

Estimate changes

TP change

Rating change


Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USD\$b)	41 / 0.6
52-Week Range (INR)	1235 / 731
1, 6, 12 Rel. Per (%)	2/10/-31
12M Avg Val (INR M)	370

Financials & Valuations (INR b)

Y/E March	FY20E	FY21E	FY22E
Sales	70.2	77.2	87.6
EBITDA	7.2	8.9	10.5
EBITDA Margin (%)	10.3	11.5	12.0
Adj. PAT	2.3	2.9	3.8
EPS (INR)	55.7	71.5	95.0
EPS Gr. (%)	-16.8	28.3	32.9
BV/Sh. (INR)	729	785	864

Ratios

RoE (%)	7.9	9.4	11.5
RoCE (%)	6.5	7.2	8.4
Payout (%)	25.0	21.9	16.5

Valuations

P/E (x)	18.2	14.2	10.7
P/BV (x)	1.4	1.3	1.2
Div. Yield (%)	1.2	1.3	1.3
FCF Yield (%)	-8.3	-9.6	7.5

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	46.7	50.5	51.0
DII	8.0	7.0	10.5
FII	28.4	25.0	21.8
Others	16.9	17.5	16.8

FII Includes depository receipts

CMP: INR 1,014
TP: INR1,250 (+23%)
Buy
In-line; lower RM drives margins; new capacity restricts PAT
Strong EBITDA growth offset by new TBR plant costs

- CEAT's 3QFY20 operating performance was expectedly good, driven by benefit of rubber prices. However, overheads and interest/depreciation of the new TBR plant resulted in flat profit growth. While full cost of the new plants will reflect in 1HFY21, benefit of the new capacities will be seen in the P&L only in 2HFY21.
- We maintain our estimate, which implies ~12%/21%/31% revenue/EBITDA/EPS CAGR over FY20-22E. Maintain **Buy** rating.

Reasonable replacement market growth, lower RM drives performance

- CEAT's revenues/EBITDA/PAT grew ~2%/29%/0% YoY in 3QFY20.
- Revenues were driven by ~2% YoY (+3.6% QoQ) volume growth. While OEM volumes declined ~8% YoY, replacement and exports grew ~8%. 2Ws and PCR saw single-digit volume growth, but CV tyres were flat.
- Gross margins improved ~190bp QoQ (+140bp YoY), driven largely by RM cost benefit (140bp QoQ) as well as small contribution from the mix change.
- However, impact of the new TBR plants' overheads restricted EBITDA margin improvement to ~30bp QoQ (+220bp YoY) to ~10.4% (v/s est 10.7%)
- EBITDA grew ~29% YoY (+8% QoQ) to ~INR1.83b (v/s est. ~INR1.87b). However, higher depreciation and interest of the new TBR plant resulted in flat PAT of ~INR529m (v/s est. ~INR536m).
- Despite capex of ~INR2.7b in 3QFY20, consolidated gross debt increased just ~INR0.5b QoQ to INR18.9b, supported by reduction in working capital.

Highlights from management commentary

- Replacement market demand is sluggish, but base has turned favorable from Nov'19. New PCR capacity will ease capacity constraints and drive faster growth in FY21. OEM business in CVs, PVs and 2Ws should benefit from new capacities/customer/model addition.
- RM basket – 4QFY20 should be similar to 3QFY20, however, based on spot prices, some inflation is expected in 1QFY21.
- Capex: S/A project capex has been further reduced to ~INR30b from ~INR35b. Of this, ~INR19b was incurred till 9MFY20, another ~INR2.2b in 4QFY20 and ~INR8-10b will be used in FY21. Balance INR5b will not be spent in the next 2 years. This is excluding maintenance (~INR1-1.2b p.a) and OTR capex (~INR5b, to be triggered based on certain milestones).

Valuation & view

- With initial signs of stability in OEM volumes, low base in replacement business and new capacities, CEAT should see faster revenue growth in FY21-22. This coupled with benign natural rubber prices should aid strong EPS growth.
- Valuations at 14.2x/10.7x FY21/22E consol. EPS doesn't fully capture the benefit of substantial capacity addition. Maintain **Buy** with TP of ~INR1,250 (~14x Dec'21 consol. EPS).

