'Will grow Camso brand in other OHT segments'

RPG Group company Ceat has entered into an agreement with Michelin to acquire the Camso brand's off-highway construction equipment bias tyres and tracks business in an all-cash deal valued at $225 million (₹1,900 crore). In a conversation with **Sohini Das**, Ceat Managing Director and Chief Executive Officer **ARNAB BANERJEE** elaborated on the company's expansion plans. Edited excerpts:

Q&A

ARNAB BANERJEE
MD & CEO, CEAT

How does this acquisition aid your international expansion plans?

Currently, around 20 per cent of revenues come from international markets; and we were looking to increase it to 25 per cent in two-three years. This is a margin-accretive business across segments — agriculture, radial, passenger, truck, and bus tyres, etc. With this acquisition, the 20 per cent share is likely to go up to 26 per cent on Day 1 (when the transaction completes). We expect it to be completed by May or so. This also helps us to compete with other international players and gain experience and knowledge. The US and EU are the most important markets for Michelin. Unless you play in the international market, you won't be ahead of the trend in India as well.

How big is the global off-highway-tyres (OHT) segment and how is it growing?

The OHT segment is very big, comprising agriculture, construction, mining, and other industries. Globally, it is a $28-30 billion market. Of this, the compact construction business market is around $2 billion, split into tyres and rubber tracks. The compact construction market is growing at a modest rate of 3 per cent, a low growth segment. In this segment, the premium market accounts for 25-26 per cent, and Camso operates within this premium space. The rubber tracks segment is another 50 per cent of the market and is growing at 7 per cent. Around 45 per cent of the rubber tracks market is premium, where Camso holds the second position globally (behind Bridgestone).

What are the plans to grow the Camso brand into other relevant segments?

We are now acquiring two plants for the construction equipment segment. After the three-year licensing period, Michelin will assign the entire Camso brand to us. We can then have access to segments such as power sports, material handling, and agricultural harvesting.

Michelin will migrate to some other (for these segments) and Camso will be with us. We will develop these products and invest in creating manufacturing capacities. Now, we are making agriculture tyres in Ambernath plant. We can use Camso as a premium brand in this segment. We can develop tracks in agriculture segment, which is a $1 billion market, with close to 80 per cent being premium. Camso has a 45 per cent share here and is No.1.

The brand will be available to us to play in the premium segment across other OHT categories after three years. That is the growth potential. This is at least double-digit margin business. It is too early to say where we will invest in terms of capacity creation to expand this brand in the future. First, we have to utilise the Sri Lanka plant we are acquiring, and we now have 30-35 per cent headroom in terms of capacity (based on 2023 calendar year utilisation). We would like to first ramp up that capacity and grow in an accelerated way from there. We will then look at the investment in fresh capacity location.

How are you planning to fund this acquisition?

It will be funded with a 70:30 mix of debt and internal accruals, and we will be well within our board-approved guidelines of debt, equity and debt Ebitda ratio without impacting our organic growth capital expenditure (capex) requirements.

We have regular capex, we are growing in double digits, so there are some capital needs. Our regular capex guidance for this year is around ₹1,000 crore. We are conservative in our outlook and so we will manage our capex needs. We will have bite-size capex so that we have headroom for these kind of opportunities (acquisitions). We are going to pare down the debt over the next two-three years.