

CEAT

Promoters likely to raise stake

According to a press release with BSE, Ceat (CEAT) is considering to allot convertible warrants on a preferential basis to its promoters. We believe this development would improve investor sentiments on the back of promoters' confidence in the prospects of the company. Earlier, in September 2010, CEAT had issued 1,712,170 convertible warrants on a preferential basis to its promoters; however, they are yet to be converted. CEAT's promoters have also been steadily increasing their stake in the company to capitalize on the sharp fall in the company's stock price post the substantial increase in raw-material prices, which had impacted the company's profitability. Promoters have already hiked their stake from 48.47% in March 2010 to 50.2% as of September 2011. We estimate this stake to further increase to 52.6% upon the conversion of warrants issued in September 2010 (due for conversion in March 2012).

Operating performance set to improve: CEAT is ramping up its radial capacity at the Halol plant to 150TPD, which is likely to be fully operational by 1QFY2013. As a result, we expect the company's top line to witness a 21.4% CAGR over FY2011-13E. With the completion of the proposed expansion and availability of additional radial capacity, product mix is also set to turn favorable, which is expected to fetch better margins for CEAT. Additionally, pricing action (~10% in 1HFY2012) and decline in raw-material prices (down 20% from the peak) are expected to result in a 100bp margin expansion in FY2013. Therefore, we expect the company's bottom line to report a 60.9% CAGR over FY2011-13E.

Outlook and valuation: We expect CEAT to report continuous improvement in its operating performance, led by improving utilization at its Halol plant and a gradual decline in raw-material prices. Consequently, we estimate CEAT to post an EPS of ₹20.8 in FY2013E. At ₹83, CEAT is trading at 4x FY2013 earnings. **We continue to maintain our Buy recommendation on the stock with a target price of ₹104, valuing it at 5.0x FY2013E earnings.** We believe monetization of surplus land at Bhandup will further act as a positive trigger for the stock.

Key financials

| Y/E March (₹ cr) | FY2010 | FY2011 | FY2012E | FY2013E |
|-------------------|--------------|--------------|--------------|--------------|
| Net sales | 2,807 | 3,469 | 4,403 | 5,111 |
| % chg | 18.6 | 23.6 | 26.9 | 16.1 |
| Net profit | 165 | 28 | 13 | 71 |
| % chg | - | (83.3) | (52.3) | 443.0 |
| EBITDA (%) | 10.5 | 3.1 | 3.9 | 5.0 |
| EPS (₹) | 48.3 | 8.0 | 3.8 | 20.8 |
| P/E (x) | 1.8 | 12.7 | 21.6 | 4.0 |
| P/BV (x) | 0.5 | 0.4 | 0.4 | 0.4 |
| RoE (%) | 29.6 | 4.3 | 2.0 | 10.9 |
| RoCE (%) | 21.9 | 4.9 | 5.8 | 9.0 |
| EV/Sales (x) | 0.3 | 0.3 | 0.3 | 0.3 |
| EV/EBITDA (x) | 2.5 | 10.9 | 8.5 | 5.8 |

Source: Company, Angel Research

BUY

| | |
|--------------|------|
| CMP | ₹83 |
| Target Price | ₹104 |

| | |
|-------------------|-----------|
| Investment Period | 12 Months |
|-------------------|-----------|

| Stock Info | |
|--------------------|---------|
| Sector | Tyre |
| Market Cap (₹ cr) | 284 |
| Beta | 0.8 |
| 52 Week High / Low | 123/66 |
| Avg. Daily Volume | 59,123 |
| Face Value (₹) | 10 |
| BSE Sensex | 16,038 |
| Nifty | 4,831 |
| Reuters Code | CEAT.BO |
| Bloomberg Code | CEAT@IN |

| Shareholding Pattern (%) | |
|--------------------------|------|
| Promoters | 50.2 |
| MF / Banks / Indian Fls | 22.9 |
| FII / NRIs / OCBs | 2.0 |
| Indian Public / Others | 24.9 |

| Abs. (%) | 3m | 1yr | 3yr |
|----------|-------|--------|-------|
| Sensex | (5.4) | (17.9) | 76.0 |
| CEAT | 9.6 | (34.3) | 127.2 |