Consolidated - Quarterly Earning Model

(INR Million)

Y/E March	FY19				FY20				FY19	FY20E	FY20 3QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Net operating revenues	17063	17723	17299	17605	17521	16916	17618	18194	69845	70248	17,472
Change (%)	16.9	16.4	9.9	4.4	2.7	-4.6	1.8	3.3	11.9	57.7	1.0
EBITDA	1758.2	1592.4	1425.6	1623.4	1671.3	1703.7	1832.1	2028.5	6,425	7,236	1,870
EBITDA Margins (%)	10.304	9.0	8.2	9.2	9.5	10.1	10.4	11.1	9.2	10.3	10.7
Depreciation	460	476.8	482.4	507.9	644.2	670.7	705.3	794.6	580	642	750.0
EBIT	1298.2	1115.6	943.2	1115.5	1027.1	1033	1126.8	1233.9	5845	6,594	1,120
EBIT Margins (%)	7.6	6.3	5.5	6.3	5.9	6.1	6.4	6.8	8.4	9.4	6.4
Interest	204	186	222	269	349	374	380	405	298	316	385
Non-operating income	37	33	40	306	120	43	36	42	38	41	41
PBT after EO items	1108	943	762	898	1095	693	780	871	1261	1572	776
Effective Tax Rate (%)	40	39	40	32	30	44	39	37	37	37	38.0
PAT	720.3	631.7	527.7	642.5	826	439.8	527.9	640.6	862.5	1053.3	536
Adjusted PAT	734.5	644.1	527.7	800.9	637.0	444.9	529.5	640.6	862.5	1053.3	536
Change (%)	3905.7	-17.3	-36.6	-13.1	-13.3	-30.9	0.3	-20.0	40.2	22.1	1.5
Key Performance Indicators											
RM Cost (% of sales)											
Staff Cost (% of sales)	60.7	60.1	58.5	60.7	60.5	58.9	57.0	57.7	59.9	58.5	58.0
Other Cost (% of sales)	7.0	8.0	8.2	7.3	7.7	7.2	8.2	7.7	7.6	7.7	7.8
Gross margin (%)	22	23	25	23	22	24	24	23	23	24	23.5
EBITDA Margins (%)	39.3	39.9	41.5	39.3	39.5	41.1	43.0	42.3	40.1	41.5	42.0
EBIT Margins (%)	10.3	9.0	8.2	9.2	9.5	10.1	10.4	11.1	9.2	10.3	10.7

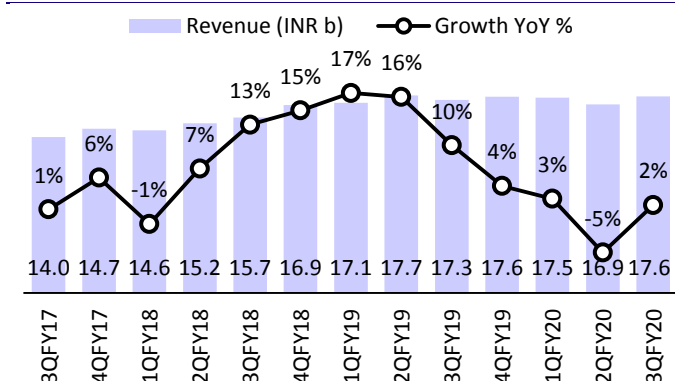
E:MOFSL Estimates

Highlights of management commentary

- Total volume grew ~2% YoY (~4% QoQ) driven by ~8% growth in replacement and export market, despite ~8% decline in overall OEM demand, which remained weak.
- OEM demand for PV segment grew 2% YoY, whereas it declined for CVs/2Ws by 25%/~10%.
- Replacement market demand is sluggish, but base has turned favorable from Nov'19.
- OEM business in CVs, PVs and 2Ws should benefit from new capacities/customer/model addition.
- RM prices in 4QFY20 should remain similar to that in 3QFY20; however, based on spot prices, some inflation is expected in 1QFY21.
- Capex: S/A project capex has been further reduced to ~INR30b from ~INR35b. Of this, ~INR19b was incurred till 9MFY20, another ~INR2.2b in 4QFY20 and ~INR8-10b will be used in FY21. Balance INR5b will not be spent in the next 2 years. This is excluding maintenance (~INR1-1.2b p.a) and OTR capex (~INR5b, to be triggered based on certain milestones).
- TBR plant is operating at 50-55% utilization of targeted capacity. Has helped to gain 1.5-2pp market share of TBR.
- PCR plant will be commissioned in Feb'20 and will be ramped up by ~50% in FY21. 2W plant would also get commissioned in 4QFY20.
- The company is evaluating merits of the new corporate tax regime, but is yet to take a final decision as it does not offer MAT credit.

