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Q4FY21 result review  
and earnings revision

## Automobiles

Target price: Rs1,663

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 4.4	↑ 6.8
EBITDA	↓ 3.1	↑ 0.4
EPS	↓ 3.5	↓ 4.9

### Target price revision

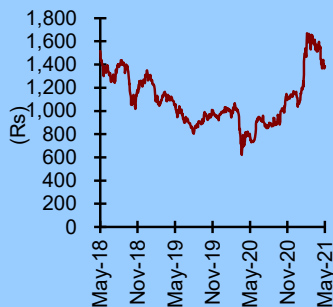
Rs1,663 from Rs1,741

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	46.8	46.8	46.8
Institutional			
Investors	39.9	39.9	40.6
MFs and other	11.4	11.4	9.1
FIs/Banks/Ins	4.6	4.6	4.2
FIIIs	23.9	23.9	27.3
Others	13.3	13.3	12.6

Source: BSE

### Price chart



### Research Analysts:

#### Nishant Vass

nishant.vass@icicisecurities.com  
+91 22 6637 7260

#### Pratit Vajani

pratit.vajani@icicisecurities.com  
+91 22 6637 7161

## INDIA

# CEAT

## BUY

Maintained

## Rs1,378

### Decent quarter; new capex likely to curtail FCF

CEAT's Q4FY21 performance was a beat on consensus expectations driven by faster than anticipated revenue growth (up ~50% YoY). The growth momentum was driven by outperformance in PV/CV segments. However, gross margins are beginning to reflect commodity price pressures (down 365bps QoQ). On balance sheet side, consolidated debt fell by ~Rs5.1bn YoY to ~Rs14.2bn (FY20: ~Rs19.3bn) while debt/equity ratio reduced to 0.42x (FY20: 0.66x). Outlook for H1FY22 remains a concern on demand slowdown due to covid surge and OEM production stoppages. Profitability is likely to remain in check on rising input costs (e.g. crude derivatives). Announcement of fresh capex of Rs12.1bn towards TBR capacity (190 TPD) expansion is likely to curtail FCF generation. Sharper than expected deterioration in FCF is a key downside risk. Maintain BUY.

Conference call on May 06, Thursday, at 16:00 hours IST. Number: +91 22 6280 1259.

- Key highlights of the quarter:** Revenues grew ~50% YoY to ~Rs23bn due to sharp growth in replacement sales in Q4 along with rebound in OEM production. Gross margins decline was curtailed at 41.8% (down 365 bps QoQ) driven by better fixed-cost absorption (470 bps QoQ) on account of higher finished goods inventory. Revenue mix has continued to skew towards CV (truck & bus/LCV) segments (contribution up ~400bps from in 2H vis-à-vis 1H at 45%), which we believe is a drag on margins. Employee costs declined marginally (by 14bps QoQ) as other expenses remained flat due to the tight cost control. Adjusted PAT grew ~4% QoQ to Rs14.2bn. Capex for FY21 was limited to Rs6.4bn (FY20:Rs11.7bn) which helped generate FCF of ~Rs7bn in FY21. CEAT has continued its VRS scheme aggregating ~Rs125mn in FY21. It declared a final dividend of Rs18 per share for FY21.
- Commercial segment leads to growth:** CEAT has likely fared well vis-à-vis domestic peers, which we believe is attributable to: a) faster growth in the PV, CV segments led by the new capacity coming on stream at Halol plant; b) new product innovations have aided market share gains in existing OEMs (e.g. Hero Motocorp, Mahindra); and c) OEM preference for new SUV launches OEM (e.g. Mahindra *Thar*, Nissan *Magnite*).
- Maintain BUY:** We like CEAT's growth rebound story; however, rise in capex intensity over next few years is likely to curtail our FCF generation, increase leverage (FY23E: Rs 20bn). We have also cut our FCF assumptions (FY22E/23E: Rs -1.7bn/ Rs 0.8bn). We tweak our earnings for FY22E/ FY23E by ~-4/-5% respectively. The stock now trades at ~1.5% FCF yield on FY23E basis. We value CEAT on SoTP basis with a target multiple for India business at 15x (unchanged) FY23E EPS. Maintain **BUY** with a revised target price of Rs1,663 (earlier: Rs1,741).

