

Industry Auto Ancillary
Bloomberg CEAT IN
BSE CODE 500878

Profitability to remain under pressure going ahead

RATING **NEUTRAL**

CMP **1057**

Price Target **1013**

Potential Upside **-4%**

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L 1,536/983
Mkt Capital (Rs Cr) 4276
Free float (%) 49%
Avg. Vol 1M (,000) 427
No. of Shares (Cr.) 4
Promoters Pledged % 0%

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4QFY19 Result Update

- ❑ CEATLTD reported revenue growth of 5% YoY to Rs. 1760 crores (vs. our estimates of Rs. 1783 crores) largely on account of 6%YoY realization growth while volumes declined by 1%YoY.
- ❑ Gross Margins were contracted by 220bps QoQ out of which 52bps was due to lower realization and the rest decline was on account of lower finished goods inventory.
- ❑ Decline in employee and other expenses due to reduction in marketing expenses coupled with lower production volumes enhanced EBITDA margins by 100bps QoQ to 9.2%.
- ❑ There were exceptional item of Rs. 41 Crores which consists of compensation in respect of workmen's separation of Rs. 2.29 crores, compensation to employee opting for VRS of Rs. 9.96 Crores and provision for differential GST attributable to the composite supply of Tyres and Tubes amounted to Rs. 30 Crores.
- ❑ PAT during the quarter de-grew by 16.3% YoY largely due to higher depreciation on new plant and higher debt leading to increase in finance cost. However, other income soared to Rs.31 crores due to receipt of interest income on some earlier year income tax related issue. The tax expense also remained lower because of Rs.15 crores write back pertaining to earlier years.
- ❑ PCR plant is expected to commence production in 3QFY20 with an incremental capacity of 30000 tyres per day and the ramp up of the same is expected in 2 years from the commissioning of the plant.

View and Valuation

EBITDA margin has improved by 100bps on a sequential basis because of reduction in employee cost, marketing expenses and lower production in 4QFY19. Though, low finished goods inventory and price cut in replacement market has led to sharp reduction in gross margins. The management expects demand scenario for OEM as well as replacement market continues to be challenging and the volume growth is expected to remain in the range of 5-6% in FY20. The recent upsurge in crude and international rubber prices coupled with slow ramp of new plants will continue to weigh on margins in the current fiscal. The capacity expansion drive remains as per the plan with capex outlay of Rs.1300-1500 crores in FY20 but improvement in utilization level may take 12-15 months which will keep the overall profitability under pressure going ahead. Factoring in sluggish demand environment, higher fixed cost on new plants and increased debt level we reduce our FY20 EPS estimates by 2%. We value CEATLTD at 17x FY20e EPS to arrive at a target price of Rs.1013 and maintain NEUTRAL.

Key Risks to our rating and target

- ❑ Prolonged slowdown in automobile industry
- ❑ Sharp increase in Crude and Rubber prices

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	5484	5767	6231	6985	7483
EBITDA	773	657	615	643	679
EBIT	665	514	446	450	462
PAT	438	361	233	251	241
EPS (Rs)	108	89	58	62	60
EPS growth (%)	39	-17	-35	8	-4
ROE (%)	21	15	9	9	8
ROCE (%)	25	16	15	11	10
BV	510	597	644	684	729
P/B (X)	2.1	2.2	2.1	1.5	1.4
P/E (x)	10.0	14.8	23.0	17.0	17.7

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4QFY19 Results

Margins above estimates

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,674	1,706	1,755	1,730	1,760	5%	2%	6,231	6,985	12%
Other Income	7	4	3	4	31	341%	662%	29	39	32%
Total Income	1,681	1,710	1,758	1,734	1,791	7%	3%	6,260	7,024	12%
COGS	1,010	1,035	1,065	1,013	1,069	6%	6%	3,810	4,182	10%
Staff Cost	115	119	142	142	128	11%	-10%	438	530	21%
Other Exp.	351	377	389	433	401	14%	-7%	1,368	1,630	19%
Expenditure	1,476	1,531	1,595	1,587	1,598	8%	1%	5,616	6,342	13%
EBITDA	198	176	159	143	162	-18%	14%	615	643	5%
Depreciation	45	46	48	48	51	13%	5%	169	193	14%
EBIT	153	130	112	94	112	-27%	18%	446	450	1%
Interest	24	20	19	22	27	13%	21%	97	88	-10%
PBT	136	113	96	76	115	-15%	51%	378	401	6%
Excpt. Item	25	2	2	-	41	-	-	(34)	(45)	32%
Tax	40	44	37	30	14	-66%	-55%	134	125	-7%
PAT	77	71	63	52	64	-16%	23%	233	251	8%

Revenue growth of 5% YoY largely led by realization growth

Net sales grew by 5% YoY to Rs.1760 crores (vs our estimates of Rs.1783 crores) largely on the back of 6% YoY realization growth. Volumes de-grew by 1% YoY due to lower OEM and replacement demand across segments. Exports grew based on two wheelers and commercial vehicle segment. The company had taken a price cut of approx. 1% across products on replacement side during the quarter.

