CEAT Limited

April 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	932.50 (Enhanced from 807.50)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	1,150.00	CARE A1+	Reaffirmed
Commercial paper	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and short-term instruments of CEAT Limited (CEAT) (part of the RPG Group) continue to factor in the long operational track and established market position with strong brand image in the domestic tyre industry coupled with diversified revenue with presence across all user segments and strong presence in replacement market aided by its wide, robust distribution network and long experience of the promoters. The ratings also factor in the recovery in revenue witnessed in FY22 and H1FY23, supported by higher realizations and volume growth following improved demand scenario post COVID-19, although high input prices and operating costs constrained the profitability margins. CEAT has been undertaking increase in realisation at periodic intervals across categories to counter commodity inflation. Although these were not enough to completely offset the cost pressures but partial hikes in realisations will limit the contraction in operating margin to a certain extent. Furthermore, the softening of the input prices recently is likely to result in improvement of margins going forward which will remain key monitorable. The impact of the reduced input prices over the last quarter has been visible in Q3FY23.

The rating strengths are partially offset by moderate debt coverage indicators which are expected to remain moderate over the medium term due to low profitability and part debt-funded capex being undertaken which is expected to conclude by FY25. The debt coverage indicators are expected to improve thereafter as the expanded capacities and improved product mix would translate into expansion in its operating profits going forward. Furthermore, there is no project execution risk considering the advanced stage of the execution.

The ratings also factor vulnerability of CEAT's revenues to the cyclicality in automotive demand and susceptibility of margins to the volatile raw material prices, both natural rubber and crude-linked derivatives, competitive nature of the industry and any change in government policy.

The enhancement in rating amount pertains to additional working capital limits.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial increase in the scale of operations, along with a significant improvement in the market share across product segment, leading to an improvement in the PBILDT margin over 13% on a sustained basis
- Total Debt to GCA below 1.85x on a sustained basis
- Improvement in ROCE above 20% on a sustained basis

Negative factors

- Sharp decline in revenue with loss in market share resulting in deterioration in PBILDT margin
- Total debt/PBILDT above 3.0 times on a sustained basis

Analytical approach:

CARE Ratings has taken a consolidated approach in analysing the financials of CEAT. The list of companies which have been consolidated is presented in Annexure 6. CARE Ratings has taken consolidated approach owing to high degree of financial, managerial and business linkages between the entities.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable – The 'Stable' outlook reflects that CEAT is expected to sustain the growth in its operating performance with gradual completion of the ongoing expansionary capex along with an expected improvement in profitability with moderation in input costs.

Key strengths

Experienced and established promoter group and proficient management:

CEAT belongs to the RPG group. The RPG group is a diversified conglomerate having business interests across diverse businesses like automotive tyres, infrastructure, information & technology, pharmaceuticals, plantations and power ancillaries. The group is headed by Harsh Vardhan Goenka while CEAT's day-to-day operations shall be headed by the new MD & CEO, Arnab Banerjee will has taken place of Mr. Anant Goenka (currently Vice Chairman) from April 01, 2023. Along with strong competent management team with long track record in the industry and the company has ensured maintenance of strong corporate governance practices and a prudent approach to management.

Established brand and wide distribution network:

CEAT is one of the leading tyre companies in the country with long track record of operations and well-established pan-India distribution network, enjoying a strong brand image. The company caters to the various user segments which include trucks and buses (T&B), light commercial vehicles, tractors, two-wheelers (2W) & three-wheelers (3W), passenger vehicles and off-road tyres. CEAT has a widespread distribution network spread across the country with more than 4,600 dealers and more than 600 exclusive CEAT Shoppes & CEAT Tyre service hubs servicing over 45,000 sub-dealers.

Diversified revenue profile, replacement segment continues to contribute majorly:

The company's share of income from the replacement market continues to remain relatively high over the years. CEAT derives around 60% of its revenue from the replacement market which mitigates the risk related to vagaries of the auto industry to an extent. In H1FY23, around 53% of the revenue was contributed by replacement segment; with substantial share of revenue coming from the replacement market, risks arising out of the cyclical nature of the automobile industry are also relatively limited. The original equipment manufacturer (OEM) segment contributed 29% to the revenue in H1FY23 and around 19% of revenue came from export markets in H1FY23. CEAT has diversified into exports that delivered a growth of 50% last year. The proportion of sales to OEM has increased on the back of reducing challenges pertaining to semi-conductor shortages. Over the years, the company has been gradually shifting focus from the lower-margin T&B/LCV segment to margin-accretive PC/UV/OHT segment and 2W segment. This is expected to boost profitability going forward.

Revenue growth supported by recovery in volumes, margins dipped but expected to improve going forward:

After two years of contraction, the Indian tyre industry has recovered well, resulting in improvement of CEAT's revenue which has grown y-o-y by 23% from ₹7,609 crore to ₹9,363 crore in FY22. The growth was driven by increase in realisation and volumes arising from increased demand across segments and also price hikes undertaken to counter rising input costs. Inherent to the tyre industry, raw material costs forms the largest cost head, accounting for around 60-65% of the total cost for CEAT. Higher input prices of key raw materials such as natural rubber, carbon black etc. have kept the margins under pressure. Other raw materials such as carbon black which is a derivative of crude also increased in line with increase in crude prices.

CEAT's revenue has grown by 31% in H1FY23 vis-à-vis H1FY22.CEAT's PBILDT margin dipped from 13.39% in FY21 to 7.89% in FY22 and further down to 6.65% in H1FY23 due to high raw material prices, which has been mitigated to some extent via cost-cutting initiatives & regular price hikes. Although these are not enough to completely offset the cost pressures but these partial hikes in realisations will limit the contraction in operating margin to a certain extent. The prices of key raw material have softened in the recent past and the effect of the same has been visible in Q3FY23 with PBILDT margin of 8.78%

Key weaknesses

Exposure to cyclicality in the automobile industry & current slowdown in export market:

The performance of tyre manufacturers is dependent on the performance of the automobile industry, which is cyclical in nature. Nevertheless, auto ancillaries which have a significant exposure to replacement market are insulated to an extent as the demand for the auto components in the replacement market is an indirect function of the growth posted by OEMs. Furthermore, diversified product portfolio and presence in the export markets mitigates this risk to an extent. Export demand may stay volatile for a few more quarters given the geopolitical uncertainties and weakening macroeconomic situation around inflation and recession fears across geographies. Recessionary pressure in US & Europe is likely to impact the demand.

Capex and low EBIDTA generation likely to result in moderate debt metrics:
CEAT has been undertaking capex over the last few years which is a part of their long-term expansionary plan from FY19-FY25 (estimated). Out of total planned capex of ₹4,000 crore (excluding maintenance capex), almost ₹3,300 crore has been incurred till September 30, 2022. Along with the expansionary capex, routine capex planned annually is ₹200-250 crore which shall be funded out of internal accruals. This would be towards debottlenecking activity, end-of-the-line automation and the development of sustainable energy sources. CEAT has adequate undrawn sanctioned limits from banks to incur the balance capex along with its own internal accruals.

To fund the expansionary capex, CEAT had availed additional term borrowing and further due to higher working capital requirement CEAT's Total debt has increased by ₹675 crore y-o-y from FY21 to FY22. Following spiralling input costs, accretion to reserves (retained earnings) dipped from ₹432 crore in FY21 to ₹71 crore in FY22. The above factors resulted in moderation of overall gearing to 0.66x as on March 31, 2022 (P.Y. 0.47x). Under the current scenario of inflationary environment, CARE Ratings Limited (CARE Ratings) expects the overall gearing to remain in the range of 0.65x - 0.70x for FY23. The improvement in debt metrics is likely to happen from FY24 onwards with newer facilities starting to scale up the company's operating EBIDTA and also on pace of normalisation of input prices.

Industry characterised by intense competition
The Indian tyre industry has witnessed intense competition between the domestic players and the Chinese tyre manufacturers. The level of competition by international players is significantly higher in the trucks and buses segment which is price sensitive. However, measures taken by the government like imposition of anti-dumping duty (implemented in September 2017) and anti-subsidy countervailing duty (implemented in July 2019) on tyre imports from China have helped the Indian tyre manufacturers. Diverse product offerings and strong focus on the replacement market have enabled the company to sustain the established market position. However recently there has been some increase in cheap imports from Thailand.

Liquidity: Strong
The liquidity profile of CEAT is strong as substantiated by the fact that it is expected to earn gross cash accruals of about ₹550 crore in FY23. As against that, CEAT has scheduled repayment obligations of ₹138 crore for FY23 which leaves adequate buffer. As on October 31, 2022, CEAT had average unutilised fund-based working capital limit averaging upto ₹330 crore. Furthermore, it has CP limits available of ₹500 crore out of which ₹100 crore is only outstanding. Thus mobilising funds on immediate basis for any exigency is not a challenge for CEAT. Although CEAT is utilising large portion of internal accruals to fund its capex requirements, debt repayments would get priority over capex funding and CEAT has already tied up with lenders for the entire debt. CEAT historically maintains modest cash balance which stood at ₹36 crore as on March 31, 2022.

ESG Risks
CARE Ratings believes that CEAT's environment, social, and governance (ESG) profile supports its strong credit risk profile. CEAT has been stepping up their environmental sustainability initiatives by embracing a low-carbon economy and embracing sustainable practices throughout the life cycle of the tyres. CEAT is also taking considerable steps to increase the green cover of its plants. CEAT has taken initiatives towards efficient waste management, emissions and water management. CEAT also actively promotes the cause of education in the country by supporting underprivileged, contributing to development of their community, medical health and wellbeing.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Rubber

Established in 1958, CEAT is flagship entity under the RPG group (Rama Prasad Goenka Group). The 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. The RPG group acquired the company in 1982. CEAT is engaged in the manufacturing of tyres, tubes and flaps and it is one of the leading tyre manufacturers in the 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 OEMs and replacement market. Large part of its income is contributed from the replacement market.

In India, CEAT operates with six manufacturing units located at Mumbai, Nagpur, Nasik, Ambernath (Maharashtra), Halol (Gujarat), Chennai (Tamil Nadu) and in Srilanka (through Joint Venture). Furthermore, CEAT has outsourced the production facilities of tyres to several third-party conversion agencies located at Hyderabad (Telangana) and Calicut (Kerala).

Brief Financials (₹ crore): Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	9M ended Dec 31, 2023 (UA)
Total operating income	7,609	9,363	8,455
PBILDT	1,019	739	621
PAT	432	71	60
Overall gearing (times)	0.44	0.66	-
Interest coverage (times)	4.98	3.32	-

A: Audited; UA: Unaudited; Note: the above results are latest financial results available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper (Standalone)*	INE482A14BL0 INE482A14BO4	Jan'23 Mar'23	-	Apr'23 Jun'23	500.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	625.00	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	1150.00	CARE A1+
Term Loan-Long Term		-	-	FY29	307.50	CARE AA; Stable

*Rs. 100 cr. was outstanding as on March 31, 2023

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	307.50	CARE AA; Stable	1)CARE AA; Stable (13-Dec-22)	1)CARE AA; Stable (16-Dec-21)	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (06-Jan-20)
2	Fund-based - LT-Cash Credit	LT	625.00	CARE AA; Stable	1)CARE AA; Stable (13-Dec-22)	1)CARE AA; Stable (16-Dec-21)	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (06-Jan-20)
3	Non-fund-based - ST-BG/LC	ST	1150.00	CARE A1+	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (16-Dec-21)	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (06-Jan-20)
4	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (16-Dec-21)	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (06-Jan-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure 6: List of subsidiaries which are consolidated as at March 31, 2022

Name of the subsidiary	Percentage holding
Associated CEAT Holdings Company Pvt. Limited	100.00
CEAT AKKhan Limited	70.00
Rado Tyres Limited (RTL)	58.56
CEAT Specialty Tyres Inc.	100
CEAT Specialty Tyres B.V	100
Name of the Joint Venture	**% holding**
CEAT Kelani Holding Pvt Limited- (Joint venture of Associated Ceat Holdings Company Pvt. Ltd.)	50
Name of the Associate	**% holding**
Tyresnmore Online Pvt Ltd	49.83
Greenzest Solar Private Limited	28

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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