

CEAT (CEAT IN)

Rating: ACCUMULATE | CMP: Rs845 | TP: Rs951

Cost control, favorable mix drive earnings

Quick Pointers:

- Replacement demand healthy backed by Farm/TBR (grew YoY), though PCR/2W demand improved from June.
- Plant utilization level back at pre covid level, led by healthy replacement sales thereby improving cash collection.
- Did not avail any moratorium concession due to stable liquidity position.

CEAT's consolidated performance was better led by higher than expected volumes in the replacement side while pricing remained stable. We expect operating performance to be healthy in near to med term led by better mix (higher replacement share), soft RM (declined 6% YoY in Q1) and cost control benefits. We believe CEAT to continue gain market share (gained ~1-2% in FY20) across categories especially in 2W, PV and farm segments. We largely maintain FY22/23 EPS and factor in revenue/EBITDA/PAT CAGR of 7.5%/10.5%/8.5%. With reduced capex intensity (cumulative capex of Rs12bn in FY22/23 v/s Rs26bn in FY19/20) we expect CEAT to turn FCF positive from FY22/23. Consequently, we maintain Accumulate with price target of Rs951 (earlier Rs958), based on 16x Mar-22 consol EPS.

CEAT's consol results surprised positively with revenue came in at Rs11.2bn (-36% YoY, PLe Rs7bn) led by higher than expected volumes in replacement sales while OEMs volume were weak. Overall volumes declined ~38% YoY while realisations improved by 1.5% YoY/ 3-4% QoQ due to better mix.

Lower operational cost led EBITDA beat: Decline in finished good inventory led lower gross margins at 40.3% (PLe 45.6%). However, this was offset by lower other cost at Rs2bn (PLe Rs2.4bn), led EBITDA beat at Rs1bn (-39% YoY, PLe Rs526mn). Consequently, margins declined by 40bp YoY/ 360bp QOQ at 9.1% (PLe 7.5%). CEAT reported one-off expense of Rs2bn towards obsolete RM inventory due to abrupt production stop led by lockdown.

Key takeaways from the call: 1) **Demand outlook:** Replacement demand pick up led by strong traction in Farm/TBR (grew YoY), while 2W/PV started picking up from June. Expect OEM/ Exports demand too to improve in Q2. 2) **Expect gross margins to improve** as benefits of declining RM to reflect in Q2. NR prices were Rs115/kg in Q1 which has further inched up. 4) **Capex guidance-** Expect consol capex of Rs5-6bn (Rs1bn incurred in Q1) including Rs1bn for specialty business. 5) **Structural cost initiative-** Aiming cost reduction of 15% by targeting curtailment in opex, supply chain and power etc. 6) Tyre imports is coming down post anti-dumping duty. Further keeping tyre in import restricted list should help domestic tyre manufacturers. Imports are ~6-8% currently across segments. 7) Plant utilization back at pre-COVID levels currently.

July 30, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	951		958	
Sales (Rs. m)	72,500	84,100	75,347	88,156
% Chng.	(3.8)	(4.6)		
EBITDA (Rs. m)	7,717	9,780	7,815	9,861
% Chng.	(1.3)	(0.8)		
EPS (Rs.)	59.5	82.5	59.1	83.8
% Chng.	0.6	(1.5)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	67,788	63,043	72,500	84,100
EBITDA (Rs. m)	7,238	5,740	7,717	9,780
Margin (%)	10.7	9.1	10.6	11.6
PAT (Rs. m)	2,611	1,402	2,405	3,337
EPS (Rs.)	64.5	34.7	59.5	82.5
Gr. (%)	(12.1)	(46.3)	71.6	38.7
DPS (Rs.)	12.0	12.0	12.0	12.0
Yield (%)	1.4	1.4	1.4	1.4
RoE (%)	9.2	4.8	7.8	10.1
RoCE (%)	9.7	5.3	7.5	9.3
EV/Sales (x)	0.8	0.8	0.7	0.6
EV/EBITDA (x)	7.5	8.7	6.6	5.0
PE (x)	13.1	24.4	14.2	10.2
P/BV (x)	1.2	1.1	1.1	1.0

Key Data

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52-W High / Low	Rs.1,101 / Rs.600
Sensex / Nifty	37,736 / 11,102
Market Cap	Rs.34bn/ \$ 457m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.337.02m

Shareholding Pattern (%)

Promoter's	46.69
Foreign	27.64
Domestic Institution	9.60
Public & Others	16.07
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.6)	(15.5)	1.4
Relative	(14.5)	(8.4)	0.5

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Exhibit 1: Q1FY21 Result Overview - Consolidated (Rs m)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Revenues	11,202	17,521	(36.1)	15,734	24,536	67,788	(63.8)
Raw Materials	6,693	10,596	(36.8)	8,552	13,933	39,151	(64.4)
<i>% of Net Sales</i>	<i>59.7</i>	<i>60.5</i>		<i>54.4</i>	<i>56.8</i>	<i>57.8</i>	
Personnel	1,513	1,344	12.6	1,418	5,113	5,418	(5.6)
<i>% of Net Sales</i>	<i>13.5</i>	<i>7.7</i>		<i>9.0</i>	<i>20.8</i>	<i>8.0</i>	
Manufacturing & Other Exp	1,976	3,910	(49.5)	3,761	9,026	16,009	(43.6)
<i>% of Net Sales</i>	<i>17.6</i>	<i>22.3</i>		<i>23.9</i>	<i>36.8</i>	<i>23.6</i>	
Total Expenditure	10,182	15,850	(35.8)	13,731	28,072	60,578	(53.7)
EBITDA	1,020	1,671	(39.0)	2,004	-3,536	7,211	NA
<i>EBITDA Margin (%)</i>	<i>9.1</i>	<i>9.5</i>		<i>12.7</i>	<i>-14.4</i>	<i>10.6</i>	
Depreciation	785	644	21.9	745	2,869	2,765	3.7
EBIT	235	1,027	(77.1)	1,259	-6,405	4,445	NA
Interest Expenses	488	349	39.9	407	1,675	1,509	11.0
Non-operating income	28	120	(76.4)	35	773	233	231.4
Extraordinary Expenses	218	6		282	218	298	
PBT	-443	792	NA	606	-7,525	2,871	NA
Tax-Total	-56	22	NA	114	-89	742	NA
<i>Tax Rate (%) - Total</i>	<i>12.6</i>	<i>2.8</i>	<i>347.8</i>	<i>18.7</i>	<i>1.2</i>	<i>25.9</i>	<i>(95.4)</i>
Reported PAT	-387	770	NA	492	-7,435	2,129	NA
Minority Interest/Share of associates	30	48	(38.0)	24	101	160	(37.1)
PAT after MI	-357	818	NA	516	-7,335	2,289	NA
Adj. PAT	-183	822	NA	741	-7,160	2,526	NA

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	67,788	63,043	72,500	84,100
YoY gr. (%)	(2.9)	(7.0)	15.0	16.0
Cost of Goods Sold	39,151	36,691	42,195	48,946
Gross Profit	28,638	26,352	30,305	35,154
Margin (%)	42.2	41.8	41.8	41.8
Employee Cost	5,418	5,797	5,913	6,031
Other Expenses	15,981	14,815	16,675	19,343
EBITDA	7,238	5,740	7,717	9,780
YoY gr. (%)	12.7	(20.7)	34.4	26.7
Margin (%)	10.7	9.1	10.6	11.6
Depreciation and Amortization	2,765	2,986	3,494	4,088
EBIT	4,473	2,754	4,223	5,692
Margin (%)	6.6	4.4	5.8	6.8
Net Interest	1,509	1,600	1,728	1,866
Other Income	205	410	451	496
Profit Before Tax	2,871	1,347	2,946	4,322
Margin (%)	4.2	2.1	4.1	5.1
Total Tax	742	364	796	1,167
Effective tax rate (%)	25.9	27.0	27.0	27.0
Profit after tax	2,128	983	2,151	3,155
Minority interest	(12)	(12)	(12)	(12)
Share Profit from Associate	172	189	242	170
Adjusted PAT	2,611	1,402	2,405	3,337
YoY gr. (%)	(12.1)	(46.3)	71.6	38.7
Margin (%)	3.9	2.2	3.3	4.0
Extra Ord. Income / (Exp)	(298)	(217)	-	-
Reported PAT	2,313	1,185	2,405	3,337
YoY gr. (%)	(8.3)	(48.8)	103.1	38.7
Margin (%)	3.4	1.9	3.3	4.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,313	1,185	2,405	3,337
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	64.5	34.7	59.5	82.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	50,346	56,524	62,524	67,524
Tangibles	48,032	54,032	60,032	65,032
Intangibles	2,315	2,493	2,493	2,493
Acc: Dep / Amortization	8,748	11,735	15,228	19,316
Tangibles	8,454	11,440	14,934	19,022
Intangibles	294	294	294	294
Net fixed assets	41,598	44,790	47,296	48,208
Tangibles	39,578	42,591	45,097	46,009
Intangibles	2,020	2,198	2,198	2,198
Capital Work In Progress	10,685	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	1,932	1,932	1,932	1,932
Net Deferred tax assets	(2,737)	(2,837)	(2,937)	(3,037)
Other Non-Current Assets	1,015	765	515	265
Current Assets				
Investments	-	-	-	-
Inventories	9,257	8,636	9,931	11,520
Trade receivables	6,744	8,291	9,534	11,060
Cash & Bank Balance	342	7,888	10,226	14,260
Other Current Assets	1,643	1,393	1,143	893
Total Assets	74,845	75,276	82,159	89,720
Equity				
Equity Share Capital	405	405	405	405
Other Equity	28,675	29,374	31,294	34,145
Total Network	29,079	29,778	31,698	34,549
Non-Current Liabilities				
Long Term borrowings	17,557	21,107	24,107	26,607
Provisions	404	404	404	404
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,787	2,787	2,787	2,787
Trade payables	11,948	7,254	8,342	9,677
Other current liabilities	7,768	8,443	9,118	9,793
Total Equity & Liabilities	74,845	75,276	82,159	89,720

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	2,871	1,347	2,946	4,322
Add. Depreciation	2,765	2,986	3,494	4,088
Add. Interest	1,509	1,600	1,728	1,866
Less Financial Other Income	205	410	451	496
Add. Other	(523)	(16)	254	182
Op. profit before WC changes	6,622	5,917	8,423	10,458
Net Changes-WC	4,462	(4,297)	(176)	(505)
Direct tax	(197)	(264)	(696)	(1,067)
Net cash from Op. activities	10,887	1,357	7,551	8,886
Capital expenditures	(14,924)	4,507	(6,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	(22)	-	-	-
Net Cash from Invt. activities	(14,946)	4,507	(6,000)	(5,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,364	3,550	3,000	2,500
Dividend paid	(485)	(485)	(485)	(485)
Interest paid	(1,509)	(1,600)	(1,728)	(1,866)
Others	-	-	-	-
Net cash from Fin. activities	3,369	1,465	787	149
Net change in cash	(690)	7,329	2,338	4,034
Free Cash Flow	(4,037)	5,864	1,551	3,886

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	64.5	34.7	59.5	82.5
CEPS	132.9	108.5	145.8	183.5
BVPS	718.9	736.2	783.6	854.1
FCF	(99.8)	145.0	38.3	96.1
DPS	12.0	12.0	12.0	12.0
Return Ratio(%)				
RoCE	9.7	5.3	7.5	9.3
ROIC	7.3	4.6	6.7	8.8
RoE	9.2	4.8	7.8	10.1
Balance Sheet				
Net Debt : Equity (x)	0.7	0.5	0.5	0.4
Net Working Capital (Days)	22	56	56	56
Valuation(x)				
PER	13.1	24.4	14.2	10.2
P/B	1.2	1.1	1.1	1.0
P/CEPS	6.4	7.8	5.8	4.6
EV/EBITDA	7.5	8.7	6.6	5.0
EV/Sales	0.8	0.8	0.7	0.6
Dividend Yield (%)	1.4	1.4	1.4	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	16,916	17,618	15,734	11,202
YoY gr. (%)	(3.6)	1.9	(10.6)	(36.1)
Raw Material Expenses	9,956	10,047	8,552	6,693
Gross Profit	6,959	7,570	7,183	4,509
Margin (%)	41.1	43.0	45.6	40.3
EBITDA	1,704	1,832	2,004	1,020
YoY gr. (%)	7.0	28.5	23.4	(39.0)
Margin (%)	10.1	10.4	12.7	9.1
Depreciation / Depletion	671	705	745	785
EBIT	1,033	1,127	1,259	235
Margin (%)	6.1	6.4	8.0	2.1
Net Interest	374	380	407	488
Other Income	43	36	35	28
Profit before Tax	694	780	606	(443)
Margin (%)	4.1	4.4	3.8	(4.0)
Total Tax	305	301	114	(56)
Effective tax rate (%)	44.0	38.6	18.7	12.6
Profit after Tax	389	479	492	(387)
Minority interest	3	3	2	5
Share Profit from Associates	48	46	25	35
Adjusted PAT	439	524	741	(183)
YoY gr. (%)	(32.5)	1.3	(23.3)	(122.2)
Margin (%)	2.6	3.0	4.7	(1.6)
Extra Ord. Income / (Exp)	(8)	(3)	(282)	(218)
Reported PAT	433	522	516	(357)
YoY gr. (%)	(31.2)	1.0	(19.8)	(143.7)
Margin (%)	2.6	3.0	3.3	(3.2)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	433	522	516	(357)
Avg. Shares O/s (m)	40	40	40	40
EPS (Rs)	10.9	13.0	18.3	(4.5)

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-20	Accumulate	958	894
2	30-May-20	Accumulate	899	810
3	9-Apr-20	Accumulate	893	816
4	23-Jan-20	Sell	910	1,014
5	3-Jan-20	Sell	880	1,022
6	23-Oct-19	Sell	827	970
7	3-Oct-19	Reduce	757	965
8	2-Aug-19	Reduce	757	803

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	59	51
2	Bajaj Auto	Hold	2,713	2,985
3	Bharat Forge	Hold	347	355
4	CEAT	Accumulate	958	894
5	Eicher Motors	BUY	20,852	19,465
6	Exide Industries	Accumulate	177	155
7	Hero Motocorp	Accumulate	2,855	2,681
8	Mahindra & Mahindra	Hold	531	545
9	Maruti Suzuki	BUY	6,858	6,192
10	Motherson Sumi Systems	BUY	116	96
11	Tata Motors	Hold	100	108
12	TVS Motors	Sell	365	402

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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