

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	3,149
12 month price target (INR)	3,640
52 Week High/Low	3,581/2,210
Market cap (INR bn/USD bn)	127/1.5
Free float (%)	51.9
Avg. daily value traded (INR mn)	844.1

SHAREHOLDING PATTERN

	Sep-24	Jun-24	Mar-24
Promoter	47.21%	47.21%	47.21%
FII	16.65%	18.76%	20.16%
DII	19.75%	17.10%	15.91%
Pledge	0.00%	0.00%	0.00%

FINANCIALS

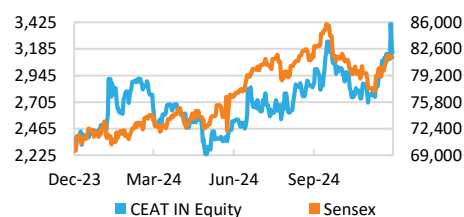
(INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	119,435	133,375	158,639	175,350
EBITDA	16,522	15,671	21,303	23,935
Adjusted profit	6,427	6,138	8,482	9,909
Diluted EPS (INR)	158.9	151.7	209.7	245.0
EPS growth (%)	245.2	(4.5)	38.2	16.8
RoAE (%)	17.2	14.3	17.4	17.7
P/E (x)	19.9	20.8	15.1	12.9
EV/EBITDA (x)	8.7	9.4	7.5	6.5
Dividend yield (%)	0.9	1.0	1.3	1.6

CHANGE IN ESTIMATES

Year to March	Revised estimates		% Revision	
	FY26E	FY27E	FY26E	FY27E
Revenue	158,639	175,350	9.1	11.5
EBITDA	21,303	23,935	11.6	14.9
Adjusted profit	8,482	9,909	-1.4	1.4
Diluted EPS (INR)	209.7	245.0	-1.4	1.4

PRICE PERFORMANCE



Camso buyout to expand OHT presence

CEAT has acquired Camso OHT business from Michelin. Key highlights: i) Acquisition cost of assets and brand at USD225mn, implying CY23 EV/adjusted EBITDA of 5x. ii) CY23 revenue at USD213mn and addressable market at USD2bn. iii) EBITDA margin currently in mid-teens, which is likely to rise to ~20% in a stable business scenario.

CEAT's share of high-margin OHT/exports shall improve from 15%/19% to 25%/26% due to this acquisition with scope for expansion. Factoring in the acquisition, we are building in revenue/earnings CAGR of 14%/12% over FY24–27E. Applying 16x Sep-26E PE (from 15x), TP comes to INR3,640 (from INR3,360). We are raising target valuation to factor in better growth/profitability prospects; maintain 'BUY'.

Camso acquisition to strengthen presence in OHT space

CEAT has announced the acquisition of the Camso brand from Michelin at a reasonable valuation of USD225mn, which implies CY23 EV/sales of 1x and EV/adjusted EBITDA of 5x. The acquired business is in compact construction tyres and tracks segment, with CY23 revenue at USD213mn, and addressable market at USD2bn. Camso's market share in compact construction premium tracks is 20% while it is 10% in the overall segment. The acquisition would also include global ownership of the Camso brand along with two manufacturing facilities in Sri Lanka, where is there scope to increase utilisation by 35%. **Overall, CEAT's share of high margin OHT/international presence shall improve from 15%/19% to 25%/26%.**

OHT/international presence to further improve in medium term

Post the acquisition, the initial focus shall be on ramping up the capacity and after three years when the Camso brand rights are assigned, it shall foray into agriculture tracks, harvester tracks, and power sport tracks. **This diversification, along with a pickup in OHT industry, should help in improving CEAT's share further in high margin OHT/exports space over the medium term. EBITDA margin—currently in mid-teens—is also likely to rise to ~20% in a stable business scenario.**

Revenue/EPS CAGR likely to be 14%/12% over FY24–27E

We are marginally reducing FY26E EPS by 1% due to increase in interest costs, and increasing FY27E EPS by 1%, assuming margin expansion of Camso. Following the revision, we anticipate a revenue CAGR of 14% over FY24–27E. Factoring in an increase in interest expenses, we reckon EPS CAGR shall be lower at 12%. The capex expectation is INR10–11bn yearly over FY25–27E for brownfield expansion and de-bottlenecking efforts, and investment in Camso is at USD225mn. Net debt/equity should increase from 0.5x in FY24 to 0.7x in FY26E due to Camso acquisition, and then normalise to 0.5x in FY27E.