Market Cap	Rs55.7bn/US\$753mn	Year to Mar (Std)	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	CEAT.BO/CEAT IN	Revenue (Rs mn)	67,479	75,728	89,640	1,01,191
Shares Outstanding (mn)	40.5	Rec. Net Income (Rs mn)	2,246	4,136	3,841	4,617
52-week Range (Rs)	1669/729	Rec. EPS (Rs)	55.5	102.3	95.0	114.1
Free Float (%)	53.2	% Chg YoY	(22.3)	84.2	(7.1)	20.2
FII (%)	27.3	P/E (x)	24.8	13.5	14.5	12.1
Daily Volume (US\$/'000)	6,960	CEPS (Rs)	124.0	186.2	191.6	226.8
Absolute Return 3m (%)	(16.6)	EV/E (x)	10.5	7.2	7.0	6.1
Absolute Return 12m (%)	79.5	Dividend Yield (%)	1.7	1.3	1.2	1.5
Sensex Return 3m (%)	(3.9)	RoCE (%)	10.8	14.3	14.0	14.7
Sensex Return 12m (%)	56.5	RoE (%)	8.2	14.0	11.6	12.6

Please refer to important disclosures at the end of this report

**Table 1: Q4FY21 result review (standalone)***(Rs mn, year ending March 31)*

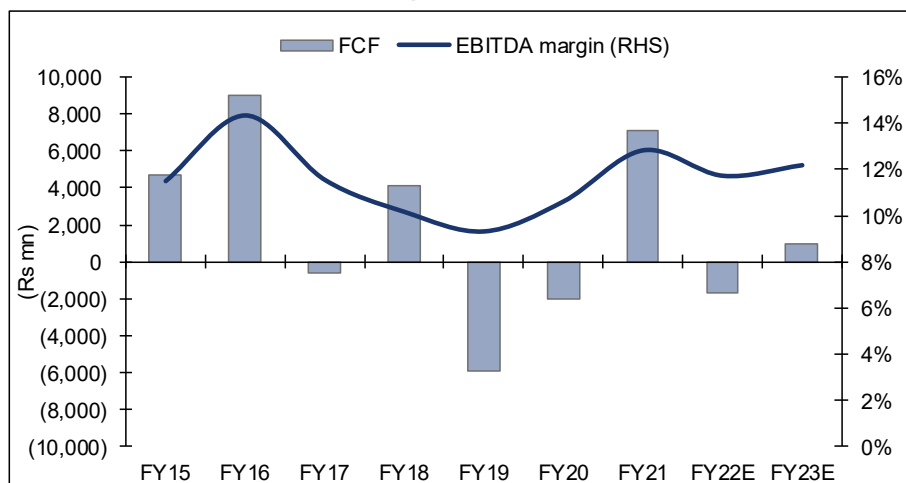
(Standalone)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
<b>Total operating income</b>	<b>22,790</b>	<b>15,236</b>	<b>49.6</b>	<b>22,125</b>	<b>3.0</b>
Raw material costs	13,259	8,473	56.5	12,065	9.9
Employee costs	1,806	1,303	38.6	1,785	1.2
Other expenditures	5,172	3,561	45.2	5,017	3.1
Total operating expenses	20,237	13,337	51.7	18,867	7.3
<b>EBITDA</b>	<b>2,553</b>	<b>1,899</b>	<b>34.4</b>	<b>3,258</b>	<b>-21.6</b>
<b>EBITDA margin (%)</b>	<b>11.2</b>	<b>12.5</b>	<b>-126 bps</b>	<b>14.7</b>	<b>-352 bps</b>
Depreciation & Amortization	899	693	29.8	873	3.0
Other income	31	65	-51.6	100	-68.7
Interest costs	392	338	16.0	412	-4.7
<b>PBT</b>	<b>1,294</b>	<b>933</b>	<b>38.6</b>	<b>2,074</b>	<b>-37.6</b>
Exceptional Items	-	281	-100.0	123	-
Taxes	-125	94	-232.9	675	-118.5
<b>Reported PAT</b>	<b>1,418</b>	<b>558</b>	<b>154.0</b>	<b>1,276</b>	<b>11.2</b>
<b>Adjusted PAT</b>	<b>1,418</b>	<b>755</b>	<b>87.9</b>	<b>1,361</b>	<b>4.2</b>

