

Camso acquisition strengthens CEAT Off-Highway positioning

Auto & Auto Ancillaries ▶ Company Update ▶ December 11, 2024

TARGET PRICE (Rs): 4,000

We attended CEAT's conference call on its recent strategic acquisition ([press release](#)) of *Camso* (maker of high-margin Off-Highway bias tyres and tracks for compact construction equipment) brand's business assets from Michelin, along with 2 plants in Sri Lanka at ~1x CY23 EV/Sales, for USD225mn (similar to replacement cost; includes global *Camso* brand access). The acquisition forms part of CEAT's focus on premium, OHT (ie off highway tyres), and exports (mix of OHT/exports to rise to ~25% each vs ~15%/~19-20% now). *Camso's* double-digit market share (market size: ~USD2bn) and strong presence in North America/Europe (90% of sales) complement CEAT's organic efforts to date. The mgmt expects synergies in channel and clients to lead to further market-share gains, with dual-brand play possible going ahead; after expiry of the 3Y licensing arrangement, other segments (Agri, power sports, harvesters) would potentially open up (revenue of acquired business at USD213mn vs overall *Camso* revenue of USD1.2bn). Our estimates are unchanged; we retain BUY and raise TP to Rs4,000 at 18x Dec-26E PER (rolled over; multiple upgraded from 17x, with OHT valued at 25x, in line with Balkrishna Industries).

CEAT: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	113,149	119,435	130,112	144,604	157,886
EBITDA	9,738	16,523	14,833	18,220	20,841
Adj. PAT	2,196	7,009	5,519	7,675	9,475
Adj. EPS (Rs)	54.3	173.3	136.4	189.7	234.2
EBITDA margin (%)	8.6	13.8	11.4	12.6	13.2
EBITDA growth (%)	39.7	69.7	(10.2)	22.8	14.4
Adj. EPS growth (%)	117.0	245.2	(14.1)	39.1	23.4
RoE (%)	6.5	18.7	13.0	16.0	17.1
RoIC (%)	7.5	16.1	12.8	15.7	17.2
P/E (x)	58.0	18.2	23.1	16.6	13.4
EV/EBITDA (x)	15.4	8.8	9.7	7.8	6.6
P/B (x)	3.7	3.2	2.8	2.5	2.1
FCFF yield (%)	2.2	5.9	3.0	4.2	4.7

