

May 03, 2011
BUY
PRICE ₹ 95
TARGET ₹ 141

Auto Ancillary

EARLIER RECO

Accumulate	
Price	₹ 112
Target	₹ 141
Date	Apr 06, 2011

SHARE HOLDING (%)

Promoters	48.84
FII	2.41
FI / MF	18.42
Body Corporates	6.74
Public & Others	23.59

STOCK DATA

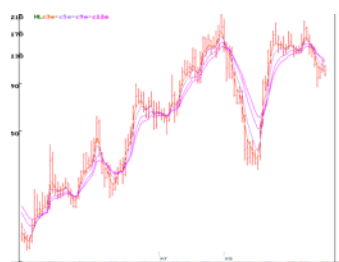
Reuters Code	CEAT.BO
Bloomberg Code	CEAT IN
BSE Code	500878
NSE Symbol	CEATLTD
Market Capitalization*	₹ 3,253.1 mn US\$73.1 mn
Shares Outstanding*	34.24 Mn
52 Weeks (H/L)	₹ 195/86
Avg. Daily Volume (6m)	72,694 Shares

Price Performance (%)

1M	3M	6M
(4)	(8)	(36)

200 Days EMA: ₹ 124

*On fully diluted equity shares



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During Q4 FY11, Ceat Ltd reported 26.6% y-o-y growth in Revenues however it incurred Net loss due to sustained rise in price of Natural rubber which is the key input material. We attended the conference call held by the Management of the Company to discuss Q4 FY11 financial performance and outlook. Key takeaways of the results and telecon are:-

Standalone Analysis

- During Q4 FY11, its Standalone Net sales grew 26.6% y-o-y to ₹ 9,782.8 mn while EBITDA declined by 63.5% y-o-y to ₹ 145.8 mn.
- EBITDA margins declined sharply to 1.5% as compared to 5.2% in Q4 FY10 mainly due to sharp rise in price of Raw Materials which rose to 78.9% as percentage of sales in Q4 FY11 as compared to 72.2% in Q4 FY10.
- Ceat incurred a Net loss of ₹ 118.6 mn as against Net Profit of ₹ 153.3 mn achieved during Q4 FY10. The increased operating expenses and doubling of interest expenses due to increased Debt dented net profit growth significantly.
- During FY11, Ceat's Net sales grew 23.6% y-o-y to ₹ 34,589.3 mn while EBITDA declined 53.7% y-o-y to ₹ 1,409.0 mn. EBITDA margins declined sharply to 4.1% during FY11 as against 10.8% in FY10. Depreciation expense grew 27.1% y-o-y to ₹ 341.7 mn. Its PBT (incl. other income) declined by 82.8% y-o-y to ₹ 410.6 mn. Its PAT (after adjusting for extraordinary items) declined 81.3% y-o-y to ₹ 301.0 mn.

Consolidated Analysis

- During FY11, Ceat's Consolidated Net sales grew 26.4% y-o-y to ₹ 36,023.9 mn while EBITDA declined 50.9% y-o-y to ₹ 1,527.4 mn.
- EBITDA margins declined sharply to 4.2% during FY11 as against 10.9% in FY10. Ceat's depreciation expense grew 30.7% y-o-y to ₹ 359.4 mn.
- Its PBT (incl other income) declined by 79.7% y-o-y to ₹ 496.8 mn. Its PAT (after adjusting for extraordinary items) declined 78.9% y-o-y to ₹ 342.8 mn.

OUTLOOK & VALUATION

Ceat Ltd is part of the RPG group and is the fourth largest tyre manufacturer in India. It has facilities in Bhandup and Nashik and recently set up Radial Tyre Greenfield facility in Halol, Gujarat. With huge growth expected in Auto sector, the OEM's and the replacement market are expected to grow significantly during the next few years. During the last few quarters, Ceat has been impacted due to rising costs of Natural rubber which is a key input material for manufacturing of tyres.

