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Company Background

Established in 1958, CEAT Limited (CEAT) is flagship entity under RPG Group (Rama Prasad Goenka Group). RPG group is a conglomerate having more than 15 companies catering to diverse businesses spanning across automotive tyres, infrastructure, information & technology, pharmaceuticals, plantations and power ancillaries. RPG group acquired the company in 1982. Company is engaged in the manufacturing of tyres, tubes and flaps and it is one of the leading tyre manufacturer in domestic market. Products manufactured find application in heavy-duty trucks and buses, light commercial vehicles, earthmovers, forklifts, tractors, trailers, cars, motorcycles and scooters as well as auto-rickshaws. It caters to demand from both OEM (Original Equipment Manufacturer) and replacement market. Large part of its income is contributed from replacement market. In India, CEAT operates with six manufacturing units located at Mumbai, Nagpur, Nasik, Ambernath, Chennai (Maharashtra; operationalized in FY18), Halol (Gujarat). Furthermore, CEAT has outsourced the production facilities of tyres to several third party conversion agencies located at Maharashtra, Hyderabad (Telangana) and Calicut (Kerala).

Investment Rationale

Robust demand from Two wheeler and Replacement segment to augur well

Over the years, company has built a strong product portfolio with its differentiated products catering the demand and a need for high quality tyre products. This altogether is strengthening its presence across various OEM. Furthermore, we believe two wheeler industry is expected to post a CAGR of ~2-4% over the next FY21-23 on the back of: 1) Rising market penetration level in rural areas led by incremental growth of households and rise in income levels. 2) Affordability and cautionary safety preference led by ongoing Covid-19 pandemic. Moreover, Strong rural demand, growing population and rising disposable income to continue to fuel long-term growth of the industry. Secondly, replacement demand is set to take an upmove on the back of strong requirement for quality tyre for new purchase as well as used vehicle and conservative approach for spending on discretionary items. Going ahead, we believe tyre industry is expected to grow 13-15%, driven by strong replacement growth and OEM demand facilitated by M&HCVs, two wheelers and passenger vehicles are likely to support this growth. Company has an advantage as the major revenue mix is been inclined towards 2W and replacement segment.

Additional capacity to drive overall Volume Growth

Company has expanded its production capacity in key focus categories of Two-wheeler, Passenger Vehicle and Truck & Bus Radial (TBR). During FY20, production commenced at its greenfield capacity plant in Chennai for Passenger Vehicle tyres and has expanded 2W tyre and TBR facilities in Nagpur and Halol, respectively. On consol basis, INR ~40 bn has been earmarked for capacity expansion projects including investments made in Halol, Nagpur and Chennai capacity expansion, out of which INR 22 bn has already been spent. The remaining investments will be made in a staggered manner. These projects are being funded through internal accruals and external borrowings. The new truck bus radial tire plant was commissioned on Jan' 19 – commercial production has commenced. Capacity of this brownfield Halol plant is 80,000 tires per month (180 tons per day). Post complete expansion the TBR capacity at Halol facility will be 1,20,000 tyres per month (270 tons per day) company is currently manufacturing 60,000-70,000 tires per month, which will be ramping up over the next few months. Two-wheeler tires capacity (Phase II) has commissioned in August 2020, which will also be ramping up over the period. Therefore, these additional capacity enhancement projects with ram-up of new plants coming on stream will uplift the total volumes on an overall basis. We expect volumes to grow by 4% to 6% for FY22E and FY23E respectively.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	900
Target Price (INR)	1,140
BSE code	500878
NSE Symbol	CEATLTD
Bloomberg	CEAT IN
Reuters	CEAT.BO

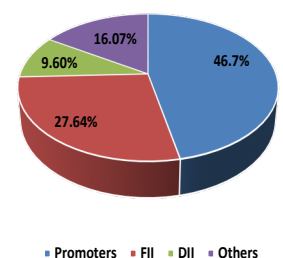
Key Data

Nifty	11,205
52 Week H/L (INR)	1101/601
O/s Shares (Mn)	40.5
Market Cap (Bn)	36
Face Value (INR)	10

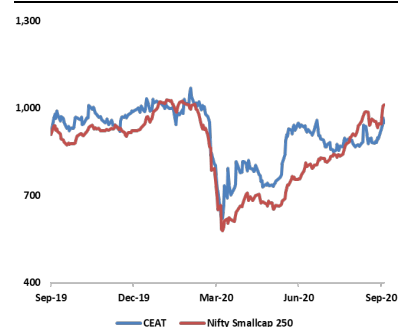
Average volume

3 months	259,960
6 months	211,408
1 year	181,592

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

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Strengthening its presence across overseas

CEAT is one of the major exporters among India's tyre manufacturers with sales to 100+ countries worldwide. Company has a stratified export market divided in seven clusters. It continues to focus on European markets to expand its footprint. In addition to enabling deeper penetration in the Replacement Business existing markets in FY 20, company has entered the markets of Australia, UK, Belgium, Brazil, Chile and Nicaragua with its passenger car products. It has also entered the US market with the products in Truck Radial segment. It has launched its 2-Wheeler products in Nigeria which is the world's largest consumption market for 2-Wheeler. CEAT's product series in the Passenger Car, Winter, Summer, All-Season, Ultra High Performance (UHP) and Van categories launched in Europe have met the stringent performance requirements of European markets. Company is well-placed to maximise available opportunities to become one of the leading players in the global market with its high range of premium products.

Benign raw material cost to aid gross margins

Rubber constitutes ~70% of the raw-material costs of a typical tyre company. Recently key RM cost had come down due to following factors. Excess production of natural rubber (NR) internationally along with slowdown in global auto industry has led to lower prices of NR. (From Rs 144/kg to Rs 98/kg down almost 46% in last four years) With global demand staying weak led by Pandemic crises, the NR prices are expected to remain suppressed over medium to long term. We believe there could be low off-take by Chinese manufactures as well as the global demand could remain weak. Therefore, we expect low rubber prices will decline the overall all raw material cost, providing a support to its gross margins.

why we like this stock & valuation methodology

CEAT being one of the largest players is well placed to benefit from the volume growth driven by reasonable demand coming from the OEM as well as replacement segment. Its focus on two/three wheelers and Passenger Vehicle (PV) segments places an edge over its peers which are currently focusing more towards Commercial Vehicle (CV) radialization growth. Moreover, the current move to put import of tyres in the restricted list by DGFT will benefit a slew of manufacturing industries starting from tyre manufacturers to producers of raw materials which is likely to remain stable over the medium term with an improvement in demand. The ongoing COVID-19 pandemic has dampened the auto industry significantly affecting the key areas from production to end consumer. However, with gradual recovery CEAT is well poised to grow on account of robust replacement demand and OEM's (majorly catering to 2W/3W & trucks and buses). On valuation front, At CMP of INR 900, CEAT is quoting at a P/E of 11.8x FY23e consolidated EPS. However, the ongoing capex has weighed on the financials and return ratios, we believe, CEAT's thrust on improving the brand visibility and strengthening presence across the globe would lead to healthy market share gains in long term. We have valued the company on P/E basis and assigned a target multiple of 15x on FY23e consolidated EPS. We initiate coverage on the stock & recommend '**BUY**' rating with a target price of INR 1,140 per share.

CEAT

Initiating Coverage

Key Financials

YE March (Rs. mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	57,665	62,834	69,845	67,788	59,972	68,740	81,839
<i>Revenue Growth (Y-o-Y)</i>	5.2%	9.0%	11.2%	(2.9%)	(11.5%)	14.6%	19.1%
EBITDA	6,643	6,061	6,461	7,239	6,789	8,056	9,264
<i>EBITDA Growth (Y-o-Y)</i>	(14.8%)	(8.8%)	6.6%	12.0%	(6.2%)	18.7%	15.0%
Net Profit	3,612	2,380	2,522	2,313	1,791	2,398	3,073
<i>Net Profit Growth (Y-o-Y)</i>	(17.5%)	(34.1%)	6.0%	(8.3%)	(22.6%)	33.9%	28.1%
Diluted EPS	91.6	64.9	73.4	64.6	44.3	59.3	76.0
<i>Diluted EPS Growth (Y-o-Y)</i>	-16.8%	-29.2%	13.1%	-12.1%	-31.4%	33.9%	28.1%
No of Diluted shares (mn)	40.5	40.5	40.5	40.5	40.5	40.5	40.5

Key Ratios

EBITDA (%)	11.5%	9.6%	9.3%	10.7%	11.3%	11.7%	11.3%
NPM (%)	6.3%	3.8%	3.6%	3.4%	3.0%	3.5%	3.8%
RoE (%)	16.6%	10.5%	11.1%	9.2%	6.0%	7.6%	9.1%
RoCE (%)	21.1%	15.0%	12.4%	10.8%	8.4%	7.8%	8.9%
Tax Rate %	24.3%	38.9%	35.1%	25.9%	25.0%	25.0%	25.0%
Book Value Per share (Rs.)	597.0	644.3	683.8	718.9	751.7	798.9	862.9

Valuation Ratios

P/E (x)	10.1x	15.3x	14.4x	15.7x	20.3x	15.2x	11.8x
EV/EBITDA	6.8x	6.9x	7.8x	7.7x	8.5x	7.4x	6.0x
P/BV (x)	1.5x	1.4x	1.3x	1.3x	1.2x	1.1x	1.0x
Market Cap. / Sales (x)	0.6x	0.6x	0.5x	0.5x	0.6x	0.5x	0.4x

Source: Company, BP Equities Research

Components of Tyres

Bead : The bead is a part that holds the tire to the rim of the wheel. Usually, made of copper, brass, bronze plated high tensile steel wires into a rubber band. They prevent the tire from sliding out of place when the wheel rolls.

