

BSE SENSEX	S&P CNX
29,918	9,304
Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USDb)	61.5 / 1.0
52-Week Range (INR)	1575 / 731
1, 6, 12 Rel. Per (%)	15/18/14
Avg Val, INRm	1075
Free float (%)	49.2

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	64.4	71.5	77.5
EBITDA	6.6	7.9	9.3
PAT	3.8	4.2	5.4
EPS (INR)	93.3	104.9	133.9
Gr. (%)	-16.9	12.4	27.7
BV/Sh (INR)	597.0	688.0	804.2
RoE (%)	16.9	16.3	17.9
RoCE (%)	13.5	13.4	15.5
P/E (x)	16.3	14.5	11.4
P/BV (x)	2.5	2.2	1.9

Estimate change

TP change

Rating change

CMP: INR1,521 TP: INR1,741(+14%)
Buy
RawMat headwinds to continue in 1QFY18; Maintain Buy

- **In-line revenue and adj. PAT; EBITDA below estimates:** 4QFY17 revenue grew 5% YoY to INR16.4b (est. of INR16.5b), driven by volume growth of 4.4% and pricing mix. EBITDA margin shrunk 390bp YoY to 8.1%, impacted by gross margin contraction of 600bp, partly offset by lower other expenses. EBITDA fell by 29% YoY to INR1,325m and adj. PAT by 25% to INR798m (est. of INR777m). Tax was negative at INR45m due to R&D expenses (200% deduction in income tax) and capitalization of project (investment allowance of 15%). For FY17, revenue grew 1% YoY, EBITDA margin shrunk 270bp YoY to 10.2%, while adj. PAT declined 17% YoY to INR3,775m.
- **Replacement market performs well, while OEM and exports were laggards:** Replacement market grew 10% YoY in 4QFY17, while the OEM and exports segments declined. OEM was impacted post demonetization (was growing at 15% before), while exports were affected by import restrictions placed in Indonesia. In the replacement market, CV volumes were flattish, motorcycle and scooter were positive, and PV grew in northwards of 25%. In case of OEM, tractors was weak, 3Ws exhibited negative growth, while PVs/UVs registered positive growth.
- **Further price hike of 4-5% required to offset RM inflation:** Management highlighted that it has taken average price hike of 3-4% across categories and requires further hike of 4-5% to offset the impact of raw material price inflation. 1QFY18 is expected to see a contraction in margins, as peak purchase of natural rubber (made in February 2017) is likely to be utilized in May and June 2017. Additionally, advertisement expenses are expected to be on the higher side.
- **Valuation and view:** In FY18, management is expected to take further price hikes, while volume growth will be driven by strong demand in UVs. In this view, we expect revenue/PAT CAGR of 10%/20%, driven by EBITDA margin expansion of 180bp to 12% over FY17-19E. We value the company at a P/E of 13x FY19E EPS, and continue maintaining **Buy** rating with a target price of INR1,741 (15% upside).

Quarterly Performance (Consolidated)
(INR Million)

Y/E March	FY16				FY17				FY16	FY17E	FY17	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Sales	15,798	15,191	15,403	15,632	16,462	15,966	15,572	16,413	62,024	64,413	16,533	-1
YoY Change (%)	-1.7	-3.9	-0.7	-4.4	4.2	5.1	1.1	5.0	-2.7	3.9	1.5	
Total Expenditure	13,644	13,358	13,383	13,766	14,608	14,113	14,037	15,088	54,151	57,845	15,045	
EBITDA	2,154	1,833	2,020	1,866	1,854	1,854	1,535	1,325	7,873	6,568	1,488	-11
Margins (%)	13.6	12.1	13.1	11.9	11.3	11.6	9.9	8.1	12.7	10.2	9.0	
Depreciation	235	228	277	350	302	317	351	460	1,090	1,431	360	
Interest	264	223	193	264	252	162	191	212	944	817	192	
Other Income	81	77	60	67	57	37	57	36	285	186	60	
PBT before EO expense	1,736	1,459	1,610	1,319	1,356	1,411	1,050	689	6,124	4,506	996	-31
Extra-Ord expense	0	11	0	104	9	0	0	125	114	133	0	
PBT	1,736	1,448	1,610	1,216	1,347	1,411	1,050	564	6,010	4,373	996	-43
Tax	610	486	478	303	417	430	262	-45	1,877	1,064	309	
Rate (%)	35.1	33.6	29.7	25.0	30.9	30.5	25.0	-7.9	31.2	24.3	31.0	
Minority Interest & Profit/Loss of Asso. C	-91	-91	-2	-71	-110	-88	-50	-55	-254	-303	-90	
Reported PAT	1,218	1,053	1,134	983	1,041	1,069	838	663	4,387	3,611	777	-15
Adj PAT	1,218	1,060	1,134	1,060	1,047	1,069	838	798	4,465	3,712	777	3
YoY Change (%)	135.6	28.7	27.0	12.9	-14.0	0.9	-26.1	-24.8	40.8	-16.9	-25.8	
Margins (%)	7.7	7.0	7.4	6.8	6.4	6.7	5.4	4.9	7.2	5.8	4.7	

