Initiating Coverage | 16 February 2017
Sector: Automobiles

CEAT

Well balanced

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Contents: CEAT | Well Balanced

CEAT

BSE Sensex	S&P CNX
27,236	8,398

CMP: INR1,086 TP: INR1,406 (+29%) Buy

Stock Info

Bloomberg	CEAT IN
Equity Shares (m)	40.5
52-Week Range (INR)	1422 / 731
M.Cap. (INR b)	48.4
M.Cap. (USD b)	0.7
1, 6, 12 Rel. Per (%)	-13/25/-6
Avg Val, (INR m)	779
Free float (%)	49.2

Financial Snapshot (INR b)

Y/E Mar	FY17E	FY18E	FY19E
Sales	64.5	71.1	79.1
EBITDA	6.7	7.8	9.5
NP	3.6	4.4	5.7
EPS (Rs)	89.9	107.6	140.6
EPS Growth (%)	13.2	-4.2	56.5
BV/Share (Rs)	588.6	682.0	804.0
P/E (x)	12.1	10.1	7.7
P/BV (x)	1.8	1.6	1.4
RoE (%)	16.4	16.9	18.9
RoCE (%)	13.3	14.2	16.8

Shareholding pattern (%)

As On	Sep-16	Jun-16	Sep-15
Promoter	50.8	50.8	50.8
DII	7.9	5.2	7.3
FII	25.5	26.1	19.3
Others	15.8	17.9	22.6

CEAT

Well Balanced

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Please click here for Video Link

CEAT, a flagship company of the RPG Group, is the fourth largest tyre manufacturer in India in terms of revenue (~12% market share). With manufacturing facilities at Bhandup (bias tyres), Nashik (bias and radial), Halol (radial) and Nagpur (2W/3Ws), the company's capacity stands at >900MT/day (95,000 tyres/day). It operates in India via a robust distribution network of 4,500+ dealers, 33 regional offices, 400+ franchisees, 6 manufacturing facilities and 250+ distributors.

Well balanced

Expanding capacity in PV/2W to bolster growth

- **We expect CEAT to continue with its strategy of focusing on the consumer-facing passenger segment – two-wheeler (2W)/passenger vehicles (PV) – which should reflect in its resource allocation. As a result, we expect its market share to improve in 2W/PV (where the threat of Chinese competition is relatively low) from 27%/9% currently.**
- **CEAT plans to double its capacity in its currently capacity-constrained passenger segment over FY16-18. Its foray into the high-margin, export-focused off-highway tyres (OHT) business is likely to help drive the dwindling exports business (which was impacted due to radialisation in the market).**
- **The product mix should improve further, with revenue contribution of 2W/PV expected to increase from 38% to 49% over FY16-19E. This will partly insulate CEAT against rubber price volatility and help improve margins.**
- **As a result, we expect revenue CAGR of 11% and PAT CAGR of 25% with a 150bp margin improvement over FY17-19E. In our view, RoE is likely to improve by 260bp to 19% over FY17-19E, despite a decline in gearing.**
- **We value the stock at 10x FY19E EPS, and initiate coverage on CEAT with a Buy rating and a target price of INR1,406 (implying ~29% upside from current levels).**

Strategic capital allocation in profitable segments

Until FY11, CEAT derived 60% of its revenues from the low-margin truck & bus (T&B) segment, while the higher-margin segments of 2W and PV contributed just 14%, leading to multiple years of low margins and profitability. However, over the past five years, CEAT has been focusing on and allocating resources to categories like 2W and UV (which is part of the PV segment), where brand equity leads to better margins and makes it easier to pass on the cost push (relative to T&B segment). With a view to increase contribution from 2W/PV, management took a four-pronged approach of: (1) increasing reach (3x increase in district penetration), (2) expanding capacity for higher-margin segments, (3) extending presence across OEMs and (4) spending more on marketing & branding of 2W/PV. These measures resulted in an improvement in the market share of the 2W segment from 8% in FY11 to 27% in FY16 (second largest after MRF which commands a 35% market share) and of the PV segment from 4% to 9%. Revenue contribution of 2W/PV increased from 15% in FY11 to 38% in FY16, leading to an improvement in overall margin from 4% to 13%. We believe CEAT's strategy to allocate capital to the profitable categories like 2W, PV and off-highway tyres is commendable. It is likely to help gain market share, insulate against volatility in raw material prices and provide high earnings visibility.

Doubling of capacity in focused segments to drive market share gains

CEAT plans to increase its capacity from 900MTPD to 1,245MTPD over FY17-18. Around 70% of this new capacity addition (230MTPD of total 345MTPD) will be in the 2W (170MTPD in FY16 to 290MTPD in FY18) and PV (84MTPD in FY16 to 194MTPD in FY18) segments, which should allow CEAT to maximize growth/profitability and resolve supply constraints in these segments. The company's plan to venture into the OHT segment with capacity of 100MTPD is a testimony of the fact that it plans to chase high-margin businesses to achieve profitable growth. With CEAT's recently announced capex of INR28b by FY22, it envisages to increase annual capacity in TBR from 110MTPD in FY18 to 310MTPD in FY22, in 2W from 290MTPD in FY18 to 430MTPD in FY22, and in passenger cars from 190MTPD in FY18 to 340MTPD in FY22. In our view, this will address supply issues until FY22, boost the 2W/PV businesses further and help improve the market share of radial within the T&B segment.

International business to get boost from OHT segment

The influx of Chinese tyres and the higher level of radialisation in the markets where CEAT exports its products have impacted its performance. Thus, the company has forayed into high-margin export-focused off-highway tyres with capacity of 100MTPD at an outlay of INR6b, which should come on stream in FY18 in a phased manner. We believe the foray into OHT should be margin-accretive for the company. ACHL, the company's Sri Lanka arm, is a market leader in that country with ~50% share and ~25% EBITDA margin, which are expected to continue growing at a stable pace.

Product mix improvement to continue, boosting margins

CEAT has improved its product mix in favor of the passenger segment (2W/PV) in Indian operations from 15% to 38% over FY11-16. With market share gains and doubling of capacities in both segments over FY16-19E, we expect revenue CAGR of 20%/13% for 2W/PV over FY17-19E. With the first phase of capacity expansion (INR14b) likely to be completed by 1HFY18, the product mix is expected to improve further (revenue share of 2W/PV likely to increase from 38% to 49% over FY16-19E), partly insulating CEAT against rubber price volatility and improving margins.

Valuation and view

After witnessing three years of muted revenue growth, CEAT is expected to come back on the growth path, driven by new capacity, product mix improvement, unique ad campaigns for every segment and increasing distribution reach. Improvement in the product mix in favor of the passenger segment is likely to partly insulate CEAT against rubber price volatility. We expect sales and PAT CAGR of 11% and 25%, respectively, and margins to improve by 150bp over FY17-19E. The first phase of capex of INR14b (to be completed by FY18) is being met entirely by internal accruals, while the recently announced capex of INR28b (to be incurred over FY18-22) is expected to be funded via a mix of debt and equity. Despite ongoing capex, we expect RoE to improve by 260bp to 19%, with strong FCFF generation of INR6.7b over FY17-19E. Based on superior EPS CAGR v/s peers over FY17-19E and an improving product mix, we value the stock at a P/E of 10x FY19E EPS (20% premium to 10-year median P/E). Thus, we initiate coverage on CEAT with a **Buy** rating and a target price of INR1,406 (~29% upside).

Strategic capital allocation in profitable segments

Focused approach (2W/PV/UV) to drive growth ahead

- **Post 2011, CEAT has been focusing on branding, distribution reach and mainly on the passenger segment (2W/PV), which has improved its financial profile considerably.**
- **CEAT is a success story in 2W, with market share in this segment increasing from 11% in FY11 to 27% in FY16. New capacity of 120MT/day is expected to be fully operational by 1HFY18, which should drive further market share gains. It aims to be a market leader in this segment in next 5-7 years.**
- **CEAT's focus on UVs led to significant market share gains in this segment over past five years. It is now focusing on replicating this success in passenger cars and increasing PV radial tyre capacity (Halol phase II brownfield expansion) by 110MT.**

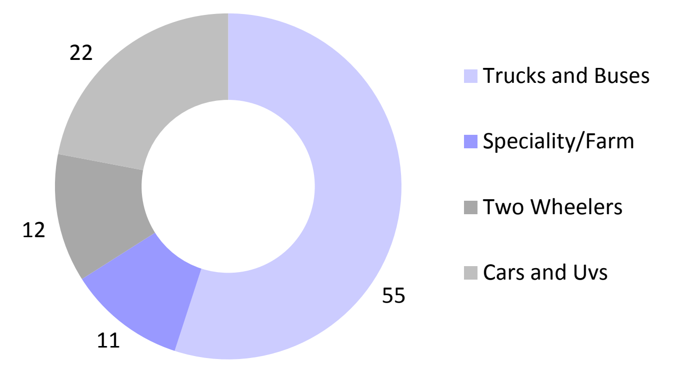
How CEAT got it right?

At the start of FY11, CEAT underwent leadership change with Mr. Anant Goenka taking over as managing director.

CEAT identified 2W and 4W tyre segments as its strategic focus areas, given their ability to boost margins and lower the company's dependence on the truck segment. A three-pronged strategy was adopted to achieve its outlined goals: (1) raise sales and distribution reach by increasing dealers, franchises and distributors; (2) ramp-up presence across OEMs to enhance demand for replacement tyres; and (3) increase marketing spend on brand-building initiatives.

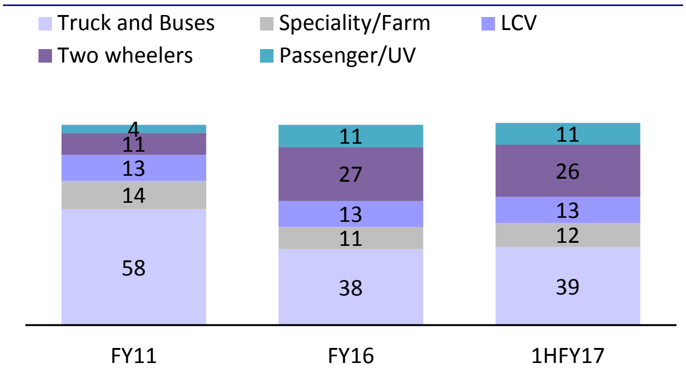
In FY11, CEAT's revenue profile mirrored the industry mix, with T&B accounting for a lion's share. However, by FY16, the company's mix had changed drastically, with the passenger segment accounting for 38% of revenue, as against 15% in FY11.

Exhibit 1: Industry product mix relied on T&B



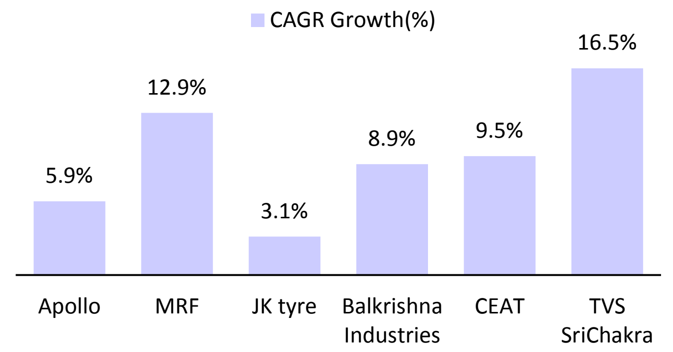
Source: Industry, MOSL

Exhibit 2: However, CEAT's product mix shifted from T&B to 2W/PVs…



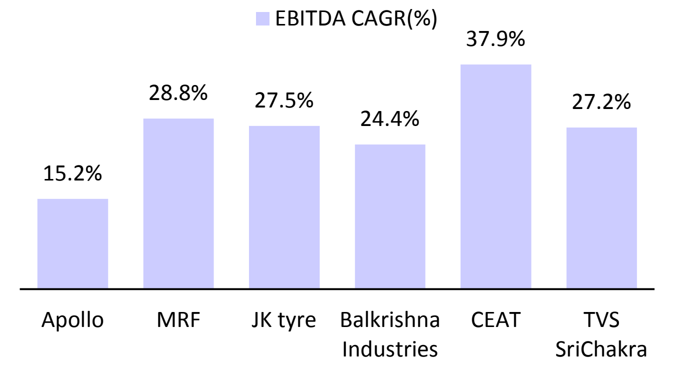
Source: Company, MOSL

Exhibit 3: …leading to healthy revenue 5 year CAGR (CEAT v/s competitors)



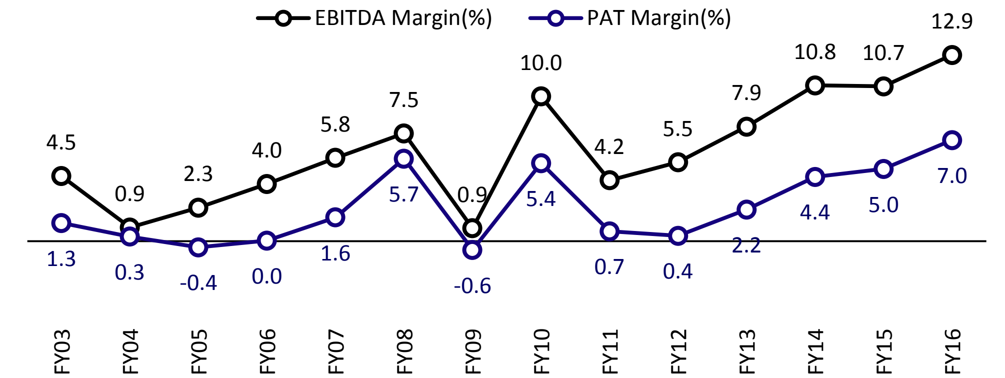
Note: Net revenues used Source: Capital Line, MOSL

Exhibit 4: …and best EBITDA CAGR (CEAT v/s competitors)



Source: Capital Line, MOSL

Exhibit 5: CEAT improved margins due to focus on passenger segment



Note: Excise duty has been accounted in expenses Source: Company, MOSL

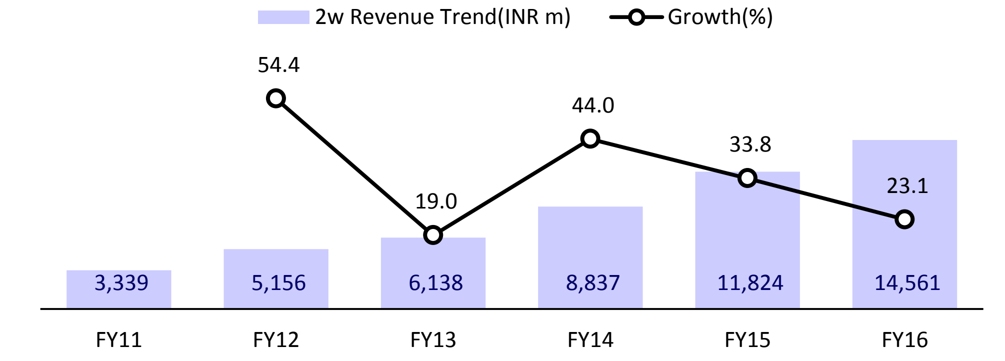
2Ws: Eyeing leadership in the space

CEAT began focusing on the passenger segment by first targeting the 2W sub-segment. In FY11, 2W revenues formed 10% of CEAT's total revenues. Since then, the company recorded 2W revenue CAGR FY11-FY16 of 34% to INR14.6b, accounting for 27% of overall revenues.

This segment has limited players, with the key ones being MRF, TVS Srichakra and CEAT. This market is more brand-focused – pricing differential between the price leader and the third/fourth player in this segment can be much larger (nearly 15%-20%) than that in the commercial vehicle space (about 4%-5%). CEAT currently is the second highest-priced motorcycle tyre player after MRF (more than MRF at a dealer level). Despite this, it is able to grab market share because of its focus on brand campaigns and advertisements, increasing district penetration, and introduction of new products.

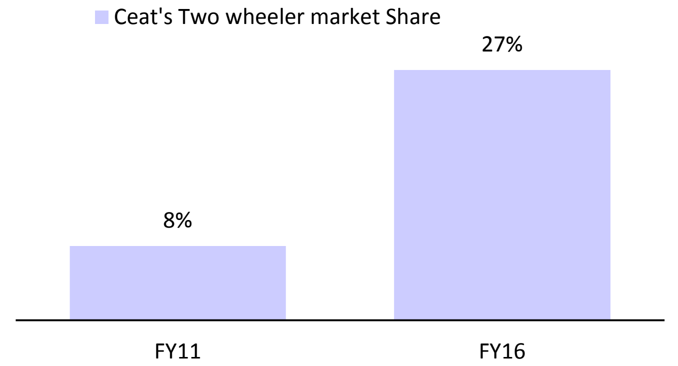
The motorcycle tyre market (~80% of 2W market) is much larger than the scooter tyre market (~20%). However, the scooter tyre market has grown faster than expected, and thus the new Nasik plant is more skewed toward higher scooter quantities to fulfill the gap in supplies. The company has also entered into new partnerships with OEMs like Honda Motorcycles, Scooters India (HMSI) and Suzuki Motorcycles India, and received approvals for new products like Bajaj V-15, Splendor iSmart 110 and Suzuki Access 125. Compared to T&B, the 2W sub-segment offers advantages of higher realizations, product price inelasticity, less competitive intensity and opportunity to differentiate/market.

Exhibit 6: 2W revenue CAGR of 34%...



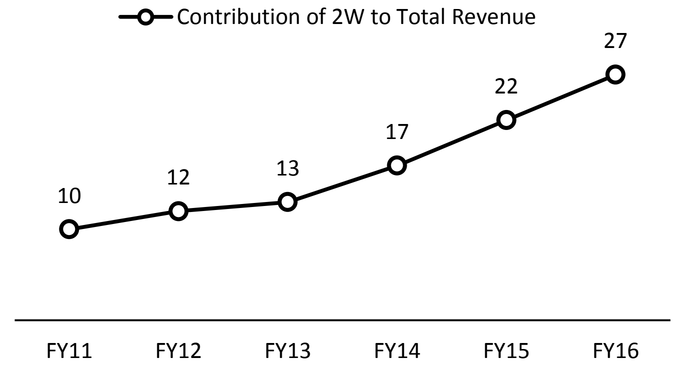
Source: Company, MOSL

Exhibit 7: …with increased market share…(in volume terms)



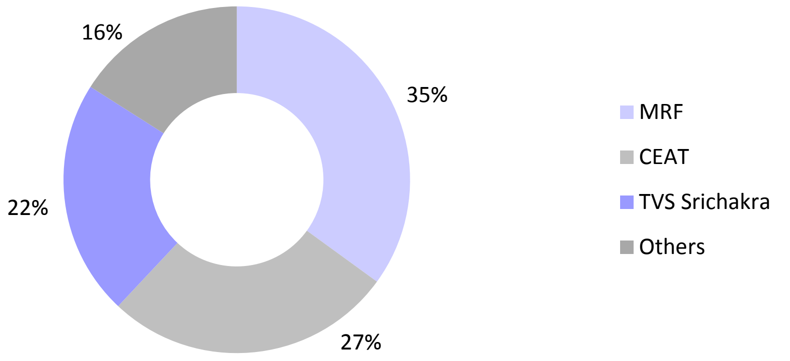
Source: Industry, MOSL

Exhibit 8: …and higher contribution to total revenue



Source: Company, MOSL

Exhibit 9: CEAT now second-largest 2W tyre player in India



Source: Industry, MOSL

In 2W and 3W tyre categories, CEAT uses outsourced capacities, which helps it maintain an asset-light approach and allows it to concentrate purely on quality control systems at its outsourced locations. Increasing presence across several OEMs depicts robustness of the quality systems. The company has three principal outsourcing facilities at Hyderabad, Calicut and Halol. To address growing demand, the company has put up greenfield plant in Nagpur for the manufacture of 2W/3W tyres with capital outlay of INR4.2b. The plant has commenced production at 19MT/day from Jun-16, and is expected to reach 120MT/day at full capacity by 1HFY18.

CEAT has initiated the Bike Shoppe concept, first such in Bangalore and Kolkata. The Bike Shoppe is a company-branded outlet dedicated to provide products and services exclusively for 2Ws. It will house the entire range of CEAT's 2W products, including Pirelli and Metzeller tyres for super bikes, and will be equipped with state-of-the-art technology for tyre changing, fitment, alignment and balancing, nitrogen inflation etc.

Exhibit 10: Bike Shoppe concept..

Source: Company, MOSL

Exhibit 11: ..in Bangalore and Kolkata

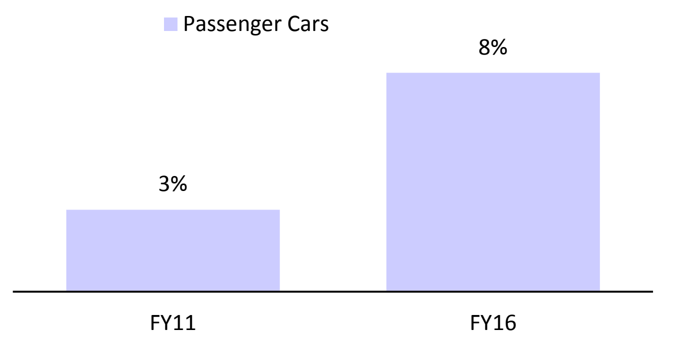
Source: Company, MOSL

Passenger vehicles: Replicating the success story of 2W

CEAT clocked 4W revenue CAGR FY11-16 of ~29%, outperforming peers like Apollo (~9% CAGR). Despite this, the company's 4W revenue (INR5.9b) is one-fifth of Apollo's. The opportunity remains sizeable for CEAT. As it attains scale, it will benefit from enhanced brand equity and better customer acceptance of its products. Even in 4Ws, the company's focus has largely been on UVs rather than cars. UVs account for ~25% of industry volumes. **India's PV penetration is at 17 vehicles per 1,000 people, whereas the same is on the higher side at 39 for China, 93 for Thailand, 147 for Brazil and 385 for the US.** CEAT is pushing all-out for growth in the PV sub-segment, with an aim to replicate its 2W success story.

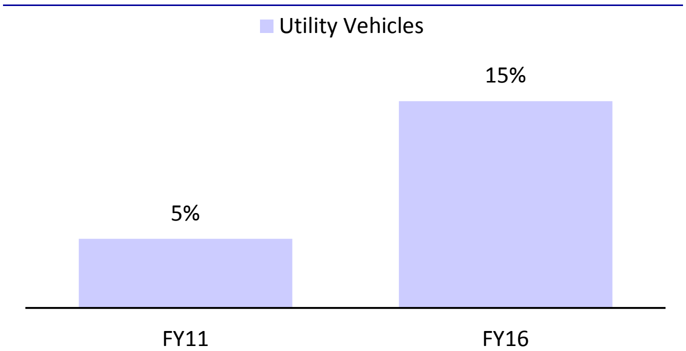
CEAT is launching new products every year in this segment to expand growth frontiers beyond India. Launched in Italy in January 2016, its tyre range encompasses two new patterns: CEAT EcoDrive and CEAT SecuraDrive. While EcoDrive is ideal for low rolling resistance tyres needed for city driving, SecuraDrive has been developed for high wet grip tyres for safer highway driving. The range is set to expand with more patterns in FY17.

Exhibit 12: Increase in market share in PC… (in volume terms)



Source: Industry, MOSL

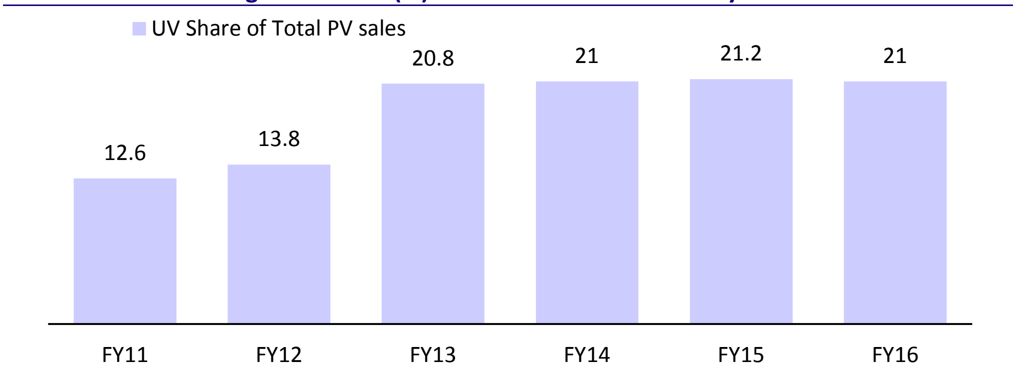
Exhibit 13: …and in UV(in volume terms)



Source: Industry, MOSL

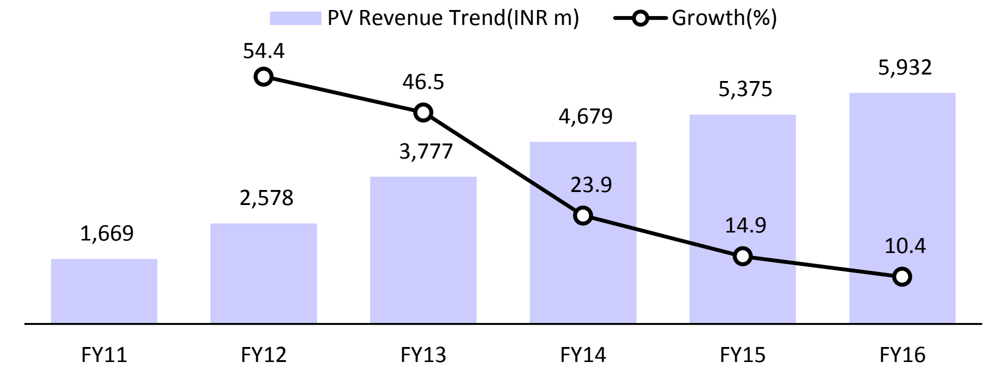
CEAT chose to focus on the UV segment, given its relatively small share and hence lower competition. Also, the segment's share has been on the rise, with consumer preference shifting toward UVs. CEAT's current UV market share of ~15% is twice that in passenger cars. With doubling of capacity, the company aims to make further inroads in the segment. CEAT has also entered into new partnership with Renault and Nissan, and is now associated with products like Datsun Redi-Go, Renault Kwid and Mahindra TUV 300. Gradually, it aims to cover the entire passenger car market as it ramps up capacity and completely penetrates the UV market.

Exhibit 14: …increasing share of UV(%) to total PV sales in industry



Source: Industry, MOSL

Exhibit 15: …led to 29% CAGR for PV for CEAT

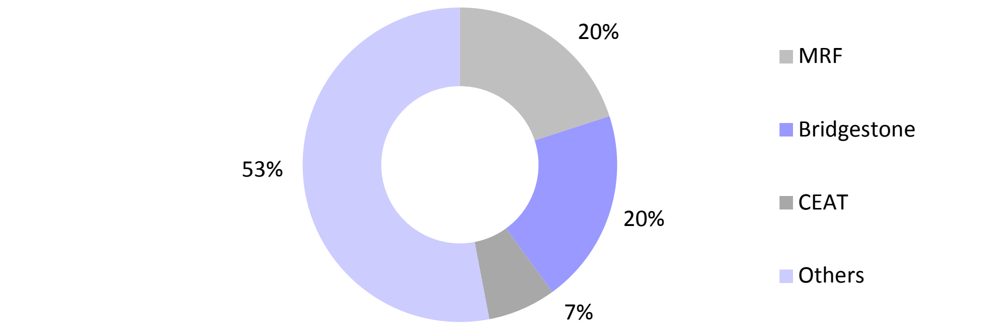


Source: Company, MOSL

Note: Srilanka revenue not included

CEAT's market share in passenger cars is less than half (7%) that of UVs (15%), and management considers capacity as the only constraint in increasing market share in PCs. The company has taken concrete steps in increasing PV radial tyre capacity (Halol Phase II brownfield expansion) by 110MT (entire capacity to be operational by 1HFY18) to address this gap. It will also simultaneously start ramping up its engagements with OEMs, given that it has reasonable capacity at hand to commit production.

Exhibit 16: CEAT occupies 7% market share(FY15 data) in PV segment



Source: Industry, MOSL

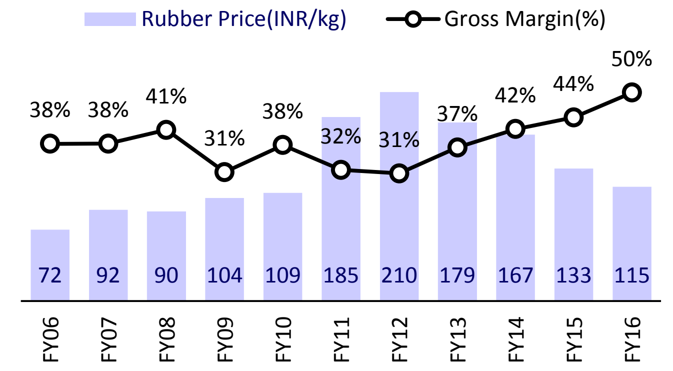
Pact with Pirelli to drive paradigm shift in CEAT's portfolio

CEAT was named the exclusive pan-India distributor for Pirelli motorcycle tyres, underscoring the company's successful distribution build-out. It was only five years ago that RPG Enterprises acquired the global rights to Pirelli for CEAT, by paying a sum of INR550m. The Italian brand's tyres were formerly distributed by Celite and Ralson in India. Pirelli has a range of premium tyres, and given that CEAT has no offering in this segment, this tie-up will enhance the company's capability to offer a full basket of products and thus further improve its brand perception.

Consistent margin performance despite raw material price volatility

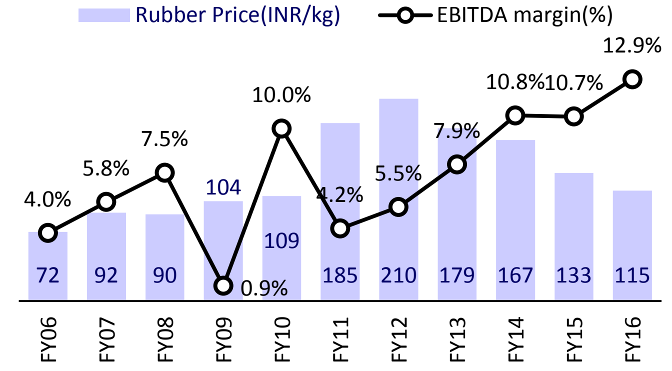
CEAT manages commodity price risk via strategies like market intelligence to better forecast RM prices for efficient inventory management, addition of new vendors, and R&D efforts to develop alternate materials that lower weight without compromising on performance. With increasing contribution from its strategic focus areas (2W/PV), it is easier to retain low rubber price benefits due to brand, compared to T&B which is a very price-sensitive segment.

Exhibit 17: Rubber price sensitivity v/s gross margin



Note: Gross revenues used for calculation Source: Bloomberg, MOSL

Exhibit 18: Rubber price sensitivity v/s operating margin



Note: Gross revenues used for calculation Source: Bloomberg, MOSL

Branding and distribution thrust to enhance visibility

Emphasis on brand, increasing penetration and focused marketing

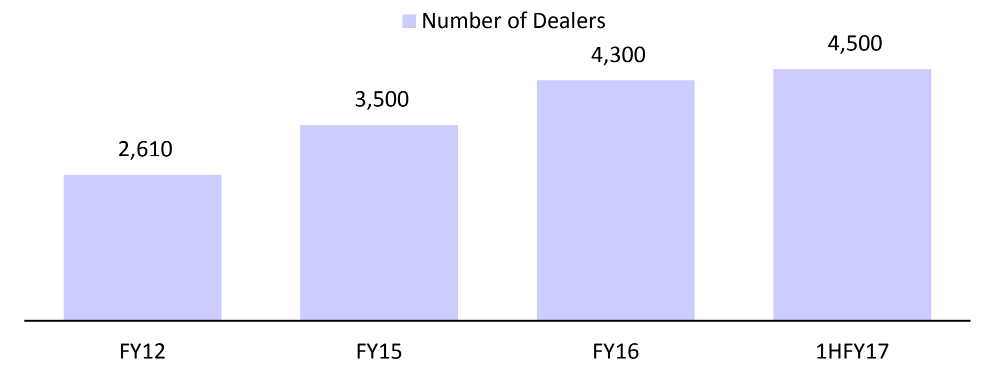
- **CEAT placed a special emphasis on 2W & PV segments via a three prolonged approach of: (1) increasing dealers, franchisees and distributors (3x increase in district penetration) (2) extending its presence across OEMs to boost replacement demand, and (3) spending more on marketing & branding. These initiatives have paid off handsomely for CEAT and improved its financial profile significantly.**
- **Emphasis on focused ads for each segment, unique distributor led model for 2W and increasing distribution reach has increased its market share in the passenger segments (2Ws /passenger cars/UVs).**
- **Focus on R&D, new product launches; extensive distribution network, optimum product mix (non-T&B) and intensive marketing have helped CEAT to grow volumes in the more profitable passenger segment.**

Differentiated strategy for products working well for CEAT

CEAT has been consistently strengthening its distribution network and looking for innovative ways to widen its reach. The company has a three-pronged approach to reach customers: 1) dealers, 2) distributors and 3) branded/exclusive franchises.

- **Dealers:** This is a traditional model. Dealers could be single or multi-brand. This model has been used for CV and passenger car tyres.

Exhibit 19: Increasing dealer strength

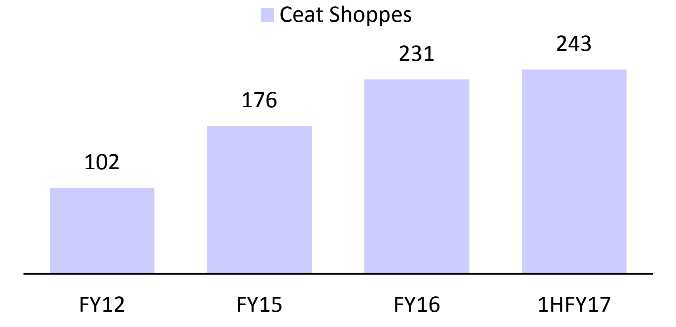


Source: Company, MOSL

- **Distributors:** An FMCG kind of model was adopted primarily for 2Ws. Compared to dealers, distributors have larger capacity and ability to reach end-customers (small garages, etc.). This model has enabled CEAT to penetrate rural and semi-urban markets swiftly and effectively. 2W tyre selling is effective with an FMCG kind of a model as distributors have the sales force to transport and sell products in rural markets. CEAT has more than 250 distributors across the country.

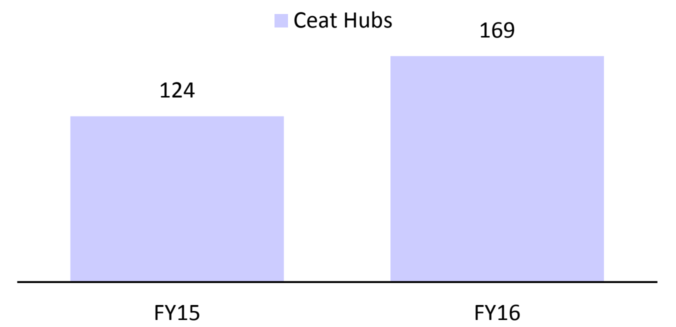
- **CEAT Shoppe and Hubs:** These are dedicated retail outlets providing better experience to customers, thereby reinforcing the brand-building effort. CEAT Shoppe is the company's exclusive retail channel that sells and services CEAT products, primarily PC and 2W tyres. CEAT Hubs sell and service primarily truck and LCV tyres. Notably, CEAT has doubled the number of CEAT Shoppes outlets from 102 in FY12 to 243 currently.

Exhibit 20: Increasing presence of CEAT Shoppes…



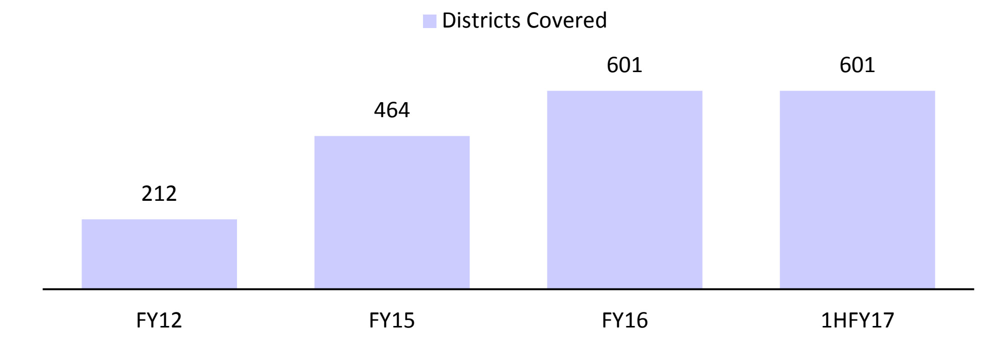
Source: Company, MOSL

Exhibit 21: …and CEAT Hubs…



Source: Company, MOSL

Exhibit 22: …with 3x increase in district penetration



Source: Company, MOSL

- **Shop-in-Shop:** These are dedicated areas in dealers' outlets that display CEAT's branded products. This enables the company to create branding at low cost. Over past few years, the company has come out with two more marketing initiatives: (1) MBO, a "multi-brand outlet" with a predominant CEAT share and (2) SIS, a "shop-in shop" concept having demarcated area in high footfall shops. MBO and SIS concepts are CEAT's newest innovations aimed at enhancing penetration in the replacement market via increased product and brand visibility. CEAT has >240 MBO outlets and >45 SIS outlets.

Exhibit 23: Multi Brand Outlets (MBO)

Source: Company, MOSL

Exhibit 24: Shop in Shop (SIS)

Source: Company, MOSL

Spends on brand building and business promotion set to increase

Along with quality and innovation, CEAT has also laid equal emphasis on effective marketing and branding of its products. Since the passenger segment is consumer-facing, we believe factors such as brand loyalty, visibility and recall go a long way in creating replacement market demand. To position its products competitively, the company develops creative ad campaigns based on extensive research/consumer insights and also invests in innovative marketing programs. In FY16, CEAT launched two new television campaigns – "Our Grip Your Stories" campaign for utility vehicle tyres and the Tubeless campaign for motorcycle tyres – and participated in key events like MTV Roadies, MTV Chase the Monsoon, India Bike Week 2016 and Mahindra Adventure. These initiatives have enhanced product recalling in the minds of end-consumers. Consolidated advertising and sales promotion expenses have increased at a 21% CAGR FY11-FY16 to INR4.6b. Notably, CEAT plans to increase its marketing spend going ahead.

Exhibit 25: CEAT tubeless bike tyre campaign

Source: Company, MOSL

Exhibit 26: CEAT SUV tyre campaign: "Our Grip Your stories"

Source: Company, MOSL

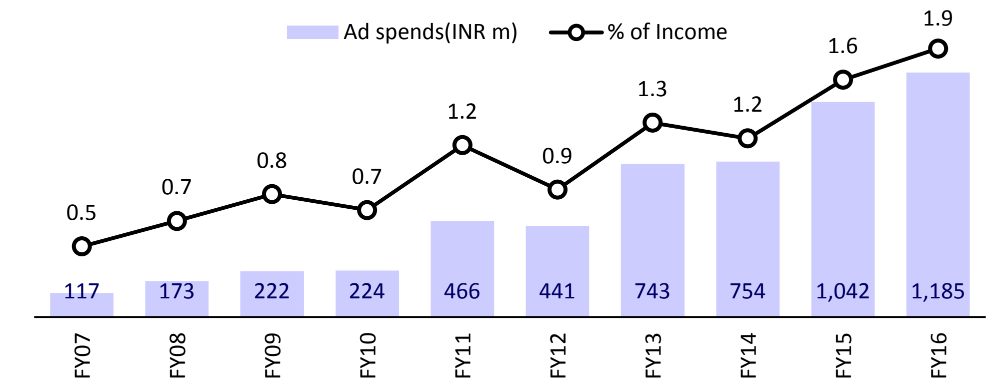
Exhibit 27: IPL strategic timeout partner

Source: Company, MOSL

Exhibit 28: Bat endorsement deal

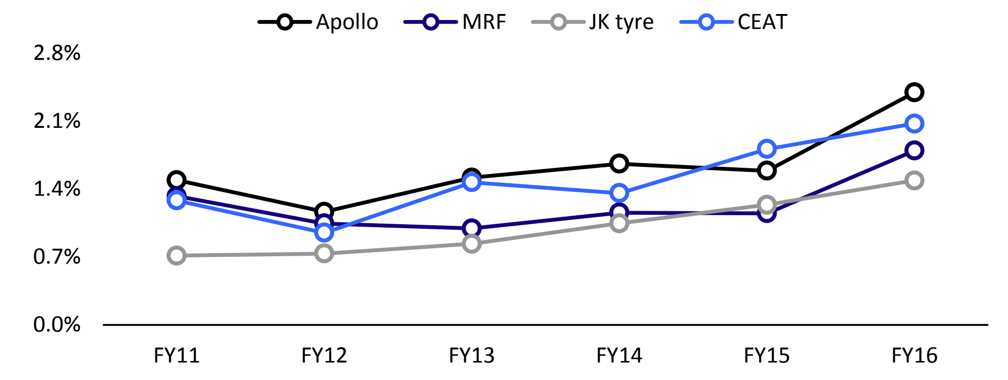
Source: Company, MOSL

Exhibit 29: Focus on ad spend to continue



Note: Gross Revenues considered Source: Company, MOSL

Exhibit 30: Ad spend as % of sales compared to competitors



Source: Capital Line, MOSL

Increasing presence across OEMs through R&D/new products

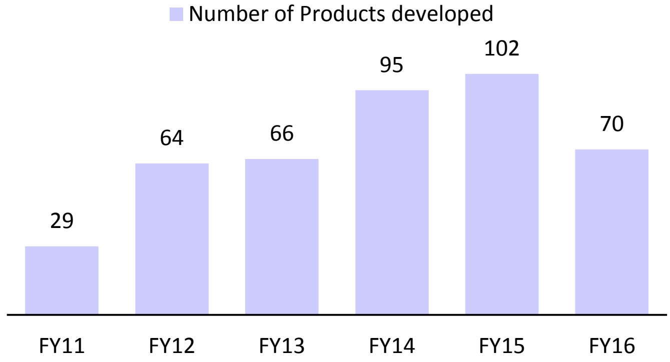
To expand revenues from non-trucking segments, CEAT entered into niche categories like 2Ws and UVs in the early years of this decade. It started working closely with OEMs to understand their requirements in terms of product quality and backed this up with new products catering to every segment (~100 launches in both FY14 /FY15 and 70 in FY16). Over past few years, CEAT has added marquee clients to its OEM portfolio in both 2Ws and 4Ws, showcasing its R&D capabilities. The company is consistently investing in upgrading its technological capabilities and R&D to deliver high-quality, innovative and specialized products across categories. **Ties with OEMs serve twin objectives of staying updated on the technological curve and acting as a natural branding exercise for replacement demand.**

- **OEM relationships and R&D:** On R&D front, CEAT's key focus has been on superior grip, improved fuel efficiency, lower rolling resistance and faster turnaround time. This has fostered new client additions, and improved share of business (SoB) across existing clients.
- **Replacement demand:** Passenger segment customers are more likely to replace tyres with the same brand, unlike T&B customers. CEAT's efforts on R&D and product development fronts have been aptly marketed through product/feature-specific advertisements and publicity strategies.

Exhibit 31: World-class R&D facilities at Halol…

Source: Company, MOSL

Exhibit 32: …led to increase in number of products developed mainly in 2W/PC

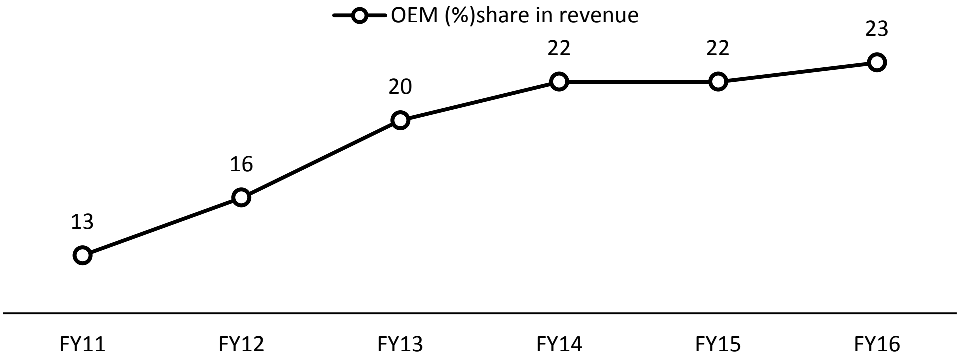


Source: Company, MOSL

Exhibit 33: Increasing OEM penetration

Source: Company, MOSL

Exhibit 34: Rising OEM share as % in revenue



Source: Company, MOSL

Exhibit 35: New products developed in FY16

Source: Company, MOSL

Exhibit 36: CEAT tubeless bike tyre campaign

Source: Company, MOSL

Exhibit 37: Key developments

New entries into OEMs	Honda Motorcycle, Renault, Suzuki Motorcycle, etc.
Primary supplier for OEM launches	Renault Kwid, M&M TUV300, RE Himalayan, Honda Navi, Bajaj VikrantV15, Hero Splendor iSmart110, Datsun Redigo, Suzuki Access125, etc.
Entry into existing models	Daimler Truck Radials, Suzuki Gixxer, RE Classic, Yamaha FZ, etc.
New platforms	Fuelsmart, Gripp, Mileage.

Source: Company, MOSL

Doubling of capacity in focused segment to drive market share gains

Expect CEAT to maximize growth and capacity constraints to get addressed

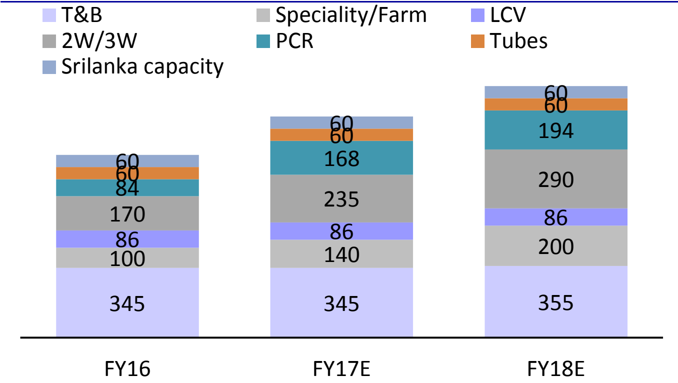
- **CEAT is currently on track to double its 2W/PV capacity which will increase its product capacity in India by 38% from 900MTPD to 1,245MTPD over FY16-18E.**
- **Around 70% of the new capacity addition (230MTPD of total 340MTPD) is attributed to the passenger segment (2W/PV), letting the company maximize growth and profitability and resolve supply side constraints in these segments.**
- **With CEAT's recently announced capex of INR28b by FY22, it envisages to increase annual capacity in TBR from 110MTPD in FY18 to 310MTPD in FY22, in 2W from 290MTPD in FY18 to 430MTPD in FY22, and in passenger cars from 190MTPD in FY18 to 340MTPD in FY22. In our view, this will address supply issues until FY22, boost the 2W/PV businesses further and help improve the market share of radial within the T&B segment.**

Capacity increase by 38% over FY16–18 to drive growth

CEAT plans to aggressively expand its capacity by 38% from 900MTPD to 1,245MTPD over FY16–18. Till FY15, the company outsourced its entire 2W/3W capacity (including tubes) of 270MT/day and was facing difficulty in expanding capacity on the outsourcing platform due to limited investing capabilities of its outsourcing partners. To maximize revenue growth potential of the passenger segment, the company has commissioned two plants: 1) greenfield plant in Nagpur for the manufacture of 2W/3W tyres at capital outlay of INR4.2b, producing 32MT/day till 1HFY17 (120MT/day expected at full capacity by 1HFY18) and 2) brownfield expansion of Halol Phase II for the manufacture of PC/UV radial tyres at capital outlay of INR6.5b, producing 69MT/day till 1HFY17, (110MT/day expected at full capacity by 1HFY18). Also, for off-highway farm radials, it is commissioning ~100MT/day plant at Ambernath with initial capacity of 40MT/day (INR 3.3b capex). This first phase of this plant of 40MT/day is expected to be operational in FY17 which would be further expanded to 100MT/day at cost of INR2.7b in FY18.

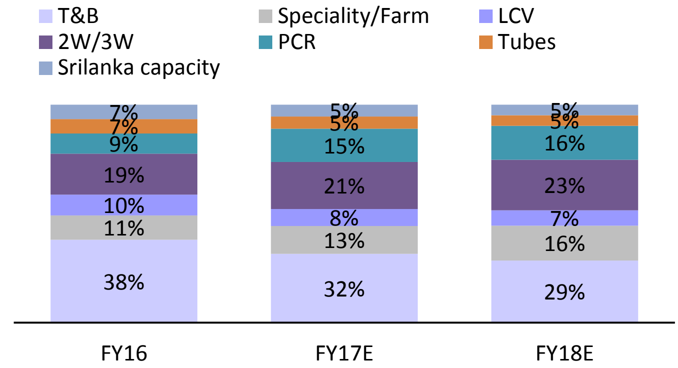
Also, With CEAT's recently announced capex of INR28b by FY22, it envisages to increase annual capacity in TBR from 110MTPD in FY18 to 310MTPD in FY22, in 2W from 290MTPD in FY18 to 430MTPD in FY22, and in passenger cars from 190MTPD in FY18 to 340MTPD in FY22. In our view, this will address supply issues until FY22, boost the 2W/PV businesses further and help improve the market share of radial within the T&B segment.

Exhibit 38: Capacity expansion in 2W/PCR/OHT…



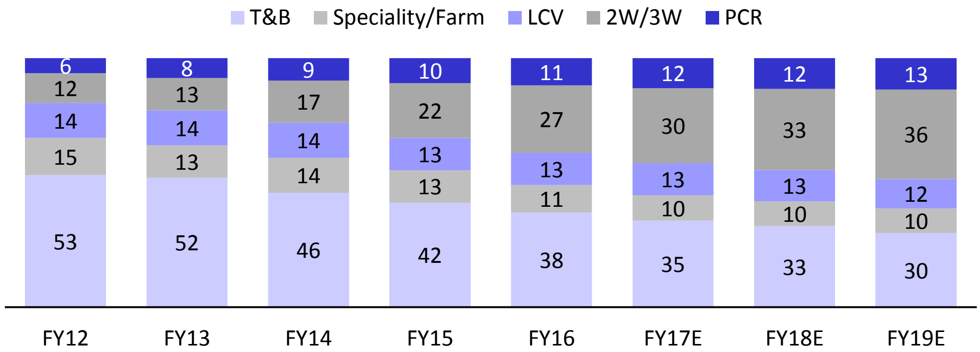
Source: Company, MOSL

Exhibit 39: …and higher capacity share in 2W/PCR…



Source: MOSL

Exhibit 40: ..will lead to rising share of 2W/4W in revenue mix



Note: Only Standalone product revenues considered Source: MOSL

Exhibit 41: Capex plans for CEAT

Location	Purpose & Status	Capex Amount	Timeline
Nagpur	Plant has commenced production at 19MT/day from Jun-16, and is expected to reach 120MT/day at full capacity by 1HFY18.	4.2b	FY15-18
Halol Phase II expansion	69MT commissioned till 1HFY17,Entire capacity of 110MT to be operational by 1HFY18	6.5b	FY15-18
Ambernath	Off Highway tyres facility of 40MT/day to be operational in end of FY17	3.3b	FY16-19
	Incremental capacity of 60MT/day to be operational in end of FY18	2.7b	
Not yet Announced	Incremental annual capacities by 1m tyres for TBR, 17m tyres for 2W and 6m tyres for passenger cars	28b	FY18-22

Source: Company, MOSL

International business to get boost from OHT segment

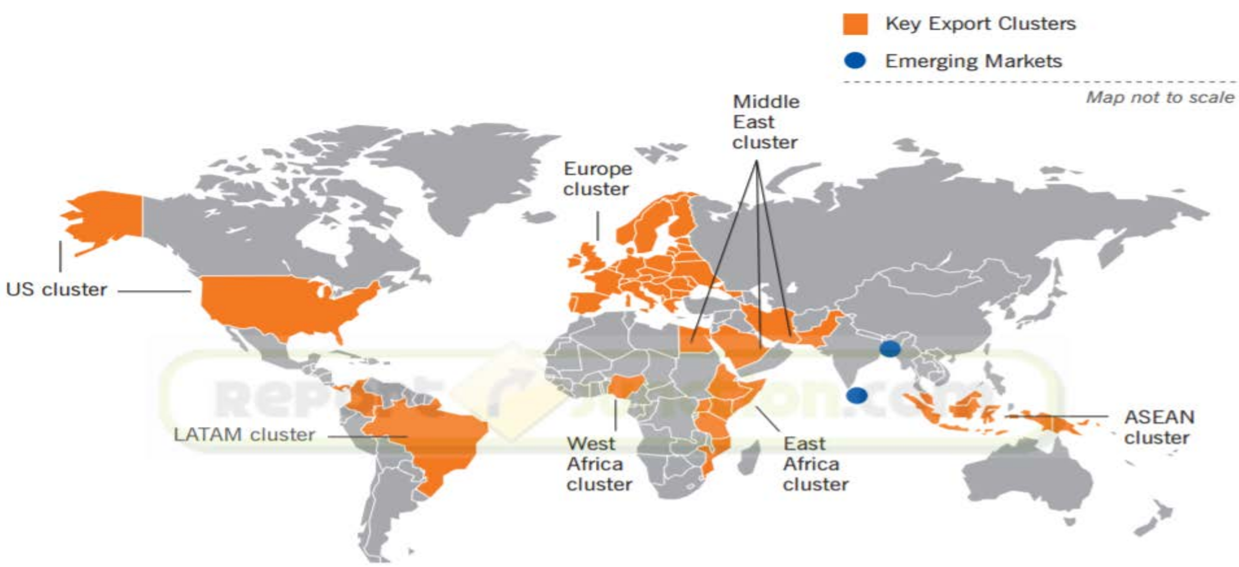
Foray into OHT would be margin accretive for the company

- **Exports for CEAT have slowed down over past three years due to dumping of Chinese tyres in Ceat's key export markets, devaluation of currencies and increasing level of radialisation in the market. Thus, the company has forayed into high-margin (EBITDA margins of >18%), export-focused off-highway tyres (40MT/day capacity to be operational in FY17 at cost of INR3.3b in Ambernath, which would expand to 100MT/day at incremental cost of INR2.7b) to drive dwindling exports.**
- **CEAT's foray into OHT would be margin-accretive for the company.**
- **ACHL, the company's investment arm in Sri Lanka, is a market leader in that country with ~50% market share and ~25 % EBITDA margin. It is expected to continue growing at a stable rate.**

Slowdown in exports due to increasing radialisation and Chinese imports

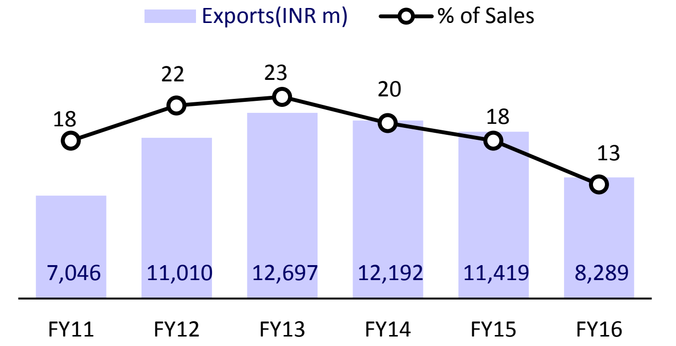
CEAT is a leading exporter among Indian tyre companies. It is one of the major exporters of tyres in the truck, off-the-road (OTR) vehicle and light commercial vehicle (LCV) categories. It exports to various markets across the world (divided into seven clusters), with many of its products developed exclusively for certain geographies. The company has also formed two JVs and is increasing its presence in Sri Lanka and Bangladesh. Overall, CEAT supplies to 110 countries globally and 80-85% of its export products consist of truck, bus and LCV tyres. Currently, export sales have been impacted due to increasing influx of Chinese radial tyres (available at cost of TBB tyres) and increasing radialisation (impacting TBB sales for the company). **CEAT unlike other players does have the advantage of having its TBB facility in the heart of Mumbai (Bhandup). Thus, if TBB utilization declines below 65-70% (currently greater than 80%), it does have the option to monetize the land.**

Exhibit 42: Export clusters for CEAT



Source: Company, MOSL

Exhibit 43: Fall in exports over the years…



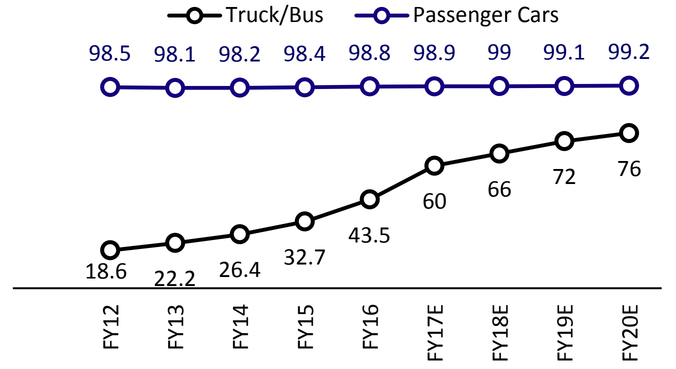
Source: Company, MOSL

Exhibit 44: Typical tyre replacement demand

MHCVs	6-8months
PVs(PC and UV)	3-4years
2Ws	2-3years
LCVs	3-4years
Tractors(Front Tyre)	3-4years
Tractors(Back Tyre)	3-4years

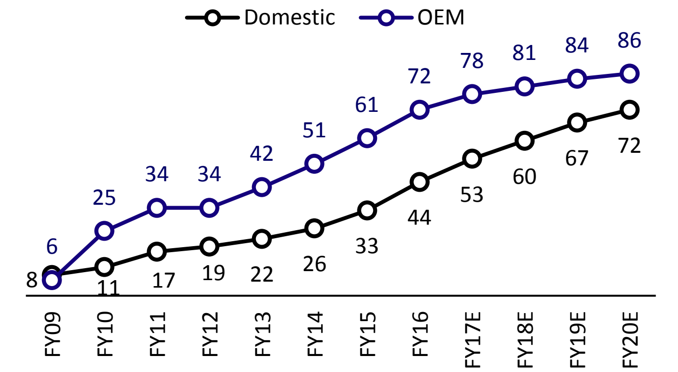
Source: Crisil, MOSL

Exhibit 45: …and increasing radialisation in T&B segment



Source: Industry, MOSL

Exhibit 46: Channel-wise radialisation



Source: Industry, MOSL

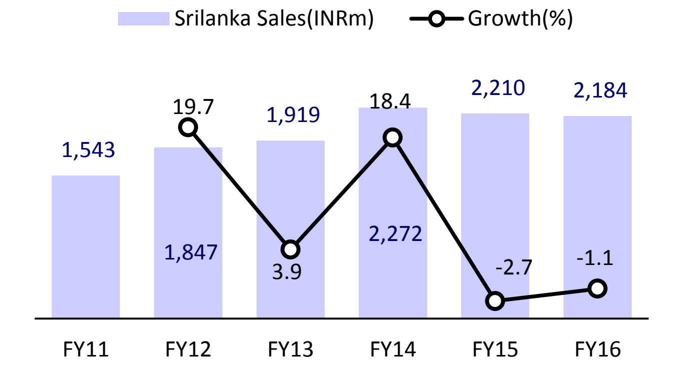
Off-highway farm radials to drive dwindling exports

CEAT is setting up a new facility at Ambernath (INR3.3b for initial 40MT/day capacity) in Maharashtra for specialty farm radial tyres to be exported to Europe and the US. The foray would be through its 100% subsidiary, CSTL. The plant's capacity would be 100MT, of which 40MT would be operational in end of FY17 and the remaining in end of FY18. While CEAT has presence in this segment (farm/specialty) via its Bhandup and Nasik plants, the company is now looking at increased presence in the specialty segment. Currently, 50% of the company's farm and specialty tyres are exported. The agri-tyre segment in exports is consumer-focused, where CEAT's channel partners have given a feedback that there is a gap for a third player (Balkrishna Industries and Alliance Tyres are the other two companies). As overall market size is huge, there is a good chance for CEAT to succeed in this venture. The positive aspect is that China does not have significant presence in agri tyres, given the higher SKUs and that it is not a mass production market. **OHT is a niche segment comprising high-end tyres used across applications like agriculture, mining and industrial. Competitive intensity in this segment is low with superior profitability and margins.**

Market leadership in Sri Lanka…

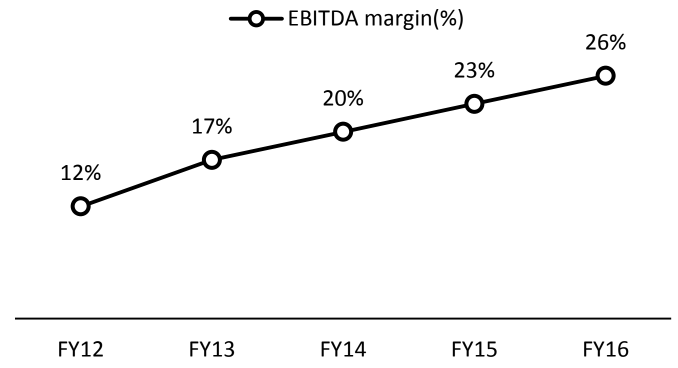
ACHL, the company's investment arm in Sri Lanka, has a 50:50 joint venture company, CEAT-Kelani Holdings Private Limited, which operates four manufacturing plants through its wholly owned subsidiaries in Sri Lanka. CEAT has 60MT manufacturing capacity in Sri Lanka, while overall market size there is 120MT (since CEAT has ~50% market leadership position). CEAT is the sole manufacturer in that country and competes with other Indian/international brands. The company gets some duty incentives from the government, while imported tyres attract a higher duty. Imported tyres are also impacted by currency depreciation. CEAT has a clear cost advantage in terms of brand and focus. Thus, the equity of CEAT in Sri Lanka is very high. This is proving to be a steady market for the company with stable profitability. However, faster growth in this market would be difficult. As the market grows, CEAT may make small capacity additions, if required. Exports form ~20-30% of the venture revenues.

Exhibit 47: Healthy revenue growth



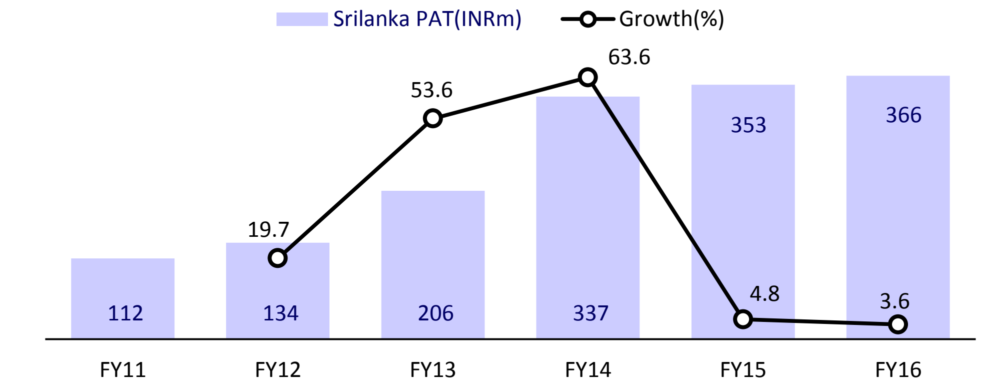
Source: Company, MOSL

Exhibit 48: Improving margins



Source: Company, MOSL

Exhibit 49: Healthy PAT growth



Source: Company, MOSL

Earnings CAGR of 25% over FY17–19E

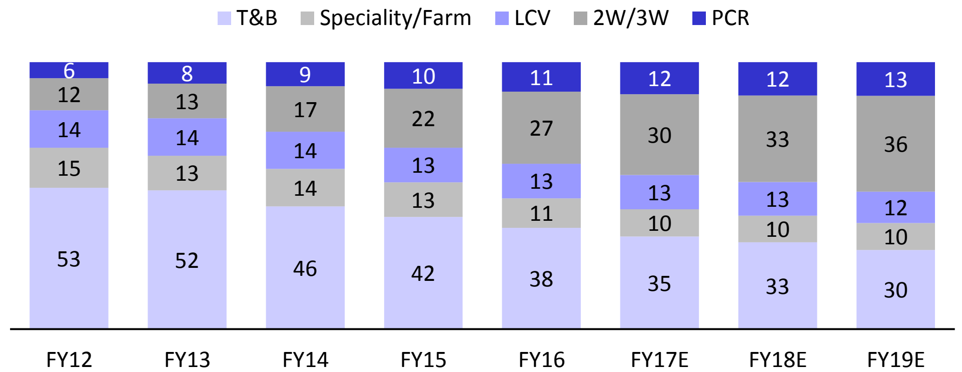
Balance Sheet to continue to remain healthy

- **With first phase of capacity expansion (INR14b) likely to be completed by 1HFY18, product mix is expected to further improve with revenue share of 2W/PV expected to further increase from 38% to 49% over FY16-19E which partly insulates CEAT against rubber price volatility and improves margins.**
- **We expect 11% revenue CAGR, 25% PAT CAGR with 150bp improvement in margins over FY17-19E.**
- **First phase of capex of ~INR14b over FY16-18 will be funded via internal accruals, thereby significantly de-leveraging the balance sheet, improving return ratios and generation of healthy FCFF over FY17-19E.**

Improvement in product mix to continue

CEAT has improved its product mix in favour of passenger segment (2W/PV) in Indian operations from 15% to 38% over FY11-16. With doubling of capacities in both segments over FY16-18E, we expect 2W/PV to grow at 20%/13% revenue CAGR over FY17-19E led by market share gains in each segment. With first phase of capacity expansion (INR14b) likely to be completed by 1HFY18, product mix is expected to further improve with revenue share of 2W/PV expected to further increase from 38% to 49% over FY16-19E which partly insulates CEAT against rubber price volatility and improves margins.

Exhibit 50: Shift in product mix to 2W/PV



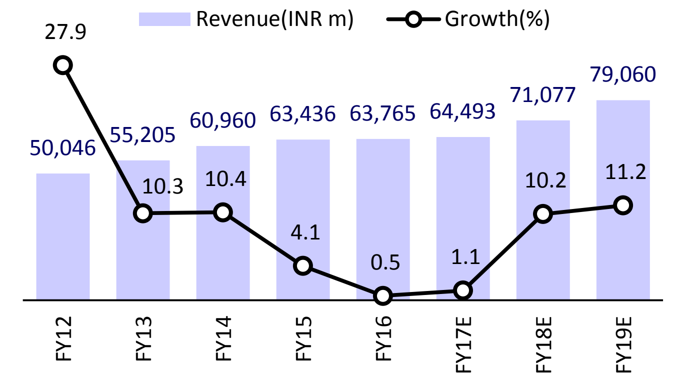
Source: Company, MOSL

Capacity expansion in strategic focus areas (2W/4W) to drive revenue growth, and deleveraging to drive PAT

Revenues will be driven by 20% revenue CAGR in 2Ws, while passenger cars/UVs would post revenue CAGR of 13% over the same period due to doubling of capacity in both segments. Due to increasing revenue share of 2W/PV we expect CEAT to be relatively insulated against rubber prices and drive healthy 11% revenue CAGR over FY17-19E.We expect increased offtake from the OEM and replacement segments, driven by the company’s branding efforts and new capacities, while exports are likely to remain muted, especially in the T&B segment. We believe CEAT’s foray into less competitive and highly profitable off-highway radial tyres will help boost dwindling exports and drive margins. Led by product mix change and foray into OHT, we expect margins to improve by 150bp and EBITDA to grow at 19% CAGR over

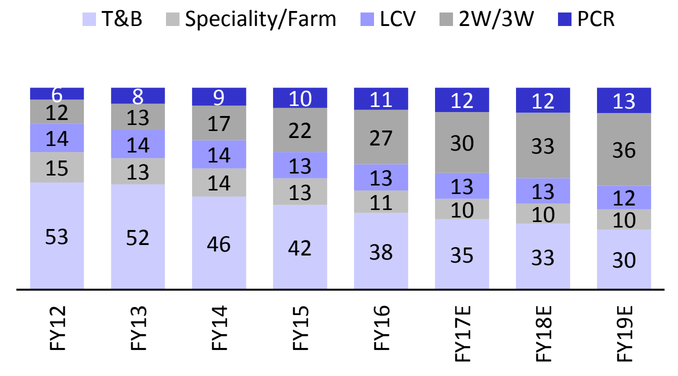
FY17-19E. Since major part of first phase of capex (INR14b) is being met via internal accruals, we expect interest cost to decline with PAT to grow at 25% CAGR over FY17-19E.First phase of capex of ~INR14b over FY16-18 will be funded via internal accruals, thereby significantly de-leveraging the balance sheet, improving return ratios and generation of healthy FCFF over FY17-19E.

Exhibit 51: Revenues to post 11% CAGR over FY17–19



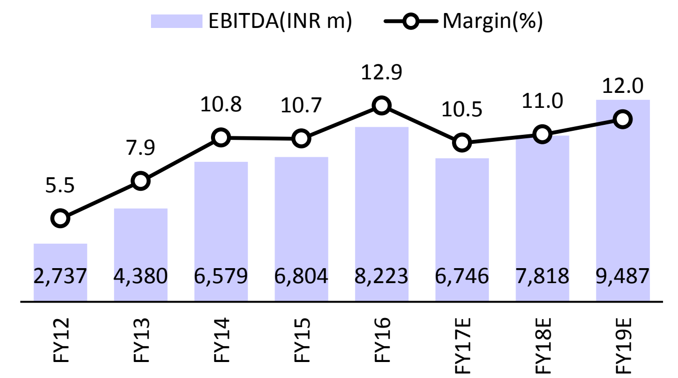
Note: Gross revenues considered due to IndAs adjustment Source: Company, MOSL

Exhibit 52: With Increasing 2W and 4W contribution (% share)



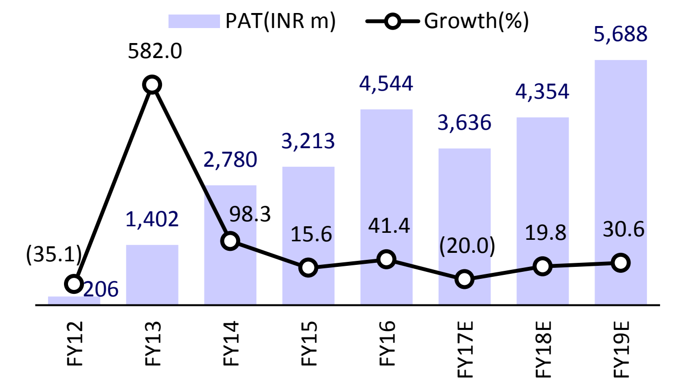
Note: Standalone product Revenues considered Source: Company, MOSL

Exhibit 53: EBITDA to post 19% CAGR over FY17–19



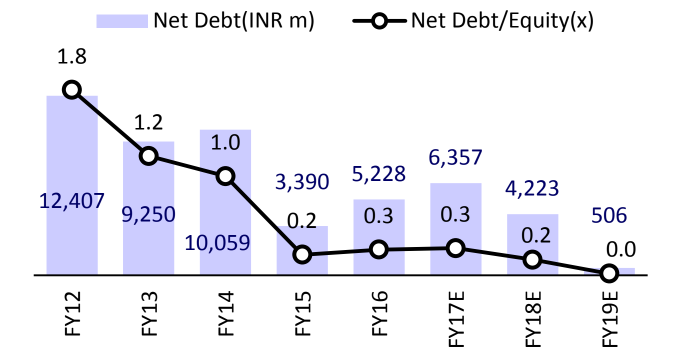
Note: Excise Duty included in expenses Company, MOSL

Exhibit 54: PAT to post 25% CAGR over FY17-19



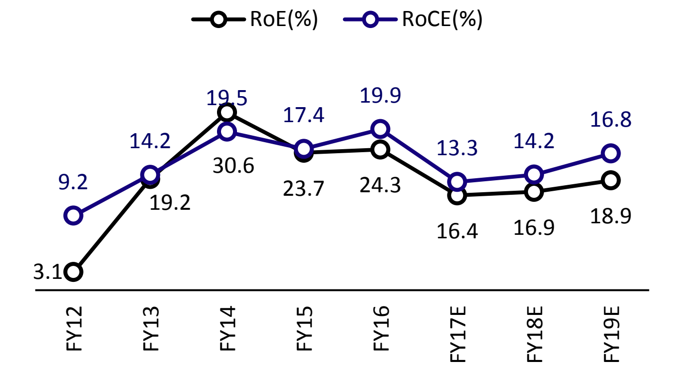
Source: Company, MOSL

Exhibit 55: Continues to reduce debt



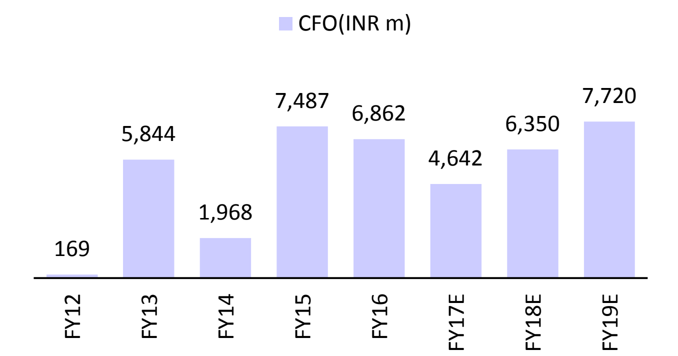
Source: Company, MOSL

Exhibit 56: Return ratios to remain healthy



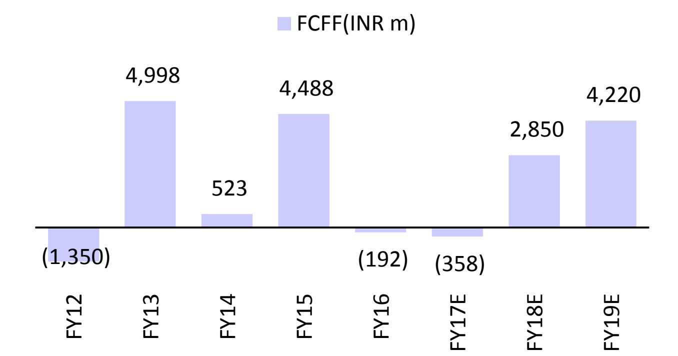
Source: Company, MOSL

Exhibit 57: CFO to remain healthy



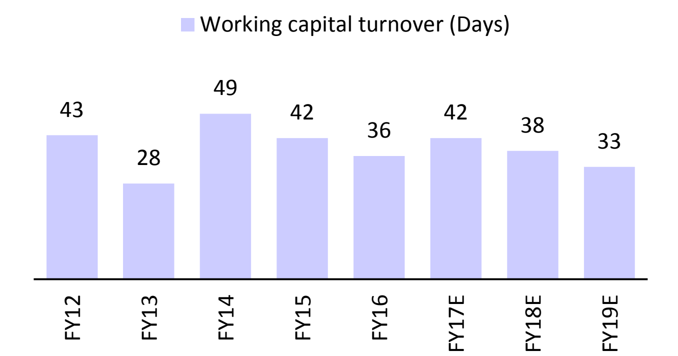
Source: Company, MOSL

Exhibit 58: Will generate FCFF despite capex lined up



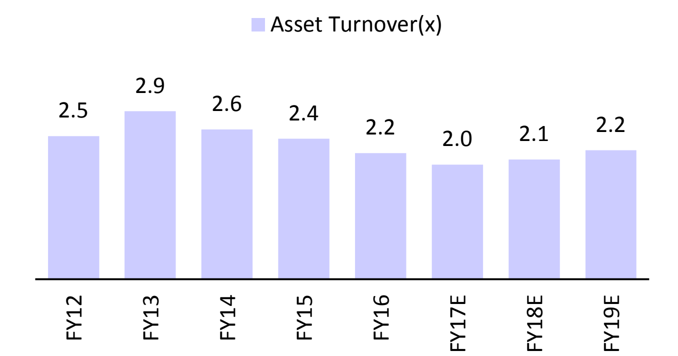
Source: Company, MOSL

Exhibit 59: WC to remain healthy



Source: Company, MOSL

Exhibit 60: Asset turnover to remain ~2x



Source: Company, MOSL

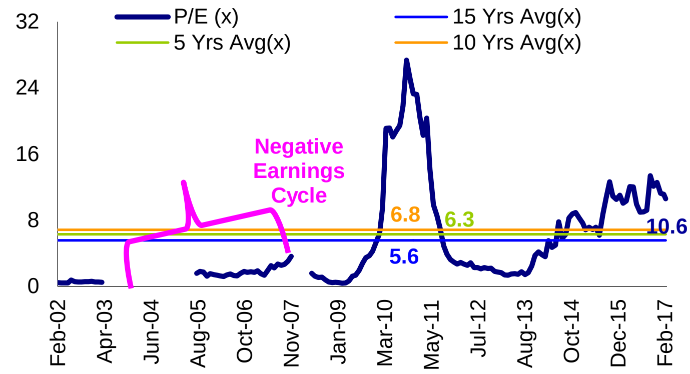
Valuation and view

Initiating with Buy rating

Compelling story of India's tyre market

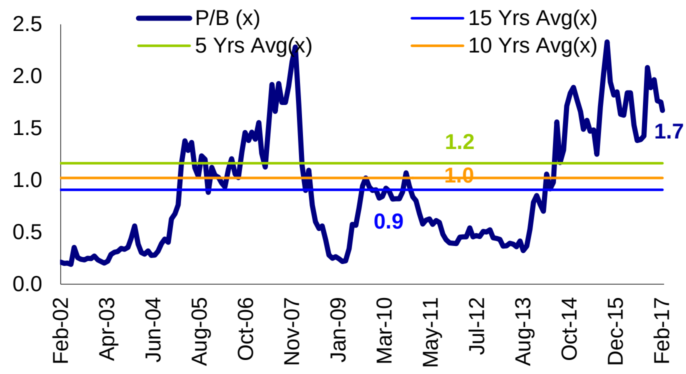
- The tyre industry had benefited over past two years from multi-year low rubber prices. While prices have now increased from the lows, we expect CEAT to counter this rise by a combination of product mix improvement, operating leverage and selective price increases.
- **We value the company at 10x FY19E EPS, led by:**
  - At the start of FY11, CEAT underwent a leadership change with Mr Anant Goenka taking over as managing director. He drove the strategy with a clear focus on 2W/PV, given the ability of these segments to boost margins and lower dependence on the truck segment. A three-pronged strategy was adopted to achieve its outlined goals: (1) raise sales and distribution reach by increasing the number of dealers, franchises and distributors; (2) ramp up presence across OEMs to enhance demand for replacement tyres; and (3) increase marketing spend on brand-building initiatives.
  - In FY11, CEAT's revenue profile mirrored the industry mix, with T&B accounting for a lion's share. However, by FY16, the company's mix had changed drastically, with the passenger segment accounting for 38% of revenue, as against 15% in FY11.
  - CEAT's strategic focus on the more profitable 2W/PV segments would lead to product mix improvement, with revenue contribution from these segments increasing from 38% to 49% over FY16-FY19 and market share increasing from 27%/9% currently. Improving product mix toward consumer-facing segments partly insulates CEAT against rubber price volatility. Also, its foray into high-margin OHT will aid in improving margins.
  - We expect sales and PAT CAGR of 11% and 25%, respectively, and expect margin to improve by 150bp over FY17-19E, led by an increasing focus on the consumer-facing segments.
  - First phase of capex of INR14b (to be completed by FY18) is being met entirely by internal accruals, while the recently announced capex of INR28b (to be done over FY18-22) is expected to be funded via a mix of debt and equity. However, despite ~33% increase in gross block over FY16-18E, we expect net debt to equity to decline from 0.3 in FY16 to 0.2 in FY18.
  - Despite ongoing capex, we expect RoE/ RoCE to improve by 260bp/350bp to 18.9%/16.8%, with strong FCFF generation of INR6.7b over FY17-19E.
  - The stock has traded at 8x P/E (10-year average with EPS CAGR of 8% over FY06-16) and witnessing a rally since past three years on account of its stellar outperformance led by product mix improvement.
  - Based on expectations of CEAT's superior EPS CAGR (25%) v/s Indian tyre peer companies over FY17-19 and also its 10-year EPS CAGR (8%), we believe 10x (20% premium to 10-year average) is justified for CEAT for FY19.
  - We believe the current valuations are attractive. We also see potential re-rating as its consumer-facing businesses grow and cross-cycle margin resilience increases. Thus, we initiate coverage on CEAT with a **Buy** rating and a target price of INR1,406, valuing the company at 10x FY19 earnings.

Exhibit 61: P/E (x)



Source: MOSL

Exhibit 62: P/B (x)



Source: MOSL

Exhibit 63: Peer valuation

Company Name	PE			EV/EBITDA			RoE %			EV/Sales			Sales CAGR	PAT CAGR
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17-19E	FY17-19E
APTY IN Equity	9	8	8	6	5	5	16	14	14	1	1	1	12	7
CEAT IN Equity*	12	10	8	8	6	5	16	17	19	1	1	1	11	25
JKI IN Equity	6	5	4	6	6	5	23	23	21	1	1	1	17	25
MRF IN Equity	13	12	9	7	7	6	20	19	17	2	1	1	10	13
BIL IN Equity	18	16	13	11	10	9	22	20	20	3	3	3	15	15
SRTY IN Equity	13	12	-	8	7	-	32	28	-	1	1	-	-	-

*: CEAT nos are MOSL estimates Source: Bloomberg, MOSL

Exhibit 64: Peer Valuation of Global tyre companies

Company Name	PE			EV/EBITDA			RoE %			EV/Sales			Sales CAGR	PAT CAGR
	CY16	CY17E	CY18E	CY16	CY17E	CY18E	CY16	CY17E	CY18E	CY16	CY17E	CY18E	CY16-18E	CY16-18E
Continental AG	12	11	10	6	6	5	20	20	18	1	1	1	5	10
Bridgestone Corp	11	11	10	5	5	4	12	12	12	1	1	1	3	7
Michelin(CGDE)	12	11	10	5	5	4	15	16	15	1	1	1	4	11
Goodyear Tyre & Rubber Co	7	7	6	5	5	5	25	23	24	1	1	1	2	4
Sumitomo Rubber industries	9	10	9	5	5	5	12	10	10	1	1	1	3	-4

Note: FY16 is CY15, FY17E is CY16E while FY18E is CY17E Source: Bloomberg, MOSL

Exhibit 65: Raw material sensitivity

Change in natural rubber price	10.0%	20.0%	30.0%	40.0%	50.0%
Change in Synthetic rubber price	10.0%	20.0%	30.0%	40.0%	50.0%
Total Impact on EBITDAM (FY18 & FY19)	**(200bps)**	**(400bps)**	**(600bps)**	**(800bps)**	**(1000bps)**
EPS FY18 - normal case	107.6	107.6	107.6	107.6	107.6
EPS FY18 - post impact	86.1	64.6	44.1	22.6	1.1
Impact on EPS - FY18	-20%	-40%	-59%	-79%	-99%
EPS FY19 - normal case	140.6	140.6	140.6	140.6	140.6
EPS FY19 - post impact	116.7	91.4	67.5	43.6	19.7
Impact on EPS - FY19	-17%	-35%	-52%	-69%	-86%

SWOT Analysis

- ☑ Robust brand name in PV and 2W segments
- ☑ Exposure to emerging markets: Sri Lanka and Bangladesh
- ☑ R&D capabilities and fast roll-out of new products
- ☑ Strategic focused approach at management level

- ☑ Presence in TBB segment (38% revenue as per FY16), which is shrinking due to Chinese imports
- ☑ Comparatively smaller player in a competitive market

- ☑ Scale-up of export of radial tyres which is lagging currently
- ☑ Foray into profitable off highway radial tyres for driving exports growth
- ☑ Increasing presence in PV segment, whose current industry penetration in India is very low

- ☑ Increasing competition from Chinese imports
- ☑ Raw material volatility
- ☑ Intensifying competition in 2W segment with scale up of new players

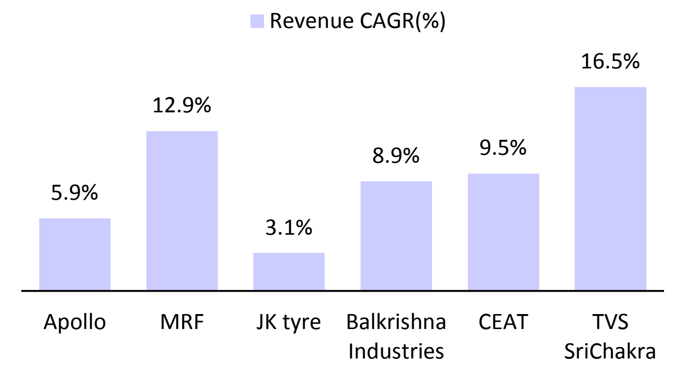
Competitive Positioning

Exhibit 66: Player Wise Details

Player	Revenue Composition	Market Share	Distribution Strength	Segment wise capacity (MTPD)	Capacity (MTPD)	Expansion Plans
Apollo	LCV-7%	TBR,TBB -25%, PCR-16%	4,900	TBR-6,000 tyres per day	FY16-1,645	Enhancing TBD and PCR capacities by 6,000 tyres per day and 8,000 per day respectively.
	Farm & others-11%			TBB-10,000 tyres per day	FY20E-2,300	
	PCR & LT-34%			PCR-32,000 tyres per day		
	T&B-48%					
JK Tyre	T&B – 67%	TBR – 30%	4,000	TBB - 47.1 lakhs pa	FY16-2,110	No expansion plans
	LCV – 12%			TBR – 34.6 lakhs pa		
	PCR – 15%			PCR – 150.8 lakhs pa		
	Farm – 4%			2/3W – 63 lakhs pa		
	OTR & Others – 2%			OTR and Others – 54.6 lakhs pa		
CEAT	T&B-38%	2W-27%, PCR-9%	4,300	T&B-345	FY16-905	Doubling capacity in 2W, PCR and setting up 100MT plant for OHT.
	Speciality/Farm-11%			Speciality/Farm-100	FY18E-1,245	
	LCV-13%			LCV-86		
	2W/3W-27%			2W/3W-170		
	PCR-11%			PCR-84		
Balkrishna Industries	Only into Speciality/Farm	5% market share globally	NA	-	3,00,000MTPY operating at 55-60% utilization	Will focus on Bhuj rampup in speciality tyres and entered 2/3Wheeler tyres via Asset light model approach
	Agriculture-64%					
	OTR-32%					
	Others 4%					
TVS Srichakra	Only into 2W/3W	22%; market leader in OEM segment	2,400	76,000 tyres per day	-	Increasing the total capacity from 2.3 million tyres a month to 2.5 million by 2QFY17
Bridgestone	PCR,TBR,2W	NA	NA	PCR-25,000 tyres per day	NA	NA

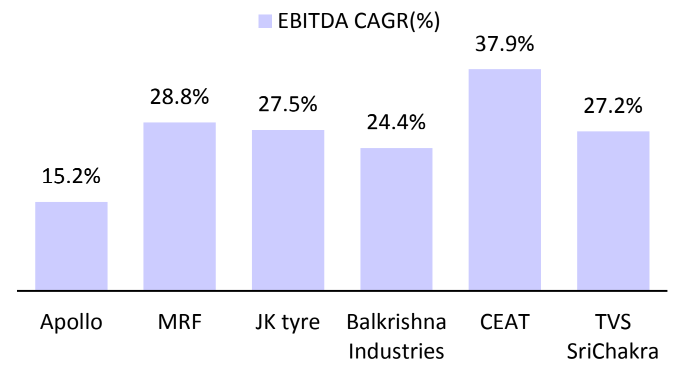
Source: Industry, MOSL

Exhibit 67: Healthy revenue CAGR for last 5 years



Note: Net Revenues are used Source: Capital line, MOSL

Exhibit 68: Highest 5 year EBITDA CAGR



Source: Capital line, MOSL

Bull & Bear case

Bull case

- Our bull case assumptions have positive impact on volume growth, sales growth and operating margins. We assume higher capacity utilization on account strong volume traction in 2W/PCR space. Additionally, we assume prices of critical raw material rubber decrease for FY17E, FY18E and FY19E and CEAT doesn't pass on entire raw material benefits due to better product mix.
- We assume CEAT would be benefited on both volume and margin terms, we are assuming 320bps margins improvement over FY17-19E, 12% revenue CAGR (11% revenue CAGR in base case), 36% PAT CAGR over FY17-19E with falling raw material prices and softer impact of de-monetisation on industry.
- In the bull case we are assuming that company will not pass on benefit on lower raw material prices and thus enjoy higher margins. Company will continue to garner market share in 2W/PV segment and retain market share in T&B segment.
- There is an increase of 1%/16%/19% in FY17E /FY18E/FY19E EPS over the base case EPS to INR90, INR124.8 and INR166.7 respectively.
- Assuming the target multiple as 12x in bull case instead of 10x that we have taken for the base case, we get a bull case target price of INR2,001 (upside of 84% to CMP) based on FY19 EPS instead of the base case target price of INR1,406, upside of 29%.

Exhibit 69: Bull case scenario

	FY16	FY17E	FY18E	FY19E
Sales (INR m)	63,765	64,493	71,712	80,380
Sales growth (%)	0.5	1.1	11.2	12.1
EBITDA (INR m)	8,223	6,746	8,821	11,012
EBITDA Margin (%)	12.9	10.5	12.3	13.7
EBITDA growth (%)	20.9	-18.0	30.8	24.8
PAT (INR m)	4,544	3,636	5,048	6,744
PAT Margin (%)	7.1	5.6	7.0	8.4
PAT growth (%)	41.4	-20.0	38.8	33.6
EPS (INR)	112.3	90.1	124.8	166.7
Target multiple (x)				12
Target price (INR)				**2001**
Upside/downside (%)				84

Source: Company, MOSL

Bear case

- Our bear case assumptions mainly have a negative impact on both sales growth and operating margins for FY17E, FY18E and FY19E compared to base case. We assume lower capacity utilization on account increasing competition in 2W/PCR space. Additionally, we assume prices of critical raw material rubber increase for FY17E, FY18E and FY19E and CEAT doesn't pass on entire price increase because of higher competition.
- We assume CEAT would be at disadvantage on both volume and margin terms, we are assuming 280bps EBITDA margin dip over FY17-19E, 4% revenue CAGR (11% revenue CAGR in base case), (12%) PAT CAGR over FY17-19E with

increasing raw material prices and higher impact of de-monetisation on industry.

- In the bear case we are assuming that raw material prices would increase and company won't be able to pass on costs due to low volume growth. We expect 2W and PV growth to get impacted due to de-monetisation.
- There is a decline of 1%/26%/50% in FY17E /FY18E/FY19E EPS over the base case EPS to INR88, INR79.3 and INR70.4 respectively.
- We would cut our multiple and give it 8x target multiple and get a bear case target price of INR563(downside of 48% to CMP) based on FY19 EPS instead of the base case target price of INR1,406, upside of 29%.

Exhibit 70: Bear case scenario

	FY16	FY17E	FY18E	FY19E
Sales (INR m)	63,765	64,493	66,273	69,890
Sales growth (%)	0.5	1.1	2.8	5.5
EBITDA (INR m)	8,223	6,746	6,163	5,382
EBITDA Margin (%)	12.9	10.5	9.3	7.7
EBITDA growth (%)	20.9	-18.0	-8.6	-12.7
PAT (INR m)	4,544	3,636	3,209	2,847
PAT Margin (%)	7.1	5.6	4.8	4.1
PAT growth (%)	41.4	-20.0	-11.7	-11.3
EPS (INR)	112.3	88.7	79.3	70.4
Target multiple (x)				8
Target price (INR)				**563**
Upside/downside (%)				-48

Source: Company, MOSL

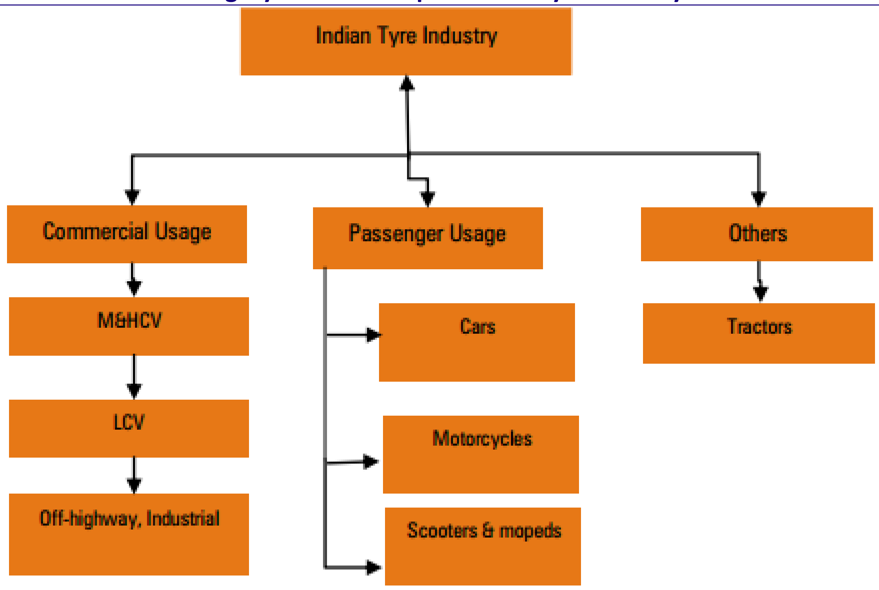
Industry overview

Indian tyre industry on road to recovery

Industry landscape

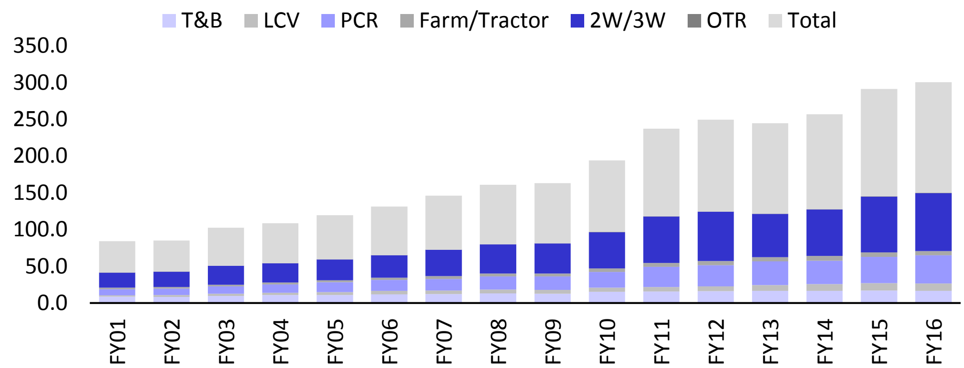
The INR500b Indian tyre industry comprises 39 companies and overall 60 manufacturing plants across India. The industry is heavily concentrated, with the top four players holding ~70% market share and the top 10 companies accounting for 90% of industry sales (both value and volume). During FY11-16, the industry has grown by 4% in terms of tonnage sold (to 1.7m from 1.4m tonnes). Commercial vehicles (CV) is the largest segment in terms of volumes (contribution of 55%); however, its performance has been sluggish with five-year CAGR of just 2%. Subdued economic activity not only meant weaker OEM sales, but also lower movement of trucks and thus slower replacement demand. PV tyres have seen the strongest demand offtake with 8% CAGR, whereas 2W demand CAGR was 6%.

Exhibit 71: Product category-wise breakup of Indian tyre industry



Source: Company, ATMA, MOSL

Exhibit 72: Domestic Production of tyres (m units)



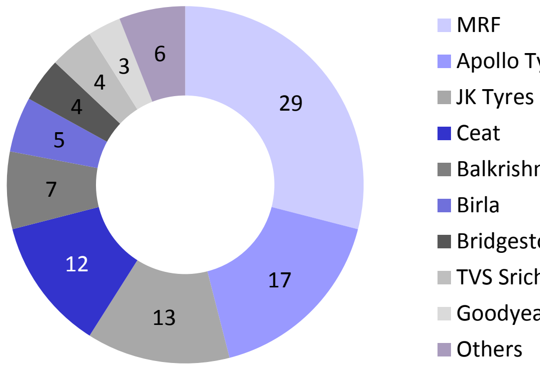
Source: ATMA,MOSL

Exhibit 73: Category wise Supply of tyres to segments

Category wise supply of tyres to segments(m nos)	Replacement	As % of (a)	OEM	As % of (a)	Govt	As % of (a)	Export	As % of (a)	Total domestic prdn	As % of (a)	Imports	As % of (a)	Total (a)	As % of (a)
M&HCV(T&B)	12.9	70%	3.2	17%	0.2	1%	1.92	10%	16.8	92%	1.5	8%	**18.3**	**100%**
PCR	24.8	56%	17.1	39%	0	0%	2.3	5%	38.7	87%	5.6	13%	**44.3**	**100%**
LCV/SCV	5.6	58%	2.4	25%	0	0%	1.7	18%	9.7	100%	0	0%	**9.7**	**100%**
Tractor(Front)	1.3	52%	1.1	44%	0	0%	0.1	4%	2.5	100%	0	0%	**2.5**	**100%**
Tractor(Rear)	0.7	35%	1.1	55%	0	0%	0.1	5%	2	100%	0	0%	**2**	**100%**
Scooter	6.6	38%	10.6	62%	0	0%	0.1	1%	17.2	100%	0	0%	**17.2**	**100%**
3W	0.5	10%	3.7	74%	0	0%	0.8	16%	5	100%	0	0%	**5**	**100%**
Motorcycle/Mopods	30.7	52%	27.1	46%	0	0%	1.3	2%	56.5	96%	2.5	4%	**59**	**100%**
Total	**83.1**	**53%**	**66.3**	**42%**	**0.2**	**0%**	**8.32**	**5%**	**148.4**	**94%**	**9.6**	**6%**	**158**	**100%**

Source: ATMA,MOSL

Exhibit 74: Indian tyre industy: Market share by sales



Source: Industry,MOSL

Exhibit 75: Typical tyre replacement cycles

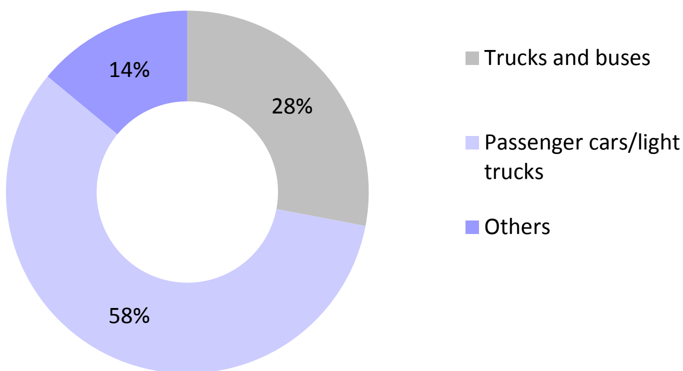
MHCVs	6-8months
PVs(PC and UV)	3-4years
2Ws	2-3years
LCVs	3-4years
Tractors(Front Tyre)	3-4years
Tractors(Back Tyre)	3-4years

Source: Industry,MOSL

Gradual industry shift toward consumer-facing segments

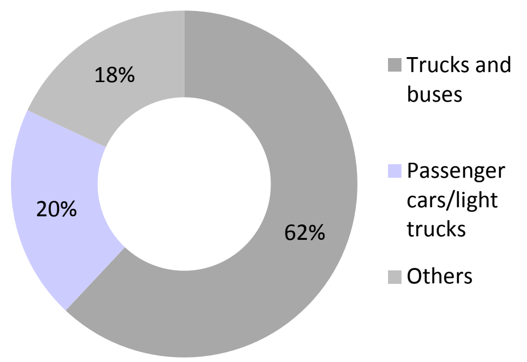
The CV segment still forms over 55% of India's tyre demand. However, globally, this segment contributes a smaller 28% of industry volumes. The divergence between global and Indian statistics is mainly because of the still very low penetration of PVs in India (below 20 per 1,000 people). We expect the PV segment to post strongest growth in volumes due to a recovery in rural markets, and higher increasing purchasing power in urban markets leading to more demand for 4Ws.

Exhibit 76: Global tyre industry revenue mix (FY16)



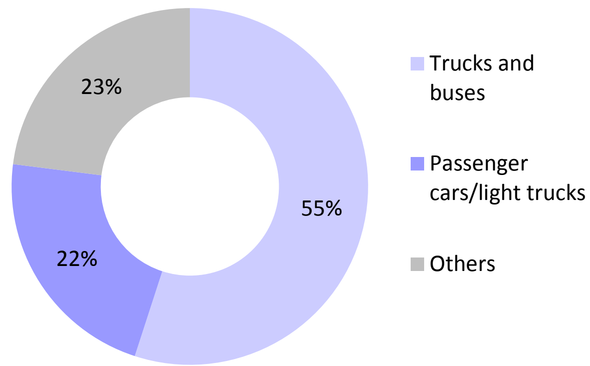
Source: Industry,MOSL

Exhibit 77: Domestic tyre industry revenue mix (FY11)



Source: Industry,MOSL

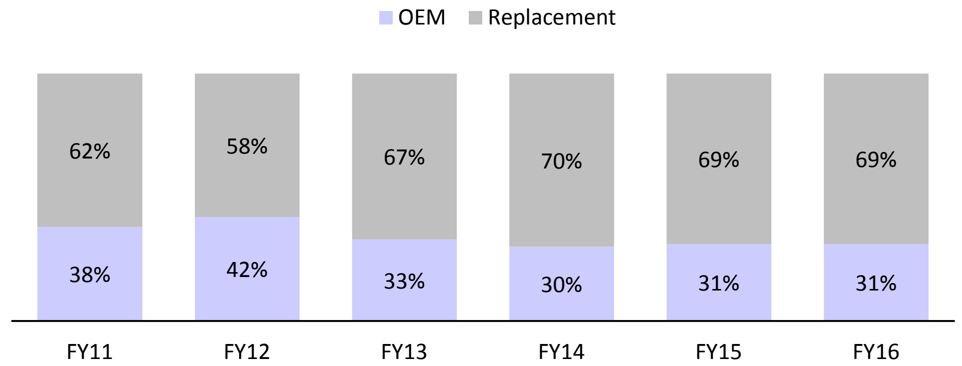
Exhibit 78: Domestic tyre industry revenue mix (FY16)



Source: Industry,MOSL

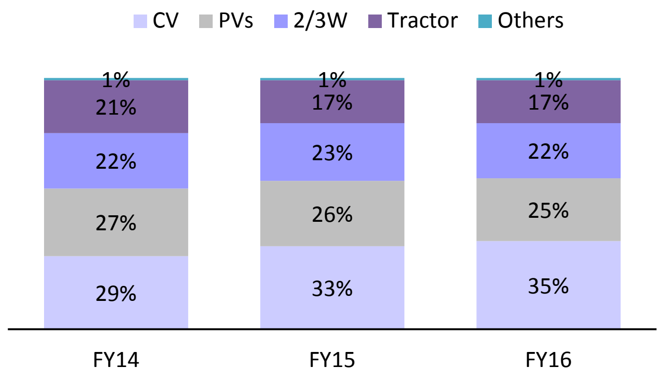
India's automobile industry is still developing with 18 vehicles per capita, as against 69 vehicles per capita in China and 786 in the US. Fortunes of the tyre industry are clearly a derivative of automobile sales. While auto OEMs form only ~30% of overall tyre demand, OEM sales reflect overall economic mood of the transport sector, which is also mirrored in replacement demand for tyres.

Exhibit 79: Replacement demand contribution increasing…



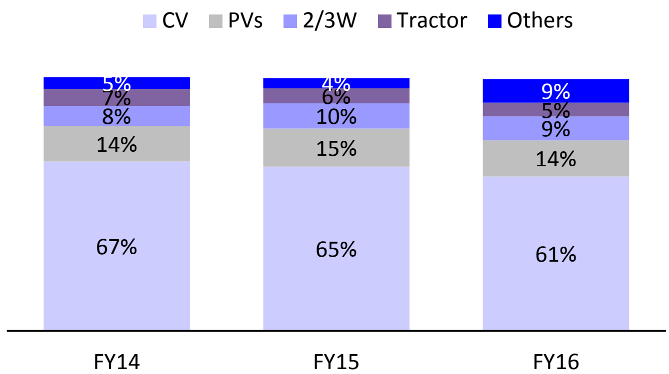
Source: Industry,MOSL

Exhibit 80: …with demand from OEMs being widely spread across segments…



Source: Industry,MOSL

Exhibit 81: …and replacement demand being CV-heavy

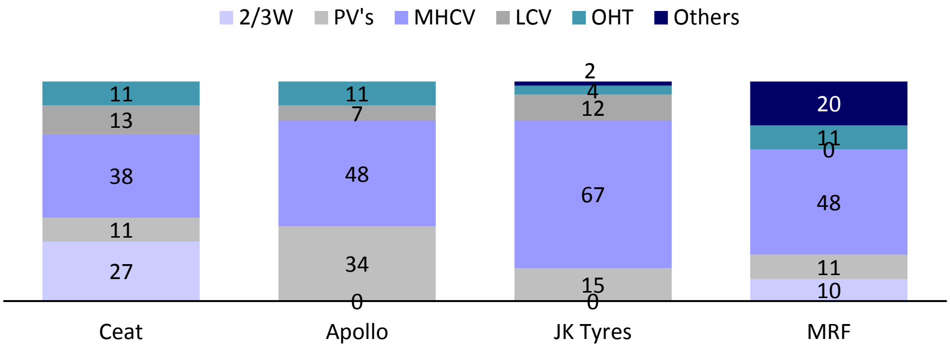


Source: Industry,MOSL

CEAT and MRF are only players with meaningful exposure across segments

MRF is the largest player, dominating with 29% industry market share. It enjoys the best brand recall among consumers, according to industry experts. MRF and CEAT are the only players that have exposure across segments. Within the two, CEAT has the lowest exposure to the highly price-sensitive commercial vehicle segment.

Exhibit 82: Revenue exposure across segments



Source: Industry,MOSL

Exhibit 83: Manufacturing locations of major tyre companies

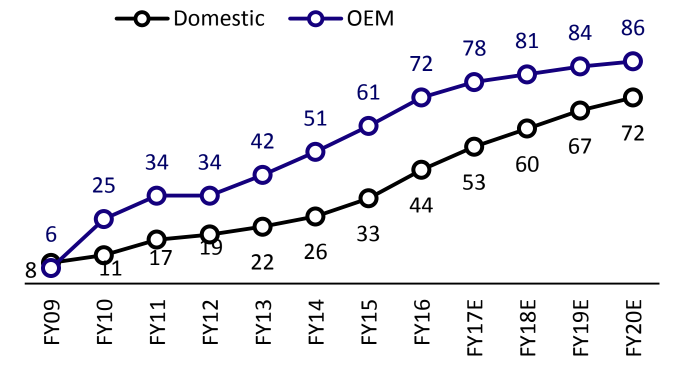
Source: ATMA, MOSL

Radialisation to support growth

Indian tyre industry is witnessing rapid adoption of radial tyres, backed by growing awareness of cost benefits, improving road infrastructure and stringent implementation of overloading norms. With longer tread life, better steering control, lower rolling resistance and higher fuel efficiency, radial tyres are better than cross-ply/bias tyres. In contrast, cross-ply tyres are better for off-roading, overloading and have lower initial costs.

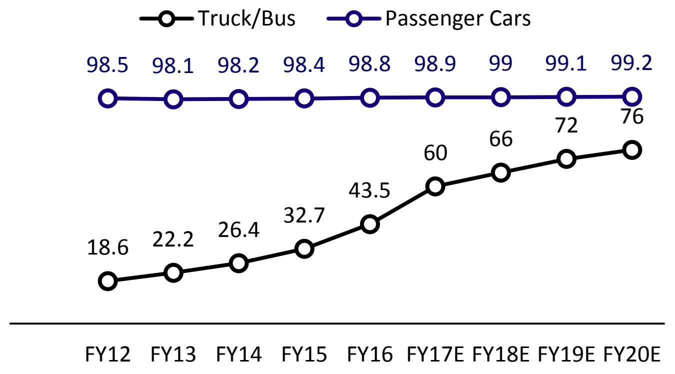
The PV segment has seen 99% radialisation, while the CV segment has registered rapid adoption from 12% in FY11 to 44% in FY16. Rating agency ICRA expects truck and bus radialisation levels to reach 66% in FY18. A higher share of radial tyres in sales mix will push up industry realisations. In our view, radialisation is expected to cover 76% of the industry by FY20, led by customers' demand for better-quality tyres with a longer life, as well as influx of cheaper Chinese tyres which has made radial tyres more affordable to small fleet operators. A shift in preference toward radial tyres is beneficial for domestic players, as these command 30-50% pricing premium to bias tyres and are also more profitable.

Exhibit 84: Radialisation level in different channels



Source: ATMA,MOSL

Exhibit 85: T&B radialisation levels set to rise as awareness increases



Source: ATMA,MOSL

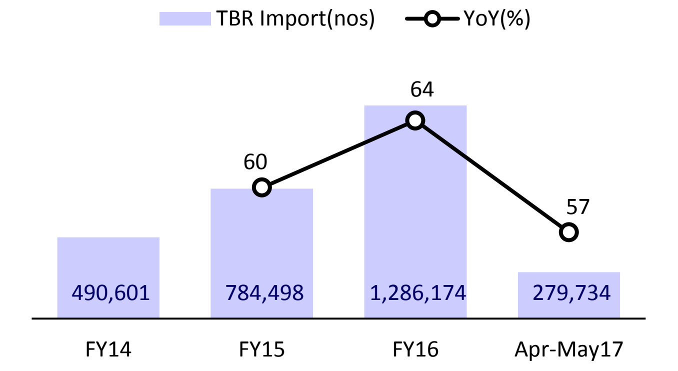
Chinese imports impact TBR segment

CY14 was a bumper year for China's tyre industry. Falling prices of natural rubber have substantially helped reduce cost for tyre vendors. Despite their shrunken revenue in CY14, almost all tyre producers saw higher profit margins. This continued in CY15 with lower prices of natural rubber and slight decline in tyre prices. In March 2015, state-owned China National Tire & Rubber acquired controlling stake in the world's fifth-largest tyre company, Pirelli. For a long time, Chinese tyre makers have not found a way into the field of sedan (OE) tyres. Hence, they primarily aimed at radials and truck-tyre markets. Pirelli is the most important tyre supplier for BMW and the second-largest for Mercedes-Benz; it is also one of Ford's main suppliers. Through the Pirelli acquisition, China has begun to supply OE tyres for luxury cars. China's tyre industry, especially for truck tyres, is plagued with serious overcapacity. Along with a decline in China's fixed investments and real estate, demand for trucks has sharply contracted. The highly competitive highway logistics sector sees low profits and minimizes tyre changes.

US impact: The US anti-dumping investigation hit China's tyre companies hard, but more truck-tyre capacity in China is yet becoming operational. In Jan-15, the US Commerce Department's International Trade Administration proposed preliminary anti-dumping duties of 19-88% on Chinese tyres, depending on the producer, which was later confirmed by the US International Trade Commission in Jul-15. Demand from the US (China's biggest export market) has slackened.

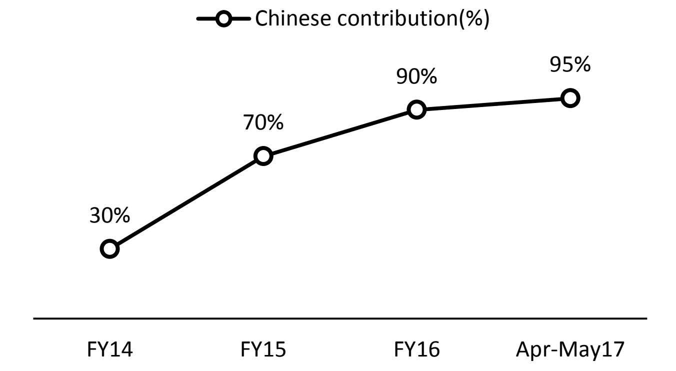
Consequently, China's tyre industry is trying to sustain itself by thrusting its manufacturing produce into fast-growing developing economies such as India. The yuan devaluation has led to Chinese TBRs ~30% cheaper than such tyres manufactured in India. Domestic manufacturers strongly believe that a huge chunk of growth in replacement demand has been captured by such Chinese imports. Imports of truck and bus radial tyres in FY15-16 rose 64% YoY, while in the replacement segment, the market share of China's manufacturers has risen from 15% in FY14 to 30% in FY16. Thus, despite a growing market, domestic players are struggling to gain volume share in the TBR segment in the replacement market, while Chinese tyres are gaining significant market share.

Exhibit 86: Rising TBR imports in India…



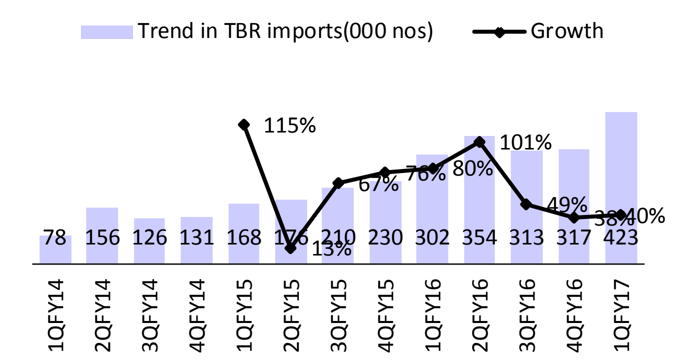
Source: Industry,MOSL

Exhibit 87: …with China contributing a major chunk of it



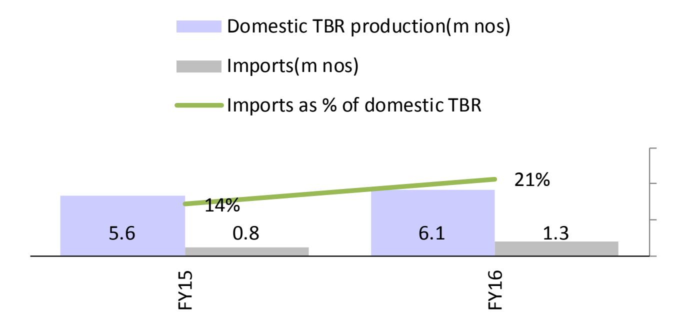
Source: Industry,MOSL

Exhibit 88: Quarterly TBR imports trend



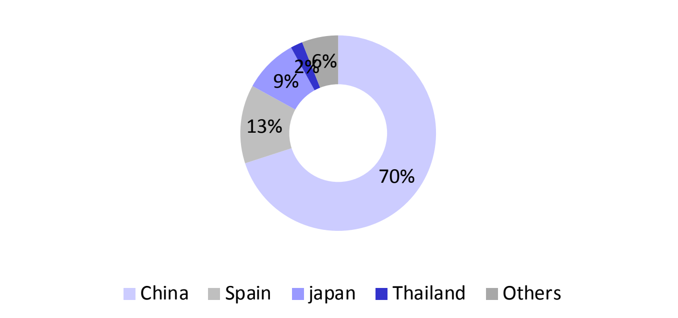
Source: Industry,MOSL

Exhibit 89: …Increasing imports proportion



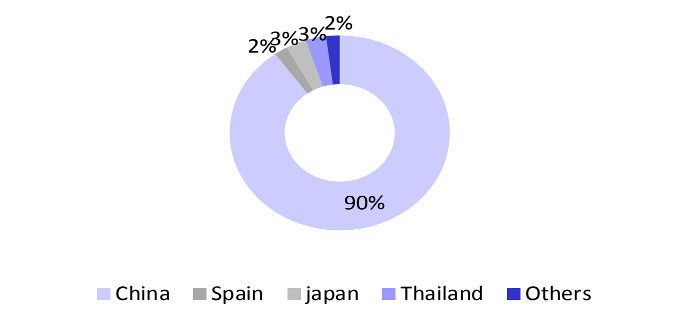
Source: Industry,MOSL

Exhibit 90: Import from countries in T&B segment(FY15)



Source: Industry,MOSL

Exhibit 91: Import from countries in T&B segment(FY16)



Source: Industry,MOSL

In the absence of any anti-dumping duties in India on Chinese tyres, China has been able to supply TBR at almost the cost of TBB tyres, letting fleet operators upgrade from TBB to TBR at the cost of TBB. These Chinese TBR imports have earned a healthy market share of ~35% in the TBR replacement market. Moreover, India's inverted duty structure makes it cheaper to import tyres than import natural rubber. Basic customs duty on import of finished rubber products into India is exempted, while there is 0-25% duty levied on import of inputs required for their manufacture, creating inversion in duty structure. Yuan devaluation has worsened the situation as it has allowed Chinese tyres to be priced very competitively in global markets.

Benign commodity prices to cushion margins

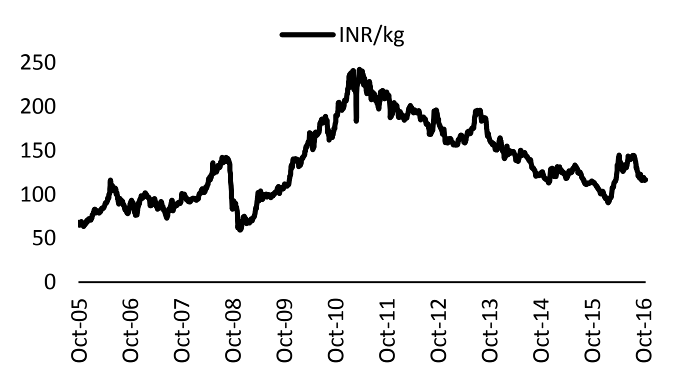
The tyre industry is raw material-intensive, with raw material cost forming ~60% of sales. Natural rubber and crude oil derivatives (such as synthetic rubber, NTCF, carbon black and rubber chemicals) are key inputs for the sector. Due to a shortfall in domestic production of raw materials, tyre manufacturers become dependent on imports. Given weak commodity prices globally, tyre industry margins have moved up. Raw material prices continue to be benign – in fact, natural rubber and crude oil are still trending downward – and should cushion any margin headwinds in the short term.

Exhibit 92: Breakup of raw materials (by weight) used in a tyre

Material	% of weight
Natural Rubber	47%
Carbon Black	24%
NTCF(Nylon tyre cord fiber)	11%
SBR(Styrene Butadiene Rubber)	5%
PBR(Poly Butadiene Rubber)	5%
Chemicals	5%
Others	3%

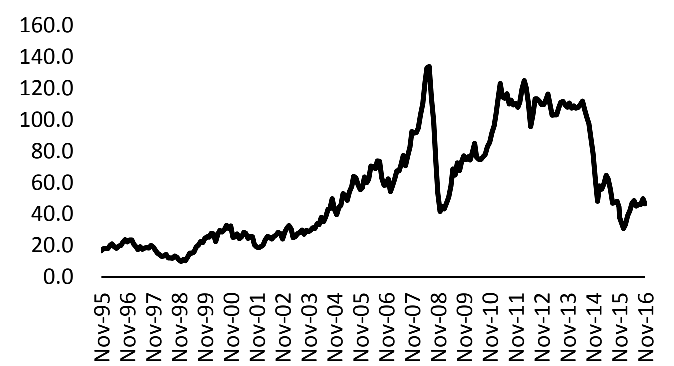
Source: Crisil, MOSL

Exhibit 93: RSS 4 Kottayam spot price trend



Source: Bloomberg,MOSL

Exhibit 94: Brent crude trend(USD/bbl)



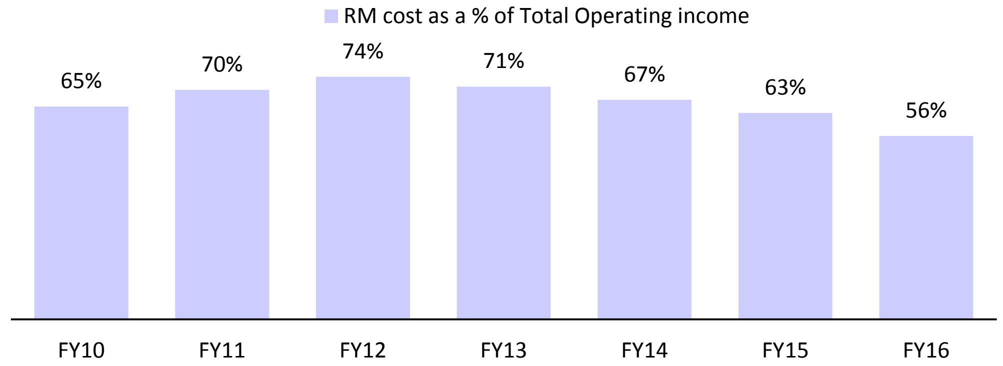
Source: Bloomberg,MOSL

Exhibit 95: Region-wise Rubber details

(000 tonnes)	2014	2015					2016
Natural Rubber Production	**Year**	**1Q**	**2Q**	**3Q**	**4Q**	**Year**	**1Q**
Asia-pacific	11,236	2610	2,411	3,106	3,219	11345	2,599
EMEA	564	153	125	155	166	599	160
Americas	335	92	98	69	75	334	89
Total	**12,135**	**2,855**	**2,634**	**3,330**	**3,460**	**12,278**	**2,848**
Natural Rubber Consumption							
Asia-pacific	8,916	2111	2,307	2,278	2,145	8,840	2,213
EMEA	1,553	392	399	431	376	1,597	415
Americas	1,712	430	468	427	384	1,709	413
Total	**12,181**	**2,933**	**3,174**	**3,136**	**2,905**	**12,146**	**3,041**
World NR supply-Demand Surplus/Deficit	(46)	(78)	(540)	194	555	132	(193)
World NR Stocks	**3,181**	**3,104**	**2,564**	**2,759**	**3,314**	**3,314**	**3,119**
Synthetic Rubber Production							
Asia-pacific	7,321	1,817	1,849	1,861	1,868	7,395	1,836
EMEA	3,887	1,005	1,056	940	985	3,985	1,050
Americas	2,970	750	784	759	786	3,079	742
Total	**14,178**	**3,572**	**3,689**	**3,560**	**3,639**	**14,459**	**3,628**
Synthetic Rubber Consumption							
Asia-pacific	7,800	1817	2,033	1,985	1,894	7,845	1,916
EMEA	3,537	1005	945	883	914	3,648	906
Americas	2,930	750	775	765	795	3,068	756
Total	**14,267**	**3,572**	**3,753**	**3,633**	**3,603**	**14,561**	**3,578**
World SR supply-Demand Surplus/Deficit	(89)	-	(64)	(73)	36	(102)	50
World SR Stocks	**3,535**	**3,535**	**3,471**	**3,397**	**3,434**	**3,434**	**3,484**
% SR in Total Rubber Consumption	54%	55%	54%	54%	55%	55%	54%

Source: ISRG

Exhibit 96: Falling rubber prices led to reduced mix of RM cost for tyre manufacturers



Source: Crisil, MOSL

Key risks

Unabated increase in Chinese imports
Tyre imports from China to India may continue growing at 10-12% over next few years. Since the Chinese tyre market is facing challenges of overcapacity, slowing domestic demand and anti-dumping duties in the US, Chinese tyre manufacturers are flooding the Indian tyre market at distressed prices amid absence of any anti-dumping duties. This trend is more evident in the T&B radial (TBR) segment since 2W and PV consumers tend to be brand-conscious. Chinese tyre pricing lets fleet operators upgrade from TBB to TBR at the cost of TBB, and thus Chinese TBR imports have gained a healthy market share of ~35% in the TBR replacement market, impacting domestic players. CEAT is relatively insulated from this risk as it focuses on the passenger segment (2Ws and PVs) where Chinese competition is much lower.

Growing competition in 2W
CEAT's strategic decision to focus on the highly profitable 2W segment has paid off, leading to improvement in operating margin and RoCE. However, competition in the segment is likely to intensify with the entry of new players like Apollo, Bridgestone and Balkrishna Tyres. CEAT shall have the early-mover advantage here as the company identified the B2C segment much ahead of others and has already captured significant mindshare via extensive marketing. The company also consistently launches unique products and brands them effectively, making it difficult for newcomers to gain meaningful incremental market share.

Volatile rubber prices
Volatility in prices of key raw materials like natural and synthetic rubber can impact margins of the company if it is not able to pass on price increase due to weak demand. CEAT manages commodity price risk via strategies like market intelligence to better forecast RM prices for better inventory management, addition of new vendors, and R&D efforts to develop alternate materials that lower weight without affecting performance.

Decline in auto OEM sales
Any slowdown in the economy might directly impact demand, which leads to weaker consumer sentiment and decline in auto OEM sales. The company will be impacted due to it.

Radialisation in truck & bus segment
Faster-than-expected increase in radialisation in the truck & bus tyre segment may impact margins. To mitigate this risk, the company is converting its truck & bus bias capacities into non-truck segments that have higher demand. The focus is also on penetrating the overseas markets, where acceptability for bias tyres is higher.

Management overview

Anant V Goenka, Managing Director

Anant Goenka holds an MBA degree from the Kellogg School of Management and a B.Sc. degree in Economics from the Wharton School. Mr. Goenka joined KEC International (KEC) as Vice President (Corporate), and was in charge of the telecom business, business development in North America and integrated planning and monitoring of the transmission and distribution business. Prior to joining KEC, Mr. Goenka was associated with CEAT Limited as Head of Specialty Tyre Business. Earlier, Mr. Goenka also worked with Hindustan Unilever, Accenture, Mumbai and Morgan Stanley, Hong Kong. He has 10 years of work experience and has been the Chairman of ATMA (Automotive Tyre Manufacturers' Association) in the year 2013.He is current MD of CEAT Ltd.

Arnab Banerjee, Executive Director – Operations

Arnab Banerjee is the Executive Director – Operations for CEAT. He joined CEAT in the year 2005 as Vice President, Sales and Marketing. He also oversees all the manufacturing plants. Prior to his joining CEAT, Mr. Banerjee worked with Marico and Berger Paints in various sales and marketing domains. Mr. Banerjee has more than 28 years of experience and has completed his B.Tech degree in Mechanical Engineering from the Indian Institute of Technology, Kharagpur and Post Graduate Diploma in Business Management from Indian Institute of Management, Kolkata with specialization in Marketing.

Manoj Jaiswal, Chief Financial Officer

Manoj Jaiswal is the CFO of CEAT and also responsible for Information Technology, therefore driving both Financial and Business Excellence. Before joining CEAT, Mr. Jaiswal spent 17 years in Wipro in various capacities, having joined immediately after qualifying for his Chartered Accountancy and completing his articleship from Pricewaterhouse Coopers. Amongst his many roles in Wipro, Mr. Jaiswal was CFO for the BPO business and thereafter headed the Treasury and Investor Relations department globally.

Tom Thomas, Executive Director – Technology & Projects

Tom Thomas holds a Bachelor's degree in Rubber Technology and Engineering from the University of Cochin and has 40 years of experience in India's tyre industry. He was associated with the introduction of passenger radial technology by J K Tyres in India in 1977 and was responsible for setting up the first all-steel truck/bus radial facility at Mysore in 1999. He has held key positions including Chairman of Indian Tyre Technical Advisory Committee, Member Of Indian Rubber Institute, Governing Council Member of Indian Rubber Manufacturers' Research Association, Member of Academic Council of University of Cochin and has been on the guest faculty at various colleges.

Dilip Modak, Senior Vice President – Manufacturing

Dilip Modak leads the manufacturing for CEAT with plants across four locations – Mumbai, Nashik, Vadodara and Kochi. He has 30 years of experience in handling plant operations, sourcing & supply chain management, total quality management, human resources and various manufacturing/re-engineering projects.

Chandrasekhar Ajgaonkar, SVP – Quality Based Management

Chandrasekhar Ajgaonkar is the Senior Vice President – QBM CEAT and Corporate Business Excellence Centre – RPG Group. He joined the RPG Group in 2005 as Corporate Quality Head and from 2011 has been performing the dual role of Head – QBM CEAT and Corporate Business Excellence Head. Under his leadership, RPG Group and CEAT have successfully implemented Business Excellence initiatives over last 10 years. He also oversees the initiatives of Centre of Excellence for the group. Prior to his joining RPG and CEAT, Mr. Ajgaonkar has worked with Mahindra & Mahindra, Crompton Greaves, Eicher Tractors and Eicher Consultancy Services in the operations and TQM domains. He has over 28 years of experience, and has completed his B.E Mechanical and MMS Master in Management studies from Mumbai University.

Kumar Subbiah, Senior Vice President – Materials & Outsourcing

Kumar Subbiah joined the company in Feb-15 after spending a little over 20 years with Unilever & Hindustan Unilever, where he handled various Finance & Commercial roles in India and outside India. Kumar is a B.Com Graduate from Loyola College, Chennai. He is also a Chartered Accountant and a Cost Accountant with professional interests both in finance and supply chain.

Company overview

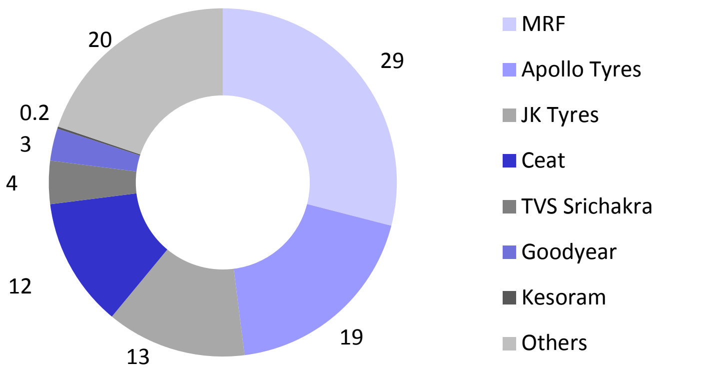
Background

CEAT, a flagship company of the RPG Group, is the fourth largest tyre manufacturer in India in terms of revenue (~12% market share), with manufacturing capacity of >900MT/day (95,000 tyres/day). Originally founded in Italy as Cavi Elettrici e Affini Torino SpA, CEAT established a manufacturing plant in India in 1958 and was sold to Pirelli in the 1970s. RPG Enterprises took over Pirelli's Indian division in 1982 and also bought rights to the CEAT brand, renaming the company as CEAT Limited. Apart from automotive tyres, RPG Group has presence in infrastructure, IT, pharmaceuticals, plantations and power ancillaries.

Among India's leading tyre manufacturers

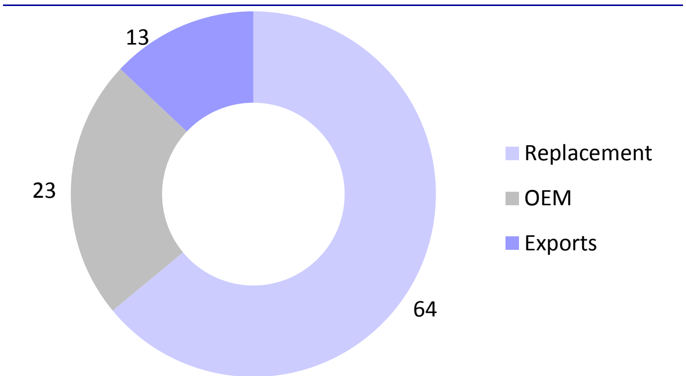
With manufacturing facilities at Bhandup (bias tyres), Nashik (bias and radial), Halol (radial) and Nagpur (2W/3Ws), CEAT's overall manufacturing capacity stands at >900MT/day. It operates in India via a robust distribution network of 4,500+ dealers, 33 regional offices, 400+ franchisees and 250+ distributors. The company's product portfolio spans across the automotive spectrum; it offers tyres for 2Ws, 3Ws, passenger cars, UVs, trucks & buses and OTR (off-the-road) vehicles. CEAT and Associated CEAT Holdings Company Private Limited (ACHL) have formed a JV company – CEAT-Kelani Holding Company Private Limited – which owns and operates three manufacturing plants in Sri Lanka.

Exhibit 97: Market share of Indian tyre players based on revenue



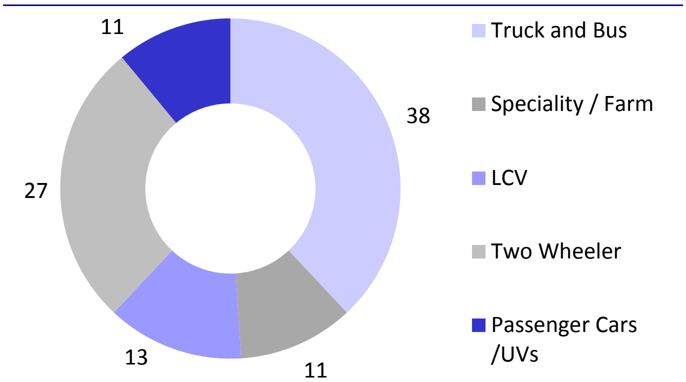
Source: Industry, MOSL

Exhibit 98: CEAT-Revenue mix by market channel(FY16)



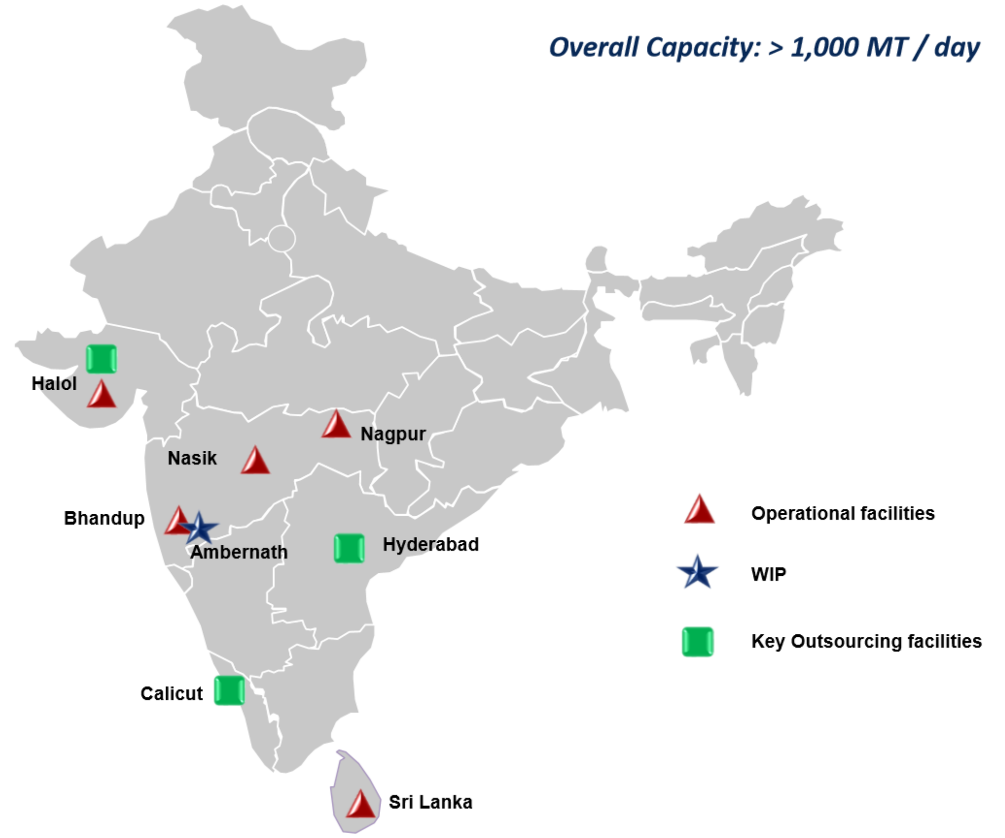
Source: Company, MOSL

Exhibit 99: CEAT-Revenue mix by market segment(FY16)



Source: Company, MOSL

Exhibit 100: Manufacturing facilities locations



Source: Company, MOSL

Assumptions

Exhibit 101: Assumption sheet

CEAT Ltd	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Revenue (INR m)								
Truck and Bus	22,772	24,552	23,913	22,574	20,493	18,690	19,250	19,443
Speciality / Farm	6,445	6,138	7,278	6,987	5,932	5,467	5,912	6,568
LCV	6,015	6,610	7,278	6,987	7,011	6,939	7,433	7,733
Two Wheeler	5,156	6,138	8,837	11,824	14,561	16,243	19,239	23,549
Passenger Cars /UVs	2,578	3,777	4,679	5,375	5,932	6,481	7,343	8,239
Total product revenues (Net)	**42,966**	**47,215**	**51,984**	**53,747**	**53,929**	**53,819**	**59,178**	**65,532**
Tubes	5,310	5,836	6,477	7,090	7,281	7,864	8,808	10,129
Sri lanka and other subsidiary revenue	1,770	2,155	2,498	2,599	2,555	2,810	3,091	3,400
Gross Revenue	**50,046**	**55,205**	**60,960**	**63,436**	**63,765**	**64,493**	**71,077**	**79,060**
Excise Duty	3,519	4,683	5,420	5,915	6,624	6,707	7,392	8,222
Net Revenue	**46,527**	**50,522**	**55,540**	**57,521**	**57,141**	**57,786**	**63,685**	**70,838**
Growth (%)								
Truck and Bus	18%	8%	-3%	-6%	-9%	-9%	3%	1%
Speciality / Farm	38%	-5%	19%	-4%	-15%	-8%	8%	11%
LCV	39%	10%	10%	-4%	0%	-1%	7%	4%
Two Wheeler	54%	19%	44%	34%	23%	12%	18%	22%
Passenger Cars /UVs	54%	47%	24%	15%	10%	9%	13%	12%
Total product revenues (Net)	**29%**	**10%**	**10%**	**3%**	**0%**	0%	10%	11%
Tubes	29%	10%	11%	9%	3%	8%	12%	15%
Sri lanka and other subsidiary revenue	9%	22%	16%	4%	-2%	10%	10%	10%
Gross Revenue	**28%**	**10%**	**10%**	**4%**	**1%**	**1%**	**10%**	**11%**
Volume Growth (%)								
Truck and Bus	0%	4%	-2%	-5%	-3%	-4%	0%	0%
Speciality / Farm	14%	-7%	20%	10%	-6%	-5%	5%	10%
LCV	44%	11%	14%	-4%	7%	1%	4%	3%
Two Wheeler	29%	24%	47%	40%	28%	15%	15%	20%
Passenger Cars /UVs	-9%	24%	27%	19%	24%	15%	10%	10%
Total	**12%**	**6%**	**10%**	**6%**	**10%**	**3%**	**6%**	**9%**
Realisation Growth (%)								
Truck and Bus	18%	4%	-1%	-1%	-7%	-5%	3%	1%
Speciality / Farm	20%	3%	-1%	-13%	-10%	-3%	3%	1%
LCV	-4%	-1%	-3%	0%	-6%	-2%	3%	1%
Two Wheeler	20%	-4%	-2%	-4%	-4%	-3%	3%	2%
Passenger Cars /UVs	70%	18%	-2%	-4%	-11%	-5%	3%	2%
Net Realisation(%)	**19%**	**4%**	**-1%**	**-3%**	**-6%**	**-3%**	**3%**	**2%**
Revenue mix(%)								
Truck and Bus	53	52	46	42	38	35	33	30
Speciality / Farm	15	13	14	13	11	10	10	10
LCV	14	14	14	13	13	13	13	12
Two Wheeler	12	13	17	22	27	30	33	36
Passenger Cars /UVs	6	8	9	10	11	12	12	13

Source: Company, MOSL

Financials and Valuation

Consolidated - Income Statement							(INR Million)
Y/E March	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Total Income from Operations	**55,205**	**60,960**	**63,436**	**63,765**	**64,493**	**71,077**	**79,060**
Change (%)	10.3	10.4	4.1	0.5	1.1	10.2	11.2
Raw Materials	34,758	35,657	35,333	31,689	33,369	36,818	40,479
Employees Cost	2,830	3,109	3,789	4,088	4,192	4,478	4,981
Power & Fuel	1,732	1,808	1,734	1,643	1,677	1,777	2,056
Freight & Delivery Charges	1,611	1,994	2,385	2,609	2,644	2,843	3,162
Advertisement Expenses	743	754	1,042	1,185	1,290	1,422	1,581
Excise Duty	4,683	5,420	5,915	6,624	6,707	7,392	8,222
Other Expenses	4,469	5,639	6,435	7,704	7,868	8,529	9,092
Total Expenditure	**50,826**	**54,381**	**56,632**	**55,542**	**57,747**	**63,258**	**69,573**
% of Sales	92.1	89.2	89.3	87.1	89.5	89.0	88.0
EBITDA	**4,380**	**6,579**	**6,804**	**8,223**	**6,746**	**7,818**	**9,487**
Margin (%)	7.9	10.8	10.7	12.9	10.5	11.0	12.0
Depreciation	806	865	934	1,075	1,344	1,543	1,683
EBIT	**3,573**	**5,713**	**5,870**	**7,148**	**5,401**	**6,275**	**7,804**
Int. and Finance Charges	1,808	1,720	1,319	907	816	708	360
Other Income	177	140	226	299	199	219	241
PBT bef. EO Exp.	**1,942**	**4,133**	**4,777**	**6,539**	**4,784**	**5,786**	**7,685**
EO Items	-277	-100	-61	-114	-9	0	0
PBT after EO Exp.	**1,665**	**4,032**	**4,716**	**6,425**	**4,775**	**5,786**	**7,685**
Total Tax	463	1,324	1,576	1,978	1,476	1,782	2,366
Tax Rate (%)	27.8	32.8	33.4	30.8	30.9	30.8	30.8
Minority Interest/Share of (profit) from JV	0	-4	-33	-18	-330	-350	-370
Reported PAT	**1,202**	**2,712**	**3,172**	**4,465**	**3,630**	**4,354**	**5,688**
Adjusted PAT	**1,402**	**2,780**	**3,213**	**4,544**	**3,636**	**4,354**	**5,688**
Change (%)	582.0	98.3	15.6	41.4	-20.0	19.8	30.6
Margin (%)	2.5	4.6	5.1	7.1	5.6	6.1	7.2

Consolidated - Balance Sheet							(INR Million)
Y/E March	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Equity Share Capital	342	360	405	405	405	405	405
Total Reserves	7,476	9,927	16,418	20,241	23,404	27,182	32,116
Net Worth	**7,855**	**10,286**	**16,823**	**20,645**	**23,809**	**27,586**	**32,520**
Minority Interest	0	363	327	322	313	313	313
Total Loans	10,377	11,738	7,750	6,704	6,904	4,904	1,104
Deferred Tax Liabilities	786	1,148	1,250	1,567	1,567	1,567	1,567
Capital Employed	**19,019**	**23,535**	**26,149**	**29,239**	**32,593**	**34,370**	**35,505**
Gross Block	22,231	23,041	24,183	30,395	36,829	40,329	43,829
Less: Accum. Deprn.	6,719	7,617	8,590	9,412	10,756	12,299	13,983
Net Fixed Assets	**15,512**	**15,424**	**15,593**	**20,984**	**26,073**	**28,030**	**29,847**
Goodwill on Consolidation	216	227	215	205	205	205	205
Capital WIP	274	823	2,290	3,043	1,609	1,609	1,609
Total Investments	**6**	**0**	**3,124**	**403**	**403**	**403**	**403**
Curr. Assets, Loans&Adv.	**15,463**	**18,927**	**17,002**	**16,747**	**18,663**	**19,550**	**20,497**
Inventory	5,588	7,536	6,801	6,621	8,227	8,319	8,768
Account Receivables	6,628	7,545	7,050	6,188	7,068	7,400	7,581
Cash and Bank Balance	1,121	1,679	1,236	1,073	144	278	194
Loans and Advances	2,125	2,167	1,914	2,866	3,225	3,554	3,953
Curr. Liability & Prov.	**12,451**	**11,865**	**12,075**	**12,143**	**14,360**	**15,427**	**17,055**
Account Payables	7,925	6,888	6,583	6,435	7,911	8,319	9,149
Other Current Liabilities	3,699	3,949	4,059	4,511	5,159	5,686	6,325
Provisions	828	1,028	1,434	1,197	1,290	1,422	1,581
Net Current Assets	**3,011**	**7,061**	**4,927**	**4,604**	**4,303**	**4,124**	**3,441**
Appl. of Funds	**19,019**	**23,535**	**26,149**	**29,239**	**32,593**	**34,370**	**35,505**

E: MOSL Estimates

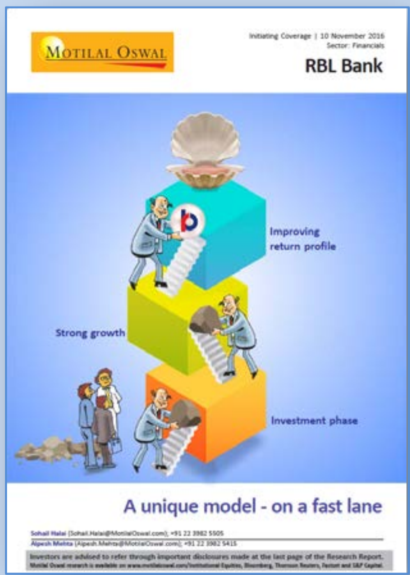
Financials and Valuation

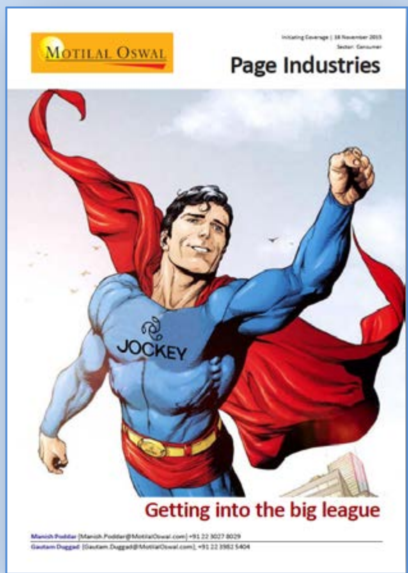
Ratios							
Y/E March	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Basic (INR)							
EPS	**34.6**	**68.7**	**79.4**	**112.3**	**89.9**	**107.6**	**140.6**
Cash EPS	54.6	90.1	102.5	138.9	123.1	145.8	182.2
BV/Share	194.2	254.3	415.9	510.4	588.6	682.0	804.0
DPS	3.4	9.1	10.0	11.5	9.9	11.8	15.5
Payout (%)	13.3	15.8	14.3	12.0	13.3	13.3	13.3
Valuation (x)							
P/E			13.7	9.7	12.1	10.1	7.7
Cash P/E			10.6	7.8	8.8	7.4	6.0
P/BV			2.6	2.1	1.8	1.6	1.4
EV/Sales			0.8	0.8	0.8	0.7	0.6
EV/EBITDA			7.4	6.0	7.5	6.2	4.7
Dividend Yield (%)	0.3	0.8	0.9	1.1	0.9	1.1	1.4
FCF per share	123.5	12.9	111.0	-4.8	-8.8	70.5	104.3
Return Ratios (%)							
RoE	19.2	30.6	23.7	24.3	16.4	16.9	18.9
RoCE	14.2	19.5	17.4	19.9	13.3	14.2	16.8
RoIC	13.9	19.9	19.3	22.4	13.5	13.9	16.5
Working Capital Ratios							
Fixed Asset Turnover (x)	2.5	2.6	2.6	2.1	1.8	1.8	1.8
Asset Turnover (x)	2.9	2.6	2.4	2.2	2.0	2.1	2.2
Inventory (Days)	37	45	39	38	47	43	40
Debtor (Days)	44	45	41	35	40	38	35
Creditor (Days)	52	41	38	37	45	43	42
Leverage Ratio (x)							
Current Ratio	1.2	1.6	1.4	1.4	1.3	1.3	1.2
Interest Cover Ratio	2.0	3.3	4.5	7.9	6.6	8.9	21.6
Net Debt/Equity	1.2	1.0	0.2	0.3	0.3	0.2	0.0

Consolidated - Cash Flow Statement							(INR Million)
Y/E March	**FY13**	**FY14**	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
OP/(Loss) before Tax	1,665	4,032	4,716	6,425	4,784	5,786	7,685
Depreciation	806	865	934	1,075	1,344	1,543	1,683
Interest & Finance Charges	1,501	1,720	1,319	907	617	489	119
Direct Taxes Paid	-382	-891	-1,123	-1,822	-1,476	-1,782	-2,366
(Inc)/Dec in WC	1,955	-3,736	1,714	332	-628	314	599
CF from Operations	**5,545**	**1,991**	**7,560**	**6,918**	**4,642**	**6,350**	**7,720**
Others	299	-23	-73	-56	0	0	0
CF from Operating incl EO	**5,844**	**1,968**	**7,487**	**6,862**	**4,642**	**6,350**	**7,720**
(Inc)/Dec in FA	-847	-1,446	-2,999	-7,054	-5,000	-3,500	-3,500
Free Cash Flow	**4,998**	**523**	**4,488**	**-192**	**-358**	**2,850**	**4,220**
(Pur)/Sale of Investments	303	370	0	-1	0	0	0
Others	66	57	-2,990	2,929	199	219	241
CF from Investments	**-477**	**-1,018**	**-5,989**	**-4,127**	**-4,801**	**-3,281**	**-3,259**
Issue of Shares	0	109	3,934	0	0	0	0
Inc/(Dec) in Debt	-3,076	1,387	-3,994	-927	200	-2,000	-3,800
Interest Paid	-1,526	-1,723	-1,476	-979	-816	-708	-360
Dividend Paid	-40	-167	-404	-994	-483	-577	-754
Others	-1	2	0	0	330	350	370
CF from Fin. Activity	-4,643	-392	-1,940	-2,899	-770	-2,936	-4,544
Inc/Dec of Cash	**724**	**558**	**-442**	**-164**	**-928**	**134**	**-83**
Opening Balance	397	1,121	1,679	1,237	1,072	144	278
Closing Balance	**1,121**	**1,679**	**1,237**	**1,072**	**144**	**278**	**194**

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS





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