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Fundamental Analysis of Selected Stocks at MRF & CEAT

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ABSTRACT

This study undertakes a comparative fundamental analysis of two leading Indian tyre manufacturers, CEAT Limited and MRF Limited, over the five-year period FY 2021 to FY 2025, using secondary data drawn from annual reports and financial databases. Profitability (EPS, Net Profit Margin, ROE, ROA), liquidity (Current Ratio), solvency (Debt-Equity Ratio, Interest Coverage Ratio), efficiency (Inventory Turnover, Asset Turnover), and valuation (P/E Ratio, P/B Ratio, Dividend Payout Ratio) were examined for both companies using ratio analysis and trend comparison. The results show that MRF Limited consistently outperforms CEAT Limited across nearly every dimension studied: MRF reports higher and more stable EPS and Net Profit Margins, maintains a Current Ratio above 1 against CEAT's sub-1 level, carries substantially lower leverage (Debt-Equity Ratio of 0.07 versus 0.47 in FY 2025), generates stronger returns on assets and equity, turns over inventory and assets faster, and commands a consistently higher P/E and P/B multiple, reflecting greater investor confidence. CEAT shows a gradual improving trend over the study period but remains behind MRF on almost all financial parameters. The study concludes that MRF Limited represents the financially stronger and more dependable investment among the two, while CEAT Limited, though improving, needs to strengthen its liquidity position, reduce leverage, and improve operational efficiency to close the gap.

Keywords: *Fundamental Analysis; Comparative Study; CEAT Limited; MRF Limited; Tyre Industry; Financial Ratios; Profitability; Liquidity; Solvency; Valuation.*

1. INTRODUCTION

Comparative fundamental analysis is a well-established method in financial research for evaluating the intrinsic value, financial performance, and long-term growth prospects of listed companies. It rests on the premise that a stock's true value can be determined by examining relevant economic, financial, and qualitative factors — earnings, revenue growth, profitability, management effectiveness, industry position, and macroeconomic conditions — rather than relying on market price movements alone. A comparative framework is particularly useful when investors must choose between multiple companies operating in the same sector, since it allows relative strengths and weaknesses to be identified using a common set of financial indicators such as EPS, P/E, ROE, ROA, Debt-Equity, and Dividend Payout ratios.

This study applies such a framework to India's tyre industry, comparing CEAT Limited and MRF Limited — two of the country's largest tyre manufacturers — over the five financial years 2021 to 2025. Both companies operate under comparable industry conditions, including exposure to raw material price cycles (natural and synthetic rubber) and automotive demand trends, making them a natural pair for a same-industry comparative study. By examining profitability, liquidity, solvency, efficiency, and valuation together, the study aims to determine which of the two companies offers the stronger fundamental investment case.

1.1 Importance of the Study

The study simplifies complex financial data into structured, comparable insights, helping investors, researchers, and analysts assess the financial soundness, profitability, and long-term growth prospects of both companies. By benchmarking CEAT and MRF against each other on the same set of financial ratios, the study helps identify undervalued and overpriced positions and supports more informed, risk-aware investment decisions in the Indian tyre sector.

1.2 Need for the Study

CEAT and MRF, India's two largest tyre manufacturers, differ meaningfully in profitability, market share, pricing power, and financial performance, even though both are exposed to comparable industry variables such as raw material prices and automotive demand. A fundamental, indicator-based comparison is therefore needed to determine which company

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offers the stronger investment value, reduce investment risk, and build financial awareness of the tyre industry.

1.3 Scope and Period of the Study

The study evaluates and compares the financial performance and investment prospects of CEAT Limited and MRF Limited using data drawn from their balance sheets, profit and loss accounts, and cash flow statements. It covers profitability, liquidity, solvency, efficiency, and valuation criteria over five financial years, 2021 to 2025 — a period long enough to reduce the influence of short-term market swings and reveal genuine trends in growth, profitability, and financial health.

1.4 Research Gap

Existing literature on fundamental analysis has extensively studied stock valuation, financial ratio analysis, and investment decision-making, but sector-specific, same-industry comparative studies remain rare — most research compares equities independently or across unrelated sectors. Scholarly literature has not, until now, directly compared CEAT Limited with MRF Limited within the tyre industry. In addition, much of the existing research emphasises quantitative indicators such as EPS, ROE, and P/E while overlooking qualitative factors such as brand value and management effectiveness, and few studies incorporate tyre-specific economic factors such as raw material price cycles and replacement demand patterns. This study addresses these gaps by providing a comprehensive comparative fundamental analysis of CEAT and MRF that combines financial ratios with industry-specific context.

