

- **Net Sales increases by 16.2% to Rs5.6bn**
- **Operating profit increases by 76.2% to Rs439mn**
- **Operating margin increases by 265 bps to 7.8%**
- **PAT stood at Rs234mn for Q4FY07 compared to Rs49mn for Q4FY06**

Financials Highlights

Period to	03/07	03/06	Growth	FY07	FY08P	FY09P
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(12)
Net Sales	5,629	4,844	16.2	21,348	23,012	24,614
Total Expenses	(5,190)	(4,594)	13.0	(20,068)	(21,508)	(22,939)
% of Net Sales	92.2	94.9	-	94.0	93.5	93.2
Operating Profit	439	249	76.2	1,280	1,504	1,675
% of Net Sales	7.8	5.1	-	6.0	6.5	6.8
Other Income	114	63	81.5	244	160	160
Interest	(129)	(155)	(17.0)	(604)	(626)	(626)
Depreciation	(79)	(58)	36.9	(311)	(362)	(362)
PBT	345	99	248.6	609	676	847
Tax	(111)	(50)	123.3	(217)	(203)	(254)
% of PBT	32.2	50.2	-	35.6	30.0	30.0
PAT	234	49	374.8	393	473	593
% of Net Sales	4.2	1.0	-	1.8	2.1	2.4
Adjusted EPS	-	-	-	8.6	10.4	13.0
PE @ CMP of RS137	-	-	-	15.9	13.2	10.5

Margins increase 265 bps on yoy basis

CEAT has posted improvement in margins at operating level and at PAT level for Q4FY07 and the full year. CEAT could pass on the increase in raw material prices and improve efficiencies and product mix which has led to improvement in margins. Interest burden has come down with repayment of higher rate loans. We expect operating margins to improve by 50bps for FY08 and by 80bps for FY09 as natural rubber prices are stabilizing with a negative bias. We reduce our average rubber price estimate for FY08 and FY09 to Rs92 per kg from Rs94 per kg.

Full year sales on tonnage basis increase by 6%

Growth in sales volumes on tonnage basis has gone up by 6% for CEAT in FY07, whereas the blended realization was up by around 16%. We estimate CEAT to post volume growth of 6.7% for FY08 and 6.6% for FY09. Increase in OTR and PCR capacity and focus on exports are expected to help volume growth for CEAT in FY08 and FY09.

CEAT plans to de-merge investment portfolio

CEAT is hiving its investment portfolio to the tune of Rs4.4bn, as per latest market value, to a separate company. This will make CEAT a focused tyre company. 3 shares for every 4 shares would be issued in CEAT and 1 share for the new company to be formed having investment portfolio. We expect the move to improve the rating for the company.

Valuations

We have revised upwards our FY08 and FY09 estimates to give effect for easing in natural rubber prices. Our revised EPS estimates for FY08 and FY09 are Rs10.4 and Rs13.0 respectively. The investment portfolio with haricut of 70% stands at Rs28 per share. We value CEAT at 10x of its FY09 estimated EPS and adding Rs28 for investment portfolio our revised target price comes to Rs158. Maintain BUY.

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