

January 20, 2022

Q3FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		HOLD	
Target Price	1,174		1,316	
Sales (Rs. m)	103,801	112,515	106,640	115,207
% Chng.	(2.7)	(2.3)		
EBITDA (Rs. m)	10,417	12,189	11,522	13,089
% Chng.	(9.6)	(6.9)		
EPS (Rs.)	70.2	81.9	84.2	90.0
% Chng.	(16.6)	(9.1)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	76,096	92,722	103,801	112,515
EBITDA (Rs. m)	9,830	7,083	10,417	12,189
Margin (%)	12.9	7.6	10.0	10.8
PAT (Rs. m)	4,221	930	2,841	3,311
EPS (Rs.)	104.4	23.0	70.2	81.9
Gr. (%)	38.9	(78.0)	205.4	16.6
DPS (Rs.)	21.7	16.0	18.0	20.0
Yield (%)	1.9	1.4	1.6	1.8
RoE (%)	13.5	2.8	8.2	8.9
RoCE (%)	13.9	5.5	10.3	11.2
EV/Sales (x)	0.8	0.7	0.6	0.6
EV/EBITDA (x)	6.0	8.5	6.4	5.6
PE (x)	10.9	49.3	16.2	13.9
P/BV (x)	1.4	1.4	1.3	1.2

Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.1,763 / Rs.1,050
Sensex / Nifty	59,465 / 17,757
Market Cap	Rs.46bn / \$ 616m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.141.64m

Shareholding Pattern (%)

Promoter's	46.82
Foreign	23.42
Domestic Institution	13.24
Public & Others	16.52
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.4	(18.9)	(13.4)
Relative	(1.0)	(28.9)	(27.5)

Varun Baxi

varunbaxi@plindia.com |

Mansi Lall

mansilall@plindia.com |

RM cost pressure to continue amid rising debt levels

Quick Pointers:

- Debt levels to go up in the coming quarters amidst rising working capital and capex requirement.
- Pricing power remains weak amidst increasing competitive intensity for the Company

CEAT's 3QFY22 consol. revenue came missed our estimates at Rs 24.1B (9% YoY/ -1% QoQ, PLE 26.5B) led by volume decline of 5.5% YoY/ 3% QoQ, while realizations grew ~2% sequentially. Margins came substantially lower at 5.5% (-920bp YoY/ -340bp QoQ) led by gross margin compression. RM inflation is expected to continue in 4Q, partly offset by price hikes (+2% expected in 4Q). Post the price hikes of 2% in 4Q we expect the under recovery of RM cost to the tune of 4%. Company is strategically shifting the focus to export and OHT segment from the TBR segment where company is unable to gain share and pricing power. Going ahead higher capex levels and increasing working capital requirement will lead to increasing debt levels and negative FCF, in our view.

We cut FY23/24 consol. EPS by ~17%/9% as we built in i) Lower volumes due to the weak demand scenario ii) high RM cost and iii) high interest cost during increasing debt burden. We retain 'HOLD' rating on CEAT to factor in the risk of negative FCF generation amidst higher capex levels and revise TP to Rs1,174 (earlier Rs1,316) based on 15x Dec-23 consol. EPS (Unchanged).

- 3QFY22 revenue at Rs 24.13bn grew by 9% YoY, -2% QoQ:** YoY growth in consolidated revenue was driven by price hikes (~2% across categories). Overall volumes declined 5.5/1% YoY/QoQ.
- High raw material cost impacts EBITDA margin:** Consolidated EBITDA margin came in at 5.5% (-920/-340bps YoY/QoQ) affected by higher commodity costs (RM ratio at 66% vs 54.5/63.1% YoY/QoQ), lower share of replacement impacting the product mix and increasing other expense. The company reported a net loss of 200mn vs a profit of Rs 1,294/420mn YoY/QoQ.
- Key takeaways: (1) Demand scenario:** Replacement demand remained weak (-14%/-4.5% YoY/QoQ). CV volumes remained under pressure. **(2) Commodity cost pressure:** Blended raw material basket went up by ~4% in the quarter, against which the company has taken over 2% price hike across categories. Further, 1.5% of cost increase is expected in 4QFY22, which will lead to more price hikes. **(3) Price Hikes:** 4-5% of price hike was taken in the quarter and 2-3% in Oct-21. More price hike is expected in the current quarter due to 3-3.5% increase in RM costs. **(4) Reduction of capex plans:** ~Rs 8bn of capex is marked for the year towards capacity expansion reduced from 10bn earlier, expect the capex of ~Rs7-7.5bn in FY23. company delayed the Rs. 7Bn capex plan of phase-1 of TBR expansion by 1 year and indefinitely postponed the balance capex of Rs. 500 Bn of Phase II **(5) Debt levels:** Debt increased by ~2.6b sequentially.

Exhibit 1: Q3FY22 Result Overview - Consolidated (Rs m)

Y/e March	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	QoQ gr. (%)	9MFY22	9MFY21	YoY gr. (%)
Net Revenues	24,061	22,125	8.8	24,323	(1.1)	67,362	52,938	27.2
Raw Materials	15,919	12,065	31.9	15,359	3.6	42,916	29,254	46.7
<i>% of Net Sales</i>	<i>66.2</i>	<i>54.5</i>		<i>63.1</i>		<i>63.7</i>	<i>55.3</i>	
Personnel	1,701	1,785	(4.7)	1,700	0.0	5,153	4,866	5.9
<i>% of Net Sales</i>	<i>7.1</i>	<i>8.1</i>		<i>7.0</i>		<i>7.6</i>	<i>9.2</i>	
Manufacturing & Other Exp	5,120	5,017	2.0	5,102	0.3	14,153	11,637	21.6
<i>% of Net Sales</i>	<i>21.3</i>	<i>22.7</i>		<i>21.0</i>		<i>21.0</i>	<i>22.0</i>	
Total Expenditure	22,739	18,867	20.5	22,161	2.6	62,222	45,757	36.0
EBITDA	1,322	3,258	(59.4)	2,163	(38.9)	5,140	7,181	(28.4)
<i>EBITDA Margin (%)</i>	<i>5.5</i>	<i>14.7</i>		<i>8.9</i>		<i>7.6</i>	<i>13.6</i>	
Depreciation	1,086	873	24.4	1,206	(10.0)	3,256	2,497	30.4
EBIT	237	2,386	(90.1)	957	(75.2)	1,884	4,684	(59.8)
Interest Expenses	541	412	31.3	487	11.0	1,480	1,338	10.6
Non-operating income	189	100	89.5	26	623.0	253	291	(12.8)
Extraordinary Expenses	0	277		0		0	309	
PBT	-115	2,074	(105.5)	496	(123.2)	658	3,636	(81.9)
Tax-Total	-31	675	(104.6)	131	(123.9)	177	577	(69.3)
<i>Tax Rate (%) - Total</i>	<i>27.3</i>	<i>32.6</i>		<i>26.5</i>		<i>26.9</i>	<i>15.9</i>	
Reported PAT	-83	1,398	(106.0)	365	(122.9)	481	3,059	(84.3)
Minority Interest/Share of associates	91	115	(21.2)	49	85.3	219	285	(23.1)
PAT after MI	7	1,513	(99.5)	414	(98.3)	699	3,343	(79.1)
Adj. PAT	72	1,636	(95.6)	419	(82.7)	741	3,759	(80.3)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	76,096	92,722	103,801	112,515
YoY gr. (%)	12.3	21.8	11.9	8.4
Cost of Goods Sold	42,663	59,147	64,082	68,535
Gross Profit	33,433	33,575	39,719	43,980
Margin (%)	43.9	36.2	38.3	39.1
Employee Cost	6,755	6,982	7,354	7,894
Other Expenses	16,849	19,510	21,949	23,897
EBITDA	9,830	7,083	10,417	12,189
YoY gr. (%)	35.8	(27.9)	47.1	17.0
Margin (%)	12.9	7.6	10.0	10.8
Depreciation and Amortization	3,396	4,373	4,697	5,215
EBIT	6,433	2,710	5,720	6,974
Margin (%)	8.5	2.9	5.5	6.2
Net Interest	1,755	2,053	2,464	3,081
Other Income	138	157	118	148
Profit Before Tax	4,581	826	3,374	4,041
Margin (%)	6.0	0.9	3.3	3.6
Total Tax	516	301	850	1,018
Effective tax rate (%)	11.3	36.5	25.2	25.2
Profit after tax	4,065	525	2,524	3,022
Minority interest	(3)	-	-	-
Share Profit from Associate	363	398	317	289
Adjusted PAT	4,221	930	2,841	3,311
YoY gr. (%)	38.9	(78.0)	205.4	16.6
Margin (%)	5.5	1.0	2.7	2.9
Extra Ord. Income / (Exp)	209	(7)	-	-
Reported PAT	4,431	923	2,841	3,311
YoY gr. (%)	56.0	(79.2)	207.8	16.6
Margin (%)	5.8	1.0	2.7	2.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,431	923	2,841	3,311
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	104.4	23.0	70.2	81.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	-	-	-	-
Tangibles	58,149	70,548	77,548	87,098
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	(11,593)	(15,966)	(20,663)	(25,878)
Intangibles	-	-	-	-
Net fixed assets	46,556	54,582	56,886	61,221
Tangibles	46,556	54,582	56,886	61,221
Intangibles	-	-	-	-
Capital Work In Progress	7,929	4,000	4,000	4,000
Goodwill	-	-	-	-
Non-Current Investments	152	152	152	152
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	4,276	2,658	2,975	3,264
Current Assets				
Investments	-	-	-	-
Inventories	11,299	15,638	19,958	21,578
Trade receivables	9,216	10,413	13,362	14,309
Cash & Bank Balance	431	2,976	3,507	4,240
Other Current Assets	1,454	1,588	1,651	1,777
Total Assets	81,316	91,513	101,997	110,047
Equity				
Equity Share Capital	405	405	405	405
Other Equity	32,991	33,267	35,379	37,882
Total Networkth	33,395	33,671	35,784	38,286
Non-Current Liabilities				
Long Term borrowings	13,411	17,531	23,831	26,631
Provisions	-	-	-	-
Other non current liabilities	4,048	4,295	4,295	4,295
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	19,478	20,148	21,470	23,216
Other current liabilities	10,774	11,605	12,353	13,355
Total Equity & Liabilities	81,316	91,513	101,997	110,047

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	4,581	826	3,374	4,041
Add. Depreciation	3,396	4,373	4,697	5,215
Add. Interest	-	-	-	-
Less Financial Other Income	138	157	118	148
Add. Other	342	12	-	-
Op. profit before WC changes	8,319	5,210	8,071	9,255
Net Changes-WC	4,510	(3,672)	(5,261)	54
Direct tax	512	(301)	(850)	(1,018)
Net cash from Op. activities	13,341	1,237	1,959	8,291
Capital expenditures	(6,347)	(6,853)	(7,317)	(9,839)
Interest / Dividend Income	-	-	-	-
Others	167	-	-	-
Net Cash from Invt. activities	(6,181)	(6,853)	(7,317)	(9,839)
Issue of share cap. / premium	-	-	-	-
Debt changes	(5,115)	8,175	6,300	2,800
Dividend paid	-	-	-	-
Interest paid	-	-	-	-
Others	(2,194)	(3)	(411)	(520)
Net cash from Fin. activities	(7,309)	8,172	5,889	2,280
Net change in cash	(149)	2,557	531	732
Free Cash Flow	6,994	(5,615)	(5,358)	(1,548)

Source: Company Data, PL Research

Key Financial Metrics

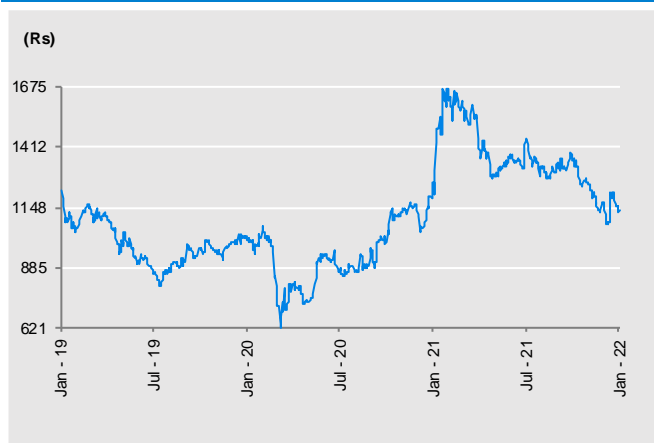
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	104.4	23.0	70.2	81.9
CEPS	188.3	131.1	186.3	210.8
BVPS	825.6	832.4	884.6	946.5
FCF	172.9	(138.8)	(132.5)	(38.3)
DPS	21.7	16.0	18.0	20.0
Return Ratio(%)				
RoCE	13.9	5.5	10.3	11.2
ROIC	12.5	3.7	8.2	9.0
RoE	13.5	2.8	8.2	8.9
Balance Sheet				
Net Debt : Equity (x)	0.4	0.4	0.6	0.6
Net Working Capital (Days)	5	23	42	41
Valuation(x)				
PER	10.9	49.3	16.2	13.9
P/B	1.4	1.4	1.3	1.2
P/CEPS	6.0	8.7	6.1	5.4
EV/EBITDA	6.0	8.5	6.4	5.6
EV/Sales	0.8	0.7	0.6	0.6
Dividend Yield (%)	1.9	1.4	1.6	1.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	22,125	22,790	18,978	24,323
YoY gr. (%)	26.4	49.6	70.0	23.8
Raw Material Expenses	12,065	13,259	11,638	15,359
Gross Profit	10,060	9,531	7,339	8,965
Margin (%)	45.5	41.8	38.7	36.9
EBITDA	3,258	2,553	1,655	2,163
YoY gr. (%)	78.5	34.4	62.7	(25.6)
Margin (%)	14.7	11.2	8.7	8.9
Depreciation / Depletion	873	899	965	1,206
EBIT	2,386	1,655	691	957
Margin (%)	10.8	7.3	3.6	3.9
Net Interest	412	392	453	487
Other Income	100	31	39	26
Profit before Tax	1,951	1,284	305	491
Margin (%)	8.8	5.6	1.6	2.0
Total Tax	675	(125)	77	131
Effective tax rate (%)	34.6	(9.7)	25.3	26.7
Profit after Tax	1,276	1,409	228	360
Minority interest	2	2	(9)	3
Share Profit from Associates	117	78	70	52
Adjusted PAT	1,310	1,475	328	405
YoY gr. (%)	108.6	256.7	(173.1)	(76.7)
Margin (%)	5.9	6.5	1.7	1.7
Extra Ord. Income / (Exp)	80	10	(21)	4
Reported PAT	1,391	1,485	307	409
YoY gr. (%)	135.9	138.3	(224.4)	(77.1)
Margin (%)	6.3	6.5	1.6	1.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,391	1,485	307	409
Avg. Shares O/s (m)	40	40	40	40
EPS (Rs)	32.4	36.5	8.1	10.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Jan-22	Hold	1,316	1,214
2	27-Oct-21	Hold	1,344	1,296
3	7-Oct-21	Hold	1,461	1,348
4	22-Jul-21	Hold	1,383	1,367
5	7-Jul-21	Accumulate	1,589	1,338
6	6-May-21	Accumulate	1,472	1,340
7	7-Apr-21	Accumulate	1,667	1,542

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	181	123
2	Bajaj Auto	BUY	4,057	3,176
3	Bharat Forge	BUY	1,110	702
4	CEAT	Hold	1,316	1,214
5	Eicher Motors	BUY	3,398	2,480
6	Endurance Technologies	BUY	1,981	1,625
7	Exide Industries	BUY	216	168
8	Hero Motocorp	BUY	3,194	2,418
9	Mahindra & Mahindra	BUY	1,004	839
10	Maruti Suzuki	Accumulate	8,550	7,297
11	Motherson Sumi Systems	BUY	249	207
12	Tata Motors	BUY	611	480
13	TVS Motors	Accumulate	736	611

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

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Varun Baxi- MBA Finance & BTech, Ms. Mansi Lall- MBA Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Varun Baxi- MBA Finance & BTech, Ms. Mansi Lall- MBA Finance Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com