Bead filler : Bead filler is a rubber compound inside the tire's beads. It provides stability to the lower sidewall and bead area. The density and stiffness of a tire's bead filler help to determine a tire's performance characteristics.

Radial Cord Body : The cord body gives the tire strength and transmits cornering forces from the tread to the wheel. Rubber coated fabric cord, called body plies, make up the cord body. Body plies can be made of polyester, rayon, or nylon. Polyester is most commonly used.

Inner Liner : The inner liner (in the center of the tire diagram) is a rubber compound bonded to the inside of the cord body that retains air under pressure. It has no cord reinforcement, and it functions as an inner tube.

Belt Plies: Belt plies are two or more strong layers of cord just under the tread area of the tire. The primary function of belt plies is to provide strength and stability to the tire tread. They play a role in improving tire mileage, impact resistance, and traction. Steel is the most common cord material used in belt plies.

Sidewall : The area of a tire from the bead to the tread—the side of the tire—is called the sidewall. It forms a protective covering for the cord body. Sidewall rubber compounds are designed to resist damage from ozone, cuts, and snags.

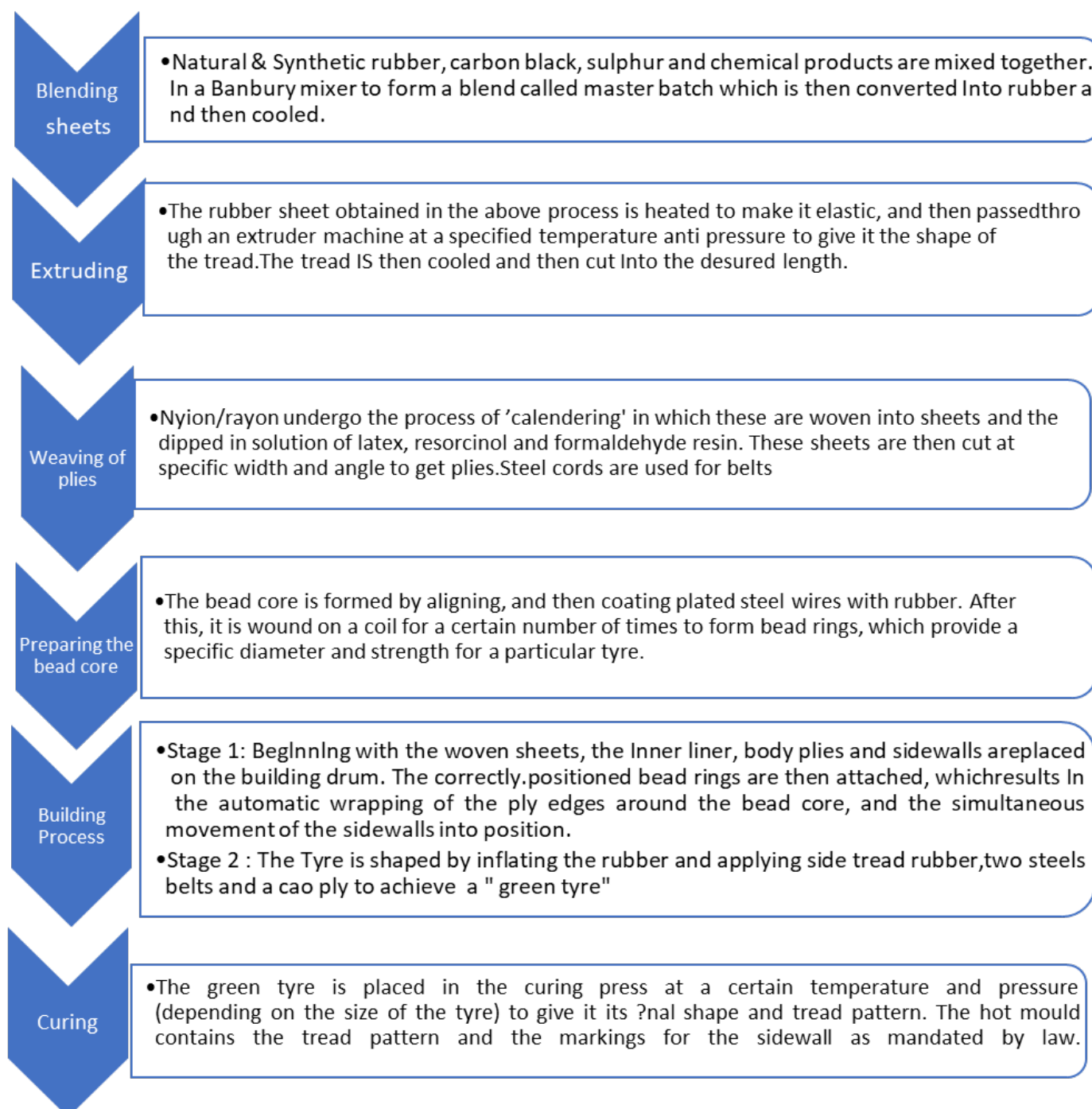
Tread : The tread is the portion of the tire that comes in contact with the road surface. The tread's compound and its design have to balance wear, traction, handling, fuel economy, resistance, and other characteristics of the tire.



Source: Industry Data, Company, BP Equities Research

Tyre manufacturing process

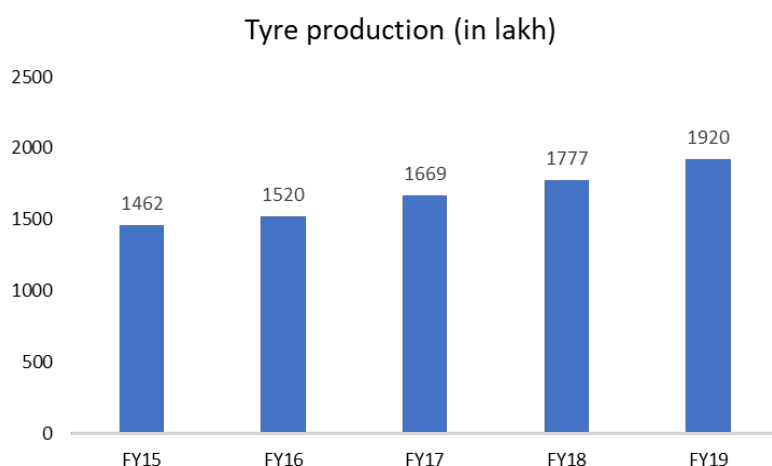
The tyre is an assembly of numerous components that are built up on a drum and then cured in a press under heat and pressure. Heat facilitates a polymerization reaction that crosslinks rubber monomers to create long elastic. Tyre plants are traditionally divided into five departments that perform special operations. These usually act as independent factories within a factory. Large tyre makers may set up independent factories on a single site, or cluster the factories locally across a region. Below are the process have been highlighted



Source: Industry Data, Company, BP Equities Research

Tyre production

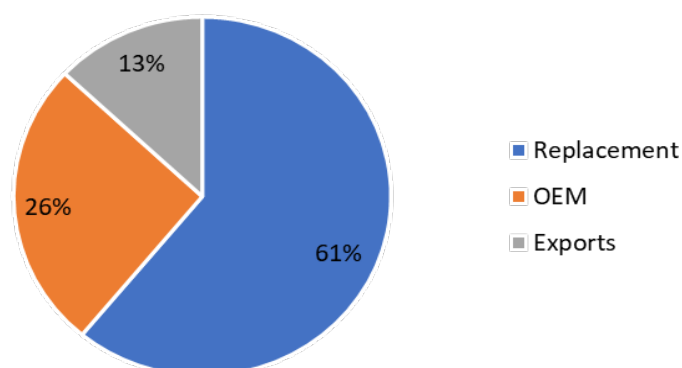
Indian tyre industry is highly competitive with the presence of a large number of global and Indian auto-companies. However, top 10 companies account for about 80-85% of the market share. Tyre demand is directly proportional to the automobiles demand. Therefore, demand swings in the automobiles have an impact on the demand for tyres. India's annual automobiles production registered a sluggish growth of 15% YoY in FY20. This led to decline in demand for tyres as well during the year. Tyres production (in volume terms) increased only marginally by about 8% in FY20 after increasing by about 6% in the preceding year.



