Ceat Ltd (CEAT)

CMP: ₹ 1,465 | Target: NA | Target Period: NA | UNRATED

September 15, 2022

Cautiously optimistic on demand, margin recovery…

About the stock: Ceat, part of RPG group, is one of India's most reputable tyre manufacturers established in 1958. It has a prominent presence in India and in key international markets with seven manufacturing plants & 51,000+ sales touchpoints.

- FY22 channel mix: Auto OEMs: 24%; replacement: 56%; Exports: 20%
- FY22 segment mix: PV: 18%; CV: 40%; farm & OHT: 14%; 2-W: 28%
- It is currently operating at ~80% capacity utilisation levels
- It has ~4,600+ dealers, 380+ Ceat exclusives, presence in >110 countries

Management meet Highlights

- Domestically, the company is witnessing healthy demand traction on the OEMs front with replacement demand being steady in nature. Robust demand is particularly being witnessed in the PV space with chip supply issue easing while steady MoM improvement is seen in the CV space
- On the exports front, demand in Europe & Indonesia is muted amid negative economic scenario. Sri Lanka, on the other hand, is witnessing 50-60% decline in volumes with Ceat earning steady margins (unchanged)
- On the margins front, the company expects Q2FY23 to be similar to Q1FY23 with recovery seen from Q3FY22 onwards. Overall, Ceat aims to achieve ~10-12% operating margins over the medium term. Replacement market business remains more lucrative in terms of margin than the OEM
- Over the past three years, Ceat has expensed ~₹ 3,300 crore out of planned ~₹ 4,000 capex w.r.t capacity building across Chennai and Ambernath plant. Capex for FY23E is planned at ~₹ 900 crore while the same for FY24E is seen at ~₹ 700 crore, with peak revenue potential pegged at ₹ 13,000 crore
- The company remains committed towards keeping debt/EBITDA at <3x

Key triggers for future price performance:

- Organic growth in business over FY22-24E amid cyclical upswing in CV space and secular growth trend in PV domain. With controlled leverage on b/s and plans for expansion the company is set for meaningful growth ahead
- Ceat focuses on remaining technologically advanced by spending on upcoming technologies like electric vehicle specific tyres, smart tyres, etc
- Addition of new models like Mahindra XUV700, Tata Ace EV, Olectra EV bus, etc, from existing OEMs leading to deeper relations
- Commitment to retain leadership in electric-2-W space with >50% market share with key clients being Ola Electric, Hero Electric among others

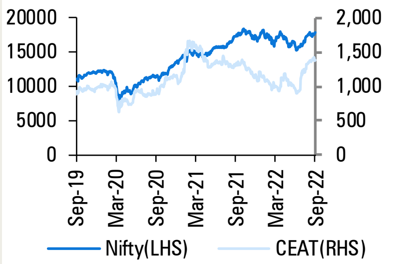
Particulars

Particular	₹ crore
Market Capitalisation	5920
Debt (FY22)	2229
Cash & Investment	44
EV (FY22)	8104
52 Week H/L	1473 /890
Equity Capital	40.5
Face Value (₹/share)	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	46.8	47.1	47.1	47.2
FII	23.4	22.7	22.7	22.5
DII	13.2	12.7	11.7	11.2
Other	16.5	17.5	18.6	19.2

Price Chart



Recent event

The company recently concluded its analyst/investor meet with management cautiously optimistic on demand prospects and margin recovery amid lower RM prices

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Management Meet Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ crores)	FY18	FY19	FY20	FY21	FY22	5 Year CAGR
Revenue	6283.4	6984.5	6778.8	7609.6	9363.4	10.2
EBITDA	587.1	602.6	697.0	952.2	700.1	1.5
EBITDA Margin (%)	9.3	8.6	10.3	12.5	7.5	
Net Profit	233.3	251.1	230.1	432.3	70.6	-27.8
EPS (₹)	58.8	62.4	57.2	106.8	17.6	
P/E (x)	24.9	23.5	25.6	13.7	83.2	
RoE	9.1	9.1	8.0	13.0	2.2	
RoCE	13.5	10.9	9.2	13.6	5.5	

Source: Company, ICICI Direct Research

Key takeaways from company's presentation & highlights…

- The company expects to benefit from the recent cool off in raw material prices with margins set to recover meaningfully from Q3FY22. Over the long term, the company aims to achieve double digit return ratios and margins
- Ceat expects RM cost to increase ~2-3% in Q2FY23 over Q1FY23 with operating margins expected to be on similar lines as of Q1FY23
- It is currently realising ~5% of replacement sales from online channel (D2C)
- In European region, PCR segment is seeing a slowdown due to inflationary scenarios and muted economic scenario whereas OHT demand is steady
- Capacity utilisation across segments remained at ~80% with OHT being fully utilised. The 2-W tyre plant at Nagpur has current capacity of 80,000 tyres per day with current utilisation at 55,000 tyres per day. PCR tyre capacity was at 40,000 tyres per day with current utilisation at ~30,000 tyres per day. TBR capacity was at 140 tpd with current utilisation at 110 tpd. Phase 2 of Chennai plant has capacity of 28,000 tyres per day with utilisation at ~20,000 tyres per day and is part of ₹ 4,000 crore capex

Exhibit 1: OEM Partnerships

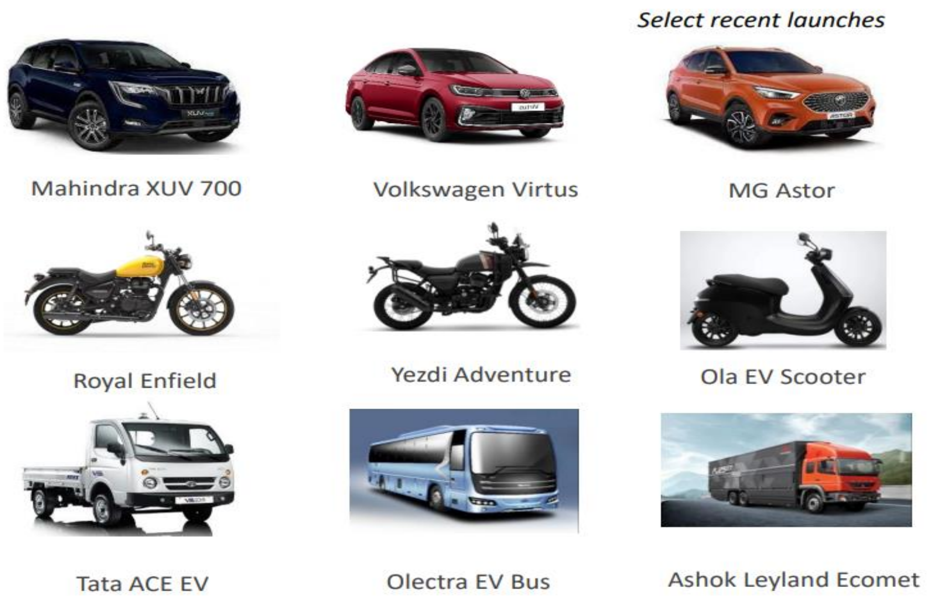
Indicative list

HYUNDAI ŠKODA TATA MOTORS ROYAL ENFIELD HONDA BAJAJ YAMAHA JOHN DEERE HEROELECTRIC OLA ELECTRIC Olectra

Source: Company, ICICI Direct Research

The company remains key partner to all major auto OEMs including E-2-W space with 50%+ market share in this domain

Exhibit 2: Recent new model wins

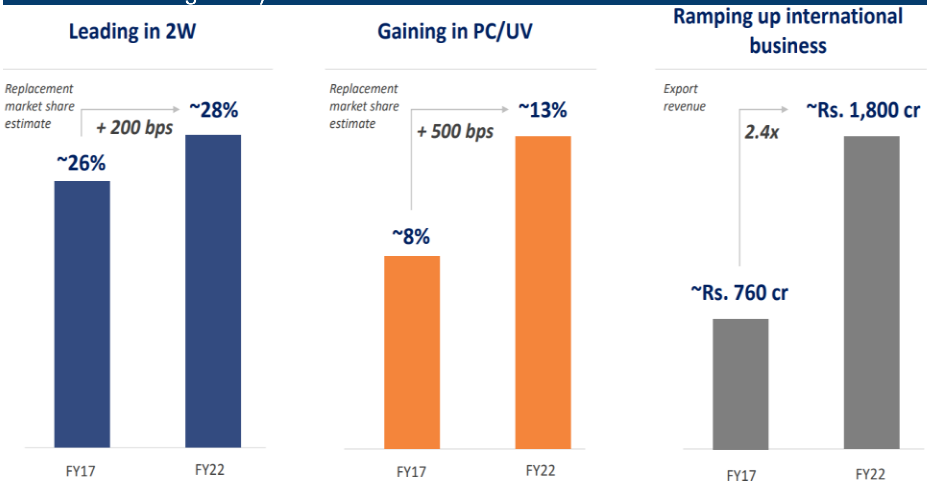


Source: Company, ICICI Direct Research

Ceat is witnessing strong demand from OEM side with particular uptick in demand in UV space

The company has ~32% market share in 15" wheels, which grew ~2x in last two to three years

Exhibit 3: Strategic Play

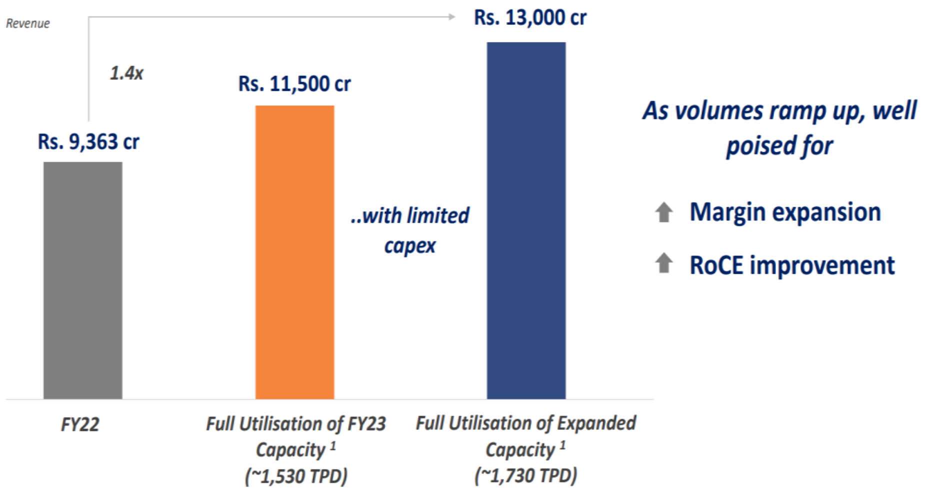


Source: Company, ICICI Direct Research

Ceat is witnessing good demand from OEM side whereas replacement side is seeing steady demand

In international business, EU is affected due to recessionary scenarios whereas Indonesia is impacted due to import restriction

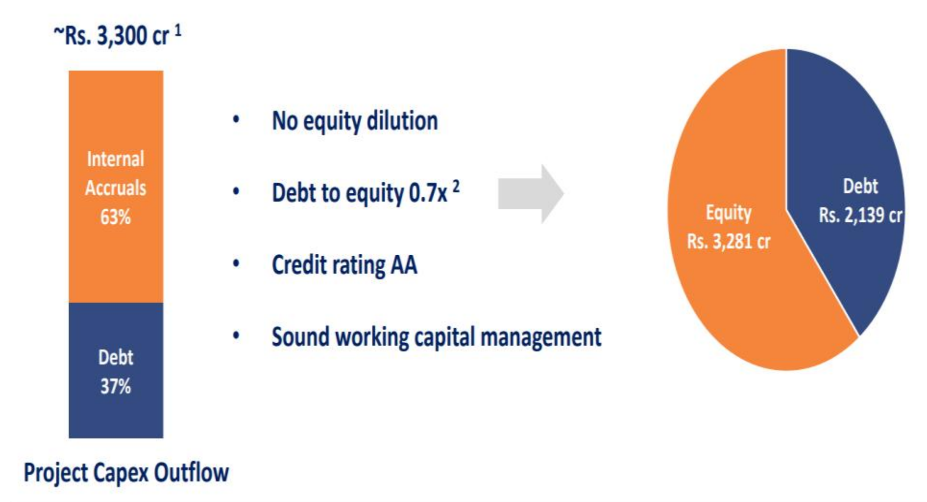
Exhibit 4: Revenue Potential



Source: Company, ICICI Direct Research

To reach revenue potential of ₹ 13,000 crore the company will have to incur minimal capex of ~₹ 700 crore giving asset turn of ~2x