2. LITERATURE REVIEW

Kumaran, Natarajan, and Kumar (2022) examined how fundamental analysis affects stock ratings across sectors using EPS, P/E, and Debt-Equity ratios, finding that firms with strong fundamentals earn higher long-term returns and that fundamental analysis helps uncover undervalued stocks and reduce investment risk.

Mansuri (2020, cited 2024) studied the role of fundamental analysis in discovering intrinsic value, showing that market price can diverge from intrinsic value due to market inefficiencies, and that long-term investors benefit more from fundamental analysis than short-term traders.

Silpa, Arya, and Ambily (2021–22) compared NSE-listed companies on profitability, liquidity, and solvency, finding that firms with strong balance sheets and stable profitability perform better over time, and that industry-level comparison and macroeconomic awareness are important in stock selection.

Huang, Capretz, and Ho (2019–22) combined fundamental financial ratios with machine learning models (Random Forest, Neural Networks) for stock prediction, finding that fundamental indicators remain central to return forecasting even in AI-driven models.

Mehta, Goel, and Sharma (2024) reviewed the fundamental-analysis literature from 2002–2023, finding growing use of machine learning alongside financial ratios, and concluding that fundamental analysis remains essential to long-term investment strategy despite these technological developments.

Almeida and Vieira (2023) conducted a bibliometric study tracing fundamental analysis from classical valuation methods to data-driven approaches, concluding that fundamental analysis benefits long-term investors more than short-term traders and remains relevant despite technological change.

Chang and Phan (2024) used fundamental parameters and machine learning (logistic regression performing best) to forecast annual stock returns, finding that fundamentals-based models outperformed traditional methods and that financial statements have genuine predictive power for long-term performance.

Prathima, Levi, and Merlyn (2021) compared technical and fundamental analysis, finding that revenue, profitability, and economic indicators strongly affect stock prices and recommending that investors combine both approaches, with fundamental analysis favoured for long-term investment.

Meenakshi and Karthikeyan (2022) used EPS, ROE, and P/E ratio to assess Indian equities, finding that fundamentally stable businesses show more stock price stability and that fundamental analysis is more reliable than speculative trading.

Sharma and Verma (2023) examined multiple stocks on profitability, liquidity, and solvency ratios, finding that companies with higher ROE and EPS performed better over time and that market price often does not reflect intrinsic

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Reddy and Lakshmi (2024) studied NSE-listed company financials to evaluate performance through profitability and valuation, finding that financially solid firms generate stable revenues and that fundamental analysis improves investment decision-making.

Jain and Singh (2021) found that profits and profitability are the primary drivers of stock value, using ROE, EPS, and Debt-Equity ratio as key metrics, and concluded that strong fundamentals reduce investment uncertainty.

Priya and Vignesh (2025) compared firms by industry to identify performance gaps, finding that businesses with sound financial foundations perform better and that combining quantitative and qualitative criteria — including corporate governance and financial transparency — improves comparative fundamental analysis.

Taken together, the literature confirms that fundamental analysis remains central to stock valuation and long-term investment decision-making, even as machine learning and hybrid models grow in prominence. However, sector-specific, same-industry comparative studies remain scarce, and the tyre industry in particular has not been the subject of a direct CEAT-versus-MRF comparison — the gap this study addresses.

2.1 Theoretical Framework

This study rests on the premise that a stock's market price may not reflect its true value, and that financial statements and corporate conditions must be examined to establish that value. Fundamental analysis proceeds across three levels — economic, industry, and company — with economic conditions such as inflation and interest rates affecting raw material costs and profitability across the tyre sector, industry conditions such as automotive demand and replacement cycles affecting all tyre manufacturers, and company-level analysis of profitability, liquidity, solvency, and efficiency distinguishing individual firms. The Efficient Market Hypothesis suggests that stock prices reflect all available information, but real-world markets are not always efficient, allowing fundamental analysis to identify mispriced stocks even within the same industry. The Intrinsic Value Theory holds that a firm's true worth rests on its future profits, cash flows, and risk profile, estimated here through ratio analysis; Ratio Analysis Theory underpins the use of profitability, liquidity, solvency, and efficiency ratios to simplify complex financial statements into comparable metrics; the Dividend Discount Model supports valuing dividend-paying stocks such as MRF based on the present value of future dividends; the Risk-Return Tradeoff frames the comparison of CEAT's higher-risk, potentially higher-upside profile against MRF's more stable, lower-risk profile; and Markowitz's Portfolio Theory, emphasising diversification, supports examining both companies together to inform portfolio-level decisions within the tyre sector.