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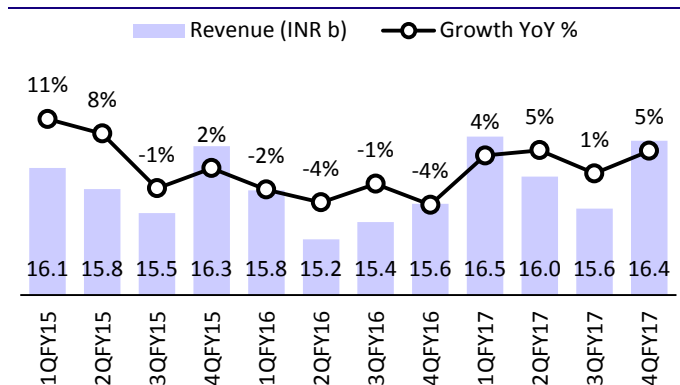
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

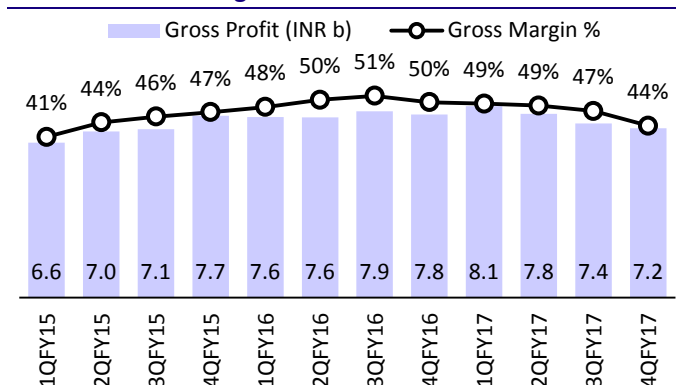
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

In-line revenue and adj. PAT; EBITDA below estimates

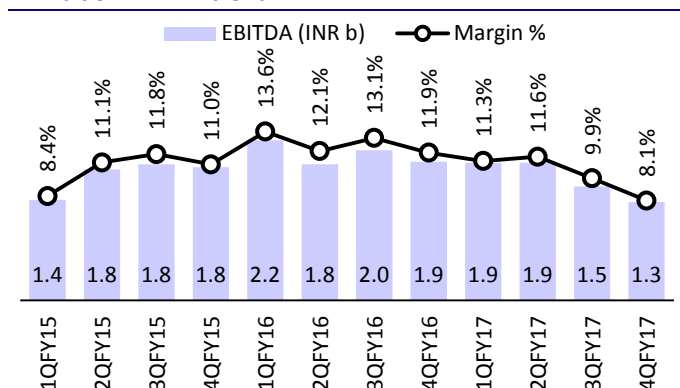
- CEAT's 4QFY17 revenue grew by 5% to INR16.4b (est. of INR16.5b) driven by volume growth of 4.4% and balance from pricing mix.
- EBITDA margins registered a decline of 390bp YoY to 8.1% impacted by gross margin decline of 600bp and partly offset by lower other expenses.
- EBITDA de-grew by 29% to INR1,325m while adjusted PAT de-grew by 25% to INR798m (est. of INR777m).
- The tax was negative at INR45m on account of R&D expenses (200% deduction in Income Tax) and capitalization of project (investment allowance of 15%). Depreciation was higher on account of commissioning of Nagpur plant. The exceptional item of INR125m was account on VRS offered to employees.
- CEAT's FY17 revenue grew by 1% to INR64.4b while EBITDA margins registered a decline of 270bp YoY to 10.2% impacted by increase in raw material costs.
- EBITDA de-grew by 20% to INR6,567m while adjusted PAT de-grew by 17% to INR3,775m.

Exhibit 1: Revenue trend

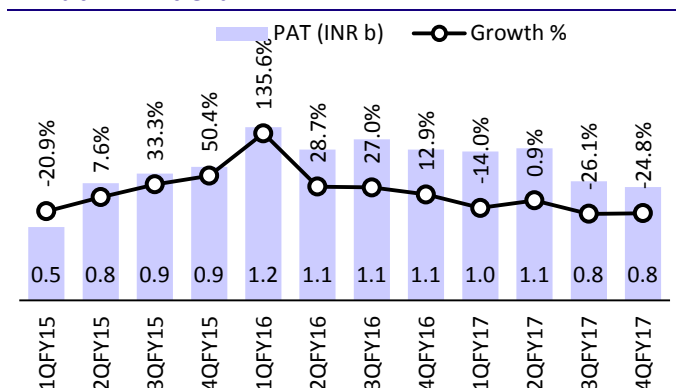
Source: MOSL, Company

Exhibit 2: Gross margin trend

Source: MOSL, Company

Exhibit 3: EBITDA trend

Source: MOSL, Company

Exhibit 4: PAT trend

Source: MOSL, Company

Other highlights

- CEAT launched two new products during the 4QFY17 which included MILAZE tyres for high selling Taxi SUV segment across India and BULAND range of tyres for Small Commercial Vehicles across India.
- Post demonetization, Chinese dumping had slowed down which as per management may come back impacting the tyre industry. Truck segment was the most impacted as Chinese players had occupied almost 30% share.

- The management is seeing strong growth in scooter and UV segment.
- On capex front, the management highlighted that it will continue to incur INR1.5b of routine capex while project related capex is expected to be INR6.5b.

Exhibit 5: New products launched

Products

Launch of MILAZE tyres for the high selling Taxi SUV segment across India



Launch of BULAND range of tyres completed for Small Commercial Vehicles (SCV) across India.



Source: MOSL, Company

Exhibit 6: New OEM entries

OEM entries



Honda Activa 125



Maruti Suzuki Wagon R



Ashok Leyland
Stag and Partner



Volvo Eicher LCV

Source: MOSL, Company

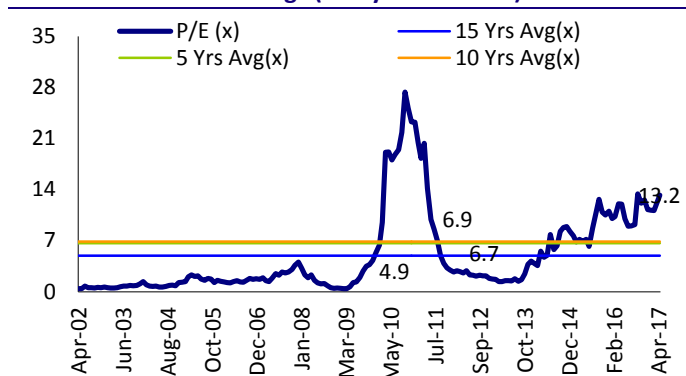
Valuation and view

After witnessing three years of muted revenue growth, CEAT is expected to come back on the growth path, driven by new capacity, product mix improvement, unique ad campaigns for every segment and increasing distribution reach. Improvement in the product mix in favor of the passenger segment is likely to partly insulate CEAT against rubber price volatility.

We expect sales and PAT CAGR of 10% and 20%, respectively, and margins to improve by 180bp over FY17-19E. The first phase of capex of INR14b (to be completed by FY18) is being met entirely by internal accruals, while the recently announced capex of INR28b (to be incurred over FY18-22) is expected to be funded via a mix of debt and equity. Despite ongoing capex, we expect RoCE to improve by 200bp to 15.5%, with strong FCF generation of INR7.8b over FY17-19E.

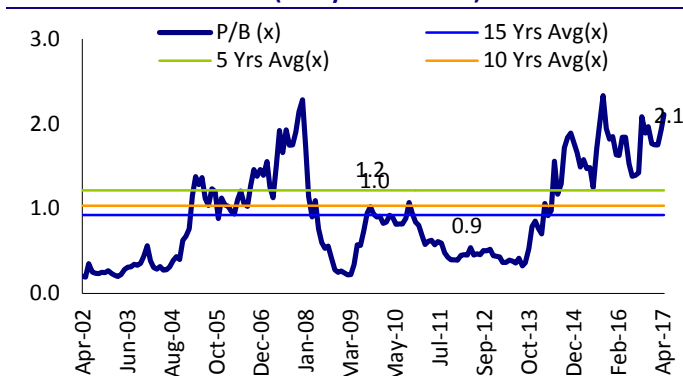
Going ahead in FY18, management is expected to take further price hikes while volume growth will be driven by strong demand in UV segment. In this view, we expect revenue/PAT CAGR of 10%/20% driven by EBITDA margins expansion of 180bp to 12% over FY17-19E. We value the company at PE of 13x FY19 EPS and continue to maintain Buy with a target price of INR1741 (15% upside).

Exhibit 7: Price to earnings (one year forward)



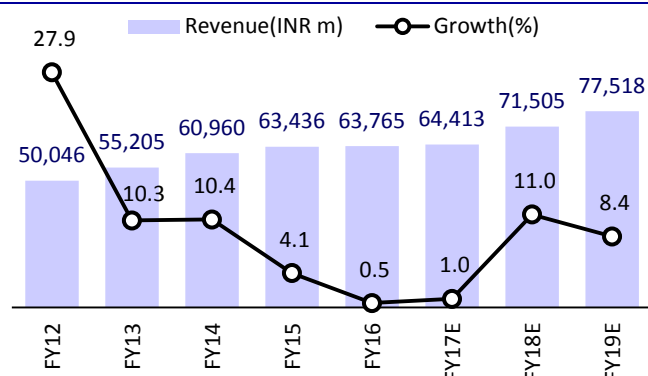
Source: MOSL, Company

Exhibit 8: Price to book (one year forward)

