

# CEAT

Sector: Auto-ancillary /Mid-Cap | Earnings Update – 4QFY18

**BUY**

3 May 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 (32%), 2W/3W (31%), Passenger vehicles (14%), LCV (12%), Farm (7%), and Specialty (4%). In terms of market, replacement contributed 61% of the sales while OEM and exports make up 23% 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	35,103
Nifty	10,679
Price	INR 1,554
Target Price	INR 1,933
Recommendation	BUY
52 Week High/Low	INR 2,030/1,407
Bloomberg / Reuters	CEAT IN /CEAT NS
Equity (shares in mn)	40.45
Mkt. Cap in bn	INR 62.9/\$ 0.94
Avg. Daily Vol. ('000)	605.9
Avg. Daily Vol. (mn)	INR 941.6/\$ 14.1

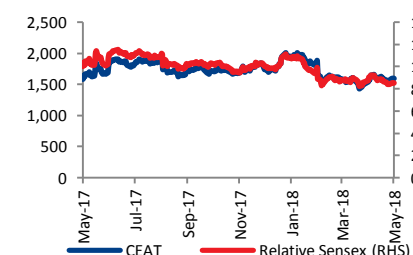
Shareholding	Mar 17	Dec 17	Mar 18
Promoters (%)	50.76	50.76	50.76
FII (%)	23.91	25.1	22.31
DII (%)	7.51	10.19	11.73
Others (%)	17.82	13.95	15.2
Pledge (% of promoter holding)	0.00	0.00	0.00

## Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	62.3	70.4	84.1
EBITDA	6.1	7.4	10.3
Adj PAT	2.6	3.4	4.6
Adj EPS*	64.0	84.9	113.7
% growth	31.4	32.7	33.9
P/E	24.3	18.3	13.7
P/ BV	2.4	2.2	1.9
EV/EBITDA	11.8	11.2	8.3
EV/Sales	1.2	1.2	1.0
Div Yield (%)	0.7	0.6	0.8
ROE (%)	10.3	12.5	14.8

\*Consolidated earnings

Performance %	1M	3M	12M
CEAT	3.6	-11.7	0.5
Sensex	5.8	-3.1	17.6



## Strong revenue growth, driven by volume

- In 4QFY18, CEAT's consolidated revenue grew by 13.7% YoY to INR 16.7bn, driven by robust volumes growth of 11% YoY across commercial vehicle, 2Ws, and Passenger vehicle tyre segments.
- For FY18, consolidated revenue grew by 8% YoY to INR 62.3bn, driven by 3% YoY volume growth. EBITDA declined by 7% to INR 6.1bn. EBITDA margin shrunk by 150 bps YoY to 9.9%. Adjusted PAT declined by ~31% YoY to INR 2.6bn.
- Consolidated EBITDA grew by 49% YoY to INR 2.0bn. EBITDA margin improved by 280bps YoY to 11.8%, led by operating leverage. Consolidated PAT grew by 17% YoY to INR 0.77bn. Management expects raw material cost to inflate by 1.2-1.5% QoQ in 1QFY19, given crude prices remain at current level of USD 65-70 per barrel. The company took a price hike of 0.5% in April 2018 to mitigate the impact of higher RM cost.
- CEAT's revenue contribution from strategic focus area increased to 48% in FY18 compared to 46% in FY17. CEAT has identified 2W, Passenger cars and OTR (truck/off-road) tyre segments as its strategic focus areas, given their ability to boost margins and lower the company's dependence on the truck segment. Net debt reduced by INR 846mn to 7.4bn on end of FY18.
- Management indicated that it witnessed robust growth in the OEM segment in 4QFY18. OEMs and exports demand outpaced the replacement demand. CEAT guided capex of INR 15-17bn for FY19 and INR 8bn for FY20. TBR brownfield expansion to be ready by 3QFY19, PCR greenfield by 2HFY20 and OTR by 1HFY20.
- 2W tyre segment is expected to grow in double-digit in FY19, driven by new product launches, increasing acceptance with OEMs and distribution expansion. CEAT witnesses relatively higher competitive intensity in 2Ws compared to CVs and PVs.
- CEAT expects to reach 100% utilization in OTR tyres by FY19 from current 30% utilization. Average utilization for FY19 would be at 50-55%. Consolidated EBITDA margin is expected at 20% in FY19. In 4QFY18, contract as the official time-out partner in IPL was extended by another 4 years in 4QFY18.

**Valuation:** At CMP, the stock is trading at P/E of 18.7X/14.0x on FY19E/FY20E EPS, respectively. We maintain our **BUY** rating on CEAT with revised target price of INR 1,933 (earlier INR 1,994), assigning a P/E of 17X on FY20 EPS. **Risks:** Further increase in rubber & crude prices can negatively impact margins.

## Results Summary 4QFY18

Y/E March ( INR mn)	4QFY18	4QFY17	YoY Growth	3QFY18	QoQ Growth
<b>Net sales</b>	16,739	14,718	13.7%	15,742	6.3%
<b>EBITDA</b>	1,976	1,325	49.1%	1,870	5.7%
<b>Depreciation</b>	448	460.2	-2.7%	433.3	3.4%
<b>Other Income</b>	69.4	36	92.8%	66.3	4.7%
<b>PBT</b>	1,165	614	89.8%	1,296	-10.1%
<b>Tax</b>	397	(45)	-986.8%	475	-16.3%
<b>PAT</b>	771	663	16.2%	826	-6.7%
<b>EBITDA Margin (%)</b>	11.8	9.0		11.9	
<b>Tax Incidence (%)</b>	34.1	-7.3		36.6	
<b>PAT Margin (%)</b>	4.6	4.5		5.2	

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Served as an officer, director or employee	No

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