

Healthy volumes backed by strong replacement demand: HOLD

In 3QFY21, CEAT reported a strong set of numbers. Revenue grew by 26.1% YoY to 22,123 mn (est. INR 19,693 mn) mainly due to volume growth majorly from replacement demand led by rise in personal mobility, recovery in CV demand and farm equipment segments and restrictions on imports. EBITDA grew by 78.8% YoY to INR 3,277 mn (est. INR 2,422 mn) mainly due to higher gross margin on account of price hikes (i.e 3% in Dec'20) across categories (except 2W) and higher mix from replacement segment (+35% YoY) which resulted in operational efficiency. Moreover, in this quarter, company witnessed the strongest demand for CVs (~30% in TBR and TBB), PVs and 2W/3Ws. OTR segment grew 42% YoY due to increase in the domestic farm sector and exports. The company expects the RM basket to increase by 10% sequentially due to sharp surge in rubber and crude oil prices. Adjusted net profit stood at INR 1,417 mn (est. 983 mn) strong performance on operational front.

Focus on brand value with new client acquisition to increase market share gains

Company has acquired new customers by offering their value added products to their new launches i.e Nissan Magnite and new Hyundai i20. Further, company has started focusing on strong marketing and branding of its products. For the establishment of its products, it has developed creative ad campaigns based on customer reach with an investment in innovative marketing programs as well. The brand loyalty and thrust of visibility will not only to attract 2W and passenger car segment but it will also provide upliftment in creating replacement market demand which would in turn increase the market share.

Valuation and Outlook

CEAT being one of the largest players is well placed to benefit from the volume growth driven by reasonable demand coming from the OEM as well as replacement segment. Company's capacity ramp up with a completion of larger part of capex (i.e INR 22-23bn out of INR 35bn project capex), strong demand and situational focus on particular tyre segment will enable to boost margins with a potential topline growth. On valuation front, At the current market price of INR 1,523, the company is trading at 15.2x, it's FY21E consolidated EPS. We maintain our positive view with 'HOLD' rating on this stock implying a target price of INR 1,745 (based on 12x of its FY23E earnings).

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook **Positive**

Stock

CMP (INR)	1,523
Target Price (INR)	1,745
BSE code	500878
NSE Symbol	CEATLTD
Bloomberg	CEAT IN
Reuters	CEAT.BO

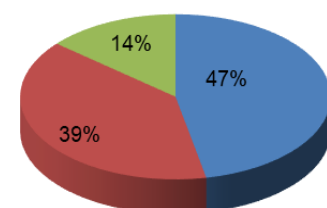
Key Data

Nifty	14,590
52WeekH/L(INR)	1,535/600
O/s Shares (Mn)	40.5
Market Cap (INR bn)	61.1
Face Value (INR)	10

Average volume

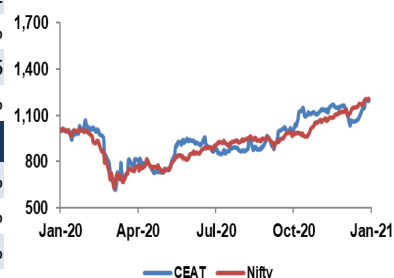
3 months	280,012
6 months	278,164
1 year	222,878

Share Holding Pattern (%)



■ Promoter ■ Institutions ■ Others

Relative Price Chart



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Key Financials					
YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	69,845	67,788	74,432	84,085	95,117
Growth %	11%	-3%	10%	13%	13%
EBIDTA	6,461	7,239	9,468	11,452	13,335
Growth%	7%	12%	31%	21%	16%
Net Profit	2,522	2,313	4,040	4,846	5,882
Growth %	6%	-8%	75%	20%	21%
Diluted EPS	73	65	100	120	145
Growth %	13%	-12%	55%	20%	21%
Profitability & Valuation					
EBIDTA (%)	9%	11%	13%	14%	14%
NPM (%)	4%	3%	5%	6%	6%
RoE (%)	11%	9%	13%	14%	15%
RoCE (%)	12%	11%	11%	13%	15%
P/E (x)	22.5	24.5	14.0	11.7	9.6
EV/EBITDA (x)	10.9	10.5	7.8	6.3	4.9
P/BV (x)	2.0	1.9	1.7	1.5	1.3

