

Company Report

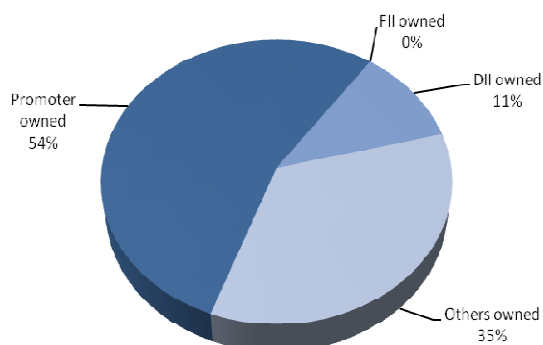
Ceat Ltd

1st June, 2013**BUY****CMP** **Rs.107.75****Target Price** **Rs.140.00**

BSE Code	500878
NSE Code	CEATLTD
Market Cap (Rs Cr.)	368.97
52 Week High/Low	125.00/87.15
Industry	Auto Ancillary
Face Value	Rs.10.00
Shares O/S	34243534

EPS	43.19
Book Value	229.37
P/E	2.49
P/B	0.47

Shareholding Pattern



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- Ceat is India's leading tyre company with over 50 years of presence. It is ranked as no. 1 player in Sri Lanka in terms of market share.
- The company has posted decent numbers for the quarter ending March 2013. The Revenues from operations on consolidated basis increased by around 6% at Rs.1345.70 crores vs Rs.1273.25 crores y-o-y. Operating profit remained flat on a yearly basis whereas it jumped 30.57% at about Rs.144.52 crores as against Rs.110.68 crores in the previous quarter. On the raw material side primarily rubber prices have come down. They have come down from about Rs 165-170 per kilogram in Q3 to about Rs 155-160 per kilogram in Q4. That is a drop of about 6-7 percent quarter on quarter (QoQ). The company has reported 32.83% rise in its net profit at Rs.64.90 crore for the quarter as compared to Rs.48.86 crore. EPS for the quarter stood at Rs.18.95.
- The company's share of business in the replacement market is at about 55%, about 22-23 percent is in the exports and about 22-23 percent is in the OEM segment. Volumes grew by 11% sequentially with exports and OE registering a volume growth of 17% quarter on quarter. And the replacement segment grew by 6% q-o-q. While volume registered growth; the net impact due to price mix was around negative 2% on account of some pricing action during the quarter in the replacement and OE segments. The company continued its thrust on Motorcycle and SUV tyre advertising campaigns.

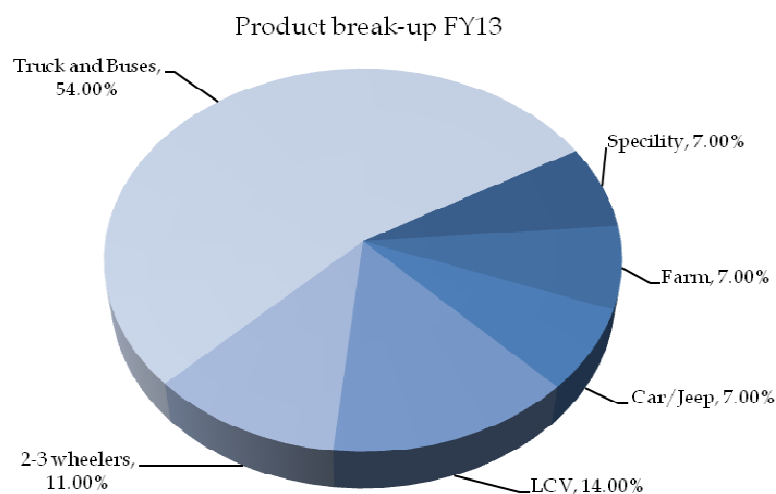
Valuation

With increasing market presence, new product launches, ramping of production facilities and improving operation performance; Ceat's revenue visibility looks promising. We believe Ceat Ltd. is trading at an attractive valuation at 2.22x and 1.80x of FY14EPS of Rs.48.57 and FY15EPS of Rs.59.77. We initiate a 'BUY' on the stock with a target price of Rs.140 (appreciation of about 30%) with the medium to long term investment horizon.

