



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Ceat Ltd Q1FY22 consolidated revenues came in at ₹1,906.4 Cr, up 70% YoY and down -17% QoQ.
- EBITDA for Q1FY22 stood at ₹173.2 Cr, up 64% YoY and down -36% QoQ.
- EBITDA margins for Q1FY22 came at 9.1% as compared to 11.7% in Q4FY21 and 9.4% in Q1FY21.
- PAT for Q1FY22 stood at ₹23.1 Cr, down -85% QoQ and PAT for Q1FY21 was ₹-35.2 Cr.

2. MANAGEMENT COMMENTARY:

- Management is seeing good demand in coming quarters and targeting share gain via strong OEM presence and developing new products.
- The revenue mix for Q1FY22 is Replacements (55%), OEMs (25%) and Exports (20%).
- Volumes declined around 21% on a QoQ basis. OEM's volumes declined around 30% and Replacement's volumes declined around 20%. Export's volumes grew in mid-single digit sequentially.

3. SEGMENTAL ANALYSIS:

- FY21 Product Mix: Truck and Bus (34%), 2/3 W (29%), LCV (9%), PV (14%), Farm (7%), Speciality (7%)
- FY21 Product Mix: Replacement (65%), Exports (14%) and OEM (21%)

4. CONCALL SUMMARY

- PV and 2W segments are seeing strong momentum while T&B segment is going to gradually pick up from H2FY22.
- High single digit growth is difficult to achieve in FY22 because of high base.
- Raw material cost is likely to increase by 3% to 4% in Q2FY22 (QoQ)
- Company has already taken a price hike of ~4% in Q1FY22 and expects to take another 3% hike in Q2FY22.
- Company targets to source 50% of its FY23 power requirements from renewable sources.
- Consolidated debt increased by ₹367 Cr sequentially to ₹1,785 Cr in Q1FY22.
- Capex for FY22 would be around ₹11.5 B (₹10 Bn for project capex and ₹1.5 Bn for maintenance capex).
- Capex for FY23 and FY24 would be around ₹7-8 Bn per year.

5. OTHER DEVELOPMENTS:

- Company commissioned a solar power plant of 10 MW for the Bhandup plant.
- Company will use the Capex for Chennai plant expansion, debottlenecking at the Halol plant and expansion in Off the Road Tyre segment.
- Recent entries into Honda Bikes till 125 CC, Yamaha FZ 150 CC, Suzuki Gixxer 150 CC, Ashok Leyland Truck 1618, Daimler BSVI Trucks, Piaggio Aprilia 150 CC, Hyundai i20.

6. VALUATION AND OUTLOOK:

Q1FY22 was subdued majorly due to weak demand and RM cost inflation. Company is strongly focusing on PV, OTR and 2W segments to boost their margins. We believe that strong CAPEX push for FY22-23 would be key driver in gaining CEAT's market share in India. We also believe that company would gradually pass the RM cost inflation by judicious price hikes and targeting gross margins of ~40%-42%. We initiate a "BUY" rating on the stock and value the stock at 12x FY23E earnings to arrive at the target of ₹1550.

RECOMMENDATION - BUY

CMP – 1,286

TARGET - 1550 (20%)

Industry	Automobile
NSE CODE	CEATLTD
BSE CODE	500878
Market Cap (₹ Cr)	5195.61
Shares Outstanding (in Cr)	4.05
52 wk High/Low (₹)	1763 / 868.55
P/E	10.59
P/BV	1.56
Face Value (₹)	10.00
Book Value (₹)	823.82
EPS (FY20) (₹)	106.81
Dividend Yield (%)	1.15
Debt / Equity	0.43
Interest Coverage	3.50

SHAREHOLDING PATTERN

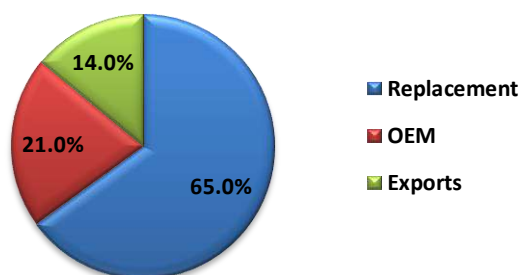
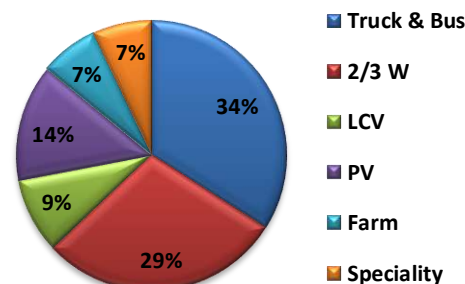
	Dec 20	Mar 21	Jun 21
Promoters	46.82	46.82	46.82
MF/ DII	10.21	9.10	9.12
FII/FPI	24.50	26.97	24.01
Retail & Others	13.88	12.56	15.51
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
Crore			
Sales	7610	8752	10064
Sales Gr. (%)	12.26	15.00	15.00
EBITDA	962	1138	1308
EBITDA %	13.14	13.00	13.00
PAT	432.04	435.66	522.30
EPS (₹)	106.81	107.70	129.12
EPS Gr. (%)	86.83	0.84	19.89
BV/Sh. (₹)	819.85	880	990
Ratios			
RoE (%)	12.72	13.2	14.5
RoCE (%)	13.09	13.3	14.6
Payout (%)	16.85	16.9	16.5
Valuation			
P/E (x)	10.59	11.2	12.0
P/BV (x)	1.90	1.70	1.60
EV/EBITDA	7.69	7.85	6.20

Historical & Industrial Val Ratios

Historical P/E	17.35
Industry P/E	21.83
Historical P/B	1.84
Industry P/B	2.82

REVENUE SPLIT (FY 21)
Market Mix (FY 21)

Product Mix (FY 21)

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY20		FY21				FY22		FY21	FY22E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E*		
Net sales	1,762	1,573	1,120	1,978	2,221	2,290	1,906	2,192	7,610	8,752
YoY change (%)	2%	-11%	-36%	17%	26%	46%	70%	11%	12%	15%
Total Expenditures	1,579	1,373	1,018	1,686	1,894	2,029	1,740	1,951	6,617	7,614
EBITDA	183	200	102	292	328	261	166	241	993	1,138
Margins (%)	10%	13%	9%	15%	15%	11%	9%	11%	13%	13%
Depreciation	71	74	79	84	87	90	96	96	340	411
Interest	38	41	49	45	42	40	46	46	179	180
Other income	8	-22	-15	17	3	11	11	11	10	40
PBT	83	63	-41	181	202	142	35	110	484	624
Tax	30	11	-6	-2	69	-11	12	33	53	218
Rate (%)	36%	18%	14%	-1%	34%	-8%	33%	30%	11%	35%
Adjusted PAT	53	52	-35	182	132	153	24	77	432	436
YoY change (%)	0%	-19%	-142%	314%	149%	194%	-	-58%	87%	1%
Key Performance Indicators										
RM Cost (% of Sales)	57%	54%	60%	54%	54%	58%	61%	60%	56%	59%
Staff Cost (% of Sales)	8%	9%	14%	8%	8%	8%	9%	9%	9%	9%
EBITDA Margin (%)	10%	13%	9%	15%	15%	11%	9%	11%	13%	13%
PAT Margin (%)	3%	3%	-3%	9%	6%	7%	1%	3%	5%	5%

Source: Company, Hem Securities Research.

***Insights into the assumptions:**

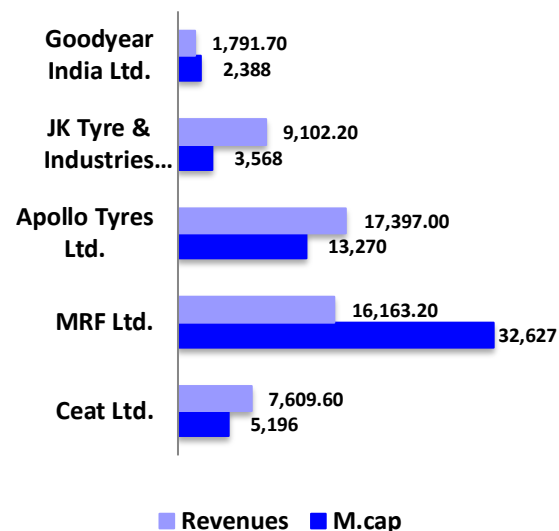
- We expect revenues to increase by around 15% in Q2FY22 due to better demand from both OEM and replacement segment.
- We also believe that the expansion in capacity of Chennai and Nagpur plant will also start contributing in topline from Q2FY22 onwards.
- We expect operating margins and PAT margins to improve because of management is continuously rising prices to combat RM prices.



INDUSTRY OVERVIEW

- Indian Tyre industry's turnover is around Rs 60000 Cr.
- Indian Tyre industry is expected to be one of the top 3 manufacturing destinations in Asia Pacific by 2026.
- The Indian Tyre Industry is expected to witness strong demand in coming years with ~11%-12% CAGR over next 5 years.
- The above mentioned growth is supported by ramp up of new capacities, reduction in Capex intensity and debt reduction by major players.
- T&B is the largest segment with ~54% revenue share followed by PV (14%), 2W/3W (13%), LCV (9%), Tractors (8%) and Others (2%).
- Replacement remains the dominant segment of industry with 62% revenue share followed by OEM (27%) and Exports (11%).
- MRF is the market leader in TBB and 2W while Apollo Tyres is the market leader in TBR.
- We believe volume recovery will sustain as the replacement and OEM segment are expected to recover in coming time.
- RM costs and competitive intensity are main factors that drive pricing in the tyre industry.
- Major RM constituents include Natural Rubber (44%), Carbon Black (23%), Nylon Tyre Cord Fabric (13%).
- Key Industry players are MRF, CEAT, Apollo Tyres, JK Tyre etc.

KEY PLAYERS



PEER PERFORMANCE

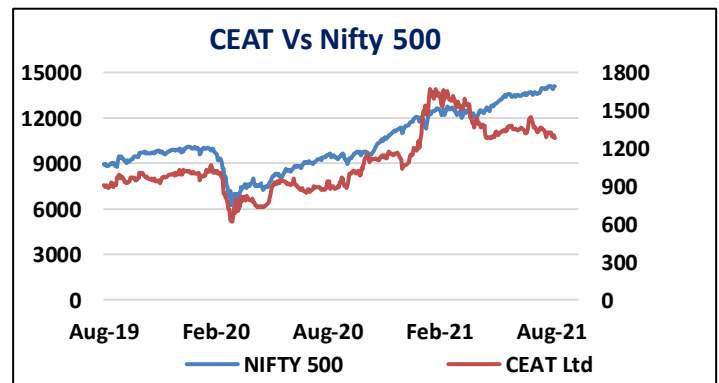
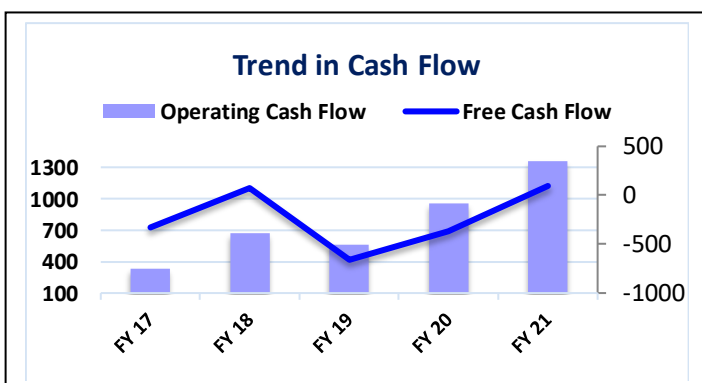
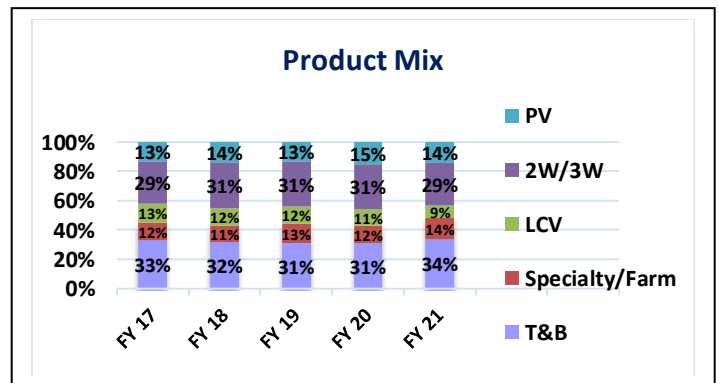
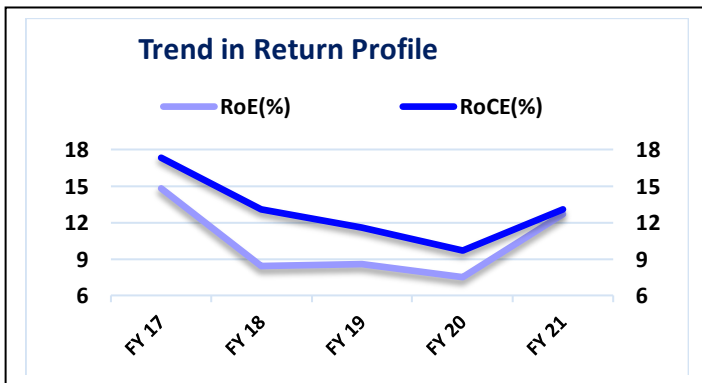
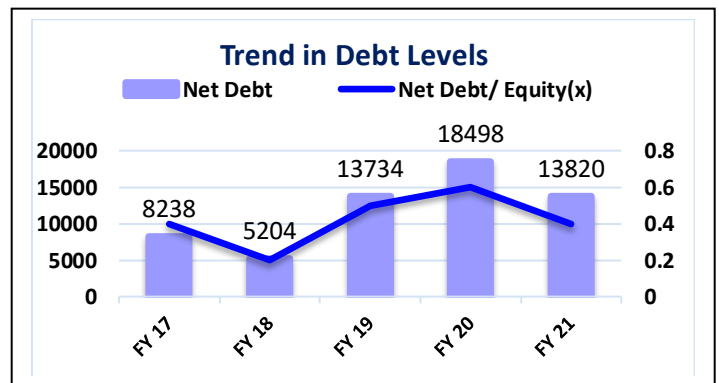
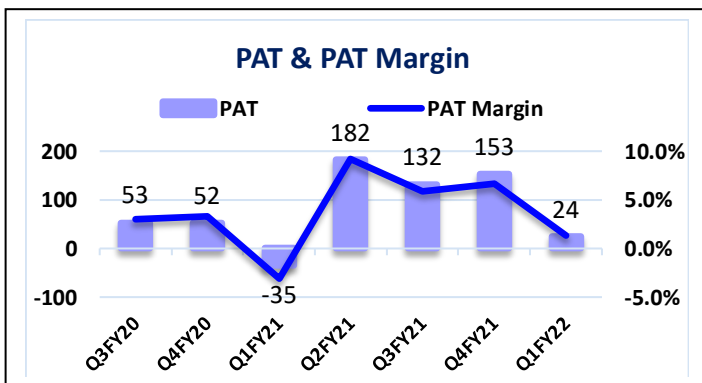
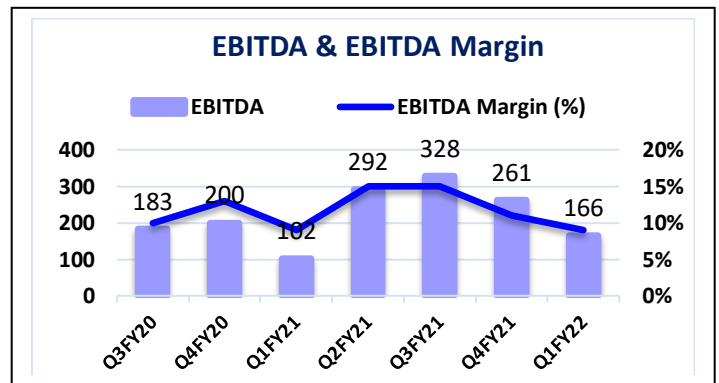
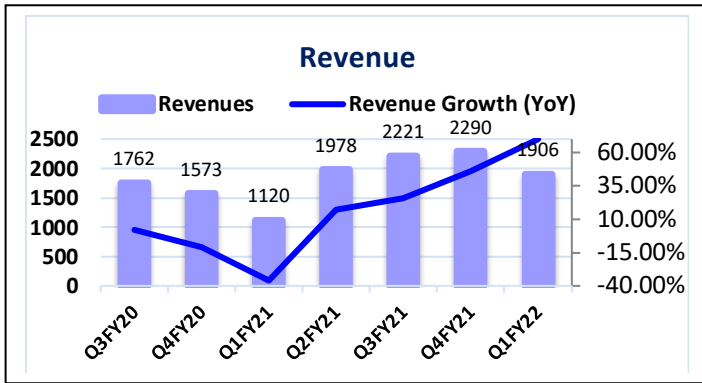
(₹ Cr)

Particulars	Ceat Ltd.	MRF Ltd.	Apollo Tyres Ltd.	JK Tyre & Industries Ltd.	Goodyear India Ltd.
Market Cap	5,195.6	32,626.6	13,270.4	3,567.9	2,388.3
Net Sales	7,609.6	16,163.2	17,397.0	9,102.2	1,791.7
EBITDA	962.0	2,949.3	2,817.6	1,306.3	216.6
PAT	432.0	1,277.1	350.2	319.3	136.3
EPS(₹)	106.8	3,011.9	5.5	13.0	59.1
EBITDA MARGIN %	13.1	19.5	16.9	14.8	13.4
PAT MARGIN %	5.2	7.9	2.0	3.7	7.6
ROCE %	13.1	13.7	5.9	13.2	21.3
ROE %	12.7	10.0	3.3	13.4	15.6
P/E TTM	10.5	22.9	12.4	6.3	13.9
P/B TTM	1.6	2.4	1.1	1.3	2.7
EV/EBITDA	6.05	10.2	5.34	4.92	6.23
Dividend Yield %	1.4	0.1	1.7	1.4	9.7
MCap/ Sales TTM	0.6	1.8	0.7	0.3	1.1

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- Company has a strong brand image with very good distribution network and it exports to almost 100 countries.
- Diversified revenue segments and deep relationships with many OEM's.
- Tyre industry is highly correlated with automobile cycle and we believe auto industry will witness strong demand in next 2-3 years.
- With new capacities and expansion going on, CEAT is all set to gain market share and is expected to be key beneficiary in coming tyre upcycle. During FY21, CEAT commissioned the initial phase of its Greenfield project in Chennai with a capacity to produce 96 lacs tyres per annum of PV radial tyres. CEAT's brownfield project in Nagpur completed first phase of expansion and the plant is now in phase 2 of expansion. Company's 2W capacity would be approximately 2.7 crores tyres per annum once the project is completed.
- Company has developed creative ad campaigns and invested in innovative marketing programs which will help positioning its products competitive in the market.
- Company gaining market share and tying up with new customers.
- The imposition of Anti-dumping duty and customs duty on TBR tyre imports from china is beneficial for domestic players like CEAT.
- The stock is trading at an attractive P/E of 10.5 as compared to industry P/E of 13.8.
- Highly experienced and skilled management team.

RISK FACTORS:

- One of the biggest risk is the rising RM prices. RM cost increased 12% in Q1FY22 and is expected to increase by ~4% further in Q2FY22.
- Company has raised prices of tyres recently but the price hike is still below the increase in RM costs, so a near term pressure can be seen in margins.
- CEAT has strong market presence in all the segments but is not a clear cut leader in any of the segment.
- The sharp resurgence of Covid-19 this time may negatively impact the demand environment over the short term.

COMPANY RECAP

- Ceat, established in 1958, is one of the largest and fastest growing tyre companies in India.
- It produces tyres for a wide range of vehicles, including 2/3 W, Passenger Vehicles and Utility Vehicles, Commercial Vehicles and Off-Highway Vehicles.
- CEAT has 7 manufacturing plants at Nashik, Mumbai, Ambernath, Nagpur, Halol, Chennai and Sri Lanka. CEAT has leadership position in Sri Lanka with 50+% market share.
- CEAT has dedicated state-of-the art R&D centres at Halol, Gujarat and Frankfurt, Germany.
- Company has diversified revenue mix: T&B (34%), 2/3W (29%), LCV (9%), PV/UV (14%), Farm (7%), Speciality (7%).
- Exports contributes around 14% of the total revenues.
- Major Raw materials consumed: Rubber (50%), Fabrics (13%), Carbon Black (14%), Chemicals (12%) and Others (11%).
- Company exports to 90+ countries in 7 clusters.
- Company has 4100+ dealers & Channel Partners, 290+ Distributors, 300+ CEAT franchises and 40,000+ sub-dealers.
- CEAT has deep partnerships with OEM such as Tata Motors, Ashok Leyland, Escorts, Maruti Suzuki, Hyundai, Kia, Honda, Bajaj, hero etc.
- During FY21, CEAT commissioned the initial phase of its Greenfield project in Chennai with a capacity to produce 96 lacs tyres per annum of PV radial tyres.
- CEAT's brownfield project in Nagpur completed first phase of expansion and the plant is now in phase 2 of expansion. Company's 2W capacity would be approximately 2.7 crores tyres per annum once the project is completed.
- CEAT has an experienced and skilled leadership team with H.V. Goenka (Chairman), Anant Goenka (MD), Arnab Banerjee (COO), Kumar Subbiah (CFO), Peter Becker (Sr. VP R&D) and Dilip Modak (Sr. VP Manufacturing).

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)	
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	
Revenue from operations	5,766.51	6,283.42	6,984.51	6,778.83	7,610	8,751.50	10,064.22	
Growth YoY (%)	5.16	8.96	11.16	-2.94	12.26	15.00	15.00	
Total Expenditure	5,102.26	5,677.34	6,338.43	6,054.19	6,647.65	7,613.80	8755.87	
(%) of sales	88.48	90.35	90.75	89.31	87.36	87.00	87.00	
EBITDA	664.25	606.08	646.08	724.64	961.95	1137.69	1308.35	
EBITDA Growth (%)	-15.38	-4.79	5.51	8.88	33.81	18.27	15.00	
EBITDA Margin (%)	10.61	10.08	9.83	11.02	13.14	13.00	13.00	
Depreciation	143.08	168.61	192.71	276.51	339.63	373.59	410.95	
EBIT	521.17	437.47	453.37	448.13	622.32	764.10	897.39	
EBIT Growth (%)	-23.46	-14.98	0.21	-1.76	42.03	22.78	17.44	
Net Interest Expenses	89.56	103.63	92.87	153.92	178.76	180	180	
Other Income	19.00	44.43	40.29	22.70	38.08	40	40	
Earnings before Taxes	437.28	344.31	356.00	287.07	447.58	624.10	757.39	
EBT Margin (%)	6.79	5.34	5.10	4.23	5.88	7.13	7.53	
Tax-Total	106.42	134.03	125.12	74.23	51.59	218.43	265.08	
Rate of tax (%)	24.34	38.93	35.15	25.86	11.53	35.00	35.00	
Net Profit	330.86	210.28	230.88	212.84	395.99	405.66	492.30	
PAT Growth (%)	-17.19	-36.44	9.80	-7.81	86.05	2.44	21.36	
PAT Margin (%)	5.14	3.26	3.31	3.14	5.20	4.64	4.89	
Minority Interest	1.92	4.69	1.14	1.19	-0.26			
Adjusted PAT	361.15	237.98	252.22	231.25	432.04	435.66	522.30	
EPS	89.28	58.83	62.35	57.17	106.81	107.70	129.12	
EPS Growth (%)	-17.46	-34.10	5.98	-8.31	86.83	0.84	19.89	

Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Share Capital	40	40	40	40	40
Reserves	2,374	2,566	2,726	2,867	3,276
Net Worth	2414	2606	2766	2907	3316
Borrowings	924	872	1,498	2,035	1,533
Other Liabilities	1,578	1,669	2,140	2,423	3,284
Total Liabilities & Equity	4,917	5,146	6,404	7,366	8,133
Fixed Assets	2,453	2,709	3,180	4,160	4,763
Investments	326	310	833	1,069	793
Other Assets	232	214	181	184	210
Total Assets	1,907	1,914	2,210	1,954	2,367

Source: Company, Hem Securities Research.



Ratios

Y/E March (Basic (INR))	2017	2018	2019	2020	2021
Profitability and return ratios					
Net profit margin (%)	5.14	3.26	3.31	3.14	5.20
EBITDA margin (%)	10.61	10.08	9.83	11.02	13.14
EBIT margin (%)	8.18	6.94	6.43	6.51	8.23
ROE (%)	14.80	8.38	8.60	7.50	12.72
ROCE (%)	17.32	13.11	11.60	9.69	13.09
Working Capital & liquidity ratios					
Payables (Days)	49.89	54.10	54.37	68.44	87.00
Inventory (Days)	44.86	48.88	46.78	51.99	49.30
Receivables (Days)	34.21	38.50	37.98	37.17	38.27
Current Ratio (x)	1.31	0.99	0.94	0.79	0.74
Valuations Ratios					
EV/sales (x)	1.09	1.09	0.86	0.75	1.01
EV/EBITDA (x)	9.16	10.55	8.70	6.80	7.69
P/E (x)	14.83	25.53	18.03	13.77	14.62
P/BV (x)	2.22	2.33	1.64	1.09	1.90
Dividend Yield (%)	0.87	0.77	1.07	1.52	1.15
Leverage Ratio					
Debt/Equity (x)	0.39	0.33	0.54	0.66	0.43

Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021
CF from Operating activities (A)	335	672	561	956	1,358
CF from Investing Activities (B)	-543	-412	-1,060	-1,076	-618.06
CF from Financing Activities (C)	219	-202	484	79	-731
Net Cash Flow	10.35	58.17	-14.63	-40.15	9
Add: Opening Bal.	14	24	82	68	27
Closing Balance	24	82	68	27	36

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
30 Aug 2021	Buy	1550

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Name of the Research Analyst: Abhishek Sharda

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9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.