

CEAT Ltd

Camso's acquisition – Strategic yet expensive!

View – Accelerate focus on high margin OHT and exports segments

CEAT has entered into an agreement with Michelin to acquire Camso brand's compact construction equipment (CCE) bias tyre and high margins bias tracks business. We see this acquisition as strategic positive for CEATs' long-term goal of expanding OHT (~15% of consol topline as of 2Q) and exports (~19% topline). Acquisition to help CEAT widen its product portfolio (into bias tracks and compact construction tyres) besides gaining access to global customer base of 40+ OEMs and premium OHT distributors. It will also have access to applications in agri, harvesters, power sports and other categories using the same technology. Despite this positive, we see this deal expensive at ~7x EV/EBITDA (TTM) given limited market opportunity with underlying industry growth muted at 2-3% for CCE and 5-7% for bias tracks. Our calculations suggest this acquisition will likely be margin accretive by 30-40bps while ~5% EPS dilutive in FY26E and ~13% accretive in FY27E. We have maintained an ADD rating with revised SoTP based TP of Rs3,617 (15x FY27E EPS to base business and 20x to Camso). Valuation at 17.5x/12.5x FY26/FY27 consol EPS (v/s 10yr LPA one year forward of ~17x) do partially reflects the positives.

Key takeaways from the call ([Click here for PR](#))

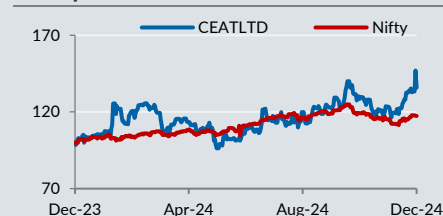
- **Acquisition to be synergistic in mid-long term** – Through Camso's acquisition, CEAT will get access to 1) global ownership of the premium brand, 2) customer access in the EU and US for both OEM (40+ customers including JCB, CNH, Kubota to name a few) and aftermarket (200+ dealers/distributors). CY24 revenues expected to be lower than CY23 revenues of USD213m with potential to take it up to USD250m. Margins of the acquired operations are mid-teens.
- **CEAT will have new line of business in the form of bias tracks** - Tracks are conveyor belts used in compact construction equipment (CCE), harvester and agri segment which requires different technology. Market size is ~USD1b/year of which ~50% is premium where Camso is placed no 2 with market share of ~20% (leader in harvester and no. 2 player in CCE). It has high EBITDAM (mid-teens), proprietary technology and less competitive. There is no play of value segment.
- **Product portfolio to complement existing business** – Camso is one of the large player in CCE tyres as well with market share of ~10%. As indicated by the management, the overall market size is ~USD1b of which <25% is premium. CEAT has large presence in agriculture segment though its specialty business while it would get an entry in to CCE segment though Camso. CEAT realizations for specialized category tyres is USD3-4/kg while the same for Camso is USD5.5-7/kg.
- **CEAT to have access to other applications beyond CCE** - Camso global has revenues run rate of USD1.2m from its existing plant from the US, the EU and SL from compact construction, mining, power sports etc. As a part of the deal, Michelin will exit CCE tyres and tracks business completely while it can transfer some of the remaining categories to its own brand during the course of 3 years.
- **No incremental capex envisaged as existing capacity have enough capacities** – Don't expect significant capex in the initial 3-4 years as Sri Lanka (SL) facilities are upgraded in last 3-4 years. Overall capacity is ~200mtpd (split equally for tyres and tracks) with current utilization at 60-65%, which indicate enough growth headway.
- **Expect acquisition to be margins accretive but EPS dilutive in FY26E** – Acquired business is currently experiencing a decline with CY24 revenues (led by lower off-take from end customers) and margins (led by continuation of fixed cost) are expected to be lower than CY23. However, margins are 15-20% range (vs CEAT at 11-12%) with overall margins expected to be accretive on blended basis. OHT is generally higher margin than other business.