Source: Company data, I-Sec research

**Table 2: Earnings revision table (standalone)***(Rs mn)*

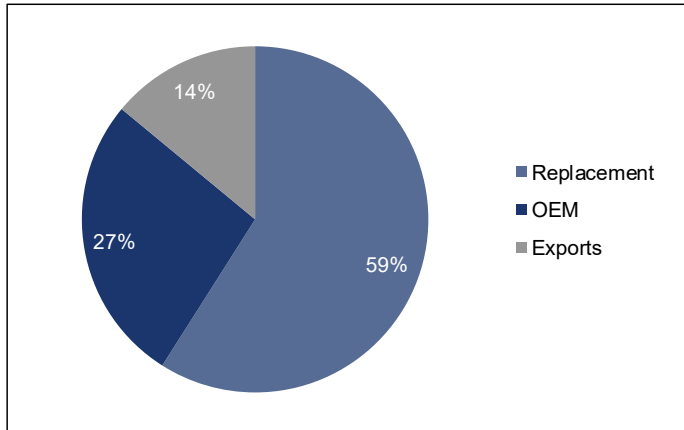
	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	85,869	89,640	4.4	94,747	1,01,191	6.8
EBITDA	10,876	10,536	(3.1)	12,303	12,358	0.4
PAT	3,981	3,841	(3.5)	4,853	4,617	(4.9)
EPS (Rs)	98.4	95.0	(3.5)	120.0	114.1	(4.9)

