

**CEAT Ltd
Techno Funda
Stock Outlook**



Indbank
Merchant Banking Services Ltd
(A Subsidiary of Indian Bank)

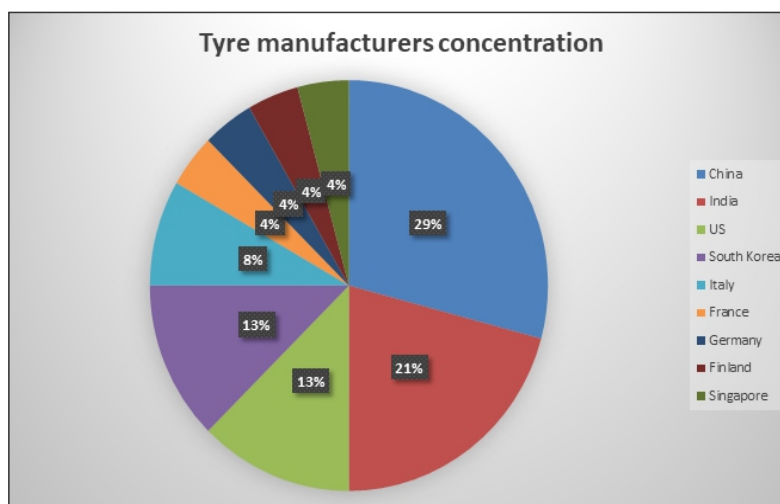
STOCK DETAILS	
NSE Scrip code	CEATLTD
BSE Scrip code	500878
Market cap (in Cr)	8,617
52-week High/Low (in Rs)	2,642 / 1,357
Current Price	2322
Price Target (in Rs)	2550 (10.8%)
Recommendation	Buy

COMPANY OVERVIEW

Ceat Ltd, a part of the RPG Group of companies founded in 1958 is one of the leading tyre manufacturers with a global presence. It is the first tyre brand in the world to have been recognised as 'Lighthouse' by World Economic Forum. The company's products are well known for their safety and performance. Ceat manufactures tyres for trucks and buses, two and three-wheelers, passenger cars, farm equipment, and light commercial vehicles.

It has long-term partnerships with major OEMs such as Tata Motors, Ashok Leyland, Escorts, Mahindra, Honda, Royal Enfield, Bajaj, and Piaggio.

At a time when the tyre industry faced higher input costs during the first half of the year, CEAT held its ground and made growth across all product segments.



- Of the top 25 tyre manufacturer's India accounts for five, which is 21%

INDUSTRY OVERVIEW

After the two muted years during the pandemic, Indian tyre manufacturers have invested heavily in capex and debottlenecking. In December 2022, India became the third-largest automobile market in the world, going past Japan and Germany in terms of sales.

FINANCIAL YEAR 2022-23:

For the FY22-23, Ceat achieved its highest ever revenue on the back of periodic price and volume growth. Its revenue surged 21% yoy to reach Rs 10,000 crores for the first time.

ANNUAL (in Rs Cr.)

	Mar-22	Mar-23	Y-O-Y
Sales	9,363.41	11,314.88	20.8%
Expenses	8,642.90	10,341.07	19.6%
Operating Profit	720.51	973.81	35.2%
Other Income	16.52	-8.26	-150.0%
Depreciation	435.20	469.31	7.8%
Interest	206.95	242.10	17.0%
Profit before tax	94.88	254.14	167.9%
Tax	24.30	71.75	195.3%
Net profit	71.20	186.17	161.5%
EPS	17.58	45.97	161.5%
OPM	8%	9%	

QUARTERLY HIGHLIGHTS

During the quarter, CEAT became one of the only 33 companies in the world and the only tyre company in the world to win the prestigious Deming Grand Award. This is indicative of the company's consistency in customer experience, improving market share gains and financial performance across the globe.