Reco	: ADD
CMP	: Rs 3,147
Target Price	: Rs 3,671
Return	: +16.7%

Stock data (as on Dec 11, 2024)

Nifty	24,637
52 Week h/l (Rs)	3,579 / 2,210
Market cap (Rs/USD mn)	130,409 / 1,538
Outstanding Shares (mn)	40
6m Avg t/o (Rs mn):	661
Div yield (%):	1.1
Bloomberg code:	CEAT IN
NSE code:	CEATLTD

Stock performance



	1M	3M	1Y
Absolute return	+10.8%	+10.4%	+37.9%

Shareholding pattern (As of Sep'24)

Promoter	47.2%
FII+DII	36.4%
Others	16.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	3,671	3,337

Δ in earnings estimates

	FY26E	FY27E
EPS (New)	179.6	252.4
EPS (Old)	189.0	222.4
% change	(5.0%)	+13.5%

Financial Summary

Y/E MARCH (Rs b)	FY25E	FY26E	FY27E
Sales	132.6	162.2	191.9
EBITDA	15.9	20.8	25.7
Adj. PAT	5.6	7.3	10.2
Adj. EPS (INR)	137.4	179.6	252.4
EPS Gr. (%)	(20.7)	30.7	40.6
BV/Sh. (INR)	1,104	1,244	1,451
RoE (%)	12.4	14.4	17.4
RoCE (%)	12.8	15.5	18.6
Payout (%)	29.3	25.6	20.5
P/E (x)	22.9	17.5	12.5
P/BV (x)	2.9	2.5	2.2
EV/EBITDA (x)	9.1	7.1	5.7
Div. Yield (%)	1.1	1.3	1.4

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Lead Analyst

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MEGHNA GUNDU, Associate

Other key highlights

- **Acquisition funding** - Expect to fund the acquisition through combination of equity (~30%) and balance ~70% by debt. Will not go for equity raise. Amount paid for the acquisition is similar to amount spent on green field capex but getting access to customers/markets/brand which otherwise would take time.
- **Financial profile** – Camso’s revenues have moved in the range of plus minus 5% post covid.
 - **Revenue split** - ~53% OEM and 47% aftermarket
 - **Geography split** - ~60% from the US, ~30% from Europe, ~4% from South America and balance from rest of the world.
 - **Margin profile** – Mid teens and ROCE to be better than India business.
 - **Outlook** - Expect 2024 revenues to be lower than 2023 (USD213m) led by headwinds in OEM segment and transitional impact. Margins are also expected to decline as fixed cost decline is not expected (especially employee cost). Expect recovery from FY26/27 onwards.
 - Post-acquisition share of OHT segment for CEAT consol to increase to ~25%.
- **Acquisition to reflect in consolidated accounts which is expected from 1QFY26.** Expect business to be carried out through separate entity in SL which will be owned by CEAT while co is evaluating option of the same can be done through existing SL entity.
- **Camso has SKU range is complete within CCE** - Camso is working on industry first tyre sizes for both tyres and tracks. Expect to add 750+ SKUs post this acquisition and will be increased to 1,700+ SKUs.
- Camso has 600+ employees including R&D in SL and outside SL, product development team outside SL. Don’t see any layoff of employees.

FINANCIALS

Exhibit 1: Balance Sheet

Y/E March (Rs m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	405	405	405	405	405	405
Total Reserves & other equity	32,559	34,166	40,119	44,262	49,908	58,298
Net Worth	32,964	34,570	40,524	44,667	50,312	58,702
Deferred Liabilities	3,177	3,886	4,509	4,554	4,600	4,646
Total Loans	22,289	22,955	17,915	32,306	36,135	33,917
Capital Employed	58,429	61,411	62,948	81,527	91,047	97,265
Gross Block	71,462	79,004	85,812	96,312	111,312	126,312
Less: Accum. Deprn.	13,004	16,155	19,967	25,678	32,580	40,411
Net Fixed Assets	58,458	62,849	65,845	70,634	78,733	85,901
Goodwill			244	244	244	244
Capital WIP	3,593	4,073	3,456	3,466	3,476	3,486
Total Investments	1,792	1,696	1,821	1,837	1,854	1,871
Curr. Assets, Loans&Adv.	27,761	27,661	28,578	45,033	52,335	57,294
Inventory	13,096	11,378	11,505	12,770	15,622	18,486
Account Receivables	11,543	13,070	12,832	14,244	17,424	20,619
Cash Balance	238	606	552	14,281	15,503	14,353
Bank Balance	125	113	39	39	39	39
Loans and Advances	-	-	-	-	-	-
Others	2,759	2,494	3,650	3,698	3,747	3,797
Curr. Liability & Prov.	33,174	34,868	36,997	39,689	45,596	51,532
Account Payables	21,576	22,683	23,320	25,886	31,665	37,471
Provisions	1,680	1,917	1,840	1,851	1,861	1,872
Others	9,918	10,267	11,836	11,952	12,070	12,188
Net Current Assets	(5,413)	(7,207)	(8,419)	5,344	6,739	5,762
Appl. of Funds	58,430	61,411	62,947	81,525	91,045	97,264

