

Pick of the week



CEAT Ltd

Recommendation

BUY

Time Period

12 Months

Current Price

₹ 1356

Target Price

₹ 1500

Potential Upside

10.6%

Investment Argument

- We expect volume growth to remain strong on account of strong replacement segment demand and recovery in the OEM segment in the near term.
- The company has increased its market share across segments led by (1) improving quality of tires in the TBR segment, (2) widening its distribution network in the 2W segment and (3) further strengthening its OEM relationship and benefit of import restrictions in the PCR segment. (TBR – Truck Bus Radial; 2W – Two Wheeler; OEM - Original Equipment Manufacturer; PCR – Passenger Car Radial)
- We expect the company to gain further 80 bps market share over the next two years led by (1) new order wins in the PCR segment and (2) improving brand perception in the TBR segment.
- The company highlighted that it needs to take price hike of 4-5% to reach margin levels of 10-12%, which it might take over the course of 2QFY22. We would like to note that the international rubber prices have corrected by 20-25% from its top and we expect the raw material basket to come down from 3QFY22E onwards.
- We expect the company to deliver 13% revenue CAGR in consolidated entity over FY21-24E. We expect standalone EBITDA to grow at 12% CAGR over FY2021-24E. (EBITDA - Earnings before interest, taxes, depreciation, and amortization; CAGR - Compound annual growth rate).
- We value the company at a PE of 12x September 2023E earnings.

Note: The above is a brief note on the company, based on the inputs of KIE research report dated 22nd July 2021, which is available on our website at: <https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental>.

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