Lower employee cost, reduction in marketing expenses coupled with production cut led to margin improvement

Gross margins were contracted by 220bps QoQ to 39.3% on account of lower finished goods inventory and lower realization. However, lower employee and other expenses on account of reduced production volumes expanded the EBITDA margins by 100bps QoQ to 9.2%. Raw material prices increased by 2% YoY even further it's expected to go up based on the current crude price and international rubber prices.

PAT de-grew on account of higher depreciation and finance cost

PAT declined by 16.3%YoY to Rs. 64 crores (vs our estimates of Rs. 60 crores) due to higher depreciation on new plant and higher debt leading to increase in finance cost. However, other income soared to Rs.31 crores due to receipt of interest income on some earlier year income tax issue. The tax expense also remained lower because of Rs.15 crores write back pertaining to earlier years.

Concall highlights

- The OEM segment continued to decline whereas replacement market is also witnessing slowdown from 2HFY19 across categories largely due to credit issues faced by the market, uncertainty due to elections and the slow demand in festive season.
- The management expects single digit volume growth for the industry in FY20 and CEAT will do better than the industry. But the near term demand scenario looks challenging for the industry.
- Management expects to increase the market share in the TBR side where the current market share is 3-4% in truck segment and expect 40-50% growth in TBR segment in FY20.
- There will be margin pressure in 2HFY20 based on the increasing crude and international rubber prices.
- Slow ramp up on TBR and OTR tyres facilities coupled with new PCR plant which is expected to come in 3QFY20 will put further pressure on margins.
- Capacity ramp up will take time for ceat speciality tyre limited due to the farm sector which is a seasonal product and the replacement cycle is long for that product which is 6-7 years. Current utilization level at ceat speciality tyre limited (CSTL) is 40-50% with the capacity of 33TPD which is currently operating at 15TPD.
- Truck Bus Radial (TBR) plant with the capacity of 80000 types per month at Halol started its production in 4QFY19 and will take one and half year to ramp up. Capex spent on TBR plant is around Rs. 500 crores.

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

Net sales grew by 5% YoY largely on account of realization growth of 6% YoY.

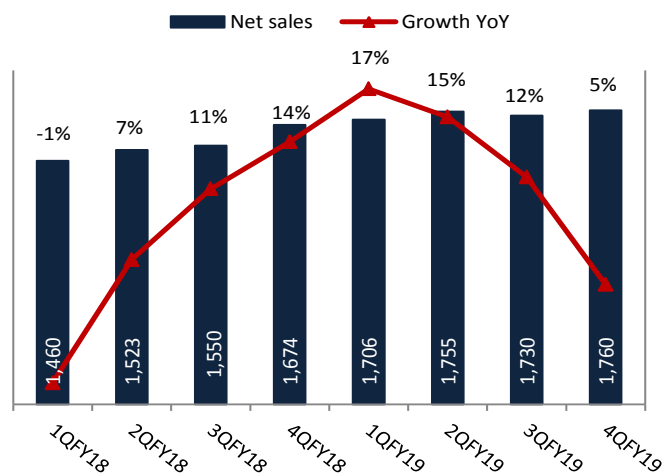


Exhibit: COGS and Gross Margin Trend

Lower finished goods inventory and lower realisation reduces gross margins to 39%.

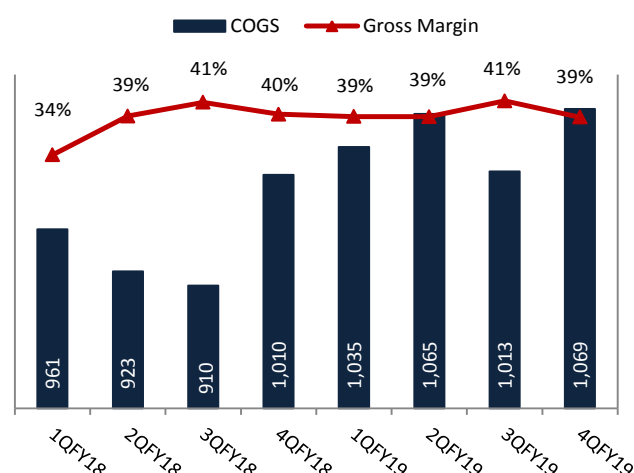


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Lower employee and other expenses enhanced EBITDA margins.

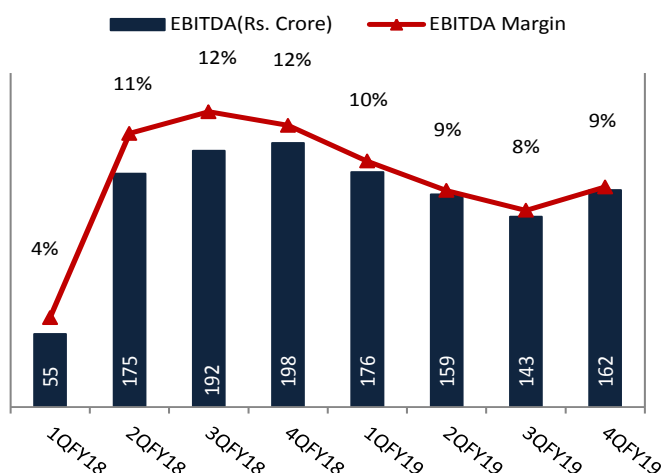


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher other income expanded the PAT margins by 70bps to 3.7%.

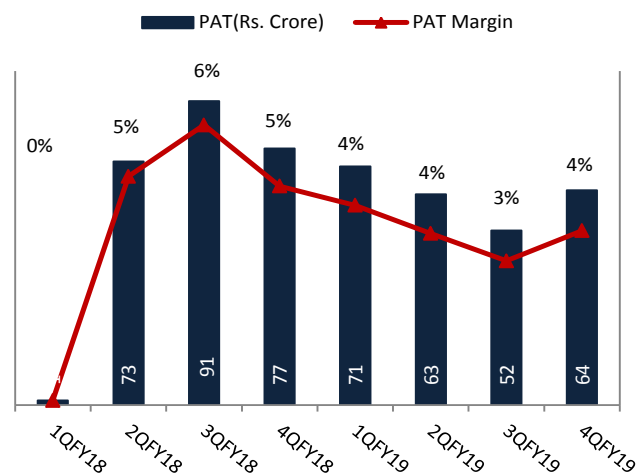


Exhibit: Rubber Prices (Rs/Kg) and Growth Trend

Domestic Rubber prices increased by 2% may impact Gross margins

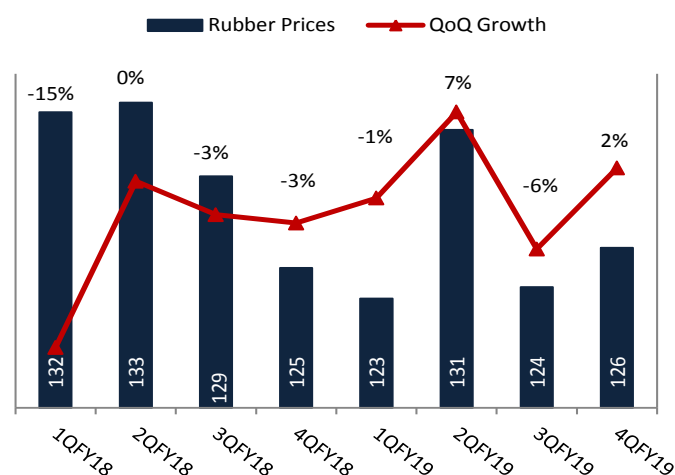
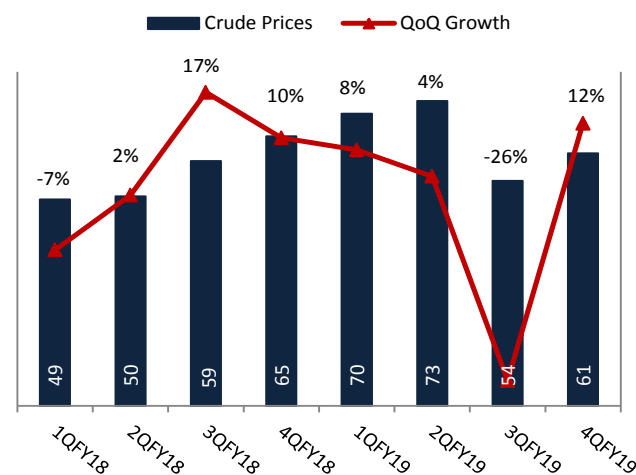


