

# CEAT Ltd

## RM decline help healthy margin recovery

### Replacement and exports to remain the key growth drivers

**Healthy beat to our/street estimates, led by sharp gross margins** – Consol. revenues grew 14.2% YoY (+6.9% QoQ) at ~Rs37.7b (est Rs35.7b, cons Rs36.7b), led by ~11% volume growth and Camso consolidation from Sep'25. For the base business, co indicated healthy vol. growth YoY led by, OEM (mid-twenties), exports (high teens) and replacement (mid-single digit). Consol gross margins expanded ~350bp YoY (+400bp QoQ) at 40.9% (est 37.5%), led by steep RM decline of ~5% QoQ. This partially offset by higher-than-expected staff cost at Rs2.61b due to increments and other expenses at Rs7.8b (est ~Rs7b, +14% QoQ). EBITDA came in higher at ~Rs5.03b (est ~Rs4.1b, cons ~Rs4.3b, +39% YoY, +30% QoQ) with margins at 13.3% (est 11.4%, cons 11.7%, +240p YoY/ QoQ). Adj.PAT came in at ~Rs1.78b (est Rs1.3b, cons Rs1.4b). Consol debt increased to ~Rs29.4b in 2QFY26 (Vs ~Rs18.1b in 1QFY26, Rs19.3b in FY25 and Rs16.5b in 1QFY25), led by Camso payout. Capex spends for 2QFY26 at Rs4.2b (vs 1QFY26 at Rs2.3b), largely for capacity additions.

**Segmental growth** – Overall volume growth is ~11% in 2QFY26 with **double digit increase in OEM** (mid-twenties) due to new fitments for motorcycle segment. Within OEM, farm grew mid-teens. **Replacement** – Despite inventory destocking for initial 3 weeks in Sep'25 due to GST, replacement volume grew mid-single digit (with double digit in Jul-Aug'25 while declined in Sep'25). Within replacement 2W grew healthy, PCR grew mid-single. **Exports** grew high teens. Co have passed on entire GST benefit to customers which is effective 7-8% at customer level. The same for TBR at ~Rs1,500/unit which is significant

**US Tariff Impact partially passed on for TBR/PCR** – Volumes for the OHT segment (50% tariff) was close to nil while TBR/PCR (25% tariff) volumes continued to grow. Within PCR and TBR, CEAT have partially passed on incremental tariff while absorbing the balance. Management remained confident for complete passthrough over 3-4 quarters. **Sri Lanka** – Camso has 20% tariff on reciprocal basis. Michelin teams have partially passed on price due to incremental tariff (~50%).

**View and Valuation** – We expect confluence of healthy volumes and healthy margins expansion bode well for re-rating given recent underperformance led by uncertain demand conditions. Margins tailwinds to persists with benign NR and crude derivatives as reflected in 2QFY26 and likely to be carry forwarded in 2HFY26 as well. Strong emphasis on branding, new product launches (in premium segment) and ramp-up in strategic focus areas (2W, PCR, OTR, exports), should drive volumes. We will watch out for Camso's execution over 2-3 quarters. Valuations at 21.6x/16.1x/14.9x FY26E/27E/28E (vs 10yr LPA of ~19.6x) points at decent upside. Reiterate 'ADD' with revised TP at Rs4,284 (vs Rs4,199) with 5.5%/2% upgrade in FY26/27 consol EPS to reflect on sharp gross margins expansion.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	37,727	35,682	36,731	5.7	2.7	Healthy gross margins drive profitability.
EBITDA	5,034	4,074	4,284	23.5	17.5	
EBITDA margins %	13.3	11.4	11.7	190bp	170bp	
Adjusted PAT	1,855	1,317	1,409	40.8	31.6	

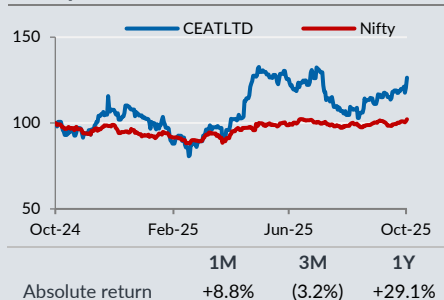
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 3,733
Target Price	: Rs 4,284
Potential Return	: +14.8%

