

CEAT (CEAT IN)

Rating: ACCUMULATE | CMP: Rs810 | TP: Rs899

May 30, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	899		893	
Sales (Rs. m)	64,399	75,347	71,661	82,410
% Chng.	(10.1)	(8.6)		
EBITDA (Rs. m)	6,096	7,815	6,096	7,897
% Chng.	-	(1.0)		
EPS (Rs.)	38.7	59.1	38.1	59.5
% Chng.	1.7	(0.7)		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	69,845	67,788	64,399	75,347
EBITDA (Rs. m)	6,425	7,238	6,096	7,815
Margin (%)	9.2	10.7	9.5	10.4
PAT (Rs. m)	2,970	2,611	1,566	2,392
EPS (Rs.)	73.4	64.5	38.7	59.1
Gr. (%)	9.2	(12.1)	(40.0)	52.8
DPS (Rs.)	12.0	12.0	12.0	12.0
Yield (%)	1.5	1.5	1.5	1.5
RoE (%)	11.1	9.2	5.3	7.7
RoCE (%)	11.6	9.7	6.0	7.6
EV/Sales (x)	0.7	0.8	0.8	0.7
EV/EBITDA (x)	7.3	7.3	8.0	6.3
PE (x)	11.0	12.5	20.9	13.7
P/BV (x)	1.2	1.1	1.1	1.0

Key Data

CEAT.BO | CEAT IN

52-W High / Low	Rs.1,101 / Rs.600
Sensex / Nifty	32,424 / 9,580
Market Cap	Rs.33bn/ \$ 433m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.223.19m

Shareholding Pattern (%)

Promoter's	46.69
Foreign	28.21
Domestic Institution	8.88
Public & Others	16.22
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.1	(14.0)	(19.0)
Relative	4.1	8.2	(1.3)

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Soft RM, cost control drive margin beat

Quick pointers

- Demand outlook: Replacement and exports segments positive, OEM weak. Positive revenue mix to drive margin improvement.
- With a bunch of capex behind and a further cut should help FCF to improve.

CEAT's consolidated revenues were in-line at Rs15.7b (-10.6% YoY/ QoQ), led by volume decline as pricing was stable. Margins were better at 12.7% (PLe 7.1%), led by soft RM and cost control initiatives. While we slash FY21/22 revenues by 10.1%/8.6% (to factor in for lower OEM sales and weak replacement sales in CV segment), we upgrade margins by 100bp/80bp due to higher replacement share, lower RM and cost control benefits. This has resulted in increase in Adj. PAT by 6.7%/2.5%, as better operating performance is partially offset by lower other income and higher tax. We believe with bunch of capex (and FY21 capex guidance to Rs5.5b v/s Rs8b earlier) and higher replacement mix, CEAT is best placed to ride replacement demand recovery. Consequently, we maintain 'Accumulate' rating on the stock with a price target of Rs899 (earlier Rs893), based on 15x Mar-22 EPS.

Consol Revenue came in-line at Rs15.7bn (-10.6% YoY/ QoQ) largely led by 10% YoY decline in volumes. FY20 volumes declined by ~5% YoY largely led by decline in truck (due to weak bias sales while TBR +20%) and farm segment.

Lower RM cost (-270bp QoQ) and increase in FG inventory (~40-45 bp QoQ) resulted in gross margins expansion at 45.6% (+640bp YoY/270bp QoQ, PLe 43%). Other expense too was lower at Rs3.8b (PLe Rs4b). Consequently, EBITDA increased by 23% YoY/9.4% QoQ to Rs2bn (PLe Rs1.1bn) resulting in expansion of EBITDA margin at 12.7% (+350bp YoY/230bp QoQ, PLe 7.1%). **Better operating performance drive adj. PAT beat** at Rs741mn (-23% YoY/+42% QoQ), PLe Rs550mn). CEAT has also reported an exceptional expense of Rs282mn associated to VRS and inventory provision.