In FY11, Ceat's Consolidated Revenues increased 26.4% YoY and APAT declined by 78.9% YoY. We have reduced our bottomline estimates marginally and we believe improving product mix and expected fall in rubber prices during 2H FY12 would improve margins significantly. We expect its Revenues and APAT to grow by 17.3% & 181.1% respectively in FY12E; and by 16.3% & 30.0% respectively in FY13E. We initiated coverage on Ceat Ltd and recommended investors to ACCUMULATE the stock at levels of ₹ 112 for initial target price of ₹ 141. At CMP of ₹ 95, we change our rating from ACCUMULATE to BUY for initial target price of ₹ 141.(3.9x FY13E EPS).

KEY FINANCIALS (Consolidated)

Y/E Mar.	Revenue (₹ mn)	APAT (₹ mn)	AEPS (₹)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/Sales (x)
FY10	28,504.3	1,624.8	47.4	NA	2.0	23.2	25.8	0.11
FY11	36,023.9	264.6	10.0	(78.9)	9.5	6.9	5.2	0.09
FY12E	42,240.7	963.5	28.1	181.1	3.4	11.5	13.2	0.08
FY13E	49,130.7	1,252.5	36.6	30.0	2.6	13.7	15.1	0.07

Conference Call Update:-

- During FY11, Ceat's profitability have been severely impacted due to continued rise in Natural rubber prices. Natural rubber prices constitute approximately 50.0% of the total cost of production. Ceat incurred Net loss during Q4 FY11 primarily due to higher costs associated with increase in Natural rubber prices.
- Ceat has been raising prices of finished goods to pass on rise in rubber prices. During FY 2011, Ceat increased prices by approximately 20.0%. However the rate of increase in prices of finished goods have been outpaced by the rate of increase in Natural rubber prices. During Q4 FY11, Ceat went for 5.0% price rise across categories however the cost of Raw Materials during the same period rose 11.0% on q-o-q basis.
- Ceat expects prices of Natural rubber prices to stay at current levels for the next one to two quarters post which prices are expected to decline. The Company expects to have another price rise by May end or early June 2011 which would again be close to 5.0%.
- During the year Ceat consolidated the results of its subsidiary Associated CEAT Holdings Company Pvt Ltd. The subsidiary generated topline of approximately ₹ 3,090 mn with PBT of ₹ 310 mn. It has been able to generate PBT margins of 10.0% owing to its ability to pass on increase material costs more easily in Srilankan market.
- For expanding its international exposure, Ceat acquired global rights of brand 'Ceat' from Italian tyre maker Pirelli in 2010. Ceat expects its exports revenue to increase by 50.0% from ₹ 6 bn to ₹ 9 bn by FY 2013.
- During Q4 FY11, Ceat commenced commercial production from its Halol facility for Radial Tyres. During the next one year, Ceat expects to increase the utilization from this plant at optimum levels. Radial Tyres being high margin products, Ceat expects sharp margin improvement going forward owing to increasing shift in its product mix.
- Until now Ceat hasn't had significant market share in Passenger Car (PC) market (3.0% share) which is highly radialized market. With Halol capacity ramping up, Ceat expects to increase its presence in this high margin PC market which would see sharp improvements in overall margins for the Company.

QUARTERLY STATEMENT (Standalone)

₹ mn

Y/E March	Q4FY10	Q3FY11	Q4FY11
Net sales	7,728.3	8,867.7	9,782.8
Growth %	33.5	24.8	26.6
Total Expense	7,415.9	8,538.3	9,863.4
EBITDA	399.1	414.6	145.8
Growth %	(29.5)	(14.4)	(63.5)
Margin %	5.2	4.7	1.5
Interest	105.8	178.6	228.9
Depreciation	78.8	82.9	97.7
Other Income	0.9	-	1.6
PBT	215.4	153.1	(179.2)
Margin %	2.8	1.7	(1.8)
Tax	62.1	24.8	(60.6)
Rate %	28.8	16.2	33.8
APAT	153.3	128.3	(118.6)
Non-Recurring Item	-	-	-
RPAT	153.3	128.3	(118.6)
Margin %	2.0	1.4	(1.2)

PROFIT & LOSS STATEMENT (Cons.)