Source: Company, BP Equities Research

CEAT Ltd Q3FY21 Quarterly Result

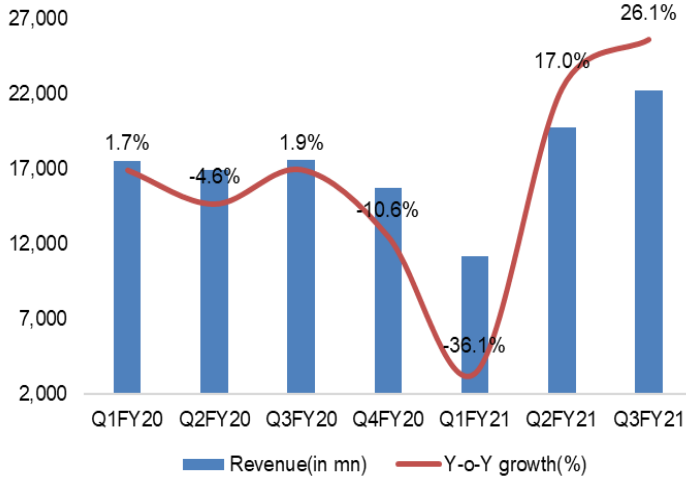
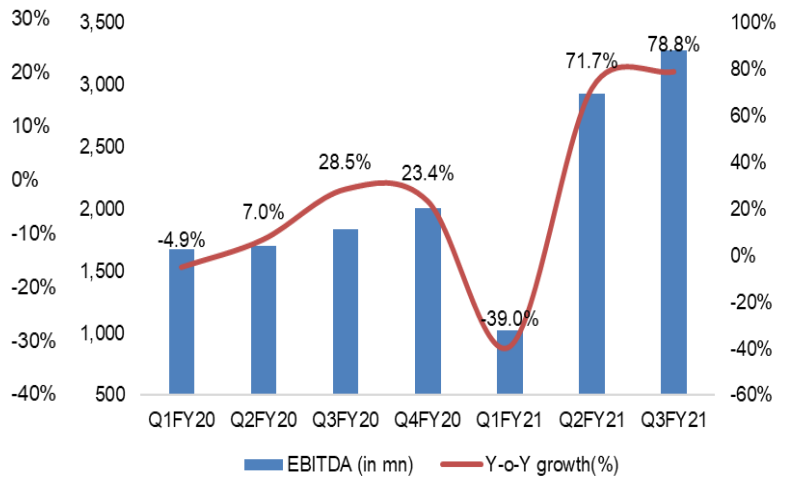
YE March (Rs. mn)	Q3 FY21	Q3 FY20	Y-o-Y change %	Q2 FY21	Q-o-Q change %
Net Sales	22,213	17,618	26.1%	19,785	12.3%
Other Operating Income	0	0		0	
Total Revenue	22,213	17,618	26.1%	19,785	12.3%
Less:					
Raw Material Cost	12,096	10,047	20.4%	10,592	14.2%
Operating & Manufacturing Expenses	5,034	4,296	17.2%	4,659	8.1%
Employee Cost	1,806	1,443	25.2%	1,610	12.2%
Total Expenditure	18,936	15,786	20.0%	16,860	12.3%
EBIDTA	3,277	1,832	78.8%	2,925	12.0%
Less: Depreciation	873	705	23.8%	839	4.0%
EBIT	2,404	1,127	113.3%	2,085	15.3%
Less: Interest	419	380	10.2%	449.6	(6.9%)
Add: Other income	41	36		38	
Profit before tax	2,025	783	158.8%	1,674	21.0%
Adjusted Profit before Tax	2,025	783	158.8%	1,674	21.0%
Less: Total Tax	696	301	131.0%	15	
Profit After Tax	1,329	481	176.3%	1,689	(21.3%)
Other comprehensive Income	-27	0		0	
Minority Interest/share of associates	115	49		130	
Adjusted Profit After Tax	1,417	530	167.3%	1,819	(22.1%)
Diluted EPS (Rs.)	32.9	11.9	176.3%	41.7	(21.3%)
Adjusted Diluted EPS	35.0	13.1	167.3%	45.0	(22.1%)
Diluted No of Share (mn)	40.5	40.5		40.5	
Margin Analysis %			Change in bps	Change in bps	
EBIDTA Margin %	14.8%	10.4%	435	14.8%	(3)
EBIT Margin %	10.8%	6.4%	443	10.5%	28
NPM %	6.0%	2.7%	325	8.5%	(255)
Effective Tax Rate %	34.4%	38.5%	-414	-0.9%	NA

Source: Company, BP Equities Research

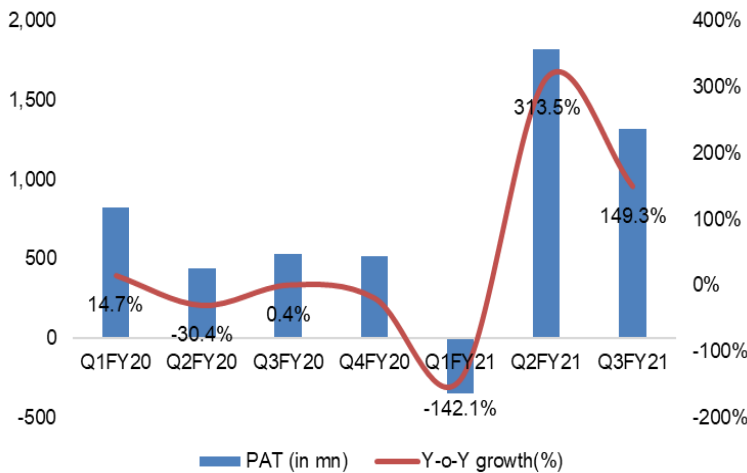
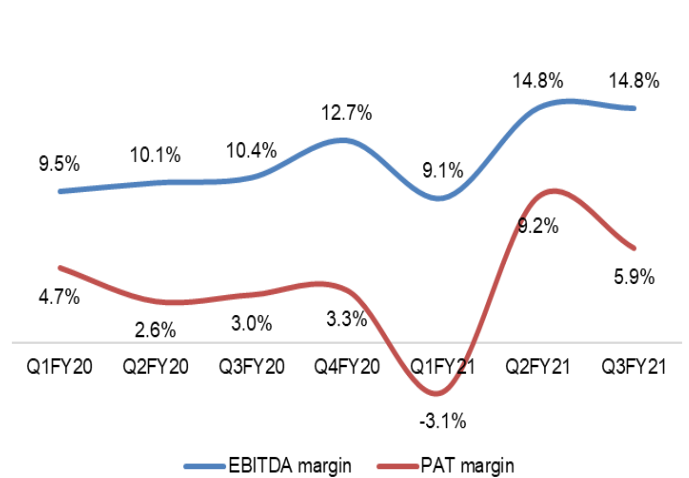
Revenue were above our estimates of INR 22,213 mn on account of volume growth led by an increase in replacement demand. (est.19,693 mn)

Adj PAT of INR 1417 mn, mainly due to increase in topline growth and operating profit (est.983 mn)

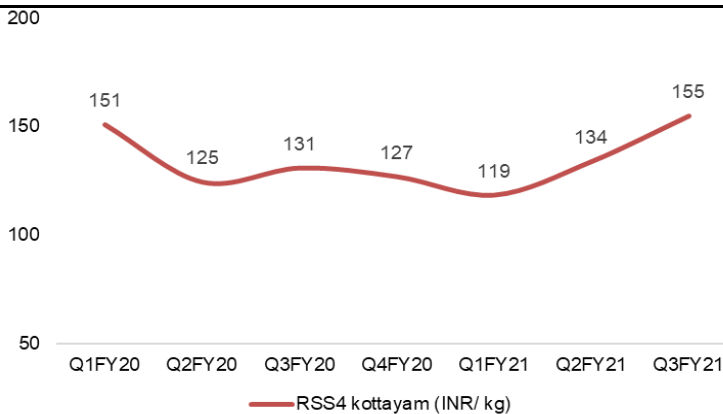
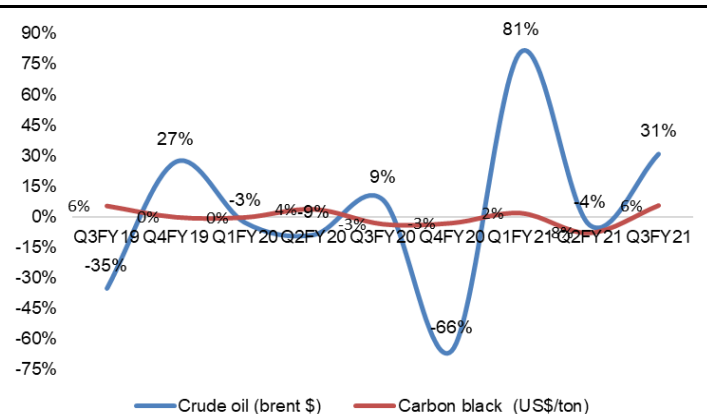
The EBITDA margin stood at 14.8% on account of operating leverage benefits.(est.12.3%)

Revenue growth trend

EBITDA growth trend


Source: Company, BP Equities Research

PAT growth trend

EBITDA and PAT Margin trend


Source: Company, BP Equities Research

Natural Rubber prices trend

Crude Oil and Carbon black prices


Source: Bloomberg, BP Equities Research



Profit & Loss A/c					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	69,845	67,788	74,432	84,085	95,117
Growth %	11.2%	-2.9%	9.8%	13.0%	13.1%
Total Revenue	69,845	67,788	74,432	84,085	95,117
Less:					
Raw Material Consumed	41,818	39,151	42,277	46,499	52,695
Employee Cost	5,301	5,418	5,582	6,727	7,134
Other Expenses	16,266	15,981	17,105	19,407	21,953
Total Operating Expenditure	63,384	60,550	64,964	72,633	81,782
EBITDA	6,461	7,239	9,468	11,452	13,335
Growth %	6.6%	12.0%	30.8%	21.0%	16.4%
Less: Depreciation	1,927	2,765	3,110	3,427	3,714
EBIT	4,534	4,474	6,357	8,026	9,621
Growth %	3.6%	-1.3%	42.1%	26.2%	19.9%
Interest Paid	929	1,509	1,531	1,643	1,756
Non-operating Income	403	205	160	230	270
Extraordinary Income	-448	-298	0	0	0
Profit Before tax	3,560	2,871	4,987	6,612	8,135
Tax	1,251	742	1,297	2,116	2,603
Net Profit	2,522	2,313	4,040	4,846	5,882
Adjusted Profit	2,970	2,611	4,040	4,846	5,882
Reported Diluted EPS Rs	62.4	57.2	99.9	119.8	145.4
Growth %	6.0%	-8.3%	74.7%	20.0%	21.4%
Adjusted Diluted EPS Rs	73.4	64.6	99.9	119.8	145.4
Growth %	13.1%	-12.1%	54.7%	20.0%	21.4%

Cash Flows Statement					
YE March (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PAT	2,522.2	2,312.9	4,040.1	4,846.4	5,882.0
(Less)/Add: Extraordinary Income/Expense	447.9	298.4	0.0	0.0	0.0
Less: Non Operating Income	(402.9)	(205.1)	(160.0)	(230.0)	(270.0)
Add: Depreciation	1,927.1	2,765.1	3,110.2	3,426.6	3,714.3
Add: Interest Paid	928.7	1,509.3	1,530.7	1,643.2	1,755.7
Tax Adjustment	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	5,423.0	6,680.6	8,521.1	9,686.3	11,082.0
(Inc)/Dec in Current Assets	222.2	521.6	(919.9)	130.8	2.9
Inc/(Dec) in Current Liabilities	2,620.0	1,595.3	737.3	2,008.4	2,567.7
Changes in Inventory	(2,209.9)	799.1	1,410.8	(2,209.9)	799.1
Net Cash Generated From Operations	6,055.3	9,596.6	9,749.2	9,615.6	14,451.7
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(6,540.2)	(10,405.2)	(6,000.0)	(5,500.0)	(5,000.0)
(Inc)/Dec in Capital Work In Progress	(5,229.5)	(2,356.3)	0.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	(706.8)	1,975.5	(10.0)	(14.6)	(16.6)
(Inc)/Dec in Investment (Others)	(79.6)	(194.8)	(196.9)	(286.1)	(326.9)
Add: Non Operating Income	402.9	205.1	160.0	230.0	270.0
(Inc)/Dec in Intangible Assets	0.5	(1,840.3)	(218.1)	(269.6)	(308.1)
Net Cash Flow from/(used in) Investing Activities	(12,152.7)	(12,616.0)	(6,265.0)	(5,840.3)	(5,381.7)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	8,354.5	6,473.6	1,000.0	1,500.0	1,500.0
Inc/(Dec) in Reserves & Surplus	(436.0)	(408.8)	0.0	0.0	0.0
Inc/(Dec) in Equity	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(486.0)	(486.0)	(465.8)	(486.0)	(486.0)
Less: Interest Paid	(928.7)	(1,509.3)	(1,530.7)	(1,643.2)	(1,755.7)
Adjustments	(89.8)	(1,144.0)	(0.0)	0.0	0.0
Exceptional Item	(447.9)	(298.4)	0.0	0.0	0.0
Net Cash Flow from Financing Activities	5,970.3	2,626.1	(996.5)	(629.2)	(741.7)
Net Inc/Dec in cash equivalents	(127.1)	(393.3)	2,487.7	3,146.1	8,328.3
Opening Balance	862.5	735.4	342.1	2,829.8	5,975.9
Closing Balance Cash and Cash Equivalents	735.4	342.1	2,829.8	5,975.9	14,304.2

Source: Company, BP Equities Research



Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	405	405	405	405	405
Reserves & Surplus	27,257	28,675	32,249	36,609	42,005
Equity	27,661	29,079	32,654	37,014	42,410
Net Worth	27,661	29,079	32,654	37,014	42,410
Minority Interest	238	237	237	237	237
Others	2,622	4,155	4,155	4,155	4,155
Total Loans	14,469	19,410	20,410	21,910	23,410
Capital Employed	44,990	52,881	57,455	63,315	70,211
Assets					
Gross Block	37,663	48,068	54,068	59,568	64,568
Less: Depreciation	5,868	7,489	10,599	14,026	17,740
Net Block	31,795	40,579	43,469	45,543	46,828
Capital WIP	8,329	10,685	10,685	10,685	10,685
Investments	2,078	102	112	127	143
Others - A	1,814	2,009	2,206	2,492	2,819
Current Assets					
Inventories	10,056	9,257	7,846	10,056	9,257
Sundry Debtors	7,064	6,744	7,472	7,064	6,744
Cash and Bank Balance	735	342	2,830	5,976	14,304
Current Investments	0	0	0	0	0
Loans and Advances	1,571	57	63	71	80
Other Current Assets	581	1,893	2,079	2,348	2,656
Total Current Assets	20,007	18,293	20,290	25,515	33,041
Less:Current Liabilities & Provisions					
Sundry Creditors	10,529	11,948	13,119	14,820	16,765
Provisions	1,479	1,232	1,353	1,528	1,729
Other Current Liabilities	7,046	7,469	6,915	7,046	7,469
Total Current Liabilities & Provisions	19,054	20,649	21,386	23,395	25,962
Capital Applied	44,990	52,881	57,455	63,315	70,211

Key Ratios					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Key Operating Ratios					
EBITDA Margin (%)	9.3%	10.7%	12.7%	13.6%	14.0%
Tax / PBT (%)	35.1%	25.9%	26.0%	32.0%	32.0%
Net Profit Margin (%)	3.6%	3.4%	5.4%	5.8%	6.2%
RoE (%)	11.1%	9.2%	13.1%	13.9%	14.8%
RoCE (%)	12.4%	10.8%	11.1%	13.4%	15.0%
Current Ratio (x)	1.1x	0.9x	0.9x	1.1x	1.3x
Dividend Payout (%)	19.3%	19.3%	19.3%	19.3%	19.3%
Book Value Per Share (Rs.)	683.8	718.9	807.3	915.1	1,048.5
Financial Leverage Ratios					
Debt/ Equity (x)	0.5x	0.7x	0.6x	0.6x	0.6x
Interest Coverage (x)	7.0x	4.8x	6.2x	7.0x	7.6x
Growth Indicators %					
Growth in Gross Block (%)	17.4%	27.6%	7.1%	4.8%	2.8%
Sales Growth (%)	11.2%	(2.9%)	9.8%	13.0%	13.1%
EBITDA Growth (%)	6.6%	12.0%	30.8%	21.0%	16.4%
Net Profit Growth (%)	6.0%	(8.3%)	74.7%	20.0%	21.4%
Diluted EPS Growth (%)	6.0%	(8.3%)	74.7%	20.0%	21.4%
Turnover Ratios					
Debtors Days	40	39	43	37	36
Creditors Days	49	54	56	61	64
Inventory Days	43	60	46	53	50

(Source: Company, BP Equities Research)

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