Source: Industry data, Company, BP Equities Research

Tyre sales breakup (market wise)

Tyre demand originates from two end-user categories, i.e., OEMs and the replacement segment. Consumption by OEMs is dependent on new automobile sales trend while the replacement segment is linked to usage patterns and replacement cycles. Demand from the replacement segment dominates the Indian tyre market contributing about 61% of demand, in terms of units. The major reason for high replacement share is mainly due to the number of registered vehicles/annual sales remains at about 10x at close to 200 mn registered vehicles (industry estimates) visà-vis 20-25 mn annual vehicle sales. On the account of 11% CAGR in automobile production over last 15 years and the need for tyre replacement post average life of 3-4 years, we envisage the contribution of replacement demand to overall pie would increase further.

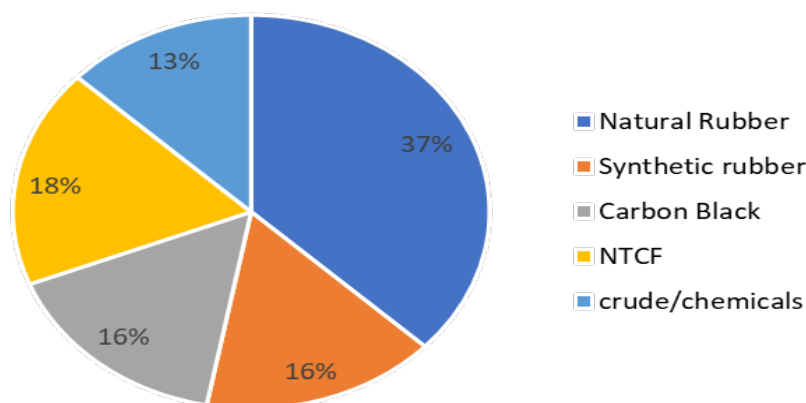


Source: Industry data, Company, BP Equities Research

Raw material consumption

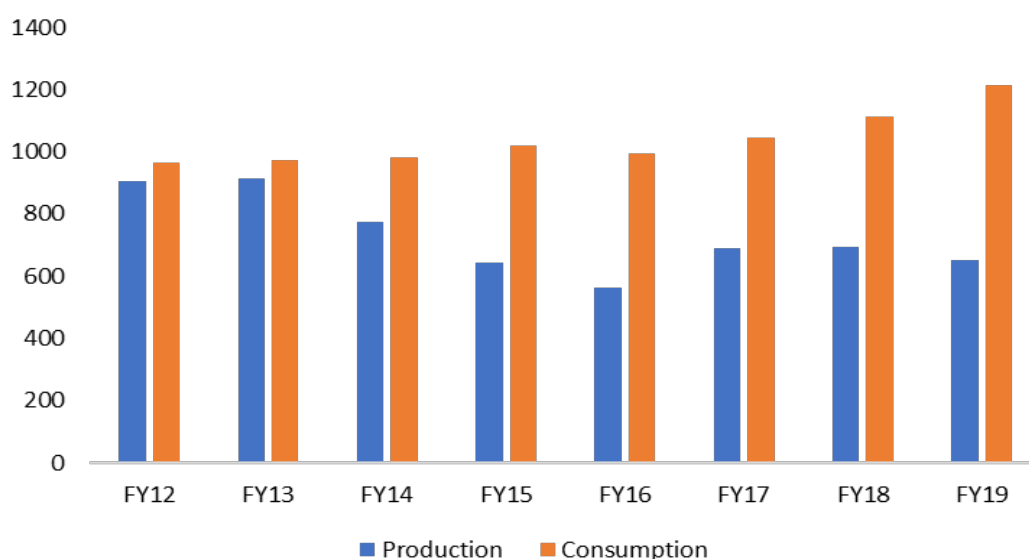
Raw material cost forms the largest cost head in the tyre industry accounting for about 65-70% of the total. The main raw materials used to manufacture tyres are natural rubber, poly butadiene rubber (PBR), styrene butadiene rubber (SBR) and nylon tyre cord fabric. All these raw materials impart different properties, which are combined to develop tyres with particular characteristics. Rubber including (natural and synthetic), nylon tyre cord fabric (NTC) and carbon black constitute a significant portion i.e. ~60-65% of the overall raw material cost of the industry. Natural rubber forms around 70% of the total rubber content, which is a sharp contrast of its usage in the developed markets like USA, Europe and Japan, where it is estimated to be around 35-40%. One of the primary reasons for more usage of natural rubber in India is its local availability with India being one of the largest producers in the world. In addition to this, natural rubber absorbs greater amount of heat and is more adaptable to poor road condition and overloading compared to synthetic rubber. Hence any change in the prices of these materials impact the overall industry's profitability.

Composition of Raw materials



Source: Company, BP Equities Research

Indian Natural Rubber Production and Consumption (in tonnes)



The Gap between demand and supply for Indian natural rubber to provide a significant headroom for more production.

Source: Rubber Board of India

Domestic Industry scenario

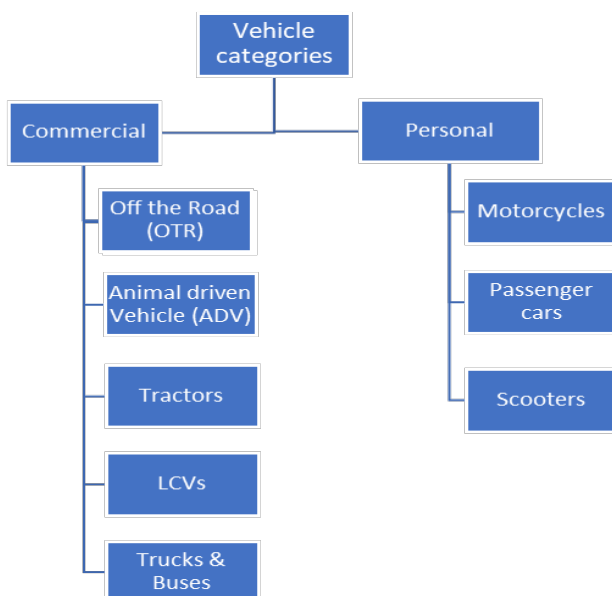
The size of the Indian tyre industry is estimated at ~ Rs 585bn (FY20) with exports contributing ~10-13% of the stated industry size. The Indian tyre industry grew at a 12% CAGR over FY08-FY18, but included some very high growth years over FY09-FY12, post which growth has been moderate. A reason for moderate growth over FY12-FY16 was a drop in RM prices, which led to price cuts by tyre makers as well. We believe sales growth will pick up over the next few years driven by volume as well as pricing growth. In FY20, overall demand from the replacement segment was largely flat while OEM demand growth stood modest 3%-4%. we expect domestic tyre demand to clock a 6% revenue CAGR through FY20-FY23 aided by steady replacement market growth, a rebound in OEM demand and continued lower imports of cheap Chinese truck & bus radials (TBR) due to recent duty imposition. Previously, the tyre industry has always been poised down by the pressure of increasing raw material prices and sluggish demand which would affect the margins consecutively. However in the last 12 months the key raw material prices for the industry have witnessed a correction. The raw material prices are likely to remain under check over medium term. According to ATMA, There were 41 companies (19-20) in the domestic tyre industry and the industry is valued at around INR 600 billion with the top 10 companies accounting for 85-90% of the market share. The export revenues stood at around INR 124 billion during the year .

No.of Companies	41
No.of Tyre Plants	62
Domestic (INR Cr) In FY20	47,160
Exports (INR Cr)	12,840

Source: ATMA, Company, BP Equities Research

Industry Segmentation

The domestic tyre industry can be classified in terms of types of vehicles in which it is used. The category comprises of tyres used in T&B, LCVs, tractors, OTR and ADVs. Since these tyres are used for commercial usages they are sturdier, bigger and heavier than personal tyre category.



