

Price: 2,870

Recommendation: Buy

Industry: Tyres & Rubber Products

Sector: Consumer Discretionary

Report Date: 03-Apr-2025

CEAT Limited is focused on sustaining growth and enhancing market presence, reporting an 11.6% revenue increase and 7.9% volume growth in Q3 FY25. The company is expanding its Chennai capacity and targeting the SUV segment. CEAT's acquisition of Camso boosts its premium positioning in Europe and the US. Challenges include raw material cost impacts on margins, but strategic expansions in Chennai and Nagpur aim to support growth while managing capital expenditure.

Sales		Profit & Loss		Profitability Matrix	
Current Year	12737 Cr	Operating Profit(Year)	1486 Cr	Operating Profit Margin	11.7 %
Previous Year	11263 Cr	Operating Profit(Quarter)	344 Cr	EBITDA Margin	13.21 %
Current Quarter	3292 Cr	PAT (Year)	686 Cr	Net Profit Margin	5.77 %
Previous Quarter	3298 Cr	PAT (Quarter)	96.0 Cr	EPS	124
Revenue (QYoY)	2949 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	22.0	Sales Growth	8.16 %	Sales Growth	-0.18 %
PEG Ratio	1.35	PAT Growth	196.97 %	Sales Growth QYoY	11.63 %
EV/EBITDA	9.00	EPS Growth	-23.46 %	PAT Growth	-29.93 %
P/B	2.79	Dividend Yield	1.03	PAT Growth QYoY	-45.76 %
Capital Allocation		Holdings		Leverage	
RoE	18.8 %	Promoter	47.2 %	Debt/Equity	0.51
RoA	7.11 %	FII	15.8 %	Debt	2084 Cr
RoCE	20.7 %	DII	20.5 %	Market Cap	11609 Cr
RoIC	16.8 %	Public	16.4 %	Enterprise value	13661 Cr
		No of Shares	4.05 Cr	Cash Equivalents	31.9 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

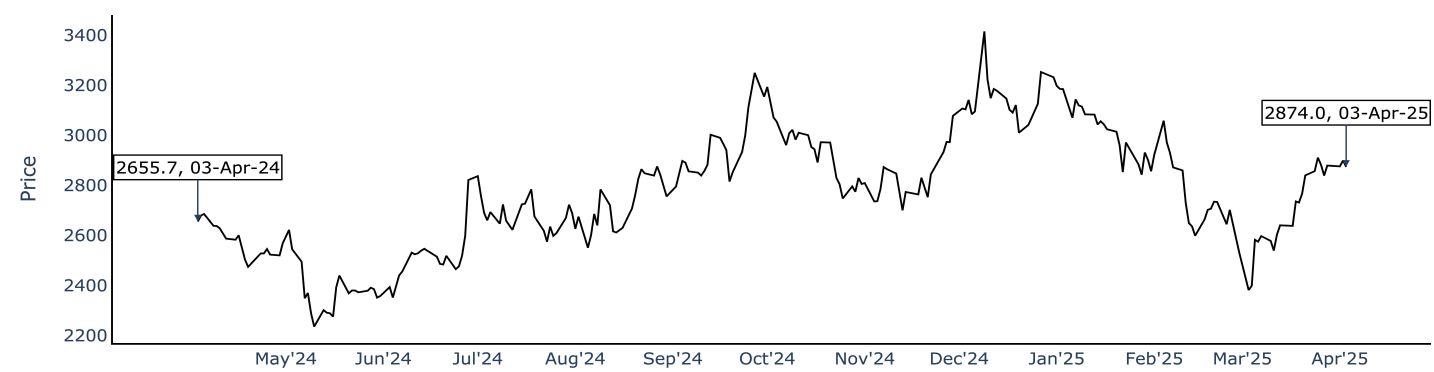
CEAT Limited's recent earnings call highlighted several strategic initiatives and business strategies aimed at sustaining growth and enhancing market presence. The company reported a robust 11.6% year-on-year growth in revenue and a 7.9% increase in volume for Q3 FY25. This growth was driven by strong performance in international and replacement segments, with the OEM segment also showing promising mid-single-digit growth. CEAT's turnover reached Rs. 3,292 crores on a standalone basis, nearly matching its all-time high. The company is focusing on expanding its Chennai capacity and increasing market share in the passenger segment, particularly in SUVs, as part of its growth strategy.

CEAT is actively pursuing diversification and premiumization strategies. The acquisition of Camso, a premium brand in the off-highway tyre (OHT) segment, is a significant milestone, expected to enhance CEAT's premium positioning in Europe and the US. The company has also launched the innovative Secura lyfe tyre in the 2-Wheeler segment, emphasizing high product life and grip. CEAT's focus on electrification, international business, premiumization, and digital transformation is evident, with plans to maintain a 25% share in the electric vehicle OEM business. The company is also expanding its presence in new markets, including Vietnam and Peru, and enhancing its channel expansion for OHT in the US market.

Looking ahead, CEAT is optimistic about its future growth and scaling prospects. The company expects to continue its double-digit growth trajectory, driven by strong performance in exports and the replacement market. CEAT's international business is poised for significant growth, with the US market expected to become a substantial part of its exports in the next two years. The company is also focusing on sustainable practices, with its Halol plant receiving international sustainability certifications. CEAT's commitment to renewable power generation and ethical sourcing is reflected in its efforts to reduce rolling resistance in tyres and increase energy efficiency.

While CEAT's growth outlook is positive, there are areas for improvement. The company faces challenges in passing on raw material price increases to customers, which has impacted margins. CEAT's EBITDA margin contracted by 64 basis points quarter-on-quarter due to rising raw material costs. To address this, CEAT plans to implement further price changes in Q4 across replacement and international businesses. Additionally, the company is focusing on optimizing its working capital and maintaining a healthy debt-to-equity ratio. CEAT's strategic focus on brownfield expansions and incremental capacity additions in Chennai and Nagpur will support its growth ambitions while managing capital expenditure effectively.

CEATLTD Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
JK Tyre & Indust	8052.07	13.36	20.62%	1.44%	-0.38%	-55.28%	-71.50%
MRF	48626.32	27.74	12.55%	1.74%	13.60%	-32.98%	-38.11%
Balkrishna Inds	47884.72	27.06	17.55%	5.81%	12.57%	29.56%	47.17%
Apollo Tyres	26975.93	19.97	13.22%	7.63%	5.04%	12.95%	-32.88%
TVS Srichakra	2069.96	49.19	10.65%	-4.63%	11.67%	-129.46%	-112.53%

Aspect	Commentary
Revenue	The company achieved a notable revenue increase, reflecting strong market demand and effective sales strategies. The year-on-year growth indicates a positive trend, although quarterly figures show a slight decline, suggesting potential seasonal or market fluctuations. Overall, the revenue performance underscores the company's robust market position.
Profit & Loss	The profit and loss statement reveals a healthy operating profit, with significant year-on-year growth in PAT. However, quarterly figures show a decline, indicating potential cost pressures or market challenges. The overall profitability suggests effective cost management and revenue generation, despite quarterly fluctuations.
Profitability Matrix	The profitability matrix highlights strong operating and EBITDA margins, indicating efficient cost management and pricing strategies. The net profit margin, while positive, suggests room for improvement. The EPS figure reflects the company's earnings capacity, supporting investor confidence and market valuation.
Valuation Matrix	The valuation metrics suggest a fair market valuation, with a moderate P/E ratio and a reasonable PEG ratio, indicating balanced growth expectations. The EV/EBITDA and P/B ratios reflect the company's asset utilization and market perception, supporting a stable investment outlook.
Growth (YoY)	Year-on-year growth metrics show robust sales and PAT growth, indicating strong market performance and strategic execution. However, the negative EPS growth suggests potential challenges in earnings distribution or market conditions. The dividend yield provides additional investor returns.
Growth (QoQ)	Quarterly growth metrics reveal a slight decline in sales and a significant drop in PAT, indicating potential market or operational challenges. The negative growth figures suggest the need for strategic adjustments to address short-term fluctuations and sustain long-term growth.
Capital Allocation	The capital allocation metrics demonstrate effective resource utilization, with strong RoE, RoA, and RoCE figures. The RoIC indicates efficient capital investment, supporting sustainable growth. These metrics reflect the company's strategic focus on maximizing shareholder value and operational efficiency.
Holdings	The holdings structure shows a balanced distribution among promoters, FIIs, DIIs, and the public, indicating diversified ownership and investor confidence. The number of shares reflects the company's market presence and liquidity, supporting stable trading and investment activities.
Leverage	The leverage metrics indicate a moderate debt-to-equity ratio, suggesting prudent financial management and risk control. The debt level, while significant, is balanced by the company's market cap and enterprise value, supporting financial stability and growth potential.

Analyst viewpoint: CEAT Limited showcases a promising growth trajectory, reinforced by an impressive 11.6% year-on-year revenue increment and a strong 7.9% volume surge in Q3 FY25. This positive momentum is driven by robust international and replacement segments, alongside a steady OEM growth. The company's strategic focus on expanding its Chennai capacity and targeting the SUV market segment positions it favorably among peers. From a valuation standpoint, the trailing P/E of 22.0 and PEG ratio of 1.35 indicate a fair market valuation, with a measured growth expectation. Capital allocation remains effective, demonstrated by a healthy RoE of 18.8% and manageable debt-to-equity ratio of 0.51, reflecting prudent financial management. CEAT's strategic initiatives, such as the Camso acquisition, enhance its premium positioning in the European and US markets, underscoring its growth ambitions and international footprint expansion.

Despite these strengths, an area for cautious monitoring is the impact of raw material cost volatility on margins. The recent EBITDA margin contraction highlights the challenge of transferring cost increases to consumers, suggesting a potential area of strategic refinement to sustain profitability. Nonetheless, CEAT's proactive approach to price adjustments and its commitment to working capital optimization affirms a resilient outlook. Expansions in Chennai and Nagpur support its capacity growth, anchoring CEAT as a compelling investment opportunity with strong growth prospects in the tyre industry.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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