- Ceat's revenue achieved an important milestone of INR 3,000 crores during the quarter for the first time.
- 5.5% yoy rise in sales driven by overall volume growth of 7% over last year
- Gross margins stand at 43.3% compared to 32.5% last year
- Growth in exports by 10%
- Replacement volumes grew about 4% year-on-year.
- OEM registered double-digit growth in anticipation of festival sales
- Exports saw a marginal drop
- Profit margins expanded as input prices remained subdued

QUARTERS (In Rs. Cr)	Sep-22	Jun-23	Sep-23	Y-O-Y	Q-O-Q
Sales	2,894.48	2,935.17	3,053.32	5.5%	4.0%
Expenses	2,691.34	2,548.07	2,597.20	-3%	1.9%
Operating Profit	203.14	387.10	456.12	124.5%	17.8%
Other Income	-13.93	3.25	10.47	-175%	222.2%
Depreciation	115.12	120.94	124.49	8%	2.9%
Interest	57.72	70.13	71.72	24.26%	2.3%
Profit before tax	16.37	199.28	270.38	1552%	35.7%
Tax	10.57	52.87	68.29	546%	29.2%
Net profit	7.83	144.61	208	2556%	43.8%
OPM	7.0%	13.2%	14.9%		

OUTLOOK

ROAD AHEAD FOR THE TYRES

India's tyre business has showed strong resilience in increasing automobile sales and is slated to develop at 7-9% from 2020 to 2024 and overtake US to become the third-largest market globally. Sustained economic growth, ramp up in industrial activity, steady agricultural output and the government's focus on infrastructure, mining and road construction has been leading to increasing tire demand from the replacement market.

FRUITS OF DIGITAL ADVANCEMENT

Ceat's digital initiatives spanning all its factories is leading to better productivity and operational efficiency. For instance, the company's, Halol plant reduced cycle times by 20%, process scrap by 46% and energy consumption by 15%.

STABILITY IN REPLACEMENT CATEGORY

With replacement demand being stable across all categories, the company is expected to maintain its volumes going ahead. Export markets are improving with Europe being an exception which is impacted by recessionary trends.

Crude oil is an important raw material in tire manufacturing. With the crude prices on a downward trajectory, it is expected to be bring down the cost for the company.

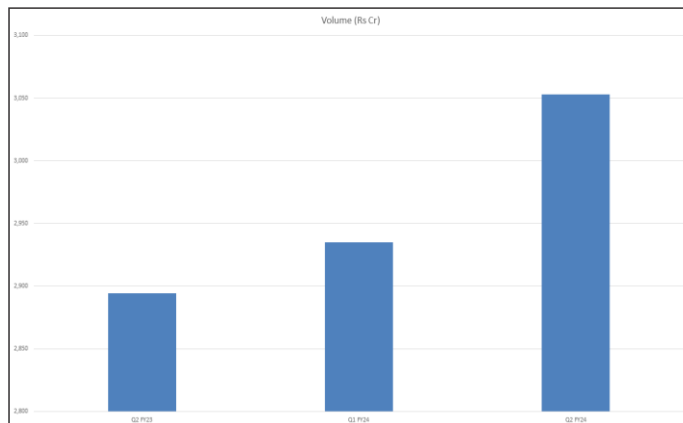
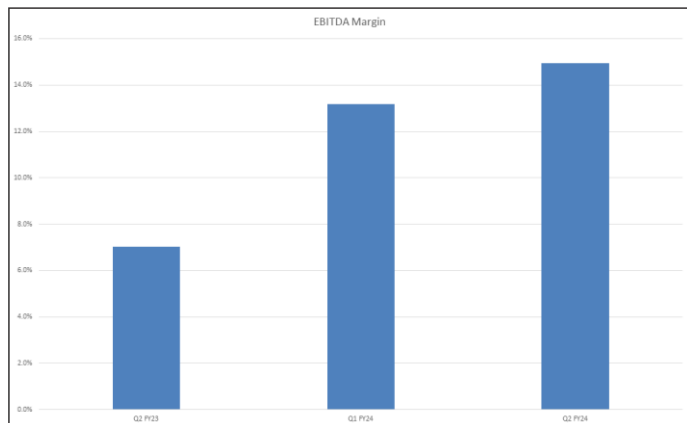
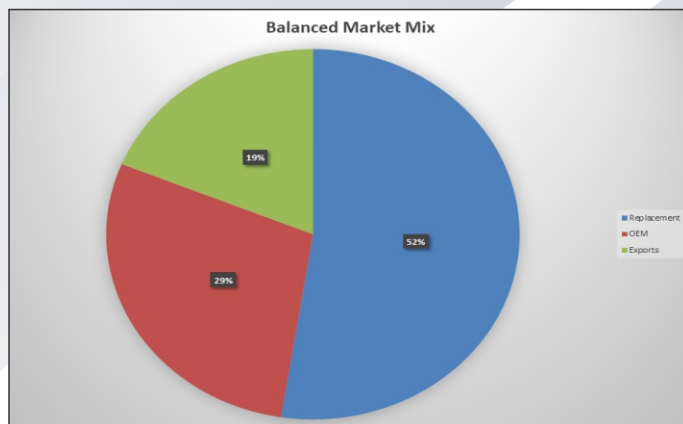
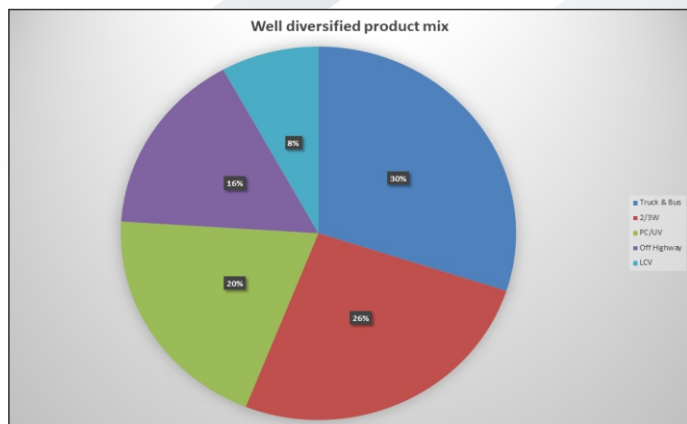
CAPACITY EXPANSION TO DRIVE GROWTH

