

CEAT Limited

Industry Auto Ancillary
Bloomberg CEAT IN
BSE CODE 500878

Higher fixed cost on new plants to keep profitability under check

RATING	NEUTRAL
CMP	1013
Price Target	1106
Potential Upside	9%

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%

Research Analyst

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3QFY20 Result Update

- ❑ CEATLTD posted a revenue growth of 2%YoY to Rs.1762 crores in 3QFY20 (vs our estimate of Rs. 1730 Cr.) largely led by volume growth 2% YoY.
- ❑ The Passenger car segment has shown high single digit growth while 2Ws and CVs have declined double digit. OEM segment has declined while replacement remained flat to positive.
- ❑ The management expects that the industry has already seen the worse but not sure about recovery in the near future.
- ❑ Gross margins expanded by 183bps QoQ to 43% on account of favorable change in product mix and lower raw material cost.
- ❑ EBITDA margin has increased by 30bps to 10.4% because of sharp improvement in gross margin. Though, the margin expansion was limited due to increased promotional activities, higher conversion charges on account of increased production and reversal of bonus leading to higher employee cost.
- ❑ PAT during the quarter stood at Rs. 53 Cr. with 40bps improvement in the PAT margin. The tax rate for the quarter stood at 38.5%.
- ❑ The capex guidance for FY21 is Rs.800-1000 crores on standalone basis and for specialty business is yet to be figured out

View and Valuation

The replacement market has shown positive growth against double digit decline in OEMs. The overall demand scenario still seems uncertain for next 1-2 quarters. However, the management expects growth prospects to improve based on new launches and new capacities in PCR and 2 wheeler tyres coming in from 4QFY20. The margin pressure is also expected to ease off based on the stabilizing commodity prices going ahead. However overall profitability may remain under stress due to higher depreciation and interest cost. Factoring the higher tax rate in FY20/21 as per previous tax rate we reduce our FY20/21 EPS estimates by 3% each. We value CEATLTD at 16x FY21e EPS to arrive at a target price of Rs.1106 and maintain NEUTRAL.

Key Risks to our rating and target

- ❑ Demand Scenario from OEMs.
- ❑ Increase in commodity prices
- ❑ Further slowdown in European market

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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3QFY20 Results
Reduced raw material improved margins

Fig in Rs. Cr.

Financials	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,730	1,760	1,752	1,692	1,762	2%	4%	6,231	6,985	112%
Other Income	4	31	12	4	4	-11%	-16%	29	39	132%
Total Income	1,734	1,791	1,764	1,696	1,765	2%	4%	6,260	7,024	112%
COGS	1,013	1,069	1,060	996	1,005	-1%	1%	3,810	4,182	110%
Staff Cost	142	128	134	121	144	2%	19%	438	530	121%
Other Exp.	433	401	391	404	430	-1%	6%	1,368	1,630	119%
Expenditure	1,587	1,598	1,585	1,521	1,579	-1%	4%	5,616	6,342	113%
EBITDA	143	162	167	170	183	29%	8%	615	643	105%
Depreciation	48	51	64	67	71	46%	5%	169	193	114%
EBIT	94	112	103	103	113	19%	9%	446	450	101%
Interest	22	27	35	37	38	71%	2%	97	88	90%
PBT	76	115	80	70	78	3%	12%	378	401	106%
Excpt. Item	-	41	1	1	0	0%	-69%	(34)	(45)	132%
Tax	30	14	2	31	30	0%	-1%	134	125	93%
PAT	52	64	82	44	53	0%	20%	233	251	108%

Revenue grew by 2% YoY on account of 2%YoY volume growth

Net sales in 3QFY20 grew by 2% YoY to Rs.1762 Cr. largely on account of 2% YoY volume growth. The Passenger car segment has shown high single digit growth while 2Ws and CVs have declined double digit. OEM segment has declined while replacement remained flat to positive. The export revenue has grown by low single digit and it is expected to grow in the range of 5-10% going ahead.