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Profit and Loss Statement

| Y/E March (₹ cr) | FY08 | FY09 | FY10 | FY11 | FY12E | FY13E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Gross sales | 2,603 | 2,611 | 2,990 | 3,752 | 4,762 | 5,528 |
| Less: Excise duty | 275 | 245 | 183 | 283 | 359 | 417 |
| Net sales | 2,328 | 2,366 | 2,807 | 3,469 | 4,403 | 5,111 |
| Total operating income | 2,328 | 2,366 | 2,807 | 3,469 | 4,403 | 5,111 |
| % chg | 9.1 | 1.7 | 18.6 | 23.6 | 26.9 | 16.1 |
| Total Expenditure | 2,133 | 2,343 | 2,511 | 3,361 | 4,231 | 4,856 |
| Net raw materials | 1,528 | 1,799 | 1,869 | 2,594 | 3,247 | 3,714 |
| Other Mfg costs | 205 | 211 | 253 | 307 | 392 | 454 |
| Personnel | 141 | 159 | 190 | 208 | 266 | 309 |
| Other | 258 | 175 | 200 | 252 | 326 | 378 |
| EBITDA | 194 | 23 | 296 | 107 | 172 | 256 |
| % chg | 41.0 | (88.1) | 1,178.1 | (63.7) | 60.3 | 48.5 |
| (% of Net sales) | 8.3 | 1.0 | 10.5 | 3.1 | 3.9 | 5.0 |
| Depreciation & Amortization | 33 | 26 | 27 | 34 | 66 | 70 |
| EBIT | 161 | (2) | 269 | 73 | 106 | 185 |
| % chg | 51.1 | - | - | (72.8) | 44.9 | 74.5 |
| (% of Net sales) | 6.9 | (0.1) | 9.6 | 2.1 | 2.4 | 3.6 |
| Interest & other Charges | 66 | 84 | 72 | 100 | 138 | 146 |
| Other Income | 102 | 49 | 42 | 60 | 50 | 58 |
| (% of PBT) | 74.8 | (134.1) | 17.6 | 156.4 | 284.5 | 59.4 |
| Recurring PBT | 197 | (37) | 239 | 33 | 17 | 98 |
| % chg | 223.9 | - | - | (86.1) | (47.4) | 457.8 |
| Extraordinary Items | 60 | (0) | (0) | (5) | - | - |
| Tax | 49 | (21) | 74 | 11 | 4 | 26 |
| (% of PBT) | 35.6 | 57.1 | 31.0 | 28.5 | 25.0 | 27.0 |
| PAT | 149 | (16) | 165 | 22 | 13 | 71 |
| Adj. PAT | 88 | (16) | 165 | 28 | 13 | 71 |
| % chg | 111.5 | - | - | (83.3) | (52.3) | 443.0 |
| (% of Net sales) | 3.8 | (0.7) | 5.9 | 0.8 | 0.3 | 1.4 |
| Basic EPS (₹) | 43.4 | (4.7) | 48.2 | 6.5 | 3.8 | 20.8 |
| Fully Diluted EPS (₹) | 25.8 | (4.6) | 48.3 | 8.0 | 3.8 | 20.8 |
| % chg | 182.1 | - | - | (83.3) | (52.3) | 443.0 |