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	119,435	133,375	158,639	175,350
Gross profit	50,191	51,082	63,138	69,965
Employee costs	8,457	8,603	9,949	10,784
Other expenses	25,212	26,808	31,886	35,245
EBITDA	16,522	15,671	21,303	23,935
Depreciation	5,088	5,422	6,701	7,603
Less: Interest expense	2,691	2,478	3,821	3,656
Add: Other income	197	228	238	245
Profit before tax	8,941	8,000	11,019	12,921
Prov for tax	2,214	2,080	2,755	3,230
Less: Other adj	0	0	0	0
Reported profit	7,008	6,138	8,482	9,909
Less: Excp.item (net)	(582)	0	0	0
Adjusted profit	6,427	6,138	8,482	9,909
Diluted shares o/s	40	40	40	40
Adjusted diluted EPS	158.9	151.7	209.7	245.0
DPS (INR)	30.0	30.3	41.9	49.0
Tax rate (%)	24.8	26.0	25.0	25.0

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Gross profit margin (%)	42.0	38.3	39.8	39.9
Staff cost % sales	7.1	6.5	6.3	6.2
Other expenses % sales	21.1	20.1	20.1	20.1
EBITDA margin (%)	13.8	11.7	13.4	13.6
Net profit margin (%)	5.4	4.6	5.3	5.7
Revenue growth (% YoY)	5.6	11.7	18.9	10.5
EBITDA growth (% YoY)	69.7	(5.2)	35.9	12.4
Adj. profit growth (%)	245.2	(4.5)	38.2	16.8

Assumptions

Year to March	FY24A	FY25E	FY26E	FY27E
Replacement rev. (INRmn)	63,030.8	71,224.8	78,347.3	85,398.5
OEM revenue (INRmn)	33,299.3	35,630.2	37,411.7	38,908.2
Export revenue (INRmn)	22,596	25,985	29,104	32,305
Camsco revenue (INRmn)	-	-	13,215	18,149

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	19.9	20.8	15.1	12.9
Price/BV (x)	3.2	2.8	2.5	2.1
EV/EBITDA (x)	8.7	9.4	7.5	6.5
Dividend yield (%)	0.9	1.0	1.3	1.6

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	405	405	405	405
Reserves	40,022	44,932	51,718	59,645
Shareholders funds	40,426	45,336	52,122	60,049
Minority interest	97	87	77	67
Borrowings	16,289	19,289	33,289	29,289
Trade payables	35,554	35,244	41,051	44,415
Other liabs & prov	6,350	6,455	7,090	7,486
Total liabilities	99,945	107,784	135,262	143,110
Net block	61,741	66,282	87,342	90,698
Intangible assets	970	1,007	1,046	1,087
Capital WIP	6,835	6,835	6,835	6,835
Total fixed assets	69,546	74,124	95,224	98,621
Non current inv	163	163	163	163
Cash/cash equivalent	591	392	500	803
Sundry debtors	12,832	14,330	17,044	18,840
Loans & advances	0	0	0	0
Other assets	13,965	15,594	18,548	20,502
Total assets	99,945	107,784	135,262	143,110

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	7,008	6,138	8,482	9,909
Add: Depreciation	5,088	5,422	6,701	7,603
Interest (net of tax)	2,024	1,834	2,866	2,742
Others	57	0	0	0
Less: Changes in WC	2,674	(196)	(38)	(502)
Operating cash flow	15,222	11,118	15,256	16,521
Less: Capex	(8,668)	(10,000)	(27,800)	(11,000)
Free cash flow	6,554	1,118	(12,544)	5,521

