

CEAT to acquire Camso brand's OHT business

CEAT has entered into an agreement with Michelin to acquire Camso brand's Off-Highway construction equipment bias tyre and tracks business. Prima facie, we see this deal as strategic positive for CEATs' long-term goal of expanding its presence in Off-Highway Tyres (OHT) business. Acquisition of Camso's business is expected to help CEAT widen its product portfolio (into bias tracks and construction tyres) besides gaining access to global customer base (international OEMs and premium OHT distributors). While we await more details on business and financial metrics of Camso (concall scheduled on 11th Dec'24), our calculations suggest - this acquisition comes at a TTM EV/EBITDA of ~7x and will likely be EPS accretive (by c.5%). We currently have a BUY rating on CEAT with TP of INR 3,500 (15x FY27E EPS).

Key highlights:

- **About Camso:** Camso is a premium brand in construction equipment tyre and tracks with strong equity in EU and North American aftermarket and OE segments.
- CEAT has entered into a definitive agreement to acquire Camso brand's Off-Highway construction equipment bias tyre and tracks business from Michelin.
- Under this transaction, CEAT will acquire two manufacturing facilities in Sri Lanka and global ownership of the Camso brand, after an initial 3 year licencing period.
- **Rationale:** This acquisition is expected to help CEAT expand its product portfolio in the Off-Highway Tyres and Tracks segment. Further, it is also expected to give CEAT access to its global customer base (international OEMs and premium OHT distributors).
- **Financials of acquired business:** Revenue: USD 213mn (INR 18bn); EBITDA: NA; PAT: NA.
- **Consideration:** All-cash deal valued at ~USD 225 mn.
- **Valuation:** Basis our estimate, deal is valued at ~7x TTM EV/EBITDA. (Refer cal. below).

Exhibit 1. Potential impact of Camso acquisition on CEAT

CEAT	INR mn	%	Remarks
	Revenue		
FY26E estimate currently	142,314		
Camso's OHT business	18,020		INR/USD rate - 84.6
Total post acquisition	160,334		
% addition from acquisition	13%		
	EBITDA	EBITDAM	
FY26E estimate currently	18,738	13.2%	
Camso's OHT business (JMFe)	2,703	15.0%	<< JM estimate
Total post acquisition	21,441	13.4%	
% addition from acquisition	14%	20bps	
	PAT	PAT margin	
FY26E estimate currently	8,221	5.8%	
Camso's OHT business (JMFe)	432	2.4%	<< JM estimate. Assumed acquisition is debt funded.
Total post acquisition	8,653	5.4%	
% addition from acquisition	5%	-40bps	

Source: Company, JM Financial

Financial Summary	(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	1,13,149	1,19,435	1,31,292	1,42,314	1,51,058
Sales Growth (%)	20.8	5.6	9.9	8.4	6.1
EBITDA	9,738	16,522	15,740	18,738	20,417
EBITDA Margin (%)	8.6	13.8	12.0	13.2	13.5
Adjusted Net Profit	2,196	7,008	6,207	8,221	9,439
Diluted EPS (INR)	54.3	173.3	153.4	203.2	233.3
Diluted EPS Growth (%)	161.1	219.1	-11.4	32.4	14.8
ROIC (%)	6.9	15.5	13.0	15.2	15.8
ROE (%)	6.5	18.7	14.5	16.8	16.8
P/E (x)	57.0	17.9	20.2	15.2	13.3
P/B (x)	3.6	3.1	2.8	2.4	2.1
EV/EBITDA (x)	15.0	8.5	9.0	7.4	6.5
Dividend Yield (%)	0.4	1.0	1.0	1.1	1.3

Source: Company data, JM Financial. Note: Valuations as of 06/Dec/2024

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(we acknowledge the support services of Dev Jogani and Sahil Malik in preparation of this report)

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,500
Upside/(Downside)	13.1%
Previous Price Target	3,500
Change	0%

Key Data – CEAT IN

Current Market Price	INR3,096
Market cap (bn)	INR125.2/US\$1.5
Free Float	48%
Shares in issue (mn)	40.5
Diluted share (mn)	40.5
3-mon avg daily val (mn)	INR478.6/US\$5.7
52-week range	3,263/2,210
Sensex/Nifty	81,709/24,678
INR/US\$	84.7

