

RESULT UPDATE

SMALL CAP

Share Data

Reuters code	CEAT.BO
Bloomberg code	CEAT IN
Market cap. (US\$ mn)	115
6M avg. daily turnover (US\$ mn)	0.6
Issued shares (mn)	34

Performance (%) 1M 3M 12M

Absolute	(5)	22	318
Relative	(3)	14	118

Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	60.7	51.0
+/- (%)	NA	(16.0)
PER (x)	2.6	3.1
PBV (x)	0.8	0.6
Dividend/Yield (%)	1.3	1.3
EV/Sales (x)	0.4	0.4
EV/EBITDA (x)	3.5	3.6

Major shareholders (%)

Promoters	43
FII's	3
MF's	12
BFSI's	9
Public & Others	33

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	6,789	7,145	5.2	13,363	13,885	3.9	25,137	28,194	12.2	31,448	11.5
EBITDA	4	1,017	26,673.7	3	2,055	61,255.2	90	3,554	3,842.6	3,346	(5.8)
EBITDA margin (%)	0.1	14.2	-	-	14.8	-	0.4	12.6	-	10.6	(15.6)
Other income	(205)	53	-	(87)	114	-	450	300	(33.3)	420	40.0
Interest	166	79	(52.6)	306	200	(34.7)	655	438	(33.2)	596	36.2
Depreciation	43	63	47.9	129	126	(2.5)	256	264	3.1	460	74.1
PBT	(410)	928	-	(519)	1,844	-	(372)	3,152	-	2,710	(14.0)
Tax	(122)	314	-	(124)	627	-	(211)	1,072	-	964	(10.0)
Adj. PAT	(288)	615	-	(395)	1,217	-	(161)	2,080	-	1,746	(16.0)
Adj. PAT margin (%)	(4.2)	8.6	-	-	8.8	-	-	7.4	-	5.6	(24.7)
EPS (Rs)	(8.4)	18.0	-	-	35.5	-	(4.7)	60.7	-	51.0	(16.0)
P/E (x)	-	-	-	-	-	-	-	2.6	-	3.1	19.1

Ceat

Not Rated

Price: Rs 158

BSE Index: 16,353

28 October 2009

2QFY10 Result – Rolling smoothly

Ceat revenue for the quarter was in line with estimates. However, the operating performance was above expectation due to lower than anticipated other expenses and raw material costs on account of low cost inventory. The improvement in demand in the truck and bus tyre segment helped the company post a 6% sequential increase in revenue. Increase in employee expenses weighed down the operating margin (excluding other operating income) around 120 bps sequentially to 14.2%. There was a decline in the interest costs possibly due to capitalisation of interest on fresh borrowings done for the company's greenfield project in Gujarat. The net earning was similar to the June quarter numbers, at Rs 18 per share.

Outlook and valuation

Ceat has lined up a capex of about Rs 6.5 bn over the next 18 months to set up a greenfield passenger and truck radial capacity in Gujarat. The company has already tied up loans of about Rs 3.0 bn at ~10-11% interest rate. The balance will be funded through internal accruals. The company plans to spend about Rs 5.0 bn in the first phase of the project to set up a capacity of 100 tonnes per day. In the second phase, around Rs 1.0 bn will be expended to add capacity of about 35 tonnes per day. Expansions will also be undertaken to increase the cross ply light commercial vehicle production at the company's Nashik plant.

We expect a decent revenue growth over the coming quarters due to revival in the replacement market and the steady recovery in the OEM market. However, the product price increase of 3-4% across product categories taken by the company during October may not be able to completely offset the increase in material prices and this is expected to weigh down the operating performance over the coming quarters. Considering the reported performance of 1HFY10, we have revised upwards our earnings estimate for the full year.

At the current market price of Rs 158, the stock is trading at 2.6x FY10E revised earnings of Rs 60.7 and 3.1x FY11E revised earnings of Rs 51.0. We do not have a rating on the stock.

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	23,300	25,137	28,194	31,448
<i>Growth (%)</i>	9.1	7.9	12.2	11.5
Operating expenses	(21,452)	(25,047)	(24,641)	(28,101)
Operating profit	1,848	90	3,554	3,346
EBITDA	1,848	90	3,554	3,346
<i>Growth (%)</i>	44.4	(95.1)	3,842.6	(5.8)
Depreciation	(330)	(256)	(264)	(460)
Other income	225	450	300	420
EBIT	1,743	284	3,589	3,306
Interest paid	(569)	(655)	(438)	(596)
Pre-tax profit	1,174	(372)	3,152	2,710
(before non-recurring items)				
Non-recurring items	800	–	–	–
Pre-tax profit	1,973	(372)	3,152	2,710
(after non-recurring items)				
Tax (current + deferred)	(487)	211	(1,072)	(964)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,486	(161)	2,080	1,746
Reported PAT	1,486	(161)	2,080	1,746
Adjusted net profit	687	(161)	2,080	1,746
<i>Growth (%)</i>	74.9	(123.5)	NA	(16.0)

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & marketable securities	416	2,015	2,304	1,831
Other current assets	7,304	6,176	7,652	8,640
Investments	96	427	96	96
Net fixed assets	7,901	7,949	13,070	14,080
Total assets	15,717	16,567	23,123	24,646
Current liabilities	5,535	5,069	6,829	7,623
Total debt	4,776	6,451	9,244	8,344
Other non-current liabilities	273	163	163	–
Total liabilities	10,584	11,683	16,237	15,967
Share capital	342	342	342	342
Reserves & surplus	4,790	4,541	6,543	8,337
Shareholders' funds	5,133	4,884	6,886	8,679
Total equity & liabilities	15,717	16,567	23,123	24,646
Capital employed	10,182	11,498	16,293	17,023

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,973	(372)	3,152	2,710
Depreciation	147	310	354	550
Chg in working capital	(1,672)	822	206	(194)
Total tax paid	(451)	101	(1,072)	(1,127)
Cash flow from oper. (a)	(3)	860	2,640	1,939
Capital expenditure	(946)	(358)	(5,474)	(1,560)
Chg in investments	1,182	(331)	331	–
Cash flow from inv. (b)	235	(689)	(5,144)	(1,560)
Free cash flow (a+b)	232	172	(2,504)	379
Equity raised/(repaid)	(114)	–	–	–
Debt raised/(repaid)	(147)	1,675	2,793	(900)
Dividend (incl. tax)	(96)	(160)	–	(78)
Other financing activities	135	(88)	–	125
Cash flow from fin. (c)	(222)	1,428	2,793	(853)
Net chg in cash (a+b+c)	10	1,599	289	(474)

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	20.1	(4.7)	60.7	51.0
Growth	133.4	(123.5)	NA	(16.0)
Book NAV/share (Rs)	146.0	141.3	199.7	252.1
Dividend/share (Rs)	4.0	–	2.0	2.0
Dividend Payout ratio	23.3	–	3.8	4.5
Tax rate	24.7	56.7	34.0	35.6
EBITDA margin	7.9	0.4	12.6	10.6
EBIT margin	7.5	1.1	12.7	10.5
RoCE	18.2	2.6	25.8	19.8
Net debt/Equity	84.9	90.8	100.8	75.1

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	7.9	NA	2.6	3.1
PCE	5.3	56.7	2.3	2.4
Price/Book	1.1	1.1	0.8	0.6
Yield (%)	2.5	0.0	1.3	1.3
EV/Net sales	0.4	0.4	0.4	0.4
EV/EBITDA	5.3	109.1	3.5	3.6

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	2.9	(0.6)	7.4	5.6
Asset turnover	1.6	1.6	1.4	1.3
Leverage factor	3.4	3.2	3.4	3.1
Return on equity (%)	15.4	(3.2)	35.3	22.4

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