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	17.2	14.3	17.4	17.7
RoCE (%)	20.7	17.2	19.8	19.0
Inventory days	60	54	54	56
Receivable days	40	37	36	37
Payable days	182	157	146	148
Working cap (% sales)	(8.9)	(5.4)	(5.1)	(4.6)
Gross debt/equity (x)	0.4	0.4	0.6	0.5
Net debt/equity (x)	0.5	0.5	0.7	0.5
Interest coverage (x)	4.2	4.1	3.8	4.5

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	245.2	(4.5)	38.2	16.8
RoE (%)	17.2	14.3	17.4	17.7
EBITDA growth (%)	69.7	(5.2)	35.9	12.4
Payout ratio (%)	17.3	20.0	20.0	20.0

Conference call: Key takeaways

- CEAT has announced the acquisition of Camso brand's OH construction equipment bias tyre and tracks business from Michelin in an all-cash deal valued at USD225mn. The transaction shall include the business with revenue of ~USD213mn for CY23 and global ownership of the Camso brand along with two manufacturing facilities in Sri Lanka. Initially, the focus shall be on ramping up the capacity and after three years when the brand is assigned to the company, it shall foray in agriculture tracks, harvester tracks, power sport tracks, etc.
- **Industry overview:** Compact construction tyres and tracks industry size is at ~USD1bn each. The premium share in tracks is 50%, with Camso holding number 2 position while tyre market's premium share is 25%. The construction tyre segment has historically grown by 2–3% and the track segment at a higher rate of 5–7%. Tracks segment shall be 100% bias, whereas core of tyre shall be bias with some element of radialisation.
- **Outlook for Camso:** CY24 revenue is likely to be lower than CY23 (USD213mn) due to headwinds in the OEM segment. Margins are also likely to be lower in CY24.
- **Revenue of Camso** grew 5–6% in CY21 and CY22, whereas there was a marginal decline in CY23 on a high base.
- **Margins:** Post acquisition, margins are likely to be ~20% in a stable business environment. The transaction shall be margin accretive, whereas it shall become EPS accretive over the medium term.
- **Market share** of Camso in compact construction premium tracks is 20% while it is 10% in the overall tyre segment.
- **Channel mix:** Share of OEM is 53% OEM and that of aftermarket is 47%.
- **Revenue split by geography:** 60% from North America, 30% from Europe, 4% from South America and 6% from the rest of the world.
- The company shall get a team of 1,600-plus employees primarily in manufacturing and few employees in product development.
- **Revenue share:** After the acquisition, the share of the OHT segment shall increase from 15% to 25% to the overall revenue. Furthermore, the share of exports shall increase from 19% to 26%.
- **Realisation:** Camso focuses on the premium segment, whereas CEAT has a presence only in the value segment. CEAT's realisation is at USD3–4/kg, whereas Camso is higher at USD5.5–7/kg.
- **OEMs and network:** Camso brand supplies to 40-plus OEMs including JCB, CNH, Manitou, and Kubota. It has a robust dealer network of 200-plus in aftermarket. There is a very minimal overlap of dealers between CEAT and Camso. This provides headroom for CEAT to sell its product through new dealerships.
- **Capacity** stands at 200MT/day split equally between tyre and tracks and there is headroom to increase the capacity utilisation by 35%.
- **SKUs** in OHT segment post-acquisition shall increase to 1,700-plus.

- **Funding:** The company shall fund the acquisition with a mix of debt (70%) and internal accruals (30%). Management expects debt/equity ratio to be <1 and debt/EBITDA ratio to be less than <3.
- The acquisition shall reflect in the financial statements after Q1FY26.