3. OBJECTIVES OF THE STUDY

- To evaluate the financial performance of CEAT Limited and MRF Limited using fundamental analytical techniques.
- To compare the profitability of the two firms using Net Profit Margin, EPS, and ROE ratios.
- To assess the liquidity of CEAT and MRF through current ratio analysis.
- To evaluate each firm's solvency position using debt-equity and interest coverage ratios.
- To evaluate each company's asset usage efficiency and operational effectiveness.

4. ANALYSIS

The study is based entirely on secondary data drawn from the annual reports of CEAT Limited and MRF Limited, their official corporate websites, the BSE, NSE, Moneycontrol, and other financial databases, covering five financial years from 2021 to 2025. Profitability, liquidity, solvency, efficiency, and valuation ratios were computed for both companies for each year and compared using ratio, percentage, and trend analysis.

4.1 Profitability Analysis

EPS = Net Profit ÷ Number of Equity Shares. Net Profit Margin = (Net Profit ÷ Revenue) × 100.

Table 1: EPS and Net Profit Margin, FY 2021–25

Year	CEAT EPS (Rs.)	MRF EPS (Rs.)	CEAT NPM (%)	MRF NPM (%)
2021	110.68	1,526.33	3.2	9.8
2022	16.62	1,526.33	0.8	9.5

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Year	CEAT EPS (Rs.)	MRF EPS (Rs.)	CEAT NPM (%)	MRF NPM (%)
2023	59.26	1,735.15	2.1	10.4
2024	172.26	4,812.26	4.5	11.2
2025	126.50	4,297.31	3.9	10.7

Source: Annual reports of CEAT Limited and MRF Limited, and financial databases (Moneycontrol, BSE, NSE), FY 2021 to FY 2025.

MRF consistently records a higher EPS and Net Profit Margin than CEAT throughout the study period. MRF's profit generation is steady and rising, particularly from FY 2024 onward, while CEAT's profitability fluctuates sharply, dipping to just Rs. 16.62 EPS and 0.8% NPM in FY 2022 before recovering. Although CEAT shows improvement in the later years of the study, it remains less profitable and less stable than MRF overall.

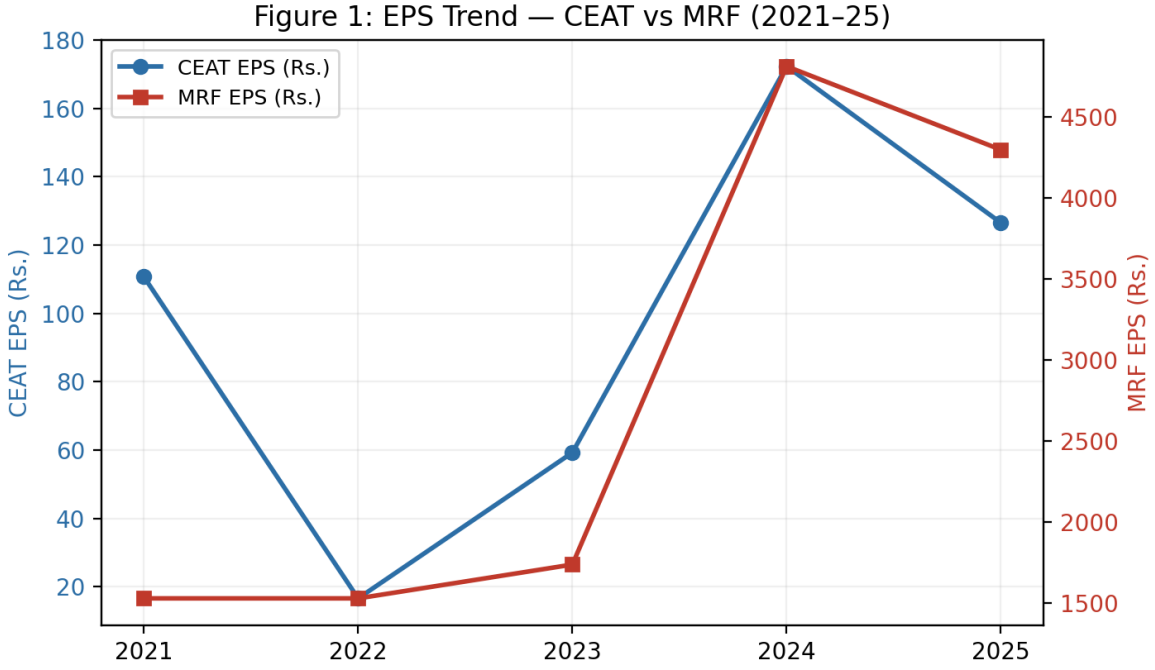


Figure 1: EPS Trend — CEAT vs MRF (FY 2021–25)

4.2 Liquidity Analysis

Current Ratio = Current Assets ÷ Current Liabilities.

Table 2: Current Ratio, FY 2021–25

Year	CEAT Current Ratio	MRF Current Ratio
2021	0.69	1.23
2022	0.66	1.37
2023	0.62	1.50
2024	0.57	1.65
2025	0.58	1.65

MRF's current ratio remains consistently above 1 and improves steadily across the study period, reflecting solid short-term liquidity and a comfortable capacity to meet obligations. CEAT's current ratio, by contrast, stays below 1 throughout, and shows only marginal improvement, indicating persistently weaker liquidity management relative to

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4.3 Solvency Analysis

Debt-Equity Ratio = Total Debt ÷ Shareholders' Equity. Interest Coverage Ratio = EBIT ÷ Interest Expense.

Table 3: Debt-Equity Ratio and Interest Coverage Ratio, FY 2021–25

Year	CEAT D/E Ratio	MRF D/E Ratio	CEAT ICR	MRF ICR
2021	0.60	0.12	3.5	12.4
2022	0.59	0.10	3.2	13.1
2023	0.69	0.09	4.0	14.5
2024	0.55	0.08	5.1	15.2
2025	0.47	0.07	5.4	16.0

CEAT consistently carries substantially more debt relative to equity than MRF, whose Debt-Equity Ratio falls steadily from 0.12 to 0.07 over the period, reflecting strong financial independence and low leverage risk. CEAT's ratio, while trending down from 0.60 to 0.47, remains far higher than MRF's, indicating a comparatively heavier reliance on debt. The Interest Coverage Ratio tells the same story: MRF's ratio rises from 12.4 to 16.0 across the period, indicating ample capacity to service interest obligations, whereas CEAT's ratio, though improving from 3.5 to 5.4, remains well below MRF's throughout, indicating comparatively higher financial risk.

4.4 Efficiency Analysis

ROA = Net Profit ÷ Total Assets × 100. Inventory Turnover = COGS ÷ Average Inventory. Asset Turnover = Net Sales ÷ Total Assets.

Table 4: ROA, Inventory Turnover, and Asset Turnover, FY 2021–25

Year	CEAT ROA (%)	MRF ROA (%)	CEAT Inv. Turnover	MRF Inv. Turnover	CEAT Asset Turnover	MRF Asset Turnover
2021	5.2	9.6	5.2	6.8	1.12	1.45
2022	4.1	9.3	5.0	7.1	1.05	1.50
2023	4.8	10.1	5.5	7.4	1.10	1.62
2024	6.0	10.8	5.8	7.8	1.18	1.70
2025	5.6	10.5	5.6	7.6	1.15	1.68

MRF outperforms CEAT on every efficiency measure studied. Its Return on Assets consistently exceeds CEAT's by roughly double, indicating more effective use of the asset base to generate profit. MRF also turns over inventory faster (7.6 versus 5.6 in FY 2025) and generates more sales per rupee of assets (Asset Turnover of 1.68 versus 1.15), pointing to tighter working-capital and operational management.

4.5 Return on Equity

ROE = Net Profit ÷ Shareholders' Equity × 100.

Table 5: Return on Equity (ROE), FY 2021–25

Year	CEAT ROE (%)	MRF ROE (%)
2021	13.89	4.88
2022	2.14	5.35
2023	5.43	13.25
2024	16.98	10.62

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Year	CEAT ROE (%)	MRF ROE (%)
2025	11.21	12.29

ROE shows a more uneven picture than the other metrics: CEAT's ROE swings sharply, from a low of 2.14% in FY 2022 to a high of 16.98% in FY 2024, while MRF's ROE rises more steadily, from 4.88% to a peak of 13.25% before settling at 12.29% in FY 2025. Overall, MRF generates more consistent shareholder returns, using its equity capital more predictably over the study period even though CEAT posts the single highest annual figure.

Figure 2: Key Financial Ratio Trends — CEAT vs MRF (2021–25)

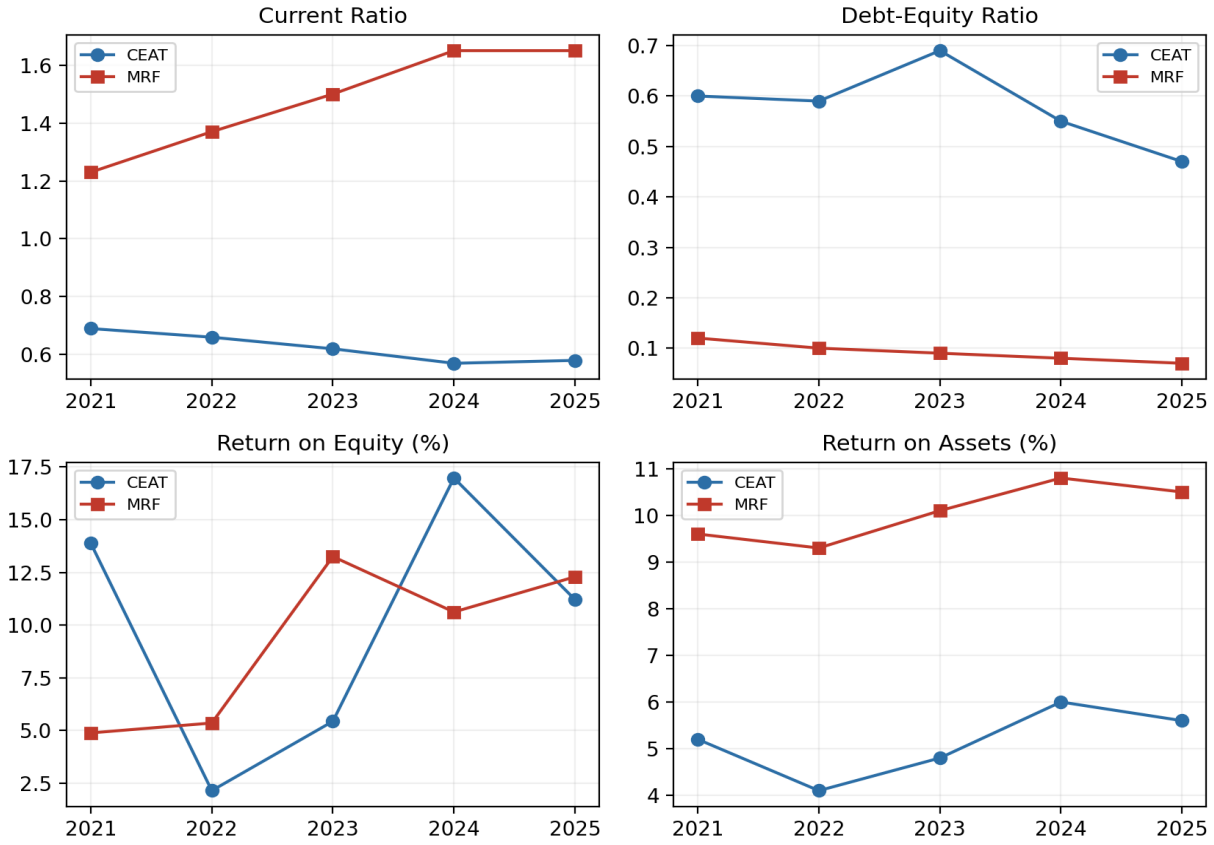


Figure 2: Key Financial Ratio Trends — CEAT vs MRF (FY 2021–25)

4.6 Valuation Analysis

P/E Ratio = Market Price per Share ÷ EPS. P/B Ratio = Market Price per Share ÷ Book Value per Share. Dividend Payout Ratio = DPS ÷ EPS × 100.

Table 6: P/E Ratio, P/B Ratio, and Dividend Payout Ratio, FY 2021–25

Year	CEAT P/E	MRF P/E	CEAT P/B	MRF P/B	CEAT DPR (%)	MRF DPR (%)
2021	28.5	35.2	3.1	8.5	18	22
2022	22.4	33.8	2.8	8.2	20	23
2023	26.1	38.5	3.0	9.0	19	24
2024	31.2	42.1	3.6	9.8	21	25
2025	29.0	40.5	3.4	9.6	20	24

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MRF trades at a consistently higher P/E and P/B ratio than CEAT throughout the study period, reflecting stronger investor confidence and a premium market valuation built on its superior profitability, liquidity, and solvency profile. CEAT's comparatively lower multiples suggest either a more muted market perception of its growth prospects or a genuine undervaluation relative to its improving fundamentals. MRF also maintains a marginally higher and more consistent Dividend Payout Ratio, reinforcing its appeal to income-focused investors, while CEAT's payout, though reasonable, is somewhat less consistent year to year.

5. FINDINGS

- MRF outperformed CEAT in profitability across the study period, with consistently higher EPS and Net Profit Margin, while CEAT's profitability fluctuates and remains behind MRF despite improvement in later years.
- MRF's Current Ratio stays above 1 throughout the period, indicating solid short-term liquidity, whereas CEAT's Current Ratio remains below 1, pointing to weaker working-capital management.
- MRF carries substantially lower leverage, with its Debt-Equity Ratio falling from 0.12 to 0.07, while CEAT's ratio, though declining from 0.60 to 0.47, remains far higher, indicating greater financial risk.
- MRF's Interest Coverage Ratio rises from 12.4 to 16.0 over the period, comfortably ahead of CEAT's improving but still lower 3.5 to 5.4 range.
- MRF outperforms CEAT on efficiency measures — Return on Assets, Inventory Turnover, and Asset Turnover — reflecting stronger operational management and asset utilisation.
- MRF shows more consistent Return on Equity across the period, while CEAT's ROE swings sharply from year to year despite posting the single highest annual figure in FY 2024.
- MRF commands a consistently higher P/E and P/B ratio than CEAT, reflecting stronger investor confidence and premium market valuation, while CEAT appears comparatively undervalued.
- MRF maintains a marginally higher and more consistent Dividend Payout Ratio than CEAT, reinforcing its appeal to income-focused investors.

6. SUGGESTIONS

- CEAT Limited should focus on boosting operational efficiency and reducing manufacturing costs to improve EPS and Net Profit Margin.
- CEAT should strengthen working capital management to bring its Current Ratio above the target level of 1.
- CEAT should adopt stronger debt management measures to reduce its Debt-Equity Ratio and overall financial risk.
- Adopting current technology and automation may help CEAT increase production efficiency and reduce waste.
- MRF Limited should maintain its financial discipline and continue pursuing expansion opportunities to sustain its growth trajectory.
- Both companies should prioritise more efficient asset usage to improve their Return on Assets and Asset Turnover ratios.
- CEAT could employ more sophisticated demand forecasting and supply chain technology to improve inventory turnover.
- Both companies should continue investing in R&D to develop better tyre products and sustain competitiveness.
- CEAT should prioritise building investor trust through more consistent dividend distribution and steadier financial performance.
- Both firms should prioritise sustainable business practices and cost-effective raw material procurement for long-term financial stability and industry competitiveness.

7. CONCLUSION

This comparative fundamental analysis of CEAT Limited and MRF Limited over FY 2021 to FY 2025 shows that MRF Limited holds a clear and consistent advantage in financial strength, stability, and efficiency. Higher and steadier EPS and Net Profit Margins reflect stronger cost management and revenue generation at MRF, while its healthy liquidity position and minimal leverage demonstrate effective short- and long-term financial management. Superior asset utilisation, inventory turnover, and interest coverage further confirm MRF's operational efficiency and lower financial risk, and its consistently higher P/E and P/B ratios reflect the investor confidence and brand strength that this financial

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discipline has built over time.

CEAT Limited, by comparison, shows weaker financial performance across most parameters — a Current Ratio persistently below 1 and comparatively higher leverage stand out as its key areas of concern — though the company shows a gradual improving trend across the study period in debt reduction, ROE, and operational efficiency. Although both companies operate in the same industry and face broadly comparable market conditions, MRF Limited emerges as the financially stronger and more dependable investment of the two. For CEAT Limited to close this gap, it will need to continue strengthening its financial structure and operational performance, building on the improvements already visible in the later years of this study.

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