India Equity Report | Company Update |Tyres

Ceat Ltd.

INR 166

Given a 24-Ply Rating

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Gateway to Prosperity

Sep 18, 2009

Company Background

CEAT Ltd (CEAT) established in 1958, is a part of the the RPG Group & is one of the key tyre player in India. From a modest beginning, it is now among the top tyre companies in the country having its presence across all the segments of the industry, be it 2 whellers or specially tyres. The Company, a part of the RPG conglomerate offers the widest range of tyres to leading Original Equipment Manufacturers (OEMs) across the world & is also one of the largest tyre makers for the replacement market in India. The Company has a strong presence in the domestic as well as the international markets, while its solid brand equity has helped to to increase its footprints in both the markets, with supplying its components to its valuable clients in over 110 countries.

Investment Rationale

Financial performance (Standalone basis)

Rising demands & softening of raw material prices has helped to post good results during the current quarter. During June ended 09, CEAT's Net Sales registered a growth ~4% to INR 6796 mn as against INR 6574 mn. Meanwhile It Net Profit climbed to INR 602 mn as gainst Net Loss of INR 107 mn, during the same period a year ago. Its Total too increased to INR 6801 mn as against INR 6692 mn. During the FY09-10, 65% of the revenues were conributed by T&B segment, producing around 7 mn tyres during the year which commands 13% share of the Indian Tyre market. It is one of the top tyre exporter of the country, with exporting value of INR 5 bn.

Offers wide range of tyres to different user segments

Indian tyre industry goes hand in hand with Road Transport sector, while the latter is expected to grow at a pace of 8-9% over the next 3-5 years. CEAT offers wide range of tyres to its different user segment including T&B, LCV, tractor, trailers, PCs, motorcycles & 3-wheelers. The company currently manufactures over 7 mn tyres every year & has a strong presence in the replacement market, with the market share of around 13% in the tyre segment, thus having footprints in domestic & international markets with its products distributed over 110 countries.

Greenfield project, to keep pace with the rising demand

To keep pace with the demand for tyres in future the Company is in process of setting up a plant in Halol, Gujarat with initial capacity of about 90 mn TPD & a planned outlay of approximately INR 5 bn is to be infused. The plant is expected to be ready for commercial production during the financial year 2010-11.

Rising economy to boost demand

The infra boom in the country, increasing per capita & disposal income, the emerging radialzation opportunity, expansion of the road segment, growth in the auto sector & replacement demands are the key factors for the company in the near future to grow & expand. Since the company holds the favourable market share in the Indian Tyre industry & exporting to International market too, it is likely to be beneficial due to upcoming opportunities widely available.

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Info Codes

Reuters	:	CEAT.BO
Bloomberg	:	CEAT@IN
NSE	:	CEATLTD
BSE	:	500878

Market Data

52 Wk Range (INR)	:	170 / 31
Shares in Issue (mn)	:	34.24
Mkt. Cap (INR bn)	:	5.58
BSE 2 Wk Avg Vol	:	157372

Share Holding Pattern (%)

Promoters	:	48.00
MFs, FIs & Banks	:	11.32
FIIs	:	0.56
Others	:	40.12

Investment Theme

CEAT is one of the top tyre manufacturer in India, with having market share of 13%. It is present in almost all industry sub segment, & strives to improve its product mix by adding capacity of high margin speciality tyres & setting up a Greenfield capacity project for T&B radials. The company has performed quite well in the current quarter increasing its Bottom Line due rising demand & softening its raw material prices. With the recession near to the end, rising demands from domestic & international market are likely to be trigger point for the company to perform well in the near future. CEAT products are distributed to over 110 countries, with exports value touching INR 5 bn.

Tyred with regular, make replacement

Outlook of Tyre Industry

With the downturn in the Global Economy, the INR 225 bn Tyre Industry was badly hit by falling prices in the wake of dwindling demand from the recession-hit auto sector. The price of rubber usally depends on demand & supply & is influenced by the price of crude oil, trends in future trade, value of currency & climatic changes.The economic crisis has affected all sectors, including the vehicle sector, which in turn had hit the tyre & rubber sectors in the country, which is the 3rd largest producer & consumer of natural rubber. The level of economic activity & the health of automotive industry directly influence the performance of the tyre industry. Adverse macro economic changes caused a steep fall in the demand of Commercial Vehicles (CV)leading to lower off take of tyres business, while vehicle manufacturers saw a significant decline in the year. However,the silver lining for the industry was the strong demand of tyres for Truck & Light Commercial Vehicles (LCV) in the replacement market. Now with the Global recession near to the end, Indian Rubber Industry is witnessing robust demand, led by high demand from Automobile sector. Indian rubber consumption in the year to April 2010 is seen at 881,000 tns, slightly higher than the previous estimate of 875,000 tns helped by higher demand for automobiles. Rising demand in the world's 3rd biggest consumer of rubber, behind China & US is expected to make India a bigger player internationally. Auto majors are on the track for their expansion phase & are poised to launch news brands in the near future, leding for more demand for rubber tyres.

