

Industry
Bloomberg
BSE CODE

Auto Ancillary
CEAT IN
500878

RATING	ACCUMULATE
CMP	849
Price Target	985
Potential Upside	16%

Rating Change	↑
Estimate Change	↑
Target Change	↔

STOCK INFO	
52wk Range H/L	1101/602
Mkt Capital (Rs Cr)	3495
Free float (%)	49%
Avg. Vol 1M (,000)	153
No. of Shares (Cr)	4
Promoters Pledged %	0%

RESEARCH ANALYST

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Replacement demand to drive sales ahead

1QFY21 Result update

- CEATLTD's revenue de-grew by 36.1% YoY to Rs.1120 crores in 1QFY21 (vs our estimate of Rs. 1016 Crs) fully on account of decline in volumes.
- OEM and export market struggled, however replacement market saw good pickup. Within replacement market the company saw good traction for farm and truck products. Both of these registered healthy volume growth for the period.
- Later in 1QFY21, the Company also saw pick up in two wheeler and passenger cars segment and these are showing very strong demand now.
- Gross margins contracted by 540 bps QoQ to 40.3% on back of increased raw material cost for the company. EBITDA margin has also declined by 336 bps to 9.1% because of sharp decline in gross margin. Though, the margin deterioration was limited due to decrease in other expenses due to cost saving initiatives by the company.
- Net loss during the quarter stood at Rs. 35 crores (vs our estimate of Rs. 13 Crs of loss) mainly due to decline in margins and exceptional loss items of Rs.22 crores relating to COVID-19.
- The estimated standalone capex for balance part FY21 is Rs.500-600Crs. Also, company is expecting to spend Rs.100 Crs on CSTL- Specialty Tyre business.

View and Valuation

The overall replacement demand is expected to remain strong in both 2-wheelers and passenger car segment. However, near term uncertainty considering the lockdowns in several cities may lead to some stress on the replacement market. Going ahead margins are expected to remain range bound at around 10-11% in the near term based on softness in commodity prices, better product mix and various cost saving initiatives taken by management to strengthen the margins. Though higher depreciation and interest cost continues to keep overall profitability under check. We largely maintain our FY21e estimates and value CEATLTD at 20x FY22e EPS to arrive at a target price of Rs.985 and recommend ACCUMULATE.

Key Risks to our rating and target

- Demand Scenario from OEMs.
- Increase in commodity prices

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY18	FY19	FY20	FY21E	FY22E
Net Sales	6231	6985	6779	5635	6672
EBITDA	615	643	724	591	774
EBIT	446	450	447	267	410
PAT	233	251	230	69	200
EPS (Rs)	58	62	57	17	50
EPS growth (%)	0	0	0	-1	2
ROE (%)	0	0	0	0	0
ROCE (%)	0	0	0	0	0
BV	644	684	719	719	739
P/B (X)	2.3	1.5	1.1	1.2	1.1
P/E (x)	26.0	17.0	13.8	49.9	17.1

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Sales above expectations

1QFY21 Results

Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	1,752	1,692	1,762	1,573	1,120	-11%	-11%	6,985	6,779	-3%
Other Income	12	4	4	4	3	-89%	-2%	39	21	-47%
Total Income	1,764	1,696	1,765	1,577	1,123	-12%	-11%	7,024	6,799	-3%
COGS	1,060	996	1,005	855	669	-20%	-15%	4,182	3,915	-6%
Staff Cost	134	121	144	142	151	11%	-2%	530	542	2%
Other Exp.	391	404	430	376	198	-6%	-12%	1,630	1,598	-2%
Expenditure	1,585	1,521	1,579	1,373	1,018	-14%	-13%	6,342	6,055	-5%
EBITDA	167	170	183	200	102	23%	9%	643	724	13%
Depreciation	64	67	71	74	79	47%	6%	193	277	43%
EBIT	103	103	113	126	23	13%	12%	450	447	-1%
Interest	35	37	38	41	49	51%	7%	88	151	71%
PBT	80	70	78	89	(22)	-23%	13%	401	317	-21%
Excpt. Item	1	1	0	28	22	-30%	NA	(45)	(30)	-33%
Tax	2	31	30	11	(6)	-17%	-62%	125	74	-41%
PAT	82	44	53	52	(35)	-20%	-1%	251	230	-8%