Balance Sheet

| Y/E March (₹ cr) | FY08 | FY09 | FY10 | FY11 | FY12E | FY13E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| SOURCES OF FUNDS | | | | | | |
| Equity Share Capital | 34 | 34 | 34 | 34 | 34 | 34 |
| Reserves & Surplus | 479 | 454 | 594 | 615 | 608 | 658 |
| Shareholders' Funds | 513 | 488 | 629 | 649 | 642 | 692 |
| Total Loans | 478 | 645 | 654 | 1,019 | 1,319 | 1,394 |
| Deferred Tax Liability | 27 | 16 | 20 | 24 | 24 | 24 |
| Total Liabilities | 1,018 | 1,150 | 1,303 | 1,692 | 1,985 | 2,110 |
| APPLICATION OF FUNDS | | | | | | |
| Gross Block | 1,214 | 1,234 | 1,256 | 1,882 | 2,201 | 2,390 |
| Less: Acc. Depreciation | 428 | 459 | 487 | 520 | 587 | 657 |
| Net Block | 787 | 775 | 769 | 1,361 | 1,615 | 1,733 |
| Capital Work-in-Progress | 3 | 20 | 234 | 123 | 110 | 72 |
| Investments | 10 | 43 | 59 | 87 | 79 | 95 |
| Current Assets | 772 | 819 | 1,032 | 1,216 | 1,417 | 1,663 |
| Cash | 42 | 202 | 140 | 48 | 62 | 90 |
| Loans & Advances | 81 | 79 | 109 | 132 | 176 | 204 |
| Other | 649 | 538 | 782 | 1,036 | 1,179 | 1,369 |
| Current liabilities | 554 | 507 | 790 | 1,094 | 1,237 | 1,452 |
| Net Current Assets | 218 | 312 | 241 | 121 | 181 | 211 |
| Mis. Exp. not written off | - | - | - | - | - | - |
| Total Assets | 1,018 | 1,150 | 1,303 | 1,692 | 1,985 | 2,110 |

Cash Flow Statement

| Y/E March (₹ cr) | FY08 | FY09 | FY10 | FY11 | FY12E | FY13E |
|----------------------------------|--------------|-------------|--------------|--------------|--------------|--------------|
| Profit before tax | 137 | (37) | 239 | 39 | 17 | 98 |
| Depreciation | 33 | 26 | 27 | 34 | 66 | 70 |
| Change in working capital | 108 | (44) | 252 | 162 | 3 | (26) |
| Less: Other income | 226 | (163) | 204 | 99 | (167) | (186) |
| Direct taxes paid | 49 | (21) | 74 | 11 | 4 | 26 |
| Cash Flow from Operations | 3 | 128 | 241 | 124 | 249 | 302 |
| (Inc.)/Dec. in Fixed Assets | (95) | (36) | (237) | (515) | (307) | (150) |
| (Inc.)/Dec. in Investments | 118 | (33) | (16) | (28) | 7 | (16) |
| (Inc.)/Dec. in loans and adv. | 17 | 3 | (8) | 15 | (99) | (28) |
| Other income | 102 | 49 | 42 | 60 | 50 | 58 |
| Cash Flow from Investing | 143 | (16) | (218) | (468) | (349) | (136) |
| Issue of Equity | (11) | - | - | - | - | - |
| Inc./(Dec.) in loans | (15) | 168 | 9 | 365 | 300 | 75 |
| Dividend paid (Incl. Tax) | 16 | - | - | 16 | 8 | 20 |
| Others | (135) | (119) | (93) | (129) | (194) | (234) |
| Cash Flow from Financing | (145) | 48 | (84) | 252 | 114 | (139) |
| Inc./(Dec.) in Cash | 1 | 160 | (61) | (92) | 14 | 28 |
| Opening Cash balance | 41 | 42 | 202 | 140 | 48 | 62 |
| Closing Cash balance | 42 | 202 | 140 | 48 | 62 | 90 |