Data for Financial Year 2008-09

Turnover of Indian Tyre Industry	INR 225 bn
Tyre Production (Tonnage)	1.17 Mn Tn
Tyre Production -All categories	82.1 Mn
Tyre Exports	INR 35 bn
Radialisation Level - Current	Passenger Car:- 98%
(% of total tyre production)	Light CVs:- 18%
	Heavy Vehicles (T&B):- 8%

(Source: ATMA)

Category wise Production & Exports

	Production(Mn Nos)		**Exports(Nos)**	
Tyres for:-	**FY08-09**	**Change**	**FY08-09**	**Change**
T&B	12.84	(2%)	1933959	(20%)
Passenger Car	16.57	1%	991558	(9%)
Jeep	1.47	0.2%	10263	38%
Light CV	5.3	(0.4%)	1630483	0.5%
Tractor Front	1.84	2%	13051	(24%)
Tractor Rear	1.32	7%	46347	(30%)
Tractor Trailer	0.76	(14%)	20067	15%
Animal Vehicle	0.28	(31%)	NA	NA
Scooter/Moped	10.88	(6%)	435778	(4%)
Motor Cycle	30.15	8%	453226	40%
Industrial	0.57	(23%)	7605	(40%)
Off the Road	0.14	(4%)	36744	(20%)
Implements	NA	NA	9962	77%
ADV	NA	NA	0	(100%)
Total	**821.07**	**1%**	**5589043**	**(8%)**

(Source: ATMA)

Demand drivers for Indian Tyre Industry

➡Automobile Industry

The Global economy which saw a downturn in FY08, is near to its end. All the major sectors were badly hit & Automobile sector was one of the worst hit sector along with the Metals. With the major Governments announcing stimulus packages for their respective countries, there is a sigh a revival in almost all the sectors. However, with the visible signs of revival from the fourth quarter of last fiscal, the off take from vehicle manufacturers is expected to pick up in the second half of 2009-10. Plans of automobile majors worldwide to set up manufacturing facilities in India are intact & India is therefore expected to emerge as an automobile manufacturing & outsourcing hub over the next few years.

➡Road infrastructure

With the re-elected UPA government, the main agenda of it, infrastructure is well back on track. With improved infrastructure, the freight & passenger traffic movement is expected to remain buoyant in future. This is expected to result into increased off take in the replacement market. Further improvement in road infrastructure on completion of mega projects, such as the Golden Quadrilateral, North-South & East-West Corridors etc, will spur growth in freight & passenger movement in future & consequently accelerate the growth of tyre business in India..

➡Business

CEAT has a strong presence in both domestic & international markets & offers the widest range of tyres catering to all user segments including heavy duty Trucks & Buses (T&B), LCVs, Earthmovers & Forklifts (specialty segment), Tractors, Trailers, Passenger Cars (PC), Motorcycles, Scooters & Autorickshaws. Around ~65% of its revenues are registered through its T&B segments. It manufactures about 7 mn tyres in a year, along with a good exports base in countries like USA, Africa & other parts of Asian regions. Its products includes

1. Flotation Implement & Trailer Tyres
2. Multi Purpose Truck Tyres
3. Industrial & OTR Tyres
4. Light Commercial Vehicle Tyres
5. Farm Tyres
6. Car & Jeep Tyres
7. 2 & 3 Wheeler Tyres

➡Dynamic Product Mix with more focus on CV Segment

CEAT has a wide portfolio of products catering to almost all the sub-segments in the tyre industry. Truck & Bus tyres accounts for around ~65% of its revenues. Their capacity in 2 & 3 wheeler passengers tyres is quite low with having market size of 3-4%. The management expects to see six fold increase in the capacity of 4 wheeler tyres & four fold increase if capacity of 2 wheelers in the near future. CEAT's Truck & Bus radials would likley to increase due to their upcoming greenfiled projects. Their farm capacity witnessed strong growth due to unprecedented growth in the agriculture sector in the last couple of years due to easing of credit flows by the government, thus leaving more cash in the hands of the Indian farmers.

➡Increasing capacity well on track

CEAT has decided to increase its focus on high margins specially tyre segment by increasing its capacity. Operating with a relatively smaller installed capacity of 400 TPS, CEAT favours outsourcing of low contribution products, while focusing on manufacturing of higher contribution products. The company is likely to infuse some capital to get benifited from the uptrend in the Indian Auto industry. It has current capacity of 400 TPD in Bias Tyre, while its Bhandup plant has a capacity of 240 TPD, whereas Nasik plant has capacity of 160 TPD. The company is likely to expand its Nasik plant capacity by 35 TPD by April 2010. At the same time, CEAT is looking at a new Radial tyre capacity at Baroda of 145 TPD to be operational by October 2010, while the capex slated for the same is expected to be around INR 5 bn.

Capex Plans

Plant	Curr. Capacity	Expan. Plan	To be Operational
Nasik	160 TPD	35 TPD	April 2010
Bhandup	240 TPD	-	-
Halol, Gujarat	-	145 TPD	October 2010

(Source: Company Data)

(contd...)

➡Industrial Growth

The slow down in the economy during the year under review impacted the growth of automobile & tyre industry. However, Indian economy is expected to grow at about 7% over the next five years. Sustained economic growth with consequential increase in per capita and disposable income will boost demand for products and services in general. Strong GDP growth is also expected to enhance agricultural and industrial production which will ensure increased movement of labour and materials. This will fuel demand for Truck / Bus (T&B) and farm tyres.

➡Radialisation

Currently, the PC segment in India is more than 95% radialised, which is at par with the world average. However, T&B segment is only 10-12% radialised against the world average of 60%. Radialisation is expected to reach 30% in CVs & 20% in LCVs in approximately three years. This will improve demand of radial tyres in the country. Indian companies will have an opportunity to cash in on the steady switch from the traditional cross-ply tyres to radial tyres in the CV segment.

➡Exports

The downturn in the global economy has adversely affected exports from India during the year under review. However, the demand supply gap in cross-ply tyres in the international market is expected to continue for the next five to ten years. The industry therefore, is expected to re-position its manufacturing facilities, product portfolio & distribution network to meet the new market demands.

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➡Increasing revenues form original Equipment manufacturers

Nearly ~79% of CEAT revenues comes from high margin replacement segment, which helped it to boost its profits. Exports contibutes around 12-13% of revenues while the rest is contributed from the sales to OEM. Stemming from a strong demand in the automobile industry in the year, CEAT has seen a marked increase in the revenue share from OEMs increasing year by year. CEAT exports tyres to about 110 countries like USA, Bangladesh, Pakistan, Vietnam, Iran, Nigeria, Egypt & other African, Middle East & Far-East Asian countries. Realization from OEMs has improved significantly due to new customers being added in the OEM segment.

➡Increasing capacity via Greenfield project

With Radial tyres likely to witness increasing demand, CEAT has planned for a Greenfield facility for T&B radials, which would be funded primarily through internal accruals in order to keep pace with the expected rise in demand for these tyres, while the facility will also be used for manufacturing car radials. The plant for the same is located near Halol, Gujarat & would roll out by May 2010. The CEAT radial plant will be spread across 125 acres of land & is expected to manufacture 4 mn tyres in Phase 1, while its capacity would be increased to 12 mn in the next 10 years. The capex to be infused would be around INR 7 bn & would be made in 2 phase, INR 5 bn in first phase while INR 2 bn in second phase,

➡Bright future, led by surge in the Indian Auto sector

With the growth of the Indian road sector, Tyre industry are likely to witnessed robust growth, as the industry growth goes hand by hand with the road transport sector. CEAT, with a market share of 13%, is a major tyre maker in India & has the most diverse product mix. The company offers a wide range of tyres to all the user segments, including the heavy duty T&B, LCV, tractor, trailers, PCs, motorcycles and 3-wheelers. It caters to almost all the segments of the automotive industry, with T&B accounting for ~50%+ to the revenues of the companies. CEAT currently manufactures over 7mn tyres every year & has a strong presence in the replacement market. It has a strong presence in the Global markets too, with supplying its products to 110 countries. With the stimulus packages announced by variuos countries, it is likely to boost the demand for the automobile tyres from the oveseas players too.Further on, the stable replacement demand & improving OEM demand for tyres, coupled with the recent softening of the rubber prices across the globe would help the tyre players to save its costs, leding to increase in margins.

Key Financials

Year Ended Mar 31st	FY 07	FY 08	FY 09
Revenue (INR mn)	21642.5	24381.8	25763.9
Rev. growth (%)	**22.34**	**12.66**	**5.67**
EBITDA (INR mn)	1527.3	2878.4	659.9
Net profit (INR mn)	392.5	1486.0	(161.1)
Shares outstanding (mn)	45.75	34.24	34.24
EPS (INR)	8.6	43.4	(4.7)
EPS growth (%)	**7448.08**	**405.87**	**(110.84)**
P/E (x)	12.5	2.5	(7.4)
EV/ EBITDA	34.3	14.0	22.0
ROCE (%)	**6.76**	**23.09**	**(2.17)**

Future outlook

The global economy in general & automobile sector in particular is slowly showing signs of revival. It is expected that demand growth will stay at a level of 6% in the domestic market in the current year. The proposed higher spending on infrastructure is expected to have a direct consequence on tyre demand in the country for commercial applications in future. Disposable incomes & more motorable roads will lead to higher levels of personal transportation. With the entry of new small car models such as Nano, market for entry level passenger car tyres is expected to get a boost. Demand projections reflect robust growth in Scooter & Motorcycle segment. These developments are expected to strengthen the demand of tyres in all the three market segments viz. Commercial Vehicles, Passenger Cars & 2 Wheelers.

Performance Highlights

Export Sales

Year	INR in Mn
2005-06	3935
2006-07	4295
2007-08	4820
2008-09	4902

Truck Tyre Production

Year	Nos in Mn
2005-06	1.77
2006-07	1.82
2007-08	1.88
2008-09	1.74

(Source: Company Data)

Financial Statements

Income Statement

(INR mn)

Year end Mar 31st	FY 07	FY 08	% Chg	FY 09	% Chg
Operating Income	23972.5	26114.1	8.93	27694.3	6.05
Other Income	245.3	1021.5	316.43	469.3	(54.06)
Change in Stocks	24.8	257.8	939.52	85.3	(66.91)
Raw Material Con.	14957.11	5669.4	4.76	18285.2	16.69
Employee Exp.	1282.3	1430.3	11.54	1606.9	12.35
Excise	2575.3	2753.8	6.93	2399.7	(12.86)
Other Exp.	3900.6	4661.5	19.51	5297.2	13.64
Operating Exp.	22690.5	24257.2	6.90	27503.7	13.38
Operating Profit	1282.0	1856.9	44.84	190.6	(89.74)
Total Interest	607.5	575.5	-5.27	655.2	13.85
Gross Profit	919.8	2302.9	150.37	4.7	(99.80)
Net Dep.	310.6	329.9	6.21	257.5	(21.95)
Total Taxation	216.7	487.0	124.73	(91.7)	(118.83)
Net Profit/Loss	392.5	1486.0	278.60	(161.1)	(110.84)

4 Years Balance Sheets

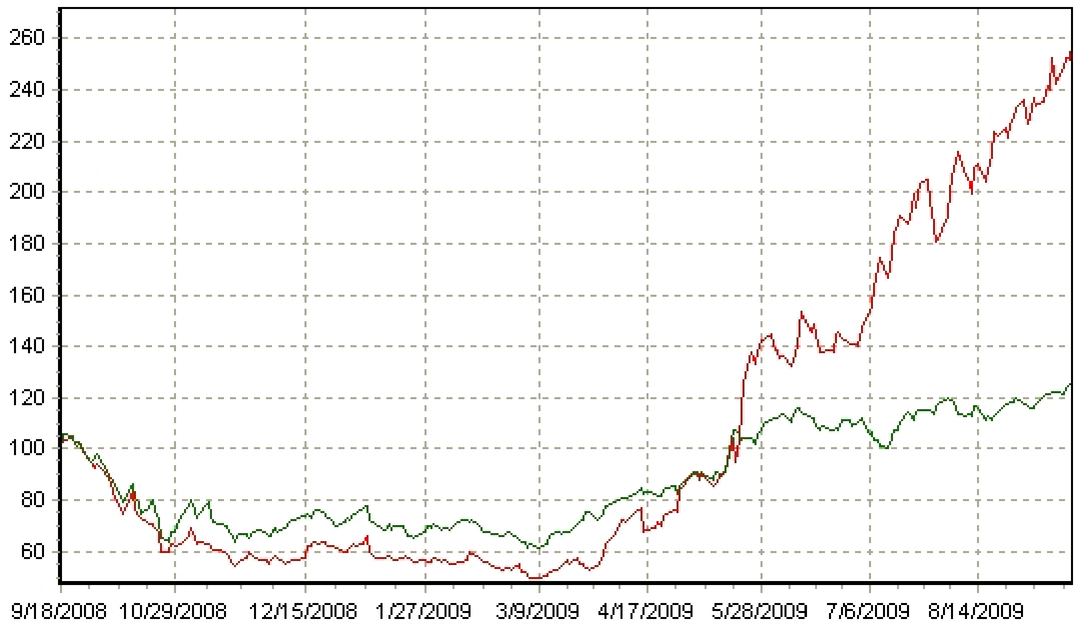
(INR mn)

Balance Sheet as on 31st	Mar 2006	Mar 2007	Mar 2008	Mar 2009
SOURCES OF FUNDS	**7666.3**	**7556.3**	**8298.2**	**9448.2**
Equity Share capital	456.8	456.8	342.4	342.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	3033.2	3329.6	4655.6	4494.5
Loan Funds	2912.1	2757.5	2653.9	3981.1
Unsecured Loans	1264.2	1012.4	646.3	630.2
USES OF FUNDS	**7666.3**	**7556.3**	**8298.2**	**9448.2**
Gross Block	11067.8	11130.3	12143.3	12438.5
Less : Revaluation Reserves	0.0	0.0	134.5	46.8
Less : Accumulated Depreciation	3850.6	4130.2	4277.2	4586.9
Net Block	**7217.2**	**7000.1**	**7731.6**	**7804.8**
Capital Work in Progress	42.7	101.3	34.8	97.7
Investments	1278.1	1278.1	96.0	426.7
Current Assets	5646.0	5910.4	7750.2	8314.8
Less : Current Liabilities	6517.7	6733.6	7314.4	7195.8
Net Current Assets	**-871.7**	**-823.2**	**435.8**	**1119.0**
Misc. Expenses not written	0.0	0.0	0.0	0.
NOTE				
Bk Val Unquoted Investments	171.1	171.1	96	426.7
Mkt Val. Quoted Investments	3771	3962.1	0	0
Contingent Liabilities	1449.5	1716	1643.3	1599.9
Dividend (%)	0	18	40	0

Quarterly Income Sheets **(INR mn)**

Quarter Ended	Sep 08	Dec 08	Mar 09	Jun 09
Net Sales	6789.1	5930.4	6312.0	6796.2
Cost Of Sales	5357.1	4585.8	4361.5	4327.8
Operating Profit	1432.0	1344.6	1950.5	2468.4
Recurring Income	11.1	0.6	2.3	4.8
Adjusted PBDIT	1443.1	1345.2	1952.8	2473.2
Financial Expenses	166.4	160.7	144.1	121.0
Depreciation	42.6	63.2	63.6	63.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	1234.1	1121.3	1745.1	2289.1
Tax Charges	0.0	0.0	(85.0)	313.3
Adjusted PAT	1234.1	1121.3	1830.1	1975.8
Non Recurring Items	121.8	1.8	0.0	0.0
Other Non Cash Adjust	1644.2	1339.5	1379.8	1373.8
Net Profit	(288.3)	(216.4)	450.3	602.0

52 Week Index Relative Percentage Appreciation



CEAT with Sensex

Risks Associated

Economic Risk

Factors such as slowdown in economy, rise in the interest rates, inflation, changes in tax rates, trade, fiscal policy & monetary policy, scarcity of credit plays an important role for the economy. Any affect on this factors would have an indirect impact on tyre sector.

Competition Risk

CEAT faces competition from other major tyre manufacturers in the domestic industry. While global tyre majors are also planning to enter the Indian market, they are giving tough competition mainly from Chinese markets.

Price Risk

Tyre industry is characterized by high raw material cost which accounts ~75% of total cost of operations. An increase in raw materail costs would have an impact on their Operating & Net Profit margins.

In a Nutshell

CEAT tyres, the flagship company of RPG Enterprises was established in 1958. Today, CEAT is one of India's leading tyre manufacturer & has a strong presence in both domestic & international markets. The company manufactures over 7 mn tyres every year & enjoys a major market share in the light truck & truck tyre market. CEAT tyres, tubes & flaps are renowned for their superior quality & durability. CEAT offers the widest range of tyres to all user segments & manufacture world-class radials for all Indian vehicles including: Heavy-duty Trucks & Buses, Light Commercial Vehicles, Earthmovers, Forklifts, Tractors, Trailers, Cars, Motorcycles & Scooters, Auto-rickshaws.CEAT has three manufacturing plants - Mumbai (Bhandup), Nasik & Sri Lanka. The company currently exports tyres to nearly 110 countries across USA, Europe, Africa & other parts of Asia. CEAT has a robust network consisting of over 3,500 dealers, 33 regional offices & more that 100 agents

Indira Group Offices

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months
Accumulate : Expected to appreciate up to 20% over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days
Reduce : Expected to depreciate up to 10% over 12-months
Sell : Expected to depreciate 10% or more over 12-months
Trade Sell : Expected to depreciate more than 10% over 45-days

Disclaimer