

CEAT Limited

Industry Auto Ancillary
Bloomberg CEAT IN
BSE CODE 500878

Weaker operating leverage remains a drag on margin

2QFY20 Result Update

- ❑ CEATLTD reported revenue in 2QFY20 stood at Rs. 1692 Cr. (vs our estimate of Rs. 1737 Cr.) due to decline in volumes by 7% YoY.
- ❑ Volumes growth at replacement, OEM and export segment remain flattish, -15% and lower single digit respectively.
- ❑ Gross margins expanded by 160bps QoQ to 41.1% on account of favorable change in product mix, lower raw material cost and reduced inventory level.
- ❑ EBITDA margin has increased by 60bps to 10.1% largely due to higher gross margin while other expenses remained higher due to increase in promotional activities.
- ❑ PAT during the quarter stood at Rs. 44 Cr. with the decline in the PAT margin by 210 bps to 2.6% due to higher depreciation, finance cost and tax expenses in 2QFY20.
- ❑ Project CAPEX planned by the management for standalone business is Rs. 1000-1200 Cr. and for specialty business it's Rs. 150Cr. (reduced by Rs. 50 Cr. from previous guidance).
- ❑ OEM market share on PV side is expected to expand by around 5% to around 13 from 8% within a year based on the current addition in the capacity in Chennai in 4QFY20.

View and Valuation

The OEM demand scenario continues to be challenging while replacement and export markets have also seen moderation in growth. Considering the slowdown in exports, the company has lowered the capex guidance on off highway tyres. However, 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. Going ahead we expect margin expansion to be limited depending on commodity prices and weaker utilization levels. Factoring higher promotional expenses, debt level and depreciation cost we reduce our FY20/21 EPS estimates by 13%/4%. We value CEATLTD at 12x FY21e EPS to arrive at a target price of Rs.851 and maintain NEUTRAL.

Key Risks to our rating and target

- ❑ Prolonged slowdown in automobile industry
- ❑ Demand Scenario from OEMs.

RATING	NEUTRAL
CMP	970
Price Target	851
Potential Upside	-12%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	1373/731
Mkt Capital (Rs Cr)	3923
Free float (%)	49%
Avg. Vol 1M (,000)	161
No. of Shares (Cr.)	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	6969	7492
EBITDA	657	615	643	679	712
EBIT	514	446	450	414	426
PAT	361	233	251	256	274
EPS (Rs)	89	58	62	63	68
EPS growth (%)	-17	-35	8	2	7
ROE (%)	15	9	9	9	9
ROCE (%)	16	15	11	9	9
BV	597	644	684	733	786
P/B (X)	2.2	2.1	1.5	1.3	1.2
P/E (x)	14.8	23.0	17.0	15.3	14.3

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2QFY20 Results

Reduced raw material improved margins

Fig in Rs. Cr.

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,755	1,730	1,760	1,752	1,692	-4%	-4%	6,231	6,985	112%
Other Income	3	4	31	12	4	30%	30%	29	39	132%
Total Income	1,758	1,734	1,791	1,764	1,696	-4%	-4%	6,260	7,024	112%
COGS	1,065	1,013	1,069	1,060	996	-6%	-6%	3,810	4,182	110%
Staff Cost	142	142	128	134	121	-14%	-14%	438	530	121%
Other Exp.	389	433	401	391	404	4%	4%	1,368	1,630	119%
Expenditure	1,595	1,587	1,598	1,585	1,521	-5%	-5%	5,616	6,342	113%
EBITDA	159	143	162	167	170	7%	7%	615	643	105%
Depreciation	48	48	51	64	67	41%	41%	169	193	114%
EBIT	112	94	112	103	103	-7%	-7%	446	450	101%
Interest	19	22	27	35	37	101%	101%	97	88	90%
PBT	96	76	115	80	70	-27%	-27%	378	401	106%
Excpt. Item	2	-	41	1	1	-59%	-	(34)	(45)	132%
Tax	37	30	14	2	31	-18%	-18%	134	125	93%
PAT	63	52	64	82	44	-31%	-31%	233	251	108%

Revenue de-growth by 3.6% YoY on account of volume decline by 7% YoY

Net sales in 2QFY20 de-grew by 3.6% YoY to Rs.1692 Cr. due to decline in volumes by 7% YoY. Decline in volumes in 1HFY20 was due to slowdown in the CV segment whereas in 2W and PV side volumes grew on both OEM as well as Replacement market. Volumes growth at replacement, OEM and export segment remain flattish, -15% and lower single digit respectively. Pricing remain same as of 1QFY20 and management expects it to remain same going forward.