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

Gross margins expanded by 183 bps QoQ to 43% on account of reduced raw material prices and favourable product mix. EBITDA margin has increased by 30bps to 10.4% because of sharp improvement in gross margin. Though, the margin expansion was limited due to increased promotional activities, higher conversion charges on account of increased production and reversal of bonus leading to higher employee cost.

Tax rate stood at 38.5%

PAT during the quarter stood at Rs. 53 Cr. with 40bps improvement in the PAT margin. The tax rate for the quarter stood at 38.5%.

Concall Highlights

- Passenger car segment has shown high single digit growth while 2Ws and CVs have declined double digit. OEM segment has declined while replacement remained flat to positive.
- The company is witnessing 25-30% YoY growth in TBR tyres and going ahead it is expected to grow at 20%YoY.
- Exports revenue has grown by low single digit and expected to grow in the range of 5-10% going ahead.
- The management expects that the industry has already seen the worse but not sure about recovery in the near future.
- The overall gross margin is expected to remain at similar level of 41-42% based on stable commodity prices.
- Depreciation and interest cost will increase due to new capacities coming in from 4QFY20. The passenger car plant in Chennai and 2W tyre plant in Nagpur.
- The company has spent Rs.1900 crores out of Rs.3500 crores of total capex. The overall capex guidance has been curtailed by Rs.500 crores to Rs.3000 crores to be spent by FY22.
- The capex guidance for FY21 is Rs.800-1000 crores on standalone basis and for specialty business is yet to be figured out.
- The company has 5-6% of market share in TBR tyres and 27-28% market share in 2W tyres.
- The tax rate will remain same as previous year for FY20.
- The management does not see any pricing pressure due to competition.
- Export remains a big opportunity in terms of PCR tyres and hence the management will focus onto increase its distribution network in European market.

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

Revenue growth of 2%YoY was due to 2%YoY growth in volumes

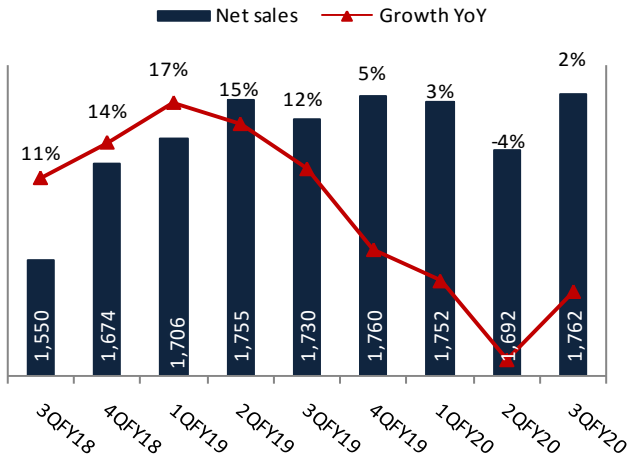


Exhibit: COGS and Gross Margin Trend

Gross margin enhanced by 183bps QoQ to 43% largely on account of lower raw material prices

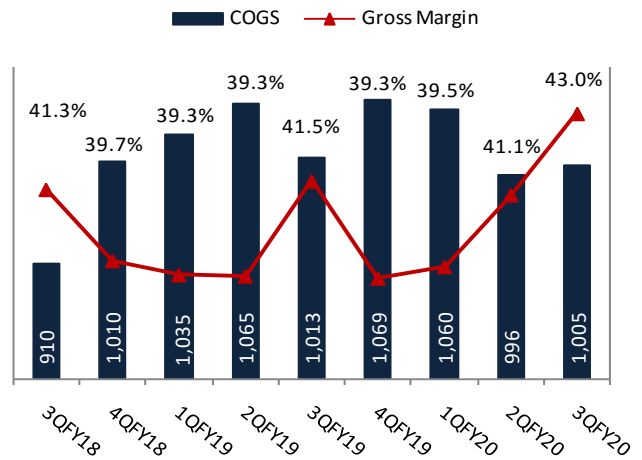


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin expanded by 30bps based on sharp expansion in gross margins