### Stock data (as on Oct 17, 2025)

Nifty	25,710
52 Week h/l (Rs)	4.044 / 2,343
Market cap (Rs/USD mn)	149,625 / 1,699
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	622
Div yield (%):	0.9
Bloomberg code:	CEAT IN
NSE code:	CEATLTD

### Stock performance



### Shareholding pattern (As of Jun'25)

Promoter	47.2%
FII+DII	36.4%
Others	16.9%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	4,284	4,199

### Δ in earnings estimates

	FY26E	FY27E
EPS (New)	173.1	231.6
EPS (Old)	164.0	227.0
% change	+5.6%	+2.0%

### Financial Summary

Y/E MAR (Rs b)	FY26E	FY27E	FY28E
Sales	155.3	175.7	189.4
EBITDA	19.1	22.8	24.0
Adj. PAT	7.0	9.4	10.1
Adj. EPS (INR)	173.1	231.6	249.8
EPS Gr. (%)	39.4	33.8	7.9
BV/Sh. (INR)	1,220	1,412	1,616
RoE (%)	14.2	16.4	15.5
RoCE (%)	16.1	18.3	17.5
Payout (%)	23.2	19.9	20.7
P/E (x)	21.6	16.1	14.9
P/BV (x)	3.1	2.6	2.3
EV/EBITDA (x)	9.0	7.4	6.8
Div. Yield (%)	0.9	1.1	1.2

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MEGHNA GUNDU, Associate

## Exhibit 2: Quarterly snapshot

Y/E Mar (Rs mn)	Q2FY26	Q2FY25	YoY chg	Q1FY26	1HFY26	1HFY25	YoY chg
Net Revenues	37,727	33,045	14.2	35,294	73,021	64,974	12.4
Raw Materials	22,286	20,683	7.8	22,311	44,597	40,083	11.3
% of Net Sales	59.1%	62.6%		63.2%	61.1%	61.7%	
Personnel	2,617	2,190	19.5	2,268	4,886	4,146	17.8
% of Net Sales	6.9%	6.6%		6.4%	6.7%	6.4%	
Manufacturing & Other Exp	7,789	6,550	18.9	6,838	14,627	13,292	10.0
% of Net Sales	20.6%	19.8%		19.4%	20.0%	20.5%	
Total Expenditure	32,693	29,423	11.1	31,417	64,110	57,522	11.5
EBITDA	5,034	3,623	38.9	3,877	8,911	7,452	19.6
EBITDA Margin (%)	13.3%	11.0%		11.0%	12.2%	11.5%	
Depreciation	1,739	1,371	26.8	1,514	3,252	2,689	21.0
EBIT	3,295	2,252	46.3	2,364	5,659	4,763	18.8
Interest Expenses	870	665	30.9	821	1,690	1,283	31.7
Non-operating income	39	35	11.9	47	86	96	(10.5)
Extraordinary Expenses	0	0		33	33	(74)	
PBT	2,464	1,621.4	52.0	1,558	4,022	3,650	10.2
Tax-Total	680	463	46.7	419	1,099	1,003	9.6
Tax Rate (%) – Total	27.6%	28.6%	(3.5)	26.9%	27.3%	27.5%	(0.6)
Reported PAT	1,785	1,158	54.1	1,138	2,923	2,647	10.4
Minority Interest/Share of associates	70	52	34.7	(17)	53	105	(49.4)
PAT after MI	1,855	1,210	53.3	1,122	2,976	2,752	8.1
Adj. PAT	1,855	1,210	53.2	1,148	3,003	2,693	11.5

