

CEAT (CEAT IN)

Rating: HOLD | CMP: Rs1,367 | TP: Rs1,383

July 22, 2021

Q1FY22 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		ACCUMULATE	
Target Price	1,383		1,589	
Sales (Rs. m)	91,292	1,00,799	91,315	1,05,012
% Chng.	-	(4.0)		
EBITDA (Rs. m)	9,205	11,113	9,571	11,387
% Chng.	(3.8)	(2.4)		
EPS (Rs.)	76.8	92.2	85.1	99.3
% Chng.	(9.7)	(7.2)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	67,788	76,096	91,292	1,00,799
EBITDA (Rs. m)	7,238	9,830	9,205	11,113
Margin (%)	10.7	12.9	10.1	11.0
PAT (Rs. m)	3,039	3,581	3,108	3,728
EPS (Rs.)	75.1	88.5	76.8	92.2
Gr. (%)	31.0	17.8	(13.2)	20.0
DPS (Rs.)	14.4	-	16.0	18.0
Yield (%)	1.1	-	1.2	1.3
RoE (%)	10.7	11.4	9.1	10.2
RoCE (%)	11.1	14.2	10.6	12.0
EV/Sales (x)	1.0	0.9	0.7	0.7
EV/EBITDA (x)	9.5	6.8	7.4	6.4
PE (x)	18.2	15.4	17.8	14.8
P/BV (x)	1.9	1.7	1.6	1.5

Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.1,763 / Rs.835
Sensex / Nifty	52,837 / 15,824
Market Cap	Rs.55bn / \$ 742m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.771.7m

Shareholding Pattern (%)

Promoter's	46.82
Foreign	24.01
Domestic Institution	13.66
Public & Others	15.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.2	(8.7)	59.1
Relative	0.7	(14.2)	14.2

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Growth & Margin Headwinds to continue amid rising Debt

Quick Pointers:

- Price hike of ~3.8% in Q4, 3-4% in early July and 2-3% by end of July; would need another hike of 4-5% to normalise margins at 10-12%.
- High capex levels to further increase debt levels.

We downgrade CEAT to 'HOLD' from Accumulate led by i) higher capex levels ii) delayed recovery in the PV and 2W replacement demand iii) increasing debt burden and iv) negative FCF generation. CEAT's 1QFY22 consol. revenue came ahead of our estimates at Rs 19.1B (70% YoY/ -17% QoQ, PLe 16.2B) volume growth at 67%YoY/-20%QoQ, while realizations grew ~4% sequentially. Margins came lower at 8.7% (-39bp YoY/-268bp QoQ) led by RM headwinds. As gross margins are anticipated to remain weak in Q2 due to RM inflation (+4-5% increase in Q2), we expect margins to remain weak in 2QFY22. That way, the full pass through of commodity cost inflation can be anticipated only by 4QFY22. Also, higher capex levels will further lead to increasing debt levels and negative FCF. We cut FY22/23 consol. EPS by 14%/7% as we built in i) high RM cost ii) weaker mix and iii) high interest cost. We revise CEAT's price target to Rs1,383 (earlier Rs1,589), based on 15x Mar-23 consol EPS (Earlier 16x Mar'23 EPS).

Consol revenue at Rs 19.1b (+70% YoY/ -17% QoQ) largely led by growth of 20% QoQ decline in volumes. For Q4FY21, replacement volume declined ~20% QoQ while OE volumes declined by 30% QoQ. Realizations improved by ~4% QoQ.

Margins came lower at 8.7% (-39bp YoY/ -268bp QoQ, PLe 9.8%): Gross margins contracted 132bp YoY/ 306bp QoQ at 28.9% (PLe 41.6%) as blended RM cost/kg grew ~12% sequentially. This resulted in EBITDA at Rs1.6b (+63% YoY, PLe Rs 1.5b). Led by higher depreciation and interest costs Adj. PAT came in at Rs 240mn -84%QoQ (PLe: Rs 262mn)

Debt raised by Rs 3.7b, expected to go up further. Company undertook project capex of Rs 1.8bn and debottlenecking of Rs 390mn in 1Q. Also working capital requirement went up by Rs 2.4b for the quarter; thus debt went up by Rs 3.7b in 1Q. Management indicated debt to further go up owing to capex of Rs 11.5bn (10bn project capex & 1.5bn maintenance) during the year.

