

VISIT UPDATE

SMALL CAP

Share Data

Reuters code	CEAT.BO
Bloomberg code	CEAT IN
Market cap. (US\$ mn)	79
6M avg. daily turnover (US\$ mn)	0.6
Issued shares (mn)	34.2

Performance (%) 1M 3M 12M

Absolute	9	(25)	(35)
Relative	3	(20)	(39)

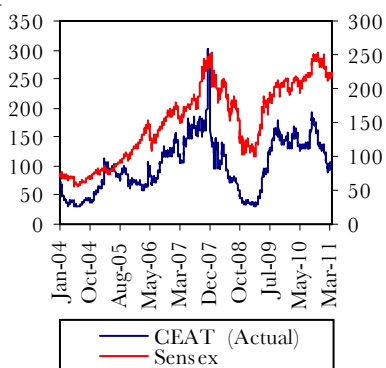
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	14.0	20.0
+/- (%)	(70.2)	42.5
PER (x)	7.4	5.2
PBV (x)	0.5	0.5
Dividend/Yield (%)	1.0	1.9
EV/Sales (x)	0.3	0.3
EV/EBITDA (x)	9.0	7.4

Major shareholders (%)

Promoters	48
FII's	1
MF's	12
BFSI's	9
Public & Others	30

Relative performance



Ceat

Not Rated

Price: Rs 104

BSE Index: 18,943

28 March 2011

Input costs continue to play spoilsport

We met with Ceat's management; following are key takeaways:

- Demand in the commercial vehicle replacement segment has picked up and is expected to remain strong in the coming months.
- With rubber prices continuously scaling new peaks, Ceat does not expect improvement in its operating performance in the near term.
- To counter the increasing pressure from increasing input prices, the company is focusing on improving its presence in other tyre categories like two-wheelers, which have robust volumes and relative ease in passing on input cost pressures, thereby providing better margins. Currently, the company is outsourcing its requirements for two-wheeler tyres.
- Ceat has completed brownfield expansion of 35 tonnes per day (tpd) at its Nasik plant, which now has total capacity of ~200 tpd. Including Bhandup's capacity of ~245 tpd, the company now has total capacity of ~445 tpd. The first phase of the company's greenfield plant at Halol for radial tyres has also started commercial production recently.

Outlook and valuation

We believe the revenue of Ceat is likely to improve over the coming quarters with improvement in truck and bus replacement segment demand, additional capacity and increasing presence in the two-wheeler tyre segment. However, worry on the cost of inputs like natural rubber and crude derivatives' like nylon tyre cord and carbon black continues unabated. Our interactions with various industry participants indicate that any respite in natural rubber prices is unlikely over the coming quarters. The increased crude derivatives' prices, which usually reflect with a lag, will also start hampering operating performance in the coming quarters. Consequently, operating performance of the tyre industry is expected to be under severe pressure in the next couple of quarters. Commencement of commercial production at its greenfield unit and ensuing increase in depreciation and interest costs will further burden the earnings.

We believe the implementation of the critical truck and bus radial (TBR) tyre manufacturing project without technical collaboration and only with external assistance is another concern.

At the current market price of Rs 104, the stock is trading at 7.4x FY11E earnings of Rs 14 and 5.2x FY12E earnings of Rs 20 per share. We do not have a rating on the stock.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	23,665	28,075	34,224	39,039
Growth (%)	1.6	18.6	21.9	14.1
Operating expenses	(23,575)	(25,269)	(32,943)	(37,388)
Operating profit	90	2,806	1,281	1,651
EBITDA	90	2,806	1,281	1,651
Growth (%)	(95.1)	3,012.8	(54.3)	28.9
Depreciation	(256)	(269)	(340)	(380)
Other income	491	421	389	404
EBIT	325	2,958	1,330	1,675
Interest paid	(697)	(568)	(614)	(655)
Pre-tax profit	(372)	2,390	716	1,021
(before non-recurring items)				
Non-recurring items	0	0	(78)	-
Pre-tax profit	(372)	2,390	638	1,021
(after non-recurring items)				
Tax (current + deferred)	211	(780)	(236)	(337)
Net profit (before Minority Interest, Pref. Dividend, etc.)	(161)	1,610	402	684
Reported PAT	(161)	1,610	402	684
Adjusted net profit	(161)	1,610	480	684
Growth (%)	(123.5)	NA	(70.2)	42.5

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash & Marketable securities	2,015	1,400	1,263	1,086
Other current assets	6,176	8,925	10,092	11,357
Investments	427	585	585	585
Net fixed assets	7,949	10,028	14,009	15,154
Total assets	16,567	20,938	25,950	28,183
Current liabilities	5,069	7,911	9,642	11,175
Total Debt	6,451	6,538	9,275	9,679
Other non-current liabilities	163	202	306	0
Total liabilities	11,683	14,651	19,223	20,854
Share capital	342	342	342	342
Reserves & surplus	4,541	5,945	6,385	6,986
Shareholders' funds	4,884	6,287	6,727	7,329
Total equity & liabilities	16,567	20,938	25,950	28,183
Capital employed	11,498	13,027	16,307	17,007

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	(372)	2,390	638	1,021
Depreciation	310	288	340	390
Chg in working capital	822	(68)	685	228
Total tax paid	101	(741)	(132)	(643)
Cash flow from oper. (a)	860	1,869	1,531	996
Capital expenditure	(358)	(2,366)	(4,322)	(1,535)
Chg in investments	(331)	(158)	0	0
Cash flow from inv. (b)	(689)	(2,525)	(4,322)	(1,535)
Free cash flow (a+b)	172	(655)	(2,791)	(539)
Debt raised/(repaid)	1,675	87	2,736	404
Dividend (incl. tax)	(160)	4	(160)	(40)
Other financing activities	(88)	(51)	78	(2)
Cash flow from fin. (c)	1,428	40	2,654	362
Net chg in cash (a+b+c)	1,599	(615)	(137)	(177)

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
EPS (Rs)	(4.7)	47.0	14.0	20.0
Growth	(123.5)	NA	(70.2)	42.5
Book NAV/share (Rs)	141.3	183.6	196.4	214.0
Dividend/share (Rs)	0.0	4.0	1.0	2.0
Dividend Payout ratio	0.0	9.7	8.3	11.7
Tax rate	56.7	32.6	37.0	33.0
EBITDA margin	0.4	10.0	3.7	4.2
EBIT margin	1.4	10.5	3.9	4.3
RoCE	3.0	24.1	9.1	10.1
Net debt/Equity	90.8	81.7	119.1	117.2

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	NA	2.2	7.4	5.2
PCE	37.5	1.9	4.3	3.3
Price/Book	0.7	0.6	0.5	0.5
Yield (%)	0.0	3.8	1.0	1.9
EV/Net sales	0.3	0.3	0.3	0.3
EV/EBITDA	88.7	3.1	9.0	7.4

Du Pont Analysis – ROE

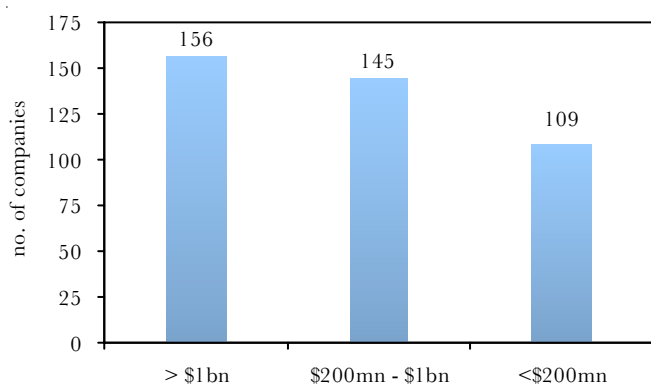
Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	(0.7)	5.7	1.4	1.8
Asset turnover	1.5	1.5	1.5	1.4
Leverage factor	3.2	3.4	3.6	3.9
Return on equity (%)	(3.2)	28.8	7.4	9.7

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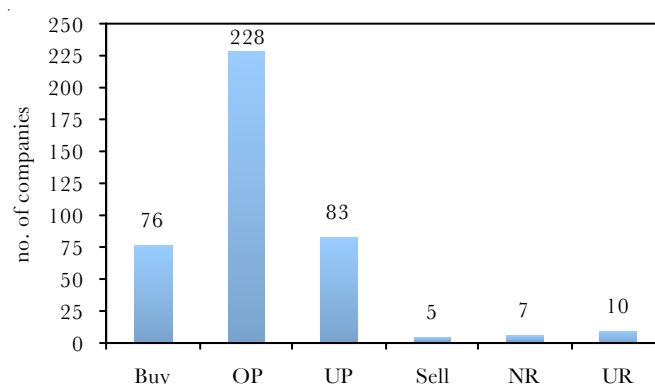
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

- BUY:** Potential upside of > +25% (absolute returns)
- OUTPERFORMER:** 0 to +25%
- UNDERPERFORMER:** 0 to -25%
- SELL:** Potential downside of < -25% (absolute returns)

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