

CEAT LTD.

Industry Auto Ancillary
Bloomberg CEAT IN
BSE CODE 500878

In the investment phase

RATING	ACCUMULATE
CMP	1117
Price Target	1231
Potential Upside	10%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	1,901/983
Mkt Capital (Rs Cr)	4520
Free float (%)	49%
Avg. Vol 1M (,000)	468
No. of Shares (Cr.)	4
Promoters Pledged %	0%

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3QFY19 Result Update

- ❑ CEATLTD reported revenue growth of 10.6% YoY to 1714 crores (vs. our estimates of Rs.1736 crores) on account of 2%YoY volume and 9% YoY realization growth.
- ❑ Gross Margins enhanced by 160bps QoQ at 40.9% largely on account of price hikes and softening of commodity prices. Higher employee cost due to employee addition at Nagpur plant and increased marketing expenses coupled with weaker operating leverage reduced EBITDA margins by 80 bps QoQ to 8.3%.
- ❑ Increase in depreciation and finance cost reduced PAT to Rs.52 crores which was below our estimates of Rs.68 Crores.
- ❑ The management reduced its capex guidance to Rs.1100-1150 from earlier Rs.1300-1500 crores based on recent slowdown in demand. However, maintained FY20 capex guidance at Rs.1500-1700 crores.
- ❑ TBR plant will start production in 4QFY19 which required a total capex of Rs.1000 crores. Out of which 45% capex is used at start of production and the remaining sum will be needed at the time of ramping up of plant. Ramping up of the plant will take at least 4-5 quarters to reach full production.

View and Valuation

EBITDA margin has slipped by 80bps QoQ due to weaker operating leverage, adverse product mix and escalation in marketing expenses. The overall automobile industry growth scenario seems tepid for next couple of quarters and the growth will be largely driven by CVs and 2 wheelers segment. However the management expects replacement demand to come back from March 2019 which may ease the volume pressure built on OEM side. The margins are expected to improve on sequential basis on account of softening commodity prices and higher volume growth in 2Ws segment. Though, higher fixed cost and depreciation on new plants and increased debt will continue to weigh on overall profitability of the company. The management has reduced FY19 capex guidance by approx.Rs.400 crores due to actual capex requirement but maintained FY20 guidance of Rs.1500 crores. The capacity expansion plans remains as planned earlier. However we remain positive on the long term growth prospects of the company based on management's strategy to shift the product mix towards higher margin products going ahead. Factoring in higher employee & fixed cost on new plants and increased debt level we reduce our FY19 and 20 EPS estimates by 9% each. We value CEATLTD at 17x FY20e EPS (earlier 18x) to arrive at a target price of Rs.1231 and maintain ACCUMULATE.

Key Risks to our rating and target

- ❑ Prolonged slowdown in automobile industry

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	5484	5767	6231	6966	7648
EBITDA	773	657	615	660	791
EBIT	665	514	446	467	538
PAT	438	361	233	270	293
EPS (Rs)	108	89	58	67	72
EPS growth (%)	39	-17	-35	16	9
ROE (%)	21	15	9	10	10
ROCE (%)	25	16	15	12	11
BV	510	597	644	699	761
P/B (X)	2.1	2.2	2.1	1.6	1.5
P/E (x)	10.0	14.8	23.0	16.8	15.4

