

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USD\$)	32.8 / 0.4
52-Week Range (INR)	1101 / 602
1, 6, 12 Rel. Per (%)	4/7/-1
12M Avg Val (INR M)	206

Financials & valuations (INR b)

Y/E March	FY20	FY21E	FY22E
Sales	67.8	61.9	71.1
EBITDA	7.2	7.2	9.1
EBITDA Margin (%)	10.7	11.7	12.8
Adj. PAT	2.3	2.1	3.0
EPS (INR)	57.1	51.3	74.9
EPS Gr. (%)	-14.7	-10.1	46.0
BV/Sh. (INR)	719	757	817

Ratios

RoE (%)	8.1	7.0	9.5
RoCE (%)	7.0	6.3	7.4
Payout (%)	25.3	25.8	19.3

Valuations

P/E (x)	14.2	15.8	10.8
P/BV (x)	1.1	1.1	1.0
Div. Yield (%)	1.5	1.4	1.5
FCF Yield (%)	-4.9	-5.9	-0.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	46.7	46.7	51.1
DII	8.9	8.0	7.5
FII	28.2	28.4	24.8
Others	16.2	16.9	16.6
FII Includes depository receipts			

CMP: INR810 TP: INR936 (+16%) Buy

Above est., led by lower RM; RM tailwind to sustain

Cuts capex for FY21 | Merger of OTR business to give tax benefits

- CEAT's beat in the performance for 4QFY20 was completely driven by favorable RM cost. The trend in spot prices in key commodities indicates further material benefits would accrue from 2QFY21. This, coupled with the tax benefit on accumulated loss in the OTR business, offset the impact of weak demand on PAT.
- Hence, we largely maintain our estimate, which implies ~2%/12%/15% revenue/EBITDA/EPS CAGR over FY20–22E. Maintain **Buy**.

Highest EBITDA margin in 13 quarters; TBR/PCR plant cost drags down PAT

- CEAT's revenues/EBITDA/PAT grew -11%/23%/-12% YoY in 4QFY20, and growth in FY20 stood at -3%/13%/-15%.
- While volumes fell 11% YoY, realizations were stable. Revenues declined ~11% YoY to INR 15.7b (v/s est. of INR15.8b) due to business loss of ~INR2b on account of lockdown. Pre-lockdown, replacement demand was growing at ~10%.
- Gross margins improved ~270bp QoQ (+640bp YoY), driven largely by the RM cost benefit (-2.4% QoQ, -8% YoY) and the 45bp benefit of higher inventory.
- The EBITDA margin improved ~230bp QoQ (+350bp YoY) to ~12.7% (v/s est. of 9.6%), partially offset by the new TBR plants' overheads.
- EBITDA grew ~23% YoY to ~INR2b (v/s est. of ~INR1.51b). However, higher expenses at the new TBR plant, partially offset by lower tax, resulted in 12% YoY decline in adj. PAT of ~INR708m (v/s est. of ~INR312m).
- Despite capex of ~INR2b and an interim dividend payment of ~INR0.6bn in 4QFY20, consolidated debt increased just ~INR0.4b QoQ to INR19.3b, supported by reduction of INR2.9bn in working capital.

Highlights from management commentary

- Current replacement demand is better for Farm>2W>CV>PC (in order of relative strength). For FY21, it should be better for Farm>2W>PC>CV as CVs would be the hardest hit.
- RM cost would drop as natural rubber/crude prices have declined ~15%/50% from pre-COVID levels; however, the benefit would reflect only in 2Q.
- **Capex:** FY21 project capex guidance reduced to INR5–5.5b (v/s earlier guidance of INR8–10b), plus INR1–1.5b in maintenance capex. Of the total project cost of ~INR40b for capacity additions, the company has to date invested ~INR22b (incl. OTR tyres).
- It has received approval from NCLT for the merger of the OTR business (100% sub) w. e. f. Apr'19. Considering accumulated loss in this business, which we estimate at ~INR1.6b, we expect a lower tax rate over FY21–22.

Valuation & view

- Relatively stable replacement demand, coupled with benign RM cost, would drive relatively stable performance in a weak operating environment.
- Valuations at 15.8x/10.8x FY21/22E consol. EPS does not fully capture the benefit of substantial capacity addition. Maintain Buy with TP of ~INR936.

Consolidated – Quarterly earnings model

									(INR m)		
Y/E March	FY19				FY20				FY19	FY20	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Net operating revenues	17063	17723	17299	17605	17521	16916	17618	15734	69845	67788	15,806
Change (%)	16.9	16.4	9.9	4.4	2.7	-4.6	1.8	-10.6	11.9	-294.5	-10.2
EBITDA	1758.2	1592.4	1425.6	1623.4	1671.3	1703.7	1832.1	2003.5	6,425	7,238	1,511
EBITDA Margins (%)	10.304	9.0	8.2	9.2	9.5	10.1	10.4	12.7	9.2	10.7	9.6
Depreciation	460	476.8	482.4	507.9	644.2	670.7	705.3	744.9	1,927	2,765	794.6
EBIT	1298.2	1115.6	943.2	1115.5	1027.1	1033	1126.8	1258.6	4498	4,473	716
EBIT Margins (%)	7.6	6.3	5.5	6.3	5.9	6.1	6.4	8.0	6.4	6.6	4.5
Interest	204	186	222	269	349	374	380	407	880	1,509	405
Non-operating income	37	33	40	306	120	43	36	35	390	205	42
PBT after EO items	1108	943	762	898	1095	693	780	605	3711	3174	354
Effective Tax Rate (%)	40	39	40	32	30	44	39	19	38	33	38.0
PAT	720	632	528	643	826	440	528	519	2522	2312	312
Adjusted PAT	735	644	528	801	626	445	530	708	2707	2309	312
Change (%)	3905.7	-17.3	-36.6	-13.1	-14.7	-30.9	0.356	-11.64	318.3	-14.7	-61.0
Key performance indicators											
RM Cost (% of sales)	60.7	60.1	58.5	60.7	60.5	58.9	57.0	54.4	59.9	57.8	57.6
Staff Cost (% of sales)	7.0	8.0	8.2	7.3	7.7	7.2	8.2	9.0	7.6	8.0	9.0
Other Cost (% of sales)	22	23	25	23	22	24	24	24	23	24	23.8
Gross margin (%)	39.3	39.9	41.5	39.3	39.5	41.1	43.0	45.6	40.1	42.2	42.4
EBITDA Margins (%)	10.3	9.0	8.2	9.2	9.5	10.1	10.4	12.7	9.2	10.7	9.6
EBIT Margins (%)	7.6	6.3	5.5	6.3	5.9	6.1	6.4	8.0	9.2	10.7	4.5

E:MOFSL Estimates

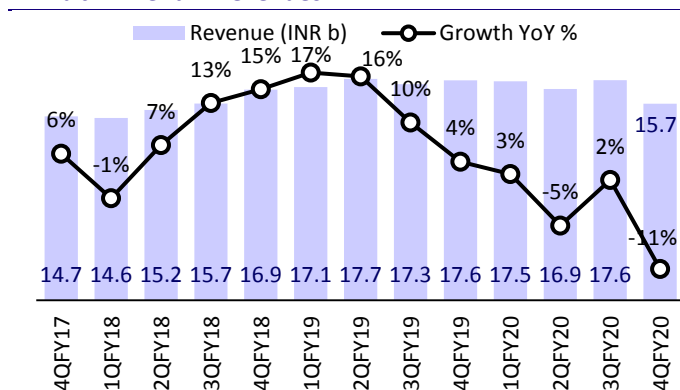
Highlights from management commentary

- **Volume trend for FY20:** Total volumes de-grew ~4.8% in FY20. The Farm sector has seen the most decline, while Passenger Car and 2W fared relatively better. CV tyres declined; TBR saw 20% growth, but TBB declined.
- **Volume trend post lockdown:** During the quarter, muted OEM demand was offset by strong replacement demand across segments. Current replacement demand is as Farm>CV>2W>PC; however, in the long term, it should be Farm>2W>PC>CV as CVs would be the hardest hit.
- The OEM business in CV, PV, and 2W should benefit from new capacity/customer/model additions. The company added Hero Glamour Refresh, Mahindra Jetto, Tata Intra, Daimler BS6 trucks, and the Piaggio Aprilia 150 scooter during the quarter.
- **RM cost** would come down as natural rubber/crude prices declined ~15%/50% from pre-COVID-19 levels; however, the effect would be witnessed July onward due to slower utilization in current inventory.
- **Capex:** The FY21 project capex guidance reduced to INR5–5.5b (v/s earlier guidance of INR8–10b), plus INR1–1.5b in maintenance capex. In FY20, it invested ~INR11.05b. Of the total project cost of ~INR40b for capacity additions, it has to date invested ~INR22b (incl. OTR tyres).

- The PCR plant at Chennai was commissioned in Feb'20; however, the ramp-up would be slower due to sluggish demand. At full capacity, it can produce 28,500 PCR tyres/day and 2500 motorcycle radial tyres/day.
- For the merger of the OTR business (100% sub), it has received approval from NCLT. Considering accumulated loss in the business, which we estimate at ~INR1.6b, we expect a lower tax rate for FY21/FY22.
- **Tax regime:** The company has decided to continue with the old rate regime. 4QFY20 saw lower tax due to the benefit of R&D cost and income tax return for the previous year.

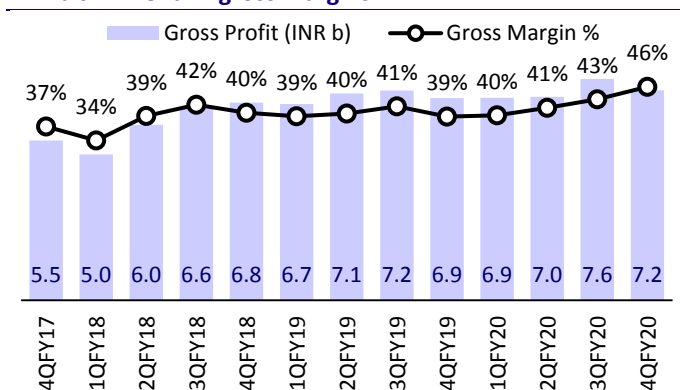
Key exhibits

Exhibit 1: Trend in revenues



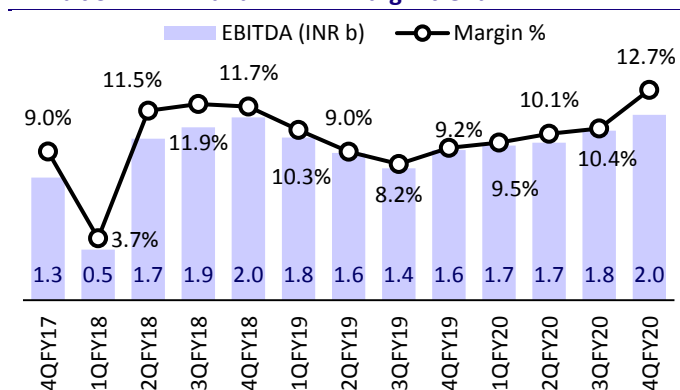
Source: MOFSL, Company

Exhibit 2: Trend in gross margins



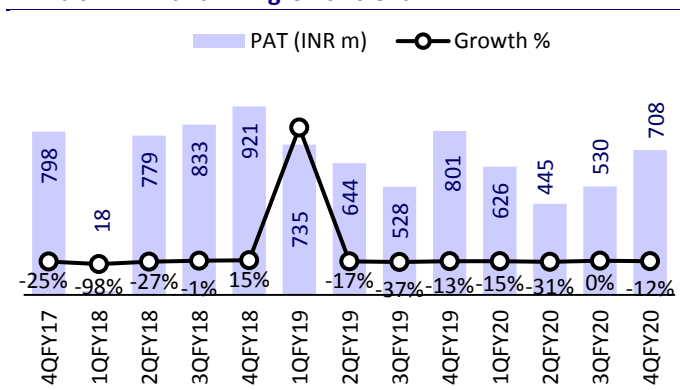
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trend



Source: MOFSL, Company

Valuation and view

Focus on improving brand equity to drive market share gains: CEAT has laid strong emphasis on the effective marketing and branding of its products. To position its products competitively, the company has developed creative ad campaigns based on extensive research / consumer insights and invested in innovative marketing programs. Since the 2W and Passenger Car segments are consumer-facing, we believe factors such as brand loyalty, visibility, and recall go a long way in creating replacement market demand and improving market share, which would in turn benefit its margin profile.

Ramp-up in strategic focus areas to continue: CEAT has identified the 2W, Passenger Car, 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. Revenue contribution from these areas of focus has increased significantly over the years, to 48% in FY18 from 20% in FY10. We believe that with the on-going capex plan, contribution from focus areas could scale up to 60–65% over the next four–five years, which would also reflect positively in the company's operating performance. We expect revenue/EBITDA/PAT CAGR at ~2%/12%/15% revenue/EBITDA/EPS CAGR over FY20–22E based on EBITDA margin expansion of ~210bp by FY22E to 12.8%.

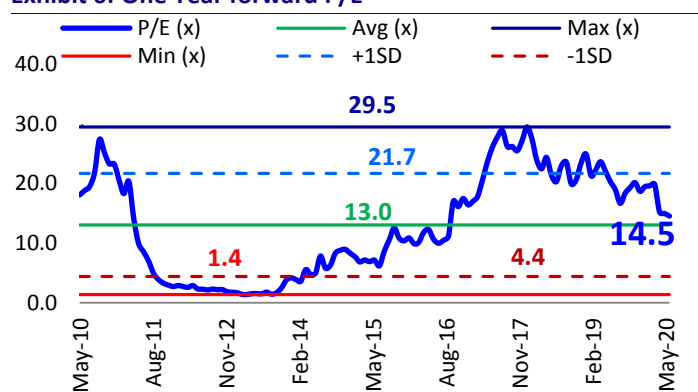
Growth capex to increase capacity by ~50%: CEAT has lined up capex of ~INR35b over FY19–23E to increase its capacity by ~50%. It is investing in PCR (for ~240tpd capacity), TBR (for 208tpd capacity), 2W (~140tpd capacity), and OTR (~60tpd addition). This would help the company attain a strategic product mix, while scaling up revenue contribution from focus areas, thereby driving margin expansion. With the large part of capex behind and capacity-ready, CEAT has substantial headroom to grow from the current capacity. This is not fully reflected in our estimates for FY21/FY22.

Valuation and view: CEAT has adequate capacity to cater to near-future demand and capacity, which could be ramped up faster if demand arises; therefore, it has slowed capex. Relatively stable replacement demand, coupled with benign RM cost, would drive a relatively stable performance in a weak operating environment. Valuations at 15.8x/10.8x FY21/FY22E consol. EPS do not fully capture the benefit of substantial capacity addition. Maintain **Buy** with TP of ~INR936 (~12.5x Mar'22 consol. EPS).

Exhibit 5: Change in estimate

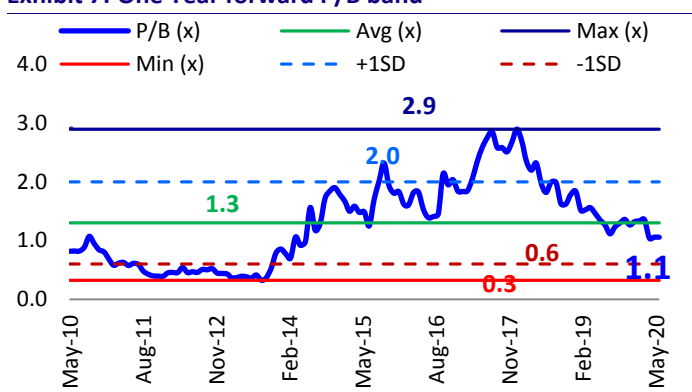
(INR m)	FY21E			FY22E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	61,918	71,749	-13.7	71,140	81,460	-12.7
EBITDA	7,244	7,677	-5.6	9,106	9,368	-2.8
EBITDA (%)	11.7	10.7	100bp	12.8	11.5	130bp
Adj. PAT	2,075	2,099	-1.2	3,028	3,043	-0.5
EPS (INR)	51.3	51.9	-1.2	74.9	75.2	-0.5

Exhibit 6: One Year forward P/E



Source: MOFSL, Company

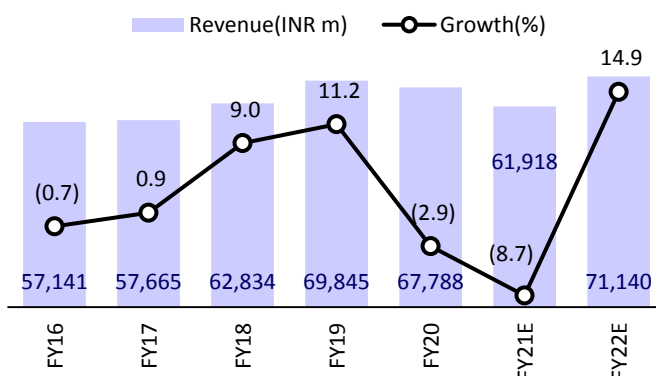
Exhibit 7: One Year forward P/B band



Source: MOFSL, Company

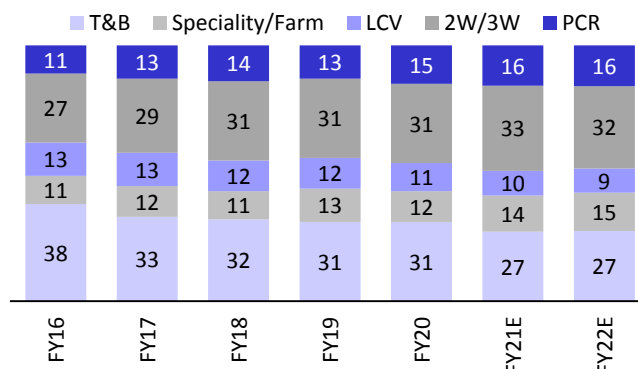
Story in charts

Exhibit 8: Revenue and growth trend



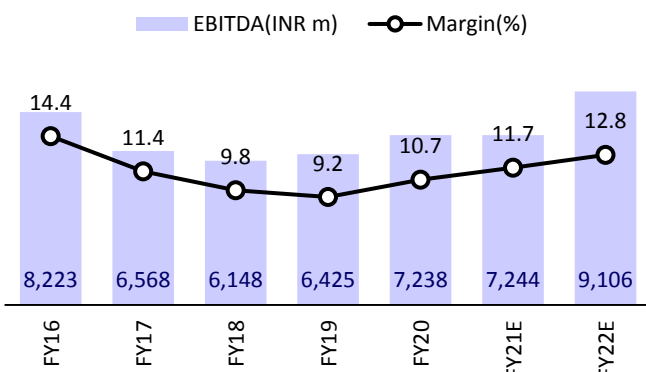
Source: MOFSL, Company

Exhibit 9: Key revenue segments



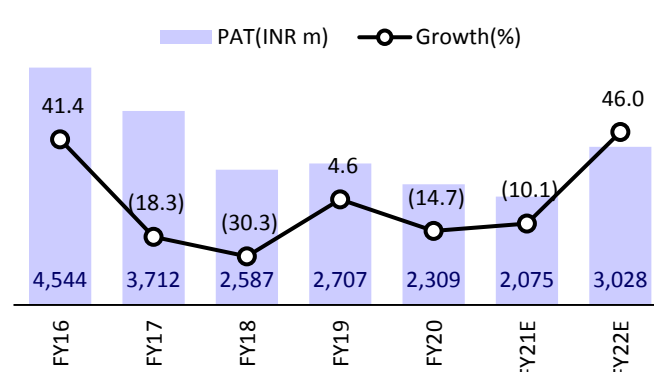
Source: MOFSL, Company

Exhibit 10: EBITDA and EBITDA margin trend



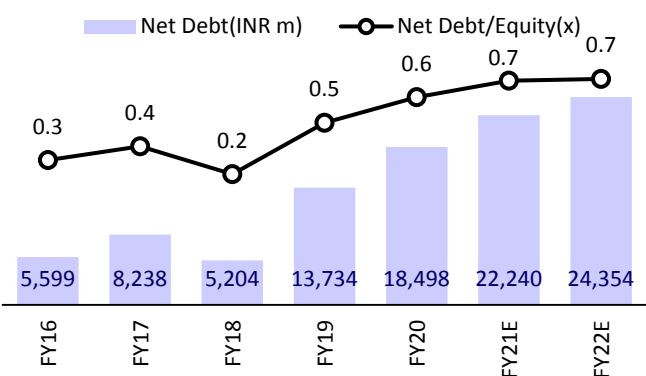
Source: MOFSL, Company

Exhibit 11: PAT and PAT growth trend



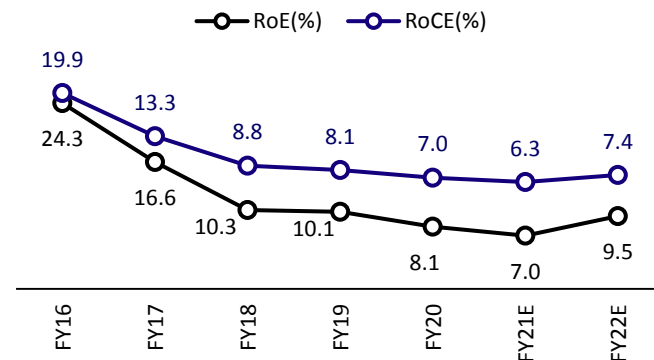
Source: MOFSL, Company

Exhibit 12: Trend in debt levels



Source: MOFSL, Company

Exhibit 13: Trend in return profile



Source: MOFSL, Company

Financials and valuations

Consolidated – Income statement						(INR m)		
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenues from Ops	57,521	57,141	57,665	62,834	69,845	67,788	61,918	71,140
Change (%)	3.6	-0.7	0.9	9.0	11.2	-2.9	-8.7	14.9
EBITDA	6,804	8,223	6,568	6,148	6,425	7,238	7,244	9,106
Margin (%)	11.8	14.4	11.4	9.8	9.2	10.7	11.7	12.8
Depreciation	934	1,075	1,431	1,686	1,927	2,765	3,301	3,717
EBIT	5,870	7,148	5,137	4,462	4,498	4,473	3,943	5,389
Int. and Finance Charges	1,319	907	817	974	880	1,509	1,675	1,805
Other Income	226	299	186	295	390	205	200	290
PBT bef. EO Exp.	4,777	6,539	4,506	3,783	4,008	3,169	2,468	3,874
EO Items	-61	-114	-133	-340	-297	5	0	0
PBT after EO Exp.	4,716	6,425	4,373	3,443	3,711	3,174	2,468	3,874
Total Tax	1,576	1,978	1,064	1,340	1,402	1,046	543	1,046
Tax Rate (%)	33.4	30.8	24.3	38.9	37.8	33.0	22.0	27.0
Minority Interest/Share of (profit) from JV	-33	-18	-303	-277	-213	-184	-150	-200
Reported PAT	3,172	4,465	3,611	2,380	2,522	2,312	2,075	3,028
Adjusted PAT	3,213	4,544	3,712	2,587	2,707	2,309	2,075	3,028
Change (%)	15.6	41.4	-18.3	-30.3	4.6	-14.7	-10.1	46.0
Margin (%)	5.6	8.0	6.4	4.1	3.9	3.4	3.4	4.3
Consolidated – Balance sheet						(INR m)		
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	405	405	405	405	405	405	405	405
Total Reserves	16,418	20,143	23,745	25,656	27,257	28,675	30,213	32,656
Net Worth	16,823	20,547	24,150	26,061	27,661	29,079	30,618	33,061
Minority Interest	327	322	292	234	238	237	237	237
Total Loans	7,750	6,632	9,240	6,467	14,469	18,772	23,772	24,772
Deferred Tax Liabilities	1,250	1,582	1,449	1,893	2,198	2,744	2,744	2,744
Capital Employed	26,149	29,084	35,130	34,655	44,566	50,832	57,370	60,813
Gross Block	24,183	21,394	27,017	31,123	37,663	50,231	59,816	74,116
Less: Accum. Deprn.	8,590	1,073	2,492	4,030	5,868	8,633	11,934	15,651
Net Fixed Assets	15,593	20,321	24,525	27,092	31,795	41,598	47,882	58,465
Goodwill on Consolidation	215	0	0	0	0	0	0	0
Capital WIP	2,290	2,991	3,263	3,100	8,329	10,685	7,800	2,000
Total Investments	3,124	1,955	2,316	2,135	1,814	1,837	1,837	1,837
Curr. Assets, Loans&Adv.	17,002	15,813	19,066	19,137	22,111	19,410	18,427	19,720
Inventory	6,801	6,397	9,435	7,846	10,056	9,257	7,639	8,668
Account Receivables	7,050	5,935	6,138	7,472	7,064	6,744	6,160	7,077
Cash and Bank Balance	1,236	630	359	863	735	274	1,532	418
Loans and Advances	1,914	2,850	3,134	2,956	4,256	3,135	3,096	3,557
Curr. Liability & Prov.	12,075	11,996	14,039	16,810	19,484	22,697	18,575	21,208
Account Payables	6,583	6,353	7,582	8,705	10,529	11,948	9,287	10,537
Other Current Liabilities	4,059	4,537	5,556	7,257	7,566	9,114	8,049	9,248
Provisions	1,434	1,106	902	848	1,389	1,635	1,238	1,423
Net Current Assets	4,927	3,817	5,026	2,328	2,627	-3,288	-148	-1,488
Appl. of Funds	26,149	29,084	35,130	34,655	44,566	50,832	57,370	60,813

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Basic (INR)								
EPS	79.4	112.3	91.8	64.0	66.9	57.1	51.3	74.9
Cash EPS	102.5	138.9	127.1	105.6	114.6	125.4	132.9	166.7
BV/Share	415.9	508.0	597.0	644.3	683.8	718.9	756.9	817.3
DPS	10.0	11.5	11.5	11.5	12.0	12.0	11.0	12.0
Payout (%)	14.3	12.0	15.5	23.6	23.2	25.3	25.8	19.3
Valuation (x)								
P/E	10.2	7.2	8.8	12.7	12.1	14.2	15.8	10.8
Cash P/E	7.9	5.8	6.4	7.7	7.1	6.5	6.1	4.9
P/BV	1.9	1.6	1.4	1.3	1.2	1.1	1.1	1.0
EV/Sales	0.7	0.7	0.7	0.6	0.7	0.8	0.9	0.8
EV/EBITDA	5.8	4.7	6.3	6.2	7.2	7.1	7.6	6.3
Dividend Yield (%)	1.2	1.4	1.4	1.4	1.5	1.5	1.4	1.5
Return Ratios (%)								
RoE	23.7	24.3	16.6	10.3	10.1	8.1	7.0	9.5
RoCE	17.4	19.9	13.3	8.8	8.1	7.0	6.3	7.4
RoIC	19.3	23.0	14.7	9.4	9.0	8.4	7.3	7.7
Working Capital Ratios								
Asset Turnover (x)	2.4	2.7	2.1	2.0	1.9	1.3	1.0	1.0
Inventory (Days)	2.2	2.0	1.6	1.8	1.6	1.3	1.1	1.2
Debtor (Days)	43	41	60	46	53	50	45	44
Creditor (Days)	45	38	39	43	37	36	36	36
Leverage Ratio (x)								
Current Ratio								
Interest Cover Ratio	1.4	1.3	1.4	1.1	1.1	0.9	1.0	0.9
Net Debt/Equity	4.5	7.9	6.3	4.6	5.1	3.0	2.4	3.0

Consolidated – Cash flow statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
OP/(Loss) before Tax	4,716	5,869	4,373	3,443	3,560	2,871	2,468	3,874
Depreciation	934	1,077	1,431	1,686	1,927	2,765	3,301	3,717
Interest & Finance Charges	1,319	-74	-55	974	880	1,509	1,475	1,515
Direct Taxes Paid	-1,123	-1,686	-1,017	-979	-808	-181	-543	-1,046
(Inc)/Dec in WC	1,714	820	-2,174	1,667	235	2,582	-1,882	227
CF from Operations	7,560	6,006	2,558	6,791	5,794	9,546	4,820	8,287
Others	-73	1,015	789	-34	-267	17	0	0
CF from Operating incl EO	7,487	7,021	3,347	6,757	5,527	9,563	4,820	8,287
(Inc)/Dec in FA	-2,999	-7,137	-5,824	-4,872	-11,073	-11,183	-6,700	-8,500
Free Cash Flow	4,488	-117	-2,477	1,885	-5,547	-1,620	-1,880	-213
(Pur)/Sale of Investments	0	2,491	-333	376	320	9	0	0
Others	-2,990	321	722	345	236	419	200	290
CF from Investments	-5,989	-4,326	-5,434	-4,151	-10,517	-10,755	-6,500	-8,210
Issue of Shares	3,934	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-3,994	-1,354	2,963	-523	6,260	3,854	5,000	1,000
Interest Paid	-1,476	-930	-765	-973	-889	-1,925	-1,675	-1,805
Dividend Paid	-404	-979	-7	-528	-526	-1,139	-536	-585
Others	0	0	0	-1	0	0	150	200
CF from Fin. Activity	-1,940	-3,264	2,191	-2,025	4,844	790	2,938	-1,190
Inc/Dec of Cash	-442	-569	104	582	-146	-402	1,258	-1,114
Opening Balance	1,679	706	137	240	822	675	274	1,532
Closing Balance	1,237	137	240	822	675	274	1,532	418

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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