CEAT

The worst is over; profitability to look up

Q3FY12 Result Update

January 24, 2012

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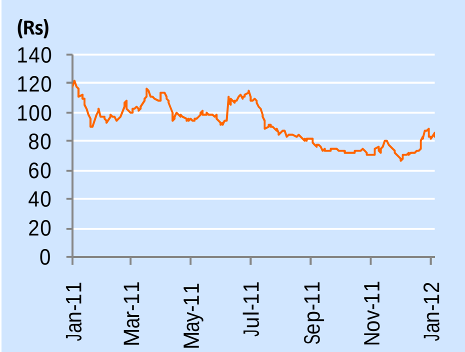
Rating	**Accumulate**
Price	Rs83
Target Price	Rs101
Implied Upside	21.7%
Sensex	16,996
Nifty	5,127

(Prices as on January 24, 2012)

Trading data			
Market Cap. (Rs bn)			2.8
Shares o/s (m)			34.0
3M Avg. Daily value (Rs m)			12.5
Major shareholders			
Promoters			50.16%
Foreign			2.01%
Domestic Inst.			15.86%
Public & Other			31.97%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	16.8	(23.0)	(31.7)
Relative	8.8	(13.7)	(20.5)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2013	19.3	9.8	*97.0*
2014	28.8	NA	*NA*

Price Performance (RIC: CEAT.BO, BB: CEAT IN)



Source: Bloomberg

- **Higher interest and depreciation charges impacts profitability**: CEAT reported 19.0% YoY growth in its top-line at Rs10.6bn, mainly led by 14.2% YoY increase in average realisations/kg. Volumes in tonnage terms were flat YoY, due to a 23-day strike at the Nasik Plant in October 2011 (impact of ~4,000Tonnes QoQ). Recipe cost/kg increased by ~2.5% QoQ to Rs169/kg. Despite higher raw material cost, EBITDA margin was flat QoQ on account of 20bps QoQ savings in the employee expenses. However, on a YoY basis, EBITDA grew by 45.1% YoY and EBITDA margins improved 200bps to 5.6%. Due to higher interest outgo on account of increased working capital loans and depreciation expenses (capex at the Halol facility), PBT declined by 53.0% YoY to Rs35m. As a result, PAT for the quarter declined by 52.3% to Rs24m.

- **Conference call highlights:** There was a 23-day strike at the Nashik plant in October 2011, leading to a loss of Rs800m on the turnover. Halol capacity currently stands at 130TPD which would increase to 150TPD by FY12E end. Debt on the books stood at Rs11bn, out of which Rs5.5bn pertains to short-term debt. The management expects the Natural Rubber prices to remain stable.

- **Rubber prices likely to soften further**: Natural Rubber prices have declined by ~10% in the last one month to Rs190/kg currently, from an average price of Rs215/kg in Q2FY12. We have assumed rubber prices at Rs198/kg for FY13E.

- **Worst over; profitability likely to look up**: With rubber prices expected to remain stable over the next couple of quarters on account of higher supply, we expect the tyre companies to report better profitability starting Q4FY12E. With valuations, at 0.4x FY13E P/BV already at trough, we see limited downside from the current levels. Maintain **'Accumulate',** with a target price of Rs101, based on 0.5x FY13E P/BV.

Key financials (Y/e March)	**2011**	**2012E**	**2013E**	**2014E**
Revenues (Rs m)	35,162	44,177	50,063	54,495
Growth (%)	*24.2*	*25.6*	*13.3*	*8.9*
EBITDA (Rs m)	1,434	1,892	3,182	3,682
PAT (Rs m)	326	(167)	661	988
EPS (Rs)	9.5	(4.9)	19.3	28.8
Growth (%)	*(79.8)*	*N.A.*	*N.A.*	*49.4*
Net DPS (Rs)	2.0	—	1.0	1.5

