

CEAT

Sector: Auto-ancillary /Mid-Cap | Earnings Update – 3QFY18

BUY

5 February 2018

Background: CEAT, part of the RPG group, is one among the top four tire manufacturers in India with a total manufacturing capacity of >1000 MT/day & manufacturing plants situated in Nashik, Bhandup (Mumbai), Ambarnath, Halol, and Gujarat, the company manufactures all tires: Truck & Bus (33%), 2W/3W (32%), Passenger vehicles (14%), LCV (12%), Off Highway (12%). In terms of market, replacement contributed 62% of the sales while OEM and exports make up 26% and 12% of the sales, respectively. CEAT has a robust distribution network consisting of over 4,500 dealers, 33 regional offices and more than 500+ C&F agents. CEAT commands >12% market share in the T&B segment, 7% in the Passenger car segment, 16% in LCV segment and 22% in the 2/3W segment.

Sensex	34,757
Nifty	10,666
Price	INR 1,617
Target Price	INR 1,994
Recommendation	BUY
52 Week High/Low	INR 2,030/1,070
Bloomberg / Reuters	CEAT IN /CEAT NS
Equity (shares in mn)	40.45
Mkt. Cap in bn	INR 63.7/\$ 0.98
Avg. Daily Vol. ('000)	586
Avg. Daily Vol. (mn)	INR 947/\$ 14.6

Steady revenue growth

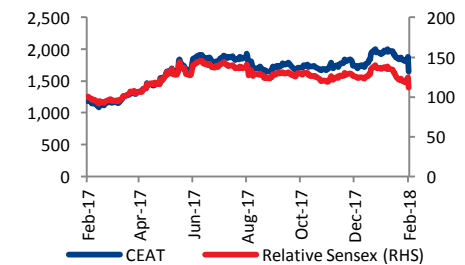
- In 3QFY18, CEAT's consolidated revenue grew by 12.6% YoY to INR 15.7bn, driven by robust volumes growth across passenger vehicle, 2Ws and commercial vehicle tyre segments. Standalone revenue grew by 12% YoY, led by 7% YoY volume growth and 5% YoY increase in realization.
- Consolidated EBITDA grew by 23.4% YoY to INR 1.95bn. EBITDA margin improved by 110bps YoY to 12.4%, aided by favorable raw material prices and continued cost reduction. CEAT expects RM cost per kg to be flat in 4QFY18 but recent increase in crude prices could lead to ~5% increase in RM cost in 1QFY19 unless rubber prices correct further from current levels. Consolidated PAT declined by 2.4% YoY to INR 0.82bn, impacted by higher effective tax rate during the quarter.
- In terms of Segments, Passenger vehicle and 2W volume grew in double-digit during the quarter, while volume growth in CV segment was impacted by capacity constraints as company is operating at close to full utilization in both truck bias and truck radial tyre segment.
- CEAT highlighted that new players (such as Maxxis, JK Tyres, Apollo and Michelin) have entered in 2W segment over the past few quarters but there has been no pricing pressure in the segment as yet.
- Management has increased its FY2019E capex guidance to INR 15-17bn from INR 10bn earlier as it wants to commission the TBR capacity next year itself. The company has also increased five-year capex guidance to INR 35bn from INR 28bn earlier; additional amount will be towards increasing capacity in passenger vehicle segment. Management has also decided to infuse INR 1.7bn in its 100% subsidiary CEAT Specialty Tyres.
- The company received approvals to start manufacturing for its new specialty tires plant in Ambarnath in October 2017. Management highlighted that product testing has been successful and expects to ramp up capacity over the next 2-3 quarters. Current capacity of the plant is 40 tons per day, which will eventually increase to 100 tons per day over the next two years.

Shareholding	Dec 16	Sep 17	Dec 17
Promoters (%)	50.76	50.76	50.76
FII (%)	27.35	25.92	25.1
DII (%)	5.58	8.91	10.19
Others (%)	16.31	14.41	13.95
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)			
Y/E March	2018E	2019E	2020E
Revenue	62.2	71.0	79.1
EBITDA	6.2	9.2	11.0
Adj PAT	2.6	4.4	5.0
Adj EPS*	65.3	109.9	124.6
% growth	-28.8	68.3	13.4
P/E	24.8	14.7	13.0
P/ BV	2.5	2.2	1.9
EV/EBITDA	11.9	9.1	7.7
EV/Sales	1.2	1.1	0.9
Div Yield (%)	0.5	0.8	0.9
ROE (%)	10.5	15.8	15.6

*Consolidated earnings

Performance %	1M	3M	12M
Ceat	-15.2	-7.8	38.8
Sensex	3.8	4.0	24.2



Valuation: We introduce FY20 estimates (Revenue/EPS: +11.4%/+13% YoY) and roll over valuations on FY20 estimates. At CMP, the stock is trading at P/E of 14.7X/13x on FY19E/FY20E EPS, respectively. We arrive at a revised price target of INR 1,994 based on P/E of 16x FY20EPS and maintain **BUY** rating on the stock. **Risks:** Further increase in rubber & crude prices can negatively impact margins.

Results Summary 3QFY18

Y/E March (INR mn)	3QFY18	3QFY17	YoY Growth	2QFY18	QoQ Growth
Net sales	15,740	13,980	12.6%	15,230	3.3%
EBITDA	1,950	1,580	23.4%	1,810	7.7%
Depreciation	430	350	22.9%	410	4.9%
Other Income	70	60	16.7%	60	16.7%
PBT	1,300	1,100	18.2%	1,150	13.0%
Tax	480	260	84.6%	420	14.3%
PAT	820	840	-2.4%	730	12.3%
EBITDA Margin (%)	12.4	11.3		11.9	
Tax Incidence (%)	36.9	23.6		36.5	
PAT Margin (%)	5.2	6.0		4.8	

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RESEARCH			
Sathyanarayanan M	Consumption	+91-44 - 3000 7361	sathyanarayananm@chola.murugappa.com
Mugilan K	Auto Ancillary, Technicals	+91-44 - 3000 7353	mugilank@chola.murugappa.com
Keerthi S	Banking & Financial Services	+91-44 - 3000 7363	keerthi@chola.murugappa.com
Ashish M	Associate - IT	+91-44 - 3000 7360	ashishm@chola.murugappa.com
Sreedevi Kandipan	Engineering & Cement	+91-44 - 3000 7266	sreedevik@chola.murugappa.com
Muthu Kumar J	Associate- Research	+91-44 - 3000 7360	muthukumarj@chola.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FII Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Lakshmanan T S P	Chennai	+91-9840019701	lakshmanantsp@chola.murugappa.com
Kishore K Ganti	Mumbai	+91-22-26597239	kishorekg@chola.murugappa.com
Bhavesh Katariya	Mumbai	+91-9860297739	bhaveshgk@chola.murugappa.com
Sudhanshu Kumar	Institutional Equities*	+91 - 9953175955	sudhanshuk@chola1.murugappa.com
Balaji H	Compliance Officer	044 - 30007226	balajih@chola.murugappa.com

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