Source: Company data, I-Sec research

**Chart 1: FCF and EBITDA margin trends**

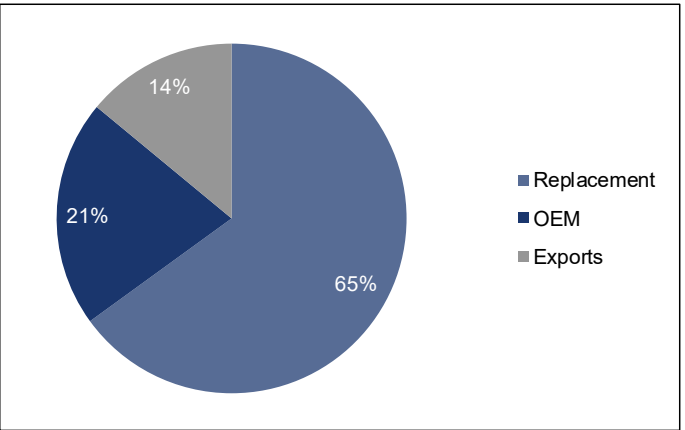
Source: Company data, I-Sec research

**Chart 2: End-use revenue mix (FY20)**



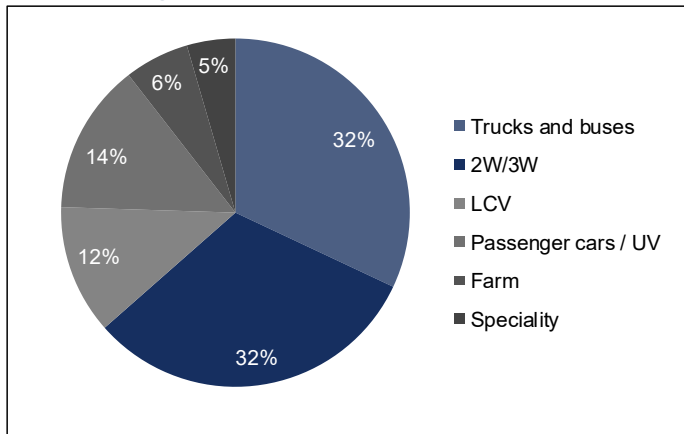
Source: Company presentation

**Chart 3: End-use revenue mix (FY21)**



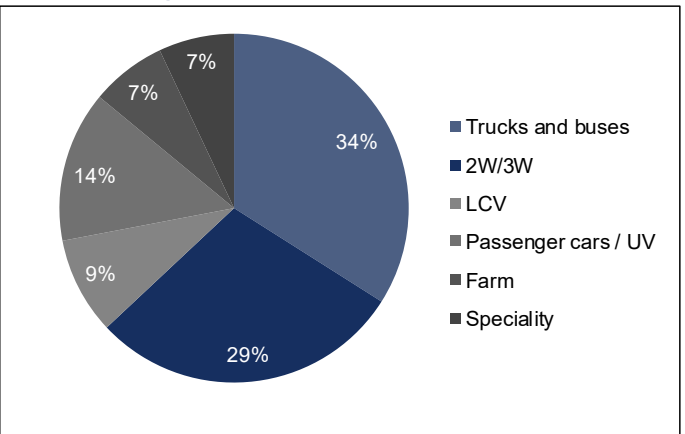
Source: Company presentation

**Chart 4: Segmental revenue mix (FY20)**



Source: Company presentation

**Chart 5: Segmental revenue mix (FY21)**



Source: Company presentation

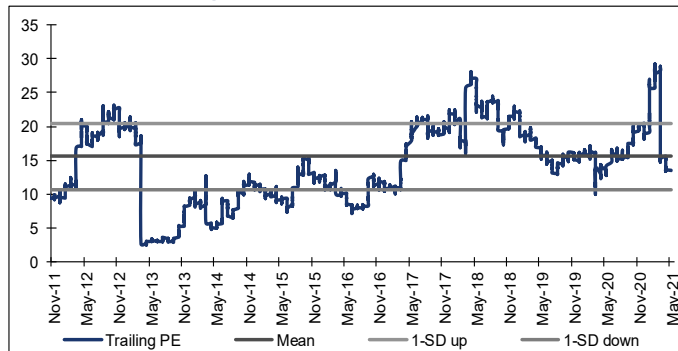
## Valuation

We like CEAT’s growth rebound story with consistency of margins; however, rise in capex intensity over next few years is likely to curtail our FCF generation, increase leverage (FY23E: Rs 20bn). We have also cut our FCF assumptions (FY22E/23E: Rs - 1.7bn/ Rs 0.8bn). We tweak our earnings for FY22E/ FY23E by ~-4/-5% respectively. The stock now trades at ~1.5% FCF yield on FY23E basis. We value CEAT on SoTP basis with a target multiple for India business at 15x (unchanged) FY23E EPS. Maintain **BUY** with a revised target price of Rs1,663 (earlier: Rs1,741).

Key downside risk: Sharper deterioration of FCF profile due to rise in capex

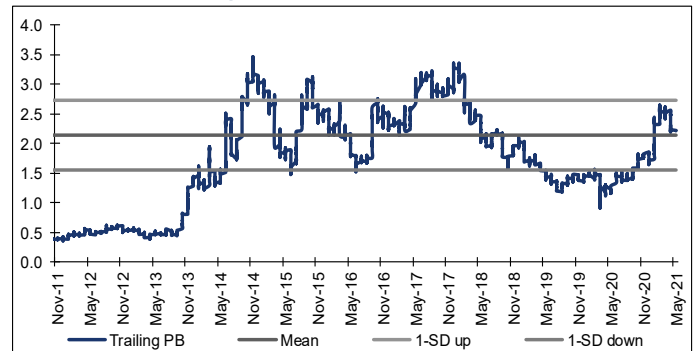
Key upside risk: Strong reduction in commodity prices leading to positive surprise on margins.