FY20 consol Revenue/EBITDA/PAT declined by ~3%/13%/12% YoY respectively

Key takeaways from the call: 1) **Demand outlook:** Overall FY21 to see gradual pickup led by positive farm segment. Replacement outlook positive as 2W and TBR are better off while PCR to perform weak. Segment wise pecking order for replacement would be farm/2W/CV/PV. 2) Management expect **RM prices to remain benign** as NR cost has declined to Rs115-117/kg (v/s Rs135/kg earlier). 3) **Volumes in TBR segment grew ~20% YoY** led by ramp up in Halol plant with ~65-70% utilization. 4) Overall capex guidance for FY21 at Rs5.5bn (v/s Rs8bn earlier). 5) **Chennai green field facility inaugurated** with capacity of 28.5k PCR/day and 2.5k MCR/day, while ramp will take longer than envisaged. 6) **Believe market share gain in PCR segment** by ~5-7% going forward (currently ~10-11%) as new capacity comes on stream.

Exhibit 1: Q4FY20 Result Overview - Consolidated (Rs m)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY19	FY20	FY19	YoY gr. (%)
Net Revenues	15,734	17,605	(10.6)	17,618	67,788	69,669	(2.7)
Raw Materials	8,552	10,692	(20.0)	10,047	39,151	41,818	(6.4)
<i>% of Net Sales</i>	<i>54.4</i>	<i>60.7</i>		<i>57.0</i>	<i>57.8</i>	<i>60.0</i>	
Personnel	1,418	1,278	10.9	1,443	5,418	5,301	2.2
<i>% of Net Sales</i>	<i>9.0</i>	<i>7.3</i>		<i>8.2</i>	<i>8.0</i>	<i>7.6</i>	
Manufacturing & Other Exp	3,761	4,012	(6.2)	4,296	16,009	16,150	(0.9)
<i>% of Net Sales</i>	<i>23.9</i>	<i>22.8</i>		<i>24.4</i>	<i>23.6</i>	<i>23.2</i>	
Total Expenditure	13,731	15,981	(14.1)	15,786	60,578	63,269	(4.3)
EBITDA	2,004	1,623	23.4	1,832	7,211	6,400	12.7
<i>EBITDA Margin (%)</i>	<i>12.7</i>	<i>9.2</i>		<i>10.4</i>	<i>10.6</i>	<i>9.2</i>	
Depreciation	745	508	46.7	705	2,765	1,927	43.5
EBIT	1,259	1,116	12.8	1,127	4,445	4,473	(0.6)
Interest Expenses	407	269	51.1	380	1,509	880	71.4
Non-operating income	35	306	(88.5)	36	233	416	(43.9)
Extraordinary Expenses	282	405		3	298	448	
PBT	606	747.50	(19.0)	780	2,871	3,560	(19.4)
Tax-Total	114	137	(17.0)	301	742	1,251	(40.7)
<i>Tax Rate (%) - Total</i>	<i>18.7</i>	<i>18.3</i>	<i>2.4</i>	<i>38.6</i>	<i>25.9</i>	<i>35.1</i>	<i>(26.4)</i>
Reported PAT	492	611	(19.4)	479	2,129	2,309	(7.8)
Minority Interest/Share of associates	24	32	(25.8)	44	160	189	(15.3)
PAT after MI	516	643	(19.8)	522	2,289	2,498	(8.4)
Adj. PAT	741	967	(23.3)	524	2,526	2,852	(11.4)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	69,845	67,788	64,399	75,347
YoY gr. (%)	11.2	(2.9)	(5.0)	17.0
Cost of Goods Sold	41,818	39,151	37,480	43,852
Gross Profit	28,027	28,638	26,919	31,495
Margin (%)	40.1	42.2	41.8	41.8
Employee Cost	5,301	5,418	5,689	5,973
Other Expenses	16,301	15,981	15,134	17,706
EBITDA	6,425	7,238	6,096	7,815
YoY gr. (%)	4.5	12.7	(15.8)	28.2
Margin (%)	9.2	10.7	9.5	10.4
Depreciation and Amortization	1,927	2,765	2,986	3,494
EBIT	4,498	4,473	3,110	4,321
Margin (%)	6.4	6.6	4.8	5.7
Net Interest	880	1,509	1,600	1,728
Other Income	390	205	390	429
Profit Before Tax	3,560	2,871	1,900	3,022
Margin (%)	5.1	4.2	3.0	4.0
Total Tax	1,251	742	570	907
Effective tax rate (%)	35.1	25.9	30.0	30.0
Profit after tax	2,309	2,128	1,330	2,116
Minority interest	(11)	(12)	(12)	(12)
Share Profit from Associate	202	172	224	264
Adjusted PAT	2,970	2,611	1,566	2,392
YoY gr. (%)	9.2	(12.1)	(40.0)	52.8
Margin (%)	4.3	3.9	2.4	3.2
Extra Ord. Income / (Exp)	(448)	(298)	-	-
Reported PAT	2,522	2,313	1,566	2,392
YoY gr. (%)	6.0	(8.3)	(32.3)	52.8
Margin (%)	3.6	3.4	2.4	3.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,522	2,313	1,566	2,392
Equity Shares O/s (m)	40	40	40	40
EPS (Rs)	73.4	64.5	38.7	59.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	37,778	50,346	56,524	62,524
Tangibles	36,714	48,032	54,032	60,032
Intangibles	1,065	2,315	2,493	2,493
Acc: Dep / Amortization	5,983	8,748	11,735	15,228
Tangibles	5,689	8,454	11,440	14,934
Intangibles	294	294	294	294
Net fixed assets	31,795	41,598	44,790	47,296
Tangibles	31,025	39,578	42,591	45,097
Intangibles	770	2,020	2,198	2,198
Capital Work In Progress	8,329	10,685	-	-
Goodwill	-	-	-	-
Non-Current Investments	1,875	1,932	1,932	1,932
Net Deferred tax assets	(2,192)	(2,737)	(2,837)	(2,937)
Other Non-Current Assets	2,038	1,015	765	515
Current Assets				
Investments	-	-	-	-
Inventories	10,056	9,257	8,822	10,321
Trade receivables	7,064	6,744	8,469	9,909
Cash & Bank Balance	735	342	8,061	10,157
Other Current Assets	1,770	1,643	1,393	1,143
Total Assets	65,366	74,845	75,813	82,854
Equity				
Equity Share Capital	405	405	405	405
Other Equity	27,257	28,675	29,755	31,661
Total Networth	27,661	29,079	30,160	32,066
Non-Current Liabilities				
Long Term borrowings	12,738	17,557	21,107	24,107
Provisions	384	404	404	404
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,243	2,787	2,787	2,787
Trade payables	10,529	11,948	7,410	8,670
Other current liabilities	8,014	7,768	8,443	9,118
Total Equity & Liabilities	65,366	74,845	75,813	82,854

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	3,560	2,871	1,900	3,022
Add. Depreciation	1,927	2,765	2,986	3,494
Add. Interest	880	1,509	1,600	1,728
Less Financial Other Income	390	205	390	429
Add. Other	(223)	(225)	236	276
Op. profit before WC changes	6,144	6,920	6,722	8,520
Net Changes-WC	1,172	4,462	(4,505)	(405)
Direct tax	(952)	(197)	(470)	(807)
Net cash from Op. activities	6,364	11,186	1,747	7,309
Capital expenditures	(11,714)	(14,924)	4,507	(6,000)
Interest / Dividend Income	-	-	-	-
Others	321	(22)	-	-
Net Cash from Invst. activities	(11,393)	(14,946)	4,507	(6,000)
Issue of share cap. / premium	0	-	-	-
Debt changes	6,264	5,364	3,550	3,000
Dividend paid	(485)	(485)	(485)	(485)
Interest paid	(880)	(1,509)	(1,600)	(1,728)
Others	-	-	-	-
Net cash from Fin. activities	4,898	3,369	1,465	787
Net change in cash	(131)	(392)	7,719	2,096
Free Cash Flow	(5,350)	(3,738)	6,254	1,309

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	73.4	64.5	38.7	59.1
CEPS	121.1	132.9	112.5	145.5
BVPS	683.8	718.9	745.6	792.7
FCF	(132.3)	(92.4)	154.6	32.4
DPS	12.0	12.0	12.0	12.0
Return Ratio(%)				
RoCE	11.6	9.7	6.0	7.6
ROIC	7.7	7.3	5.0	6.5
RoE	11.1	9.2	5.3	7.7
Balance Sheet				
Net Debt : Equity (x)	0.5	0.7	0.5	0.5
Net Working Capital (Days)	34	22	56	56
Valuation(x)				
PER	11.0	12.5	20.9	13.7
P/B	1.2	1.1	1.1	1.0
P/CEPS	6.7	6.1	7.2	5.6
EV/EBITDA	7.3	7.3	8.0	6.3
EV/Sales	0.7	0.8	0.8	0.7
Dividend Yield (%)	1.5	1.5	1.5	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	17,521	16,916	17,618	15,734
YoY gr. (%)	1.7	(3.6)	1.9	(10.6)
Raw Material Expenses	10,596	9,956	10,047	8,552
Gross Profit	6,925	6,959	7,570	7,183
Margin (%)	39.5	41.1	43.0	45.6
EBITDA	1,671	1,704	1,832	2,004
YoY gr. (%)	(4.9)	7.0	28.5	23.4
Margin (%)	9.5	10.1	10.4	12.7
Depreciation / Depletion	644	671	705	745
EBIT	1,027	1,033	1,127	1,259
Margin (%)	5.9	6.1	6.4	8.0
Net Interest	349	374	380	407
Other Income	120	43	36	35
Profit before Tax	792	694	780	606
Margin (%)	4.5	4.1	4.4	3.8
Total Tax	22	305	301	114
Effective tax rate (%)	2.8	44.0	38.6	18.7
Profit after Tax	770	389	479	492
Minority interest	4	3	3	2
Share Profit from Associates	52	48	46	25
Adjusted PAT	822	439	524	741
YoY gr. (%)	12.4	(32.5)	1.3	(23.3)
Margin (%)	4.7	2.6	3.0	4.7
Extra Ord. Income / (Exp)	(6)	(8)	(3)	(282)
Reported PAT	818	433	522	516
YoY gr. (%)	15.5	(31.2)	1.0	(19.8)
Margin (%)	4.7	2.6	3.0	3.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	818	433	522	516
Avg. Shares O/s (m)	40	40	40	40
EPS (Rs)	20.3	10.9	13.0	18.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-20	Accumulate	893	816
2	23-Jan-20	Sell	910	1,014
3	03-Jan-20	Sell	880	1,022
4	23-Oct-19	Sell	827	970
5	03-Oct-19	Reduce	757	965
6	02-Aug-19	Reduce	757	803
7	04-Jul-19	Reduce	886	936
8	12-Jun-19	Reduce	886	957

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	59	46
2	Bajaj Auto	Hold	2,504	2,556
3	Bharat Forge	Hold	345	246
4	CEAT	Accumulate	893	816
5	Eicher Motors	BUY	17,990	13,742
6	Exide Industries	Accumulate	167	148
7	Hero Motocorp	Accumulate	2,225	1,991
8	Mahindra & Mahindra	Hold	420	381
9	Maruti Suzuki	BUY	5,830	5,036
10	Motherson Sumi Systems	BUY	87	66
11	Tata Motors	Hold	84	75
12	TVS Motors	Hold	318	333

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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