Profitability & Valuation	**2011**	**2012E**	**2013E**	**2014E**
EBITDA margin (%)	*4.1*	*4.3*	*6.4*	*6.8*
RoE (%)	*5.1*	*(2.6)*	*10.0*	*13.3*
RoCE (%)	*5.2*	*4.8*	*9.4*	*10.8*
EV / sales (x)	0.4	0.3	0.3	0.2
EV / EBITDA (x)	8.8	7.2	4.1	3.4
PE (x)	8.8	(17.1)	4.3	2.9
P / BV (x)	0.4	0.5	0.4	0.4
Net dividend yield (%)	*2.4*	*—*	*1.2*	*1.8*

Source: Company Data; PL Research

Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	**10,654**	**8,953**	***19.0***	**11,180**	**32,617**	**25,154**	***29.7***
Raw Material	7,790	6,564	*18.7*	8,278	24,713	18,226	*35.6*
% of Net Sales	*73.1*	*73.3*		*74.0*	*75.8*	*72.5*	
Salaries & Wages	539	540	*-0.2*	595	1,700	1,586	*7.2*
% of Net Sales	*5.1*	*6.0*		*5.3*	*5.2*	*6.3*	
Other Exp.	1,724	1,435	*20.1*	1,696	5,084	4,079	*24.6*
% of Net Sales	*16.2*	*16.0*		*15.2*	*15.6*	*16.2*	
Total Expenditure	10,053	8,538	*17.7*	10,568	31,497	23,891	*31.8*
EBITDA	**602**	**415**	***45.1***	**612**	**1,120**	**1,263**	***-11.3***
EBITDA Margin (%)	*5.6*	*4.6*	*21.9*	*5.5*	*3.4*	*5.0*	
Depreciation	188	83	*126.3*	173	517	244	*112.1*
Net interest	381	179	*113.3*	359	1,082	431	*150.9*
Non Operative Income	2	—		3	9	2	*283.3*
Exceptional	—	78		—	32	78	
PBT	**35**	**75**	***(53.0)***	**83**	**(502)**	**512**	***N.A.***
Tax Total	11	25	*(54.5)*	25	(165)	170	*N.A.*
Tax Rate (%)	*32.0*	*33.0*		*30.0*	*32.9*	*33.2*	
Reported Profit	**24**	**50**	***(52.3)***	**58**	**(337)**	**342**	***N.A.***
Adj. PAT	**24**	**128**	***(81.3)***	**58**	**(305)**	**420**	***N.A.***

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Sale Tonnage (MT)	46,000	45,500	*1.1*	50,000	146,000	132,500	*10.2*
Realisation in Rs per Kg	224.7	196.8	*14.2*	223.6	223.4	189.8	*17.7*
Recipe (RM) cost (Rs per Kg)	169.4	144.3	*17.4*	165.6	169.3	137.6	*23.1*

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	**35,162**	**44,177**	**50,063**	**54,495**
Raw Material Expenses	25,920	33,125	36,595	39,718
Gross Profit	9,243	11,052	13,468	14,776
Employee Cost	2,041	2,297	2,603	2,779
Other Expenses	5,768	6,863	7,683	8,315
EBITDA	**1,434**	**1,892**	**3,182**	**3,682**
Depr. & Amortization	342	709	788	832
Net Interest	660	1,463	1,468	1,393
Other Income	(74)	(17)	18	18
Profit before Tax	**357**	**(298)**	**945**	**1,475**
Total Tax	110	(98)	283	487
Profit after Tax	**248**	**(199)**	**661**	**988**
Ex-Od items / Min. Int.	(78)	(32)	—	—
Adj. PAT	**326**	**(167)**	**661**	**988**
Avg. Shares O/S (m)	**34.3**	**34.3**	**34.3**	**34.3**
EPS (Rs.)	**9.5**	**(4.9)**	**19.3**	**28.8**