Source: Company, Emkay Research

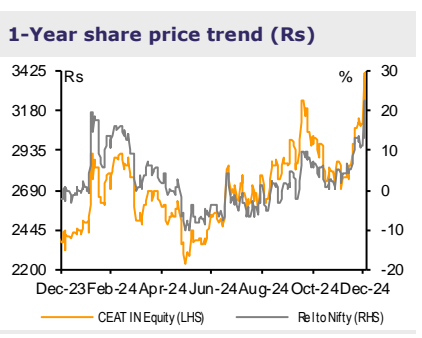
KTAs from conference call

1) The acquisition is part of CEAT's focus on OHT (would form 25% of sales post-acquisition vs 15% now), international business (exports share would rise to 25-26% vs 19-20% now), and premium tyres (blended realizations to improve as *Camso's* realizations are ~60% higher than CEAT's in similar segments, at ~USD5.5-6/kg). 2) OHT is a USD28-30bn space globally; market size for the acquired business is USD2bn; of this, tracks market is ~USD1bn (50% from premium; *Camso* is the #2 player), as also construction tyres, ie ~USD1bn (25% contribution from the premium segment). 3) Growth rate in construction tyres is typically 2-3% and in tracks is 5-7%; these segments would continue with the bias technology. 4) *Camso* is the leader in Agri rubber tracks, with 20% market share despite being a premium player; also, it has 10% market share in tyres; Tracks space is high-tech in nature, with limited competition. 5) *Camso* overall brand revenue stands at ~USD1.2bn across Agri, Construction, Mining, Tracks, etc (North America/Europe form 60%/30% of sales); once CEAT acquires the brand after 3 years, it can foray into other categories; Michelin may migrate existing products to another brand in the meantime, while exiting compact construction tyres and tracks. 6) For *Camso*, revenue grew 5-6% till 2022, before declining in 2023, with margin profile of a high double-digit to ~20%. 7) *Camso's* CY24 revenue to see YoY decline due to market headwinds and transition impact from the acquisition; margins to rebound, once the business stabilizes; on steady-state basis, the company has potential to go beyond even 20% levels. 8) The acquisition was done with an eye on market-share gains in Construction tyres (where there is possibility of a dual-brand play) as well as in tracks (through the *Camso* brand, with better OEM engagement); the company expects cross-selling opportunities due to synergies in the channel and OEMs. 9) CEAT's existing Agri products on the premium front could possibly migrate to the *Camso* brand in future; overall SKU count in OHT post-acquisition to rise to ~1,700 vs ~900 now (largely in Agri). 10) 2 plants, acquired in Sri Lanka as part of the transaction, have 400MT/day capacity (split equally between tyres and tracks), with ~35% headroom in terms of capacity utilization; plants are best-in-class, with strong efficiency ratios, which would improve further once utilization levels increase; does not anticipate substantial capex from this for coming 3-4 years. 11) Expects the acquisition to be margin- and return ratio-accretive; also expects EPS to be accretive in 1-2 years; CEAT would remain within the targeted gearing ratios (1x Debt:Equity) despite funding 70% of the acquisition through debt.

Target Price – 12M	Dec-25
Change in TP (%)	9.6
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	27.0
CMP (11-Dec-24) (Rs)	3,149.0

Stock Data	Ticker
52-week High (Rs)	3,581
52-week Low (Rs)	2,210
Shares outstanding (mn)	40.5
Market-cap (Rs bn)	127
Market-cap (USD mn)	1,501
Net-debt, FY25E (Rs mn)	16,657
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	844.1
ADTV-3M (USD mn)	9.9
Free float (%)	52.8
Nifty-50	24,642
INR/USD	84.8
Shareholding, Sep-24	
Promoters (%)	47.2
FPIs/MFs (%)	16.7/19.7

Price Performance			
(%)	1M	3M	12M
Absolute	10.6	10.2	37.7
Rel. to Nifty	8.3	11.4	17.3



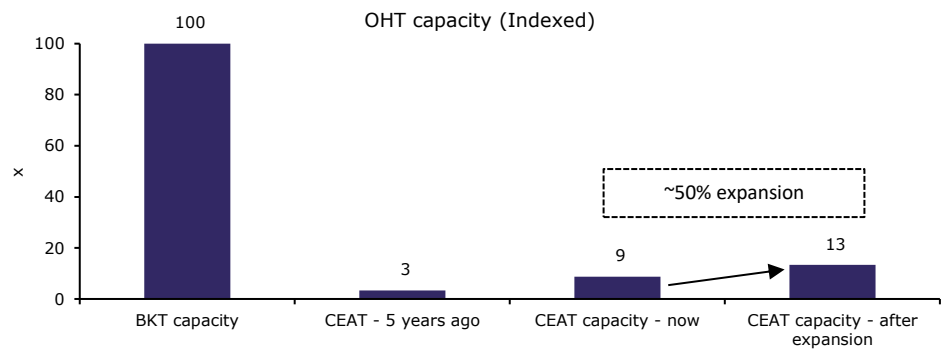
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Exhibit 1: Indicative examples of Camso’s product offerings in the Construction Equipment tyre and tracks business



Source: Company, Emkay Research

Exhibit 2: Company’s OHT capacity has expanded 2.5x in the past 5 years to 105ton per day; it is undertaking ~50% expansion here to 160tpd



Source: Company, Emkay Research

Exhibit 3: Revenue Model – We build in 10%/8%/11% revenue/EBITDA/EPS CAGR over FY24-27E

Particulars (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Truck and Bus	22,350	20,336	25,873	28,090	33,945	37,025	40,357	44,796	48,380
as a % of Revenues	32.0	30.0	34.0	30.0	30.0	31.0	31.0	31.0	30.6
Growth YoY %	11.2	-9.0	27.2	8.6	20.8	9.1	9.0	11.0	8.0
2/3Ws	21,652	21,692	22,068	27,154	29,419	32,247	35,472	39,374	43,311
as a % of Revenues	31.0	32.0	29.0	29.0	26.0	27.0	27.3	27.2	27.4
Growth YoY %	11.2	0.2	1.7	23.0	8.3	9.6	10.0	11.0	10.0
PC/UV	9,778	9,490	10,653	16,854	22,630	23,887	25,798	28,378	31,215
as a % of Revenues	14.0	14.0	14.0	18.0	20.0	20.0	19.8	19.6	19.8
Growth YoY %	11.2	-2.9	12.3	58.2	34.3	5.6	8.0	10.0	10.0
OHT/Speciality	7,683	8,135	10,653	13,109	18,104	17,915	19,707	22,663	24,929
as a % of Revenues	11.0	12.0	14.0	14.0	16.0	15.0	15.1	15.7	15.8
Growth YoY %	11.2	5.9	31.0	23.0	38.1	-1.0	10.0	15.0	10.0
LCV/others	8,381	8,135	6,849	8,427	9,052	8,360	8,778	9,393	10,050
as a % of Revenues	12.0	12.0	9.0	9.0	8.0	7.0	6.7	6.5	6.4
Growth YoY %	11.2	-2.9	-15.8	23.0	7.4	-7.6	5.0	7.0	7.0
Total Consolidated Revenues	69,845	67,788	76,096	93,634	113,149	119,435	130,112	144,604	157,886
Growth YoY (%)	11.2	-2.9	12.3	23.0	20.8	5.6	8.9	11.1	9.2
EBITDA	6,026	6,970	9,522	6,969	9,738	16,523	14,833	18,220	20,841
EBITDA margin (%)	8.6	10.3	12.5	7.4	8.6	13.8	11.4	12.6	13.2
EBIT	4,099	4,205	6,125	2,617	5,045	11,434	9,342	11,927	13,877
EBIT margin (%)	5.9	6.2	8.0	2.8	4.5	9.6	7.2	8.2	8.8
Interest	929	1,539	1,788	2,070	2,421	2,691	2,479	2,212	1,794
PBT	3,762	3,043	4,839	949	2,793	8,941	7,062	9,916	12,287
Tax rate (%)	33	24	11	26	26	25	25	25	25
PAT	2,522	2,312	4,320	712	2,196	7,009	5,519	7,676	9,475
PAT margin (%)	3.6	3.4	5.7	0.8	1.9	5.9	4.2	5.3	25
EPS (Rs)	62	57	107	18	54	173	136	190	234
ROCE (pre-tax, %)	10.0	8.6	11.8	4.8	8.4	18.4	14.4	17.5	19.4
ROE (%)	9.4	8.2	13.9	2.2	6.5	18.7	12.3	15.0	15.9

Source: Company, Emkay Research

Exhibit 4: Our estimates are unchanged

(Rs mn)	FY25E				FY26E				FY27E			
	Earlier	Revised	%Change	%YoY	Earlier	Revised	%Change	%YoY	Earlier	Revised	%Change	%YoY
Revenue	130,112	130,112	0.0	8.9	144,604	144,604	0.0	11.1	157,886	157,886	0.0	9.2
EBITDA	14,833	14,833	0.0	(10.2)	18,220	18,220	0.0	22.8	20,841	20,841	0.0	14.4
- Margin	11.4%	11.4%	0bps	(243)bps	12.6%	12.6%	0bps	120bps	13.2%	13.2%	0bps	60bps
APAT	5,519	5,519	0.0	(21.3)	7,676	7,676	0.0	39.1	9,475	9,475	0.0	23.4
Dil EPS (Rs)	136.4	136.4	0.0	(21.3)	189.8	189.8	0.0	39.1	234.2	234.2	0.0	23.4

Source: Company, Emkay Research

Exhibit 5: Emkay vs Consensus estimates

CEAT (C)	Emkay Estimates			Bloomberg estimates			Difference		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net revenue (Rs mn)	130,112	144,604	157,886	131,840	144,053	155,984	-1.3%	0.4%	1.2%
EBITDA (Rs mn)	14,833	18,220	20,841	15,482	18,230	20,237	-4.2%	-0.1%	3.0%
EBITDA margin (%)	11.4	12.6	13.2	11.7	12.7	13.0	(34) bps	(6) bps	23 bps
EPS (Rs)	136.4	189.7	234.2	144.4	188.3	213.4	-5.5%	0.8%	9.8%

Source: Bloomberg, Emkay Research

CEAT : Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	113,149	119,435	130,112	144,604	157,886
Revenue growth (%)	20.8	5.6	8.9	11.1	9.2
EBITDA	9,738	16,523	14,833	18,220	20,841
EBITDA growth (%)	39.7	69.7	(10.2)	22.8	14.4
Depreciation & Amortization	4,693	5,088	5,490	6,293	6,964
EBIT	5,045	11,434	9,342	11,927	13,877
EBIT growth (%)	92.8	126.6	(18.3)	27.7	16.4
Other operating income	0	0	0	0	0
Other income	169	197	199	201	203
Financial expense	2,421	2,691	2,479	2,212	1,794
PBT	2,793	8,941	7,062	9,916	12,287
Extraordinary items	334	582	0	0	0
Taxes	718	2,214	1,780	2,499	3,096
Minority interest	(38)	(74)	(7)	(7)	(7)
Income from JV/Associates	82	208	229	252	277
Reported PAT	1,862	6,427	5,519	7,675	9,475
PAT growth (%)	117.0	245.2	(14.1)	39.1	23.4
Adjusted PAT	2,196	7,009	5,519	7,675	9,475
Diluted EPS (Rs)	54.3	173.3	136.4	189.7	234.2
Diluted EPS growth (%)	117.0	245.2	(14.1)	39.1	23.4
DPS (Rs)	12.0	30.0	30.0	30.0	30.0
Dividend payout (%)	26.1	18.9	22.0	15.8	12.8
EBITDA margin (%)	8.6	13.8	11.4	12.6	13.2
EBIT margin (%)	4.5	9.6	7.2	8.2	8.8
Effective tax rate (%)	25.7	24.8	25.2	25.2	25.2
NOPLAT (pre-IndAS)	3,749	8,603	6,988	8,921	10,380
Shares outstanding (mn)	40.5	40.5	40.5	40.5	40.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,793	8,941	7,062	9,916	12,287
Others (non-cash items)	7,008	7,789	7,970	8,505	8,757
Taxes paid	377	(1,630)	(1,780)	(2,499)	(3,096)
Change in NWC	2,211	2,674	878	791	116
Operating cash flow	12,055	17,193	14,360	16,964	18,341
Capital expenditure	(8,779)	(8,668)	(10,000)	(11,000)	(11,886)
Acquisition of business	(11)	(44)	0	0	0
Interest & dividend income	299	175	175	175	175
Investing cash flow	(8,491)	(8,537)	(10,000)	(11,000)	(11,886)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(977)	(5,556)	(826)	(2,721)	(3,048)
Payment of lease liabilities	936	918	918	918	918
Interest paid	(2,093)	(2,669)	(2,479)	(2,212)	(1,794)
Dividend paid (incl tax)	(126)	(485)	(1,214)	(1,214)	(1,214)
Others	0	0	0	0	0
Financing cash flow	(3,195)	(8,710)	(4,519)	(6,147)	(6,055)
Net chg in Cash	369	(54)	(160)	(183)	400
OCF	12,055	17,193	14,360	16,964	18,341
Adj. OCF (w/o NWC chg.)	9,844	14,518	13,481	16,174	18,225
FCFF	3,276	8,525	4,360	5,964	6,454
FCFE	1,154	6,009	2,055	3,927	4,835
OCF/EBITDA (%)	123.8	104.1	96.8	93.1	88.0
FCFE/PAT (%)	62.0	93.5	37.2	51.2	51.0
FCFF/NOPLAT (%)	87.4	99.1	62.4	66.9	62.2

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	405	405	405	405	405
Reserves & Surplus	33,992	40,022	44,327	50,788	59,050
Net worth	34,396	40,426	44,731	51,193	59,454
Minority interests	174	97	90	83	76
Deferred tax liability (net)	3,873	4,509	4,509	4,509	4,509
Total debt	22,955	17,915	17,089	14,367	11,320
Total liabilities & equity	61,398	62,948	66,419	70,153	75,359
Net tangible fixed assets	30,880	59,268	61,750	65,572	69,608
Net intangible assets	878	973	973	973	973
Net ROU assets	29,203	2,470	2,470	2,470	2,470
Capital WIP	5,961	6,835	8,863	9,749	10,635
Goodwill	0	0	0	0	0
Investments [JV/Associates]	1,653	1,821	1,821	1,821	1,821
Cash & equivalents	719	591	431	248	648
Current assets (ex-cash)	26,929	27,987	30,489	34,196	38,202
Current Liab. & Prov.	34,825	36,997	40,378	44,875	48,997
NWC (ex-cash)	(7,895)	(9,010)	(9,889)	(10,679)	(10,795)
Total assets	61,398	62,948	66,419	70,153	75,359
Net debt	22,236	17,324	16,657	14,119	10,672
Capital employed	61,398	62,948	66,419	70,153	75,359
Invested capital	53,066	53,701	55,305	58,335	62,256
BVPS (Rs)	850.3	999.4	1,105.8	1,265.6	1,469.8
Net Debt/Equity (x)	0.6	0.4	0.4	0.3	0.2
Net Debt/EBITDA (x)	2.3	1.0	1.1	0.8	0.5
Interest coverage (x)	0.5	0.2	0.3	0.2	0.1
RoCE (%)	8.4	18.4	14.4	17.5	19.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	58.0	18.2	23.1	16.6	13.4
P/CE(x)	18.5	10.5	11.6	9.1	7.7
P/B (x)	3.7	3.2	2.8	2.5	2.1
EV/Sales (x)	1.3	1.2	1.1	1.0	0.9
EV/EBITDA (x)	15.4	8.8	9.7	7.8	6.6
EV/EBIT(x)	29.7	12.7	15.4	11.9	9.9
EV/IC (x)	2.8	2.7	2.6	2.4	2.2
FCFF yield (%)	2.2	5.9	3.0	4.2	4.7
FCFE yield (%)	0.9	4.7	1.6	3.1	3.8
Dividend yield (%)	0.4	1.0	1.0	1.0	1.0
DuPont-RoE split					
Net profit margin (%)	1.9	5.9	4.2	5.3	6.0
Total asset turnover (x)	1.9	1.9	2.0	2.1	2.2
Assets/Equity (x)	1.8	1.7	1.5	1.4	1.3
RoE (%)	6.5	18.7	13.0	16.0	17.1
DuPont-RoIC					
NOPLAT margin (%)	3.3	7.2	5.4	6.2	6.6
IC turnover (x)	2.1	2.2	2.4	2.5	2.5
RoIC (%)	7.5	16.1	12.8	15.7	17.2
Operating metrics					
Core NWC days	(25.5)	(27.5)	(27.7)	(27.0)	(25.0)
Total NWC days	(25.5)	(27.5)	(27.7)	(27.0)	(25.0)
Fixed asset turnover	1.5	1.5	1.5	1.5	1.4
Opex-to-revenue (%)	26.1	28.2	27.9	26.9	26.3

Source: Company, Emkay Research

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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
08-Dec-24	3,096	3,650	Buy	Chirag Jain
21-Oct-24	2,972	3,650	Buy	Chirag Jain
03-Sep-24	2,849	3,650	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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