₹ mn

Y/E March	FY10	FY11	FY12E	FY13E
Net Sales	28,504.3	36,023.9	42,240.7	49,130.7
Other Op Income	410.7	392.9	380.2	417.6
Raw Mat. Consumed	18,917.7	26,750.5	30,580.4	35,427.0
Staff Cost	1,963.3	2,136.4	2,596.5	2,985.9
Other Exp	4,738.1	6,002.5	6,819.3	7,927.7
Misc. Expenditure	-	-	-	-
Total Expenditure	25,619.2	34,889.4	39,996.3	46,340.7
PBIDT	3,295.7	1,527.4	2,624.6	3,207.6
Interest	572.8	674.8	870.4	1,020.4
Depreciation	274.9	359.4	365.9	382.4
PBT incl OI	2,448.0	418.6	1,388.3	1,804.7
Tax	796.3	144.2	424.8	552.3
ExtraOrdinary Items	-	78.2	-	-
PAT	1,651.8	274.4	963.5	1,252.5
Minority Interest	27.0	9.8	-	-
APAT	1,624.8	342.8	963.5	1,252.5

BALANCE SHEET STATEMENT (Cons.)

₹ mn

As on 31 st March	FY10	FY11	FY12E	FY13E
Share Capital	342.4	342.4	342.4	342.4
Warrants	-	60.5	60.5	60.5
Reserves & Surplus	5,949.6	6,132.0	6,902.8	7,904.8
Net Worth	6,292.1	6,534.9	7,305.7	8,307.7
Preference Cap	8.9	2.4	2.4	2.4
Minority Interest	104.1	-	-	-
Secured Loans	3,256.6	7,025.4	8,525.4	8,525.4
Unsecured Loans	3,479.7	3,479.7	3,479.7	3,479.7
Total Loan funds	6,736.3	10,505.1	12,005.1	12,005.1
Deferred Tax Liability	204.0	255.6	255.6	255.6
Capital Employed	13,345.4	17,298.0	19,568.8	20,570.8
Net Block	7,975.9	14,864.3	16,498.4	17,116.0
CWIP	2,340.1	340.1	340.1	340.1
Goodwill	32.8	204.8	204.8	204.8
Investments	434.2	429.6	429.6	429.6
Inventories	4,172.0	5,869.4	5,445.8	5,823.6
Sundry Debtors	3,903.3	4,897.8	5,207.8	6,057.2
Cash & Bank Bal	1,409.8	489.0	1,061.0	1,904.5
Loans and Adv	1,098.3	1,307.0	1,307.0	1,307.0
Current Assets	10,583.4	12,563.2	13,021.6	15,092.3
Curr Liab & Prov	8,021.0	11,104.0	10,925.6	12,612.0
Net Current Assets	2,562.4	1,459.2	2,095.9	2,480.3
Total Assets	13,345.4	17,298.0	19,568.8	20,570.8

FINANCIAL RATIO STATEMENT (Cons.)

Y/E March	FY10	FY11	FY12E	FY13E
Growth (%)				
Net Sales	13.4	26.4	17.3	16.3
APAT	NA	(78.9)	181.1	30.0
EBITDA	510.7	(53.7)	71.8	22.2
Profitability (%)				
EBITDA Margin	11.4	4.2	6.2	6.5
Adj. PAT Margin	5.6	0.9	2.3	2.5
ROCE	23.2	6.9	11.5	13.7
ROE	25.8	5.2	13.2	15.1
Per Share Data (Rs.)				
Adj. EPS	47.4	10.0	28.1	36.6
Adj. CEPS	56.9	20.5	38.8	47.7
BVPS	91.9	190.8	213.3	242.6
Valuations (X)				
PER	2.0	9.5	3.4	2.6
P/BV	1.0	0.5	0.4	0.4
EV / EBITDA	2.6	8.7	5.4	4.8
EV / Net sales	0.3	0.4	0.3	0.3
Mcap / Net sales	0.11	0.09	0.08	0.07
Turnover Days				
Debtors days	45	45	45	45
Creditors days	61	69	65	60
Gearing Ratio				
Total Debt to Equity	1.1	1.6	1.6	1.4

Source : Company, Sushil Finance Research Estimates

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Please Note that our technical calls are totally independent of our fundamental calls.

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