Source: Industry data, Company, BP Equities Research

Key Drivers for Industry growth

A) Technological shift to enhance the quality

The Indian tyre industry has been going through technological changes and shifting to radial tyres. With the increasingly strong presence of global players, domestic tyre manufacturers have had to reinvent themselves in order to retain / gain market share. Customers' preference towards performance, longevity and lower cost of ownership has translated into increased spending on technology. It has been noticed that the annual expenditure on R&D (Research & Development) by the Indian tyre manufacturers has witnessed a sharp jump with average spend for big Indian tyre companies has increased significantly between FY14-FY19, thereby narrowing the gap with the global players. The R&D spends are more inclined towards the development of radial technology. Compared to bias tyres, radial tyres are better suited for highway use and long trips, effective prevention of heat build-up, towing at high speed, smoother ride and longer life. The difference between bias and radial tyres lies in the construction of the tyre with body cords running across the tire radially directly from bead to bead. Bias tyre life is around 60,000-70,000 kms, vs. over 1,00,000 kms for radial tyres. Also, while bias tyres are generally retreaded once, radial tyres can be retreaded 2-3x, thereby reducing lifecycle cost of radial tyres vs bias tyres.

B) Increase in vehicle penetration/population to drive replacement demand

The replacement market offers higher realization of 15-20% vs those sold to OEM, improving the overall profitability of this channel by high single to low double digits percentage points even after adjusting various distributions and marketing cost related to the former. Although the current volume share of replacement market sales is ~58% across industry, it differs significantly across segments, largely on account of difference in replacement cycles and existing vehicle population. The share of replacement market in India is at 58% as compared to 65%+ in developed countries, thus there is still immense potential for replacement market to grow. The mix in change towards replacement could improve the realization and profitability for Indian tyre manufacturers, especially for passenger segments which account nearly 30% of industry revenue. Further, lower penetration of vehicles compared to developed market will also drive the growth of replacement market.

C) DGFT notification of moving tyre imports to restrict list to benefit domestic players

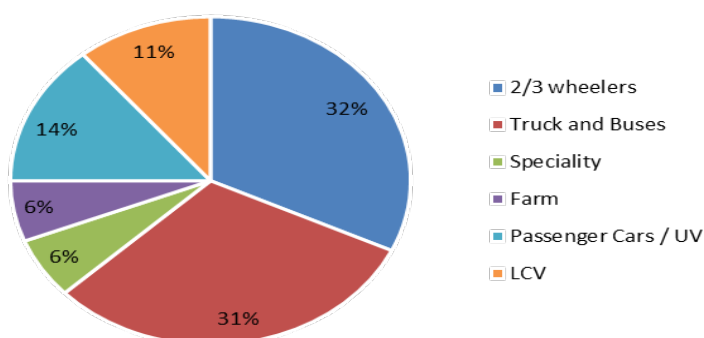
In FY19, Thailand contributed to over 60% of total TBR imports in India and its share is likely to remain high. Further on June 2020, the Directorate-General of Foreign Trade (DGFT) issued a notification putting imports of tyres for cars, trucks and heavy vehicles under the restricted list from the free list to curb their shipments into India. Placing tyre imports under restricted list means that importers will have to get each consignment of tyres cleared by the DGFT rather than importing them without any cap till now. Putting a commodity or an item in the restricted list would mean that the government has tightened their imports into the country. The move to put import of tyres in the restricted list will benefit a slew of manufacturing industries starting from tyre manufacturers to producers of raw materials such as carbon black, synthetic rubber, nylon cord, and steel cord makers. More importantly, curbing tyre imports will help rubber growers as each truck tyre, the backbone of the Indian tyre industry.

Investment Rationale

Robust demand from Two wheeler and Replacement segment to augur well

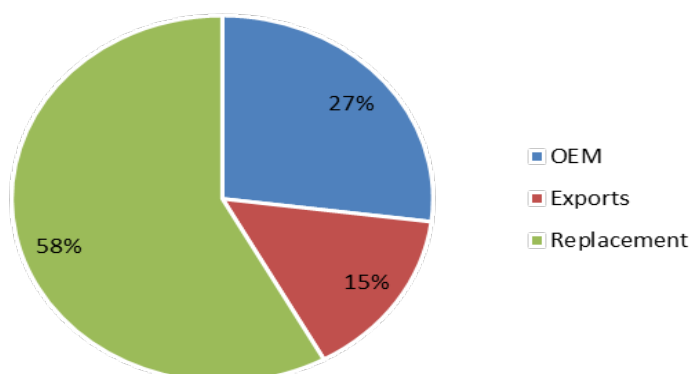
Over the years, company has built a strong product portfolio with its differentiated products catering the demand and a need for high quality tyre products. These factors altogether is strengthening its presence across various OEM. Furthermore, we believe two wheeler industry is expected to post a CAGR of ~3-4% over the next FY21-23E on the back of: 1) Rising market penetration level in rural areas led by incremental growth of households and rise in income levels. 2) Affordability and cautionary safety preference led by ongoing Covid-19 pandemic. Moreover, Strong rural demand, growing population and rising disposable income to continue to fuel long-term growth of the industry. Secondly, replacement demand is set to take an upmove on the back of strong requirement for quality tyre for new purchase as well as used vehicle and conservative approach for spending on discretionary items. Going ahead, we believe tyre industry is expected to grow 13-15%, driven by strong replacement growth and OEM demand facilitated by M&H CVs, two wheelers and passenger vehicles are likely to support this growth. CEAT has an advantage as the major revenue mix is been inclined towards 2W and replacement segment.

Segment contribution (FY20) (%)



Source: Company, BP Equities Research

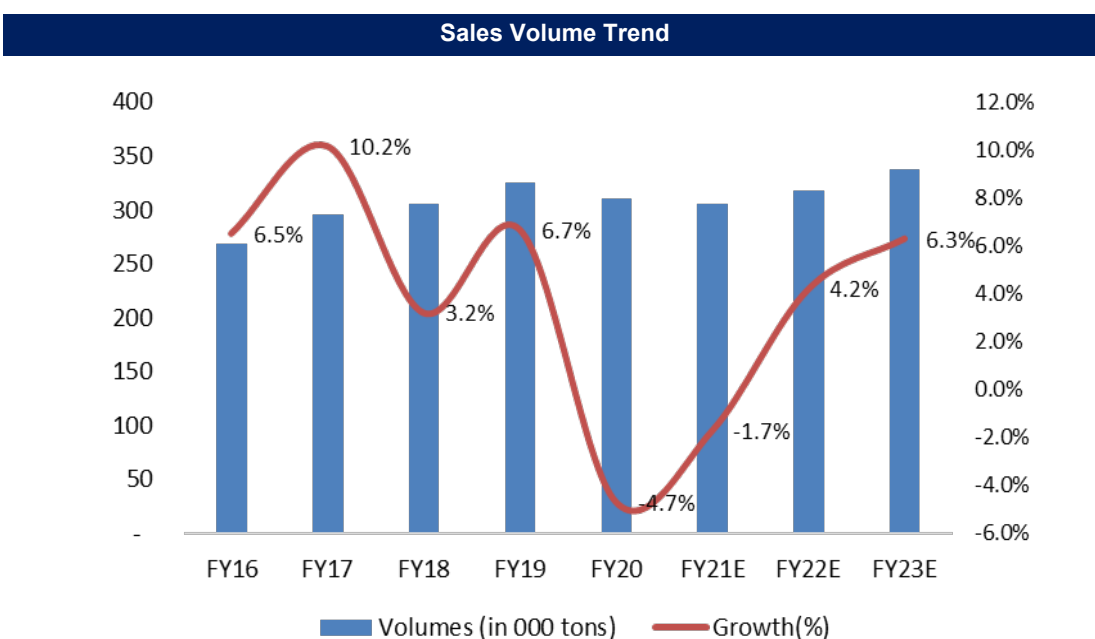
Chanel wise Revenue Mix (FY20) (%)