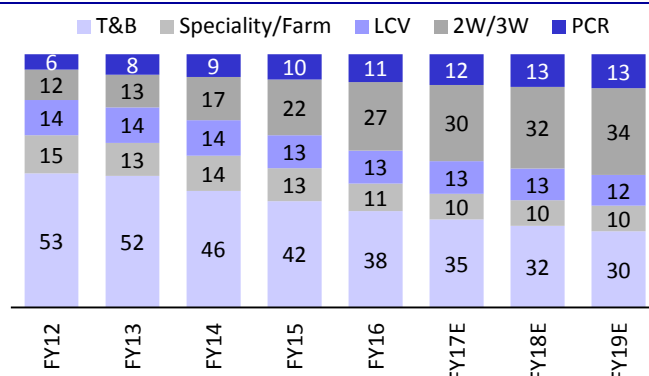


Source: MOSL, Company

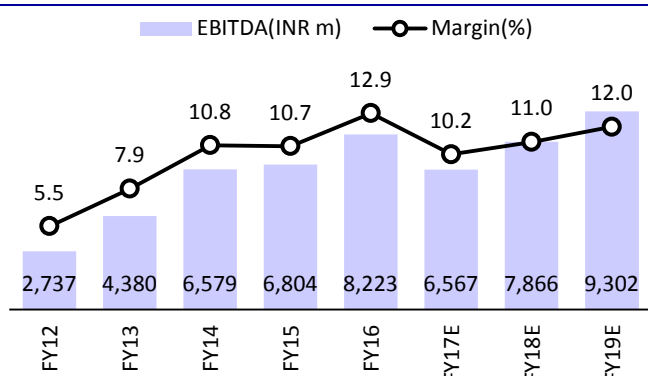
Story in charts

Exhibit 1: Revenues to post 10% CAGR over FY17–19


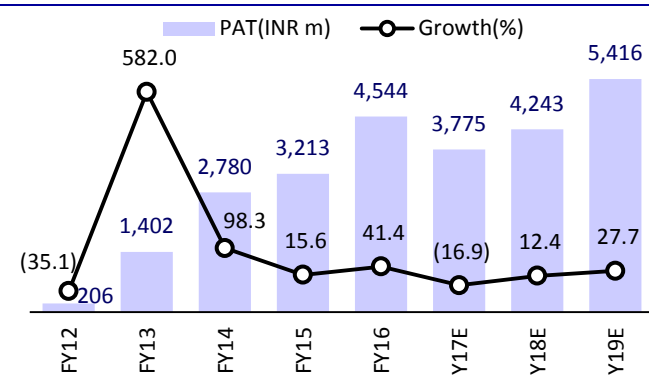
Note: Gross revenues considered due to IndAs adjustment Source: Company, MOSL

Exhibit 2: With Increasing 2W and 4W contribution (% share)


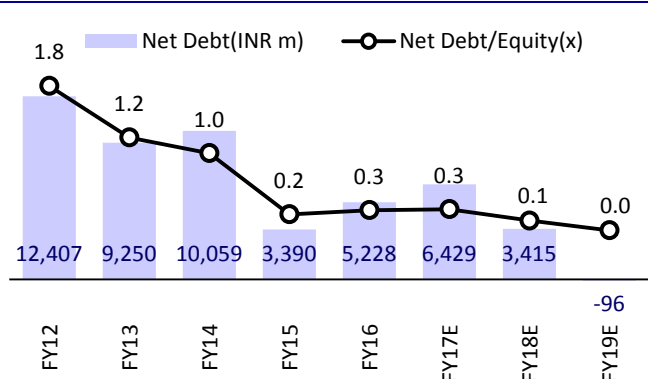
Note: Standalone product Revenues considered Source: Company, MOSL

Exhibit 3: EBITDA to post 19% CAGR over FY17–19


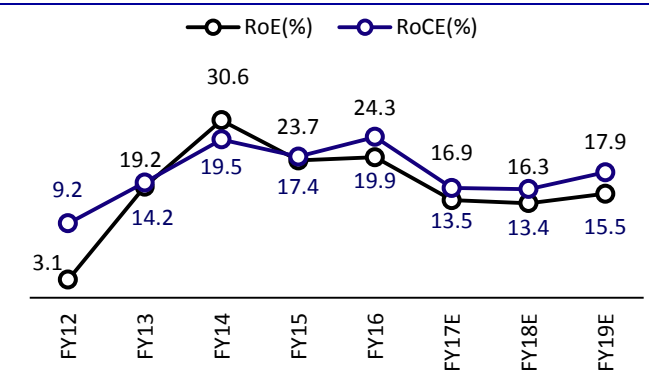
Note: Excise Duty included in expenses Company, MOSL