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	6,492	6,324	6,952	7,888
Total Debt	10,189	11,170	10,570	10,070
Other Liabilities	241	241	241	241
Total Liabilities	**17,004**	**17,736**	**17,763**	**18,200**
Net Fixed Assets	14,845	15,636	16,048	16,217
Goodwill	—	—	—	—
Investments	865	905	935	965
Net Current Assets	1,211	1,195	780	1,018
Cash & Equivalents	*479*	*337*	*391*	*540*
Other Current Assets	*11,677*	*14,301*	*15,802*	*17,152*
Current Liabilities	*10,945*	*13,443*	*15,413*	*16,674*
Other Assets	—	—	—	—
Total Assets	**16,922**	**17,736**	**17,763**	**18,200**

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	1,167	452	1,934	1,755
C/F from Investing	(5,661)	(1,574)	(1,279)	(1,106)
C/F from Financing	3,572	982	(600)	(500)
Inc. / Dec. in Cash	(921)	(141)	54	149
Opening Cash	1,400	479	337	391
Closing Cash	479	337	391	540
FCFF	(5,011)	(2,620)	718	731
FCFE	(1,360)	(1,639)	118	231

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	**10,009**	**10,783**	**11,180**	**10,654**
EBITDA	**146**	**(93)**	**612**	**602**
% of revenue	*1.5*	*(0.9)*	*5.5*	*5.6*
Depr. & Amortization	98	157	173	188
Net Interest	229	342	359	381
Other Income	2	4	3	2
Profit before Tax	**(179)**	**(621)**	**83**	**35**
Total Tax	(60)	(201)	25	11
Profit after Tax	**(119)**	**(419)**	**58**	**24**
Adj. PAT	**(119)**	**(387)**	**58**	**24**

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	24.2	25.6	13.3	8.9
EBITDA (%)	(52.9)	31.9	68.2	15.7
PAT (%)	(79.8)	(151.4)	(495.3)	49.4
EPS (%)	(79.8)	(151.4)	(495.3)	49.4
Profitability				
EBITDA Margin (%)	4.1	4.3	6.4	6.8
PAT Margin (%)	0.9	(0.4)	1.3	1.8
RoCE (%)	5.2	4.8	9.4	10.8
RoE (%)	5.1	(2.6)	10.0	13.3
Balance Sheet				
Net Debt : Equity	1.5	1.7	1.5	1.2
Net Wrkng Cap. (days)	(22)	(19)	(25)	(23)
Valuation				
PER (x)	8.8	(17.1)	4.3	2.9
P / B (x)	0.4	0.5	0.4	0.4
EV / EBITDA (x)	8.8	7.2	4.1	3.4
EV / Sales (x)	0.4	0.3	0.3	0.2
Earnings Quality				
Eff. Tax Rate	30.7	33.0	30.0	33.0
Other Inc / PBT	0.8	(5.6)	1.9	1.2
Eff. Depr. Rate (%)	1.8	3.3	3.5	3.5
FCFE / PAT	(417.6)	979.5	17.8	23.4

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Tonnage (MT)	180,225	197,225	222,225	244,225
Realization / kg	195	224	225	223
Recipe cost / kg	144	168	165	163

Source: Company Data, PL Research.

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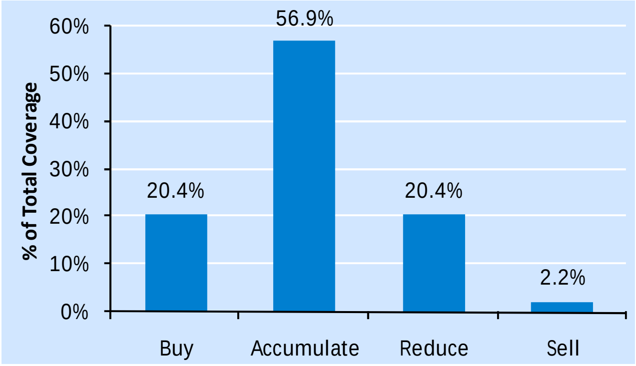
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly