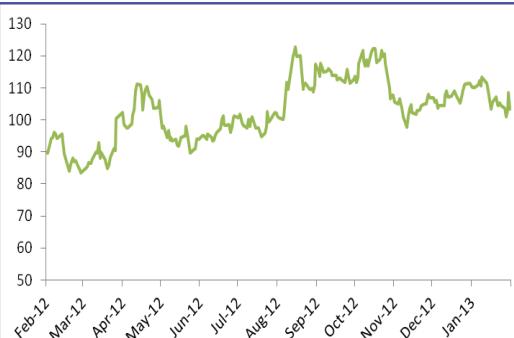


## CEAT Ltd

Recommendation	HOLD									
CMP (08/02/2013)	Rs. 103									
Target Price	Rs. 122									
Sector	Auto Tyres and Rubber Products									
<b>Stock Details</b>										
BSE Code	500878									
NSE Code	CEATLTD									
Bloomberg Code	CEAT IN									
Market Cap (Rs crs)	351									
Free Float (%)	47.13%									
52- wk Hi/Lo (Rs)	125/82									
Avg. volume BSE (Quarterly)	51,462									
Face Value (Rs)	10									
Dividend (FY12)	10%									
Shares o/s (Crs)	3.42									
<b>Relative Performance</b>	<b>1Mth</b>	<b>3Mth</b>	<b>1Yr</b>							
CEAT	-6.3%	-2.0%	15.0%							
Sensex	-0.9%	4.3%	9.3%							
										
<b>Shareholding Pattern 31st Dec. 12</b>										
Promoters Holding	52.87%									
Institutional (Incl. FII)	12.45%									
Corporate Bodies	7.21%									
Public & others	27.47%									
<b>Silky Jain</b> Research Analyst	<b>(+91 22 3926 8178)</b> <a href="mailto:silky.jain@nirmalbang.com">silky.jain@nirmalbang.com</a>									
<b>Year</b>	<b>Net Sales (Rs cr)</b>	<b>Growth (%)</b>	<b>EBITDA (Rs cr)</b>	<b>Margin (%)</b>	<b>Adj PAT (Rs cr)</b>	<b>Margin (%)</b>	<b>EPS (Rs.)</b>	<b>P/E (x)</b>	<b>EV/Sales</b>	<b>EV/EBITDA</b>
FY11	3,631	26.4%	165	4.5%	34	0.9%	10.0	10.28	0.34	7.43
FY12	4,649	28.0%	282	6.1%	21	0.5%	6.2	16.51	0.31	5.00
FY13E	4,992	7.4%	416	8.3%	98	2.0%	28.6	3.60	0.30	3.58
FY14E	5,473	9.6%	439	8.0%	110	2.0%	32.2	3.20	0.26	3.27

**Benefit of declining rubber prices visible in results**

CEAT reported results above expectation resulting from improvement in volumes and benefit of lower raw material cost. Although volumes witnessed an increase, the average realization was lower due to the change in product mix (shift from replacement to OEM) and marginal increase in discounts. EBITDA margins witnessed an improvement on expected lines resulting from the benefit of lower raw material cost which was partially offset by increase in employee expenses and other expenses (brand building and advertisement). CEAT reported one-time VRS payment to nearly ~180-190 employees of Rs 13.66 cr at the Bhandup plant. Adjusted consolidated PAT increased from Rs 12.34 cr in Q2FY13 to Rs 31.86 cr in Q3FY13.

Resulting from subdued demand in the domestic auto industry (particularly replacement demand) the top line performance of most of the tyre companies has been impacted. Following the steep fall in natural rubber prices, the margins witnessed an improvement which is likely to continue in Q4FY13E as rubber prices tend to remain lower. Though management has indicated improvement in margins we believe that slowdown may force tyre manufacturers to reduce prices and if the slowdown continues in Q1FY14 as well then we may see some margin pressure coming up in FY14E. We remain cautiously optimistic on the overall performance of the company considering the slowdown in the auto industry.