Exhibit 4: PAT to post 20% CAGR over FY17-19


Source: Company, MOSL

Exhibit 5: Continues to reduce debt


Source: Company, MOSL

Exhibit 6: Return ratios to remain healthy


Source: Company, MOSL

Exhibit 7: Assumption sheet

CEAT Ltd	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Revenue (INR m)								
Truck and Bus	22,772	24,552	23,913	22,574	20,493	18,690	19,250	19,250
Speciality / Farm	6,445	6,138	7,278	6,987	5,932	5,467	6,025	6,507
LCV	6,015	6,610	7,278	6,987	7,011	6,939	7,505	7,805
Two Wheeler	5,156	6,138	8,837	11,824	14,561	16,243	19,239	21,933
Passenger Cars /UVs	2,578	3,777	4,679	5,375	5,932	6,481	7,677	8,598
Total product revenues (Net)	42,966	47,215	51,984	53,747	53,929	53,819	59,696	64,093
Tubes	5,310	5,836	6,477	7,090	7,281	7,784	8,718	10,026
Sri lanka and other subsidiary revenue	1,770	2,155	2,498	2,599	2,555	2,810	3,091	3,400
Gross Revenue	50,046	55,205	60,960	63,436	63,765	64,413	71,505	77,518
Excise Duty	3,519	4,683	5,420	5,915	6,624	6,748	7,436	8,062
Net Revenue	46,527	50,522	55,540	57,521	57,141	57,665	64,068	69,456
Growth (%)								
Truck and Bus	18%	8%	-3%	-6%	-9%	-9%	3%	0%
Speciality / Farm	38%	-5%	19%	-4%	-15%	-8%	10%	8%
LCV	39%	10%	10%	-4%	0%	-1%	8%	4%
Two Wheeler	54%	19%	44%	34%	23%	12%	18%	14%
Passenger Cars /UVs	54%	47%	24%	15%	10%	9%	18%	12%
Total product revenues (Net)	29%	10%	10%	3%	0%	0%	11%	7%
Tubes	29%	10%	11%	9%	3%	7%	12%	15%
Sri lanka and other subsidiary revenue	9%	22%	16%	4%	-2%	10%	10%	10%
Gross Revenue	28%	10%	10%	4%	1%	1%	11%	8%
Volume Growth (%)								
Truck and Bus	0%	4%	-2%	-5%	-3%	-4%	0%	0%
Speciality / Farm	14%	-7%	20%	10%	-6%	-5%	7%	8%
LCV	44%	11%	14%	-4%	7%	1%	5%	4%
Two Wheeler	29%	24%	47%	40%	28%	15%	15%	14%
Passenger Cars /UVs	-9%	24%	27%	19%	24%	15%	15%	12%
Total	12%	6%	10%	6%	10%	3%	7%	7%
Realisation Growth (%)								
Truck and Bus	18%	4%	-1%	-1%	-7%	-5%	3%	0%
Speciality / Farm	20%	3%	-1%	-13%	-10%	-3%	3%	0%
LCV	-4%	-1%	-3%	0%	-6%	-2%	3%	0%
Two Wheeler	20%	-4%	-2%	-4%	-4%	-3%	3%	0%
Passenger Cars /UVs	70%	18%	-2%	-4%	-11%	-5%	3%	0%
Net Realisation(%)	19%	4%	-1%	-3%	-6%	-3%	3%	0%
Revenue mix(%)								
Truck and Bus	53	52	46	42	38	35	32	30
Speciality / Farm	15	13	14	13	11	10	10	10
LCV	14	14	14	13	13	13	13	12
Two Wheeler	12	13	17	22	27	30	32	34
Passenger Cars /UVs	6	8	9	10	11	12	13	13

Source: Company, MOSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Net Sales	50,046	55,205	60,960	63,436	63,765	64,413	71,505	77,518
Change (%)	27.9	10.3	10.4	4.1	0.5	1.0	11.0	8.4
EBITDA	2,737	4,380	6,579	6,804	8,223	6,567	7,866	9,302
EBITDA Margin (%)	5.5	7.9	10.8	10.7	12.9	10.2	11.0	12.0
Depreciation	728	806	865	934	1,075	1,431	1,488	1,628
EBIT	2,009	3,573	5,713	5,870	7,148	5,137	6,378	7,675
Interest	1,958	1,808	1,720	1,319	907	817	973	625
Other Income	223	177	140	226	299	186	219	241
Extraordinary items	-32	-277	-100	-61	-114	133	0	0
PBT	242	1,665	4,032	4,716	6,425	4,639	5,625	7,291
Tax	60	463	1,324	1,576	1,978	1,064	1,732	2,245
Tax Rate (%)	24.9	27.8	32.8	33.4	30.8	22.9	30.8	30.8
Min. Int. & Assoc. Share	0	0	-4	-33	-18	-303	-350	-370
Reported PAT	182	1,202	2,712	3,172	4,465	3,878	4,243	5,416
Adjusted PAT	206	1,402	2,780	3,213	4,544	3,775	4,243	5,416
Change (%)	-35.1	582.0	98.3	15.6	41.4	-16.9	12.4	27.7