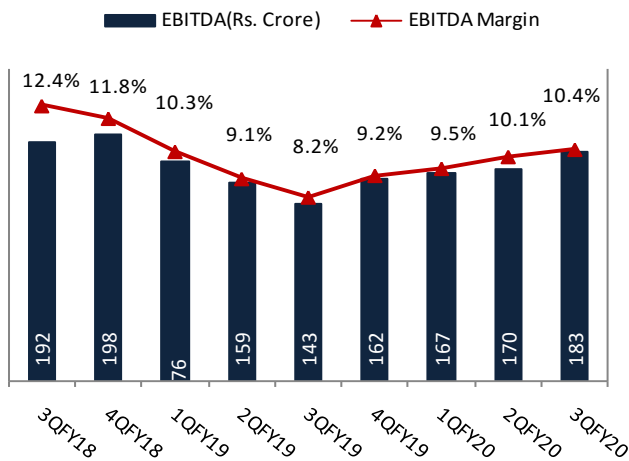


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher depreciation and finance cost reduced PAT margins

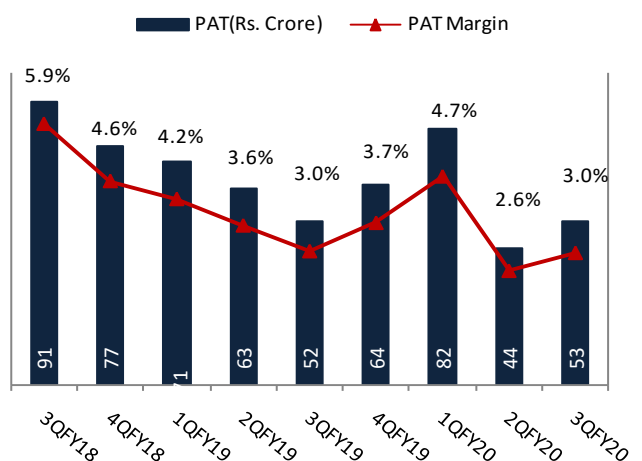


Exhibit: Rubber Prices (Rs/Kg) and Growth Trend

Domestic Rubber prices decreased by 11% have led to gross margin expansion

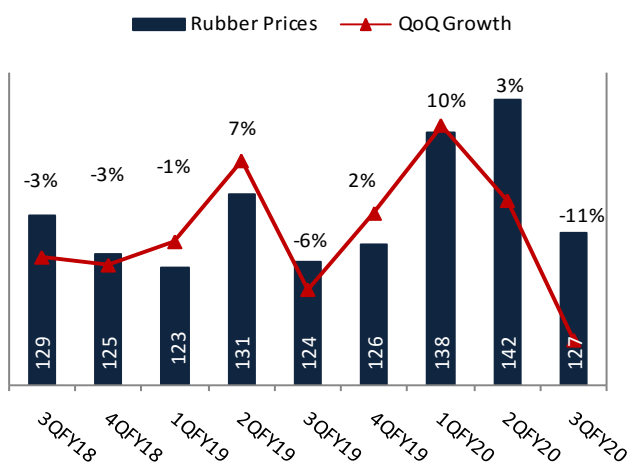
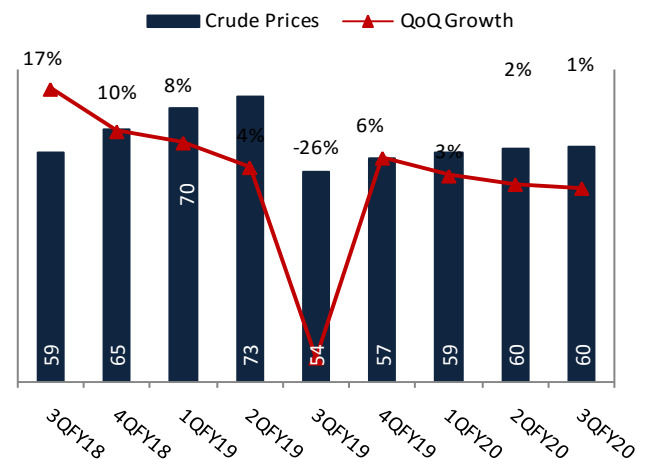


