

**Industry**  
**Bloomberg**  
**BSE CODE**

**Auto Ancillary**  
**CEAT IN**  
**500878**

## Demand concern persist on OEM side

### 1QFY20 Result Update

- CEATLTD reported a revenue growth of 2.7% YoY to Rs. 1752 crores (Vs our estimate of Rs.1749 crores) on largely account of growth in the replacement market of 3.5% YoY. OEM segment has declined by 5%YoY while Export grew in the range of 8-10%.
- Growth in the replacement market and Exports are largely driven by 2W and passenger car radial segment.
- Gross margins expanded by 20bps QoQ to 39.5% based on soft raw material cost. Moreover the same raw material prices are expected to be in the coming quarters.
- EBITDA margin improved by 30bps QoQ to 9.5% due to reduced other expenses on account of change in lease accounting.
- PAT for the quarter stood at Rs.82 crores (vs our estimates of Rs.54 crores). Higher depreciation and finance cost set off by write back of tax related to prior periods and higher other income which resulted in improvement of PAT margins by 100bps to 4.7%.

### View and Valuation

EBITDA margin has improved by 30bps on sequential basis largely on account of reduction in commodity prices. The demand scenario in overall OEM segment continues to be negative while there is growth witnessed in the replacement and export markets. The management expects growth prospects to improve based on new launches and some of the orders pending with passenger car OEMs as the new capacity come in 2HFY20. The margins are expected to range bound at current level as benefit of commodity prices to get marred by weak operating leverage. However higher debt level and depreciation cost will continue to weigh on overall profitability. We largely maintain our FY21 EPS estimates. Factoring the uncertain demand environment we value CEATLTD at 14x FY21e EPS to arrive at a target price of Rs.924 and maintain NEUTRAL.

### Key Risks to our rating and target

- Prolonged slowdown in automobile industry
- Increase in Crude and rubber prices

RATING	NEUTRAL
CMP	813
Price Target	924
Potential Upside	14%
Rating Change	↔
Estimate Change	↔
Target Change	↓

STOCK INFO	
52wk Range H/L	1455/731
Mkt Capital (Rs Cr)	3285
Free float (%)	49%
Avg. Vol 1M (,000)	291
No. of Shares (Crs)	4
Promoters Pledged %	0%

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	5767	6231	6985	7416	8143
EBITDA	657	615	643	692	767
EBIT	514	446	450	475	508
PAT	361	233	251	284	267
EPS (Rs)	89	58	62	70	66
EPS growth (%)	-17	-35	8	13	-6
ROE (%)	15	9	9	10	8
ROCE (%)	16	15	11	10	10
BV	597	644	684	740	791
P/B (X)	2.2	2.1	1.5	1.1	1.0
P/E (x)	14.8	23.0	17.0	11.5	12.2

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## Revenue in line with estimates

### 1QFY20 Results

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,706	1,755	1,730	1,760	1,752	3%	0%	6,231	6,985	12%
Other Income	4	3	4	31	12	226%	-61%	29	39	32%
Total Income	1,710	1,758	1,734	1,791	1,764	3%	-2%	6,260	7,024	12%
COGS	1,035	1,065	1,013	1,069	1,060	2%	-1%	3,810	4,182	10%
Staff Cost	119	142	142	128	134	13%	5%	438	530	21%
Other Exp.	377	389	433	401	391	4%	-3%	1,368	1,630	19%
Expenditure	1,531	1,595	1,587	1,598	1,585	4%	-1%	5,616	6,342	13%
EBITDA	176	159	143	162	167	-5%	3%	615	643	5%
Depreciation	46	48	48	51	64	40%	27%	169	193	14%
EBIT	130	112	94	112	103	-21%	-8%	446	450	1%
Interest	20	19	22	27	35	71%	30%	97	88	-10%
PBT	113	96	76	115	80	-29%	-31%	378	401	6%
Excpt. Item	2	2	-	41	1	-	-	(34)	(45)	32%
Tax	44	37	30	14	2	-95%	-84%	134	125	-7%
PAT	71	63	52	64	82	15%	28%	233	251	8%

#### Revenue growth of 2.7% YoY led by growth in replacement market

Net sales grew by 2.7% YoY to Rs. 1752 crores largely driven by growth of 3.5% YoY in replacement market. Based on the current slowdown within the industry, the growth from the OEM side was -5% while the demand from the replacement market was due to 2W and PV side. Robust order book was lined up by the management for the PV side for the new models coming in which the management will fulfill with the capacity coming in 3QFY20. Management expects to increase the market share of TBR also the price hike of 1.5-2% will take place in 2QFY20.

#### Margin expansion on account of lower raw material cost

Gross margin expansion by 20bps to 39.5% on account of reduction of commodity prices. EBITDA margins has enhanced by 30bps to 9.5% due to reduced other expenses on account of change in lease accounting by Rs.10 crores which are adjusted against depreciation and finance cost during the quarter.