***Nevertheless, improving operating performance led by improving utilization at the Halol plant, changing product mix (radial vs bias), expanding presence (tapping new geographies) and attractive valuations continue to be the key positive for the company.***

***At CMP, the stock is trading at P/E of 3.6x FY13E and 3.2x FY14E earnings with an EV/EBITDA of 3.58x and 3.27x which we believe are lower as compared to peers. We continue to maintain our HOLD rating on the stock with a target price of Rs 122 indicating upside of 18.7% from current levels.***

- On standalone basis, net sales increased by 14.0% YoY and 2.6% QoQ to Rs 1,194.6 cr in Q3FY13. Volumes in tonnage terms witnessed an improvement of 4.1% QoQ and 15.4% YoY to 53,000 units.
- Sri lankan business reported net sales of Rs 101.7 cr down 5% QoQ and 8% YoY led by some decline in volumes. EBITDA margins improved by 350bps YoY to 17.1% vs 17.0% in Q2FY13 and 13.6% in Q3FY12.
- Consolidated net sales increased 13.3% YoY to Rs 1,239 cr; Consolidated EBITDA margin stood at 8.9% with adjusted PAT of Rs 31.9 cr in Q2FY13.
- The debt to equity ratio is down from 2.0x in Q3FY12 and 1.9x in Q2FY13 to 1.7x in Q3FY13.
- CEAT witnessed flattish growth in the replacement market and does not expect a meaningful recovery in the next 6 months.

## CEAT Ltd

## Quarterly Result Highlights

- Net sales increased by 14.0% YoY and 2.6% QoQ to Rs 1,194.6 cr in Q3FY13.
- Volumes in tonnage terms witnessed an improvement of 4.1% QoQ and 15.4% YoY to 53,000 units.
- Raw material as % of total sales declined from 70.8% in Q2FY13 to 68.7% in Q3FY13 (it was 73.4% in Q3FY12).
- Other expenses rose 23.1% YoY and 3.2% QoQ to Rs 193 cr resulting from brand building and strategy formulation whereas the employee cost increased 36.4% YoY to Rs 73.5 cr during the quarter.
- EBITDA stood at Rs 102 cr up 54.5% YoY and 30.1% QoQ primarily due to improvement in sales and lower raw material cost. EBITDA margins stood at 8.5% in Q3FY13 vs 6.7% in Q2FY13.
- Depreciation was up 6.2% YoY on account of commissioning of Halol facility. Interest expenses witnessed decline both QoQ and YoY resulting from repayment of debt.
- CEAT reported PAT of Rs 16.9 cr vs PAT of Rs 2.4 cr in Q3FY12 and Rs 2.8 cr in Q2FY13. Adj PAT (post tax) after adjusting for Rs 13.66 cr for providing VRS to employees at the Bhandup plant stood at Rs 26.2 cr vs Rs 2.3 cr in Q3FY12 and Rs 12.2 cr in Q2FY13.

## Standalone Performance

Rs in cr	Q3FY13	Q3FY12	YoY	Q2FY13	QoQ
Net Sales	1,195	1,048	14.0%	1,165	2.6%
Other operating income	7.09	15.7	(54.8%)	8.96	(20.9%)
<b>Total operating income</b>	<b>1,202</b>	<b>1,063</b>	<b>13.0%</b>	<b>1,174</b>	<b>2.4%</b>
Raw Material expenses	826.02	780.64	5.8%	831.32	(0.6%)
<i>as % of sales</i>	<i>68.7%</i>	<i>73.4%</i>		<i>70.8%</i>	
Employees Cost	73.51	53.91	36.4%	69.9	5.2%
Other expenditures	200.36	162.82	23.1%	194.23	3.2%
Total Expenses	1,100	997	10.3%	1,095	0.4%
<b>EBITDA</b>	<b>102</b>	<b>66</b>	<b>54.5%</b>	<b>78</b>	<b>30.1%</b>
<i>EBITDA Margin</i>	<i>8.5%</i>	<i>6.2%</i>		<i>6.7%</i>	
Depreciation	19.92	18.76	6.2%	19.52	2.0%
<b>EBIT</b>	<b>82</b>	<b>47</b>	<b>73.7%</b>	<b>59</b>	<b>39.4%</b>
Other Income	3.37	5.02	(32.9%)	8.96	-62.4%
Interest Expenses	46.51	48.61	(4.3%)	49.54	(6.1%)
<b>PBT</b>	<b>39</b>	<b>4</b>	<b>996.9%</b>	<b>18</b>	<b>113.6%</b>
Taxes	8.13	1.14	613.2%	1.34	506.7%
Exceptional item	13.66	0		14.04	
<b>Net Profit</b>	<b>16.9</b>	<b>2.4</b>	<b>608.4%</b>	<b>2.8</b>	<b>515.6%</b>
<i>Net profit margin</i>	<i>1.4%</i>	<i>0.2%</i>		<i>0.2%</i>	
<b>Adj Net profit</b>	<b>26.2</b>	<b>2.4</b>	<b>994.5%</b>	<b>12.2</b>	<b>114.6%</b>
Adj EPS	7.64	0.70	994.5%	3.56	114.6%