Exhibit: Crude Prices and Growth Trend

Crude prices have been flattish and the benefit will come in future quarters



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	2,917	3,128
Networth	1,029	1,682	2,065	2,415	2,606	2,766	2,957	3,169
Debt	1,020	626	629	910	647	1,447	1,805	2,064
Other Non Cur Liab	141	159	198	281	240	263	308	311
Total Capital Employed	1,452	2,037	2,654	3,267	3,057	3,989	4,408	4,950
Net Fixed Assets (incl CWIP)	1,625	1,788	2,403	2,779	3,034	4,012	4,565	4,982
Non Cur Investments	0	0	0	167	173	181	214	250
Other Non Cur Asst	120	111	150	197	139	210	128	128
Non Curr Assets	1,744	1,900	2,553	3,143	3,346	4,404	4,907	5,360
Inventory	754	680	662	943	785	1,006	920	944
Debtors	755	705	619	614	747	706	766	821
Cash & Bank	168	126	107	36	86	74	83	83
Other Curr Assets	120	411	197	249	197	215	286	314
Curr Assets	1,796	1,923	1,585	1,842	1,815	2,001	2,055	2,163
Creditors	689	658	643	758	871	1,053	1,015	1,088
Provisions (both)	78	111	84	54	50	101	101	108
Other Curr Liab	547	554	488	538	723	752	752	759
Curr Liabilities	1,314	1,323	1,215	1,350	1,644	1,905	1,868	1,955
Net Curr Assets	481	600	370	492	170	95	187	208
Total Assets	3,540	3,822	4,138	4,985	5,161	6,405	6,962	7,522

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	6,992	7,494
Change (%)	10%	4%	-5%	5%	8%	12%	0%	7%
Other Income	14	22	28	19	29	14	14	14
EBITDA	658	681	773	657	615	643	710	811
Change (%)	50%	3%	14%	-15%	-6%	5%	11%	14%
Margin (%)	11.8%	11.7%	14.1%	11.4%	9.9%	9.2%	10.2%	10.8%
Depr & Amor.	87	93	108	143	169	193	272	297
EBIT	571	587	665	514	446	450	438	514
Int. & other fin. Cost	172	132	95	82	97	88	149	208
EBT	413	478	598	451	378	401	316	344
Exp Item	(10)	(6)	(11)	(13)	(34)	(45)	(2)	-
Tax	133	158	187	106	134	125	89	96
Minority Int & P/L share of Ass.	-	-	(2)	(2)	-	-	-	-
Reported PAT	271	314	400	331	210	231	225	247
Adjusted PAT	271	314	438	361	233	251	246	272
Change (%)	125%	16%	39%	-17%	-35%	8%	-2%	11%
Margin(%)	4.9%	5.4%	8.0%	6.3%	3.7%	3.6%	3.5%	3.6%

Financial Details
Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	26%	19%	21%	15%	9%	9%	8%	9%
ROCE	39%	29%	25%	16%	15%	11%	10%	10%
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	48	46
Payable Days	45	41	43	48	51	55	53	53
Int Coverage	3	4	7	6	5	5	3	2
P/E	6	10	10	15	23	17	17	15
Price / Book Value	2	2	2	2	2	2	1	1
EV/EBITDA	3	5	6	9	9	8	8	7
FCF per Share	14	110	(9)	(63)	47	(137)	(10)	15
Div Yield	2.3%	1.2%	1.1%	0.9%	0.9%	1.1%	1.1%	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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