Balance Sheet							(INR Million)	
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Share Capital	342	342	360	405	405	405	405	405
Reserves	6,434	7,512	9,927	16,418	20,241	23,745	27,425	32,123
Net Worth	6,776	7,855	10,286	16,823	20,645	24,150	27,830	32,528
Debt	13,114	10,378	11,738	7,750	6,704	9,104	7,104	3,304
Deferred Tax	358	786	1,148	1,250	1,567	2,134	2,134	2,134
Total Capital Employed	20,248	19,019	23,535	26,149	29,239	35,679	37,359	38,257
Gross Fixed Assets	21,655	22,231	23,041	24,183	30,395	35,438	38,938	42,438
Less: Acc Depreciation	5,994	6,719	7,617	8,590	9,412	10,843	12,330	13,958
Net Fixed Assets	15,661	15,512	15,424	15,593	20,984	24,595	26,608	28,480
Capital WIP	176	274	823	2,290	3,043	3,193	3,193	3,193
Investments	309	6	0	3,124	403	2,316	2,316	2,316
Current Assets	14,612	15,463	18,927	17,002	16,747	19,749	20,762	20,991
Inventory	6,027	5,588	7,536	6,801	6,621	9,435	8,369	8,597
Debtors	6,383	6,628	7,545	7,050	6,188	6,138	7,444	7,433
Cash & Bank	397	1,121	1,679	1,236	1,073	359	1,373	1,084
Loans & Adv, Others	1,806	2,125	2,167	1,914	2,866	3,818	3,575	3,876
Curr Liabs & Provns	10,714	12,451	11,865	12,075	12,143	14,175	15,519	16,723
Curr. Liabilities	10,407	11,624	10,837	10,642	10,946	13,274	14,089	15,172
Provisions	307	828	1,028	1,434	1,197	902	1,430	1,550
Net Current Assets	3,898	3,011	7,061	4,927	4,604	5,574	5,242	4,268
Total Assets	20,248	19,019	23,535	26,149	29,239	35,678	37,359	38,257

