CEAT

BSE SENSEX	S&P CNX
52,323	15,691

Bloomberg	CEAT IN
Equity Shares (m)	40
M.Cap.(INRb)/(USDb)	55.8 / 0.8
52-Week Range (INR)	1763 / 835
1, 6, 12 Rel. Per (%)	2/12/-8
12M Avg Val (INR M)	402

Financials & valuations (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	76.1	88.1	101.9
EBITDA	9.8	9.5	12.9
EBITDA Margin (%)	12.9	10.8	12.7
Adj. PAT	4.6	3.3	5.3
EPS (INR)	114.3	81.9	132.0
EPS Gr. (%)	100.2	-28.3	61.2
BV/Sh. (INR)	820	890	1,010
Ratios			
RoE (%)	14.9	9.6	13.9
RoCE (%)	12.2	8.6	11.4
Payout (%)	16.9	14.7	9.1
Valuations			
P/E (x)	12.1	16.8	10.5
P/BV (x)	1.7	1.6	1.4
Div. Yield (%)	1.3	0.9	0.9
FCF Yield (%)	12.9	-3.9	4.4

CMP: INR1,380 TP: INR1,700 (+23%) Buy

Investing for bigger pie of the PCR/TBR segment

Targets to grow exports by 3x in five years | Gradual price hikes to dilute cost inflation

CEAT's senior management team presented (click here for the presentation) their roadmap for the future at its annual investor conference. It also showcased its strategy to gain a bigger share in India, grow its exports, and investing for growth without putting undue pressure on its Balance Sheet.

- **Demand recovery in the Replacement segment is seen in Jun'21. After five years of weak demand, it expects growth to pick-up as a base adjustment has occurred.**
- **It plans to maintain leadership in the 2W segment (at 28-30%) and expand dominance in PCR (to 20% from 13-15% currently). In T&B, it aims to increase its market share in TBR to 13-15% (from 8% currently and take it to similar levels as in the TBB segment).**
- **In PCR, its strategy to take its market share to 20% pivots on: a) ramping-up in premium sizes (over 15"), b) multiple platforms, and c) benefit of higher share with OEMs on brand visibility for replacement.**
- **In TBR tyres, its strategy to gain market share is driven by product and innovative services. CEAT's TBR tyre performance is comparable with the best, but is priced 1-2% lower than the market leader. The ongoing capacity addition would support these aspirations on market share.**
- **It has raised prices further in Apr-May'21 (~4%) and expects another price hike in Jun'21 to offset cost pressures (8-10% QoQ increase in 1QFY22).**
- **Due to a weak 1Q and capex plans, it expects debt to rise in FY22, but the same will be well under its limit of less than 1x equity and less than 3x EBITDA.**

- **Demand outlook:** Demand in 1QFY22 remains challenging, though there is some uptick in Replacement demand in Jun'21. The T&B segment is the least affected due to COVID-19, whereas PCR and Tractor have been hit the most. With a normal monsoon and positive farm indicators, demand for Tractor tyres is expected to bounce back. Exports continue to do well even in 1QFY22. Over the longer term, it expects demand growth to pick-up as the base adjustment has happened after weak OEM and Replacement demand in the last five years due to various factors.
- **Market share targets for the next 5 years:** It aims to maintain its leadership in the 2W segment (at 28-30%) and expand its dominance in PCR (to 20% from 13-15% at present). In T&B, it aims to increase its market share in TBR to 13-15% (from 8% currently; take it to a similar share it has in the TBB segment). Its focus on the Passenger segment remains. Considering the importance of the T&B segment for the purpose of scale and relevance, it aims to improve its market share in the TBR segment.
- **Consolidation in the 2W segment**: In 2Ws, it is looking at boosting market share by investing in its network, brand, and products (white spaces and innovation). On the OEM side, it would focus on Honda, where its market share is on the lower side (v/s 20-50% share with others). In e-2Ws, it enjoys over 50% share of the business with all players (including startups).

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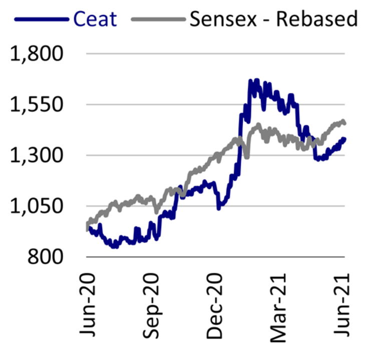
Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	46.8	46.8	46.7
DII	13.7	14.8	8.9
FII	27.0	24.5	28.2
Others	12.6	13.9	16.2

FII Includes depository receipts

Stock performance (one-year)



- **Aiming for 20% market share in PCR tyres:** In PCR, it gained ~3pp market share to 13-14% in FY21. Its strategy to raise its market share to 20% pivots on: a) ramping-up in premium sizes (over 15"), b) multiple platforms, and c) benefit of higher share with OEMs on brand visibility for replacement. In the last 12 months, contribution of bigger rim sizes has increased by 5% (to ~20%). With OEMs, it expects to gain 5pp market share (to 18-20%) over the next 18-24 months, based on orders/RFQs in hand. This will have a rub-off on brand visibility in the Replacement segment.
- **TBR tyres:** Its strategy to gain market share is driven by product and innovative services. CEAT's TBR tyre performance is comparable with the best, but is priced 1-2% lower than the market leader. It is working with fleet operators to demonstrate lower cost per km for its tyres. With a good product, it is changing the adverse perception of its brand in the T&D segment. The planned TBR capacity addition will support its market share targets.
- **Export target of 3x:** It is targeting a 3x increase in exports over the next five years (~INR10.65b in FY21). It is seeding the right markets, along with market-specific product development. It is focused on Europe (PCR, TBR, and OTR), Southeast Asia (2W tyres), and the US (OTR). It would be selling through a local distributor, who would be driving marketing.
- **Price hikes to dilute cost pressures:** It has raised prices further in Apr-May'21 (~4%) and expects another price hike in Jun'21 to offset cost pressures (8-10% QoQ increase in 1QFY22). It expects commodity prices to remain at elevated levels. Hence, margin would be lower in 1Q, but start improving from 2QFY22 onwards. It is working towards lowering costs by ~INR1.5b (implies a 1.5-1.7pp expansion on our FY22E revenue estimate) through scrap reduction, network redesign, power cost, factory efficiencies, opex cost, etc. It is working on increasing automation and digitization to improve efficiency/throughput.
- **Capex and debt:** Based on its recent announcement of TBR capacity addition of 190tpd for INR12b, project capex for FY22/FY23 is estimated to be INR10b/INR8b and maintenance capex would be INR1.75b p.a. As a result, it expects debt to rise in FY22, but the same will be well under its limit of less than 1x equity and less than 3x EBITDA.
- **ESG focus:** CEAT is targeting a reduction in its carbon footprint by CY30. It has set a target of 50% reduction in its carbon footprint by CY30. While product use (light weight, low rolling resistance, and increased retreadability) will contribute the lion's share to this target, it will also increase greener RM, green energy, recycling, and recovery rates. Considering 50-55% of RM are crude derivatives, a shift away to silica could result in higher cost.
- **Valuation and view:** The near-term outlook is challenging, impacted by demand weakness due to COVID-19 and sharp RM cost inflation. The latter will be gradually passed on over the next 2-3 quarters as demand returns once the pandemic ends. However, cyclical recovery in both OEMs and Replacement will enable faster absorption of new capacities and drive benefits of operating leverage. We expect revenue/EBITDA/PAT CAGR of ~16%/15%/7% over FY21-23E. Valuations at 10.5x FY23E consolidated EPS doesn't fully capture ramp-up of new capacities in an improving demand environment, resulting in a recovery in margin. We maintain our Buy rating with a TP of ~INR1,700/share (~13x Mar'23E consolidated EPS).

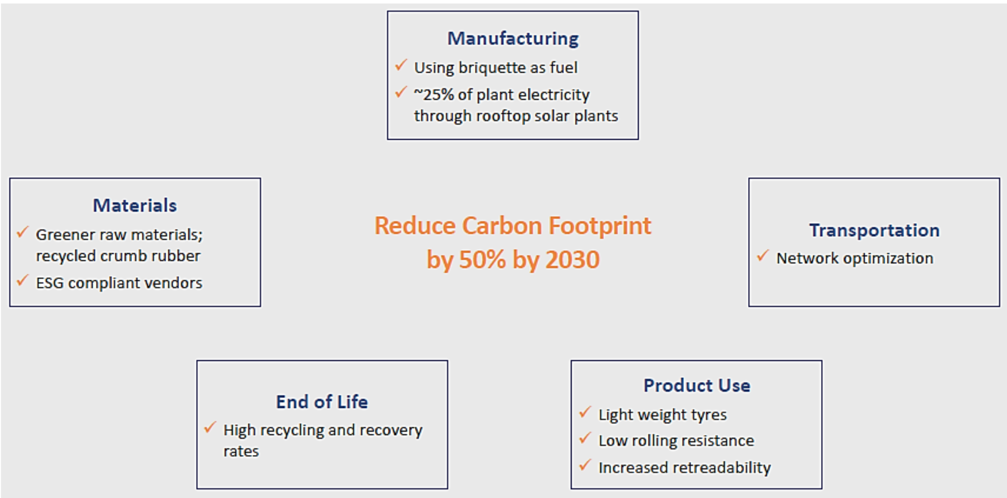
Exhibit 1: CEAT adding capacity to expand market share

Segment	Unit	FY21 Exit	FY22 Exit	FY23 Exit
Passenger Car Radial	Tyres / month	8,70,000	11,60,000	14,50,000
2/3 - Wheeler	Tyres / month	33,04,000	33,55,000	41,65,000
Truck and Bus Radial *	Tyres / month	1,00,000	1,20,000	1,56,000
Truck and Bus Bias	Tyres / month	1,45,000	1,45,000	1,45,000
Off-Highway (Bias + Radial)	Tonnes / day	165	200	225
LM / LCV	Tonnes / day	80	80	80
Sri Lanka	Tonnes / day	60	60	60

*Further 54,000 tyres/month of TBR capacity will be added post FY23

Source: Company

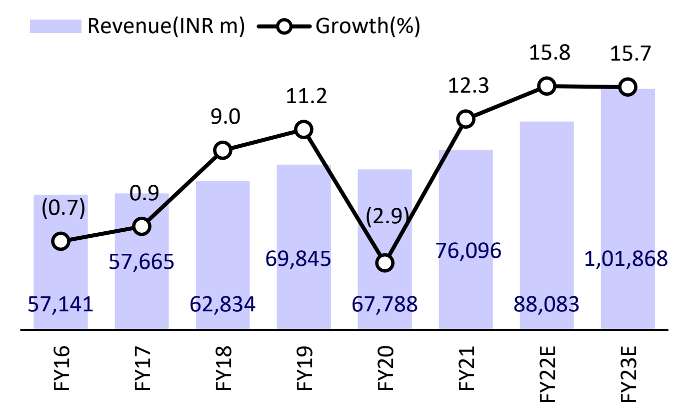
Exhibit 2: Targeting 50% reduction in carbon footprint by CY30



Source: Company

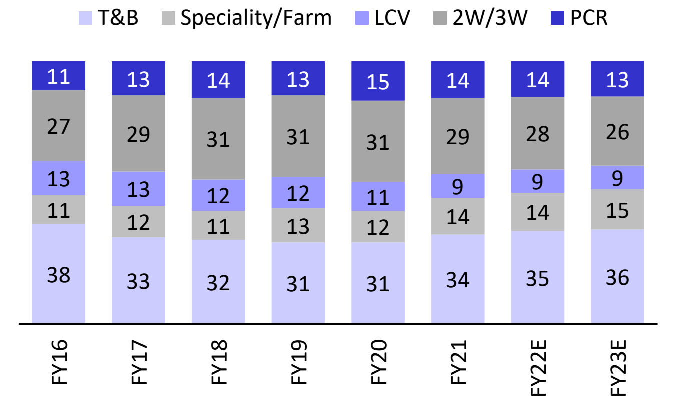
Story in charts

Exhibit 3: Revenue and growth trend



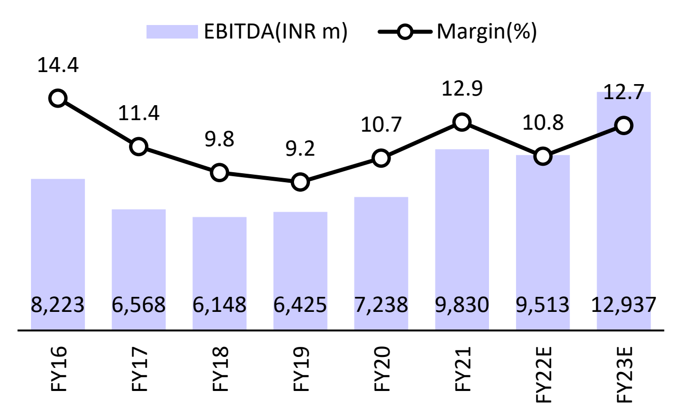
Source: MOFSL, Company

Exhibit 4: Key revenue segments



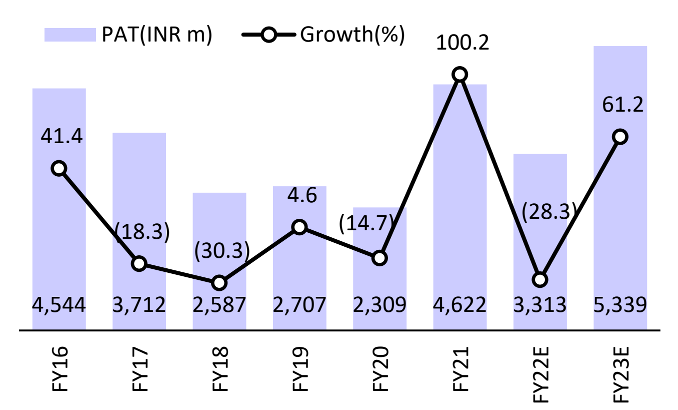
Source: MOFSL, Company

Exhibit 5: EBITDA and EBITDA margin trend



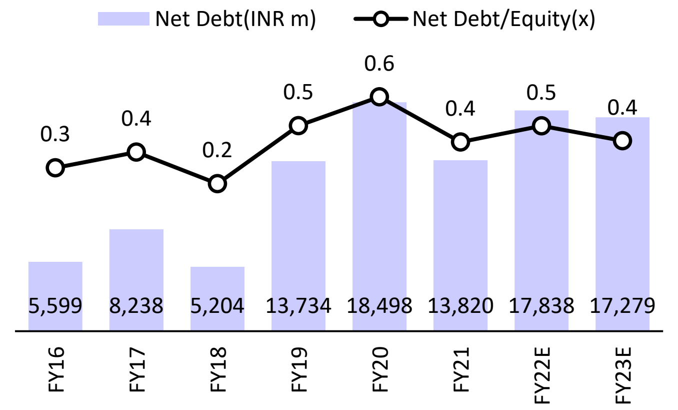
Source: MOFSL, Company

Exhibit 6: PAT and PAT growth trend



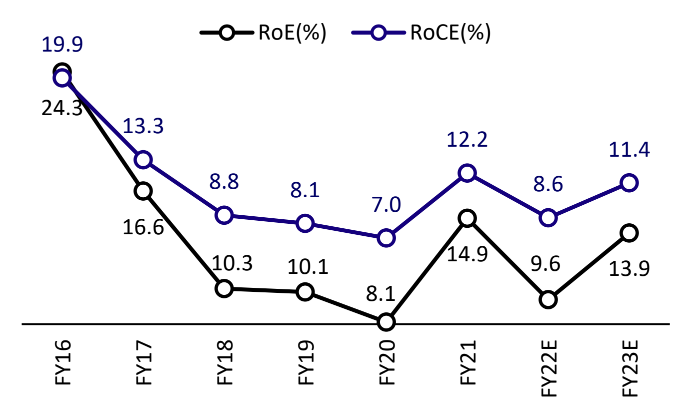
Source: MOFSL, Company

Exhibit 7: Trend in debt levels



Source: MOFSL, Company

Exhibit 8: Trend in return profile



Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement					(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Net Revenues from Ops	**69,845**	**67,788**	**76,096**	**88,083**	**1,01,868**
Change (%)	11.2	-2.9	12.3	15.8	15.7
EBITDA	**6,425**	**7,238**	**9,830**	**9,513**	**12,937**
Margin (%)	9.2	10.7	12.9	10.8	12.7
Depreciation	1,927	2,765	3,396	3,761	4,364
EBIT	**4,498**	**4,473**	**6,433**	**5,752**	**8,573**
Int. and Finance Charges	880	1,509	1,755	1,725	1,868
Other Income	390	205	138	180	240
PBT bef. EO Exp.	**4,008**	**3,169**	**4,816**	**4,207**	**6,945**
EO Items	-297	5	-341	0	0
PBT after EO Exp.	**3,711**	**3,174**	**4,476**	**4,207**	**6,945**
Total Tax	1,402	1,046	516	1,094	1,806
Tax Rate (%)	37.8	33.0	11.5	26.0	26.0
Minority Int./Share JV PAT	-213	-184	-361	-200	-200
Reported PAT	**2,522**	**2,312**	**4,320**	**3,313**	**5,339**
Adjusted PAT	**2,707**	**2,309**	**4,622**	**3,313**	**5,339**
Change (%)	4.6	-14.7	100.2	-28.3	61.2
Margin (%)	3.9	3.4	6.1	3.8	5.2

