

**CEAT LIMITED**  
**JULY 18, 2017**
**Ratings**

| Facilities                          | Amount<br>(Rs. crore)      | Ratings <sup>1</sup>             | Rating Action |
|-------------------------------------|----------------------------|----------------------------------|---------------|
| <b>Commercial Paper (CP) issue@</b> | 350<br>(Enhanced from 200) | <b>CARE A1+<br/>[A One Plus]</b> | Reaffirmed    |

*Details of instruments/facilities in Annexure-1*

@The aggregate CP outstanding and other working capital borrowings shall be within the sanctioned fund based limits of Rs.500 crore.

**Detailed Rationale & Key Rating Drivers**

CARE reaffirms the short-term ratings assigned to the Commercial Paper Issue of CEAT Limited (CEAT). The rating factors in CEAT's strong cash accruals in FY17 (refers to the period April 1 to March 31), comfortable debt coverage indicators, and healthy capital structure. CARE also expects CEAT to derive significant operational efficiencies on commercialization of the ongoing expansion projects. The ratings continue to factor in established and well positioned brand along-with a robust market share in India, diversified product portfolio and distribution network.

The above strengths can be partially tempered by fluctuation in raw material prices, restriction in margin expansion due to expenditure on outsourcing, high competition prevalent in the domestic tyres market and imports from China.

Timely completion and stabilization of the ongoing capital expenditure plans will be a key rating sensitivity. Also, any large debt-funded capital expenditure or acquisition, apart from that factored and ability of the company to contain volatility in margins will be the key rating monitorables.

**Detailed description of the key rating drivers****Key Rating Strengths*****Well-established and experienced promoters***

Acquired by RPG group in 1981 from CEAT International, Italy, the company is engaged in manufacturing of tyres, tubes and flaps. The RPG group is now a diversified conglomerate having turnover of around Rs.20,000 crore in FY17 and Market cap of Rs.17367 crore as on March 2017. The RPG group caters to diverse businesses like automotive tyres, infrastructure, information & technology, pharmaceuticals, plantations and power ancillaries. The group is spearheaded by Mr Harsh Vardhan Goenka and CEAT's day to day operations are headed by Mr Anant Vardhan Goenka - Managing Director.

***Established brand with diversified product portfolio and distribution network***

In 2010, the company acquired global rights of "CEAT" brand from Pirelli, Italy, resulting in better access to export markets. Exports are majorly to the Middle East, South East Asia, Africa and South America. CEAT is also the fourth largest player in the domestic tyre market based on the reported revenue in FY17. CEAT caters to the various user segments which include Trucks and Buses (T&B), Light Commercial Vehicles, tractors, two wheelers, Passenger Vehicles and off the road tyres.

CEAT has a widespread distribution network spread across the country with more than 4,500+ dealers and more than 450+ franchisees by way of CEAT Shoppe and CEAT Hubs. The company derives almost two third of its revenue from the replacement market which mitigates the business risk to a large extent.

***Moderation in revenue despite improvement in operational performance***

On a consolidated basis, the company has seen sales volume growth in the two wheeler segment by about 20% and PC/UV by around 15% in FY17. Over the last few years, the company has been focusing on diversifying into PV, two-wheelers, which provides higher realisation and margins compared to the Truck & Bus bias (T&B) segment to the company. Contribution from the non-truck segment in revenue increased from 47% of the total sales in FY13 to 67% in FY17.

***Comfortable capital structure albeit debt funded capital expenditure (capex) plans in next five years***

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Overall Debt to equity ratio remained at a comfortable level of 0.37 times as on March 31, 2017 compared with 0.30 times as on March 31, 2016 buoyed by strong accruals during the year. To further diversify into off road tyres and augment 2/3 wheelers, Truck and Buses and PC/UV production capacity, The company planning investment of Rs. 2800 crore for next five years, funded through debt and internal accruals. The debt funded capex is expected to increase the gearing in future, but it is still expected to be at comfortable levels.

Any further large debt-funded capital expenditure or acquisition, other than envisaged would be a key rating sensitivity.

#### **Key Rating Weaknesses**

##### ***Intensive competition from Domestic and International Players***

Historically the tyre industry has faced intense competition from Indian players and Chinese tyre manufacturers mostly in the Trucks and Buses segment. In the last two years, the Chinese tyre industry is depressed which has led to diversion of surplus capacities from China to countries like India. In value terms import of tyres into India increased by 16% on YoY basis in FY16 and stagnated in FY17.

##### ***Dependency on volatile raw material prices and automobile industry***

The natural rubber prices which comprises of 30% to 35% of total cost structure of the tyre industry has increased by almost 30% in last year which had adversely impacted the overall profitability of tyre companies in FY17, also the industry growth is dependent on the performance of the automobile industry in the country, which is cyclical in nature. Moreover, the company can remain protected from any hiccups in demand due to diversified portfolio and presence countries outside of India.

**Analytical approach:** Consolidated

**Applicable Criteria**[Criteria on assigning Outlook to Credit Ratings](#)[CARE's Policy on Default Recognition](#)[Criteria for Short Term Instruments](#)[Rating Methodology-Manufacturing Companies](#)[Financial ratios – Non-Financial Sector](#)[Factoring Linkages in Ratings](#)**About the Company**

Incorporated in 1958, CEAT Ltd is engaged in the manufacturing of tyres, tubes and flaps. As on March 31, 2017, the promoters held 50.76% of the total shares of the company.

CEAT is a part of the RPG group having turnover of around Rs.20,000 crore consisting of more than 15 companies catering to diverse businesses in automotive tyres, infrastructure, information & technology, pharmaceuticals, plantations and power ancillaries.

CEAT has four manufacturing units in India located at Bhandup (Mumbai, Maharashtra), Nagpur & Nasik (Maharashtra) and Halol (Gujarat). The company has also embarked on a greenfield project at Ambernath (Maharashtra) which will be operational in current financial year. Furthermore, CEAT has outsourced production facilities of tyres to several third party conversion agencies located at Halol, Hyderabad (Telangana) and Calicut (Kerala). The company also operates four manufacturing plants in Sri Lanka through various subsidiaries under Associated CEAT Holdings Co. (P) Ltd (a 50:50 joint venture) whereas in Bangladesh, CEAT entered into Joint Venture (JV) with AK Khan & Company Limited (AKL) to set up radial tyres facility (40 MT/day) in Bangladesh. The JV holding is in 70:30 ratio where CEAT holds 70% and balance is held by AKL.

At a consolidated level, adjusted PAT of CEAT Limited stood Rs.330.86 crore on total operating income of Rs.6,460 crore in FY17 against adjusted PAT of Rs.399.54 crore on total operating income of Rs.6,174 crore in FY16.

| <b>Brief Financials (Rs. crore)*</b> | <b>FY16 (A)</b> | <b>FY17 (A)</b> |
|--------------------------------------|-----------------|-----------------|
| Total operating income               | 6174            | 6460            |
| PBILDT                               | 773.21          | 656.78          |
| PAT                                  | 399.54          | 330.86          |
| Debt to Equity (times)               | 0.30            | 0.37            |
| Interest coverage (times)            | 8.84            | 8.04            |

\*FY17 and FY16 financials are taken from the press released published on the stock exchanges, it may change after getting annual report and the complete financial schedules

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|------------------------|------------------|-------------|---------------|-------------------------------|-------------------------------------------|
| Commercial Paper       | -                | -           | -             | 350.00                        | CARE A1+                                  |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings |                                |          | Rating history                            |                                           |                                           |                                                       |
|---------|----------------------------------------|-----------------|--------------------------------|----------|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------------------|
|         |                                        | Type            | Amount Outstanding (Rs. crore) | Rating   | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015             |
| 1.      | Term Loan-Long Term                    | LT              | 455.00                         | CARE AA  | -                                         | 1)CARE AA<br>(14-Oct-16)                  | 1)CARE AA-<br>(04-Aug-15)                 | 1)CARE A+<br>(23-Jan-15)<br>2)CARE A<br>(22-Oct-14)   |
| 2.      | Fund-based - LT-Cash Credit            | LT              | 500.00                         | CARE AA  | -                                         | 1)CARE AA<br>(14-Oct-16)                  | 1)CARE AA-<br>(04-Aug-15)                 | 1)CARE A+<br>(23-Jan-15)<br>2)CARE A<br>(22-Oct-14)   |
| 3.      | Non-fund-based - ST-BG/LC              | ST              | 900.00                         | CARE A1+ | -                                         | 1)CARE A1+<br>(14-Oct-16)                 | 1)CARE A1+<br>(04-Aug-15)                 | 1)CARE A1+<br>(23-Jan-15)<br>2)CARE A1<br>(22-Oct-14) |
| 4.      | Commercial Paper                       | ST              | 350.00                         | CARE A1+ | -                                         | 1)CARE A1+<br>(14-Oct-16)                 | 1)CARE A1+<br>(04-Aug-15)                 | 1)CARE A1+<br>(23-Jan-15)<br>2)CARE A1<br>(22-Oct-14) |

|    |                                          |    |        |         |   |                          |                           |                          |
|----|------------------------------------------|----|--------|---------|---|--------------------------|---------------------------|--------------------------|
|    |                                          |    |        |         |   | (14-Oct-16)              | (23-Sep-15)               | (23-Jan-15)              |
|    |                                          |    |        |         |   |                          | 2)CARE A1+<br>(04-Aug-15) | 2)CARE A1<br>(18-Nov-14) |
| 5. | Debentures-Non<br>Convertible Debentures | LT | 200.00 | CARE AA | - | 1)CARE AA<br>(14-Oct-16) | 1)CARE AA-<br>(04-Aug-15) | -                        |

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