CEAT Limited (Revised)

December 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	860.00 (Enhanced from 800.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	1,150.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**2,010.00 (Rs. Two Thousand Ten Crore Only)**		
Commercial Paper	500.00 (Enhanced from 350.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**500.00 (Rs. Five Hundred Crore Only)**		

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 record 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 from H2FY21 onwards which continues in FY22 as well, albeit relatively weaker performance reported by the company in Q1FY22 (COVID 2.0 impact) The ratings also positively factor in the improved export sales of the company in H1FY22 with improved export opportunities for Indian tyre manufacturers due to China+ 1 strategy, higher sales of specialty tyres and foray into new geographies. The market share of the company in the Passenger Car Radial (PCR) segment has also improved in the domestic market.

The rating strengths are tempered by volatility in operating margins due to fluctuation in raw material prices and freight costs. The raw material costs and freight costs continued to be elevated in H1FY22 thereby reducing the operating margin of the company despite the price hikes. The company reported operating margin of 9% in H1FY22 largely impacted by commodity inflation offset to an extent by operating leverage. The operating margin is expected to remain under pressure in the near term till the input costs soften. However, in order to mitigate the raw material price risk, the company has exercised tight control over discretionary spends and follows prudent working capital management.

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. 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 cyclicality prevalent in the automobile industry, high competition prevalent in the domestic tyre industry and exposure to 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.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Substantial increase in the scale of operations, along with a significant improvement in the market share, leading to an improvement in the operating margin over 13% on a sustained basis
- Total Debt to GCA below 1.88x on sustained basis
- Improvement in ROCE above 16% on a sustained basis
- Improvement in PBILDT interest cover over 8.5x on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in PBILDT margin below 11% on sustained basis
- Deterioration in Total Debt to Cash Flow from Operations (reported) above 3.0x on sustained basis
- Deterioration in Total Outside Liabilities/Tangible Net-worth beyond 1.80x on a sustained basis.
- Total debt/PBILDT above 2.60 times 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 promoter 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 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 4,400 dealers and more than 550 exclusive CEAT Shoppes & CEAT Tyre service hub servicing over 45,000 sub-dealers.

Diversified revenue profile, replacement segment continues to contribute majorly

The company's share of income from the replacement market continues to remain 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 H1FY22, ~58% of the revenue was contributed by replacement segment; 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 OEM segment contributed 23% to the revenue in H1FY22 and ~19% of revenue came from export markets in H1FY22 (14% in H1FY21). The sales to OEM are expected to be lower in the near term due to production cuts being undertaken by the OEMs on the back of shortage of semi-conductors.

Improvement in Total Operating Income (TOI) in FY21 and H1FY22; albeit deterioration in operating margin in H1FY22

On a consolidated basis, CEAT reported about 13% YoY improvement in TOI in FY21 driven by volume growth especially in the Truck Bus category and price hikes taken in December 2020 and Q4FY21. The operating margin also improved to 13.46% in FY21 on the back of lower material costs in H1FY21, positive operating leverage and better business mix. The revenue growth continued to be robust in H1FY22 with the company reporting over 40% growth in TOI over the previous period driven by growth in exports. The operating margin deteriorated in H1FY22 to 9% due to commodity inflation and higher freight rates. The operating margin is expected to remain under pressure in the near term until commodity prices soften.

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.3,994 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. The overall gearing improved marginally as on March 31, 2021, and stood at 0.52x (PY: 0.73x) and at 0.62x as on September 30, 2021. The Total Outside Liabilities /Tangible Net-worth stood at 1.44x as on March 31, 2021 (PY: 1.48x). 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 over Rs.590 crore in FY22. As against that, CEAT has repayment obligations of ~Rs.257 crore (principal and interest) in FY22. 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, 2021, CEAT had cash and cash equivalents of ~Rs.50 crore. As on November 30, 2021, CEAT had unutilized fund based working capital limit of Rs.368 crore.

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 6**. 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 manufacturers 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), 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)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	6,778.83	7,645.91	4,363.81
PBILDT	726.83	1,029.03	393.11
PAT	230.06	432.30	65.33
Overall gearing (times)	0.73	0.52	0.62
Interest coverage (times)	4.72	5.76	4.11

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	360.00	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	500.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	360.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (06-Jan-20)	1)CARE AA; Stable (08-Jan-19)
2	Fund-based - LT-Cash Credit	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (06-Jan-20)	1)CARE AA; Stable (08-Jan-19)
3	Non-fund-based - ST-BG/LC	ST	1150.00	CARE A1+	-	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (06-Jan-20)	1)CARE A1+ (08-Jan-19)
4	Commercial Paper-	ST	500.00	CARE	-	1)CARE A1+	1)CARE A1+	1)CARE A1+

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
	Commercial Paper (Standalone)			A1+		(05-Jan-21)	(06-Jan-20)	(08-Jan-19)
5	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (08-Jan-19)

* Long Term / Short Term

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 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: Bank Lender Details for this Company

To view the lender-wise details of bank facilities please click here

Annexure 6: 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	44.61%^
Greenzest Solar Private Limited	28%

^Includes compulsory convertible preference shares (potential voting right)

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

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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