

October 28, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,223		1,136	
Sales (Rs. m)	79,190	87,109	72,500	84,100
% Chng.	9.2	3.6		
EBITDA (Rs. m)	9,363	10,699	7,717	9,780
% Chng.	21.3	9.4		
EPS (Rs.)	76.6	86.5	71.5	82.3
% Chng.	7.1	5.0		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	67,788	67,110	79,190	87,109
EBITDA (Rs. m)	7,238	7,664	9,363	10,699
Margin (%)	10.7	11.4	11.8	12.3
PAT (Rs. m)	2,611	2,824	3,099	3,497
EPS (Rs.)	64.5	69.8	76.6	86.5
Gr. (%)	(12.1)	8.1	9.8	12.8
DPS (Rs.)	12.0	12.0	14.0	16.0
Yield (%)	1.0	1.0	1.2	1.4
RoE (%)	9.2	9.4	9.5	9.9
RoCE (%)	9.7	8.9	10.0	10.6
EV/Sales (x)	1.0	1.0	0.8	0.7
EV/EBITDA (x)	9.2	8.4	7.0	6.0
PE (x)	17.8	16.4	15.0	13.3
P/BV (x)	1.6	1.5	1.4	1.3

Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.1,249 / Rs.600
Sensex / Nifty	39,922 / 11,730
Market Cap	Rs.46bn/ \$ 629m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.559.48m

Shareholding Pattern (%)

Promoter's	46.82
Foreign	23.69
Domestic Institution	16.17
Public & Others	13.31
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	21.2	46.6	20.1
Relative	15.3	17.9	18.1

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Demand outlook positive led by OEM recovery

Quick Pointers:

- CEAT merged speciality business (CSTL) with itself effective 1st Sep, 2020.
- Demand outlook positive led by replacement and OEM recovery.
- Maintained capex guidance of Rs5.5-6bn at overall company level.

CEAT's 2QFY21 consol results beat estimates with margins expanding by 470bp YoY at 14.8% (PLe 11.6%) led by lower RM basket (-9% YoY), higher replacement mix at 70% (v/s 60% YoY). We expect reversal in margins to normalized levels at 11-12% in 2HFY21 led by a) increased share of OEM in sales mix with volume recovery across segments, b) higher RM prices by 2-3% QoQ. To factor in for CSTL merger and better performance at CEAT, we raise FY21/22/23 consol EPS 8.2%/7.1%/5% and factor in revenue/EBITDA/PAT CAGR of 8.7%/13.9%/10.2%. With reduced capex intensity (cumulative capex of Rs11b in FY22/23 v/s Rs23b in FY19-21) we expect CEAT to turn FCF positive and generate FCF of Rs6.5bn in FY22/23. Consequently, we maintain Accumulate with revised price target of Rs1,223 (earlier Rs1,136), based on 15x Sep-22 consol EPS.

Consol revenues were higher at Rs19.8bn (-17% YoY, PLe Rs18.8bn) led by higher than expected growth in replacement segment (+30% YoY) and exports (lower single digit growth). However, realizations remained stable QoQ.

Lower RM, better mix drives EBITDA: Decline in RM basket by ~5% QoQ (however expect to increase by 3% QoQ in 3Q) coupled with higher share of replacement at 70% (v/s normalized 60%) helped to drive better gross margins at 46.5% (PLe 44%, +530bp YoY). This was partially offset by higher other expenses at Rs4.7bn (PLe Rs3bn) resulting in EBITDA growth of 72% YoY at Rs2.9bn (PLe Rs2.2bn). Consequently, margins expanded 470bp YoY at 14.8% (PLe 11.6%). Tax rate came in at -0.9% (PLe 12.2%) led by tax write back due to CSTL merger.

Key takeaways from the call: 1) **Demand outlook:** Expect Q3 replacement demand to remain strong across segments while OEM/ Exports volumes too to grow in Q3. Sustenance of demand in Q4 needs to be watched out for. 2) **Expect gross margins to contract in 3Q led by 2-3% increase in RM** coupled with lower replacement mix. 3) **Capex guidance-** Expect consol capex of Rs5.5-6bn (Rs2.6bn incurred in H1). 4) **Structural cost initiative-** Aiming at cost reduction by Rs1bn while expect debt to increase led by higher Capex in H2 (v/s H1) and increased working capital. 5) **Tyre import from China has become negligible** post import restriction. 6) **Market share in PCR segment gradually increased to 13-14%** (v/s 10-11% last year) led by new launches.

Exhibit 1: Q2FY21 Result Overview - Consolidated (Rs m)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Revenues	19,785	16,916	17.0	11,202	30,986	34,437	(10.0)
Raw Materials	10,592	9,956	6.4	6,693	17,284	20,552	(15.9)
<i>% of Net Sales</i>	<i>53.5</i>	<i>58.9</i>		<i>59.7</i>	<i>55.8</i>	<i>59.7</i>	
Personnel	1,610	1,214	32.6	1,513	3,122	2,557	22.1
<i>% of Net Sales</i>	<i>8.1</i>	<i>7.2</i>		<i>13.5</i>	<i>10.1</i>	<i>7.4</i>	
Manufacturing & Other Exp	4,659	4,042	15.3	1,976	6,635	7,952	(16.6)
<i>% of Net Sales</i>	<i>23.5</i>	<i>23.9</i>		<i>17.6</i>	<i>21.4</i>	<i>23.1</i>	
Total Expenditure	16,860	15,212	10.8	10,182	27,042	31,062	(12.9)
EBITDA	2,925	1,704	71.7	1,020	3,945	3,375	16.9
<i>EBITDA Margin (%)</i>	<i>14.8</i>	<i>10.1</i>		<i>9.1</i>	<i>12.7</i>	<i>9.8</i>	
Depreciation	839	671	25.1	785	1,625	1,315	23.5
EBIT	2,085	1,033	101.9	235	2,320	2,060	12.6
Interest Expenses	450	374	20.2	488	937	723	29.7
Non-operating income	38	43	(12.3)	28	66	163	(59.4)
Extraordinary Expenses	0	8		218	218	14	
PBT	1,674	693.70	141.2	-443	1,231	1,486	(17.2)
Tax-Total	-15	305	NA	-56	-71	327	NA
<i>Tax Rate (%) - Total</i>	<i>-0.9</i>	<i>44.0</i>		<i>12.6</i>	<i>-5.8</i>	<i>22.0</i>	
Reported PAT	1,689	389	334.7	-387	1,302	1,158	12.4
Minority Interest/Share of associates	136	45	204.2	30	166	93	78.4
PAT after MI	1,825	433	321.2	-357	1,468	1,251	17.3
Adj. PAT	1,825	439	315.8	-183	1,642	1,261	30.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	67,788	67,110	79,190	87,109
YoY gr. (%)	(2.9)	(1.0)	18.0	10.0
Cost of Goods Sold	39,151	37,716	44,901	49,827
Gross Profit	28,638	29,394	34,289	37,283
Margin (%)	42.2	43.8	43.3	42.8
Employee Cost	5,418	5,959	6,079	6,200
Other Expenses	15,981	15,771	18,847	20,384
EBITDA	7,238	7,664	9,363	10,699
YoY gr. (%)	12.7	5.9	22.2	14.3
Margin (%)	10.7	11.4	11.8	12.3
Depreciation and Amortization	2,765	3,014	3,556	3,948
EBIT	4,473	4,650	5,807	6,751
Margin (%)	6.6	6.9	7.3	7.8
Net Interest	1,509	1,736	2,170	2,495
Other Income	205	236	259	285
Profit Before Tax	2,871	2,933	3,897	4,542
Margin (%)	4.2	4.4	4.9	5.2
Total Tax	742	528	1,052	1,226
Effective tax rate (%)	25.9	18.0	27.0	27.0
Profit after tax	2,128	2,405	2,845	3,315
Minority interest	(12)	(12)	(12)	(12)
Share Profit from Associate	172	189	242	170
Adjusted PAT	2,611	2,824	3,099	3,497
YoY gr. (%)	(12.1)	8.1	9.8	12.8
Margin (%)	3.9	4.2	3.9	4.0
Extra Ord. Income / (Exp)	(298)	(217)	-	-
Reported PAT	2,313	2,606	3,099	3,497
YoY gr. (%)	(8.3)	12.7	18.9	12.8
Margin (%)	3.4	3.9	3.9	4.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,313	2,606	3,099	3,497
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	64.5	69.8	76.6	86.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	49,795	55,973	61,973	66,973
Tangibles	47,060	53,060	59,060	64,060
Intangibles	2,735	2,913	2,913	2,913
Acc: Dep / Amortization	8,197	11,211	14,767	18,715
Tangibles	7,482	10,496	14,053	18,001
Intangibles	715	715	715	715
Net fixed assets	41,598	44,762	47,206	48,258
Tangibles	39,578	42,564	45,007	46,059
Intangibles	2,020	2,199	2,199	2,199
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	-	5,000	5,600	6,272
Inventories	9,257	10,113	11,933	13,126
Trade receivables	6,744	11,032	13,018	14,319
Cash & Bank Balance	342	438	2,086	5,702
Other Current Assets	1,643	1,393	1,143	893
Total Assets	74,845	77,016	85,013	92,350
Equity				
Equity Share Capital	405	405	405	405
Other Equity	28,675	30,796	33,328	36,178
Total Networkth	29,079	31,200	33,733	36,583
Non-Current Liabilities				
Long Term borrowings	17,557	20,757	23,757	26,257
Provisions	404	404	404	404
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,787	2,987	3,187	3,387
Trade payables	11,948	7,722	9,112	10,024
Other current liabilities	7,768	8,443	9,118	9,793
Total Equity & Liabilities	74,845	77,016	85,013	92,350

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	2,871	2,933	3,897	4,542
Add. Depreciation	2,765	3,014	3,556	3,948
Add. Interest	1,509	1,736	2,170	2,495
Less Financial Other Income	205	236	259	285
Add. Other	(523)	(16)	254	182
Op. profit before WC changes	6,622	7,667	9,877	11,166
Net Changes-WC	4,462	(8,047)	(1,141)	(309)
Direct tax	(197)	(428)	(952)	(1,126)
Net cash from Op. activities	10,887	(808)	7,784	9,731
Capital expenditures	(14,924)	4,507	(6,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	(22)	(5,000)	(600)	(672)
Net Cash from Inv. activities	(14,946)	(493)	(6,600)	(5,672)
Issue of share cap. / premium	-	-	-	-
Debt changes	5,364	3,400	3,200	2,700
Dividend paid	(485)	(485)	(566)	(647)
Interest paid	(1,509)	(1,736)	(2,170)	(2,495)
Others	-	-	-	-
Net cash from Fin. activities	3,369	1,179	464	(442)
Net change in cash	(690)	(122)	1,648	3,617
Free Cash Flow	(4,037)	3,699	1,784	4,731

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	64.5	69.8	76.6	86.5
CEPS	132.9	144.3	164.5	184.0
BVPS	718.9	771.3	833.9	904.4
FCF	(99.8)	91.5	44.1	117.0
DPS	12.0	12.0	14.0	16.0
Return Ratio(%)				
RoCE	9.7	8.9	10.0	10.6
ROIC	7.3	8.2	8.5	9.6
RoE	9.2	9.4	9.5	9.9
Balance Sheet				
Net Debt : Equity (x)	0.7	0.6	0.6	0.5
Net Working Capital (Days)	22	73	73	73
Valuation(x)				
PER	17.8	16.4	15.0	13.3
P/B	1.6	1.5	1.4	1.3
P/CEPS	8.6	8.0	7.0	6.2
EV/EBITDA	9.2	8.4	7.0	6.0
EV/Sales	1.0	1.0	0.8	0.7
Dividend Yield (%)	1.0	1.0	1.2	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	17,618	15,734	11,202	19,785
YoY gr. (%)	1.9	(10.6)	(36.1)	17.0
Raw Material Expenses	10,047	8,552	6,693	10,592
Gross Profit	7,570	7,183	4,509	9,193
Margin (%)	43.0	45.6	40.3	46.5
EBITDA	1,832	2,004	1,020	2,925
YoY gr. (%)	28.5	23.4	(39.0)	71.7
Margin (%)	10.4	12.7	9.1	14.8
Depreciation / Depletion	705	745	785	839
EBIT	1,127	1,259	235	2,085
Margin (%)	6.4	8.0	2.1	10.5
Net Interest	380	407	488	450
Other Income	36	35	28	38
Profit before Tax	780	606	(443)	1,674
Margin (%)	4.4	3.8	(4.0)	8.5
Total Tax	301	114	(56)	(15)
Effective tax rate (%)	38.6	18.7	12.6	(0.9)
Profit after Tax	479	492	(387)	1,689
Minority interest	3	2	5	(3)
Share Profit from Associates	46	25	35	133
Adjusted PAT	524	741	(183)	1,825
YoY gr. (%)	1.3	(23.3)	(122.2)	315.8
Margin (%)	3.0	4.7	(1.6)	9.2
Extra Ord. Income / (Exp)	(3)	(282)	(218)	-
Reported PAT	522	516	(357)	1,825
YoY gr. (%)	1.0	(19.8)	(143.7)	321.2
Margin (%)	3.0	3.3	(3.2)	9.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	522	516	(357)	1,825
Avg. Shares O/s (m)	40	40	40	40
EPS (Rs)	13.0	18.3	(4.5)	45.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-20	Accumulate	1,136	1,001
2	30-Jul-20	Accumulate	951	845
3	11-Jul-20	Accumulate	958	894
4	30-May-20	Accumulate	899	810
5	09-Apr-20	Accumulate	893	816
6	23-Jan-20	Sell	910	1,014
7	03-Jan-20	Sell	880	1,022

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	95	76
2	Bajaj Auto	Hold	3,108	3,006
3	Bharat Forge	Hold	446	466
4	CEAT	Accumulate	1,136	1,001
5	Eicher Motors	Accumulate	2,291	2,218
6	Exide Industries	BUY	191	164
7	Hero Motocorp	Accumulate	3,438	3,327
8	Mahindra & Mahindra	BUY	703	633
9	Maruti Suzuki	BUY	7,642	7,062
10	Motherson Sumi Systems	BUY	139	121
11	Tata Motors	Hold	146	136
12	TVS Motors	Sell	381	472

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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