Chart 6: Trailing P/E



Source: I-Sec research, 12m trailing data

Chart 7: Trailing P/B



Source: I-Sec research, 12m trailing data

## Financial summary (standalone)

**Table 3: Profit and Loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>Total Op. Income (Sales)</b>	<b>67,479</b>	<b>75,728</b>	<b>89,640</b>	<b>1,01,191</b>
<b>Operating Expenses</b>	<b>60,302</b>	<b>65,990</b>	<b>79,105</b>	<b>88,833</b>
<b>EBITDA</b>	<b>7,177</b>	<b>9,738</b>	<b>10,536</b>	<b>12,358</b>
<i>% margins</i>	<i>10.6%</i>	<i>12.9%</i>	<i>11.8%</i>	<i>12.2%</i>
Depreciation & Amortisation	2,771	3,396	3,910	4,556
<b>EBIT</b>	<b>4,405</b>	<b>6,342</b>	<b>6,626</b>	<b>7,801</b>
Other Income	307	318	375	458
Gross Interest	1,491	1,731	1,513	1,663
<b>PBT</b>	<b>3,222</b>	<b>4,930</b>	<b>5,487</b>	<b>6,596</b>
Less: Exceptionals	298	341	-	-
<b>PBT after Exceptionals</b>	<b>2,924</b>	<b>4,589</b>	<b>5,487</b>	<b>6,596</b>
Less: Taxes	678	453	1,646	1,979
Less: Minority Interest	-	-	-	-
Add: Profit from Associates	-	-	-	-
<b>Net Income (Reported)</b>	<b>2,246</b>	<b>4,136</b>	<b>3,841</b>	<b>4,617</b>
<b>Net Income (Adjusted)</b>	<b>2,246</b>	<b>4,136</b>	<b>3,841</b>	<b>4,617</b>

Source: Company data, I-Sec research

**Table 6: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>Operating cashflow before working capital changes</b>	<b>6,508</b>	<b>9,263</b>	<b>9,265</b>	<b>10,837</b>
Net Working Capital Changes	3,814	5,324	(942)	1,138
Others	(639)	(1,075)	-	-
<b>Operating Cashflow</b>	<b>9,683</b>	<b>13,512</b>	<b>8,323</b>	<b>11,974</b>
Capital Commitments	(11,712)	(6,427)	(10,000)	(11,000)
<b>Free Cashflow</b>	<b>(2,029)</b>	<b>7,085</b>	<b>(1,677)</b>	<b>974</b>
<b>Cashflow from Investing Activities</b>	<b>(11,277)</b>	<b>(6,262)</b>	<b>(10,000)</b>	<b>(11,000)</b>
Issue of Share Capital	-	-	-	-
Inc/(Dec) in securities premium	-	-	-	-
Inc/(Dec) in Borrowings	7,019	(5,058)	4,500	1,000
Dividend paid	(1,139)	(728)	(676)	(813)
Interest paid	(1,491)	(1,731)	(1,513)	(1,663)
Others	(3,130)	238	-	-
<b>Cashflow from Financing Activities</b>	<b>1,259</b>	<b>(7,279)</b>	<b>2,310</b>	<b>(1,476)</b>
<b>Net Cashflow</b>	<b>(335)</b>	<b>(29)</b>	<b>634</b>	<b>(501)</b>
<b>Opening Cash &amp; Bank balance</b>	<b>597</b>	<b>289</b>	<b>255</b>	<b>889</b>
<b>Closing Cash &amp; Bank balance</b>	<b>262</b>	<b>260</b>	<b>889</b>	<b>387</b>
<b>Increase / (Decrease) in Cash &amp; cash equivalents</b>	<b>(335)</b>	<b>(29)</b>	<b>634</b>	<b>(501)</b>

