

Company update and
earnings revision

Automobiles

Target price: Rs1,533

Earnings revision

(%)	FY22E	FY23E
Sales	↓ 1.3	↓ 0.6
EBITDA	↑ 3.8	↑ 4.1
EPS	↑ 6.7	↑ 7.3

Target price revision

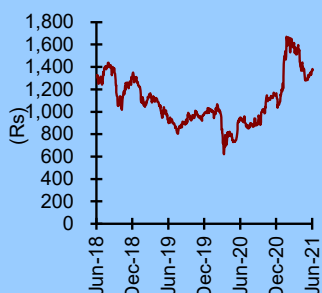
Rs1,533 from Rs1,432

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
FIs	23.9	23.9	27.3
Others	13.3	13.3	12.6

Source: BSE

Price chart



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INDIA

CEAT

ADD

Maintained

Rs1,385

Market share ambitions remain strong

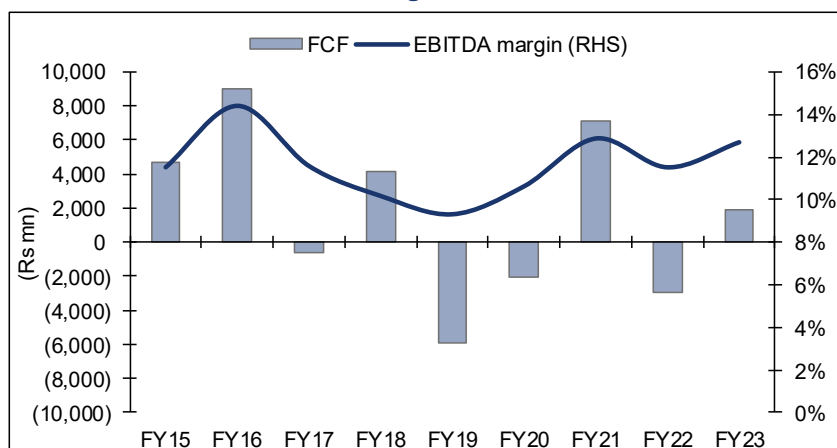
CEAT Tyres hosted its annual investor conference virtually to elucidate its long term growth plans, and strategies to achieve them.

Key takeaways from the event:

- Demand was impacted in Q1FY22 from covid 2nd wave and subsequent plant shutdowns across OEMs. Replacement segment witnessed ~20-40% decline QoQ in Apr'21/May'21. Truck segment were least impacted. June'21 has seen revival of replacement demand while OEM production continues to ramp modestly.
- CEAT has a leadership market share in 2W with aspiration to further raise the same to 30-35% market share vis-a-vis current 28-30%. CEAT's share of business with new generation electric 2W companies (e.g. Ola Electric, Tork) stands at ~50%.
- Management indicated strategic focus on PCR segment, with market share aspirations of 20% (next 5-years) from current 13-14%. In FY21, PCR segment market share grew from 10-11% to ~13-14%. Market share within OEM's in PCR is expected to reach 20% by FY23 from 15% in FY21, this could act as a catalyst to improving replacement market share.
- In the truck and bus segment, market share in TBR segment stood at ~7% while for TBB segment it is at ~13%. Management targets TBR market share to reach 13-15% in the next five years aided by new capacity additions. CEAT has benchmarked its product with peers on cost/km basis, and has found itself to be competitive. The strategy remains to keep pricing ~1-1.5% lower than peers while providing same operating metrics as peers.
- Management indicated exports will expand to EU region with PCR segment and then gradually enter with TBR segment as well. The company has entered South East Asia with Indonesia being a dominant 2W market. US and EU remain a target market for off-highway segments and other speciality products.
- Capex for FY22-23 is likely to be Rs18bn with major spends on new TBR capacity addition (3k tyres/day) along with balance capex for PCR capacity in Chennai plant and the second phase towards Nagpur plant expansion in 2W capacity. The company has expanded network touchpoints by 600-700 in FY21.
- CEAT has taken fixed cost saving initiatives and targets Rs1.5bn with 0.75bn savings realised in FY21 from employee costs, operational and power costs. Margin pressure in FY21 was due to higher manpower costs on new capacity expansions.
- Blended RM cost increased by 8-10% QoQ in Q1FY22. CEAT took cumulative price hike of ~4% in Apr'21/May'21 and is expected to take another hike at the end of Q1 to mitigate the impact. Current raw material inventory stands at ~30 days.

