CEAT Limited

January 5, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	800 (reduced from Rs.1,000 crore)	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	1,150	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**1,950 (Rs. One thousand nine hundred and fifty crore only)**		
Commercial Paper	350 **(Rs. Three hundred Fifty crore only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and short term instruments of CEAT Limited (CEAT; CIN No: L25100MH1958PLC011041) continue to factor in the long operational track and experience of the promoters, established market position with strong brand image in domestic tyre industry coupled with diversified revenue with presence across all user segments and strong presence in replacement market aided by its wide and robust distribution network.

Ratings also positively factor in the recovery in revenue witnessed by CEAT in Q2FY21, (albeit YoY decline in H1FY21) on the back of muted TOI in Q1FY21 due to COVID-19. Further, CEAT also exercised tight control over discretionary spends and prudent working capital management which resulted into improved cash flows in H1FY21. CEAT reported PAT of Rs.182 crore in Q2FY21 as against that of Rs.44 crore in Q2FY20 and loss of Rs.35 crore in Q1FY21. Although the OEM segment continued to be impacted due to COVID-19 in H1FY21, demand volatility was mitigated to certain extent owing to large contribution of income from replacement and exports market.

The rating strengths are partially offset by moderate debt coverage indicators which are expected to remain moderate over the medium term due to partially debt funded capex being undertaken which is expected to conclude by FY24. The envisaged moderation is on account of large capex (greenfield and brownfield) being implemented for expanding product portfolio and elevating the capacities. CARE believes, despite the envisaged moderation, the debt coverage would still remain adequate as the expanded capacities and improved product mix would translate into expansion in its operating profit margins going forward. CEAT has so far commissioned its capacities broadly as per initial timelines and within the envisaged capex cost.

The ratings also continue to be tempered by volatility in operating margins to fluctuation in raw material prices, exposure to cyclicality prevalent in the automobile industry and high competition prevalent in the domestic tyre industry and change in government policy.

Ability of the company to complete the ongoing projects in a timely manner without cost overruns and timely stabilization of the ongoing projects would be a key rating sensitivity. Further, any large debt-funded capital expenditure more than what is envisaged and ability of the company to contain volatility in margins would be the key rating monitorables.

Rating Sensitivities

Positive rating sensitivities

- Total Debt to GCA below 1.88x on sustained basis
- Improvement in PBILDT margin over 13% on sustained basis
- Improvement in ROCE above 16% on a sustained basis
- Improvement in PBILDT interest cover over 8.5x on sustained basis

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Negative rating sensitivities

- Deterioration in PBILDT margin below 11% on sustained basis
- Deterioration in Total Debt to Cash Flow from Operations (reported) above 3.0x and Total debt/PBILDT above 2.60x on sustained basis
- Deterioration in Total Outside Liabilities/Tangible Net-worth beyond 1.80x on a sustained basis.
- Interest cover (PBILDT / Gross Interest) declining below 5.0x on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and established promoters group and proficient management:

CEAT Limited belongs to the RPG Group. RPG group is a diversified conglomerate having business interests across diverse businesses like automotive tyres, infrastructure, information & technology, pharmaceuticals, plantations and power ancillaries. The group is headed by Mr Harsh Vardhan Goenka while CEAT's day to day operations are headed by Mr Anant Vardhan Goenka - Managing Director. Along with strong competent management team with long track record in industry and company has ensured maintenance of strong corporate governance practices and a prudent approach to management.

Established brand with and wide distribution network:

CEAT is one of the leading tyre companies in the country with long track record of operations and well established pan India distribution network, enjoying a strong brand image. The company caters to the various user segments which include Trucks and Buses (T&B), Light Commercial Vehicles, Tractors, Two wheelers (2W) & Three wheelers (3W), Passenger Vehicles and off-road tyres. CEAT has a widespread distribution network spread across the country with more than 4,000 dealers and more than 500 exclusive CEAT Shoppes & CEAT Tyre service hub servicing over 35,000 sub-dealers.

Diversified revenue profile, replacement segment continues to contribute majorly

The company's share of income from the replacement market has remained relatively high over the years. CEAT derives close to 60% of its revenue from the replacement market which mitigates the risk related to vagaries of the auto industry to an extent. In H1FY21, ~70% of the revenue was contributed by replacement segment; the replacement segment was quick to recover post COVID-19 pandemic and supported the top-line of the company in H1FY21 when OEM sales were muted. With such high share of revenue coming from the replacement market, risks arising out of the cyclical nature of the automobile industry are also relatively limited. The company also derived ~13% of revenue from export markets in FY20 (13% in H1FY21).

Post muted FY20, recovery in revenue witnessed in Q2FY21

On a consolidated basis, CEAT reported about 3% YoY decline in TOI in FY20 largely due to loss of revenue in Q4FY20 due to COVID-19 related lockdowns. Even if the impact of COVID-19 was to be excluded, the other factors responsible for flattish revenue were slowdown in the economy and muted auto demand in FY20. COVID-19 continued to impact volumes in Q1FY21; however the company posted robust top-line in Q2FY21 with a YoY increase of ~17% which was much higher than the industry peers. The PBILDT margins improved in Q2FY21 on the back of lower material costs and larger proportion of revenue coming from replacement segment. The PBILDT margin is largely a function of movement in material cost.

Key Rating Weaknesses

Exposure to cyclicality in the automobile industry:

The performance of tyre manufacturers is dependent on the performance of the automobile industry, which is cyclical in nature. Nevertheless, auto ancillaries which have a significant exposure to replacement market are insulated to an extent as the demand for the auto components in the replacement market is an indirect function of the growth posted by Original Equipment Manufacturers (OEMs). Further, diversified product portfolio and presence in the export markets mitigates this risk to an extent.

Moderate debt coverage indicators owing to partially debt funded capex programme:

CEAT is undertaking capex to the tune of ~Rs.3994 crore (excluding maintenance capex) from FY18-FY24 towards increase in capacities across PV radial, T&B radial, 2 wheelers and Specialty tyres. Large capex under implementation which is partially debt funded led to moderation in the capital structure and debt coverage indicators. Going forward as well, the debt coverage indicators are expected to be moderate over the medium term. Nevertheless, comfort can be derived from the fact that CEAT is generating healthy cash profits which can also be utilized to fund the capex to a large extent. As on March 31, 2020, overall gearing stood at 0.73x and at 0.61x as on September 30, 2020. The Total Outside Liabilities /Tangible Net-worth stood at 1.48x as on March 31, 2020 and at 1.56x as on September 30, 2020. The improvement in the overall gearing in H1FY21 was on the back of reduction of debt in H1FY21. Capex in H1FY21 was largely funded through internal accruals and LC capex (to be converted to term loan later). Any further large debt-funded capital expenditure other than envisaged would be a key rating sensitivity.

Industry characterized by intense competition
Indian tyre industry has witnessed intense competition between the domestic players and the Chinese tyre manufacturers. The level of competition by international player is significantly higher in the Trucks and Buses segment which is price sensitive. However measures taken by the government like imposition of anti-dumping duty (implemented in September 2017) and anti-subsidy countervailing duty (implemented in July 2019) on tyre imports from China have helped Indian tyre manufacturers. Diverse product offerings and strong focus on the replacement market have enabled the company to sustain the established market position.

Liquidity: Strong
The liquidity profile of CEAT is strong as evinced by the fact that it is expected to earn Gross Cash Accruals of about Rs.580 crore in FY21. As against that, CEAT has repayment obligations of ~Rs.229 crore (principal and interest) in FY21. Although CEAT is utilizing large portion of internal accruals to fund its capex requirements, debt repayments would get priority over capex funding and CEAT has already tied up with lenders for the entire debt. As on September 30, 2020, CEAT had cash and cash equivalents of ~Rs.137 crore. As on October 31, 2020, CEAT had unutilized fund based working capital limit of Rs.500 crore. Further, as on December 28, 2020, CEAT had unutilized Commercial Paper issue to the tune of Rs.300 crore. CEAT had also not availed moratorium as per RBI notification dated March 27, 2020.

Analytical approach: Consolidated
CARE has taken a consolidated approach in analyzing the financials of CEAT Limited. The list of companies which have been consolidated is presented in **Annexure 5**. CARE has taken consolidated approach owing to high degree of financial, managerial and business linkages between the entities.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Rating Methodology - Manufacturing Companies
Rating Methodology - Auto Ancillary Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Established in 1958, CEAT Limited (CEAT) is flagship entity under RPG Group (Rama Prasad Goenka Group). RPG group is a conglomerate having more than 15 companies catering to diverse businesses spanning across automotive tyres, infrastructure, information & technology, pharmaceuticals, plantations and power ancillaries. RPG group acquired the company in 1982.
CEAT is engaged in the manufacturing of tyres, tubes and flaps and it is one of the leading tyre manufacturer in domestic market. Products manufactured find application in heavy-duty trucks and buses, light commercial vehicles, earthmovers, forklifts, tractors, trailers, cars, motorcycles and scooters as well as auto-rickshaws. It caters to demand from both OEM (Original Equipment Manufacturer) and replacement market. Large part of its income is contributed from replacement market.
In India, CEAT operates with six manufacturing units located at Mumbai, Nagpur, Nasik, Ambernath (Maharashtra; operationalized in FY18), Halol (Gujarat), Chennai (Tamil Nadu) and in Srilanka (through Joint Venture). Furthermore, CEAT has outsourced the production facilities of tyres to several third party conversion agencies located at Hyderabad (Telangana) and Calicut (Kerala).

Brief Financials-Consolidated (Rs. crore)	FY19 (A)	FY20 (A)	H1FY21 (UA)
Total operating income	6,984.51	6,778.83	3,105.22
PBILDT	652.18	726.83	401.06
PAT	251.08	230.06	146.94
Overall gearing (times)	0.59	0.73	0.61
Interest coverage (times)	7.02	4.72	4.28

A: Audited, UA=Un-Audited
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	December 2028	300.00	CARE AA; Stable
Fund-based - LT-Cash Credit	-	-	-	-	500.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	1150.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Jan-20)	1)CARE AA; Stable (08-Jan-19)	1)CARE AA; Stable (08-Jan-18)
2.	Fund-based - LT-Cash Credit	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Jan-20)	1)CARE AA; Stable (08-Jan-19)	1)CARE AA; Stable (08-Jan-18)
3.	Non-fund-based - ST-BG/LC	ST	1150.00	CARE A1+	-	1)CARE A1+ (06-Jan-20)	1)CARE A1+ (08-Jan-19)	1)CARE A1+ (08-Jan-18)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	350.00	CARE A1+	-	1)CARE A1+ (06-Jan-20)	1)CARE A1+ (08-Jan-19)	1)CARE A1+ (08-Jan-18) 2)CARE A1+ (18-Jul-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (08-Jan-19)	1)CARE AA; Stable (08-Jan-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	Term Loan-Long Term	Simple

Annexure 5: List of subsidiaries which are consolidated

Name of the subsidiary	Percentage holding
Associated CEAT Holdings Company Pvt. Limited	100.00%
CEAT AKKhan Limited	70.00%
Rado Tyres Limited (RTL)	58.56%
CEAT Specialty Tyres Inc.	100%
CEAT Specialty Tyres B.V	100%
Name of the Joint Venture	**% holding**
CEAT Kelani Holding Pvt Limited- (Joint venture of Associated Ceat Holdings Company Pvt. Ltd.)	50%
Name of the Associate	**% holding**
TYRESNMORE Online Pvt Ltd	41.30%^

Note: CEAT Specialty Tyres Limited (CSTL), a wholly owned subsidiary of the company has been merged with CEAT Limited with effect from September 1, 2020 (appointed date being April 1, 2019)
^Includes compulsory convertible preference shares (potential voting right)

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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