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Our recent interaction with Anant Goenka, managing director of CEAT at the RPG Investor Conference reinforced our conviction on the company's long-term prospects. However, CEAT must incur significantly higher capex (~Rs 1,300 crore per annum) over FY19–20. What we liked: 1) continued focus on passenger car radials (PCR); management aims to rack up the market share from ~10% currently to 16–20%; 2) the export strategy, which focuses on farm radials as well as PCR. Key areas to watch out for: 1) margin pressure due to higher competitive intensity in 2Ws; and 2) volatility in commodity prices.

We are revising down the FY20E EPS by 3% (higher depreciation) to Rs 126.9 and PE to 13x (from 14x) factoring in the company's negative FCF profile over FY19–20E. Maintain 'BUY' with a revised TP of Rs 1,649 (earlier Rs 1,839). Apart from MRF and Maxxis Tyres, capacity addition in the 2W segment has been limited. CEAT will continue its premium pricing (2.5–3%) to MRF. It does not expect aggressive pricing by rivals. As a result, Mr. Goenka expects stable 2W margins. PCR have expanded at a CAGR of >20% over the past five years and remain the top priority. CEAT's plant (0.5mn tyres per month) is almost fully utilised, but debottlenecking provides room to raise utilisation until new capacity (0.7mn tyres per month) gets commissioned in FY20. Therefore, significant growth

for this segment (especially from OEMs) is likely in FY21.

Management has guided for capex of Rs 3,500–4,000 crore over the next five years with Rs 1,500 crore in FY19 and Rs 1,200–1,300 crore in FY20 (versus Rs 800 crore earlier). The DE ratio is expected to peak out in FY20 at slightly below 1x. Management indicated that 1x is the maximum they would stretch DE to. We like CEAT's unwavering and granular focus on branding. We estimate EPS will grow at a CAGR of 31% over FY18–20E.

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