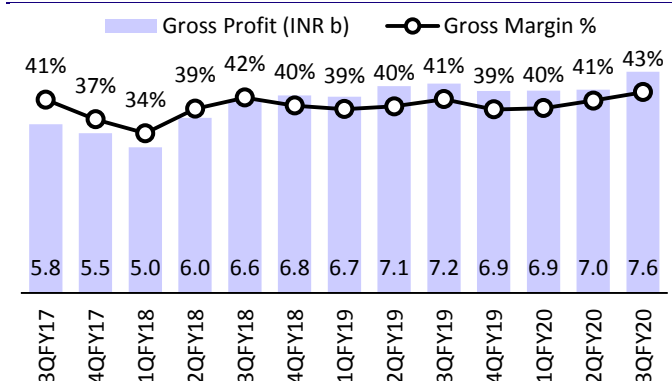
Key exhibits

Exhibit 1: Trend in revenues



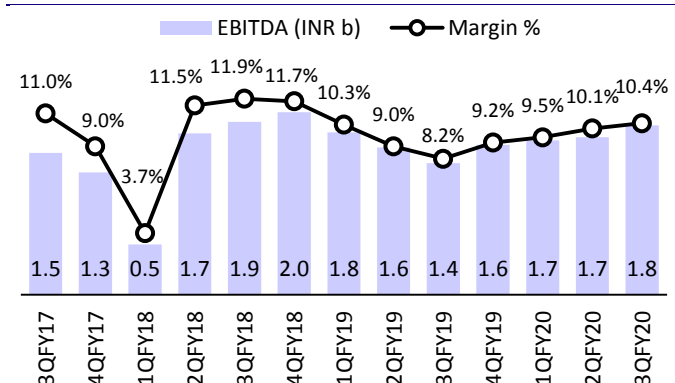
Source: MOFSL, Company

Exhibit 2: Trend in gross margins



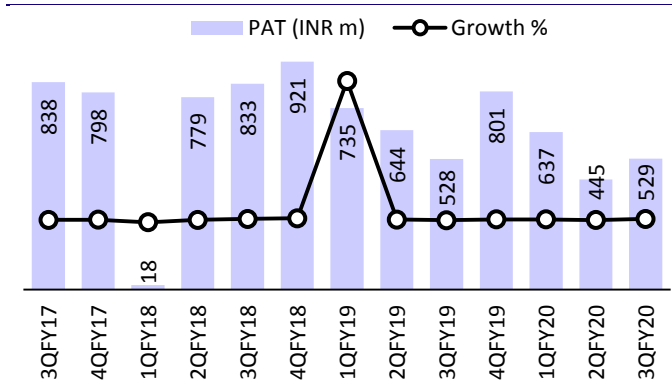
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trend



Source: MOFSL, Company

Valuation view

Focus on improving brand equity to drive market share gains: CEAT has laid strong emphasis on the effective marketing and branding of its products. To position its products competitively, the company has developed creative ad campaigns based on extensive research/consumer insights and has also invested in innovative marketing programs. Since the 2W/passenger car segment is consumer-facing, we believe factors such as brand loyalty, visibility and recall go a long way in creating replacement market demand and improving its market share, which would in turn benefit its margin profile.