Price Performance

%	1M	6M	12M
Absolute	8.0	26.0	33.3
Relative*	5.1	18.3	13.9

* To the BSE Sensex

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Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	1,13,149	1,19,435	1,31,292	1,42,314	1,51,058	
Sales Growth	20.8%	5.6%	9.9%	8.4%	6.1%	
Total Revenue	1,13,149	1,19,435	1,31,292	1,42,314	1,51,058	
Cost of Goods Sold/Op. Exp	73,854	69,244	80,227	84,941	88,536	
Personnel Cost	7,352	8,457	8,085	8,708	9,447	
Other Expenses	22,205	25,212	27,240	29,928	32,659	
EBITDA	9,738	16,522	15,740	18,738	20,417	
EBITDA Margin	8.6%	13.8%	12.0%	13.2%	13.5%	
EBITDA Growth	37.2%	69.7%	-4.7%	19.0%	9.0%	
Deprn. & Amort.	4,693	5,088	5,369	5,932	6,410	
EBIT	5,045	11,434	10,371	12,806	14,007	
Other Income	169	197	290	318	350	
Finance Cost	2,421	2,691	2,317	2,207	1,807	
PBT before Excep. & Forex	2,793	8,941	8,343	10,917	12,550	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,793	8,941	8,343	10,917	12,550	
Taxes	718	2,214	2,236	2,796	3,211	
Extraordinary Inc./Loss(-)	-334	-582	74	0	0	
Assoc. Profit/Min. Int.(-)	-120	-282	-100	-100	-100	
Reported Net Profit	1,862	6,427	6,281	8,221	9,439	
Adjusted Net Profit	2,196	7,008	6,207	8,221	9,439	
Net Margin	1.9%	5.9%	4.7%	5.8%	6.2%	
Diluted Share Cap. (mn)	40.5	40.5	40.5	40.5	40.5	
Diluted EPS (INR)	54.3	173.3	153.4	203.2	233.3	
Diluted EPS Growth	161.1%	219.1%	-11.4%	32.4%	14.8%	
Total Dividend + Tax	485	1,214	1,214	1,416	1,618	
Dividend Per Share (INR)	12.0	30.0	30.0	35.0	40.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	2,793	8,941	8,343	10,917	12,550	
Deprn. & Amort.	4,693	5,088	5,369	5,932	6,410	
Net Interest Exp. / Inc. (-)	2,421	2,691	2,317	2,207	1,807	
Inc (-) / Dec in WCap.	1,360	1,598	627	-295	1,060	
Others	-276	-377	174	100	100	
Taxes Paid	-718	-2,214	-2,236	-2,796	-3,211	
Operating Cash Flow	10,274	15,727	14,595	16,065	18,716	
Capex	-9,564	-7,713	-10,914	-9,535	-10,535	
Free Cash Flow	710	8,014	3,681	6,530	8,181	
Inc (-) / Dec in Investments	96	-125	0	0	0	
Others	-2,421	-2,691	-2,317	-2,207	-1,807	
Investing Cash Flow	-11,890	-10,528	-13,231	-11,743	-12,343	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-485	-1,214	-1,214	-1,416	-1,618	
Inc / Dec (-) in Loans	666	-5,040	0	-3,000	-3,000	
Others	1,233	1,376	135	49	56	
Financing Cash Flow	1,414	-4,877	-1,079	-4,367	-4,562	
Inc / Dec (-) in Cash	-201	321	285	-44	1,811	
Opening Cash Balance	363	719	591	876	832	
Closing Cash Balance	162	1,040	876	832	2,643	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	34,396	40,426	45,427	52,164	59,918	
Share Capital	405	405	405	405	405	
Reserves & Surplus	33,992	40,022	45,022	51,760	59,513	
Preference Share Capital	0	0	0	0	0	
Minority Interest	174	97	97	97	97	
Total Loans	22,955	17,915	17,915	14,915	11,915	
Def. Tax Liab. / Assets (-)	3,873	4,509	4,509	4,509	4,509	
Total - Equity & Liab.	61,398	62,948	67,948	71,686	76,439	
Net Fixed Assets	66,922	69,546	75,091	78,695	82,820	
Gross Fixed Assets	81,992	88,599	99,513	1,09,049	1,19,584	
Intangible Assets	0	231	231	231	231	
Less: Deprn. & Amort.	21,031	26,119	31,489	37,420	43,830	
Capital WIP	5,961	6,835	6,835	6,835	6,835	
Investments	1,696	1,821	1,821	1,821	1,821	
Current Assets	27,648	28,578	32,062	34,397	38,133	
Inventories	11,378	11,505	12,865	13,932	14,782	
Sundry Debtors	13,070	12,832	14,588	15,807	16,779	
Cash & Bank Balances	719	591	876	832	2,643	
Loans & Advances	1,821	2,540	2,624	2,717	2,819	
Other Current Assets	661	1,110	1,110	1,110	1,110	
Current Liab. & Prov.	34,868	36,997	41,026	43,227	46,334	
Current Liabilities	22,683	23,321	26,002	26,826	28,423	
Provisions & Others	12,184	13,676	15,024	16,401	17,911	
Net Current Assets	-7,219	-8,419	-8,964	-8,830	-8,202	
Total - Assets	61,398	62,948	67,948	71,686	76,439	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
Net Margin		1.9%	5.9%	4.7%	5.8%	6.2%
Asset Turnover (x)		1.9	2.0	2.1	2.1	2.1
Leverage Factor (x)		1.7	1.6	1.5	1.4	1.3
RoE		6.5%	18.7%	14.5%	16.8%	16.8%

