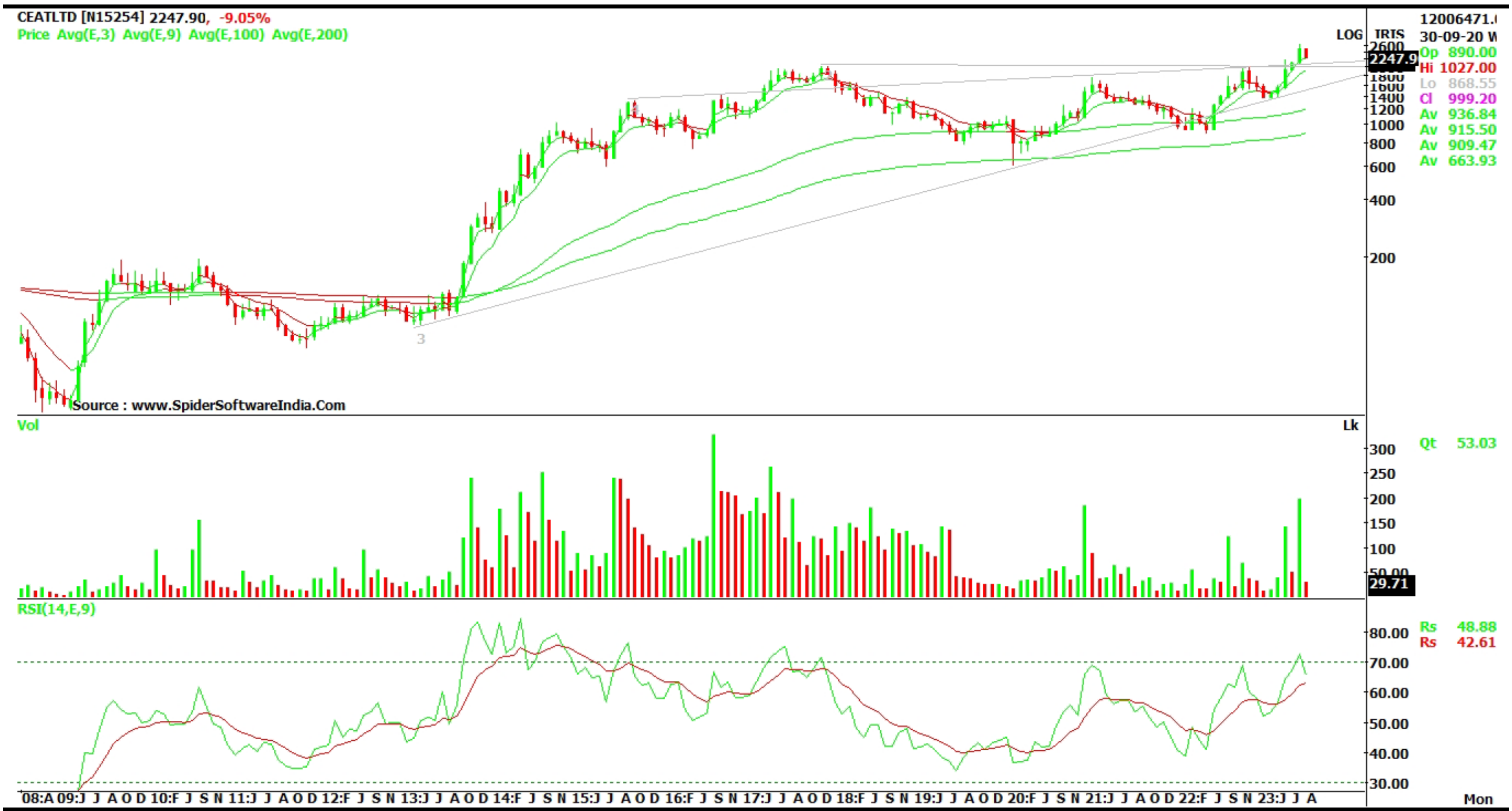
Company	Revenue (%) – FY22			
	2W	T&B	Others	PCR
MRF	16	38	34	12
APOLLO (S)	4	58	17	21
CEAT	28	30	24	18
JK - India	5	62	12	21

Company	Revenue (%) – FY23			
	2W	T&B	Others	PCR
MRF	17	40	18	25
APOLLO (S)	10	43	10	37
CEAT	26	30	24	20
JK	4	54	14	28

Source: Company, Way2Wealth

TECHNICAL VIEW

After testing an all-time high of 2642 levels in the month of July 2023, CEAT LTD has observed profit booking as well as selling pressure. Technically the stock broke out from a Symmetrical Triangle formation prevailing at 1981-2013 with steady volumes on monthly chart. The breakout levels of the Symmetrical Triangle also coincide with short term 50 days and 20 days exponential moving averages which is likely to act as a solid base for continuation of positive momentum in the counter. Daily RSI has also given a breakout from the falling resistance line which substantiates positive trend in the stock. Applying triangle projection in the near term gives immediate target of 2669/2903. However, stop loss or Support hook theory suggests the crucial support for CEAT Ltd seems to be at the level of 2013/1981 and 1885. A break below 1885 levels, buyers may be under pressure, but only on a move below 1830 levels on a monthly closing basis would change our positive view. **We advise buying the stock in the range of 2250-2185 and add on dips till 2110 for target of 2669/2903.**



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Disclosure of Interest Statement CEAT LTD as on 30th August 2023

Name of the Security	CEAT LTD
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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