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3QFY19 Results

Below Expectations

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,550	1,674	1,706	1,755	1,714	11%	-2%	5,767	6,231	8%
Other Income	9	7	4	3	4	-54%	23%	19	29	58%
Total Income	1,559	1,681	1,710	1,758	1,718	10%	-2%	5,785	6,260	8%
COGS	910	1,010	1,035	1,065	1,013	11%	-5%	3,400	3,810	12%
Staff Cost	106	115	119	142	142	34%	0%	406	438	8%
Other Exp.	342	351	377	389	417	22%	7%	1,304	1,368	5%
Expenditure	1,358	1,476	1,531	1,595	1,571	16%	-2%	5,110	5,616	10%
EBITDA	192	198	176	159	143	-26%	-10%	657	615	-6%
Depreciation	41	45	46	48	48	19%	1%	143	169	18%
EBIT	151	153	130	112	94	-38%	-15%	514	446	-13%
Interest	22	24	20	19	22	2%	19%	82	97	19%
PBT	138	136	113	96	76	-45%	-21%	451	378	-16%
Excpt. Item	1	25	2	2	-	-	-	(13)	(34)	155%
Tax	46	40	44	37	30	-35%	-18%	106	134	26%
PAT	91	77	71	63	52	-43%	-17%	361	233	-35%

Revenue growth of 10.6% YoY largely led by realization growth

Net sales grew by 10.6% YoY largely on the back of 9%YoY realization growth. Volume growth was 2%YoY due to subdued demand scenario across industry only 2Ws and CVs volumes have shown positive growth on the OEMs side. Exports volumes were also declined by double digits led by slowdown in Indonesian market. The growth in realization came on account of price hikes and higher CV sales.

Weaker Operating leverage impacted Margins

Gross Margins expanded by 160bps QoQ to 40.9% in 3QFY19 largely on account of price hikes and softening of commodity prices. Higher employee cost due to employee addition at Nagpur plant and increased other expenses largely due to inventory built up & marketing expenses coupled with weaker operating leverage reduced EBITDA margins by 80 bps QoQ to 8.3%.

PAT margins impacted by higher depreciation and finance cost

PAT for the quarter stood at Rs.52 crores in 3QFY19. PAT margins were reduced by 60bps on QoQ basis at 3% due to higher depreciation expenses on new plants and higher interest cost related to increase in debt level.

Concall highlights

- The overall demand in the industry remained sluggish only 2Ws and CVs have shown positive growth on the OEMs side.
- Volume grew by 2%YoY while realization growth was 9%YoY driven by price hikes and higher CV contribution during the quarter.
- Price hike of 1% taken in November was reversed in the first week of January due to higher competitive intensity in PV and truck segment.
- With the increased inventory level the overall plant capacity stood at 85%+ utilization level.
- The management expects benefit of softening commodity prices to come in 1QFY20.
- TBR plant will start production in 4QFY19 which required a total capex of Rs.1000 crores. Out of which 45% capex is used at start of production and the remaining sum will be needed at the time of ramping up of plant. Ramping up of the plant will take at least 4-5 quarters to reach full production.
- The company has started working on 2nd phase of OTR plant. The 1st phase has production capacity of 33-40T/day, currently which is under 50% capacity utilization.
- PCR plant will start production in 2QFY20 while off highway tyre plant will commence production at 4QFY20.
- Capex plan for FY19 was reduced to Rs.1100-1150 crores from Rs.1300-1500 crores which is apart from specialty segment (Rs.30-40 crores). For FY20 Capex is at the range of Rs.1500-1700 crores.
- Total debt stood at Rs.1280 crores and large part of it was raised by the company in the month of December due to higher capex and working capital requirement. Interest cost to the same will be ~9%.

Exhibit: Net sales (Rs. Crore) and Growth Trend

Revenue growth of 11% was largely driven by realization growth of 9% YoY.

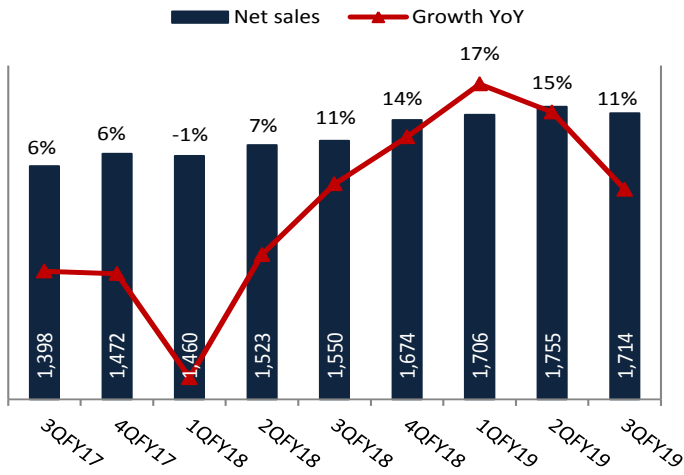


Exhibit: COGS and Gross Margin Trend

Gross margin enhanced by 160bps QoQ led by price hikes and soft commodity prices.