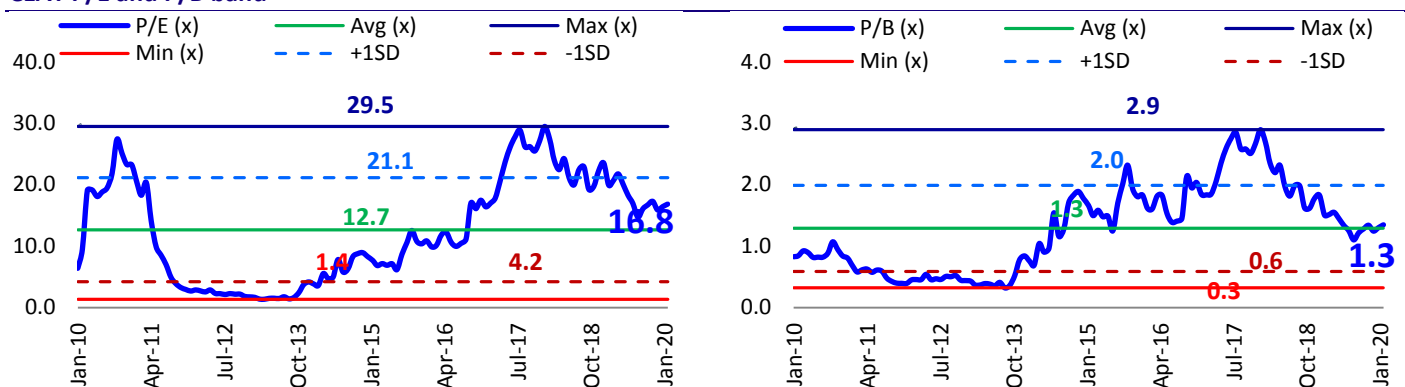
Ramp-up in areas of strategic focus to continue: CEAT has identified 2W, Passenger cars and OTR (truck/off-road) tyre segments as its strategic focus areas, given their ability to boost margins and lower the company's dependence on the truck segment. Revenue contribution from these areas of focus has increased significantly over the years, from 20% in FY10 to 48% in FY18. We believe that with the on-going capex plan, contribution from focus areas could scale up to 60-65% over the next 4-5 years, which would also reflect positively in the company's operating performance. We expect revenue at 12% CAGR over FY20-22E, with EBITDA margin expansion of ~170bp by FY22E to 12% and PAT CAGR of ~31%.

Growth capex to increase capacity by ~50%: CEAT has lined up capex of ~INR35b over FY19E-21E, for increasing its capacity by ~50%. It is investing in PCR (for ~240tpd capacity), TBR (for 208tpd capacity), 2Ws (~140tpd capacity) and OTR (~60tpd addition). This would help in attaining a strategic product mix while scaling up revenue contribution from focus areas, thereby driving margin expansion. Total capex for FY20 is estimated at ~INR12.5b and for FY21E at ~INR11.5b.

Valuation and view: With initial signs of stability in OEM volumes, low base in replacement business and new capacities, CEAT should see faster revenue growth in FY21-22. This coupled with benign natural rubber prices should aid strong EPS growth. Valuations at 14.2x/10.7x FY21/FY22E consol. EPS doesn't fully capture benefit of substantial capacity addition. Maintain **Buy** with TP of ~INR1,250 (~14x Dec'21 consol. EPS).

(INR M)	FY20E			FY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	70,248	69,629	0.9	77,184	75,908	1.7
EBITDA	7,236	7,311	-1.0	8,876	8,881	-0.1
EBITDA (%)	10.3	10.5	-20bp	11.5	11.7	-20bp
Adj. PAT	2,252	2,298	-2.0	2,890	2,910	-0.7
EPS (INR)	55.7	56.8	-2.0	71.5	71.9	-0.7