Business Details

Ceat Ltd, a part of the RPG conglomerate is one of the leading tyre manufacturers in India. The company offers the widest range of tyres to leading Original Equipment Manufacturers across the world. They manufacture a range of tyres catering various segments, which includes tyres for heavy duty trucks and buses (T&B), light commercial vehicles (LCVs), earthmovers and forklifts (specialty segment), tractors, trailers, passenger cars (PC), motorcycles, scooters and auto-rickshaws. They produce over 7 million tyres a year and commands around 13% share of the Indian tyre market. CEAT, incorporated in 1958, is among the best tyre manufacturers in India. Besides tyres, the company also manufacture and markets tubes and flaps. The company manufactures a wide range of tyres for two-wheelers, three-wheelers, four-wheelers, tractors, tippers and trucks.

The company manufactures over 7 million tyres on an annual basis. It operates 4 Manufacturing plants - 2 in India (Mumbai and Nashik) and 2 in Sri Lanka. It has 10 outsourcing units for tyres, tubes and flaps. The company also operates 3 dedicated 2-3-wheeler plants controlled by CEAT. They have a robust national network consisting of 34 regional offices and over 3,500 dealers among which approximately 300 are exclusive dealers running the CEAT Shoppe outlets for passenger cars segments and 100 exclusive dealers running the CEAT HUBs for Truck & Bus Segments. The company has their presence in more than 110 countries. CEAT exports tyres to countries namely USA, Africa, America, Australia and other parts of Asia.

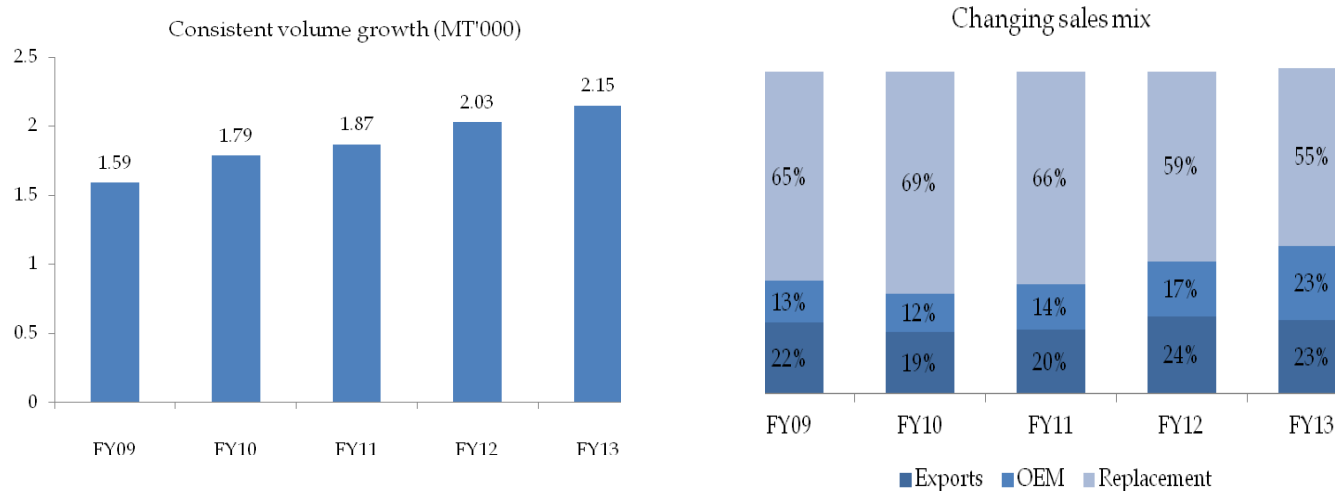


In 1924, CEAT International was commissioned at Turino in Italy to manufacture cables for telephones and railways. Later in 1958, CEAT forayed into the Indian market leading to formation of CEAT Tyres of India. The company was formed in collaboration with the Tata Group. Much later in 1982, the RPG Group took over the control of CEAT Tyres of India and in 1990 the company was rechristened as CEAT.

Since 1984, the company conducts an R&D activity that focuses on providing customer a high-end product. The company's manufacturing units have received ISO /TS16949 certification for quality management.