Key Ratios

| Y/E March | FY08 | FY09 | FY10 | FY11 | FY12E | FY13E |
|-----------------------------------|-------|-------|-------|-------|-------|-------|
| Valuation Ratio (x) | | | | | | |
| P/E (on FDEPS) | 1.9 | - | 1.8 | 12.7 | 21.6 | 4.0 |
| P/CEPS | 2.3 | 29.8 | 1.5 | 4.6 | 3.6 | 2.0 |
| P/BV | 0.6 | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 |
| Dividend yield (%) | 4.8 | 0.0 | 4.8 | 2.4 | 6.0 | 6.0 |
| EV/Sales | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| EV/EBITDA | 3.7 | 29.6 | 2.5 | 10.9 | 8.5 | 5.8 |
| EV / Total Assets | 0.7 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 |
| Per Share Data (₹) | | | | | | |
| EPS (Basic) | 43.4 | (4.7) | 48.2 | 6.5 | 3.8 | 20.8 |
| EPS (fully diluted) | 25.8 | (4.6) | 48.3 | 8.0 | 3.8 | 20.8 |
| Cash EPS | 35.4 | 2.8 | 55.0 | 18.0 | 23.1 | 41.4 |
| DPS | 4.0 | 0.0 | 4.0 | 2.0 | 5.0 | 5.0 |
| Book Value | 149.9 | 142.6 | 183.6 | 189.6 | 187.6 | 202.2 |
| Dupont Analysis | | | | | | |
| EBIT margin | 6.9 | (0.1) | 9.6 | 2.1 | 2.4 | 3.6 |
| Tax retention ratio | 0.6 | 0.4 | 0.7 | 0.7 | 0.8 | 0.7 |
| Asset turnover (x) | 2.8 | 2.5 | 2.8 | 2.6 | 2.6 | 2.7 |
| RoIC (Post-tax) | 12.3 | (0.1) | 18.5 | 3.9 | 4.7 | 7.2 |
| Cost of Debt (Post Tax) | 8.8 | 6.4 | 7.7 | 8.6 | 8.9 | 7.8 |
| Leverage (x) | 0.8 | 0.8 | 0.8 | 1.0 | 1.6 | 1.8 |
| Operating RoE | 15.2 | (5.5) | 26.8 | (0.9) | (2.0) | 6.0 |
| Returns (%) | | | | | | |
| RoCE (Pre-tax) | 16.9 | (0.2) | 21.9 | 4.9 | 5.8 | 9.0 |
| Angel RoIC (Pre-tax) | 16.7 | (0.3) | 24.4 | 4.7 | 5.8 | 9.6 |
| RoE | 19.8 | (2.8) | 29.6 | 4.3 | 2.0 | 10.9 |
| Turnover ratios (x) | | | | | | |
| Asset Turnover (Gross Block) | 2.0 | 1.9 | 2.3 | 2.2 | 2.2 | 2.2 |
| Inventory / Sales (days) | 44 | 43 | 41 | 51 | 52 | 52 |
| Receivables (days) | 45 | 48 | 45 | 44 | 46 | 46 |
| Payables (days) | 80 | 78 | 81 | 96 | 94 | 94 |
| WC cycle (ex-cash) (days) | 15 | 22 | 14 | 9 | 8 | 9 |
| Solvency ratios (x) | | | | | | |
| Net debt to equity | 0.8 | 0.8 | 0.7 | 1.4 | 1.8 | 1.7 |
| Net debt to EBITDA | 2.2 | 17.3 | 1.5 | 8.2 | 6.8 | 4.7 |
| Interest Coverage (EBIT/Interest) | 2.4 | (0.0) | 3.7 | 0.7 | 0.8 | 1.3 |

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Disclosure of Interest Statement

| Disclosure of Interest Statement | CEAT |
|--|------|
| 1. Analyst ownership of the stock | No |
| 2. Angel and its Group companies ownership of the stock | Yes |
| 3. Angel and its Group companies' Directors ownership of the stock | Yes |
| 4. Broking relationship with company covered | No |

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

| Ratings (Returns) : | Buy (> 15%) | Accumulate (5% to 15%) | Neutral (-5 to 5%) |
|---------------------|---------------------|------------------------|--------------------|
| | Reduce (-5% to 15%) | Sell (< -15%) | |