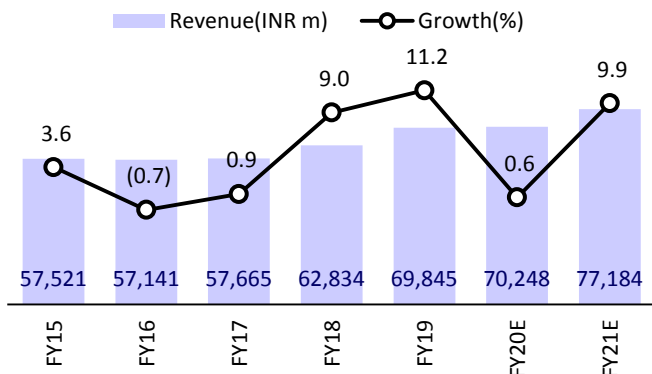
CEAT P/E and P/B band



Source: MOFSL

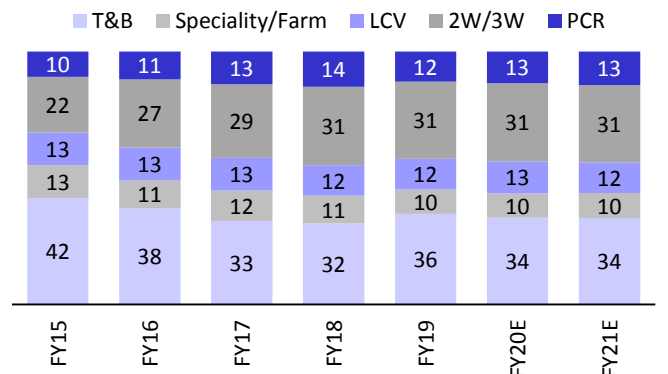
Story in charts

Exhibit 1: Revenue and growth trend



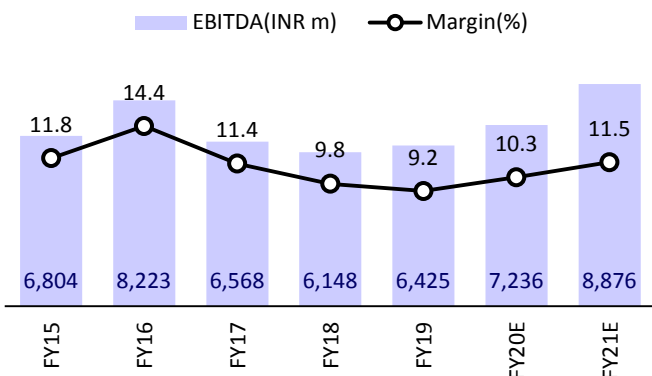
Source: MOFSL, Company

Exhibit 2: Key revenue segments



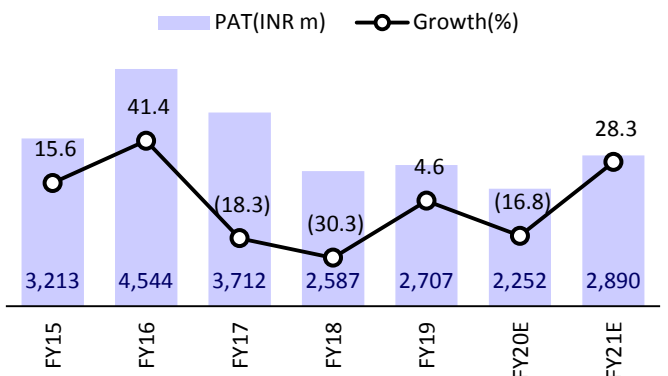
Source: MOFSL, Company

Exhibit 3: EBITDA and EBITDA margin trend



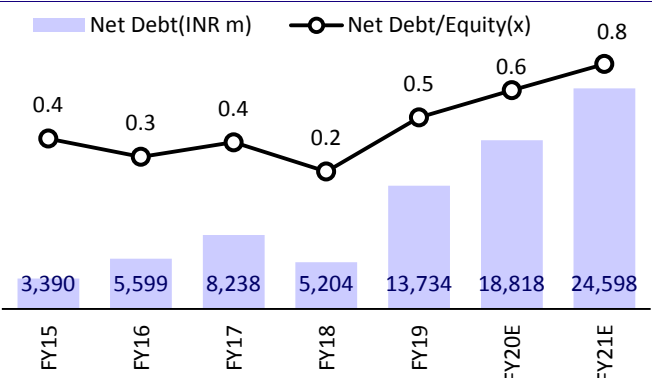
Source: MOFSL, Company

Exhibit 4: PAT and PAT growth trend



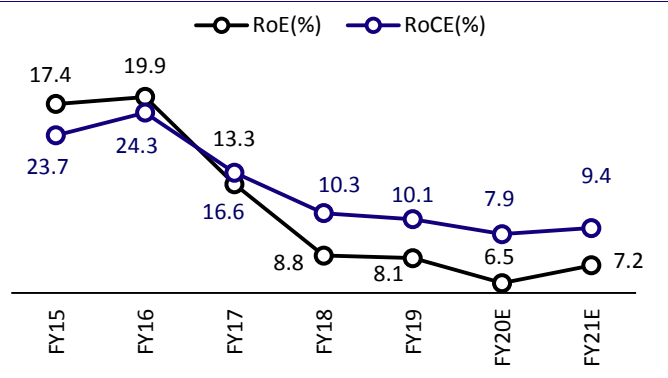
Source: MOFSL, Company

Exhibit 5: Trend in debt levels



Source: MOFSL, Company

Exhibit 6: Trend in return profile



Source: MOFSL, Company

Financials and Valuations

Consolidated - Income Statement								(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues from Ops	57,521	57,141	57,665	62,834	69,845	70,248	77,184	87,581
Change (%)	3.6	-0.7	0.9	9.0	11.2	0.6	9.9	13.5
EBITDA	6,804	8,223	6,568	6,148	6,425	7,236	8,876	10,510
Margin (%)	11.8	14.4	11.4	9.8	9.2	10.3	11.5	12.0
Depreciation	934	1,075	1,431	1,686	1,927	2,815	3,396	3,847
EBIT	5,870	7,148	5,137	4,462	4,498	4,421	5,481	6,663
Int. and Finance Charges	1,319	907	817	974	880	1,508	1,750	1,820
Other Income	226	299	186	295	390	240	270	290
PBT bef. EO Exp.	4,777	6,539	4,506	3,783	4,008	3,153	4,001	5,133
EO Items	-61	-114	-133	-340	-297	287	0	0
PBT after EO Exp.	4,716	6,425	4,373	3,443	3,711	3,440	4,001	5,133
Total Tax	1,576	1,978	1,064	1,340	1,402	1,256	1,360	1,540
Tax Rate (%)	33.4	30.8	24.3	38.9	37.8	36.5	34.0	30.0
Minority Interest/Share of (profit) from JV	-33	-18	-303	-277	-213	-250	-250	-250
Reported PAT	3,172	4,465	3,611	2,380	2,522	2,434	2,890	3,843
Adjusted PAT	3,213	4,544	3,712	2,587	2,707	2,252	2,890	3,843