#### Higher other income increased the PAT margin

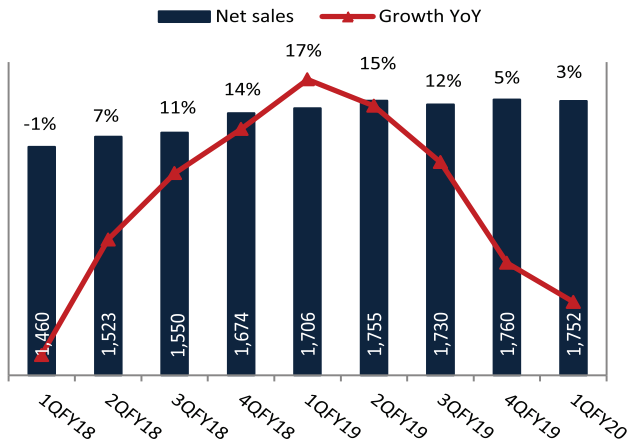
PAT for the quarter stood at Rs.82 crores. Higher depreciation and finance cost set off by write back of tax related to prior periods and higher other income which resulted in improvement of PAT margins by 100bps to 4.7%

### Concall highlights

- Volumes from the OEM side declined during the quarter whereas demand from the replacement market grew the volumes by 3.5% YoY. However, overall volumes remain flattish during the quarter.
- OEM, Replacement and Exports market grew by -5%, 2-5% and 8-10% YoY respectively.
- On the value side, 2W segment grew by 10-15% scooters particularly, while motorcycle remains muted during the quarter. However, PV and CV segment grew by single digit.
- Growth in the replacement market and Exports are largely driven by 2W and passenger car radial segment.
- Based on the current market scenario, 2W Plant will further take some time to reach at full capacity utilization level.
- Price hike of 1.5-2% in CV side will take place by the management in 2QFY20.
- Robust Order book lined up by the company for the PV side which the management will fulfill with the capacity addition within 6 months.
- Management expects project capex to be in the range of Rs. 1100-1200 crores for standalone business and Rs. 200 crores for speciality business in FY20 going ahead.
- Ramping up of Truck radial plant are as per plans of the management and it's expected to fully ramp up within next 4-5 quarters.
- Passenger car plant capacity is expected to start commercial production by the end of 3QFY20. However, ramping up will take 2-3years time from the date of commercial production.
- Commercial production of 2W plant will start at the end of 2QFY20 while the ramp up will take place after 2-3 years of commercial production.

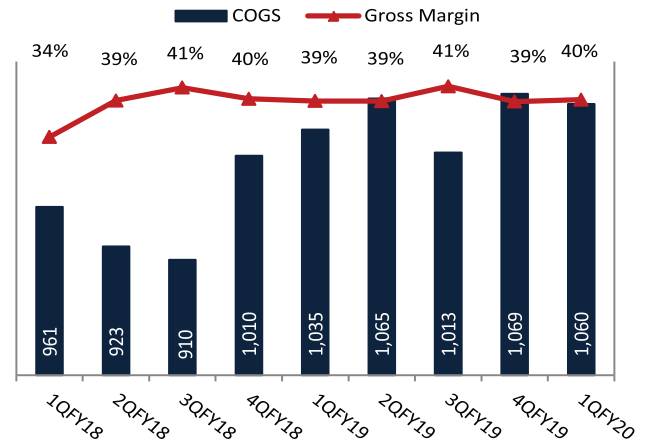
## Exhibit: Net sales (Rs. Crore) and Growth Trend

Revenue growth of 3% was due to growth in the replacement market of 3.5% YoY.



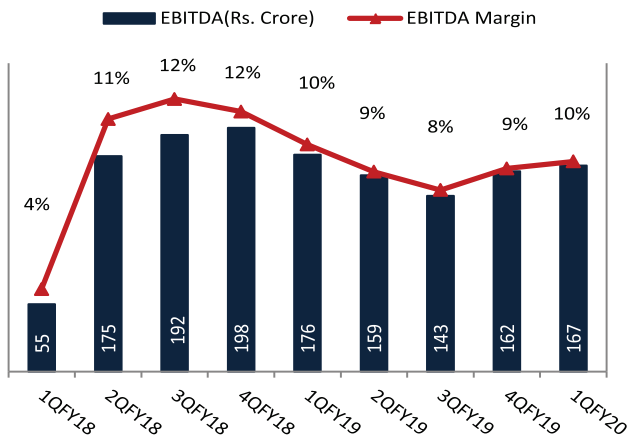
## Exhibit: COGS and Gross Margin Trend

Gross margin enhanced by 20bps QoQ to 39.5% on account of lower raw material prices.



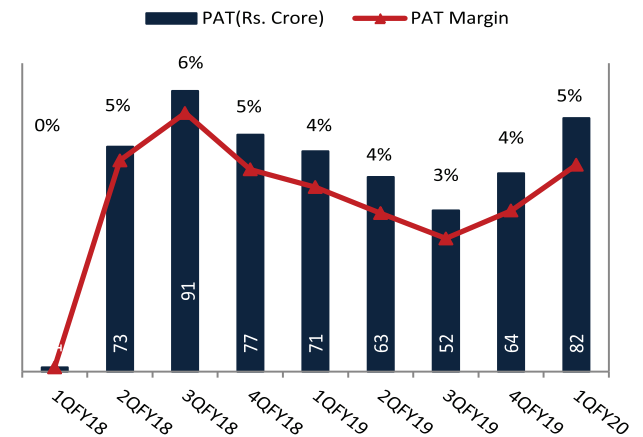
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin expanded by 30bps based on change in lease accounting.



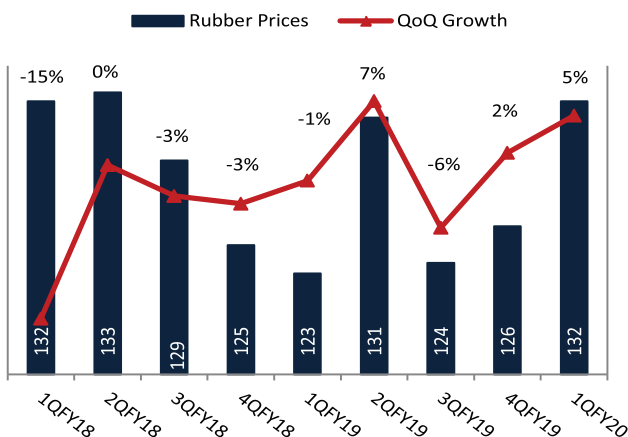
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher other income expanded the PAT Margin going ahead.



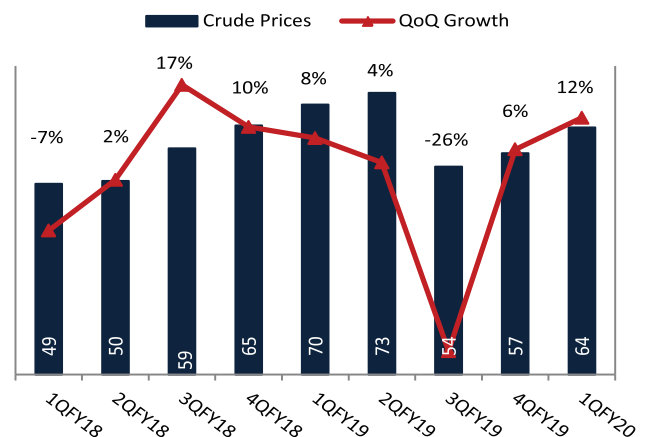
## Exhibit: Rubber Prices (Rs/Kg) and Growth Trend

Domestic Rubber prices increased by 3% will hamper gross margins going ahead



## Exhibit: Crude Prices and Growth Trend

Increasing Crude prices by 6% will further enhance the cost of Raw material.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	36	40	40	40	40	40	40	40
Reserves	993	1,642	2,024	2,375	2,566	2,726	2,952	3,161
Networth	1,029	1,682	2,065	2,415	2,606	2,766	2,992	3,201
Debt	1,020	626	629	910	647	1,447	1,875	2,205
Other Non Cur Liab	141	159	198	281	240	263	265	269
Total Capital Employed	1,452	2,037	2,654	3,267	3,057	3,989	4,643	5,182
Net Fixed Assets (incl CWIP)	1,625	1,788	2,403	2,779	3,034	4,012	4,507	4,961
Non Cur Investments	0	0	0	167	173	181	214	260
Other Non Cur Asst	120	111	150	197	139	210	210	210
Non Curr Assets	1,744	1,900	2,553	3,143	3,346	4,404	4,930	5,431
Inventory	754	680	662	943	785	1,006	1,016	1,071
Debtors	755	705	619	614	747	706	813	892
Cash & Bank	168	126	107	36	86	74	76	97
Other Curr Assets	120	411	197	249	197	215	304	320
Curr Assets	1,796	1,923	1,585	1,842	1,815	2,001	2,209	2,381
Creditors	689	658	643	758	871	1,053	1,118	1,227
Provisons (both)	78	111	84	54	50	101	107	117
Other Curr Liab	547	554	488	538	723	752	758	767
Curr Liabilities	1,314	1,323	1,215	1,350	1,644	1,905	1,982	2,112
Net Curr Assets	481	600	370	492	170	95	227	269
Total Assets	3,540	3,822	4,138	4,985	5,161	6,405	7,139	7,811

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>5,554</b>	<b>5,802</b>	<b>5,484</b>	<b>5,767</b>	<b>6,231</b>	<b>6,985</b>	<b>7,416</b>	<b>8,143</b>
Change (%)	10%	4%	-5%	5%	8%	12%	6%	10%
Other Income	14	22	28	19	29	14	14	14
<b>EBITDA</b>	<b>658</b>	<b>681</b>	<b>773</b>	<b>657</b>	<b>615</b>	<b>643</b>	<b>692</b>	<b>767</b>
Change (%)	50%	3%	14%	-15%	-6%	5%	8%	11%
<b>Margin (%)</b>	<b>11.8%</b>	<b>11.7%</b>	<b>14.1%</b>	<b>11.4%</b>	<b>9.9%</b>	<b>9.2%</b>	<b>9.3%</b>	<b>9.4%</b>
Depr & Amor.	87	93	108	143	169	193	217	259
EBIT	571	587	665	514	446	450	475	508
Int. & other fin. Cost	172	132	95	82	97	88	130	169
<b>EBT</b>	<b>413</b>	<b>478</b>	<b>598</b>	<b>451</b>	<b>378</b>	<b>401</b>	<b>366</b>	<b>374</b>
Exp Item	(10)	(6)	(11)	(13)	(34)	(45)	-	-
Tax	133	158	187	106	134	125	102	131
Minority Int & P/L share of Ass.	-	-	(2)	(2)	-	-	-	-
<b>Reported PAT</b>	<b>271</b>	<b>314</b>	<b>400</b>	<b>331</b>	<b>210</b>	<b>231</b>	<b>263</b>	<b>243</b>
<b>Adjusted PAT</b>	<b>271</b>	<b>314</b>	<b>438</b>	<b>361</b>	<b>233</b>	<b>251</b>	<b>284</b>	<b>267</b>
Change (%)	125%	16%	39%	-17%	-35%	8%	13%	-6%
<b>Margin(%)</b>	<b>4.9%</b>	<b>5.4%</b>	<b>8.0%</b>	<b>6.3%</b>	<b>3.7%</b>	<b>3.6%</b>	<b>3.8%</b>	<b>3.3%</b>

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	26%	19%	21%	15%	9%	9%	10%	8%
ROCE	39%	29%	25%	16%	15%	11%	10%	10%
Asset Turnover	1.57	1.52	1.33	1.16	1.21	1.09	1.04	1.04
Debtor Days	50	44	41	39	44	37	40	40
Inv Days	50	43	44	60	46	53	50	48
Payable Days	45	41	43	48	51	55	55	55
Int Coverage	3	4	7	6	5	5	4	3
P/E	6	10	10	15	23	17	11	12
Price / Book Value	1.5	1.9	2.1	2.2	2.1	1.5	1.1	1.0
EV/EBITDA	3	5	6	9	9	8	7	7
FCF per Share	14	110	(9)	(63)	47	(137)	(37)	(15)
Div Yield	2.3%	1.2%	1.1%	0.9%	0.9%	1.1%	1.5%	1.5%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	403	472	587	437	344	356	366	374
(inc)/Dec in Working Capital	(374)	171	82	(217)	-	-	(48)	(20)
Non Cash Op Exp	87	93	108	143	169	193	217	259
Int Paid (+)	172	132	95	82	97	88	130	169
Tax Paid	(89)	(112)	(169)	(102)	(98)	(81)	(102)	(131)
others	(2)	(7)	(1)	(8)	163	(3)	(0)	-
CF from Op. Activities	197	749	702	335	676	553	562	651
(inc)/Dec in FA & CWIP	(148)	(303)	(738)	(588)	(487)	(1,107)	(712)	(713)
Free Cashflow	49	446	(36)	(253)	189	(555)	(149)	(62)
(Pur)/Sale of Inv	0	-	274	(21)	35	41	(78)	(3)
others	6	50	32	66	37	15	(33)	(46)
CF from Inv. Activities	(142)	(253)	(433)	(543)	(415)	(1,052)	(822)	(762)
inc/(dec) in NW	11	393	-	-	-	-	-	-
inc/(dec) in Debt	177	(303)	78	331	(157)	731	428	330
Int. Paid	(172)	(148)	(93)	(76)	(97)	(89)	(130)	(169)
Div Paid (inc tax)	(17)	(40)	(98)	(1)	(53)	(53)	(58)	(58)
others	(38)	(97)	(214)	(35)	105	(105)	-	-
CF from Fin. Activities	(40)	(194)	(326)	219	(202)	484	240	103
Inc(Dec) in Cash	16	301	(57)	10	58	(15)	(20)	(8)
Add: Opening Balance	98	114	71	14	24	82	74	76
Closing Balance	114	415	14	24	82	68	53	68

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