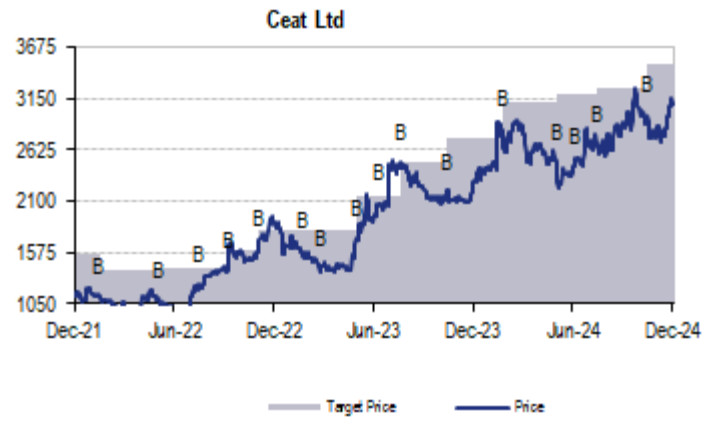
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
BV/Share (INR)		850.3	999.4	1,123.0	1,289.6	1,481.3
ROIC		6.9%	15.5%	13.0%	15.2%	15.8%
ROE		6.5%	18.7%	14.5%	16.8%	16.8%
Net Debt/Equity (x)		0.6	0.4	0.4	0.3	0.2
P/E (x)		57.0	17.9	20.2	15.2	13.3
P/B (x)		3.6	3.1	2.8	2.4	2.1
EV/EBITDA (x)		15.0	8.5	9.0	7.4	6.5
EV/Sales (x)		1.3	1.2	1.1	1.0	0.9
Debtor days		42	39	41	41	41
Inventory days		37	35	36	36	36
Creditor days		80	83	82	79	79

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
6-May-21	Buy	1,550	
17-Jun-21	Buy	1,550	0.0
22-Jul-21	Buy	1,550	0.0
26-Oct-21	Buy	1,550	0.0
20-Jan-22	Buy	1,400	-9.7
8-May-22	Buy	1,425	1.8
21-Jul-22	Buy	1,415	-0.7
14-Sep-22	Buy	1,600	13.1
8-Nov-22	Buy	1,800	12.5
26-Jan-23	Buy	1,800	0.0
1-Mar-23	Buy	1,800	0.0
7-May-23	Buy	2,150	19.4
16-Jun-23	Buy	2,150	0.0
26-Jul-23	Buy	2,500	16.3
18-Oct-23	Buy	2,750	10.0
28-Jan-24	Buy	3,100	12.7
6-May-24	Buy	3,200	3.2
9-Jun-24	Buy	3,200	0.0
21-Jul-24	Buy	3,250	1.6
20-Oct-24	Buy	3,500	7.7

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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