Change (%)	15.6	41.4	-18.3	-30.3	4.6	-16.8	28.3	32.9
Margin (%)	5.6	8.0	6.4	4.1	3.9	3.2	3.7	4.4

Consolidated - Balance Sheet								(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	405	405	405	405	405	405	405	405
Total Reserves	16,418	20,143	23,745	25,656	27,257	29,082	31,338	34,547
Net Worth	16,823	20,547	24,150	26,061	27,661	29,486	31,743	34,952
Minority Interest	327	322	292	234	238	238	238	238
Total Loans	7,750	6,632	9,240	6,467	14,469	19,469	24,969	23,969
Deferred Tax Liabilities	1,250	1,582	1,449	1,893	2,198	2,198	2,198	2,198
Capital Employed	26,149	29,084	35,130	34,655	44,566	51,391	59,147	61,357
Gross Block	24,183	21,394	27,017	31,123	37,663	50,992	62,192	73,992
Less: Accum. Deprn.	8,590	1,073	2,492	4,030	5,868	8,682	12,078	15,925
Net Fixed Assets	15,593	20,321	24,525	27,092	31,795	42,310	50,114	58,067
Goodwill on Consolidation	215	0	0	0	0	0	0	0
Capital WIP	2,290	2,991	3,263	3,100	8,329	7,500	7,800	2,000
Total Investments	3,124	1,955	2,316	2,135	1,814	1,814	1,814	1,814
Curr. Assets, Loans&Adv.	17,002	15,813	19,066	19,137	22,111	19,370	20,809	23,681
Inventory	6,801	6,397	9,435	7,846	10,056	8,805	9,544	10,769
Account Receivables	7,050	5,935	6,138	7,472	7,064	7,105	7,806	8,858
Cash and Bank Balance	1,236	630	359	863	735	651	371	552
Loans and Advances	1,914	2,850	3,134	2,956	4,256	2,810	3,087	3,503
Curr. Liability & Prov.	12,075	11,996	14,039	16,810	19,484	19,663	21,450	24,266
Account Payables	6,583	6,353	7,582	8,705	10,529	10,531	11,416	12,880
Other Current Liabilities	4,059	4,537	5,556	7,257	7,566	7,727	8,490	9,634
Provisions	1,434	1,106	902	848	1,389	1,405	1,544	1,752
Net Current Assets	4,927	3,817	5,026	2,328	2,627	-293	-641	-584
Appl. of Funds	26,149	29,084	35,130	34,655	44,566	51,331	59,088	61,297