Margins improved led by lower raw material cost and favorable product mix

Gross margins expanded by 160 bps QoQ to 41.1% on account of reduced raw material prices whereas Carbon black prices remain flattish on QoQ basis. EBITDA margin has increased by 60bps to 10.1% largely due to higher gross margin while other expenses remained higher due to increase in promotional activities.

Higher depreciation and finance cost reduced PAT

PAT during the quarter stood at Rs. 44 Cr. with the decline in the PAT margin by 210 bps to 2.6% due to higher depreciation, finance cost and tax expenses in 2QFY20.

Concall Highlights

- At an industry level; PCR and PCB mix stood at 50:50, whereas at CEAT the mix is 40:60. Management expected to bring that mix to 50:50 with the capacity ramping up and current demand scenario of radial tyre.
- Truck and bus segment at an overall level grew by around 10%, where replacement market shows positive growth, OEM lower growth whereas, truck bus bias segment grew by -15% during the quarter.
- Raw material during the quarter reduced at an overall level whereas the Carbon black prices went up on YoY basis and remain stable at QoQ basis.
- Management expects higher demand of PCR plant capacity coming in 4QFY20 across OEM, replacement and Exports market.
- Tonnage mix during the quarter stood at 32%,15%,30-35% and 15-18% for 2W, PV, truck and bus and Others. Management expects the PV segment and truck and bus segment to expand based on the capacity expansion to that segment.
- Gross margins expansion was due to lower raw material cost and change in mix (focusing more towards PV side) to 60% and 40% respectively.
- On 2W and PV side various new models launched like pulsar 125, Suzuki access 125, Maruti new Alto models etc are from CEAT. Management has maintained its relation with existing and new OEM's.
- New products launched during the quarter which will increase the truck radial segment share going forward.
- Employee cost during the quarter reduced due to lower performance bonus and reduce provision for leave encashment.
- Other expenses increased due to higher level of production than compared to 1QFY20.
- Depreciation increased due to progressive commissioning of project assets and Finance cost increased due to increase in borrowings.

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

Revenue de-growth of 4%YoY was due to decline in volumes by 7% YoY.

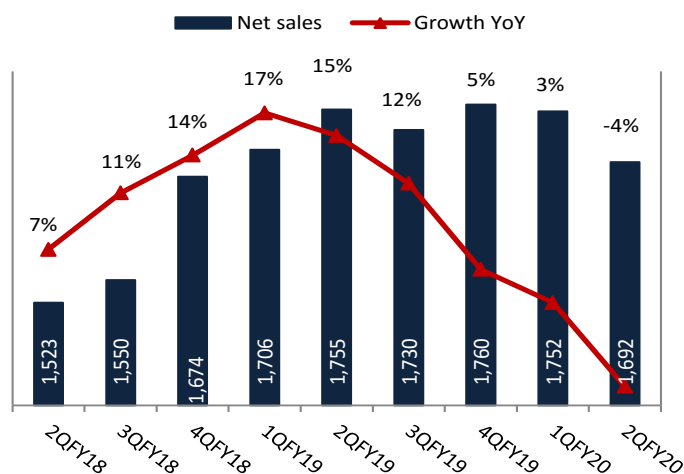


Exhibit: COGS and Gross Margin Trend

Gross margin enhanced by 160bps QoQ to 41.1% on account of lower raw material prices.

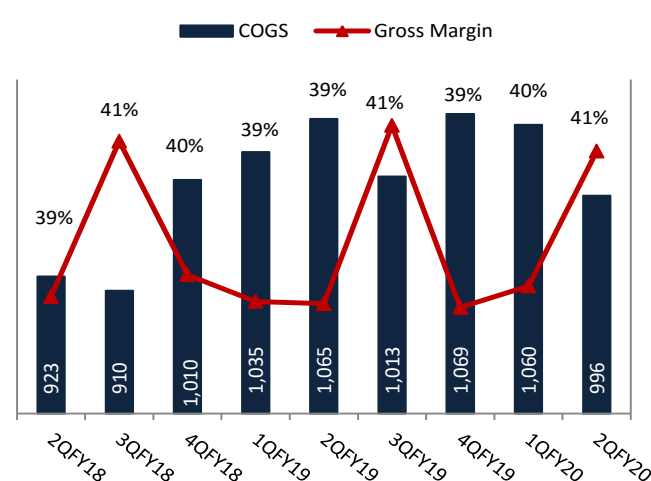


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin expanded by 60bps based on lower employee cost.

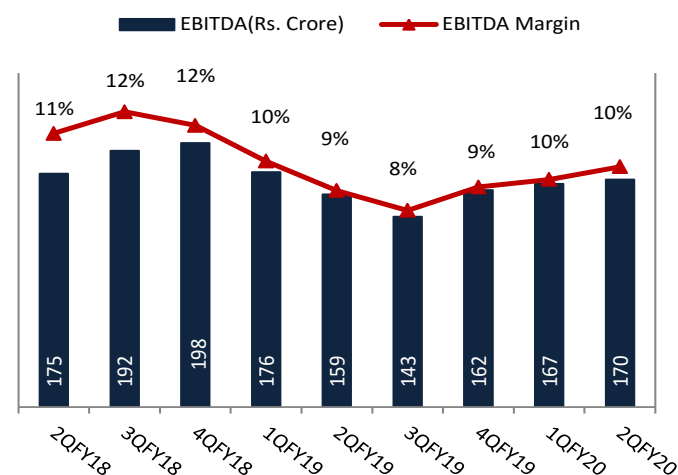


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher depreciation and finance cost reduced PAT margins.

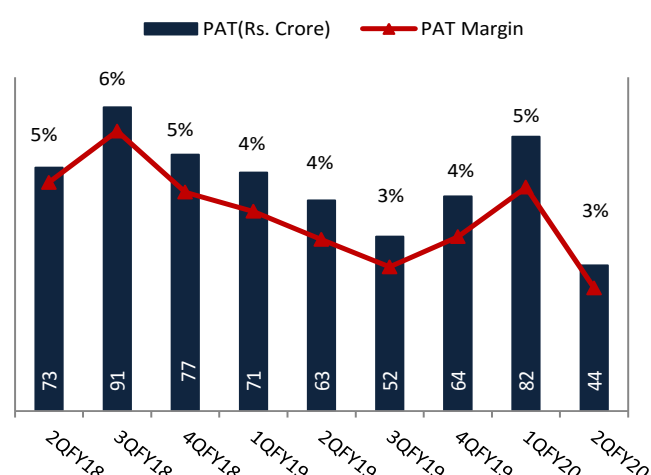


Exhibit: Rubber Prices (Rs/Kg) and Growth Trend

Domestic Rubber prices decreased by 4% improve gross margin expansion

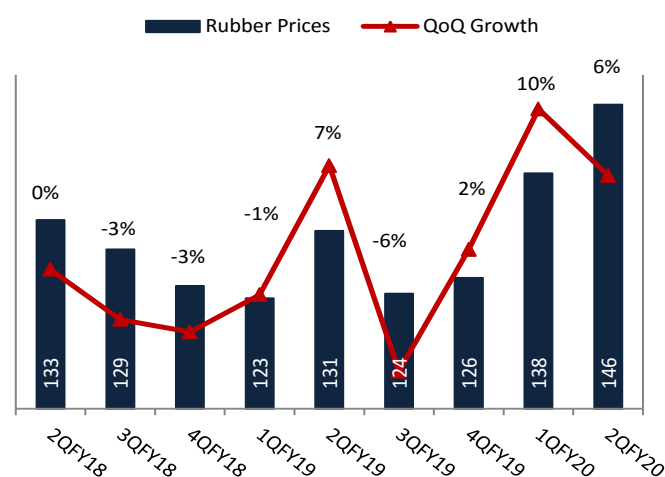
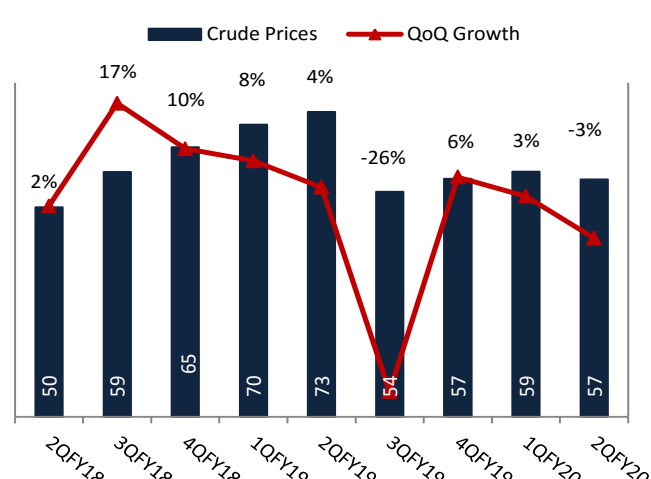


Exhibit: Crude Prices and Growth Trend

Reduced Crude prices by 3% will further enhance the margins.



