CEAT Limited

December 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	969.00 (Reduced from 1,027.50)	CARE AA; Positive	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	1,795.00 (Enhanced from 1,275.00)	CARE A1+	Reaffirmed
Commercial paper	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and instruments 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.

Ratings also factor in improvement in the operating performance marked by improvement in operating margins by 523 bps to 13.84% in FY24, due to a correction in rubber prices and operating leverage benefits from increased volumes sold. Its operating performance continued to remain largely stable in H1FY25 in-spite of significant increase in rubber prices, considering regular price hike taken. With the expected rationalisation of rubber prices and price hikes implemented by the company, its operating profitability is anticipated to improve in H2FY25, leading to healthy profitability in FY25. The rating also factors in improvement in the company's financial risk profile with improvement in overall gearing (including letter of credit (LC) acceptances and dealer deposits (DD)) to 0.71x as on March 31, 2024 (vs. 0.99x as on March 31, 2023), and improvement in net debt (including LC and DD)/ profit before interest, lease rentals, depreciation, and taxation (PBILDT) to 1.66x as on March 31, 2024 (vs. 3.34x as on March 31, 2023), which is expected to further improve in the medium term although, some moderation is expected in FY26 considering acquisition of CAMSO from Michelin.

Ratings are constrained by vulnerability of CEAT's revenues to the cyclicality in automotive demand and susceptibility of margins to the volatile raw material prices, natural rubber and crude-linked derivatives, competitive industry and changes in government policy.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial increase in the scale of operations, and a significant improvement in the market share across product segment, leading to an improvement in the PBILDT margin over 15% on a sustained basis.
- Improvement in net debt (including LC acceptances and dealer deposits)/PBILDT to ~1.5x and improvement in overall gearing (including LC acceptances and dealer deposits) to ~0.75x on a sustained basis.

Negative factors

- Sharp decline in revenue with loss in market share resulting in deterioration in PBILDT margin.
- Net debt (including LC acceptances and dealer deposit) /PBILDT above 2.50x on a sustained basis.

Analytical approach:

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

Outlook: Positive

The positive outlook factors in improvement in the company's overall financial risk profile with improvement in overall gearing (including letter of credit [LC] acceptances and dealer deposits [DD]) to 0.71x as on March 31, 2024 (vs. 0.99x as on March 31, 2023), and improvement in net debt (including LC and DD)/ PBILDT to 1.66x as on March 31, 2024 (vs. 3.34x as on March 31, 2023), which is expected to further improve in the medium term although, some moderation is expected in FY26 considering

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

acquisition of CAMSO from Michelin. Acquisition of CAMSO is expected to be margin accretive as it is in the higher margin OHT segment and it shall also aid growth in scale of operations with improved diversification.

Detailed description of 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 such as automotive tyres, infrastructure, information and technology, pharmaceuticals, plantations and power ancillaries. The group is headed by Harsh Vardhan Goenka (Chairman) and Anant Goenka (Vice Chairman), while CEAT's day-to-day operations are headed by Arnab Banerjee, MD and CEO. Along with strong and 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 different user segments which include trucks and buses (T&B), light commercial vehicles, tractors, two-wheelers (2W) and three-wheelers (3W), passenger vehicles and off-road tyres. CEAT has a widespread distribution network spread across the country with over 4,700 dealers and 350 distributors servicing over 50,000 sub-dealers with over 530 retail format stores covering over 900 districts across the country.

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 derived ~53% revenue in FY24 from the replacement market which mitigates the risk related to vagaries of the auto industry to an extent. The contribution from OEM declined marginally from 29% to 28% and exports improved from 18% to 19% in FY24. In H1FY25, the contribution from replacement market improved to 55%, the contribution from OEM declined to 26% and exports remained stable at 19%. 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.

Improved operating performance in FY24 which is expected to remain healthy in FY25

In FY24, CEAT's total operating income (TOI) improved by 5.55% year-over-year (y-o-y), from ₹11,314.88 crore to ₹11,943.48 crore. This increase was primarily driven by a 7% y-o-y increase in overall volumes, although it was partially offset by a reduction in realisations. Growth in TOI in FY24 was mainly attributed to the truck and bus (T&B) and off-highway tyres segments.
In the H1FY25, total income increased by 8.41% to ₹6,506.95 crore. CEAT's PBILDT margin improved by 523 bps to 13.84% in FY24, due to a correction in rubber prices and operating leverage benefits from increased volumes sold. However, in H1FY25, the PBILDT margin moderated to 11.62% compared to 14.31% in H1FY24, mainly due to higher rubber prices. With the expected rationalisation of rubber prices and price hikes implemented by the company in H1FY25, its operating profitability is expected to improve in H2FY25, leading to healthy profitability in FY25, although the operating margins for FY25 are expected to remain below FY24 level.

Significant improvement in financial risk profile

The company utilised sizeable cash flow from operations in FY24 to rationalise its debt level leading to significant improvement in its leverage and debt coverage indicators marked by its overall gearing (including LC acceptances and DD) and net debt (including deader deposit)/ PBILDT improving to 0.71x March 31, 2024 against 0.99x as on March 31, 2023, and 1.66x in FY24 against 3.34x in FY23, respectively. The company has entered a definitive agreement to acquire the CAMSO brand's off-highway construction equipment bias tyre and tracks business from Michelin for ~US$225 million with actual cash outflows anticipated to commence from Q1FY26. The acquisition is expected to be funded through a mix of internal accruals and debt in the ratio of 30:70. The deal includes progressive payments to Michelin. If the CAMSO acquisition goes through, its other planned capex are expected to moderate. Going forward, even with its planned capex and planned acquisition of CAMSO brand from Michelin, its capital structure and debt coverage metrics are expected to further improve in the medium term driven by the higher profitability from CAMSO facilities and an enhanced scale of operations, although, some moderation is expected in FY26 considering acquisition of CAMSO from Michelin.

Liquidity: Strong

CEAT's liquidity profile is strong marked by expected generation of cash accruals of ~₹1200 crore in FY25. CEAT has scheduled debt repayment obligations of ~₹333.91 crore for FY25 which leaves adequate buffer. As on November 30, 2024, CEAT had unutilised fund-based working capital limit averaging ~60% of ₹ 500 crore sanctioned limit. CEAT historically maintains modest cash balance which stood at ₹56.59 crore as on March 31, 2024, and ₹45.43 crore for September 30, 2024. With its unutilised bank lines providing a liquidity cushion, improving GCA, and financial flexibility from being part of the RPG group, the company's liquidity profile is expected to remain strong.

Key weaknesses

Susceptible to raw material price volatility

Inherent to the tyre industry, raw material cost forms the largest cost head, accounting for 60-65% of the total cost. Rubber and crude oil are global commodities and prices vary across international markets. The tyre business is highly sensitive to movement in rubber and crude oil prices. Input costs have been on an upward trend since January 2024. International natural rubber prices increased by 25- 30% in the last few months where it peaked to ~₹ 230 per kg (RSS4 and RSS5 grade) owing to global supply shortage amid adverse weather conditions in key rubber-producing nations in south-east Asia. High natural rubber prices and volatile crude prices are likely to result in moderation in the operating profitability margins in FY25 when compared to FY24 despite rubber prices have started to decline over the last few months.

Exposure to cyclicality in automobile industry

The performance of tyre manufacturers depend on the performance of automobile industry, which is cyclical in nature. 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. Diversified product portfolio and presence in the export markets mitigates this risk to an extent.

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.

Environment, social, and governance (ESG) risks

Environmental

The company has taken following steps to reduce carbon footprint by 50% and use 40% sustainable materials by 2030:

- ~6.8% reduction in overall tCO2e per MT of production in FY24.
- CEAT's emission intensity has reduced by over 7%, and the use of renewable energy has increased to 36%, a significant increase from 30% in the previous year.
- CEAT's three plants (Nagpur, Chennai and Ambernath plants) are zero liquid discharged units.
- Reducing carbon footprint through network optimisation by opting for coastal shipment for 26% local rubber requirement.
- Loading and packaging optimisation for rubber transportation leading to 439 MT carbon emission reduction.
- ~3.9% reduction in water consumption per MT of production.
- Up to 5% reduction in rolling resistance in select SKUs.
- CEAT is a member of 'Global Platform for Sustainable Natural Rubber' to reduce material sourcing from deforestation or forest degraded regions, with a target of 100% European Union Deforestation Regulation (EUDR) compliance by December 2024.

Social

Key social initiatives taken by the company include:

- 546 individuals trained in vocational skills.
- 500+ farmers trained in organic and regenerative cultivation.
- 5,500+ teachers impacted through teachers' training programmes.
- Revival of Worli Koliwada for Heritage Conservation.
- 33 clinics have been set up across rural and urban Maharashtra under the Fever Clinic initiative and 79k+ availed services via fever clinic.

Governance
On its board, 50% comprises independent directors (five out of ten directors) and two women directors.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Auto Components & Equipments
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Tyres and rubber products

Established in 1958, CEAT is flagship entity under the RPG group (Rama Prasad Goenka Group). The RPG group is a conglomerate having over 15 companies catering diverse businesses spanning across automotive tyres, infrastructure, information and technology, pharmaceuticals, plantations and power ancillaries. The RPG group acquired the company in 1982. CEAT is engaged in manufacturing 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 and auto -rickshaws. It caters demand from OEMs and replacement market. Large part of its income is contributed from the replacement market.
In India, CEAT operates with six manufacturing units at Mumbai, Nagpur, Nasik, Ambernath (Maharashtra), Halol (Gujarat), Chennai (Tamil Nadu) and Sri Lanka (through Joint Venture). CEAT has outsourced the production facilities of tyres to several third-party conversion agencies at Hyderabad (Telangana) and Calicut (Kerala).

Brief Financials (₹ crore)*	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	11,314.88	11,943.48	6,506.95
PBILDT	973.81	1,652.52	754.76
PAT	182.39	635.28	275.63
Overall gearing (times)^	0.99	0.71	NA
Interest coverage (times)	4.02	6.14	5.88
Net debt / PBILDT^	3.34	1.66	NA

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results
*Brief Financials are per CARE Ratings Methodology.
^including bills discounted, LC acceptances and dealer deposits as a part of debt.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	INE482A14DA9	23-10-2024	7.29%	17-01-2025	50.00	CARE A1+
	INE482A14DC5	21-11-2024	7.30%	17-02-2025	50.00	
	INE482A14DB7	22-11-2024	7.30%	18-02-2025	50.00	
	INE482A14DE1	26-11-2024	7.30%	24-02-2025	50.00	
	INE482A14DD3	29-11-2024	7.30%	26-02-2025	50.00	
	INE482A14DF8	29-11-2024	7.30%	25-02-2025	50.00	
	INE482A14DJ0	18-12-2024	7.26%	18-03-2025	50.00	
	INE482A14DG6	19-12-2024	7.26%	18-03-2025	50.00	
	INE482A14DI2	23-12-2024	7.26%	21-03-2025	50.00	
	INE482A14DH4	24-12-2024	7.26%	24-03-2025	50.00	
Fund-based - LT-Cash Credit	-	-	-	-	750.00	CARE AA; Positive
Non-fund-based - ST-BG/LC	-	-	-	-	1795.00	CARE A1+
Term Loan-Long Term	-	-	-	31-12-2028	219.00	CARE AA; Positive

Annexure-2: Rating history for 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 2024-2025	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
1	Term Loan-Long Term	LT	219.00	CARE AA; Positive	-	1)CARE AA; Stable (28-Dec-23) 2)CARE AA; Stable (06-Apr-23)	1)CARE AA; Stable (13-Dec-22)	1)CARE AA; Stable (16-Dec-21)
2	Fund-based - LT-Cash Credit	LT	750.00	CARE AA; Positive	-	1)CARE AA; Stable (28-Dec-23) 2)CARE AA; Stable (06-Apr-23)	1)CARE AA; Stable (13-Dec-22)	1)CARE AA; Stable (16-Dec-21)
3	Non-fund-based - ST-BG/LC	ST	1795.00	CARE A1+	-	1)CARE A1+ (28-Dec-23) 2)CARE A1+ (06-Apr-23)	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (16-Dec-21)
4	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (28-Dec-23) 2)CARE A1+ (06-Apr-23)	1)CARE A1+ (13-Dec-22)	1)CARE A1+ (16-Dec-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

<table>
<tr><th>Sr. No.</th><th>Name of the entity</th><th>Extent of consolidation</th><th>Rationale for consolidation</th></tr>
<tr><td>1</td><td>Associated CEAT Holdings Company (Pvt.) Limited</td><td rowspan="9">Full</td><td rowspan="7">Wholly Owned Subsidiary with strong linkages</td></tr>
<tr><td>2</td><td>CEAT Specialty Tires Inc.</td></tr>
<tr><td>3</td><td>CEAT Specialty Tyres B.V</td></tr>
<tr><td>4</td><td>Taabi Mobility Limited</td></tr>
<tr><td>5</td><td>CEAT Auto Components Limited</td></tr>
<tr><td>6</td><td>Tyresnmore Online Pvt Limited</td></tr>
<tr><td>7</td><td>CEAT Brazil Tires Servicos Ltda</td></tr>
<tr><td>8</td><td>Rado Tyres Limited</td><td rowspan="2">Subsidiary with strong linkages</td></tr>
<tr><td>9</td><td>CEAT AKKhan Limited</td></tr>
<tr><td>10</td><td>CEAT Kelani Holding (Pvt) Limited</td><td>Proportionate</td><td>Joint venture with strong linkages</td></tr>
</table>

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

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About us:
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