RESULTS REVIEW

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IDBI capital

Ceat Ltd.

Rs. 151

Q4FY07 results update

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Nifty: 4142; Sensex: 14137

Key Stock Data

Sector	Tyres
Bloomberg/Reuters	CEAT@IN/CEAT.BO
Shares o/s (m)	45.7
Market cap (Rs m)	6,892
Market cap (US$ m)	166
3-m daily average vol.	175,992

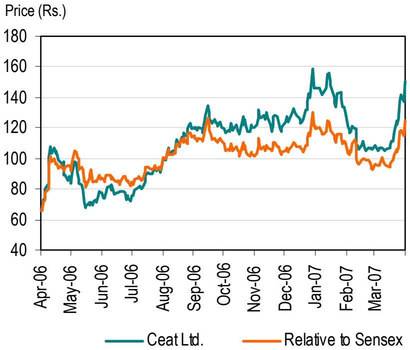
Price Performance

52-week high/low			Rs162/64
	-1m	-3m	-12m
Absolute (%)	42.9	3.0	129.1
Rel to Sensex (%)	36.5	2.9	107.7

Shareholding Pattern (%)

Promoters	43.18
FIIs/NRIs/OCBs/GDR	8.83
MFs/Banks/FIs	25.00
Non Promoter Corporate	4.61
Public & Others	18.38

Stock vs Relative to Sensex



Source: Capitaline

Highlights

Sales bounded up to Rs.5,629m, a growth of 16% YoY. Margins performed the Indian rope-trick! Reaching for the clouds – expanding by 248bps from 5.3% to 7.8%. Spectacular! Operating profits hit the roof, sprinting up to Rs.553m, a strong growth of 80% YoY. PAT for the quarter skyrocketed 390% YoY to Rs.234m.

Sales move northwards

Total revenues for the quarter grew a strong 17% YoY to Rs.5,743m, mainly on back of robust volumes. The Supreme Court directive restricting overloading of Commercial Vehicles has led to increased demand for these vehicles. This is in turn has resulted in increase in demand for the CV tyres, Ceat being the major beneficiary.

The contribution from the specialty tyres segment to the total revenues, particularly the OTR (Off-the-road), has increased in the recent times. There is a huge export demand for such tyres, which being a low-volume segment lack the presence of global tyre majors. The profit margins in this segment are almost two times of those in the passenger vehicles, truck and bus segments. Currently, Ceat is using around 40-50 tonne capacity for specialty tyres, which is expected to be scaled up to ~60 tonne in FY08.

Impressive margin expansion

Operational efficiency improved significantly during the quarter under preview. The operating profits for the company stood at Rs.553m as against Rs.308m registered a year back.

Ceat has undertaken various initiatives in order to improve its productivity from re-engineering its tyre designs, improving its utilization levels, de-bottlenecking its manufacturing processes and rationalizing its manpower costs over the last few quarters. All these initiatives have paid off and led to considerable margin expansion in Q4FY07. During the quarter, the company witnessed an impressive margin expansion of 248bps to 7.8% as against 5.3% registered a year back.

Higher PAT inflated by surging margins

Robust volumes growth escorted by upbeat margins on account of better realizations and improved product mix led to a 5-fold growth in bottomline. PAT during the quarter stood at Rs.234m as against Rs.48m, posting a robust growth of 390% YoY.

Outlook

The Indian tyre industry is expected to continue its growth momentum buoyed by the increase in demand for automobiles and sustained economic growth. Ceat is fully geared for growth with greater focus on the higher margin products in the truck segment, expansion of radial segment, expansion of car radial capacity, and continued thrust on growth segments like specialty (OTR) and CV tyres. The stock is currently trading at 17.6x its FY07 EPS of Rs.8.6.

Table 1: Financial snapshot (Rs. m)

Year-end: March	Q4FY07	Q4FY06	YoY (%)	FY07	FY06	YoY (%)
Net Sales	5,629	4,844	16	21,348	17,474	22
Other Income	114	50	128	244	214	14
Total Income	5,743	4,894	17	21,592	17,688	22
Expenditure	5,190	4,586	13	20,068	16,780	20
EBIDTA	553	308	80	1,524	908	68
OPM (%)	7.8	5.3		6.0	4.0	
Interest	129	154	(16)	604	634	(5)
Depreciation	79	58	37	311	225	38
Tax	111	49	128	217	46	371
PAT	234	48	390	393	4	10,508
NPM (%)	4.2	1.0		1.8	0.0	
No. of Share	45.7	45.7		45.7	45.7	
EPS (Rs.)	5.1	1.1		8.6	0.1	
CMP (Rs.)	151.0	151.0		151.0	151.0	
PE (x)	29.5			17.6		

Source: Company reports; IDBI Capital Market Services

Equity Sales/Dealing

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