Consolidated Balance Sheet					(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Equity Share Capital	405	405	405	405	405
Total Reserves	27,257	28,675	32,758	35,586	40,440
Net Worth	**27,661**	**29,079**	**33,163**	**35,991**	**40,845**
Minority Interest	238	237	232	232	232
Total Loans	14,469	18,772	14,180	18,680	18,680
Deferred Tax Liabilities	2,198	2,744	2,800	2,800	2,800
Capital Employed	**44,566**	**50,832**	**50,376**	**57,703**	**62,557**
Gross Block	37,663	50,231	59,663	77,092	87,592
Less: Accum. Deprn.	5,868	8,633	12,029	15,790	20,154
Net Fixed Assets	**31,795**	**41,598**	**47,634**	**61,302**	**67,438**
Goodwill on Consolidation	0	0	0	0	0
Capital WIP	8,329	10,685	7,929	2,000	3,000
Total Investments	**1,814**	**1,837**	**2,101**	**2,101**	**2,101**
Curr. Assets, Loans and Adv.	**22,111**	**19,410**	**23,652**	**27,039**	**29,663**
Inventory	10,056	9,257	11,299	13,346	13,400
Account Receivables	7,064	6,744	9,216	8,446	9,768
Cash and Bank Balance	735	274	361	842	1,401
Loans and Advances	4,256	3,135	2,776	4,404	5,093
Curr. Liability and Prov.	**19,484**	**22,697**	**30,940**	**34,738**	**39,645**
Account Payables	10,529	11,948	19,478	21,526	24,364
Other Current Liabilities	7,566	9,114	9,921	11,451	13,243
Provisions	1,389	1,635	1,541	1,762	2,037
Net Current Assets	**2,627**	**-3,288**	**-7,288**	**-7,700**	**-9,982**
Appl. of Funds	**44,566**	**50,832**	**50,376**	**57,703**	**62,557**

E: MOSL estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)					
EPS	**66.9**	**57.1**	**114.3**	**81.9**	**132.0**
Cash EPS	114.6	125.4	198.2	174.9	239.9
BV/Share	683.8	718.9	819.8	889.8	1,009.8
DPS	12.0	12.0	18.0	12.0	12.0
Payout (%)	23.2	25.3	16.9	14.7	9.1
Valuation (x)					
P/E	20.6	24.2	12.1	16.8	10.5
P/BV	2.0	1.9	1.7	1.6	1.4
EV/Sales	1.0	1.1	0.9	0.8	0.7
EV/EBITDA	10.8	10.3	7.1	7.7	5.6
Dividend Yield (%)	0.9	0.9	1.3	0.9	0.9
Return Ratios (%)					
RoE	10.1	8.1	14.9	9.6	13.9
RoCE	8.1	7.0	12.2	8.6	11.4
RoIC	9.0	8.4	14.6	9.2	11.7
Working Capital Ratios					
Fixed Asset Turnover (x)	1.9	1.3	1.3	1.1	1.2
Asset Turnover (x)	1.6	1.3	1.5	1.5	1.6
Inventory (Days)	53	50	54	55	48
Debtor (Days)	37	36	44	35	35
Creditor (Days)	55	64	93	89	87
Leverage Ratio (x)					
Current Ratio	1.1	0.9	0.8	0.8	0.7
Interest Coverage Ratio	5.1	3.0	3.7	3.3	4.6
Net Debt/Equity	0.5	0.6	0.42	0.50	0.4

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	3,560	2,871	4,476	4,207	6,945
Depreciation	1,927	2,765	3,396	3,761	4,364
Interest and Finance Charges	880	1,509	1,755	1,545	1,628
Direct Taxes Paid	-808	-181	-512	-1,094	-1,806
(Inc.)/Dec. in WC	235	2,582	4,516	893	2,841
CF from Operations	**5,794**	**9,546**	**13,631**	**9,312**	**13,972**
Others	-267	17	-54	0	0
CF from Operating incl. EO	**5,527**	**9,563**	**13,577**	**9,312**	**13,972**
(Inc.)/Dec. in FA	-11,073	-11,183	-6,395	-11,500	-11,500
Free Cash Flow	**-5,547**	**-1,620**	**7,182**	**-2,188**	**2,472**
(Pur.)/Sale of Investments	320	9	-27	0	0
Others	236	419	241	180	240
CF from Investments	**-10,517**	**-10,755**	**-6,181**	**-11,320**	**-11,260**
Issue of Shares	0	0	0	0	0
Inc./(Dec.) in Debt	6,260	3,854	-5,677	4,500	0
Interest Paid	-889	-1,925	-1,628	-1,725	-1,868
Dividend Paid	-526	-1,139	-4	-485	-485
Others	0	0	0	200	200
CF from Fin. Activity	4,844	790	-7,309	2,489	-2,153
Inc./Dec. in Cash	**-146**	**-402**	**87**	**481**	**559**
Opening Balance	822	675	274	361	842
Closing Balance	**675**	**274**	**361**	**842**	**1,401**

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

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