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Industry outlook** - Tyre industry have entered favorable phase led by recent GST cuts. Reduced rate should help better demand for low ticket vehicles and will lead to formalization of growth in smaller/rural markets. Expect single digit growth for the tyre industry in near future.
- **Segmental growth Outlook**
  - **Replacement** - MHCV expected to mirror GDP at 5-6%, 2W at 6-7%, PCR flat to low single digit.
  - **OEM** - MHCV to be flat to low single digit, PV at 6-8% (wait and watch), 2W strong growth.
- **Segmental growth commentary** - Overall volume growth is ~11% in 2QFY26
  - **Overall OEM demand grew by double digit** (mid-twenties) due to new fitments for motorcycles and replacement by mid-single digit. Within OEM, farm grew mid-teens.
  - Inventory destocking took place for initial 3 weeks of Sep post which market started to normalize. **Replacement growth could have been higher** as saw double digit growth in Jul-Aug'25 while declined in Sep'25 due to de-stocking. Within replacement 2W grew healthy, PCR grew mid-single growth.
  - **Exports grew high teens.**
- **GST** - have passed on entire GST benefit to customers which is effective 7-8% at customer level. The same for TBR at ~Rs1,500/unit which is significant.

- **Exports – Demand increase in agri radial and OTR across LATAM, EUR and Africa:**
  - **Segmental growth** – 2W and 3W segments grew healthy in Africa and LATAM, PCR in Europe, Farm in EUR, LATAM and rest of the world. Specialty segment grew mid-teens YoY in key geographies such as EUR, Africa and ME.
  - **Volumes in the US impacted due to tariff where CEAT share is low.**
  - EUR is fastest growing and most profitable led by PCR.
  - PCR and TBR contribute ~65% of exports volumes
- **US tariff** – Volumes of OHT (50% tariff) was close to nil while TBR/PCR (25% tariff) volumes continued to grow.
  - **PCR and TBR** – CEAT have partially passed on of incremental tariff while absorbing the balance. Management remained confident for complete pass on over 3-4 quarters.
  - **SL** – Camso is 20% tariff on reciprocal basis. Michelin teams have partially passed on price due to incremental tariff (~50%).
- **RM basket to remain soft even in 3QFY26 and at level of 2QFY26 - RM basket declined ~5% QoQ.**
  - Crude remained flat QoQ in 2QFY26 and have dropped to lower end of the range currently.
  - International NR prices too were flat at USD1700-1750. Had some issues on imports impacting local NR prices for initial 2 months which has now reversed to international level.
  - INR depreciated by 3% in 2QFY26 which shall impact 3Q.
  - Other RM have seen a decline such as SR (3-3.5%)/CB/Nylon (2-2.5%), Steel Cord by 3%.
- 2QFY26 gross margins expansion was led by ASP growth in domestic and exports, favorable mix and RM decline. RM basket expect to remain at current level in 3QFY26E.
- **Electric vehicle:**
  - Market share for EV PCR at 30%, EV 2W at 20%.
  - Focus on NPD for emerging vehicle sizes and new models launches.
- **Premiumization** – have launched couple of product concepts in PCR and TBR. Replacement market in the segment continues to grow.
- **Market share** – Able to gain incremental share in the replacement PCR, 2W while the same remained flat in TBR segment.
- **Camso** – Completed acquisition on 1st of Sep. In mid-term business is expected to be margin accretive. No surprise in operation since last one month of takeover. Procurement will buy semi finish goods from Micheline till 5-6 quarters.
  - Currently selling directly to Michelin. Financial parameters are in-line with envisaged across P&L line items. Current plant utilization at 50% and expect to be gradual for initial 2 quarters and improvement at later stage
- **Capex:** Co. incurred capex of Rs4.23b in 2QFY26 (vs Rs2.31b in 1QFY26), in line with annual guidance of ~Rs10b. The spend is largely for capacity additions and intangible for Camso at Rs2.3b. WC increased QoQ by Rs580m due to higher RM inventory which expect to normalize
  - Capex ex of Camso is Rs4.15b of which Rs1b is maintenance, TBR expansion Rs1.5b for 2k tyres/day, Ambarnath at Rs700m, Chennai Rs1.6b and debottlenecking Rs400m.

- Overall capacity utilization at 80-85%
- Increase in employee cost was led by increments, higher distribution, outsourcing and manpower requirements.
- Consol debt increased to ~Rs29.4b in 2QFY26 (Vs ~Rs18.1b in 1QFY26, Rs19.3b in FY25 and Rs16.5b in 1QFY25), led by payout for Camso acquisition and capex as guided earlier.
- Debt to EBITDA at 1.8x and D/E at 0.64x. Peak threshold is 3x debt to EBITDA and 1x D/E.