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	2,923	3,139
Networth	1,029	1,682	2,065	2,415	2,606	2,766	2,964	3,180
Debt	1,020	626	629	910	647	1,447	1,805	2,014
Other Non Cur Liab	141	159	198	281	240	263	263	266
Total Capital Employed	1,452	2,037	2,654	3,267	3,057	3,989	4,414	4,911
Net Fixed Assets (incl CWIP)	1,625	1,788	2,403	2,779	3,034	4,012	4,458	4,685
Non Cur Investments	0	0	0	167	173	181	214	284
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	4,882	5,179
Inventory	754	680	662	943	785	1,006	955	985
Debtors	755	705	619	614	747	706	764	821
Cash & Bank	168	126	107	36	86	74	83	101
Other Curr Assets	120	411	197	249	197	215	275	393
Curr Assets	1,796	1,923	1,585	1,842	1,815	2,001	2,076	2,300
Creditors	689	658	643	758	871	1,053	1,051	1,129
Provisions (both)	78	111	84	54	50	101	100	108
Other Curr Liab	547	554	488	538	723	752	752	758
Curr Liabilities	1,314	1,323	1,215	1,350	1,644	1,905	1,903	1,996
Net Curr Assets	481	600	370	492	170	95	174	304
Total Assets	3,540	3,822	4,138	4,985	5,161	6,405	6,958	7,479

Income Statement

Fig in Rs. Cr.

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	5,554	5,802	5,484	5,767	6,231	6,985	6,969	7,492
Change (%)	10%	4%	-5%	5%	8%	12%	0%	8%
Other Income	14	22	28	19	29	14	14	14
EBITDA	658	681	773	657	615	643	679	712
Change (%)	50%	3%	14%	-15%	-6%	5%	6%	5%
Margin (%)	11.8%	11.7%	14.1%	11.4%	9.9%	9.2%	9.7%	9.5%
Depr & Amor.	87	93	108	143	169	193	266	286
EBIT	571	587	665	514	446	450	414	426
Int. & other fin. Cost	172	132	95	82	97	88	137	153
EBT	413	478	598	451	378	401	306	328
Exp Item	(10)	(6)	(11)	(13)	(34)	(45)	(1)	-
Tax	133	158	187	106	134	125	72	83
Minority Int & P/L share of Ass.	-	-	(2)	(2)	-	-	-	-
Reported PAT	271	314	400	331	210	231	256	274
Adjusted PAT	271	314	438	361	233	251	256	274
Change (%)	125%	16%	39%	-17%	-35%	8%	2%	7%
Margin(%)	4.9%	5.4%	8.0%	6.3%	3.7%	3.6%	3.7%	3.7%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	26%	19%	21%	15%	9%	9%	9%	9%
ROCE	39%	29%	25%	16%	15%	11%	9%	9%
Asset Turnover	1.6	1.5	1.3	1.2	1.2	1.1	1.0	1.0
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	3	3
P/E	6	10	10	15	23	17	15	14
Price / Book Value	2	2	2	2	2	2	1	1
EV/EBITDA	3	5	6	9	9	8	8	8
FCF per Share	14	110	(9)	(63)	47	(137)	(16)	48
Div Yield	2.3%	1.2%	1.1%	0.9%	0.9%	1.1%	1.2%	1.2%

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	326	323
(inc)/Dec in Working Capital	(374)	171	82	(217)	-	-	(9)	(0)
Non Cash Op Exp	87	93	108	143	169	193	266	286
Int Paid (+)	172	132	95	82	97	88	140	171
Tax Paid	(89)	(112)	(169)	(102)	(98)	(81)	(71)	(75)
others	(2)	(7)	(1)	(8)	163	(3)	(4)	(4)
CF from Op. Activities	197	749	702	335	676	553	649	702
(inc)/Dec in FA & CWIP	(148)	(303)	(738)	(588)	(487)	(1,107)	(712)	(713)
Free Cashflow	49	446	(36)	(253)	189	(555)	(63)	(11)
(Pur)/Sale of Inv	0	-	274	(21)	35	41	(157)	41
others	6	50	32	66	37	15	(33)	(33)
CF from Inv. Activities	(142)	(253)	(433)	(543)	(415)	(1,052)	(901)	(705)
inc/(dec) in NW	11	393	-	-	-	-	-	-
inc/(dec) in Debt	177	(303)	78	331	(157)	731	458	209
Int. Paid	(172)	(148)	(93)	(76)	(97)	(89)	(140)	(171)
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	259	(20)
Inc(Dec) in Cash	16	301	(57)	10	58	(15)	7	(23)
Add: Opening Balance	98	114	71	14	24	82	74	83
Closing Balance	114	415	14	24	82	68	80	60

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