Exhibit 5: Capex Funding



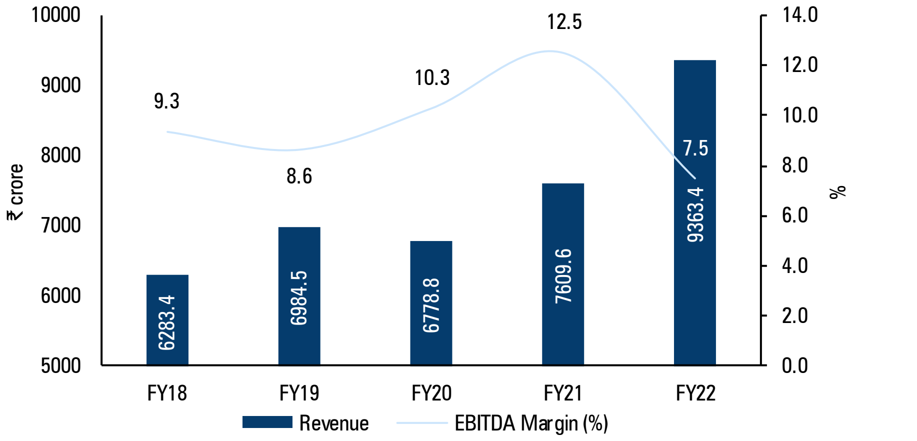
Source: Company, ICICI Direct Research

Most of capex in funded by internal accruals. Further incremental capex of ₹ 700 crore would be funded through internal accruals only

However, debt in FY23 may increase by ~₹ 300-400 crore

Financial story in charts

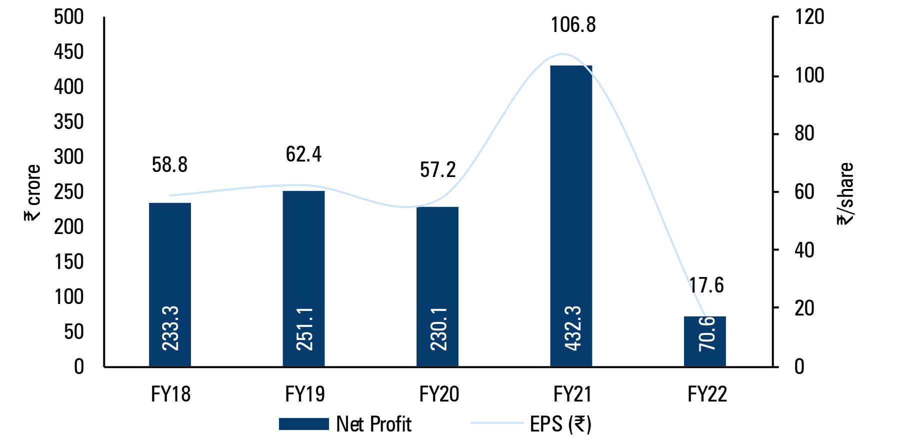
Exhibit 6: Trend in topline and EBITDA margins



Source: Company, ICICI Direct Research

Sales have grown at a ~10.5% CAGR over FY18-22 with margin profile reducing from ~9.3% to 7.5% in a similar timeframe

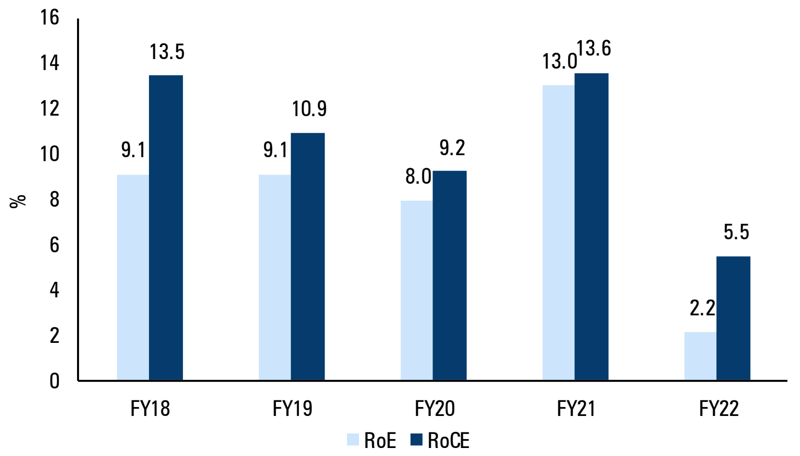
Exhibit 7: Trend in PAT & EPS



Source: Company, ICICI Direct Research

PAT has de-grown at a CAGR of ~26% over FY18-22 to ₹ 70.6 crore in FY22

Exhibit 8: Return ratios trend



Source: Company, ICICI Direct Research

Return ratios have been muted in FY22 due to unprecedented rise in input cost impacting margins

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