Source: Company data, Nirmal Bang Research

## CEAT Ltd

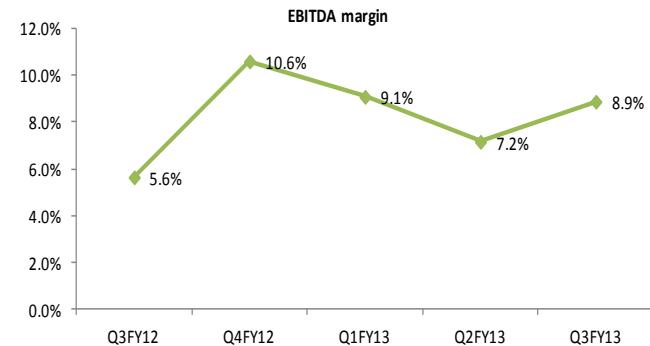
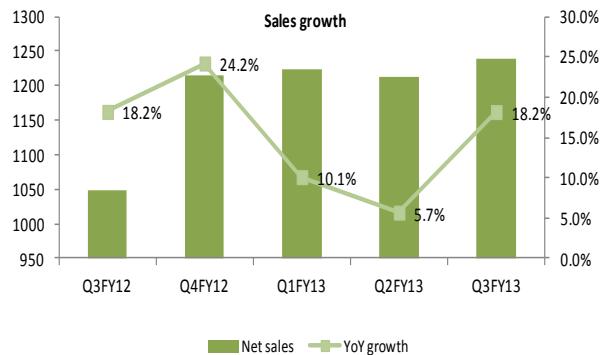
## Consolidated Performance

Rs in cr	Q3FY13	Q3FY12	YoY	Q2FY13	QoQ
Net Sales	1,239	1,093	13.3%	1,213	2.1%
Other operating income	6.69	15	-55.4%	8.95	-25.3%
<b>Total operating income</b>	<b>1,245</b>	<b>1,108</b>	<b>12.4%</b>	<b>1,222</b>	<b>1.9%</b>
Raw Material expenses <i>as % of sales</i>	850 <i>68.3%</i>	813 <i>73.4%</i>		861 <i>70.4%</i>	
Employees Cost	77	57	35.6%	73	5.1%
Other expenditures	208	170	22.3%	201	3.5%
Total Expenses	1,135	1,040	9.1%	1,134	0.0%
<b>EBITDA</b>	<b>110.6</b>	<b>68.3</b>	<b>61.9%</b>	<b>87.6</b>	<b>26.3%</b>
<i>EBITDA Margin</i>	<i>8.9%</i>	<i>6.2%</i>		<i>7.2%</i>	
Depreciation	20.55	19.34	6.3%	20.16	1.9%
<b>EBIT</b>	<b>90</b>	<b>49</b>	<b>83.9%</b>	<b>67</b>	<b>33.6%</b>
Other Income	3.48	10.95	-68.2%	3.29	5.8%
Interest Expenses	47.33	49.47	-4.3%	50.39	-6.1%
<b>PBT</b>	<b>46</b>	<b>10</b>	<b>342.2%</b>	<b>20</b>	<b>127.5%</b>
Taxes	10.11	2.31	337.7%	2.46	311.0%
Exceptional item	13.66	0		14.04	
<b>Net Profit</b>	<b>22.4</b>	<b>8.1</b>	<b>175.7%</b>	<b>3.8</b>	<b>489.0%</b>
<i>Net profit margin</i>	<i>1.80%</i>	<i>0.73%</i>		<i>0.31%</i>	
<b>Adj Net Profit</b>	<b>31.9</b>	<b>8.1</b>	<b>291.4%</b>	<b>12.3</b>	<b>158.1%</b>
Adj EPS	9.30	2.38	291.4%	3.60	158.1%

Source: Company data, Nirmal Bang Research

- Consolidated net sales increased 13.3% YoY and 2.1% on QoQ basis to Rs 1,239 cr in Q3FY13.
- Consolidated EBITDA improved by 61.9% YoY from Rs 68.3 crs to Rs 110.6 crs and improved 26.3% QoQ primarily due to decline in raw material cost.
- EBITDA margins in Q3FY13 stood at 8.9% vs 6.2% in Q3FY12 and 7.2% in Q2FY13.
- CEAT reported consolidated PAT of Rs 22.4 cr vs Rs 8.1 cr in Q3FY12. Adjusted PAT stood at Rs 31.86 cr vs 8.1 cr in Q3FY12 and Rs 12.34 cr in Q2FY13
- Sri lankan business reported net sales of Rs 101.7 cr down 5% QoQ and 8% YoY led despite witnessing increase in volumes as exports had lower realisations.
- Reflecting higher export realisations and lower raw material costs, EBITDA margins improved by 350bps YoY and 10bps QoQ to 17.1% vs 17.0% in Q2FY13 and 13.6% in Q3FY12.

## CEAT Ltd



Source: Company data, Nirmal Bang Research

### Key highlights of the conference call

- The company witnessed flattish growth (around 2% only) in the replacement market whereas the OEM market witnessed an increase of 58% and exports grew 15% YoY during the quarter.
- Management continues to focus on reducing leverage and monitoring the working capital and has been successful in reducing debt to Rs 1257 cr from nearly Rs 1350 cr (a decline of Rs 93 cr) from the levels two quarters back.
- D/E ratio declined from 2.0x in Q3FY12 and 1.9x in Q2FY13 to 1.7x in Q3FY13.
- CEAT has been able to increase its penetration in the two wheeler space (25% increase YoY in terms of volume) and the market share stands at nearly 18%-19% in Q3FY13 in the two wheeler space.
- Replacement segment accounted for 54% of CEAT's revenues, OEM 23% and exports accounted for 23% of revenues in Q3FY13.
- The Halol plant is operating at ~110 TPD in Q3FY13 and the company plans to increase it to 140 TPD in next six months. There is a deliberate attempt by the company to not go for significant ramp up at the Halol plant considering the overall slowdown in the auto environment.
- The rubber prices witnessed sharp decline in the quarter on expected lines. The landed cost of rubber stood at nearly Rs 175 in Q3FY13 as compared to Rs 192 in Q2FY13. Margins are expected to report improvement in the next quarter as well driven by the lower cost of raw materials.
- Carbon Black prices are expected to remain higher, however this is likely to be offset by decline in prices of Natural Rubber, Synthetic Rubber and tyre cord fabric.
- The company has indicated that the capacity utilization level remains in the range of 80-85% and targets to maintain at the same levels.
- CEAT has entered into a Joint Venture (JV) in Bangladesh with A K Khan & Company, in which CEAT will hold a 70% shareholding and A K Khan & Company Ltd. will hold 30%. CEAT and its partner will jointly invest ~US\$67mn (Rs355cr) with an initial outlay of Rs270cr to be contributed by both the partners.
- Replacement demand is expected to remain subdued between 0-5% over next couple of quarters and increase once the demand in OEM picks up (not before 6 months).