Source: Company, BP Equities Research

Additional capacity to drive overall Volume Growth

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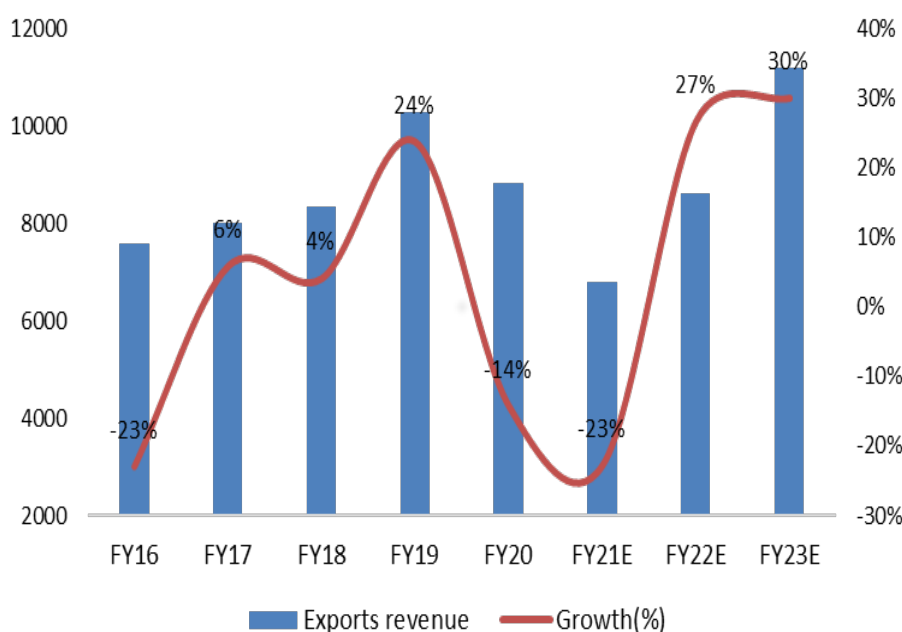


Source: Company, BP Equities Research

Strengthening its presence across overseas

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Export to grow at a healthy space



Source: Company, BP Equities Research

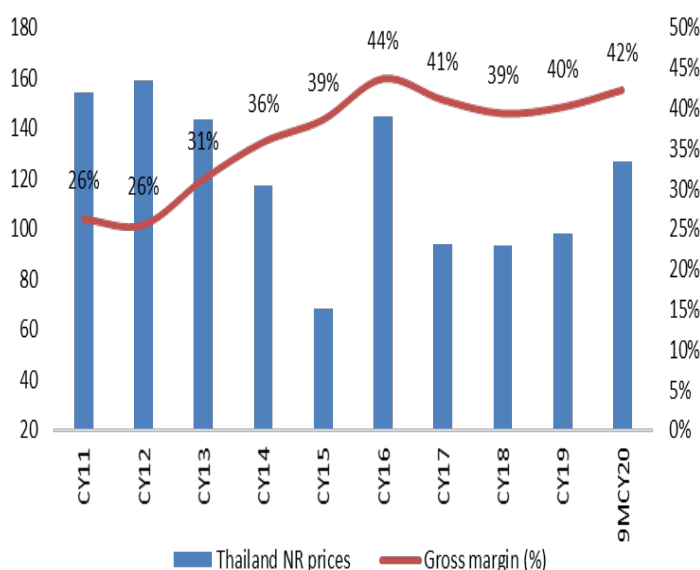
Benign raw material cost to aid gross margins

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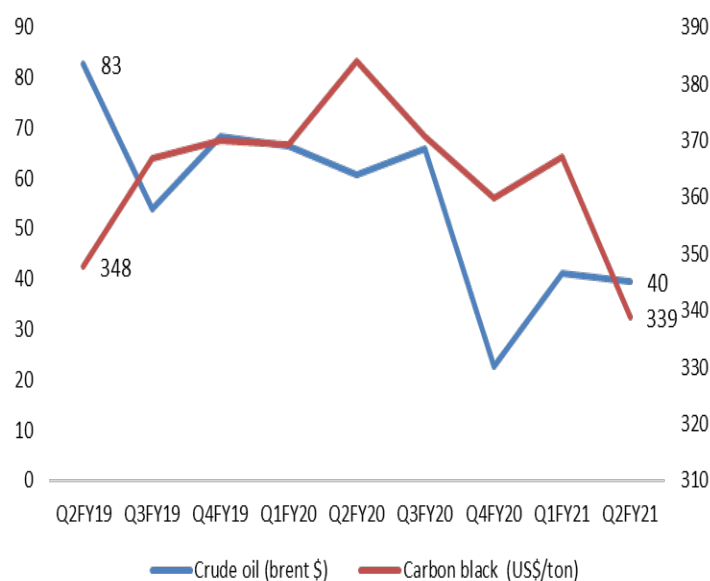
Falling Prices of crude based derivatives to act as a tailwind

Crude oil prices have come off from \$ 61\$/barrel to \$ 40/barrel (LME) in last five quarters due to coronavirus outbreak. Moreover, prices of crude derivatives such as Synthetic rubber (SR), Carbon Black (CB) have been falling on decline in crude prices. Crude derivatives constitute nearly 30 percent of sales for domestic tyre companies, and therefore a sharp decline in crude prices would push their margins well. Going ahead, we expect crude prices to stabilize at current levels tyre manufactures could continue to enjoy the benefits of cheaper crude derivatives. With NR rubber prices likely to fall further with excess capacity globally and along with crude levels hovering below 40\$ a barrel, we could see softness in RM to continue. Additionally, with company focusing on higher margin products we could see an uptick in margins to continue.

Uptick in Gross margin led by fall in rubber prices



Downtrading Black carbon and crude oil prices



Source: Company, BP Equities Research

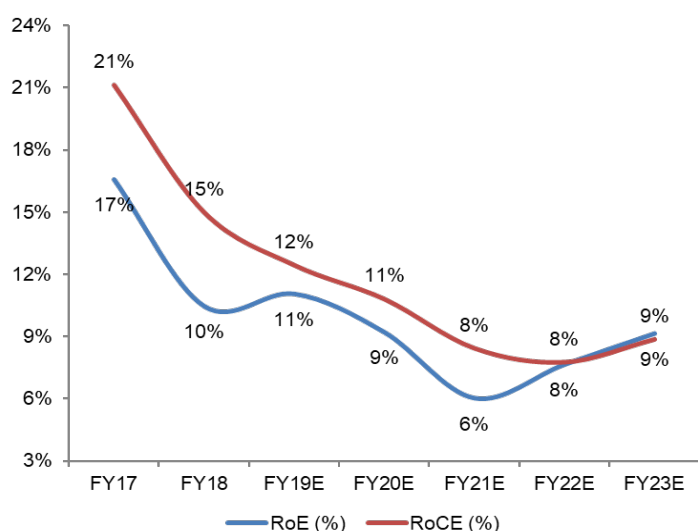
CEAT

Initiating Coverage

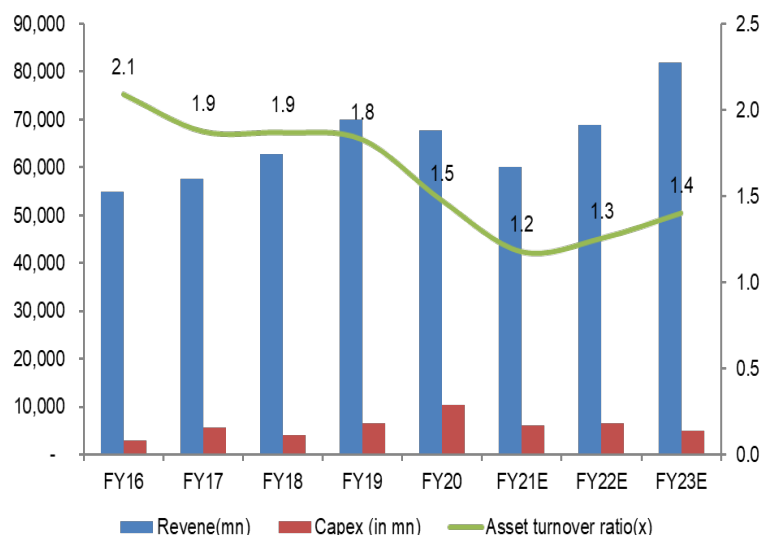
Financial Performance to improve further

On a consolidated basis, CEAT has registered a revenue growth of 4.8% CAGR over FY12-20. Going through the industry cycle, the performance of the auto industry was robust during first half of FY19 and thereafter it started deteriorating on account of a confluence of factors like revised axle load norms, liquidity issues and general economic slowdown. These factors continued to impact the demand for automobiles especially Commercial vehicle segment in H1FY20 as well. However, CEAT reported marginal increase in top-line in H1FY20 on the back of stable performance in the replacement market and increase in export sales. Despite the global pandemic crises, we expect company to clock Revenue/EBITDA/PAT to grow at a 6.5%/8.6%/9.9% CAGR over FY20-23E on account of surplus volume growth, lower raw material cost and lower tax rate. However, debt coverage would still remain adequate as the expanded capacities and improved product mix which would translate into expansion in its operating profit margins going forward. Moreover, the ability of the company to complete the ongoing projects in a timely manner and stabilization of the ongoing projects would be a key aspect to monitor.

Return ratios to remain healthy

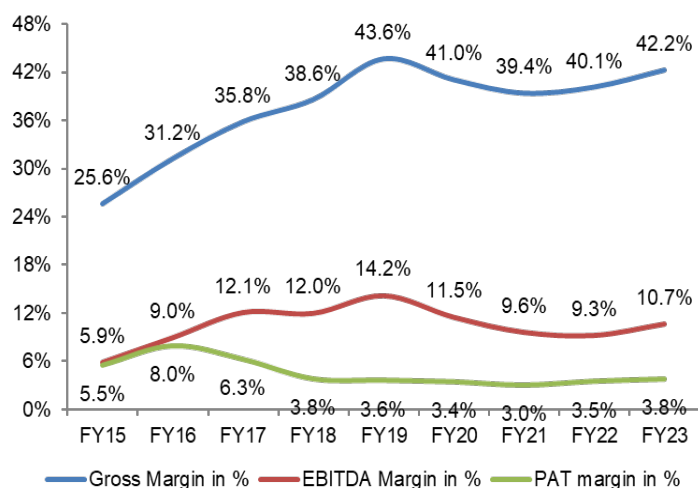


Ongoing capex to support asset turnover ratio

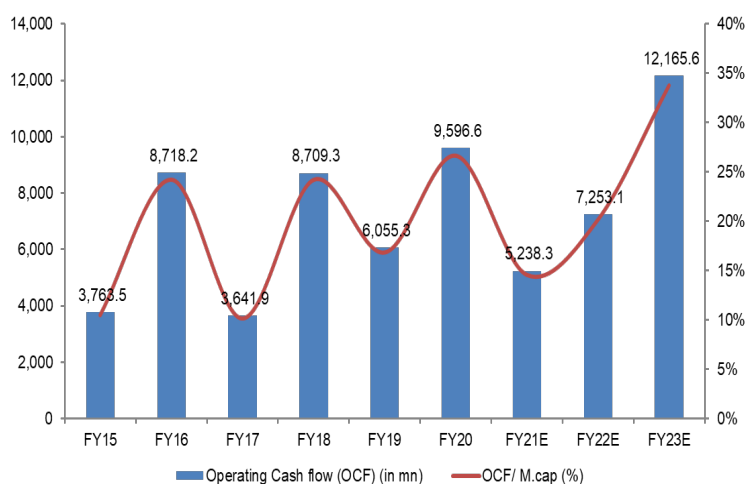


Source: Company, BP Equities Research

Improving Gross, EBITDA and PAT margins (%)



Healthy Operating cashflow going forward



Source: Company, BP Equities Research

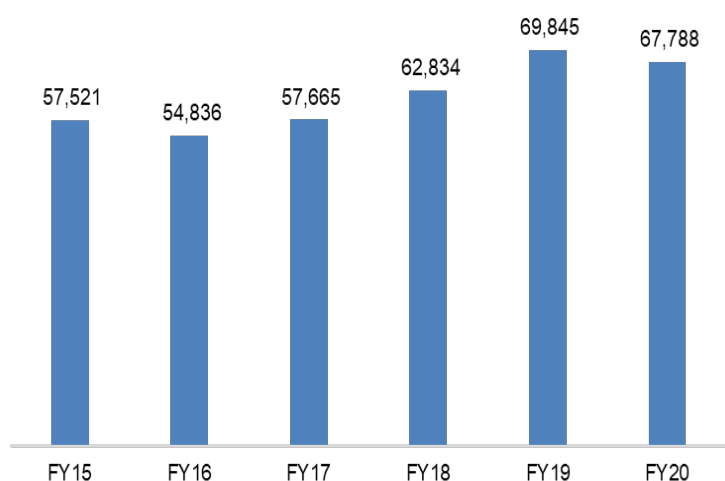
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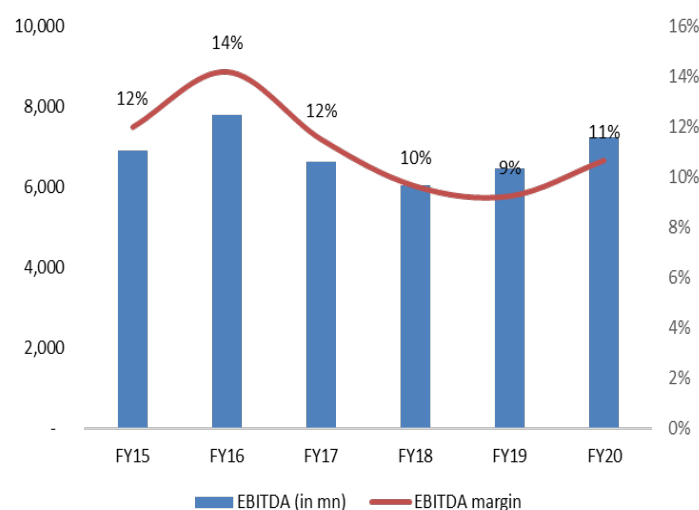
Company Background

Established in 1958, CEAT Limited (CEAT) is flagship entity under RPG Group (Rama Prasad Goenka Group). RPG group is a conglomerate having more than 15 companies catering to diverse businesses spanning across automotive tyres, infrastructure, information & technology, pharmaceuticals, plantations and power ancillaries. RPG group acquired the company in 1982. Company is engaged in the manufacturing of tyres, tubes and flaps and it is one of the leading tyre manufacturer in domestic market. Products manufactured find application in heavy-duty trucks and buses, light commercial vehicles, earthmovers, forklifts, tractors, trailers, cars, motorcycles and scooters as well as auto-rickshaws. It caters to demand from both OEM (Original Equipment Manufacturer) and replacement market. Large part of its income is contributed from replacement market. In India, CEAT operates with six manufacturing units located at Mumbai, Nagpur, Nasik, Ambarnath, Chennai (Maharashtra; operationalized in FY18), Halol (Gujarat). Furthermore, CEAT has outsourced the production facilities of tyres to several third party conversion agencies located at Maharashtra, Hyderabad (Telangana) and Calicut (Kerala).

Steady Revenue Growth (in mn)

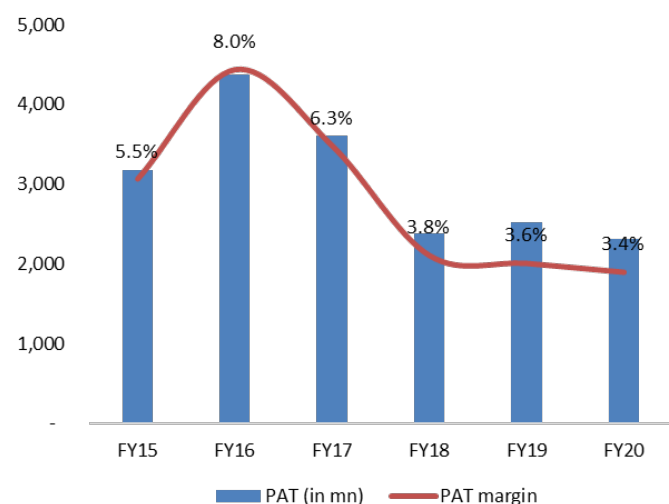


EBITDA and EBITDA Margin %

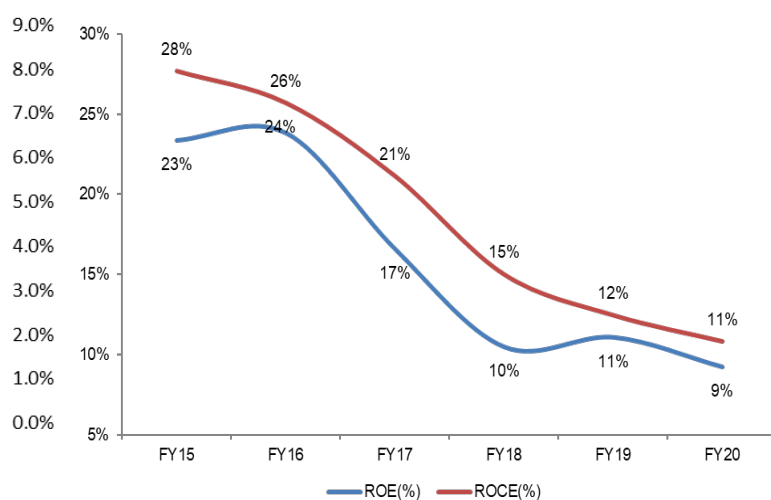


Source: Company, BP Equities Research

PAT and PAT Margin %



ROE and ROCE trend



Source: Company, BP Equities Research

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Key Risks and Concern

⇒ Huge capex plan can affect return ratios

Major tyre companies have announced large capacity expansion plans, especially in TBR segment as the truck market is shifting towards radial. However if demand doesn't improve in line, competitive intensity can increase further leading to pricing pressure.

⇒ Sharp increase in RM prices

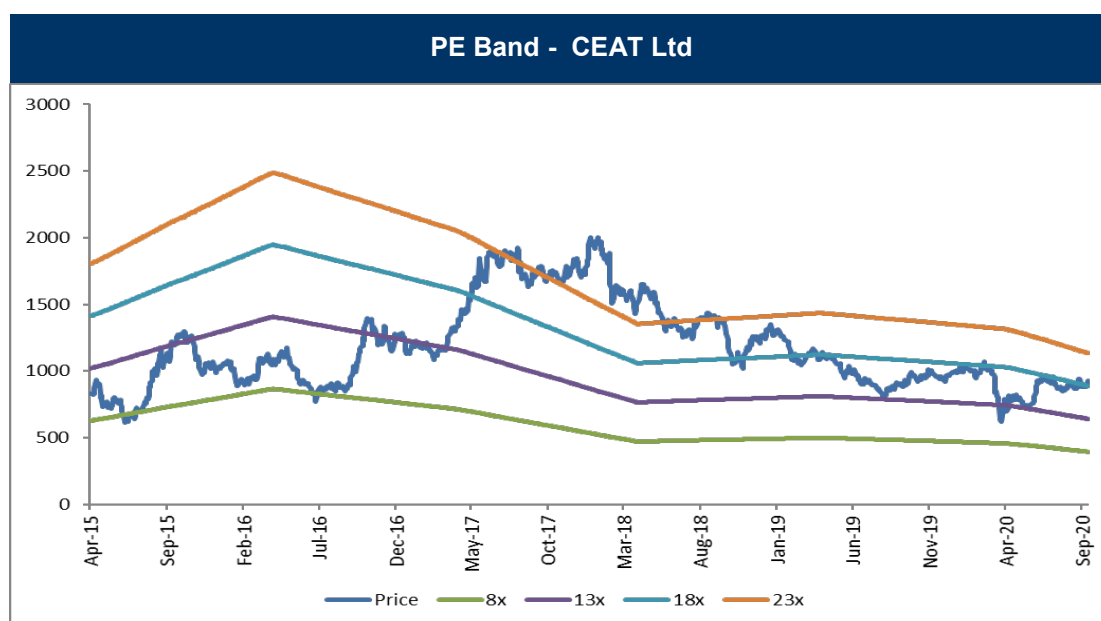
One of the biggest risk to tyre company margins as they have seen limited ability to pass on the impact to customers over the cycle.

⇒ Fast shift from bias to radial

Large bias capacity might be unused as we see sharp shift towards Trucks Busses Radial segment which could impact significantly.

Company	CMP	M Cap (In Bn)	P/E		EPS		EV/EBITDA		RoE (%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
MRF	58,950	250.2	19.2	17.1	3088	3461	8.5	7.9	9.5	9.7
Apollo Tyres	130.7	74.7	14.5	10.5	8.7	12.16	6.2	5.5	4.8	6.5
J.K Tyres	61.5	15.1	8.0	4.8	7.5	12.2	6.1	5.1	7.7	11.2
CEAT	959.4	38.8	16.2	12.6	59.3	76.0	7.3	5.9	7.6	9.2

Source: BP Equities Research, * Bloomberg estimate (except CEAT), ^ FY21-22 EPS and EV/EBITDA considered



Source: BP Equities Research, Ace Equity

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Key Milestones

1981	RPG acquires CEAT Tyres of India.
1993	CEAT Kelani, a subsidiary of CEAT Ltd, commences operations.
2006	CEAT radial plant project for car radials and radial tyre factory in Sri Lanka
2000	Radial plant at Halol, Gujarat commences production, rolls out first tyre. Capacity at Nashik plant expanded to 1000 tonnes.
2012	CEAT exports cross Rs 1000 cr benchmark
2013	Establishes JV with Bangladesh's AK Khan and Co. in Jan 2013
2014	CEAT Sri Lanka announces a new radial plant for passenger car tyres for USD 4.6 Mn
2017	CEAT Speciality Tyres Ltd establishes first US & European Subsidiary companies.
2019	Strengthens its Association with Hyundai with the Launch of new CSUV 'Venue'

Source: Company, BP Equities Research

CEAT Ltd - Management Committee Details

Name	Designation	Details
Mr. Anant Goenka	Managing Director	He is an M.B.A from the Kellogg School of Management and a B.SC in Economics from the Wharton School. He joined KEC International Limited (KEC) as Vice President (Corporate) and was in charge of the telecom business, business development in North America and Integrated planning and monitoring of Transmission and Distribution Business.
Mr. Kumar Subbiah	Chief Financial Officer	He joined CEAT in Feb 2015 after spending little over 20 years with Unilever & Hindustan Unilever where he handled various Finance & Commercial roles in India and outside India. Kumar is a B.Com Graduate from Loyola College, Chennai. He is also a Chartered Accountant and a Cost Accountant with professional interests both in Finance & Supply Chain.
Mr. Arnab Banerjee	Chief Operating Officer	He is the Chief Operating Officer for CEAT Limited. He joined CEAT in the year 2005 as Vice President, Sales and Marketing. Under his leadership, CEAT has seen innovations in the Marketing initiatives, Sales and Distribution strategy and seamless Supply Chain processes over the last 10 years. He also oversees all the manufacturing plants of CEAT.
Mr. Tom Thomas	Executive Director - Technology & Projects	He spent 17 years in Apollo tyres, was the leading member of the team who set up Apollo's Baroda plant and was heading their r&d / technology dept. Under his leadership ceat has established world class radial tyre manufacturing facility and a state of the art research and development center at Halol, Baroda .

Source: Company, BP Equities Research

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Valuation & Outlook

Valuation	Basis	FY21	FY22	FY23
EPS		44	59	76
Growth in EPS (YoY%)		-23%	34%	28%
Implied PE		20.3	15.2	11.8
Assigned PE	(15x PE)	15	15	15
Target Price		664	889	1,140
CMP		900	900	900
Upside Potential (%)				27%

Source: Company, BP Equities Research

We initiate coverage on the stock & recommend 'BUY' rating with a target price of INR 1,140 per share. (potential upside of 27% from CMP) for an investment horizon of 12-15 months.

CEAT being one of the largest players is well placed to benefit from the volume growth driven by reasonable demand coming from the OEM as well as replacement segment. Its focus on two/three wheelers and Passenger Vehicle (PV) segments places an edge over its peers which are currently focusing more towards Commercial Vehicle (CV) radialization growth. Moreover, the current move to put import of tyres in the restricted list by DGFT will benefit a slew of manufacturing industries starting from tyre manufacturers to producers of raw materials which is likely to remain stable over the medium term with an improvement in demand. The ongoing COVID-19 pandemic has dampened the auto industry significantly affecting the key areas from production to end consumer. However, with gradual recovery CEAT is well poised to grow on account of robust replacement demand and OEM's (majorly catering to 2W/3W & trucks and buses). On valuation front, At CMP of INR 900, CEAT is quoting at a P/E of 11.8x FY23e consolidated EPS. However, the ongoing capex has weighed on the financials and return ratios, we believe, CEAT's thrust on improving the brand visibility and strengthening presence across the globe would lead to healthy market share gains in long term. We have valued the company on P/E basis and assigned a target multiple of 15x on FY23e consolidated EPS. We initiate coverage on the stock & recommend 'BUY' rating with a target price of INR 1,140 per share.