Increasing market share through new product launches

Ceat continues its leadership position in the key categories of truck, passenger car and two-three wheelers with market share around 50% levels in Sri Lanka. It has consolidated its position in its key product categories like two wheeler and utility vehicle segment through focused advertising campaigns and investments in brand building which is expected to continue going forward. Ceat has also launched a number of new products this year. It launched new products in the PCR and premium truck categories and a premium range of SUV radial tyres called CZAR. The company has a healthy pipeline of 100 plus products planned to be launched going forward adding to volume growth ahead together with strengthening its position in FY14.

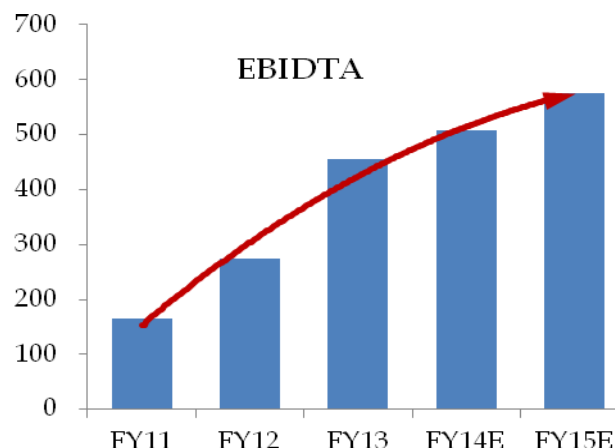
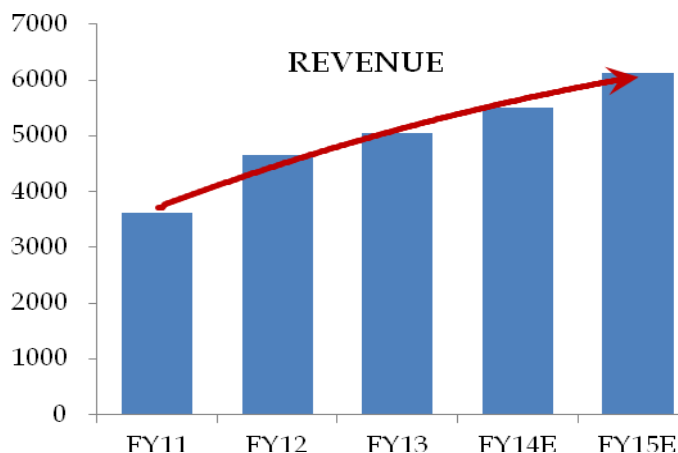


Bangladesh facility commissioning soon

Ceat has formed a joint venture company with the Bangladesh based AK Khan & company to set up a manufacturing facility in Bangladesh. The investment for the facility is pegged at \$67 million. Pursuant to the Joint Venture agreement; Ceat will hold 70 percent stake and the balance 30 percent will be held by AK Khan & company. This strategic partnership will enable a leadership presence in the large tyre market of Bangladesh. Ceat will provide technical and business expertise and manage the JV operation while AK Khan will bring in knowledge of the country's market besides providing the strength of goodwill and local presence. The facility will have a capacity of 65 TPD in phase one and in phase two it will have 110 TPD. The JV is targeted towards Truck, Light Truck and Two wheelers categories and is expected to achieve a market share of 40% by 2016. The company has completed acquisition of land area of 27.5 acres and invested Rs.38 crores in the year FY12-13. Sales operations too are commenced.

Excellent financial performance

Ceat has registered excellent numbers for the financial year ended March 2013. On a consolidated basis, revenues from operations surged about 9% at Rs.5052.21 crores from Rs.4652.71 crores clocked in FY12. This growth is driven by a volume growth of 6% and remaining due to price and mix change. The 6% volume growth was mainly on account of higher growth in the OEM segment as the company entered into a number of new OEs. Volumes in exports and replacement were close to being flat. The 3% price mix change was primarily because of higher realizations in exports and in the replacement segment which increased its overall realizations. Operating profit grew sharply by 66% at Rs.454.71 crores vs Rs.273.69 cr last year. Raw material prices have come down by about 4-5% as compared to last year which led to improvement in operating margin by about 300 bps. Adjusted Net profit skyrocketed at Rs.147.89 (excluding VRS Expense of Rs.13.7 crores and Rs.14 crores of warranty expense) crores as against Rs.21.35 crores last year. EPS climbed at Rs.43.19 from Rs.6.23 last year. The company had a routine capex of Rs.65 crores in FY13. Capex included investment in Bangladesh, small expansion with Halol and Nasik plants. There was a total debt reduction of Rs.273 crores for the full year; however reduction took place mainly in the last 2 quarters the benefit of lower base rate which came out of negotiations and re-adjustment of debt portfolio happened effectively February 2013.

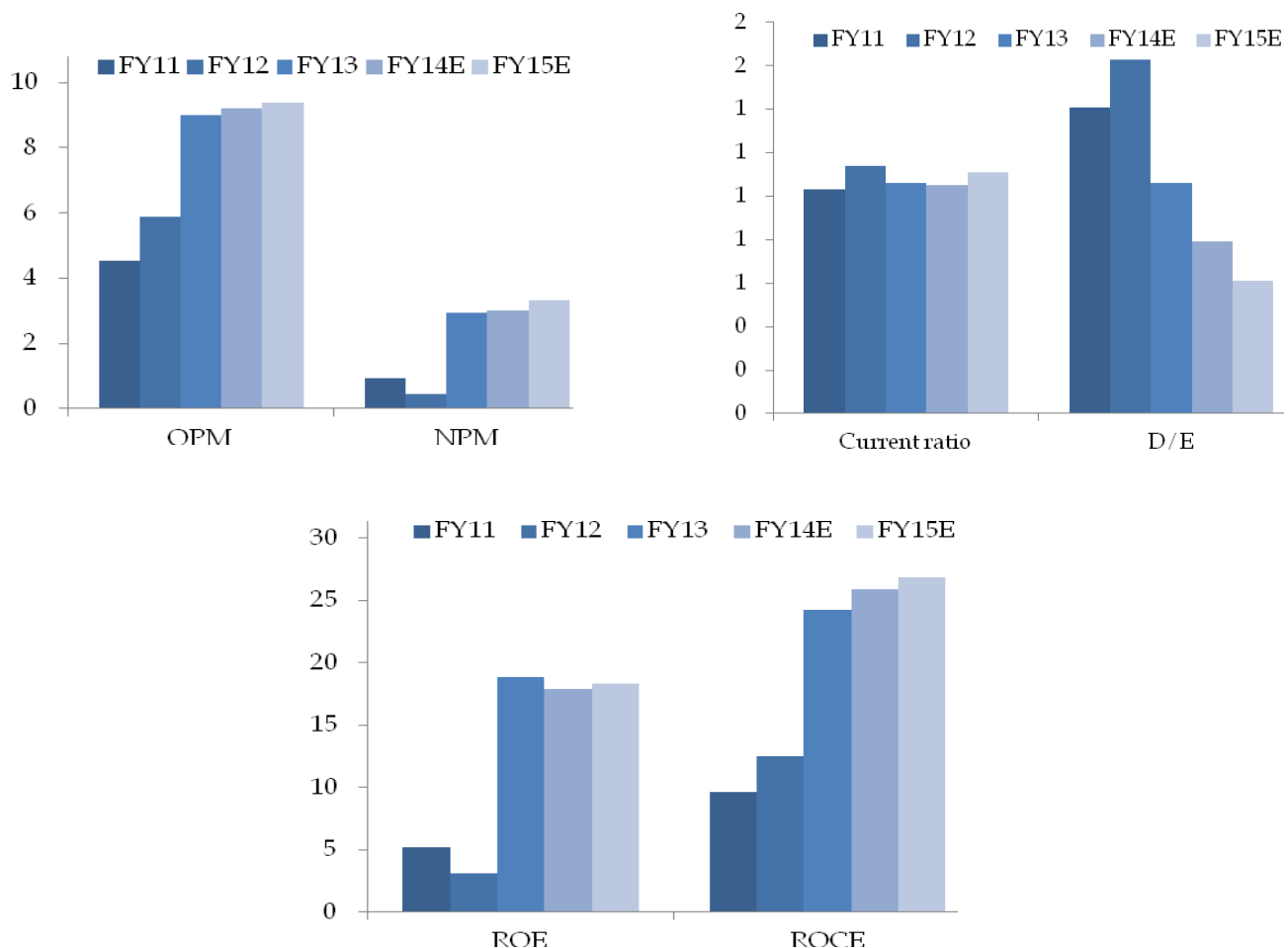


Halol plant

Halol is new radial plant of the company that has come up. The plant has a capacity to produce 150 tonne per day. It started off in the year at about 30 percent to 40 percent utilisation. However over the course of the year this has now reached about 80 percent utilisation. Currently it is operating at about 115-120 tonne per day. The company hopes to ramp up utilization of its Halol plant and aims to produce more than 130 tonne per day by second half of fiscal from 115 tonne per day currently. Over the course of the coming year the company expects it to reach about 90 percent utilisation.

Decent guidance

Ceat's management has guided a decent growth for the company in the coming year. The company anticipates a muted demand scenario along with stable raw material prices leading to stable margins. The company's investments in operational improvement initiatives are expected to help it in productivity gain and better efficiencies which would help in improvement of margins further. The marketing spend which stood at Rs.30 crores in the current financial year ended FY13 is estimated to stay at these levels in FY14. The growth will be supported by all three segments. The company expects OE segment to grow more than 15 percent in 2013-14; the fastest among the three segments of Ceat as it has entered into a number of OEs. The company has entered into new partnership with Royal Enfield, Volvo, Eicher and Bajaj Auto etc. On the export side, growth is looking to be coming up in Latin America; Africa and South Asia and is expected to be limited to somewhere between 5-7%. On the replacement side; there would be a seasonality pick up in the first quarter of FY14 translating into 5-7% growth for the full year. Further interest cost which dropped in one month in the latest quarter ended March 2013 is expected to give the benefit on a full year basis in the coming year. The effective tax rate is expected to stay between 32-33% and the company will have routine capex in the coming year in the range of Rs.60-60 crores.



Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY11	FY12	FY13	FY14E	FY15E
Net sales	3631.13	4652.71	5052.21	5517.01	6123.88
Growth		28.13%	8.59%	9.20%	11.00%
Expenditure	3466.08	4379.02	4597.50	5009.45	5548.24
EBITDA	165.05	273.69	454.71	507.57	575.65
Growth		65.82%	66.14%	11.62%	13.41%
EBITDA margin	4.55%	5.88%	9.00%	9.20%	9.40%
Other income	22.68	22.28	17.68	13.79	9.10
Depreciation & Amortization	35.94	72.80	80.62	89.21	101.95
EBIT	151.79	223.17	391.77	432.15	482.79
EBIT margin	4.18%	4.80%	7.75%	7.83%	7.88%
Interest	102.09	195.80	197.57	183.90	177.29
PBT	49.70	27.37	194.20	248.25	305.51
Tax	14.42	6.02	46.31	81.92	100.82
PAT	35.28	21.35	147.89	166.32	204.69
Minority interest	0.88	0.00	0.00	0.00	0.00
Dividend on Subsidiaries Pref. sh.	0.11	0.00	0.00	0	0.00
Adjusted PAT	34.29	21.35	147.89	166.32	204.69
Growth		(37.74)	592.69	12.47	23.07
Net Profit margins	0.94	0.46	2.93	3.01	3.34
Exceptional item	7.82	3.16	27.70	0.00	0.00
Reported PAT	26.47	18.19	120.19	166.32	204.69
Equity Shares	3.42	3.42	3.42	3.42	3.42
Adjusted EPS	10.01	6.23	43.19	48.57	59.77

Ratios

Particulars	FY11	FY12	FY13	FY14E	FY15E
Return on Equity	5.25	3.15	18.83	17.86	18.36
Return on Capital employed	9.62	12.51	24.25	25.93	26.87
Debt/Equity	1.41	1.63	1.06	0.79	0.61
Asset turnover	1.27	1.50	1.61	1.68	1.73
Current Ratio	1.03	1.14	1.06	1.05	1.11
Book value per share	190.84	197.88	229.37	271.88	325.66

Balance Sheet

Rs. Crore

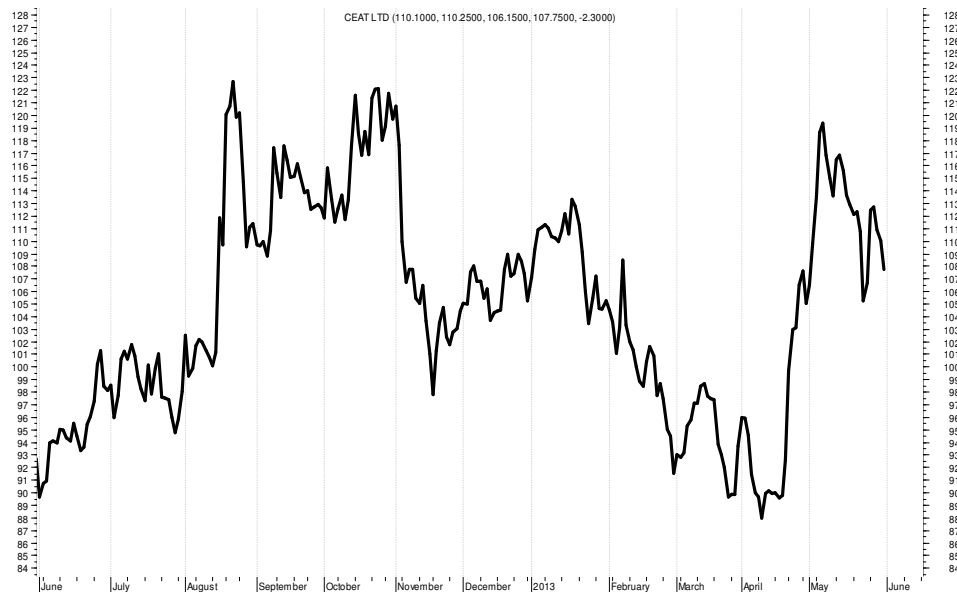
Particulars	FY11	FY12	FY13	FY14E	FY15E
Share Capital	34.24	34.24	34.24	34.24	34.24
Money received against share warrants	6.05	3.64	3.64	0.00	0.00
Reserves & Surplus	613.20	639.73	747.58	896.78	1,080.92
Shareholders' funds	653.49	677.61	785.46	931.02	1115.16
Pref. Sh. Issues by subsidiaries	0.23	0.15	0.09	0.00	0.00
Borrowings	924.57	1106.29	830.25	735.60	681.88
Deferred tax liability	25.55	35.78	78.63	78.63	78.63
Minority Interest	0.00	0.00	0.00	0.00	0.00
Sources of funds	1603.85	1819.83	1694.43	1745.25	1875.67
Gross block	1,923.50	2,165.49	2236.62	2347.67	2427.49
Accumulated Depreciation	530.29	599.62	680.24	769.45	871.40
Net block	1393.21	1565.87	1556.38	1578.22	1556.09
Capital work in progress	111.13	17.80	22.20	45.05	72.88
Investments	42.96	30.91	0.59	23.28	50.98
Goodwill on consolidation	20.48	20.48	21.57	21.57	21.57
Inventories	586.94	602.68	558.82	583.16	659.79
Sundry debtors	501.74	638.28	662.85	680.35	751.43
Cash and bank balance	48.90	39.68	112.08	129.59	146.62
Other current assets	2.24	22.13	27.30	32.40	36.66
Loans and advances	145.56	158.44	185.21	194.39	238.26
Total current assets	1,285.38	1,461.21	1,546.26	1,619.89	1,832.75
Current liabilities and provisions	1,249.31	1,276.44	1,452.57	1,542.75	1,658.60
Net current assets	36.07	184.77	93.69	77.14	174.15
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	1,603.85	1,819.83	1,694.43	1,745.25	1,875.67

Quarterly Financial Highlights

Rs. Crore

Particulars	Q4FY13	Q4FY12	Q3FY13	YoY%	QoQ%
Revenues	1345.70	1273.25	1248.62	5.69	7.77
Expenditures	1201.18	1130.28	1137.94	6.27	5.56
Operating Profit	144.52	142.97	110.68	1.08	30.57
Adjusted Net Profit	64.90	48.86	36.10	32.83	79.78
OPM%	10.74	11.23	8.86	(49bps)	188bps
NPM %	4.82	3.84	2.89	98bps	193bps
Adjusted EPS	18.95	14.26	10.54	32.89	79.79

Past Price movement of the stock



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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	No
3. Hem & its Group Companies' Director Ownership of the Stock	No
4. Broking relationship with company covered	No

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