Financials and Valuations

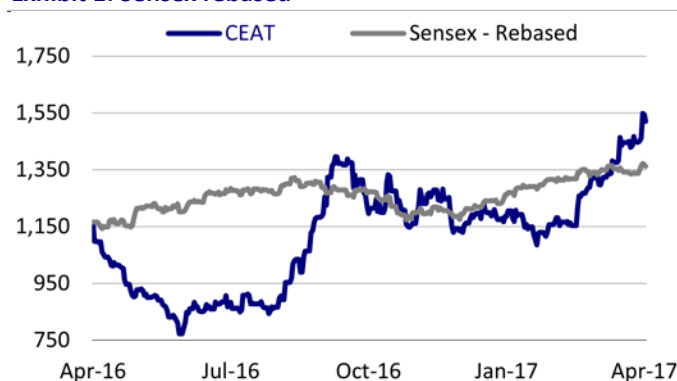
Ratios								
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Basic (INR)								
EPS	5.1	34.6	68.7	79.4	112.3	93.3	104.9	133.9
Cash EPS	23.1	54.6	90.1	102.5	138.9	128.7	141.7	174.1
Book Value	167.6	194.2	254.3	415.9	510.4	597.0	688.0	804.2
DPS	0.8	3.4	9.1	10.0	11.5	9.8	11.5	14.7
Payout (incl. Div. Tax.)	21.9	13.3	15.8	14.3	12.0	12.3	13.3	13.3
Valuation(x)								
P/E	0.0	0.0	0.0	19.1	13.5	16.3	14.5	11.4
Price / Book Value	0.0	0.0	0.0	3.7	3.0	2.5	2.2	1.9
EV/Sales	0.0	0.0	0.0	1.1	1.1	1.1	0.9	0.8
EV/EBITDA	0.0	0.0	0.0	10.0	8.2	10.7	8.5	6.8
Dividend Yield (%)	0.1	0.2	0.6	0.7	0.8	0.6	0.8	1.0
Profitability Ratios (%)								
RoE	3.1	19.2	30.6	23.7	24.3	16.9	16.3	17.9
RoCE	9.2	14.2	19.5	17.4	19.9	13.5	13.4	15.5
RoIC	8.8	13.9	19.9	19.3	22.4	14.5	14.6	17.1
Turnover Ratios (%)								
Asset Turnover (x)	2.5	2.9	2.6	2.4	2.2	1.8	1.9	2.0
Debtors (No. of Days)	47	44	45	41	35	35	38	35
Inventory (No. of Days)	44	37	45	39	38	53	43	40
Creditors (No. of Days)	48	52	41	38	37	44	43	42
Leverage Ratios (%)								
Net Debt/Equity (x)	1.8	1.2	1.0	0.2	0.3	0.3	0.1	0.0
Cash Flow Statement								
	(INR Million)							
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Adjusted EBITDA	2,737	4,380	6,579	6,804	8,223	6,567	7,866	9,302
Non cash opr. exp (inc)	-207	-407	40	165	185	0	0	0
(Inc)/Dec in Wkg. Cap.	-2,472	1,955	-3,736	1,714	332	-1,684	1,347	686
Tax Paid	-73	-382	-891	-1,123	-1,822	-1,064	-1,732	-2,245
Other operating activities	185	299	-23	-73	-56	774	0	0
CF from Op. Activity	169	5,844	1,968	7,487	6,862	4,593	7,480	7,743
(Inc)/Dec in FA & CWIP	-1,519	-847	-1,446	-2,999	-7,054	-4,988	-3,500	-3,500
Free cash flows	-1,350	4,998	523	4,488	-192	-394	3,980	4,243
(Pur)/Sale of Invt	120	303	370	0	-1	-1,913	0	0
Others	55	66	57	-2,990	2,929	186	219	241
CF from Inv. Activity	-1,343	-477	-1,018	-5,989	-4,127	-6,714	-3,281	-3,259
Inc/(Dec) in Net Worth	36	0	109	3,934	0	0	0	0
Inc / (Dec) in Debt	2,638	-3,076	1,387	-3,994	-927	2,400	-2,000	-3,800
Interest Paid	-1,512	-1,526	-1,723	-1,476	-979	-817	-973	-625
Divd Paid (incl Tax) & Others	-81	-41	-165	-404	-994	-176	-212	-348
CF from Fin. Activity	1,082	-4,643	-392	-1,940	-2,899	1,407	-3,185	-4,772
Inc/(Dec) in Cash	-92	724	558	-442	-164	-713	1,014	-289
Add: Opening Balance	489	397	1,121	1,679	1,237	1,072	359	1,373
Closing Balance	397	1,121	1,679	1,237	1,072	359	1,373	1,084

Corporate profile

Company description

CEAT, a flagship company of the RPG Group, is the fourth largest tyre manufacturer in India in terms of revenue (~12% market share). With manufacturing facilities at Bhandup (bias tyres), Nashik (bias and radial), Halol (radial) and Nagpur (2W/3Ws), the company's capacity stands at >900MT/day (95,000 tyres/day). It operates in India via a robust distribution network of 4,500+ dealers, 33 regional offices, 400+ franchisees, 6 manufacturing facilities and 250+ distributors.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	50.8	50.8	50.8
DII	7.5	5.6	4.1
FII	23.9	27.4	30.0
Others	17.8	16.3	15.2

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Jwalamukhi Investment Holdings	8.0
Amansa Holdings Private Limited	3.9
Westbridge Crossover Fund, LLC	3.5
Mirae Asset Emerging Bluechip Fund	3.2
NA	0.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
H V Goenka	Chairman
Anant Vardhan Goenka	Managing Director
Shruti Joshi	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Hari L Mundra	Atul C Choksey
H Khaitan	Mahesh S Gupta
Paras K Chowdhary	Punita Lal
Ranjit V Pandit	S Doreswamy
Vinay Bansal	Arnab Banerjee

*Independent

Exhibit 6: Auditors

Name	Type
KPMG	Internal
N I Mehta & Co	Cost Auditor
Parikh & Associates	Secretarial Audit
S R B C & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	107.6	90.3	19.2
FY19	140.6	103.1	36.4
FY20	220.8	124.4	77.4

Source: Bloomberg

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CEAT

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