## CEAT Ltd

### Financials

Profitability (Rs. In Cr)	FY11A	FY12A	FY13E	FY14E	Balance Sheet (Rs. In Cr)	FY11A	FY12A	FY13E	FY14E
<b>Net Sales</b>	<b>3,602</b>	<b>4,618</b>	<b>4,956</b>	<b>5,428</b>	Share Capital	34	34	34	34
Other op income	29	31	36	45	Reserves & Surplus	619	643	711	805
<b>Total Income</b>	<b>3,631</b>	<b>4,649</b>	<b>4,992</b>	<b>5,473</b>	<b>Share Holder's Funds</b>	<b>653</b>	<b>678</b>	<b>745</b>	<b>839</b>
Total Cost	3,466	4,367	4,576	5,033	Deferred Tax Liabilities	26	25	25	25
<b>EBITDA</b>	<b>165</b>	<b>282</b>	<b>416</b>	<b>439</b>	Total loans	923	1,095	1,200	1,155
Dep	36	73	85	103	Other Long Term Liab	11	11	11	11
<b>Op Income</b>	<b>129</b>	<b>210</b>	<b>331</b>	<b>337</b>	<b>Total Liabilities</b>	<b>1,613</b>	<b>1,809</b>	<b>1,981</b>	<b>2,030</b>
Interest	102	196	200	190	<b>Net Fixed Assets</b>	<b>1,525</b>	<b>1,604</b>	<b>1,820</b>	<b>1,867</b>
Other Income	23	14	15	18	<b>Total Investments</b>	<b>43</b>	<b>31</b>	<b>31</b>	<b>84</b>
<b>PBT</b>	<b>50</b>	<b>27</b>	<b>147</b>	<b>165</b>	<b>Current Assets</b>	<b>1,263</b>	<b>1,418</b>	<b>1,531</b>	<b>1,650</b>
Tax	14	6	39	55	Sundry Debtors	502	637	684	750
Exceptional item	8	3	28	0	Cash & Bank	49	36	62	70
Minority	1	0	0	0	Loans & Advances & Others	126	143	151	161
PAT (reported)	26	18	80	110	Inventories	587	603	634	670
<b>Adj PAT</b>	<b>34</b>	<b>21</b>	<b>98</b>	<b>110</b>	<b>Current Liabilities &amp; Provision</b>	<b>1,240</b>	<b>1,253</b>	<b>1,409</b>	<b>1,579</b>
Shares o/s ( No. in Cr.)	3	3	3	3	Net Current Assets	24	165	122	71
<b>EPS</b>	<b>8</b>	<b>5</b>	<b>23</b>	<b>32</b>	<b>Other Long Term</b>	<b>22</b>	<b>9</b>	<b>9</b>	<b>9</b>
<b>Adj EPS</b>	<b>10.0</b>	<b>6.2</b>	<b>28.6</b>	<b>32.2</b>	<b>Total Assets</b>	<b>1,613</b>	<b>1,809</b>	<b>1,981</b>	<b>2,030</b>
<b>Cash Flow (Rs. In Cr)</b>					<b>Cash Flow (Rs. In Cr)</b>	<b>FY11A</b>	<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>
<b>Quarterly (Rs. In Cr)</b>	<b>Mar.12</b>	<b>June.12</b>	<b>Sep.12</b>	<b>Dec.12</b>	Operating income	42	24	119	165
<b>Net Sales</b>	<b>1,215</b>	<b>1,223</b>	<b>1,213</b>	<b>1,239</b>	Depreciation	36	73	85	103
<b>EBITDA</b>	<b>130</b>	<b>112</b>	<b>88</b>	<b>111</b>	Change in WC	122	(161)	69	59
Dep	19	20	20	21	Interest/Dividend net	67	149	185	172
<b>Op Income</b>	<b>111</b>	<b>92</b>	<b>67</b>	<b>90</b>	Direct Taxes Paid	(19)	(7)	(39)	(55)
Interest	54	54	50	47	Other Adjustment	2	5	0	0
Other Inc.	3	5	3	3	<b>CF from Operation</b>	<b>249</b>	<b>83</b>	<b>418</b>	<b>443</b>
Extraordinary	0	0	0	0	Capex	(518)	(132)	(300)	(150)
<b>PBT</b>	<b>60</b>	<b>43</b>	<b>20</b>	<b>46</b>	Interest/Dividend received	29	7	15	18
Tax	19	14	2	10	Change in investment	0	0	0	(53)
Exceptional item	0	0	14	14	<b>CF from Investment</b>	<b>(488)</b>	<b>(113)</b>	<b>(285)</b>	<b>(185)</b>
<b>PAT</b>	<b>41</b>	<b>29</b>	<b>4</b>	<b>22</b>	Dividend Paid	(26)	(8)	(12)	(16)
Adj PAT	41	29	12	32	Share Capital	6	4	0	0
<b>Performance Ratio</b>	<b>FY11A</b>	<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>	Debt repayment	252	172	105	(45)
Sales growth (%)	26.4%	28.0%	7.4%	9.6%	Interest	(104)	(151)	(200)	(190)
EBITDA margin (%)	4.5%	6.1%	8.3%	8.0%	<b>CF from Financing</b>	<b>128</b>	<b>16</b>	<b>(107)</b>	<b>(251)</b>
Adj.PAT margin (%)	0.9%	0.5%	2.0%	2.0%	Net Chg. in Cash	(110)	(13)	26	7
ROE (%)	5.2%	3.1%	13.1%	13.1%	Cash at beginning	160	49	36	62
ROCE (%)	6.3%	9.7%	13.1%	11.4%	<b>Cash at end</b>	<b>50</b>	<b>36</b>	<b>62</b>	<b>70</b>
<b>Valuation Ratio</b>	<b>FY11A</b>	<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>	<b>Per Share Data</b>	<b>FY11A</b>	<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>
Price Earnings (x)	10.28	16.51	3.60	3.20	Reported EPS	7.73	5.32	23.34	32.16
Price / Book Value (x)	0.54	0.52	0.47	0.42	BV per share	191.1	198.1	218.0	245.4
EV / Sales	0.34	0.31	0.30	0.26	Dividend per share	4.0	2.0	3.0	4.0
EV / EBIDTA	7.43	5.00	3.58	3.27	<b>Turnover Ratios</b>	<b>FY11A</b>	<b>FY12A</b>	<b>FY13E</b>	<b>FY14E</b>
EV / Total Assets	0.76	0.78	0.75	0.71	Debtor Days	66	53	54	52
Dividend Yield	3.9%	1.9%	2.9%	3.9%	Inventory Days	50	50	50	50
					Creditor Days	85	59	63	63

Source: Company data, Nirmal Bang Research

## NOTES

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