

Industry
Bloomberg
BSE CODE

Auto Ancillary
CEAT IN
500878

RATING	NEUTRAL
CMP	841
Price Target	853
Potential Upside	1%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	1101/602
Mkt Capital (Rs Cr)	3275
Free float (%)	49%
Avg. Vol 1M (,000)	185
No. of Shares (Cr)	4
Promoters Pledged %	0%

RESEARCH ANALYST

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Decline in commercial vehicle segment to hamper overall growth

4QFY20 Result update

- CEATLTD reported decline in revenue by 10.6% YoY to Rs.1573 crores (vs. estimate of Rs.1408 crores) on account of decline in volumes by 11% YoY
- Passenger Car segment grew by 6.6% in volume terms and company saw growth on replacement side led by scooters.
- Gross margin expanded by 268 bps to 45.6% QoQ on back of softening in raw material prices and higher inventory levels at the end 4QFY20. EBITDA margin also expanded by 233 bps QoQ to 12.7%.
- PAT stood at Rs.52 crores (vs. estimate of Rs.25 crores) with decline of 19.6%. It included exceptional item of Rs 28 crores. Exceptional cost of Rs 28 crs in total was incurred by the company, relating VRS given in one of their factories and it also provided COVID-19 expenses of around Rs 16 crs on account of sudden shutdown of its plants lead to rejection of stocks in manufacturing process.
- CAPEX for 4QFY20 was Rs 205 crs. It spent Rs 1105 crs in FY20 for the same. The guidance for FY21 is Rs.550 crs.
- In FY20, the company's depreciation went up by 5.6% on back of commissioning of manufacturing in Hallol and greenfield, Chennai plant.

View and Valuation

The overall OEMs demand scenario will continue to be under stress for next couple of quarters. Sharp decline in CV and PV was partially set off by strong growth in farm segment and 2-wheeler replacement market. The CV segment is expected to decline severely in the near term based on BS-VI price increase. Going ahead the replacement market is expected to remain buoyant based on shorter product lifecycle. The margin pressure is also expected to ease off based on the stabilizing commodity prices and improving product mix going ahead. Though higher depreciation and interest cost will keep the overall profitability under check. We largely maintain our FY21e estimates and value CEATLTD at 21x FY21e EPS to arrive at a target price of Rs.853 and maintain NEUTRAL.

Key Risks to our rating and target

- Demand Scenario from OEMs.
- Increase in commodity prices.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	5767	6231	6985	6779	6134
EBITDA	657	615	643	724	676
EBIT	514	446	450	447	353
PAT	361	233	251	230	171
EPS (Rs)	89	58	62	57	42
EPS growth (%)	-17	-35	8	-8	-26
ROE (%)	15	9	9	8	6
ROCE (%)	16	15	11	10	7
BV	597	644	684	719	744
P/B (X)	2.2	2.3	1.5	1.2	1.1
P/E (x)	14.8	26.0	17.0	14.8	19.9

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Reduced raw material improved margins

4QFY20 Results

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	1,760	1,752	1,692	1,762	1,573	-11%	-11%	6,985	6,779	-3%
Other Income	31	12	4	4	4	-89%	-2%	39	21	-47%
Total Income	1,791	1,764	1,696	1,765	1,577	-12%	-11%	7,024	6,799	-3%
COGS	1,069	1,060	996	1,005	855	-20%	-15%	4,182	3,915	-6%
Staff Cost	128	134	121	144	142	11%	-2%	530	542	2%
Other Exp.	401	391	404	430	376	-6%	-12%	1,630	1,598	-2%
Expenditure	1,598	1,585	1,521	1,579	1,373	-14%	-13%	6,342	6,055	-5%
EBITDA	162	167	170	183	200	23%	9%	643	724	13%
Depreciation	51	64	67	71	74	47%	6%	193	277	43%
EBIT	112	103	103	113	126	13%	12%	450	447	-1%
Interest	27	35	37	38	41	51%	7%	88	151	71%
PBT	115	80	70	78	89	-23%	13%	401	317	-21%
Excpt. Item	41	1	1	0	28	-30%	NA	(45)	(30)	-33%
Tax	14	2	31	30	11	-17%	-62%	125	74	-41%
PAT	64	82	44	53	52	-20%	-1%	251	230	-8%

Concall Highlights

- Volume declined by 11% in 4QFY20 and it declined by 4.8% in FY20.
- Gross margin expansion was led by decline in raw material prices by 2.4% per kg on QoQ basis and higher inventory levels at the end of quarter.
- Exceptional cost of Rs 28 crs relating VRS of employees, given in one of their factories. It also provided COVID expenses of around Rs 16 crs on account of sudden shutdown of its plants lead to rejection of stocks in manufacturing process.
- Before lockdown, its performance for the quarter was going good, majorly led by PV segment.
- The company is putting extra effort in expanding footprint in Passenger Car/ Utility Vehicle category. Passenger Car segment grew by 6.6% in volume terms.
- In 2 Wheeler segment, company saw growth on replacement side led by scooters.
- The company's depreciation went up by 5.6% in FY20 led by commissioning of Hallol and greenfield, Chennai plant.
- The company's dealers are not facing any issues. The company is not facing any challenges in raw material – supply chain network.
- Also, it doesn't have issue of migrant labours. Though the natural challenges are there for labour & employees to commute to plant amid pandemic.
- Truck & bus radial plant commissioning in Hallol was done in Feb last year, the category saw 20% volume growth.
- The company's greenfield facility in Chennai was inaugurated in Feb 2020. This facility will add 28500 passenger car radial per day and 2,500 motorcycle-radial tyres per day.
- The company did OEM model entry in Hero Glamour refresh, Mahindra Jeeto, Piaggio Aprilia, Tata Infra, Daimler BSVI trucks etc.
- Other expense declined on account of lower outsourcing, distribution and adv. expenses post lockdown.
- Margin: Going forward, raw material prices will drop further although it has previously bought material, that would be used till July 2020.
- The company is seeing gradual pickup in demand however; it will take some time to come back to pre-covid levels.
- The company will continue old tax regime. Effective tax rate was 14.4% for 4QFY20.
- The company is not planning to cut its A&P expenses, it will remain same proportionate to sales, in range of 2.6%.
- CAPEX for 4QFY20 was Rs 205 crs. It spent Rs 1105 crs in FY20 for the same. For FY21, it is expected to be Rs 550 crs.
- The company has spent Rs 2100 crs till date out of total capex of 3500 crs for standalone business.

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

Decline in revenue by 10.6% YoY on account of decline in volumes by 11% YoY.

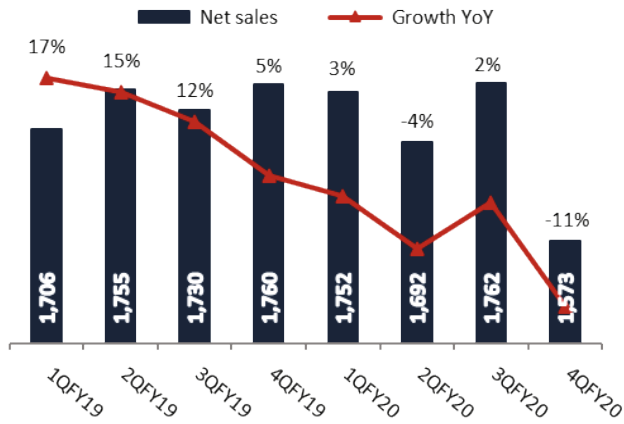


Exhibit: COGS and Gross Margin Trend

Gross margin enhanced by 268bps QoQ largely led by lower input prices and higher finished inventory levels.

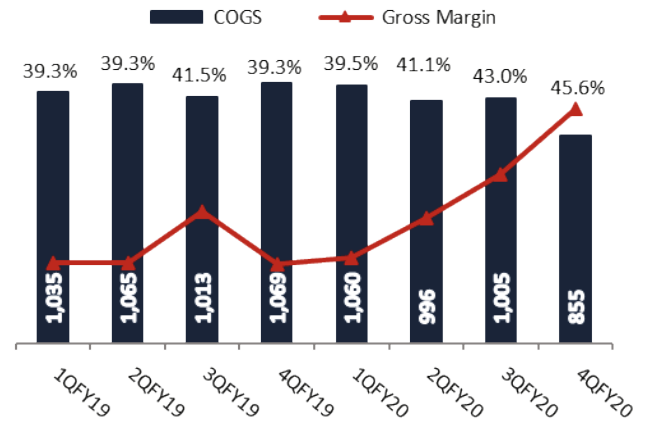


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin expanded by 233bps based on sharp expansion in gross margins.

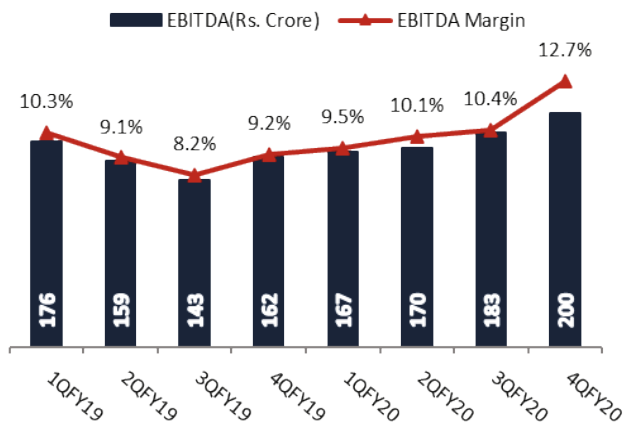


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher depreciation and finance cost reduced PAT margins.

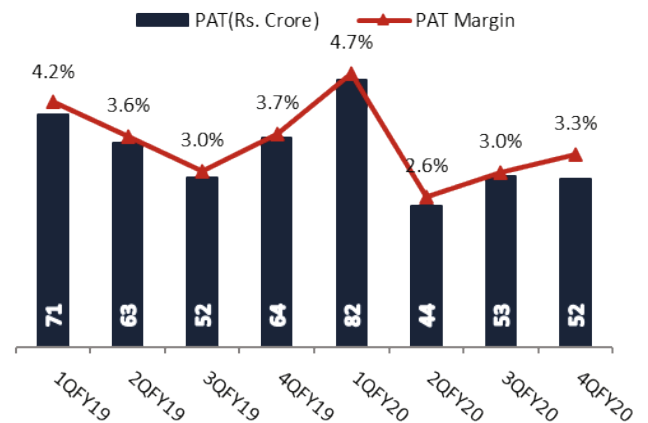


Exhibit: Rubber Prices (Rs/Kg) and Growth Trend

Domestic Rubber prices grew sequentially to 6% to Rs 135 per kg in 4QFY20.

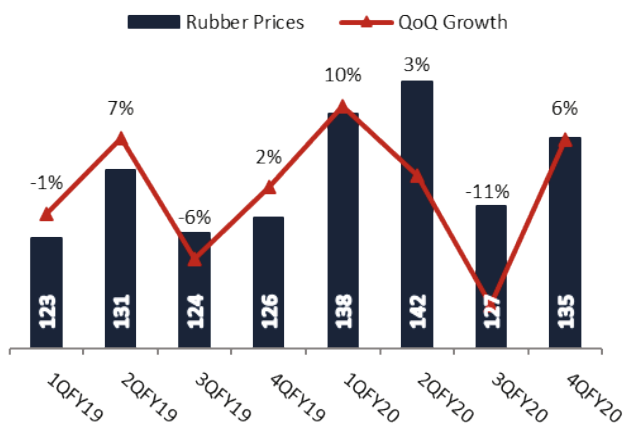
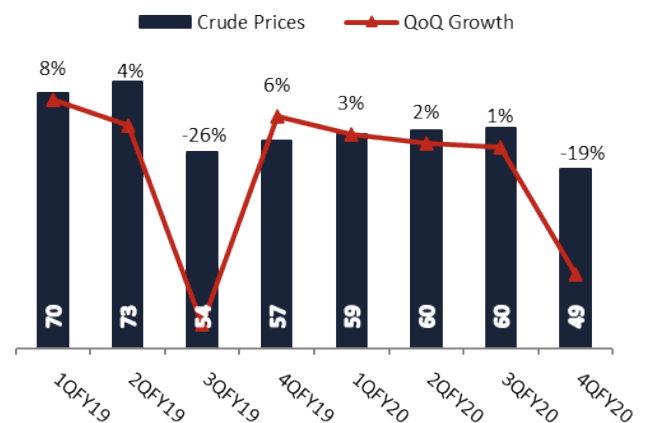


Exhibit: Crude Prices and Growth Trend

Crude prices declined drastically by 19% in 4QFY20, that led to improvement in gross margin.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	36	40	40	40	40	40	40	40
Reserves	993	1,642	2,024	2,375	2,566	2,726	2,867	2,968
Networth	1,029	1,682	2,065	2,415	2,606	2,766	2,908	3,009
Debt	1,020	626	629	910	647	1,447	1,941	2,207
Other Non Cur Liab	141	159	198	281	240	263	415	409
Total Capital Employed	1,452	2,037	2,654	3,267	3,057	3,989	4,549	4,980
Net Fixed Assets (incl CWIP)	1,625	1,788	2,403	2,779	3,034	4,012	5,228	5,093
Non Cur Investments	0	0	0	167	173	0	4	250
Other Non Cur Asst	120	111	150	197	139	392	291	111
Non Curr Assets	1,744	1,900	2,553	3,143	3,346	4,404	5,524	5,454
Inventory	754	680	662	943	785	1,006	926	874
Debtors	755	705	619	614	747	706	674	655
Cash & Bank	168	126	107	36	86	74	34	57
Other Curr Assets	120	411	197	249	197	215	195	336
Curr Assets	1,796	1,923	1,585	1,842	1,815	2,001	1,829	1,922
Creditors	689	658	643	758	871	1,053	1,195	917
Provisons (both)	78	111	84	54	50	101	123	111
Other Curr Liab	547	554	488	538	723	752	747	699
Curr Liabilities	1,314	1,323	1,215	1,350	1,644	1,905	2,065	1,727
Net Curr Assets	481	600	370	492	170	95	(236)	194
Total Assets	3,540	3,822	4,138	4,985	5,161	6,405	7,353	7,376

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	5,554	5,802	5,484	5,767	6,231	6,985	6,779	6,134
Change (%)	10%	4%	-5%	5%	8%	12%	-3%	-10%
Other Income	14	22	28	19	29	14	14	14
EBITDA	658	681	773	657	615	643	724	676
Change (%)	50%	3%	14%	-15%	-6%	5%	13%	-7%
Margin (%)	11.8%	11.7%	14.1%	11.4%	9.9%	9.2%	10.7%	11.0%
Depr & Amor.	87	93	108	143	169	193	277	323
EBIT	571	587	665	514	446	450	447	353
Int. & other fin. Cost	172	132	95	82	97	88	151	177
EBT	413	478	598	451	378	401	317	210
Exp Item	(10)	(6)	(11)	(13)	(34)	(45)	(30)	-
Tax	133	158	187	106	134	125	74	55
Minority Int & P/L share of Ass.	-	-	(2)	(2)	-	-	-	-
Reported PAT	271	314	400	331	210	231	213	155
Adjusted PAT	271	314	438	361	233	251	230	171
Change (%)	125%	16%	39%	-17%	-35%	8%	-8%	-26%
Margin(%)	4.9%	5.4%	8.0%	6.3%	3.7%	3.6%	3.4%	2.8%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	26%	19%	21%	15%	9%	9%	8%	6%
ROCE	39%	29%	25%	16%	15%	11%	10%	7%
Asset Turnover	1.6	1.5	1.3	1.2	1.2	1.1	0.9	0.8
Debtor Days	50	44	41	39	44	37	36	39
Inv Days	50	43	44	60	46	53	50	52
Payable Days	45	41	43	48	51	55	64	55
Int Coverage	3	4	7	6	5	5	3	2
P/E	6	10	10	15	26	17	15	20
Price / Book Value	2	2	2	2	2	2	1	1
EV/EBITDA	3	5	6	9	10	8	7	8
FCF per Share	14	110	(9)	(63)	47	(137)	(40)	42
Div Yield	2.3%	1.2%	1.1%	0.9%	0.8%	1.1%	2.9%	1.7%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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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