Concall Highlights

- Initial part of quarter was completely washout period in terms of revenue. Later, lockdown started easing up, replacement started picking up.
- OEM and export market struggled, however replacement market saw good pickup.
- Within replacement market the company saw good traction for farm and truck products. Both of these registered healthy volume growth for the period.
- Revenue declined by 36% completely on account of volumes.
- Toward second half of 1QFY21, the Company also saw pick up in two wheeler and passenger cars segment and these are showing very strong demand now.
- Supply chain team has ensured timely availability of product by adopting dynamic fulfillment module.
- COGS includes non-material cost portion and if this non material cost portion is excluded the GM has been maintained in 1QFY21 as previous quarter.
- Company didn't avail moratorium for both principal and interest portion of debt and paid all due payments on time.
- Actual capex for Q1 FY21 was 100 crores largely relating to capital equipment supply for FY20.
- Total planned capex was Rs.3500 crs, out of this spent till date is Rs. 2250.
- Gross debt as on June30,2020 was Rs.1099Crs, increased by rs.70Crs v/s previous quarter. However, Net debt came down by Rs.70 crs in the quarter.
- Consolidated Gross debt/ Equity ratio remained healthy at 0.69 and standalone at 0.59.
- Now, as replacement demand is picking up company's all plants are now operational and are currently running at pre COVID level to meet the demand.
- In OEM segment there were headwinds in the quarter and it is expected to recover going forward.
- Merger of CEAT Speciality Tyres Limited (CSTL) with CEATLTD is approved by NCLT on May 25, 2020. However, certified copy of order is still awaited.
- Cost came down in Advertising and discretionary things as there was very low sales. Going ahead some part of this cost would come back again as sales are back like advertising cost. Moreover, the company is working on bringing down cost structurally.
- Crude prices were down largely in April – May 2020 and this effect would reflect in 2QFY21 though, some part of benefit would be offset due to currency depreciation.
- The management is expecting replacement demand to come down by mid of August 2020.
- OEM and Exports segment would start seeing uptick in July and Sep 2020 quarter.
- Speciality tyre: mix of domestic and international in ratio of 20:80.
- Capex: standalone capex for balance part FY21 is Rs.500-600Crs. Also, it is expecting to spend Rs.100 Crs on CSTL-specialty Tyre business.

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

Decline in revenue by 36% YoY on account of decline in volumes due to COVID-19 led headwinds in auto industry.

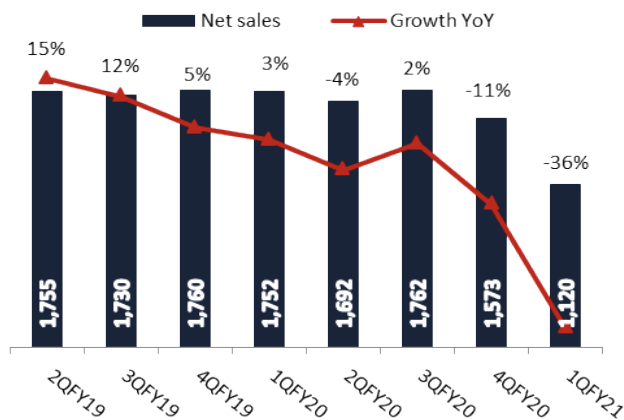


Exhibit: COGS and Gross Margin Trend

Gross margins contracted by 540 bps QoQ to 40.3% on back of increased raw material cost for the company.

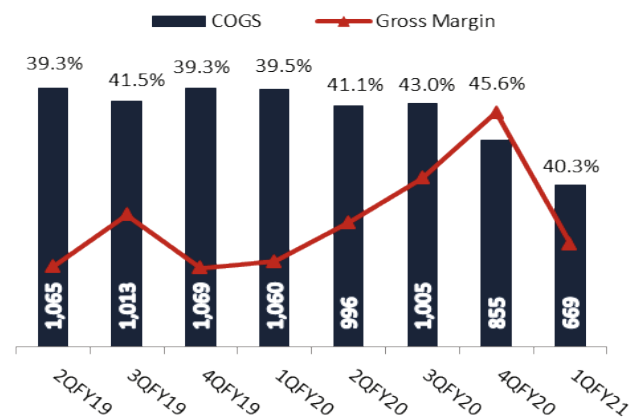


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin has also declined by 336 bps QoQ to 9.1% because of sharp decline in gross margin.

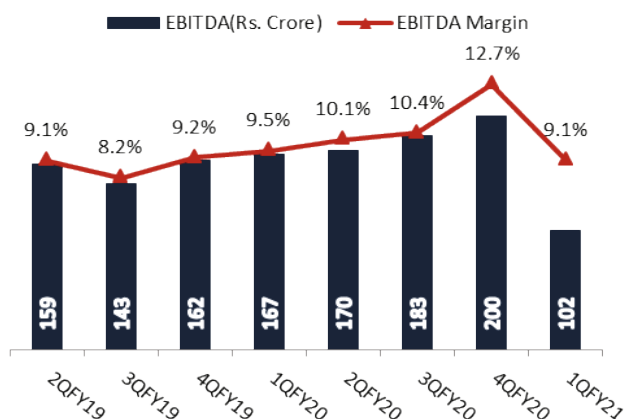


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Net loss during the quarter stood at Rs. 35 crores (vs our estimate of Rs. 13 Crs of loss) mainly due to decline in margins and exceptional loss items of Rs.22 crores relating to COVID-19.

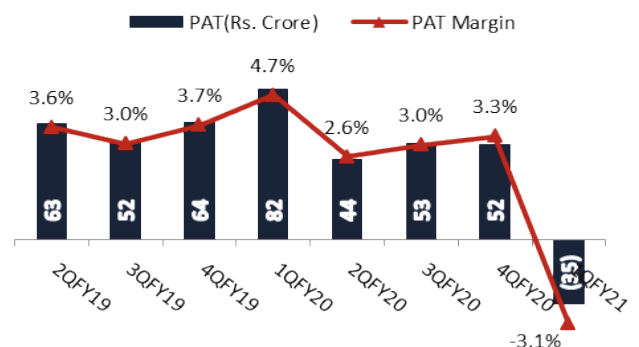


Exhibit: Rubber Prices (Rs/Kg) and Growth Trend

Domestic Rubber prices were down by 11% YoY to Rs 119 per kg in 1QFY21.

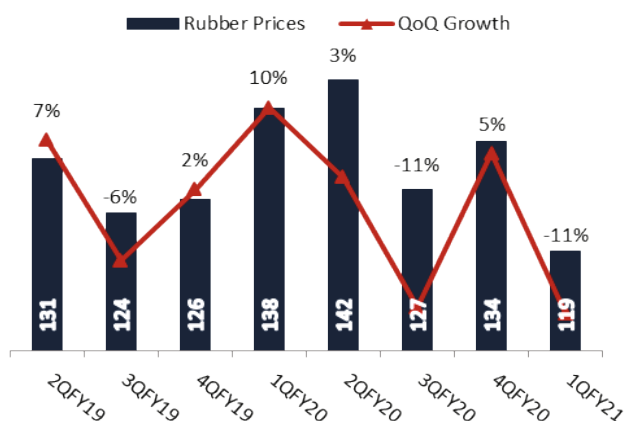
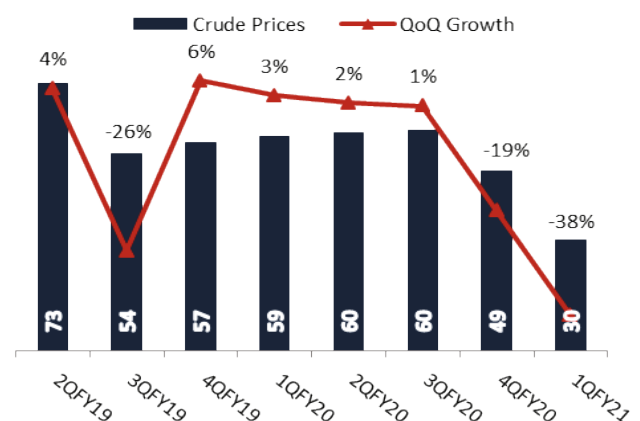


Exhibit: Crude Prices and Growth Trend

Crude prices declined drastically by 38% in 1QFY21, this benefit would reflect in next quarter.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	40	40	40	40	40	40	40	40
Reserves	1,642	2,024	2,375	2,566	2,726	2,867	2,866	2,950
Networth	1,682	2,065	2,415	2,606	2,766	2,908	2,907	2,991
Debt	626	629	910	647	1,447	1,941	2,271	2,401
Other Non Cur Liab	159	198	281	240	263	415	406	412
Total Capital Employed	2,037	2,654	3,267	3,057	3,989	4,549	4,878	5,092
Net Fixed Assets (incl CWIP)	1,788	2,403	2,779	3,034	4,012	5,228	5,093	5,218
Non Cur Investments	0	0	167	173	0	4	200	200
Other Non Cur Asst	111	150	197	139	392	291	291	291
Non Curr Assets	1,900	2,553	3,143	3,346	4,404	5,524	5,585	5,709
Inventory	680	662	943	785	1,006	926	803	916
Debtors	705	619	614	747	706	674	601	713
Cash & Bank	126	107	36	86	74	34	40	66
Other Curr Assets	411	197	249	197	215	195	259	318
Curr Assets	1,923	1,585	1,842	1,815	2,001	1,829	1,703	2,013
Creditors	658	643	758	871	1,053	1,195	843	1,028
Provisions (both)	111	84	54	50	101	123	102	121
Other Curr Liab	554	488	538	723	752	747	736	746
Curr Liabilities	1,323	1,215	1,350	1,644	1,905	2,065	1,681	1,895
Net Curr Assets	600	370	492	170	95	(236)	22	118
Total Assets	3,822	4,138	4,985	5,161	6,405	7,353	7,288	7,722

Income Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operation	5,802	5,484	5,767	6,231	6,985	6,779	5,635	6,672
Change (%)	4%	-5%	5%	8%	12%	-3%	-17%	18%
Other Income	22	28	19	29	14	14	14	14
EBITDA	681	773	657	615	643	724	591	774
Change (%)	3%	14%	-15%	-6%	5%	13%	-18%	31%
Margin (%)	11.7%	14.1%	11.4%	9.9%	9.2%	10.7%	10.5%	11.6%
Depr & Amor.	93	108	143	169	193	277	323	364
EBIT	587	665	514	446	450	447	267	410
Int. & other fin. Cost	132	95	82	97	88	151	177	188
EBT	478	598	451	378	401	317	114	251
Exp Item	(6)	(11)	(13)	(34)	(45)	(30)	(22)	-
Tax	158	187	106	134	125	74	30	63
Minority Int & P/L share of Ass.	-	(2)	(2)	-	-	-	-	-
Reported PAT	314	400	331	210	231	213	63	187
Adjusted PAT	314	438	361	233	251	230	69	200
Change (%)	16%	39%	-17%	-35%	8%	-8%	-70%	192%
Margin(%)	5.4%	8.0%	6.3%	3.7%	3.6%	3.4%	1.2%	3.0%

Financial Details

Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
ROE	19%	21%	15%	9%	9%	8%	2%	7%
ROCE	29%	25%	16%	15%	11%	10%	5%	8%
Asset Turnover	1.5	1.3	1.2	1.2	1.1	0.9	0.8	0.9
Debtor Days	44	41	39	44	37	36	39	39
Inv Days	43	44	60	46	53	50	52	50
Payable Days	41	43	48	51	55	64	55	56
Int Coverage	4	7	6	5	5	3	2	2
P/E	10	10	15	26	17	14	50	17
Price / Book Value	2	2	2	2	2	1	1	1
EV/EBITDA	5	6	9	10	8	7	9	7
FCF per Share	110	(9)	(63)	47	(137)	(40)	55	56
Div Yield	1.2%	1.1%	0.9%	0.8%	1.1%	3.0%	1.6%	2.8%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	472	587	437	344	356	287	121	264
(inc)/Dec in Working Capital	171	82	(217)	-	-	-	(170)	(29)
Non Cash Op Exp	93	108	143	169	193	277	323	364
Int Paid (+)	132	95	82	97	88	151	177	188
Tax Paid	(112)	(169)	(102)	(98)	(81)	(18)	(30)	(63)
others	(7)	(1)	(8)	163	(3)	260	(11)	(7)
CF from Op. Activities	749	702	335	676	553	956	411	716
(inc)/Dec in FA & CWIP	(303)	(738)	(588)	(487)	(1,107)	(1,118)	(188)	(489)
Free Cashflow	446	(36)	(253)	189	(555)	(162)	222	227
(Pur)/Sale of Inv	-	274	(21)	35	41	-	(92)	(34)
others	50	32	66	37	15	43	(196)	-
CF from Inv. Activities	(253)	(433)	(543)	(415)	(1,052)	(1,076)	(476)	(523)
inc/(dec) in NW	393	-	-	-	-	-	-	-
inc/(dec) in Debt	(303)	78	331	(157)	731	431	330	130
Int. Paid	(148)	(93)	(76)	(97)	(89)	(192)	(177)	(188)
Div Paid (inc tax)	(40)	(98)	(1)	(53)	(53)	(114)	(68)	(116)
others	(97)	(214)	(35)	105	(105)	(46)	-	-
CF from Fin. Activities	(194)	(326)	219	(202)	484	79	84	(174)
Inc(Dec) in Cash	301	(57)	10	58	(15)	(40)	19	19
Add: Opening Balance	114	71	14	24	82	68	34	40
Closing Balance	415	14	24	82	68	27	53	59

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