The company plans to make a capex of Rs 800 crores, which is expected to ramp up its production capacity from 105 tons to 160 tons per day, which is nearly 60% increase. The management believes this could lead to increasing revenue by nearly 15% by FY26'.

CHALLENGES:

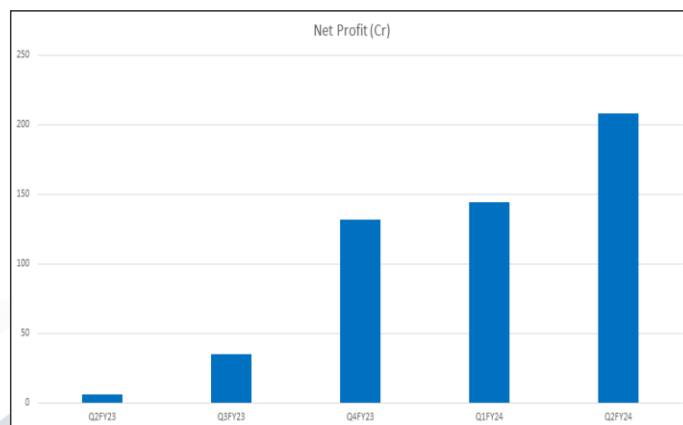
- The possibility of increase in passenger vehicle price to conform to stricter emission norms
- Possibility of cheap imports from China and Thailand & competitors discounted pricing
- Any impact on demand due to geopolitical tensions

STORY IN CHARTS:



➤ Consistently increasing EBITDA owing to reduction in raw material cost and favorable product mix:

➤ Volume growth owing to strong OEM demand for festive inventory



➤ Company's net profit increasing steadily over the last four quarters

INVESTMENT RATIONALE:

- CEAT has more than 50% market share in two-wheeler EVs with the companies like Oben electric e-bike, e-sprinto, and MR EV scooters recently launching their two wheelers running with CEAT tyres
- CEAT continues to be a leader in terms of digitalization wherein the Industry 4.0 practices are being implemented across all its plants.
- On the capacity utilization front, the company is currently at 80%, which is expected to grow in the latter part of the financial year.
- OEM demand expected to pickup by end of Q3 and Q4
- Latin American region faced headwinds owing to duties, however recovery is expected in the coming quarters.

ESG

SUSTAINABILITY VISION: REDUCE CARBON FOOTPRINT BY 50% BY 2030

The management realizes that plans to reduce emission such as shifting to alternative energy sources will mitigate challenges caused due to climate change. For the half year, Ceat's carbon footprint per metric ton of production was lower by 16% y-o-y and around 36% of its plant power requirement was met through renewable sources.

STOCK CHART:



Stock has broken out of a consolidation and witnessing buying with volume which indicate there is strength and real buying happening in the stock. It is above all major moving averages, indicating bullishness. Medium and long term investors can start adding the stock in the range of 2300-2350 for a target of 2550-2600.

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