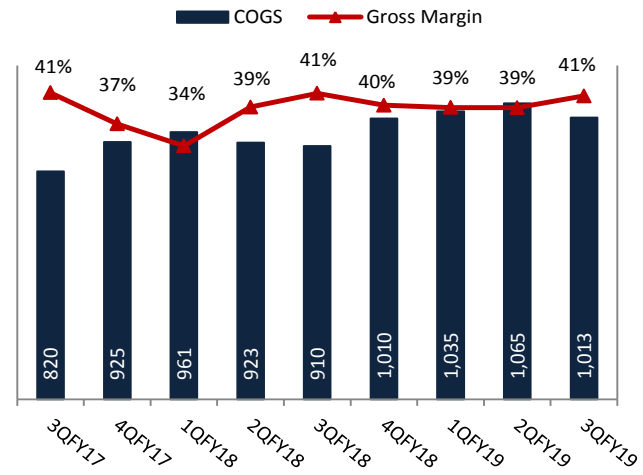


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin reduced due to higher employee cost and other expense.

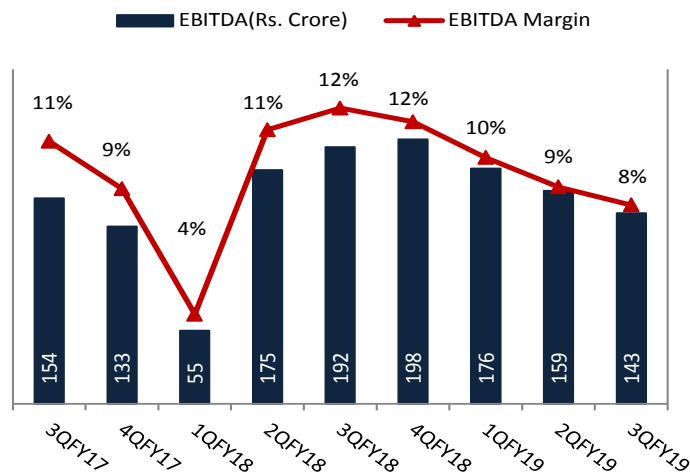


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher depreciation and interest cost led to decline in PAT margin.

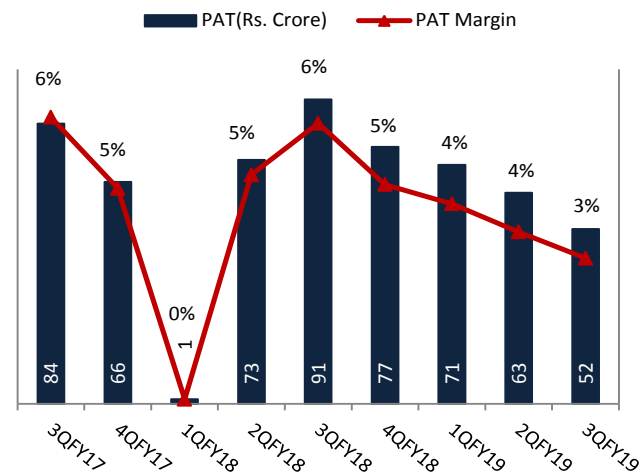


Exhibit: Rubber Prices (Rs/Kg) and Growth Trend

Domestic Rubber prices declined by 6% will serve to Gross margins

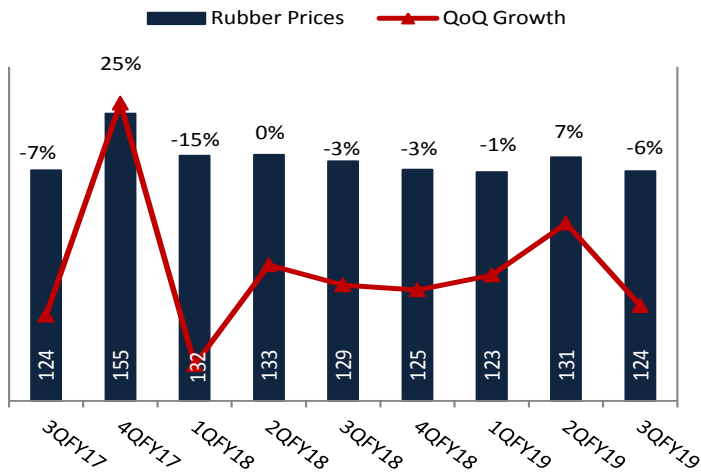
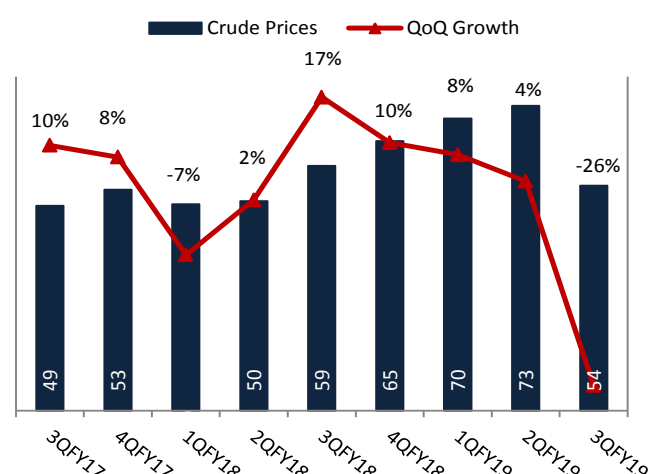


Exhibit: Crude Prices and Growth Trend

Declining Crude prices by 26% will further control cost of Raw material.



Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Share Capital</i>	34	36	40	40	40	40	40	40
<i>Reserves</i>	748	993	1,642	2,024	2,375	2,566	2,787	3,038
<i>Networth</i>	782	1,029	1,682	2,065	2,415	2,606	2,827	3,078
<i>Debt</i>	829	1,020	626	629	910	647	1,454	2,182
<i>Other Non Cur Liab</i>	94	141	159	198	281	240	281	285
<i>Total Capital Employed</i>	1,210	1,452	2,037	2,654	3,267	3,057	3,919	4,898
<i>Net Fixed Assets (incl CWIP)</i>	1,579	1,625	1,788	2,403	2,779	3,034	4,006	5,078
<i>Non Cur Investments</i>	1	0	0	0	167	173	274	169
<i>Other Non Cur Asst</i>	113	120	111	150	197	139	139	139
<i>Non Curr Assets</i>	1,692	1,744	1,900	2,553	3,143	3,346	4,419	5,386
<i>Inventory</i>	559	754	680	662	943	785	877	943
<i>Debtors</i>	663	755	705	619	614	747	802	880
<i>Cash & Bank</i>	112	168	126	107	36	86	49	27
<i>Other Curr Assets</i>	121	120	411	197	249	197	204	208
<i>Curr Assets</i>	1,455	1,796	1,923	1,585	1,842	1,815	1,932	2,058
<i>Creditors</i>	793	689	658	643	758	871	973	1,068
<i>Provisons (both)</i>	69	78	111	84	54	50	56	62
<i>Other Curr Liab</i>	577	547	554	488	538	723	735	746
<i>Curr Liabilities</i>	1,438	1,314	1,323	1,215	1,350	1,644	1,764	1,876
<i>Net Curr Assets</i>	17	481	600	370	492	170	168	182
<i>Total Assets</i>	3,147	3,540	3,822	4,138	4,985	5,161	6,351	7,444