Exhibit 1: Change in estimates

INR mn	Old estimates			New estimates			Variance (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net revenues	133,375	145,424	157,201	133,375	158,639	175,350	0.0	9.1	11.5
EBITDA	15,671	19,092	20,829	15,671	21,303	23,935	0.0	11.6	14.9
Adjusted Profit	6,138	8,606	9,773	6,138	8,482	9,909	0.0	-1.4	1.4
Diluted EPS (INR)	151.7	212.8	241.6	151.7	209.7	245.0	0.0	-1.4	1.4

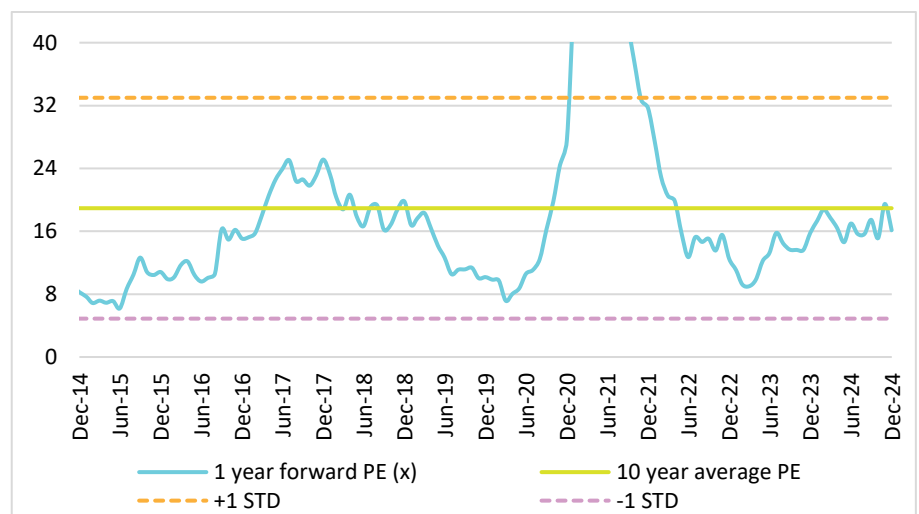
Source: Nuvama Research

Exhibit 2: Key revenue assumptions: Revenue CAGR of 14% over FY24–27E

Key revenue assumptions (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY24-27E CAGR (%)
India replacement	52,151	59,695	63,031	71,225	78,347	85,399	11
Growth (%)		14	6	13	10	9	
India OEM	22,350	32,663	33,299	35,630	37,412	38,908	5
Growth (%)		46	2	7	5	4	
Exports	18,625	20,274	22,596	25,985	29,104	32,305	13
Growth (%)		9	11	15	12	11	
Camso					13,215	18,149	
Growth (%)						37	
Others	508	516	509	534	561	589	5
Growth (%)		2	(1)	5	5	5	
Total	93,634	113,149	119,435	133,375	158,639	175,350	14
Growth (%)		21	6	12	19	11	

Source: Company, Nuvama Research

Exhibit 3: One-year forward PE; 10-year median at 16x



Source: Company, Nuvama Research

Company Description

CEAT is RPG Group's flagship and one of the largest tyre manufacturers in India by revenue. The company's product portfolio spans the automotive spectrum with tyres for two-wheelers (2W), three-wheelers (3W), passenger cars, utility vehicles (UVs), trucks and buses and off-the-highway (OHT) vehicles. The company has increased presence in OHT/international segments, with recent acquisition of Camso business from Michelin.

Investment Theme

We expect revenue CAGR at 14% over FY24–27E, supported by growth in existing business and Camso acquisition. EPS CAGR is likely at 12% over FY24–27E, impacted by higher interest expenses. We reckon RoE shall remain healthy at more than 16% over FY25–27E. Net debt/equity should increase from 0.5x in FY24 to 0.7x in FY26E due to Camso acquisition, and then normalize to 0.5x in FY27E.

With the Camso acquisition, CEAT's share of high margin OHT/ international presence will improve from 15%/19% to 25%/26%. The initial focus will be on ramping up the capacity and after three years when the Camso brand rights are assigned, it will foray in agriculture tracks, harvester tracks, power sport tracks, etc. This diversification, along with pickup in OHT industry, should help in improving CEAT's share further in high margin OHT/exports space over the medium term. EBITDA margin currently at mid-teens, is also expected to increase to ~20% in a stable business scenario.

Applying 16x Sep26E PE, TP comes to INR3,640. Retain 'BUY'.

Key risks

- Slowdown in domestic and overseas markets leading to downgrades in revenue assumptions
- Increase in competitive intensity, resulting in lower profitability
- Adverse currency movement leading to negative impact on profitability
- Increase in commodity prices resulting in lower margins
- Increase in freight costs resulting in lower margins

Additional Data

Management

Vice Chairman	Mr. Anant Goenka
MD & CEO	Mr. Arnab Banerjee
CFO	Mr. Kumar Subbiah
Company Secretary	Mr. Gaurav Tongia
Auditor	S. R. Batliboi & Co. LLP

Holdings – Top 10*

	% Holding		% Holding
Mirae Asset	10.29	New India Assurance	1.51
India Opportunities Growth Fund	4.41	LIC	1.28
HDFC AMC	2.69	Mukul Mahavir Agrawal	1.11
Vanguard Group	2.12	Blacrock	1.02
Dimensional Fund	1.59	Sundaram Asset Management	1.02

*Latest public data

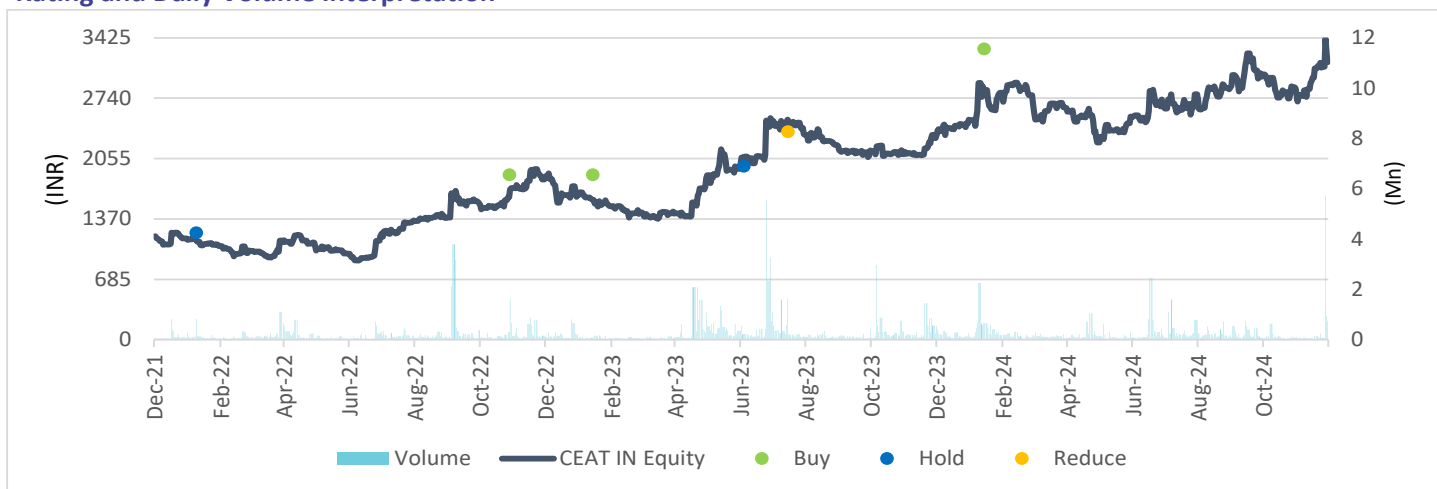
Recent Company Research

Date	Title	Price	Reco
18-Oct-24	EBITDA in line; margins to improve ahead; <i>Result Update</i>	2,973	Buy
19-Jul-24	EBITDA miss; outlook remains positive; <i>Result Update</i>	2,676	Buy
07-Jun-24	Outlook remains positive; <i>Visit Note</i>	2,441	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
12-Nov-24	Minda Corporation	Minda Corporation (MDA IN, INR 494, BUY); <i>Result Update</i>
12-Nov-24	Samvardhana Motherson	Samvardhana Motherson (MOTHERSO IN, INR ; <i>Result Update</i>
23-Oct-24	SONA BLW PRECISION	Sona BLW Precision Forgings (SONACOMS IN; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	226
Hold	<15% and >-5%	64
Reduce	<-5%	25

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