Source: Company, YES Sec

Exhibit 2: Income statement

Y/E March (Rs m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	93,634	113,149	119,435	132,573	162,174	191,908
Change (%)	23.0	20.8	5.6	11.0	22.3	18.3
EBITDA	7,098	9,738	16,522	15,909	20,758	25,716
Margin (%)	7.6	8.6	13.8	12.0	12.8	13.4
Depreciation	4,352	4,693	5,088	5,711	6,901	7,831
EBIT	2,746	5,045	11,434	10,198	13,857	17,884
Int. and Finance Charges	2,070	2,421	2,691	3,390	4,791	4,904
Other Income - Rec.	114	169	197	217	226	235
PBT bef. EO Exp.	790	2,793	8,941	7,025	9,292	13,215
EO Expense/(Income)	129	334	582	-	-	-
PBT after EO Exp.	661	2,459	8,359	7,025	9,292	13,215
Tax	243	718	2,214	1,756	2,323	3,304
Tax Rate (%)	36.7	29.2	26.5	25.0	25.0	25.0
Reported PAT	418	1,742	6,145	5,269	6,969	9,912
PAT Adj	841	2,196	7,008	5,559	7,263	10,211
Change (%)	(82.0)	161.1	219.1	(20.7)	30.7	40.6

Source: Company, YES Sec

Exhibit 3: Cash Flow Statement

Y/E March (Rs m)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NP/ (Loss) bef Tax and EO	661	2,793	8,941	7,025	9,292	13,215
Depreciation	4,352	4,693	5,088	5,711	6,901	7,831
Interest & Finance Charges	2,070	2,421	2,691	3,390	4,791	4,904
Direct Taxes Paid	(243)	377	(1,630)	(1,756)	(2,323)	(3,304)
(Inc)/Dec in WC	(956)	1,298	748	(112)	(252)	(253)
Others	305	(106)	10	327	332	336
CF from Operations	6,189	12,055	17,193	14,672	18,828	22,818
(inc)/dec in FA	(10,840)	(8,791)	(8,673)	(10,500)	(15,000)	(15,000)
Free Cash Flow	(4,651)	3,264	8,520	4,172	3,828	7,818
(Pur)/Sale of Investments	1,396	299	136	(26)	(27)	(27)
CF from Investments	(9,444)	(8,492)	(8,537)	(10,526)	(15,027)	(15,027)
(Inc)/Dec in Debt	5,821	(977)	(5,556)	14,391	3,829	(2,218)
Interest Paid	(1,944)	(2,093)	(2,669)	(3,390)	(4,791)	(4,904)
Dividend Paid	(746)	(126)	(485)	(1,416)	(1,618)	(1,820)
CF from Fin. Activity	3,132	(3,195)	(8,710)	9,585	(2,580)	(8,942)
Inc/Dec of Cash	(123)	368	(55)	13,730	1,222	(1,150)
Add: Beginning Balance	361	238	605	551	14,281	15,503
Closing Balance	238	605	551	14,281	15,503	14,353