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	5,052	5,554	5,802	5,484	5,767	6,231	6,966	7,648
Change (%)	9%	10%	4%	-5%	5%	8%	12%	10%
Other Income	18	14	22	28	19	29	14	15
EBITDA	438	658	681	773	657	615	660	791
Change (%)	60%	50%	3%	14%	-15%	-6%	7%	20%
Margin (%)	9%	12%	12%	14%	11%	10%	9%	10%
Depr & Amor.	81	87	93	108	143	169	194	253
EBIT	357	571	587	665	514	446	467	538
Int. & other fin. Cost	181	172	132	95	82	97	81	145
EBT	194	413	478	598	451	378	400	408
Exp Item	(28)	(10)	(6)	(11)	(13)	(34)	(4)	-
Tax	46	133	158	187	106	134	152	143
Minority Int & P/L share of Ass.	-	-	-	(2)	(2)	-	-	-
Reported PAT	120	271	314	400	331	210	244	265
Adjusted PAT	120	271	314	438	361	233	270	293
Change (%)	561%	125%	16%	39%	-17%	-35%	16%	9%
Margin(%)	2%	5%	5%	8%	6%	4%	4%	4%

Financial Details
Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	15%	26%	19%	21%	15%	9%	10%	10%
ROCE	30%	39%	29%	25%	16%	15%	12%	11%
Asset Turnover	1.61	1.57	1.52	1.33	1.16	1.21	1.10	1.03
Debtor Days	48	50	44	41	39	44	42	42
Inv Days	40	50	43	44	60	46	46	45
Payable Days	57	45	41	43	48	51	51	51
Int Coverage	2	3	4	7	6	5	6	4
P/E	3	6	10	10	15	23	17	15
Price / Book Value	0.4	1.5	1.9	2.1	2.2	2.1	1.6	1.5
EV/EBITDA	1	3	5	6	9	9	8	8
FCF per Share	146	14	110	(9)	(63)	47	(160)	(175)
Div Yield	4.3%	2.3%	1.2%	1.1%	0.9%	0.9%	0.9%	0.8%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	166	403	472	587	437	344	400	408
(inc)/Dec in Working Capital	196	(374)	171	82	(217)	-	(40)	(45)
Non Cash Op Exp	81	87	93	108	143	169	194	253
Int Paid (+)	150	172	132	95	82	97	81	145
Tax Paid	(38)	(89)	(112)	(169)	(102)	(98)	(152)	(143)
others	30	(2)	(7)	(1)	(8)	163	37	-
CF from Op. Activities	584	197	749	702	335	676	520	619
(inc)/Dec in FA & CWIP	(85)	(148)	(303)	(738)	(588)	(487)	(1,166)	(1,325)
Free Cashflow	500	49	446	(36)	(253)	189	(646)	(707)
(Pur)/Sale of Inv	30	0	-	274	(21)	35	0	12
others	2	6	50	32	66	37	(101)	105
CF from Inv. Activities	(53)	(142)	(253)	(433)	(543)	(415)	(1,266)	(1,208)
inc/(dec) in NW	-	11	393	-	-	-	-	-
inc/(dec) in Debt	(241)	177	(303)	78	331	(157)	808	728
Int. Paid	(153)	(172)	(148)	(93)	(76)	(97)	(81)	(145)
Div Paid (inc tax)	(4)	(17)	(40)	(98)	(1)	(53)	32	28
others	(66)	(38)	(97)	(214)	(35)	105	-	-
CF from Fin. Activities	(464)	(40)	(194)	(326)	219	(202)	759	611
Inc(Dec) in Cash	67	16	301	(57)	10	58	13	21
Add: Opening Balance	31	98	114	71	14	24	86	49
Closing Balance	98	114	415	14	24	82	99	70

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