Source: Company data, I-Sec research

**Table 4: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>ASSETS</b>				
<b>Current Assets</b>	<b>17,622</b>	<b>21,841</b>	<b>25,685</b>	<b>26,716</b>
<i>Cash &amp; cash eqv.</i>	<i>289</i>	<i>255</i>	<i>889</i>	<i>387</i>
<b>Current Liabilities &amp; Provisions</b>	<b>20,477</b>	<b>30,055</b>	<b>32,324</b>	<b>34,993</b>
<b>Net Current Assets</b>	<b>(2,855)</b>	<b>(8,214)</b>	<b>(6,639)</b>	<b>(8,278)</b>
<b>Investments</b>	<b>1,108</b>	<b>1,181</b>	<b>1,181</b>	<b>1,181</b>
<b>Total Fixed Assets</b>	<b>51,613</b>	<b>54,910</b>	<b>61,000</b>	<b>67,444</b>
<i>Capital Work-in-Progress</i>	<i>10,018</i>	<i>7,279</i>	<i>7,279</i>	<i>7,279</i>
Other non-current asset	983	1,118	1,118	1,118
<b>Total Assets</b>	<b>50,848</b>	<b>48,995</b>	<b>56,660</b>	<b>61,465</b>
<b>LIABILITIES</b>				
<b>Borrowings</b>	<b>19,624</b>	<b>14,565</b>	<b>19,065</b>	<b>20,065</b>
<i>long-term borrowings</i>	<i>17,045</i>	<i>14,079</i>	<i>18,579</i>	<i>19,579</i>
<i>short-term borrowings</i>	<i>2,579</i>	<i>486</i>	<i>486</i>	<i>486</i>
Deferred Tax Liability Net	2,611	2,656	2,656	2,656
Other Non-current Liabilities	1,007	127	127	127
Equity Share Capital	405	405	405	405
Reserves & Surplus	27,202	31,243	34,408	38,213
<b>Net Worth</b>	<b>27,606</b>	<b>31,647</b>	<b>34,812</b>	<b>38,617</b>
<b>Total Liabilities</b>	<b>50,848</b>	<b>48,995</b>	<b>56,660</b>	<b>61,465</b>

Source: Company data, I-Sec research

**Table 5: 5-stage DuPont analysis**
*(year ending March 31)*

<i>All figures in %</i>	FY20	FY21P	FY22E	FY23E
Tax Burden	0.8	0.9	0.7	0.7
Interest Burden	0.7	0.7	0.8	0.8
EBIT Margin	0.1	0.1	0.1	0.1
Asset Turnover	1.3	1.5	1.6	1.6
Financial Leverage	1.8	1.5	1.6	1.6
<b>ROE</b>	<b>8.2</b>	<b>14.0</b>	<b>11.6</b>	<b>12.6</b>

Source: Company data, I-Sec research

**Table 7: Key ratios**
*(Year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
EPS (Basic)	55.5	102.3	95.0	114.1
EPS (Adjusted)	55.5	102.3	95.0	114.1
Cash EPS	124.0	186.2	191.6	226.8
Dividend per share (DPS)	23.7	18.0	16.7	20.1
BVPS (Adjusted)	682.5	782.4	860.6	954.7
<b>Growth Ratios (%)</b>				
Total Op. Income (Sales)	-1.2	12.2	18.4	12.9
EBITDA	12.6	35.7	8.2	17.3
Net Income (Adjusted)	-22.3	84.2	-7.1	20.2
EPS (Adjusted)	-22.3	84.2	-7.1	20.2
Cash EPS	8.3	50.1	2.9	18.3
BVPS (Adjusted)	0.3	14.6	10.0	10.9
<b>Valuation Ratios (x)</b>				
P/E (Adjusted)	24.8	13.5	14.5	12.1
P/BV (Adjusted)	2.0	1.8	1.6	1.4
EV/EBITDA	10.5	7.2	7.0	6.1
EV/Sales	1.1	0.9	0.8	0.7
<b>Return/Profitability Ratios (%)</b>				
EBITDA Margin	10.6	12.9	11.8	12.2
Net Income Margin (Adjusted)	3.3	5.5	4.3	4.6
RoCE	10.8	14.3	14.0	14.7
RoNW	8.2	14.0	11.6	12.6
Dividend Payout Ratio	42.8	17.6	17.6	17.6
Dividend Yield	1.7	1.3	1.2	1.5
<b>Solvency/Wkg. Cap. Ratios (x)</b>				
Net D/E	0.7	0.5	0.5	0.5
Debt/EBITDA	2.7	1.5	1.8	1.6
EBIT/Interest	3.0	3.7	4.4	4.7
Current Ratio	0.9	0.7	0.8	0.8
Quick Ratio	0.4	0.4	0.4	0.4
Inventory (days)	49	54	52	49
Receivables (days)	36	44	43	40
Payables (days)	102	138	125	120

Source: Company data, I-Sec research

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