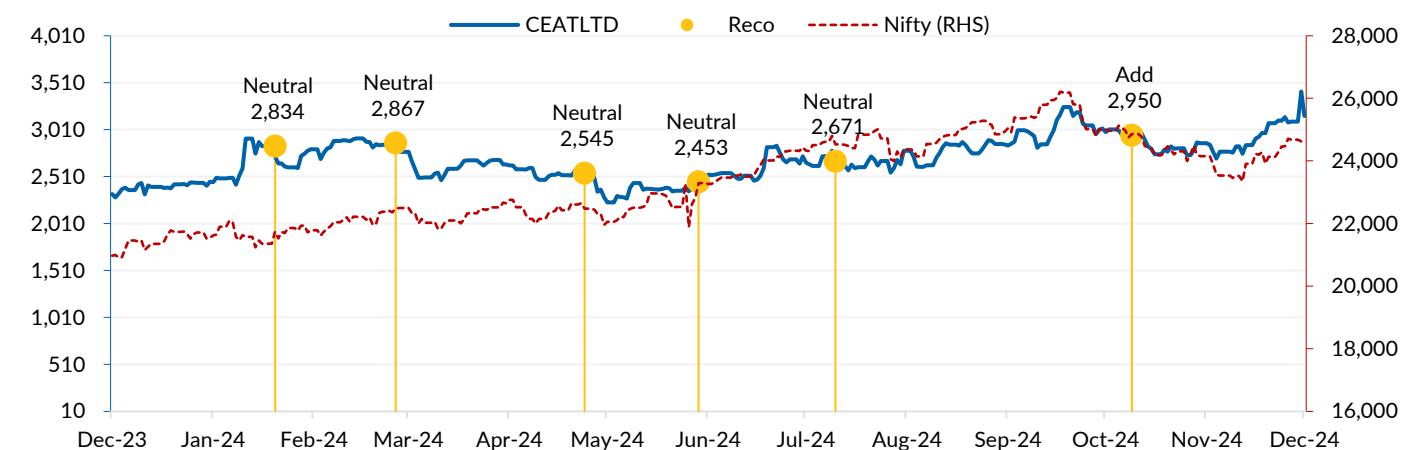
Source- Company, YES Sec

Exhibit 4: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)						
EPS	20.8	54.3	173.3	137.4	179.6	252.4
Growth (%)	(82.0)	161.1	219.1	(20.7)	30.7	40.6
Cash EPS	128.4	170.3	299.0	278.6	350.2	446.0
BV/Share	814.9	854.6	1,001.8	1,104.2	1,243.8	1,451.2
DPS	3.0	12.0	30.0	35.0	40.0	45.0
Payout (%)	19.6	30.0	21.7	29.3	25.6	20.5
Valuation (x)						
P/E	151.4	58.0	18.2	22.9	17.5	12.5
Cash P/E	24.5	18.5	10.5	11.3	9.0	7.1
P/BV	3.9	3.7	3.1	2.9	2.5	2.2
EV/Sales	1.6	1.3	1.2	1.1	0.9	0.8
EV/EBITDA	21.0	15.4	8.8	9.1	7.1	5.7
Dividend Yield (%)	0.1	0.4	1.0	1.1	1.3	1.4
Return Ratios (%)						
EBITDA Margins (%)	7.6	8.6	13.8	12.0	12.8	13.4
Net Profit Margins (%)	0.9	1.9	5.9	4.2	4.5	5.3
RoE	2.6	6.4	17.3	12.4	14.4	17.4
RoCE	4.9	8.5	18.5	12.8	15.5	18.6
Operating Ratios						
Fixed Asset Turnover (x)	1.7	1.9	1.9	1.9	2.2	2.3
Inventory (Days)	51.0	36.7	35.2	35.2	35.2	35.2
Debtor (Days)	45.0	42.2	39.2	39.2	39.2	39.2
Creditor (Days)	84.1	73.2	71.3	71.3	71.3	71.3
Working Capital (Days)	11.9	5.7	3.1	3.1	3.1	3.1
Leverage Ratio (x)						
Current Ratio	0.7	0.6	0.6	1.0	1.0	1.0
Debt/Equity	0.7	0.7	0.4	0.7	0.7	0.6

Source: Company, YES Sec

Recommendation Tracker



Source - YES Sec

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

Analyst signature

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ('YSIL') is a subsidiary of YES Bank Limited ('YBL'). YSIL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSIL is also a SEBI-registered Investment Adviser and Research Analyst. YSIL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL.