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Q4FY21 result concall
update and rating
revision

Automobiles

Target price: Rs1,432

Earnings revision

(%)	FY22E	FY23E
Sales	0.0	0.0
EBITDA	↓ 6.8	↓ 0.8
EPS	↓ 15.3	↓ 5.9

Target price revision

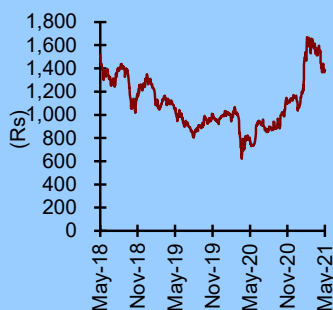
Rs1,432 from Rs1,663

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

ADD

Downgrade from Buy

Rs1,340

Margin pressures likely to intensify

CEAT's Q4FY21 performance was a beat on consensus expectations driven by faster than anticipated revenue growth (~46% YoY), driven by volume growth (~43%). On segmental basis the outperformance was led by PV/CV segments. These segments have started to witness growth moderation in Apr'21, we believe the same could continue till 1H. Lack of pricing power (big concern!) in the aftermarket segment was visible in 4Q as price hikes were limited to ~3% even as inputs costs rose sharply (up 22% through Q3FY21 to Q1FY22). On balance sheet side, consolidated debt fell by ~Rs5.1bn YoY to ~Rs14.2bn (FY20: ~Rs19.3bn). Margins are likely to decline (~200bps) in FY22 due to input cost inflation. Capex intensity has intensified (FY22E: Rs11.5bn), which is likely to halt FCF generation (~1% yield FY23E) and RoCE improvement for FY22E/FY23E. Downgrade to ADD.

Key highlights of the call:

- ▶ Revenue growth ~46% YoY to ~Rs23bn was driven by strongest growth in the TBR/PCR segments followed by 2W/ LCV segments.
- ▶ Current market share in 2W/3W is at 28-30%, while in PCR segment it has risen to 14-16% (up from 10-11% in FY20) with new customer additions (OEMs) along with availability of fresh PCR capacity amidst import restrictions.
- ▶ Blended RM cost increased by 12% QoQ (against decline of 4% YoY in FY21). Company was able to take only 3% blended price hike in 4Q due to competitive pressures. 1Q is likely to witness further ~10% RM cost inflation. Residual price increase of additional ~8% would be needed to mitigate RM impact.
- ▶ Company has cut down on discretionary spends (e.g. marketing expenses) to protect margins. They are likely to save spends w.r.t IPL sponsorship due to curtailment of the event.
- ▶ Specialty tyre business is operating at peak capacity in Q1FY22. Current capacity is 33MT per day and is expected to be ramped up to 45MT per day by H1FY22 and further to 55MT per day by FY22-end.
- ▶ PCR segment currently has a capacity of 25k tires per day of which only 10k tire capacity is operational. Company expects the Chennai plant ramp-up of 20k tires in phase-1 and 10k in phase-2 to be operational over the next two years.
- ▶ Investment of Rs12.1bn in capacity expansion at the Chennai plant to 190TPD (90k truck radial tires per month) will be incurred over FY22-FY26.
- ▶ Project capex for FY21 stood at Rs4.7bn while that for FY22 it is expected at Rs10bn; and maintenance capex of Rs1.5bn. Peak revenue potential of the current capacity is expected to reach Rs100bn by FY23E.

Market Cap	Rs54.2bn/US\$733mn	Year to Mar (Std)	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	CEAT.BO/CEAT IN	Revenue (Rs mn)	67,479	75,728	89,640	101,191
Shares Outstanding (mn)	40.5	Rec. Net Income (Rs mn)	2,246	4,136	3,256	4,345
52-week Range (Rs)	1669/729	Rec. EPS (Rs)	55.5	102.3	80.5	107.4
Free Float (%)	53.2	% Chg YoY	(22.3)	84.2	(21.3)	33.4
FII (%)	27.3	P/E (x)	24.1	13.1	16.6	12.5
Daily Volume (US\$/'000)	7,103	CEPS (Rs)	124.0	186.2	178.4	223.0
Absolute Return 3m (%)	(18.9)	EV/E (x)	10.2	7.0	7.6	6.2
Absolute Return 12m (%)	79.2	Dividend Yield (%)	1.8	1.3	1.1	1.4
Sensex Return 3m (%)	(3.4)	RoCE (%)	10.8	14.3	12.3	13.9
Sensex Return 12m (%)	56.2	RoE (%)	8.2	14.0	9.9	12.0

Please refer to important disclosures at the end of this report

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

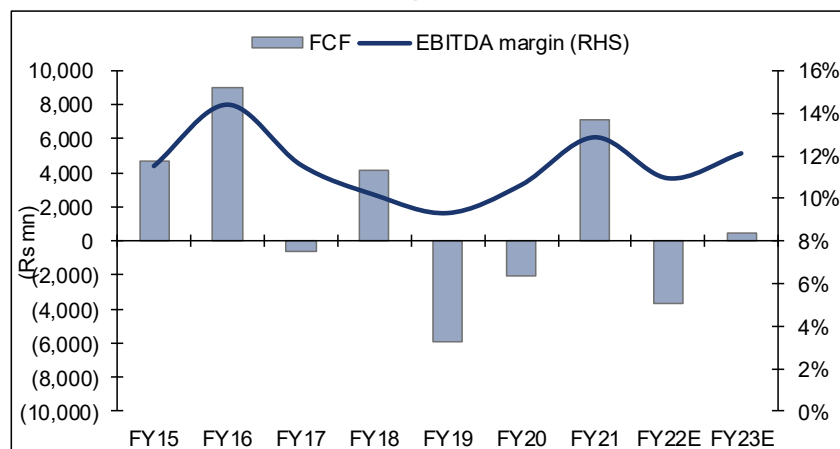
(Standalone)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Total operating income	22,790	15,236	49.6	22,125	3.0
Raw material costs	13,259	8,473	56.5	12,065	9.9
Employee costs	1,806	1,303	38.6	1,785	1.2
Other expenditures	5,172	3,561	45.2	5,017	3.1
Total operating expenses	20,237	13,337	51.7	18,867	7.3
EBITDA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

Source: Company data, I-Sec research

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

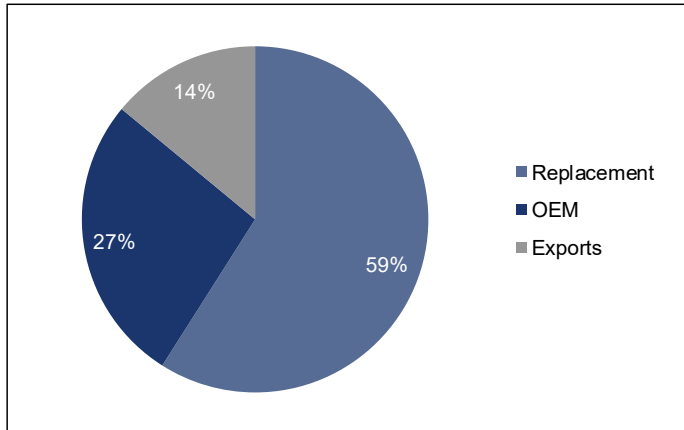
	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	89,640	89,640	0.0	1,01,191	1,01,191	(0.0)
EBITDA	10,536	9,819	(6.8)	12,358	12,256	(0.8)
PAT	3,841	3,256	(15.3)	4,617	4,345	(5.9)
EPS (Rs)	95.0	80.5	(15.3)	114.1	107.4	(5.9)

Source: Company data, I-Sec research

Chart 1: FCF and EBITDA margin trends

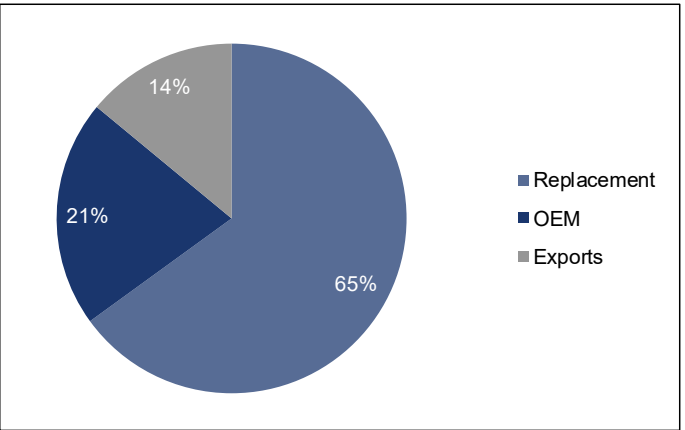
Source: Company data, I-Sec research

Chart 2: End-use revenue mix (FY20)



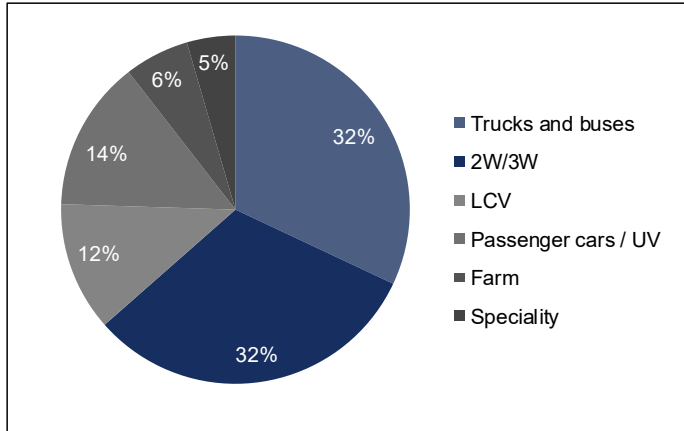
Source: Company presentation

Chart 3: End-use revenue mix (FY21)



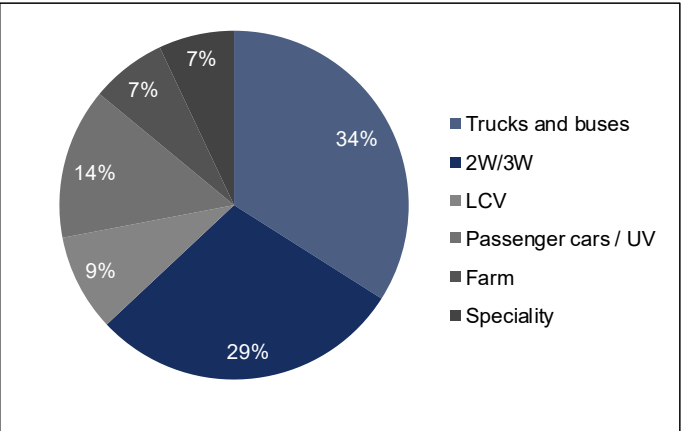
Source: Company presentation

Chart 4: Segmental revenue mix (FY20)



Source: Company presentation

Chart 5: Segmental revenue mix (FY21)



Source: Company presentation

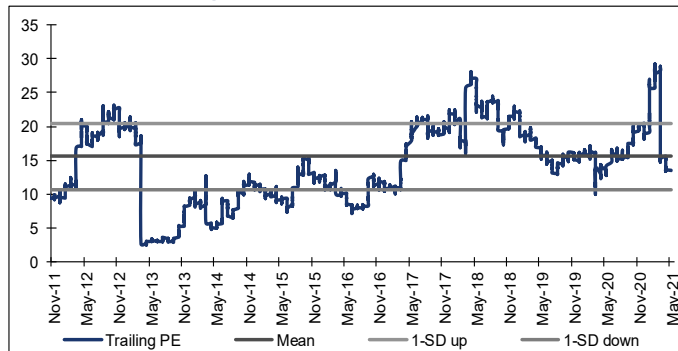
Valuation

We like CEAT's growth rebound story with consistency in margins; however, we are circumspect on future sustenance due to rising commodity cost pressures, higher capex and lower pricing power. We cut our earnings for FY22E/ FY23E by 15.3/6% respectively. The stock now trades at ~1% FCF yield on FY23E basis. We value CEAT on SoTP basis with the target multiple for India business at 14x (earlier: 15x) FY23E EPS. Factoring-in the continued challenges, we downgrade the stock to **ADD** (from **Buy**) with a revised target price of Rs1,432 (earlier: Rs1,663).

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

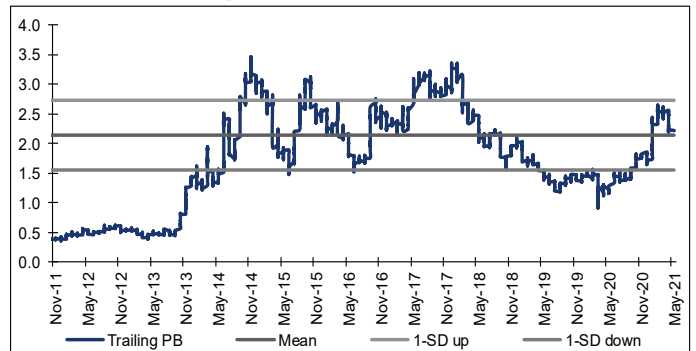
Key upside risk: Strong reduction in commodity prices leading to positive surprise on margins.

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
Total Op. Income (Sales)	67,479	75,728	89,640	1,01,191
Operating Expenses	60,302	65,990	79,822	88,935
EBITDA	7,177	9,738	9,819	12,256
<i>% margins</i>	<i>10.6%</i>	<i>12.9%</i>	<i>11.0%</i>	<i>12.1%</i>
Depreciation & Amortisation	2,771	3,396	3,961	4,674
EBIT	4,405	6,342	5,857	7,583
Other Income	307	318	375	458
Gross Interest	1,491	1,731	1,581	1,833
PBT	3,222	4,930	4,652	6,208
Less: Exceptionals	298	341	-	-
PBT after Exceptionals	2,924	4,589	4,652	6,208
Less: Taxes	678	453	1,396	1,862
Less: Minority Interest	-	-	-	-
Add: Profit from Associates	-	-	-	-
Net Income (Reported)	2,246	4,136	3,256	4,345
Net Income (Adjusted)	2,246	4,136	3,256	4,345

Source: Company data, I-Sec research

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

	FY20	FY21P	FY22E	FY23E
ASSETS				
Current Assets	17,622	21,841	25,254	26,678
<i>Cash & cash eqv.</i>	<i>289</i>	<i>255</i>	<i>458</i>	<i>350</i>
Current Liabilities & Provisions	20,477	30,055	32,324	34,993
Net Current Assets	(2,855)	(8,214)	(7,070)	(8,316)
Investments	1,108	1,181	1,181	1,181
Total Fixed Assets	51,613	54,910	62,449	69,276
<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
Total Assets	50,848	48,995	57,678	63,259
LIABILITIES				
Borrowings	19,624	14,565	20,565	22,565
<i>long-term borrowings</i>	<i>17,045</i>	<i>14,079</i>	<i>20,079</i>	<i>22,079</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	33,926	37,506
Net Worth	27,606	31,647	34,330	37,911
Total Liabilities	50,848	48,995	57,678	63,259

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	1.7	1.7
ROE	8.2	14.0	9.9	12.0

Source: Company data, I-Sec research

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

	FY20	FY21P	FY22E	FY23E
Operating cashflow before working capital changes	6,508	9,263	8,798	10,852
Net Working Capital Changes	3,814	5,324	(942)	1,138
Others	(639)	(1,075)	-	-
Operating Cashflow	9,683	13,512	7,857	11,990
Capital Commitments	(11,712)	(6,427)	(11,500)	(11,500)
Free Cashflow	(2,029)	7,085	(3,643)	490
Cashflow from Investing Activities	(11,277)	(6,262)	(11,500)	(11,500)
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)	(573)	(765)
Interest paid	(1,491)	(1,731)	(1,581)	(1,833)
Others	(3,130)	238	-	-
Cashflow from Financing Activities	1,259	(7,279)	3,846	(598)
Net Cashflow	(335)	(29)	203	(108)
Opening Cash & Bank balance	597	289	255	458
Closing Cash & Bank balance	262	260	458	350
Increase / (Decrease) in Cash & cash equivalents	(335)	(29)	203	(108)

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (in Rs.)				
EPS (Basic)	55.5	102.3	80.5	107.4
EPS (Adjusted)	55.5	102.3	80.5	107.4
Cash EPS	124.0	186.2	178.4	223.0
Dividend per share (DPS)	23.7	18.0	14.2	18.9
BVPS (Adjusted)	682.5	782.4	848.7	937.2
Growth Ratios (%)				
Total Op. Income (Sales)	-1.2	12.2	18.4	12.9
EBITDA	12.6	35.7	0.8	24.8
Net Income (Adjusted)	-22.3	84.2	-21.3	33.4
EPS (Adjusted)	-22.3	84.2	-21.3	33.4
Cash EPS	8.3	50.1	-4.2	25.0
BVPS (Adjusted)	0.3	14.6	8.5	10.4
Valuation Ratios (x)				
P/E (Adjusted)	24.1	13.1	16.6	12.5
P/BV (Adjusted)	2.0	1.7	1.6	1.4
EV/EBITDA	10.2	7.0	7.6	6.2
EV/Sales	1.1	0.9	0.8	0.8

Return/Profitability Ratios (%)

EBITDA Margin	10.6	12.9	11.0	12.1
Net Income Margin (Adjusted)	3.3	5.5	3.6	4.3
RoCE	10.8	14.3	12.3	13.9
RoNW	8.2	14.0	9.9	12.0
Dividend Payout Ratio	42.8	17.6	17.6	17.6
Dividend Yield	1.8	1.3	1.1	1.4

Solvency/Wkg. Cap. Ratios (x)

Net D/E	0.7	0.5	0.6	0.6
Debt/EBITDA	2.7	1.5	2.1	1.8
EBIT/Interest	3.0	3.7	3.7	4.1
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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