CEAT Limited (Revised)

December 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,027.50 (Enhanced from 932.50)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	1,275.00 (Enhanced from 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 reaffirmation of the ratings assigned to the bank facilities of CEAT Limited continues to derive strength from its long operational track record, improving market share with strong brand especially in the 2-wheeler and 3-wheeler segment domestically, diversified revenue base across major original equipment manufacturers (OEM) and the replacement market aided by wide and robust distribution network.

The ratings also factor in the improvement in the operating performance displayed by 21.8% improvement in total operating income. This coupled with improvement in operational efficiency which was reflected from 172 bps improvement in PBILDT margins in FY23 YoY and 762 bps in H1FY24. The improvement was supported by volume growth in passenger vehicle (PV) and Off-Highway segment, despite high input prices. Going forward the company is expected to maintain its growth momentum due to growing demand and large capacity additions done during capital expenditure (CAPEX) execution between FY19-FY24. This coupled with relative stability in the industry outlook owing to factors such as easing of chip shortage, rising demand for personal mobility and pickup in rural sentiment are major drivers for the ratings.

The ratings strengths are constrained by 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 changes in government policy. With absence of any large debt funded capex going ahead and healthy capital structure, CARE Ratings Limited (CARE Ratings) expects the overall gearing to remain around ~0.50x for FY24 (including the lease liabilities, bill discounting).

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 profit before interest, lease rentals, depreciation and tax (PBILDT) margin over 15% on a sustained basis.
- Total Debt to GCA below 1.85x on a sustained basis & improvement in return on capital employed (ROCE) above 15% on a sustained basis.

Negative factors

- Sharp decline in revenue with loss in market share resulting in deterioration in PBILDT margin.
- Total debt/GCA above 3.00x on a sustained basis

Analytical approach: Consolidated

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.

Outlook: Stable

The 'Stable' outlook reflects that CEAT will continue its growth momentum in its topline and operating margins, and absence of debt-funded capex plans resulting in further improvement in debt coverage metrics.

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

Detailed description of the key rating drivers:

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 who has taken place of Mr. Anant Goenka (currently Vice Chairman). Along with strong competent management team with long track record in the industry, 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 and CEAT Tyre service hubs servicing over 45,000 sub-dealers.

Diversified revenue profile, focus on PV/2W/OHT segment to drive future margins:

The company's share of income from the replacement market continues to remain relatively high over the years. CEAT derives around 53% of its revenue from the replacement market which mitigates the risk related to vagaries of the auto industry to an extent. The demand from the OEM segment has picked up after FY21 as demand improved (driven by need for personal mobility for 2W, PV and resumption of economic activities for CV) post easing of COVID-19 and chip shortage crisis. In H1FY24 however, OEM and replacement both have been relatively flattish, whereas the balance contribution has come from the export side which has been increasing. Over the years, the company has been gradually shifting focus from the lower-margin truck and buses (T&B) / light commercial vehicle (LCV) segment to margin-accretive PC/UV/OHT segment and 2W segment. This is expected to boost profitability going forward. In FY23, the company sold 119 lakh units of PV tyres an increase of 16% over the previous year and 295 lakh units of 2W&3W tyres, where the company holds dominant market positions.

Revenue growth supported by recovery in volumes, momentum expected to continue going forward:

After the contraction of the tyre industry, strong demand across the industry has been observed in FY23. Inline CEAT's revenue has grown by 21.87% in FY23 to ₹ 11,210.48 crore. The growth in FY23 was driven by increase in volumes majorly from the PV segment the 2W&3W segment coupled with rising selling prices undertaken to counter rising input costs. The company witnessed a strong growth in revenue of 26.1% from the PV segment, 18.7% revenue growth from the T&B segment coupled with 30.2% revenue growth from, higher margin, off-highway tyres.

In H1FY24 total operating income increased by 4.85% to ₹ 6002 crores. CEAT's PBILDT margin improved by 172 bps to 7.76% in FY23 and 14.28% in H1FY24 due to regular price hikes coupled with increase in volume sold. The prices of key raw material have softened in the recent past and the effect of the same has been visible since Q4FY23 with PBILDT margin in the range of 12-15%. CARE Ratings expects an enhanced EBITDA margin profile due to an improvement in the product mix caused by the new facilities considerably ramping-up operations in FY24-FY25.

Key weaknesses

Exposure to cyclicality in the automobile industry and 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.

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 T&B 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 marked by expected GCA generation of about ₹1200 crore in FY24. As against that, CEAT has scheduled repayment obligations of around ₹ 470 crore for FY24 which leaves adequate buffer. As on October 31, 2023, CEAT had low unutilised fund-based working capital limit averaging around 30% of ₹ 500 crores sanctioned. Furthermore, it has CP limits available of ₹500 crore out of which ₹50 crore is only outstanding. CEAT historically maintains modest cash balance which stood at ₹69 crore as on March 31, 2023, and ₹43 crores for September 30, 2023. The company has paid off more than ₹450 crores of debt in the last 3 quarters, paying off around ₹248 crores in Q4FY23, ₹104 crores in Q1FY24 and ₹99 crores in Q2FY24. With absence of debt funded capex ahead and liquidity cushion available through unutilized bank lines, improving GCA and financial flexibility it enjoys been part of the RPG group, the company's liquidity profile is expected to remain strong.

Environment, social, and governance (ESG) risks

The company has taken following steps to reduce carbon footprint by 50% by 2030:

- 10% reduction in overall tCO_2e per MT of production
- 33% plant power through renewable sources
- 37 products get BEE 5-star ratings and 23 products get 4-star ratings
- 17% reduction in water consumption per MT of production
- 24% natural rubber sourced via alternate transport
- Upto 10% reduction in rolling resistance in select SKUs.

Apart from the environmental risks, the company mitigates social risks and has trained 650 individuals in vocational skills, and positively impacted 5500+ teachers through teachers' training programs and setting up medical services via rural clinics which benefited 3.3 lakh people.

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
Consumer Discretionary	Automobile and Auto Components	Auto Components	Tyres Rubber Products

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) *	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	9,197.98	11,210.48	6,002.21
PBILDT	555.08	869.41	856.94
PAT	70.58	182.39	351.73
Overall gearing (times)	0.74	0.74	0.55
Interest coverage (times)	2.68	3.59	6.04

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
* Note: Brief Financials are as per CARE Ratings Methodology

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of 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-Commercial paper (Standalone)	INE482A14BV9	-	-	7-365 days	500.00	CARE A1+
Fund-based - LT-Cash credit		-	-	-	750.00	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	1275.00	CARE A1+
Term loan-Long term		-	-	31-12-2028	277.50	CARE AA; Stable

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 2023-2024	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
1	Term loan-Long term	LT	277.50	CARE AA; Stable	1)CARE AA; Stable (06-Apr-23)	1)CARE AA; Stable (13-Dec-22)	1)CARE AA; Stable (16-Dec-21)	1)CARE AA; Stable (05-Jan-21)
2	Fund-based - LT-Cash credit	LT	750.00	CARE AA; Stable	1)CARE AA; Stable (06-Apr-23)	1)CARE AA; Stable (13-Dec-22)	1)CARE AA; Stable (16-Dec-21)	1)CARE AA; Stable (05-Jan-21)
3	Non-fund-based - ST-BG/LC	ST	1275.00	CARE A1+	1)CARE A1+ (06-Apr-23)	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (16-Dec-21)	1)CARE A1+ (05-Jan-21)
4	Commercial paper-Commercial paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (06-Apr-23)	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (16-Dec-21)	1)CARE A1+ (05-Jan-21)

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

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

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.

Annexure-6: List of Subsidiaries as on March 31, 2023

Name of the subsidiary	% holding	Country
Associated CEAT Holdings Company (Pvt.) Limited	100%	Sri Lanka
CEAT AKKHAN Limited	70%	Bangladesh
Rado Tyres Limited (RTL)	58.56%	India
CEAT Specialty Tyres Inc.	100%	USA
CEAT Specialty Tyres B.V	100%	Netherlands
CEAT Auto Components Limited	100%	India
Taabi Mobility Limited	100%	India
Name of the Joint Venture	**% holding**	**Country**
CEAT Kelani Holding (Pvt) Limited	50%	Sri Lanka
Associated CEAT (Pvt) Limited	50%	Sri Lanka
CEAT Kelani Radials (Pvt) Limited	50%	Sri Lanka

Name of the subsidiary	% holding	Country
CEAT Kelani International Tyres (Pvt) Limited	50%	Sri Lanka
Name of the Associate	**% holding**	**Country**
TYRESNMORE Online Pvt Ltd	49.83%	India

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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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