CEAT LIMITED

January 8, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	1070.00 (Enhanced from Rs. 955 Crore)	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	1300.00 (Enhanced from Rs. 900 crore)	**CARE A1+ [A One Plus]**	**Reaffirmed**
Total Facilities	**2,370.00 (Rs. Twenty Three Hundred and Seventy Crore Only)**		
Commercial Paper (CP) issue	350.00 (Rupees Three Hundred and Fifty Crore Only)	**CARE A1+ [A One Plus]**	**Reaffirmed**
Non-Convertible Debenture issue	-	**-**	**Withdrawn**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed the Long term and short-term ratings assigned to the bank facilities and short term instrument of CEAT Limited (CEAT). The rating factors in CEAT's strong cash accruals in FY18 (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 affect by fluctuation in raw material prices, restriction in margin expansion due to expenditure on outsourcing, high competition prevalent in the domestic tyres market, project risk arising out of large upcoming capital expenditures and imports from China. However to curb the import, government has already implemented anti - dumping duty on Truck & Bus segment.

Timely completion and stabilization of the ongoing projects 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 monitorable.

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

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 a diversified conglomerate having turnover of around Rs.22,000 crore in FY18 . The RPG group is present 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.

Established brand with diversified product portfolio and distribution network

CEAT is one of the leading tyre companies in the country and based upon reported revenues for FY18, the company is the fourth largest player in the domestic tyre market. 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 500+ franchisees by way of CEAT Shoppe and CEAT Hubs. The company derives almost 61% of its revenue from the replacement market which mitigates the business risk to a large extent.

Improvement in the operating performance driven by increasing focus on passenger car and two wheeler segments

On a standalone basis, in FY18 sales volume growth in two wheelers and PC/UV was at moderate level. Contribution from the non-truck segment in revenue increased from 47% of the total sales in FY13 to 68% in FY18.

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

Overall gearing ratio remained at a comfortable level of 0.34 times as on March 31, 2018 compared with 0.39 times as on March 31, 2017. To further diversify into 2/3 wheelers, Truck and Buses, PC/UV production capacity and specialty tyres the company planning investment of ~Rs. 4000 crore capex over next five years, funded through debt and internal accruals. The debt funded capex is expected to increase the gearing in future, but it is expected to be at comfortable levels.

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

Liquidity analysis:

As on September 30, 2018, cash and bank balance stands at Rs.50.74 crore. The company has unutilized commercial paper of Rs. 200 crore as well as working capital lines to the extent of 80% on the basis of past 19 months average thereby providing sufficient liquidity cushion. Considering that the company has repaid about half of the debt obligation due also the company has pre-paid NCDs of Rs. 200 crore in FY19. The company has cash and bank balance to the extent of two quarter debt servicing, the liquidity position of the company is at comfortable level.

Rating Weaknesses

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 FY18. Further, the industry growth is dependent on the performance of the automobile industry in the country, which is cyclical in nature. Moreover, the company is likely to remain protected from any hiccups in demand as a result of its diversified portfolio and presence in countries outside of India.

High level of competition from Domestic and International Players
Historically the tyre industry has witnessed intense competition between the Indian players and the Chinese tyre manufacturers. The level of competition by international player is significantly higher in the Trucks and Buses segment, however the government has started putting anti-dumping duty on tyre imports. In the last two years, the demand for products from 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, stagnated in FY17 and negative growth in FY18 due to government push

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, 2018, the promoters held 50.77% of the total shares of the company.

CEAT is a part of the RPG group having turnover of around Rs.22,000 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). Also in the process of setting up plant at Chennai. The company has also operationalized Ambernath Plant in FY 18. 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 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.233.29 crore on total operating income of Rs.6,270 crore in FY18 as against adjusted PAT of Rs.359.23 crore on total operating income of Rs.5,796 crore in FY17.

Brief Financials (Rs. crore)*	FY17 (A)	FY18 (A)
Total operating income	5796	6270
PBILDT	705.09	664.22
PAT	359.23	233.29
Overall gearing (times)*	0.39	0.34
Interest coverage (times)	7.87	6.41

A: Audited

**Excluding dealer deposits in total debt for calculating overall gearing*

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. 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 entyre 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.

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
Term Loan-Long Term	-	-	-	570.00	CARE AA; Stable
Fund-based - LT-Cash Credit	-	-	-	500.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	1300.00	CARE A1+
Commercial Paper	-	-	-	350.00	CARE A1+
Debentures-Non Convertible Debentures	-	-	-	0.00	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	570.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Jan-18)	1)CARE AA (14-Oct-16)	1)CARE AA- (04-Aug-15)
2.	Fund-based - LT-Cash Credit	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Jan-18)	1)CARE AA (14-Oct-16)	1)CARE AA- (04-Aug-15)
3.	Non-fund-based - ST-BG/LC	ST	1300.00	CARE A1+	-	1)CARE A1+ (08-Jan-18)	1)CARE A1+ (14-Oct-16)	1)CARE A1+ (04-Aug-15)
4.	Commercial Paper	ST	350.00	CARE A1+	-	1)CARE A1+ (08-Jan-18) 2)CARE A1+ (18-Jul-17)	1)CARE A1+ (14-Oct-16)	1)CARE A1+ (23-Sep-15) 2)CARE A1+ (04-Aug-15)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA; Stable (08-Jan-18)	1)CARE AA (14-Oct-16)	1)CARE AA- (04-Aug-15)

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