## ANALYST VIEW & INVESTMENT THESIS

**Growth outlook healthy as replacement demand on firm footing** - CEAT to continue deliver healthy volume growth in most of the segments led by; 1) TBR replacement, 2) healthy brand pull in PCR, 3) rural uptick to drive volumes for farm and 2W and 4) new launches to drive exports. Overall, we build in revenue/EBITDA/Adj.PAT CAGR of ~12.7%/17.6%/29.8% over FY25-28E.

**Domestic market share gains more pronounced in 2W/PCR, further expansion to be piecemeal**  
 - 1) 2W - Leadership in 2W replacement with MS at ~36% in FY25 (vs 33%/28%/26%/26%/8% in FY24/FY23/FY19/FY17/FY11), a gap of ~6% with second largest player MRF. CEAT/MRF/TVS together account for ~80% of 2W. 2) PCR - No 3 player in PC/UV with MS at ~16 in FY25 (vs ~16%/15%/11%/8%/3% in FY24/FY23/FY19/FY17/FY11). 3) TBR (no 4 player) with MS at ~10% (vs ~7%/6% in FY24/FY20). See scope for further MS gains with focus on mining, bus, tubeless, overload (new size) and OEM with select geographic expansion.

**Exports - Widening presence, new SKUs and OHT to drive overall growth** CEAT to continue focus on relatively profitable segments like 2W, PCR, and OHT while remain marginal player in the most competitive TBR. Revenue contribution from these focus areas has surged over the years (to 63% in FY25 from a mere 20% in FY10). For exports, PC/UV run rate increased to ~2.3m tyres/annum (vs ~2.2m in FY24, ~2m in FY23) led by SKU addition (4.3x vs FY19 and 2.5x vs FY19 indicated in FY24). OHT SKUs increased to 930+ in FY25 (vs 875+ in FY24, 750+ in FY23) leading to increase in agri segment coverage to ~88% in FY25 (vs ~84% in FY24, 80% in FY23).

**Reiterate ADD** - Tailwinds emerging with recent decline in international NR and crude derivatives reflected in 2QFY26 and likely to be maintained for 3QFY26 as well. Valuations at 21.6x/16.1x/14.9x FY26E/27E/28E (vs 10yr LPA of ~19.6x) points to decent upside for improved positioning. Reiterate 'ADD' with revised TP at Rs4,284 (vs Rs4,199). We have raised FY26/27 consol EPS by 5.5%/2% to reflect on sharp gross margins expansion.

### Exhibit 3: Key monitorable

What to Watch	Why it Matters	Timeline
Exports ramp-up	Margin accretive, volume addition	1.5-2 years
Pricing vs peers	Price discipline helps margin	Immediate
Natural Rubber prices	Key RM that has high sensitivity to GMs	Immediate

Source: Company, YES Sec

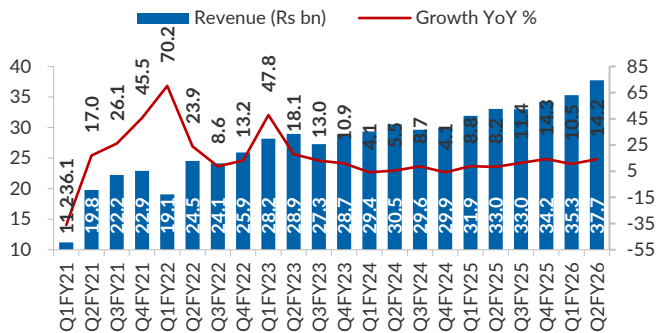
### Exhibit 4: Valuation and key ratios

Valuation (x)	FY26E	FY27E	FY28E	Average (10y LPA)
P/E	21.6	16.1	14.9	19.6
P/BV	3.1	2.6	2.3	1.9
EV/EBITDA	9.0	7.4	6.8	18.5
ROCE (%)	16.1	18.3	17.5	11.1

Source: Company, YES Sec

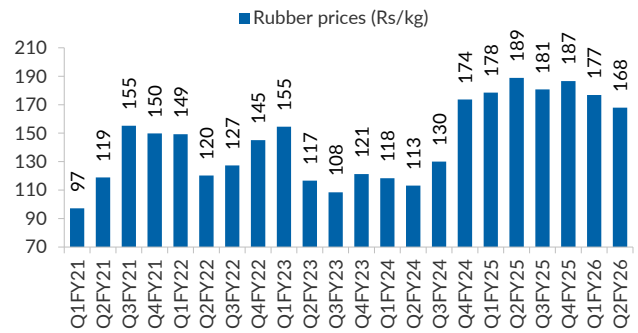
## CHARTS

**Exhibit 5: Healthy volumes drive 2Q revenues**



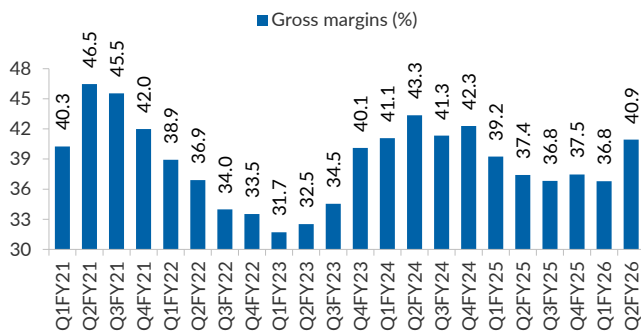
Source: Company, YES Sec

**Exhibit 6: NR prices declined by 5% QoQ to Rs168/kg**



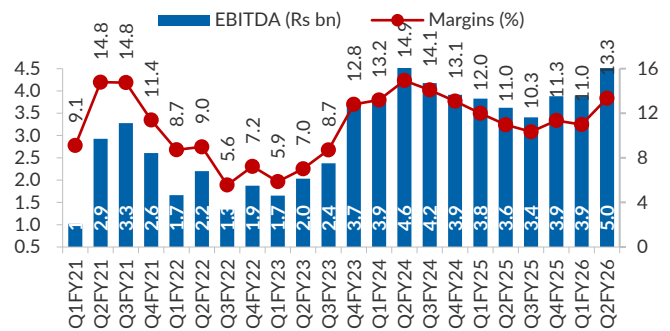
Source: Bloomberg, YES Sec

**Exhibit 7: GM expanded ~410bps QoQ at 40.9%**



Source: Company, YES Sec

**Exhibit 8: EBITDA margins expanded ~240bps QoQ**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 9: Balance Sheet**

Y/E March (Rs m)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	405	405	405	405	405	405
Total Reserves & other equity	34,166	40,119	43,358	48,946	56,696	64,981
<b>Net Worth</b>	<b>34,570</b>	<b>40,524</b>	<b>43,763</b>	<b>49,351</b>	<b>57,101</b>	<b>65,385</b>
Deferred Liabilities	3,886	4,509	5,004	5,054	5,104	5,155
Total Loans	22,955	17,915	21,364	22,942	24,257	23,306
<b>Capital Employed</b>	<b>61,411</b>	<b>62,948</b>	<b>70,130</b>	<b>77,347</b>	<b>86,462</b>	<b>93,846</b>
Gross Block	79,004	85,812	96,352	107,602	118,852	130,102
Less: Accum. Deprn.	16,155	19,967	25,594	32,373	39,504	47,310
<b>Net Fixed Assets</b>	<b>62,849</b>	<b>65,845</b>	<b>70,758</b>	<b>75,229</b>	<b>79,348</b>	<b>82,792</b>
Goodwill		244	231	231	231	231
Capital WIP	4,073	3,456	4,230	4,243	4,257	4,271
<b>Total Investments</b>	<b>1,696</b>	<b>1,821</b>	<b>1,898</b>	<b>1,916</b>	<b>1,933</b>	<b>1,951</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>27,661</b>	<b>28,578</b>	<b>35,007</b>	<b>42,643</b>	<b>51,976</b>	<b>58,860</b>
Inventory	11,378	11,505	14,115	16,581	18,761	20,223
Account Receivables	13,070	12,832	16,533	19,421	21,975	23,687
Cash Balance	606	552	479	2,703	7,243	10,893
Bank Balance	113	39	53	53	53	53
Loans and Advances	-	-	-	-	-	-
Others	2,494	3,650	3,826	3,884	3,944	4,004
<b>Curr. Liability &amp; Prov.</b>	<b>34,868</b>	<b>36,997</b>	<b>41,994</b>	<b>46,916</b>	<b>51,284</b>	<b>54,259</b>
Account Payables	22,683	23,320	27,402	32,189	36,421	39,259
Provisions	1,917	1,840	2,312	2,326	2,340	2,354
Others	10,267	11,836	12,280	12,401	12,523	12,646
<b>Net Current Assets</b>	<b>(7,207)</b>	<b>(8,419)</b>	<b>(6,987)</b>	<b>(4,273)</b>	<b>692</b>	<b>4,601</b>
<b>Appl. of Funds</b>	<b>61,411</b>	<b>62,947</b>	<b>70,130</b>	<b>77,346</b>	<b>86,461</b>	<b>93,846</b>

Source: Company, YES Sec

## Exhibit 10: Income statement

VY/E March (Rs m)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	113,149	119,435	132,179	155,270	175,685	189,372
Change (%)	20.8	5.6	10.7	17.5	13.1	7.8
EBITDA	9,738	16,522	14,741	19,051	22,786	23,993
Margin (%)	8.6	13.8	11.2	12.3	13.0	12.7
Depreciation	4,693	5,088	5,627	6,779	7,131	7,806
EBIT	5,045	11,434	9,115	12,272	15,654	16,186
Int. and Finance Charges	2,421	2,691	2,778	3,323	3,540	3,092
Other Income - Rec.	169	197	176	183	190	197
PBT bef. EO Exp.	2,793	8,941	6,512	9,132	12,304	13,292
EO Expense/(Income)	334	582	296	-	-	-
PBT after EO Exp.	2,459	8,359	6,216	9,132	12,304	13,292
Tax	718	2,214	1,720	2,374	3,199	3,456
Tax Rate (%)	29.2	26.5	27.7	26.0	26.0	26.0
Reported PAT	1,742	6,145	4,496	6,757	9,105	9,836
PAT Adj	2,196	7,008	5,023	7,004	9,368	10,105
Change (%)	161.1	219.1	(28.3)	39.4	33.8	7.9

Source: Company, YES Sec

## Exhibit 11: Cash Flow Statement

VY/E March (Rs m)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NP/ (Loss) bef Tax and EO	2,793	8,941	6,512	9,132	12,304	13,292
Depreciation	4,693	5,088	5,627	6,779	7,131	7,806
Interest & Finance Charges	2,421	2,691	2,778	3,323	3,540	3,092
Direct Taxes Paid	377	(1,630)	(908)	(2,374)	(3,199)	(3,456)
(Inc)/Dec in WC	1,298	748	(2,230)	(567)	(501)	(336)
Others	(106)	10	116	292	309	315
CF from Operations	12,055	17,193	10,920	16,665	19,665	20,794
(inc)/dec in FA	(8,791)	(8,673)	(9,434)	(11,250)	(11,250)	(11,250)
Free Cash Flow	3,264	8,520	1,486	5,415	8,415	9,544
(Pur)/Sale of Investments	299	136	209	(31)	(31)	(31)
CF from Investments	(8,492)	(8,537)	(9,224)	(11,281)	(11,281)	(11,281)
(Inc)/Dec in Debt	(977)	(5,556)	1,893	1,579	1,314	(951)
Interest Paid	(2,093)	(2,669)	(2,446)	(3,323)	(3,540)	(3,092)
Dividend Paid	(126)	(485)	(1,214)	(1,416)	(1,618)	(1,820)
CF from Fin. Activity	(3,195)	(8,710)	(1,767)	(3,160)	(3,844)	(5,863)
Inc/Dec of Cash	368	(55)	(72)	2,224	4,541	3,650
Add: Beginning Balance	238	605	551	479	2,703	7,243
Closing Balance	605	551	479	2,703	7,243	10,893