Key takeaways from the call: 1) **Demand outlook.** expect strong recovery in both replacement segment after green shoots in July. 2) **Expect gross margins to remain under pressure in Q2 led by anticipated 4-5% increase in RM** 3) **Taken an average price increase of ~4%/3% in Q1/July** expect another price hike of 2-3%. 4) **Capex guidance at Rs11.5-12b** for FY22. 6) Expect debt levels to go up owing to higher capex and working capital requirements 7) Expect dividend outflow of ~Rs 740mn in FY22.

Exhibit 1: Q1FY22 Result Overview - Consolidated (Rs m)

Y/e March	Q1FY22	Q1FY20	YoY gr. (%)	Q4FY20	FY21	FY20	YoY gr. (%)
Net Revenues	18,978	11,162	70.0	22,790	75,728	66,649	13.6
Raw Materials	11,638	6,696	73.8	13,259	42,513	38,871	9.4
<i>% of Net Sales</i>	<i>61.3</i>	<i>60.0</i>		<i>58.2</i>	<i>56.1</i>	<i>58.3</i>	
Personnel	1,753	1,492	17.4	1,806	6,671	5,178	28.8
<i>% of Net Sales</i>	<i>9.2</i>	<i>13.4</i>		<i>7.9</i>	<i>8.8</i>	<i>7.8</i>	
Manufacturing & Other Exp	3,932	1,956	101.0	5,172	16,810	15,572	7.9
<i>% of Net Sales</i>	<i>20.7</i>	<i>17.5</i>		<i>22.7</i>	<i>22.2</i>	<i>23.4</i>	
Total Expenditure	17,322	10,144	70.8	20,237	65,994	59,621	10.7
EBITDA	1,655	1,017	62.7	2,553	9,734	7,027	38.5
<i>EBITDA Margin (%)</i>	<i>8.7</i>	<i>9.1</i>		<i>11.2</i>	<i>12.9</i>	<i>10.5</i>	
Depreciation	965	785	22.8	899	3,396	2,663	27.5
EBIT	691	232	197.8	1,655	6,338	4,364	45.2
Interest Expenses	453	483	(6.3)	392	1,731	1,378	25.6
Non-operating income	39	149	(74.1)	31	322	389	(17.3)
Extraordinary Expenses	0	0		100	409	0	
PBT	277	-102.00	(371.3)	1,294	4,930	3,375	46.1
Tax-Total	77	-61	(226.8)	-125	453	981	(53.9)
<i>Tax Rate (%) - Total</i>	<i>27.9</i>	<i>59.7</i>		<i>-9.6</i>	<i>9.2</i>	<i>29.1</i>	
Reported PAT	199	-41	NA	1,418	4,477	2,394	87.0
Minority Interest/Share of associates	79	40	100.3	76	361	184	95.8
PAT after MI	279	-2	NA	1,494	4,838	2,578	87.7
Adj. PAT	250	244	2.7	1,504	5,263	2,333	125.5

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	67,788	76,096	91,292	1,00,799
YoY gr. (%)	(2.9)	12.3	20.0	10.4
Cost of Goods Sold	39,151	42,663	55,054	59,763
Gross Profit	28,638	33,433	36,238	41,037
Margin (%)	42.2	43.9	39.7	40.7
Employee Cost	5,418	6,755	7,503	7,727
Other Expenses	15,981	16,849	19,529	22,197
EBITDA	7,238	9,830	9,205	11,113
YoY gr. (%)	12.7	35.8	(6.4)	20.7
Margin (%)	10.7	12.9	10.1	11.0
Depreciation and Amortization	2,765	3,396	4,022	4,739
EBIT	4,473	6,433	5,183	6,374
Margin (%)	6.6	8.5	5.7	6.3
Net Interest	1,509	1,755	1,892	2,149
Other Income	205	138	201	227
Profit Before Tax	3,422	4,240	3,575	4,452
Margin (%)	5.0	5.6	3.9	4.4
Total Tax	742	516	926	1,122
Effective tax rate (%)	21.7	12.2	25.9	25.2
Profit after tax	2,680	3,724	2,649	3,330
Minority interest	12	-	-	-
Share Profit from Associate	172	363	398	398
Adjusted PAT	3,039	3,581	3,108	3,728
YoY gr. (%)	31.0	17.8	(13.2)	20.0
Margin (%)	4.5	4.7	3.4	3.7
Extra Ord. Income / (Exp)	(198)	506	(61)	-
Reported PAT	2,840	4,087	3,047	3,728
YoY gr. (%)	10.6	43.9	(25.5)	22.4
Margin (%)	4.2	5.4	3.3	3.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,840	4,087	3,047	3,728
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	75.1	88.5	76.8	92.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	-	-	-	-
Tangibles	45,924	57,924	72,703	83,203
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	(7,975)	(11,370)	(15,392)	(20,130)
Intangibles	-	-	-	-
Net fixed assets	37,950	46,554	57,311	63,073
Tangibles	37,950	46,554	57,311	63,073
Intangibles	-	-	-	-
Capital Work In Progress	9,338	7,279	4,000	4,000
Goodwill	-	-	-	-
Non-Current Investments	3,202	1,270	1,270	1,270
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	1,006	2,107	2,107	2,107
Current Assets				
Investments	-	-	-	-
Inventories	8,795	11,125	12,430	13,609
Trade receivables	7,047	9,223	10,305	12,410
Cash & Bank Balance	266	1,934	2,397	1,771
Other Current Assets	1,344	1,238	1,383	1,515
Total Assets	69,450	80,729	91,204	99,753
Equity				
Equity Share Capital	405	405	405	405
Other Equity	28,870	32,922	34,901	37,485
Total Network	29,274	33,326	35,305	37,889
Non-Current Liabilities				
Long Term borrowings	14,020	13,686	15,336	18,136
Provisions	-	-	-	-
Other non current liabilities	4,638	3,625	3,625	3,625
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	11,714	19,436	21,717	23,775
Other current liabilities	7,859	10,445	11,671	12,777
Total Equity & Liabilities	69,450	80,729	91,204	99,753

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	3,683	4,930	3,483	4,428
Add. Depreciation	2,554	3,396	4,021	4,739
Add. Interest	-	-	-	-
Less Financial Other Income	205	138	201	227
Add. Other	2,965	(425)	28	-
Op. profit before WC changes	9,202	7,900	7,533	9,167
Net Changes-WC	(57)	6,411	973	(249)
Direct tax	145	(453)	(885)	(1,116)
Net cash from Op. activities	9,290	13,859	7,621	7,801
Capital expenditures	(10,280)	(7,535)	(11,500)	(10,500)
Interest / Dividend Income	-	-	-	-
Others	540	(1,574)	-	-
Net Cash from Invst. activities	(9,740)	(9,109)	(11,500)	(10,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	3,838	(2,069)	4,990	2,800
Dividend paid	-	-	-	-
Interest paid	-	-	-	-
Others	(3,728)	(1,013)	(647)	(728)
Net cash from Fin. activities	110	(3,082)	4,343	2,072
Net change in cash	(341)	1,668	464	(627)
Free Cash Flow	(990)	6,324	(3,879)	(2,699)

Source: Company Data, PL Research

Key Financial Metrics

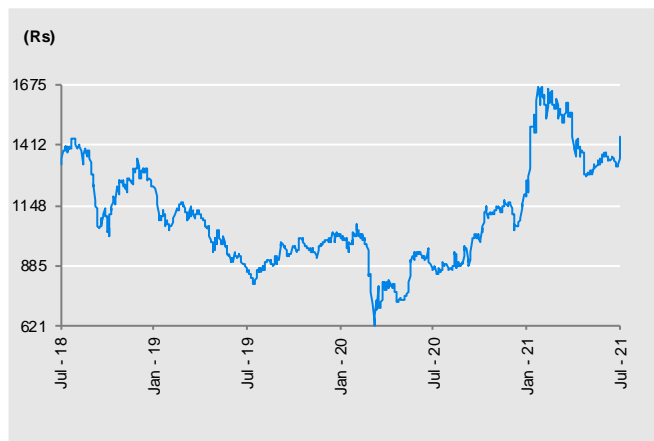
Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	75.1	88.5	76.8	92.2
CEPS	143.5	172.5	176.2	209.3
BVPS	723.7	823.9	872.8	936.7
FCF	(24.5)	156.3	(95.9)	(66.7)
DPS	14.4	-	16.0	18.0
Return Ratio(%)				
RoCE	11.1	14.2	10.6	12.0
ROIC	8.7	13.1	8.3	9.2
RoE	10.7	11.4	9.1	10.2
Balance Sheet				
Net Debt : Equity (x)	0.5	0.4	0.4	0.4
Net Working Capital (Days)	22	4	4	8
Valuation(x)				
PER	18.2	15.4	17.8	14.8
P/B	1.9	1.7	1.6	1.5
P/CEPS	9.5	7.9	7.8	6.5
EV/EBITDA	9.5	6.8	7.4	6.4
EV/Sales	1.0	0.9	0.7	0.7
Dividend Yield (%)	1.1	-	1.2	1.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	19,651	22,125	22,790	18,978
YoY gr. (%)	16.5	26.4	49.6	70.0
Raw Material Expenses	10,493	12,065	13,259	11,638
Gross Profit	9,159	10,060	9,531	7,339
Margin (%)	46.6	45.5	41.8	38.7
EBITDA	2,905	3,258	2,553	1,655
YoY gr. (%)	71.3	78.5	34.4	62.7
Margin (%)	14.8	14.7	11.2	8.7
Depreciation / Depletion	839	873	899	965
EBIT	2,066	2,386	1,655	691
Margin (%)	10.5	10.8	7.3	3.6
Net Interest	444	412	392	453
Other Income	42	100	31	39
Profit before Tax	1,617	1,951	1,284	305
Margin (%)	8.2	8.8	5.6	1.6
Total Tax	(37)	675	(125)	77
Effective tax rate (%)	(2.3)	34.6	(9.7)	25.3
Profit after Tax	1,654	1,276	1,409	228
Minority interest	3	2	2	(9)
Share Profit from Associates	133	117	78	70
Adjusted PAT	1,735	1,310	1,475	328
YoY gr. (%)	160.5	108.6	256.7	(173.1)
Margin (%)	8.8	5.9	6.5	1.7
Extra Ord. Income / (Exp)	49	80	10	(21)
Reported PAT	1,784	1,391	1,485	307
YoY gr. (%)	187.0	135.9	138.3	(224.4)
Margin (%)	9.1	6.3	6.5	1.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,784	1,391	1,485	307
Avg. Shares O/s (m)	40	40	40	40
EPS (Rs)	42.9	32.4	36.5	8.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jul-21	Accumulate	1,589	1,338
2	6-May-21	Accumulate	1,472	1,340
3	7-Apr-21	Accumulate	1,667	1,542
4	20-Jan-21	Accumulate	1,434	1,310
5	11-Jan-21	Accumulate	1,297	1,201
6	28-Oct-20	Accumulate	1,223	1,148
7	9-Oct-20	Accumulate	1,136	1,001
8	30-Jul-20	Accumulate	951	845

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	153	122
2	Bajaj Auto	Hold	3,927	4,195
3	Bharat Forge	UR	-	767
4	CEAT	Accumulate	1,589	1,338
5	Eicher Motors	Accumulate	2,774	2,711
6	Endurance Technologies	BUY	1,772	1,635
7	Exide Industries	BUY	222	183
8	Hero Motocorp	Accumulate	3,516	2,919
9	Mahindra & Mahindra	BUY	931	782
10	Maruti Suzuki	UR	-	7,515
11	Motherson Sumi Systems	BUY	249	207
12	Tata Motors	Reduce	255	317
13	TVS Motors	BUY	675	608

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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