Exhibit: Crude Prices and Growth Trend

Increasing crude prices by 12% impacting the raw material cost



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	34	36	40	40	40	40	40	40
Reserves	748	993	1,642	2,024	2,375	2,566	2,726	2,908
Networth	782	1,029	1,682	2,065	2,415	2,606	2,766	2,949
Debt	829	1,020	626	629	910	647	1,447	2,075
Other Non Cur Liab	94	141	159	198	281	240	263	266
Total Capital Employed	1,210	1,452	2,037	2,654	3,267	3,057	3,989	4,800
Net Fixed Assets (incl CWIP)	1,579	1,625	1,788	2,403	2,779	3,034	4,012	4,807
Non Cur Investments	1	0	0	0	167	173	181	100
Other Non Cur Asst	113	120	111	150	197	139	210	210
Non Curr Assets	1,692	1,744	1,900	2,553	3,143	3,346	4,404	5,116
Inventory	559	754	680	662	943	785	1,006	1,025
Debtors	663	755	705	619	614	747	706	820
Cash & Bank	112	168	126	107	36	86	74	66
Other Curr Assets	121	120	411	197	249	197	215	280
Curr Assets	1,455	1,796	1,923	1,585	1,842	1,815	2,001	2,191
Creditors	793	689	658	643	758	871	1,053	1,128
Provisions (both)	69	78	111	84	54	50	101	108
Other Curr Liab	577	547	554	488	538	723	752	758
Curr Liabilities	1,438	1,314	1,323	1,215	1,350	1,644	1,905	1,994
Net Curr Assets	17	481	600	370	492	170	95	197
Total Assets	3,147	3,540	3,822	4,138	4,985	5,161	6,405	7,307

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	5,052	5,554	5,802	5,484	5,767	6,231	6,985	7,483
Change (%)	9%	10%	4%	-5%	5%	8%	12%	7%
Other Income	18	14	22	28	19	29	14	15
EBITDA	438	658	681	773	657	615	643	679
Change (%)	60%	50%	3%	14%	-15%	-6%	5%	6%
Margin (%)	8.7%	11.8%	11.7%	14.1%	11.4%	9.9%	9.2%	9.1%
Depr & Amor.	81	87	93	108	143	169	193	217
EBIT	357	571	587	665	514	446	450	462
Int. & other fin. Cost	181	172	132	95	82	97	88	130
EBT	194	413	478	598	451	378	401	343
Exp Item	(28)	(10)	(6)	(11)	(13)	(34)	(45)	-
Tax	46	133	158	187	106	134	125	120
Minority Int & P/L share of Ass.	-	-	-	(2)	(2)	-	-	-
Reported PAT	120	271	314	400	331	210	231	223
Adjusted PAT	120	271	314	438	361	233	251	241
Change (%)	561%	125%	16%	39%	-17%	-35%	8%	-4%
Margin(%)	2.4%	4.9%	5.4%	8.0%	6.3%	3.7%	3.6%	3.2%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	15%	26%	19%	21%	15%	9%	9%	8%
ROCE	30%	39%	29%	25%	16%	15%	11%	10%
Asset Turnover	1.61	1.57	1.52	1.33	1.16	1.21	1.09	1.02
Debtor Days	48	50	44	41	39	44	37	40
Inv Days	40	50	43	44	60	46	53	50
Payable Days	57	45	41	43	48	51	55	55
Int Coverage	2	3	4	7	6	5	5	4
P/E	3	6	10	10	15	23	17	18
Price / Book Value	0.4	1.5	1.9	2.1	2.2	2.1	1.5	1.4
EV/EBITDA	1	3	5	6	9	9	8	9
FCF per Share	146	14	110	(9)	(63)	47	(169)	(122)
Div Yield	4.3%	2.3%	1.2%	1.1%	0.9%	0.9%	1.1%	1.1%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	166	403	472	587	437	344	401	343
(inc)/Dec in Working Capital	196	(374)	171	82	(217)	-	(43)	(54)
Non Cash Op Exp	81	87	93	108	143	169	193	217
Int Paid (+)	150	172	132	95	82	97	88	130
Tax Paid	(38)	(89)	(112)	(169)	(102)	(98)	(125)	(120)
others	30	(2)	(7)	(1)	(8)	163	(26)	3
CF from Op. Activities	584	197	749	702	335	676	488	519
(inc)/Dec in FA & CWIP	(85)	(148)	(303)	(738)	(588)	(487)	(1,171)	(1,012)
Free Cashflow	500	49	446	(36)	(253)	189	(684)	(492)
(Pur)/Sale of Inv	30	0	-	274	(21)	35	40	(52)
others	2	6	50	32	66	37	(8)	81
CF from Inv. Activities	(53)	(142)	(253)	(433)	(543)	(415)	(1,139)	(982)
inc/(dec) in NW	-	11	393	-	-	-	-	-
inc/(dec) in Debt	(241)	177	(303)	78	331	(157)	800	628
Int. Paid	(153)	(172)	(148)	(93)	(76)	(97)	(88)	(130)
Div Paid (inc tax)	(4)	(17)	(40)	(98)	(1)	(53)	(58)	(58)
others	(66)	(38)	(97)	(214)	(35)	105	-	-
CF from Fin. Activities	(464)	(40)	(194)	(326)	219	(202)	654	440
Inc(Dec) in Cash	67	16	301	(57)	10	58	2	(23)
Add: Opening Balance	31	98	114	71	14	24	86	74
Closing Balance	98	114	415	14	24	82	89	51

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