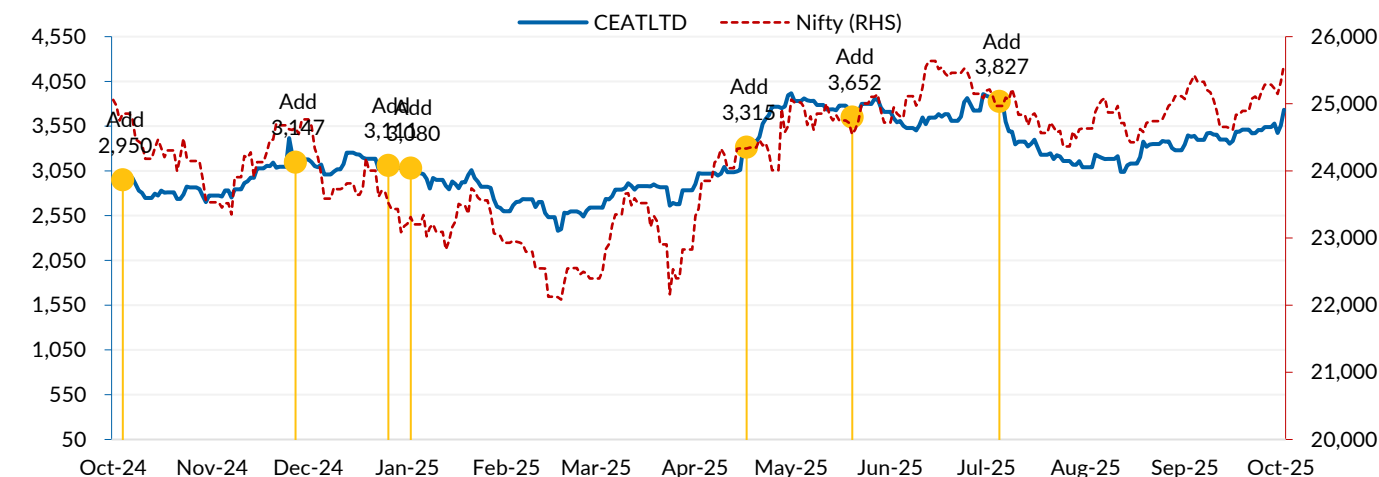
Source- Company, Yes Sec

**Exhibit 12: Growth and Ratio matrix**

Y/E March	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Basic (INR)</b>						
EPS	54.3	173.3	124.2	173.1	231.6	249.8
Growth (%)	161.1	219.1	(28.3)	39.4	33.8	7.9
Cash EPS	170.3	299.0	263.3	340.7	407.9	442.8
BV/Share	854.6	1,001.8	1,081.9	1,220.0	1,411.6	1,616.5
DPS	12.0	30.0	30.0	35.0	40.0	45.0
Payout (%)	30.0	21.7	29.5	23.2	19.9	20.7
<b>Valuation (x)</b>						
P/E	68.8	21.5	30.1	21.6	16.1	14.9
Cash P/E	21.9	12.5	14.2	11.0	9.2	8.4
P/BV	4.4	3.7	3.5	3.1	2.6	2.3
EV/Sales	1.5	1.4	1.3	1.1	1.0	0.9
EV/EBITDA	17.8	10.2	11.7	9.0	7.4	6.8
Dividend Yield (%)	0.3	0.8	0.8	0.9	1.1	1.2
<b>Return Ratios (%)</b>						
EBITDA Margins (%)	8.6	13.8	11.2	12.3	13.0	12.7
Net Profit Margins (%)	1.9	5.9	3.8	4.5	5.3	5.3
RoE	6.4	17.3	11.5	14.2	16.4	15.5
RoCE	8.5	18.5	13.2	16.1	18.3	17.5
<b>Operating Ratios</b>						
Fixed Asset Turnover (x)	1.9	1.9	1.9	2.1	2.3	2.3
Inventory (Days)	36.7	35.2	39.0	39.0	39.0	39.0
Debtor (Days)	42.2	39.2	45.7	45.7	45.7	45.7
Creditor (Days)	73.2	71.3	75.7	75.7	75.7	75.7
Working Capital (Days)	5.7	3.1	9.0	9.0	9.0	9.0
<b>Leverage Ratio (x)</b>						
Current Ratio	0.6	0.6	0.7	0.7	0.8	0.9
Debt/Equity	0.7	0.4	0.5	0.5	0.4	0.4

Source: Company, YES Sec

## Recommendation Tracker



Source – YES Sec



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