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Basic (INR)								
EPS	79.4	112.3	91.8	64.0	66.9	55.7	71.5	95.0
Cash EPS	102.5	138.9	127.1	105.6	114.6	125.3	155.4	190.1
BV/Share	415.9	508.0	597.0	644.3	683.8	728.9	784.7	864.1
DPS	10.0	11.5	11.5	11.5	12.0	12.5	13.0	13.0
Payout (%)	14.3	12.0	15.5	23.6	23.2	25.0	21.9	16.5
Valuation (x)								
P/E	12.8	9.0	11.0	15.8	15.1	18.2	14.2	10.7
Cash P/E	9.9	7.3	8.0	9.6	8.8	8.1	6.5	5.3
P/BV	2.4	2.0	1.7	1.6	1.5	1.4	1.3	1.2
EV/Sales	0.8	0.8	0.9	0.7	0.8	0.9	0.8	0.7
EV/EBITDA	7.0	5.7	7.6	7.6	8.5	8.3	7.4	6.1
Dividend Yield (%)	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.3
Return Ratios (%)								
RoE	23.7	24.3	16.6	10.3	10.1	7.9	9.4	11.5
RoCE	17.4	19.9	13.3	8.8	8.1	6.5	7.2	8.4
RoIC	19.3	23.0	14.7	9.4	9.0	7.5	8.0	8.8
Working Capital Ratios								
Asset Turnover (x)	2.2	2.0	1.6	1.8	1.6	1.4	1.3	1.4
Inventory (Days)	43	41	60	46	53	46	45	45
Debtor (Days)	45	38	39	43	37	37	37	37
Creditor (Days)	42	41	48	51	55	55	54	54
Leverage Ratio (x)								
Current Ratio	1.4	1.3	1.4	1.1	1.1	1.0	1.0	1.0
Interest Cover Ratio	4.5	7.9	6.3	4.6	5.1	2.9	3.1	3.7
Net Debt/Equity	0.4	0.3	0.4	0.2	0.5	0.6	0.8	0.7

Consolidated - Cash Flow Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
OP/(Loss) before Tax	4,716	5,869	4,373	3,443	3,560	3,153	4,001	5,133
Depreciation	934	1,077	1,431	1,686	1,927	2,815	3,396	3,847
Interest & Finance Charges	1,319	-74	-55	974	880	1,268	1,480	1,530
Direct Taxes Paid	-1,123	-1,686	-1,017	-979	-808	-1,256	-1,360	-1,540
(Inc)/Dec in WC	1,714	820	-2,174	1,667	235	2,836	68	124
CF from Operations	7,560	6,006	2,558	6,791	5,794	8,816	7,584	9,094
Others	-73	1,015	789	-34	-267	287	0	0
CF from Operating incl EO	7,487	7,021	3,347	6,757	5,527	9,103	7,584	9,094
(Inc)/Dec in FA	-2,999	-7,137	-5,824	-4,872	-11,073	-12,500	-11,500	-6,000
Free Cash Flow	4,488	-117	-2,477	1,885	-5,547	-3,397	-3,916	3,094
(Pur)/Sale of Investments	0	2,491	-333	376	320	0	0	0
Others	-2,990	321	722	345	236	240	270	290
CF from Investments	-5,989	-4,326	-5,434	-4,151	-10,517	-12,260	-11,230	-5,710
Issue of Shares	3,934	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-3,994	-1,354	2,963	-523	6,260	5,000	5,500	-1,000
Interest Paid	-1,476	-930	-765	-973	-889	-1,508	-1,750	-1,820
Dividend Paid	-404	-979	-7	-528	-526	-609	-634	-634
Others	0	0	0	-1	0	250	250	250
CF from Fin. Activity	-1,940	-3,264	2,191	-2,025	4,844	3,133	3,366	-3,204
Inc/Dec of Cash	-442	-569	104	582	-146	-24	-280	181
Opening Balance	1,679	706	137	240	822	675	651	371
Closing Balance	1,237	137	240	822	675	651	371	552

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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