Market Cap	Rs56.1bn/US\$767mn	Year to Mar (Std)				
Reuters/Bloomberg	CEAT.BO/CEAT IN	FY20	FY21	FY22E	FY23E	
Shares Outstanding (mn)	40.5	Revenue (Rs mn)	67,479	75,728	88,483	100,632
52-week Range (Rs)	1669/729	Rec. Net Income (Rs mn)	2,246	4,136	3,474	4,662
Free Float (%)	53.2	Rec. EPS (Rs)	55.5	102.3	85.9	115.3
FII (%)	27.3	% Chg YoY	(22.3)	84.2	(16.0)	34.2
Daily Volume (US\$/'000)	7,688	P/E (x)	24.9	13.5	16.1	12.0
Absolute Return 3m (%)	(9.9)	CEPS (Rs)	124.0	186.2	183.4	229.2
Absolute Return 12m (%)	47.7	EV/E (x)	10.5	7.2	7.4	6.0
Sensex Return 3m (%)	5.5	Dividend Yield (%)	1.7	1.3	1.1	1.5
Sensex Return 12m (%)	58.3	RoCE (%)	10.8	14.3	13.0	14.8
		RoE (%)	8.2	14.0	10.5	12.8

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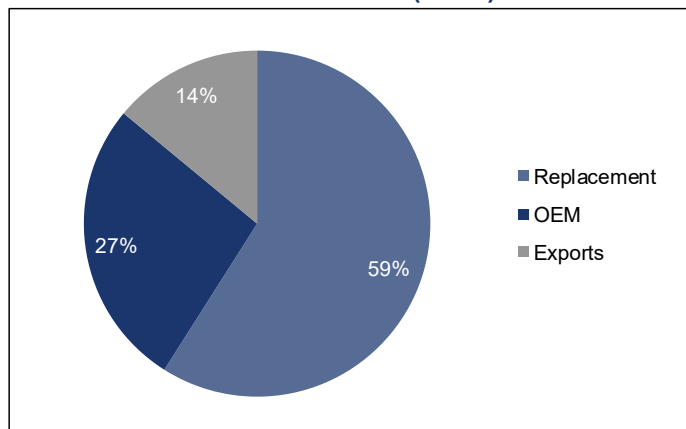
Chart 1: FCF and EBITDA margin trends

Source: Company data, I-Sec research

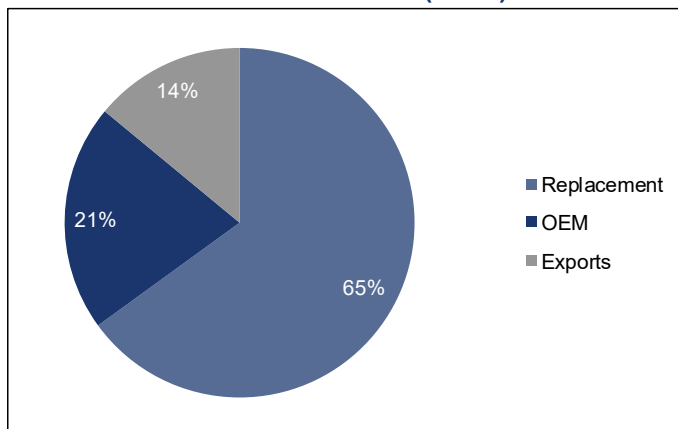
Table 1: Adding capacities to expand market share

Segment	Unit	FY21 Exit	FY22 Exit	FY23 Exit
Passenger Car Radial	Tyres / Month	8,70,000	11,60,000	14,50,000
2/3 - heeler	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

Source: Company data; *Further 54,000 tyres/month of TBR capacity will be added post FY23

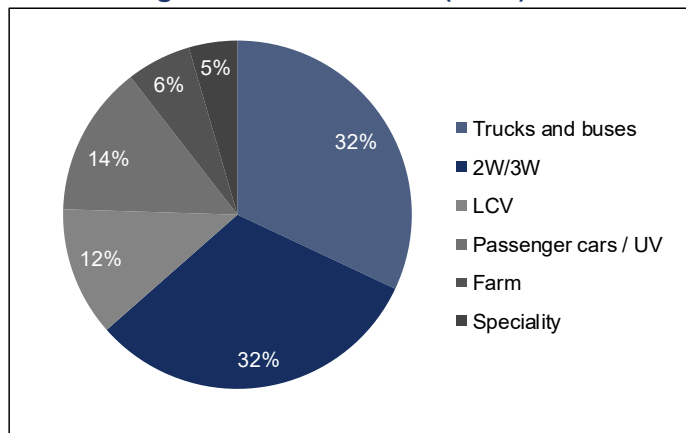
Chart 2: End-use revenue mix (FY20)

Source: Company presentation

Chart 3: End-use revenue mix (FY21)

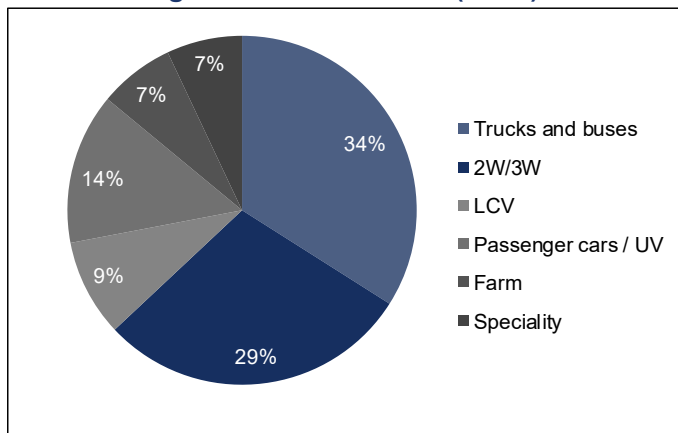
Source: Company presentation

Chart 4: Segmental revenue mix (FY20)



Source: Company presentation

Chart 5: Segmental revenue mix (FY21)



Source: Company presentation

Table 2: Earnings revision table (standalone)

(Rs mn)

	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	89,640	88,483	(1.3)	1,01,191	1,00,632	(0.6)
EBITDA	9,819	10,190	3.8	12,256	12,763	4.1
PAT	3,256	3,474	6.7	4,345	4,662	7.3
EPS (Rs)	80.5	85.9	6.7	107.4	115.3	7.3

Source: Company data, I-Sec research

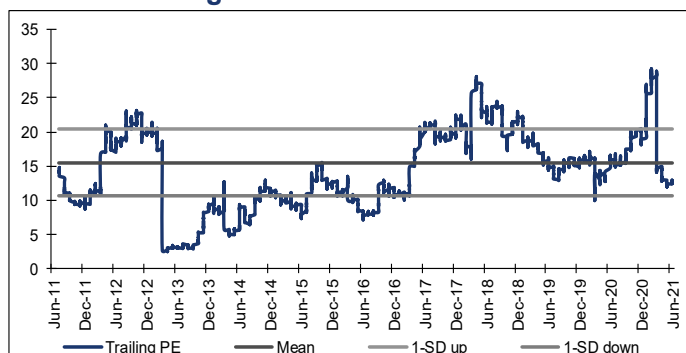
Valuation

We like CEAT's consistency in margins as growth rebounds; however, persisting commodity cost pressures, higher capex and lower pricing power raise concerns on margin sustenance. We revise our earnings for FY22E/ FY23E by 6.7/7.3%, respectively. We value CEAT on SoTP basis with target multiple for India business at 14x FY23E EPS and maintain **ADD** rating on the stock with a revised target price of Rs1,533 (earlier: Rs1,432).

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

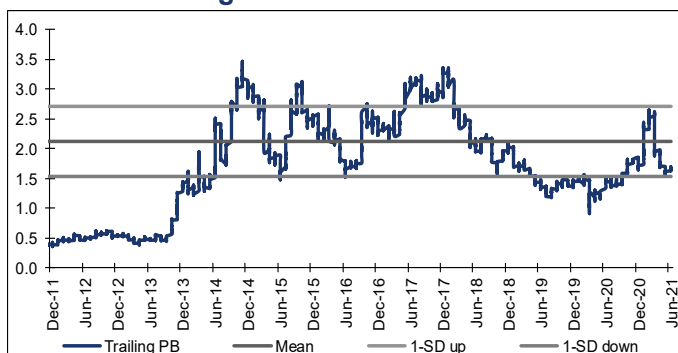
Key upside risk: Strong reduction in commodity prices leading to positive surprise in margins.

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 1: Profit and loss statement
(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Total Op. Income (Sales)	67,479	75,728	88,483	1,00,632
Operating Expenses	60,302	65,990	78,292	87,868
EBITDA	7,177	9,738	10,190	12,763
% margins	10.6%	12.9%	11.5%	12.7%
Depreciation & Amortisation	2,771	3,396	3,944	4,607
EBIT	4,405	6,342	6,246	8,156
Other Income	307	318	350	402
Gross Interest	1,491	1,731	1,634	1,898
PBT	3,222	4,930	4,962	6,660
Less: Exceptionals	298	341	-	-
PBT after Exceptionals	2,924	4,589	4,962	6,660
Less: Taxes	678	453	1,489	1,998
Less: Minority Interest	-	-	-	-
Add: Profit from Associates	-	-	-	-
Net Income (Reported)	2,246	4,136	3,474	4,662
Net Income (Adjusted)	2,246	4,136	3,474	4,662

Source: Company data, I-Sec research

Table 2: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
ASSETS				
Current Assets	17,622	21,841	25,520	28,973
Cash & cash eqv.	289	255	1,044	2,238
Current Liabilities & Provisions	20,477	30,055	31,928	33,431
Net Current Assets	(2,855)	(8,214)	(6,407)	(4,458)
Investments	1,108	1,181	1,181	1,181
Total Fixed Assets	51,613	54,910	61,966	65,859
Capital Work-in-Progress	10,018	7,279	7,279	7,279
Other non-current asset	983	1,118	1,118	1,118
Total Assets	50,848	48,995	57,858	63,699
LIABILITIES				
Borrowings	19,624	14,565	20,565	22,565
long-term borrowings	17,045	14,079	20,079	22,079
short-term borrowings	2,579	486	486	486
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	34,105	37,947
Net Worth	27,606	31,647	34,510	38,351
Total Liabilities	50,848	48,995	57,858	63,699

Source: Company data, I-Sec research

Table 3: 5-stage DuPont analysis
(year ending March 31)

All figures in %	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	1.5	1.6
Financial Leverage	1.8	1.5	1.7	1.7
ROE	8.2	14.0	10.5	12.8

Source: Company data, I-Sec research

Table 4: Cashflow statement
(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating cashflow before working capital changes	6,508	9,263	9,052	11,167
Net Working Capital Changes	3,814	5,324	(1,018)	(754)
Others	(639)	(1,075)	-	-
Operating Cashflow	9,683	13,512	8,034	10,413
Capital Commitments	(11,712)	(6,427)	(11,000)	(8,500)
Free Cashflow	(2,029)	7,085	(2,966)	1,913
Cashflow from Investing Activities	(11,277)	(6,262)	(11,000)	(8,500)
Issue of Share Capital	-	-	-	-
Inc/(Dec) in securities premium	-	-	-	-
Inc/(Dec) in Borrowings	7,019	(5,058)	6,000	2,000
Dividend paid	(1,139)	(728)	(611)	(821)
Interest paid	(1,491)	(1,731)	(1,634)	(1,898)
Others	(3,130)	238	-	-
Cashflow from Financing Activities	1,259	(7,279)	3,755	(718)
Net Cashflow	(335)	(29)	789	1,195
Opening Cash & Bank balance	597	289	255	1,044
Closing Cash & Bank balance	262	260	1,044	2,238
Increase / (Decrease) in Cash & cash equivalents	(335)	(29)	789	1,195

Source: Company data, I-Sec research

Table 5: Key ratios
(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (in Rs.)				
EPS (Basic)	55.5	102.3	85.9	115.3
EPS (Adjusted)	55.5	102.3	85.9	115.3
Cash EPS	124.0	186.2	183.4	229.2
Dividend per share (DPS)	23.7	18.0	15.1	20.3
BVPS (Adjusted)	682.5	782.4	853.1	948.1
Growth Ratios (%)				
Total Op. Income (Sales)	-1.2	12.2	16.8	13.7
EBITDA	12.6	35.7	4.6	25.2
Net Income (Adjusted)	-22.3	84.2	-16.0	34.2
EPS (Adjusted)	-22.3	84.2	-16.0	34.2
Cash EPS	8.3	50.1	-1.5	25.0
BVPS (Adjusted)	0.3	14.6	9.0	11.1
Valuation Ratios (x)				
P/E (Adjusted)	24.7	13.4	16.0	11.9
P/BV (Adjusted)	2.0	1.8	1.6	1.4
EV/EBITDA	10.4	7.2	7.4	5.9
EV/Sales	1.1	0.9	0.8	0.8

Return/Profitability Ratios (%)

EBITDA Margin	10.6	12.9	11.5	12.7
Net Income Margin (Adjusted)	3.3	5.5	3.9	4.6
RoCE	10.8	14.3	13.0	14.8
RoNW	8.2	14.0	10.5	12.8
Dividend Payout Ratio	42.8	17.6	17.6	17.6
Dividend Yield	1.7	1.3	1.1	1.5

Solvency/Wkg. Cap. Ratios (x)

Net D/E	0.7	0.5	0.6	0.5
Debt/EBITDA	2.7	1.5	2.0	1.8
EBIT/Interest	3.0	3.7	3.8	4.3
Current Ratio	0.9	0.7	0.8	0.9
Quick Ratio	0.4	0.4	0.4	0.4
Inventory (days)	49	54	52	51
Receivables (days)	36	44	43	40
Payables (days)	102	138	125	115

Source: Company data, I-Sec research

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