Profit & Loss A/c (Consolidated)							
YE March (INR. Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	57,665	62,834	69,845	67,788	59,972	68,740	81,839
Growth %	5.2%	9.0%	11.2%	-2.9%	-11.5%	14.6%	19.1%
Total Revenue	57,665	62,834	69,845	67,788	59,972	68,740	81,839
Less:							
Raw Material Consumed	33,998	38,100	41,818	39,151	34,904	39,319	47,139
Employee Cost	4,063	4,383	5,301	5,418	4,498	5,499	6,547
Other Expenses	12,962	14,291	16,266	15,981	13,782	15,865	18,889
Total Operating Expenditure	51,023	56,773	63,384	60,550	53,184	60,684	72,575
EBITDA	6,643	6,061	6,461	7,239	6,789	8,056	9,264
Growth %	-14.8%	-8.8%	6.6%	12.0%	-6.2%	18.7%	15.0%
Less: Depreciation	1,431	1,686	1,927	2,765	3,110	3,484	3,772
EBIT	5,212	4,375	4,534	4,474	3,679	4,572	5,492
Growth %	-22.4%	-16.1%	3.6%	-1.3%	-17.8%	24.3%	20.1%
Interest Paid	896	1,036	929	1,509	1,709	1,793	1,814
Non-operating Income	190	444	403	205	205	205	205
Extraordinary Income	-133	-340	-448	-298	0	0	0
Profit Before tax	4,373	3,443	3,560	2,871	2,175	2,984	3,884
Tax	1,064	1,340	1,251	742	544	746	971
Net Profit	3,573	2,286	2,522	2,313	1,791	2,398	3,073
Adjusted Profit	3,706	2,626	2,970	2,611	1,791	2,398	3,073
Reported Diluted EPS Rs	89.3	58.8	62.4	57.2	44.3	59.3	76.0
Growth %	-17.5%	-34.1%	6.0%	-8.3%	-22.6%	33.9%	28.1%
Adjusted Diluted EPS Rs	91.6	64.9	73.4	64.6	44.3	59.3	76.0
Growth %	-16.8%	-29.2%	13.1%	-12.1%	-31.4%	33.9%	28.1%

Source: Company, BP Equities Research

Common Sized Profit & Loss Account							
YE March (INR. Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Less:							
Raw Material Consumed	59.0%	60.6%	59.9%	57.8%	58.2%	57.2%	56.5%
Employee Cost	7.0%	7.0%	7.6%	8.0%	7.5%	8.0%	8.0%
Other Expenses	22.5%	22.7%	23.3%	23.6%	23.0%	23.1%	23.1%
Total Operating Expenditure	88.5%	90.4%	90.7%	89.3%	88.7%	88.3%	87.6%
EBITDA	11.5%	9.6%	9.3%	10.7%	11.3%	11.7%	12.4%
Depreciation	2.5%	2.7%	2.8%	4.1%	5.5%	5.5%	5.1%
Interest Paid	1.6%	1.6%	1.3%	2.2%	3.0%	2.8%	2.4%
Non-operating Income	0.3%	0.7%	0.6%	0.3%	0.4%	0.3%	0.3%
Extraordinary Items	-0.2%	-0.5%	-0.6%	-0.4%	0.0%	0.0%	0.0%
Profit Before Tax	7.6%	5.5%	5.1%	4.2%	3.2%	3.8%	5.2%
Current tax	1.8%	2.1%	1.8%	1.1%	0.7%	0.9%	1.2%
Profit After Tax	6.3%	3.8%	3.6%	3.4%	2.7%	3.1%	4.2%
Adjusted Profit	6.4%	4.2%	4.3%	3.9%	2.7%	3.1%	4.2%

Source: Company, BP Equities Research

CEAT

Initiating Coverage

Balance Sheet (Consolidated)							
YE March (INR. mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Liabilities							
Equity Capital	405	405	405	405	405	405	405
Reserves & Surplus	23,745	25,656	27,257	28,675	30,000	31,912	34,500
Equity	24,150	26,061	27,661	29,079	30,405	32,317	34,904
Net Worth	24,150	26,061	27,661	29,079	30,405	32,317	34,904
Minority Interest	292	234	238	237	237	237	237
Net Deferred tax liability/(Asset)	1,979	2,269	2,622	4,155	4,155	4,155	4,155
Total Loans	9,251	6,467	14,469	19,410	21,910	23,910	25,910
Capital Employed	35,671	35,031	44,990	52,881	56,706	60,618	65,205
Assets							
Gross Block	27,017	31,123	37,663	48,068	54,068	60,568	65,568
Less: Depreciation	2,492	4,030	5,868	7,489	10,599	14,083	17,855
Net Block	24,525	27,092	31,795	40,579	43,469	46,485	47,713
Capital WIP	3,263	3,100	8,329	10,685	10,685	10,685	10,685
Investments	1,252	1,371	2,078	102	90	104	123
Others - A	1,673	1,735	1,814	2,009	1,777	2,037	2,425
Current Assets							
Inventories	9,435	7,846	10,056	9,257	7,846	10,056	9,257
Sundry Debtors	6,138	7,472	7,064	6,744	7,472	7,064	6,744
Cash and Bank Balance	359	863	735	342	540	701	6,998
Current Investments	643	401	0	0	0	0	0
Loans and Advances	1,827	1,496	1,571	57	50	58	69
Other Current Assets	18	69	581	1,893	1,675	1,920	2,286
Total Current Assets	18,420	18,146	20,007	18,293	17,584	19,798	25,353
Less: Current Liabilities & Provisions							
Sundry Creditors	7,582	8,705	10,529	11,948	10,570	12,116	14,424
Provisions	764	814	1,479	1,232	1,090	1,249	1,487
Other Current Liabilities	5,152	6,915	7,046	7,469	6,915	7,046	7,469
Total Current Liabilities & Provisions	13,499	16,434	19,054	20,649	18,575	20,411	23,381
Capital Applied	35,671	35,031	44,990	52,881	56,706	60,618	65,205

Source: Company, BP Equities Research

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Initiating Coverage

Cash Flows (Consolidated)							
YE March (INR. mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PAT	3,611.5	2,379.8	2,522.2	2,312.9	1,544.6	2,007.1	3,145.7
(Less)/Add: Extraordinary Income/Expense	133.3	339.6	447.9	298.4	0.0	0.0	0.0
Less: Non Operating Income	(190.0)	(444.3)	(402.9)	(205.1)	(205.1)	(205.1)	(205.1)
Add: Depreciation	1,430.8	1,686.1	1,927.1	2,765.1	3,110.2	3,484.2	3,771.8
Add: Interest Paid	895.6	1,036.3	928.7	1,509.3	1,709.0	1,793.2	1,813.7
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	5,881.2	4,997.5	5,423.0	6,680.6	6,158.7	7,079.4	8,526.1
(Inc)/Dec in Current Assets	(721.1)	(811.8)	222.2	521.6	(408.1)	204.2	9.8
Inc/(Dec) in Current Liabilities	1,519.5	2,934.9	2,620.0	1,595.3	(2,721.7)	1,512.0	2,520.9
Changes in Inventory	(3,037.7)	1,588.7	(2,209.9)	799.1	1,410.8	(2,209.9)	799.1
Net Cash Generated From Operations	3,641.9	8,709.3	6,055.3	9,596.6	4,439.7	6,585.8	11,855.9
Cash Flow from Investing Activities							
(Inc)/Dec in Fixed Assets	(5,623.3)	(4,105.7)	(6,540.2)	(10,405.2)	(6,000.0)	(6,500.0)	(5,000.0)
(Inc)/Dec in Capital Work In Progress	(271.8)	163.0	(5,229.5)	(2,356.3)	0.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	24.8	(118.5)	(706.8)	1,975.5	16.8	(10.7)	(16.3)
(Inc)/Dec in Investment (Others)	(120.5)	(61.3)	(79.6)	(194.8)	330.4	(210.4)	(319.8)
Add: Non Operating Income	190.0	444.3	402.9	205.1	205.1	205.1	205.1
(Inc)/Dec in Intangible Assets	(30.2)	15.3	0.5	(1,840.3)	278.7	(198.3)	(301.4)
Net Cash Flow from/(used in) Investing Activities	(5,831.0)	(3,662.9)	(12,152.7)	(12,616.0)	(5,169.0)	(6,714.3)	(5,432.4)
Cash Flow from Financing Activities							
Inc/(Dec) in Total Loans	2,999.3	(2,493.5)	8,354.5	6,473.6	2,500.0	2,000.0	2,000.0
Inc/(Dec) in Reserves & Surplus	456.4	(2.7)	(436.0)	(408.8)	0.0	0.0	(0.0)
Inc/(Dec) in Equity	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(465.8)	(465.8)	(486.0)	(486.0)	(465.8)	(486.0)	(486.0)
Less: Interest Paid	(895.6)	(1,036.3)	(928.7)	(1,509.3)	(1,709.0)	(1,793.2)	(1,813.7)
Adjustments	(12.1)	(147.5)	(89.8)	(1,144.0)	(0.0)	(0.0)	(0.0)
Exceptional Item	(133.3)	(339.6)	(447.9)	(298.4)	0.0	0.0	0.0
Net Cash Flow from Financing Activities	1,917.9	(4,543.1)	5,970.3	2,626.1	325.3	(279.2)	(299.7)
Net Inc/Dec in cash equivalents	(271.1)	503.3	(127.1)	(393.3)	(403.9)	(407.8)	6,123.9
Opening Balance	630.3	359.2	862.5	735.4	342.1	(61.8)	(469.7)
Closing Balance Cash and Cash Equivalents	359.2	862.5	735.4	342.1	(61.8)	(469.7)	5,654.2

Source: Company, BP Equities Research



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