"CEAT Limited

Acquisition Update Call"

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MODERATOR:	**MR. CHIRAG JAIN – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to the Conference Call to discuss CEAT's recent strategic acquisition hosted by Emkay Global Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Chirag Jain from Emkay Global Financial Services Limited. Thank you and over to you, Mr. Jain.

Chirag Jain: Thank you, Ranju. Good morning, everyone. On behalf of Emkay Global Financial Services, I would like to welcome you all to this conference call. To represent the management, today we have with us Mr. Arnab Banerjee, MD and CEO, Mr. Kumar Subbiah, CFO, and Mr. Amit Tolani, Head of Specialty Business. We'll start the call with brief opening remarks from the management, post which we will open the floor. Over to you, sir.

Arnab Banerjee: Good morning and welcome to CEAT's Strategic Acquisition Update Call. I am joined today by Kumar Subbiah, our CFO, and Amit Tolani, who head our Specialty Business. I would like to thank all of you for taking the time and joining us today.

As you know by now, CEAT has entered into a definitive agreement to acquire Camso Brand's off-highway construction equipment bias's tyres, and rubber tracks business from Michelin Group. The deal is valued at USD225 million, which in INR terms is about INR1,900 crores. This is special for us as this is CEAT's first major acquisition.

The acquisition of Camso Brand will give us global ownership of the brand, along with two manufacturing units in Sri Lanka. For CEAT, this acquisition reiterates our commitment towards the three pillars of our growth strategy, which is premiumization, international business saliency, and investment in high-margin specialty segment, which is at the top of our investment hierarchy. I am excited about this journey and thank you for being part of this moment.

I will take you through our rationale for the transaction and what it means for us, after which Kumar shall share key financial implications, and Amit is around for answering specific business-related questions during the Q&A. First, the brand, Camso is a premium brand in the OHT segment, tyres and tracks, with strong brand equity in North America and Europe.

It has a loyal customer base built over the years across OEMs and distributors, which is based on product superiority, proprietary technology, service excellence, and manufacturing excellence. It supplies products to 40-plus OEMs and has an aftermarket network covering 200-plus dealers. It has got good market share in both tyres and the technologically intense tracks categories.

Some of its customers include JCB, CNH, Prinoth, Manitou, and Kubota. What is in it for us and why have we bought it? As communicated earlier, it fits into our key pillars of strategy, which is premiumization, internationalization, and OHT.

The OHT segment comprises of agriculture, construction, mining, and other industries and is globally approximately a $28-30 billion market. First of all for us, this acquisition increases the contribution of OHT business saliency within CEAT. It is a top priority for CEAT and after this acquisition, post the closure of transaction, this will form roughly 25% of CEAT's revenues.

The transaction will include the business with revenues of USD213 million in calendar year 2023, which includes tangible assets in Sri Lanka, working capital, and the brand. The range is complementary to our catalog of products, which is compact construction tyres and tracks, together constituting a USD2 billion market potential. It gives CEAT an entry into the track segment, which we don't manufacture and sell today, which has much higher profit margins and it has some proprietary technology associated with it.

It is also a less crowded space and Camso holds second position globally. In this track market, which is roughly USD1 billion, about half of the market is premium and Camso is number two in this market. The tyre segment, which is again another USD 1 billion, the premium share is a little lower at quarter of the market and Camso is a strong player there.

In this segment, there is a significant value play also, which is not the case in the track segment, where there is no value segment. So in the tyre segment, there is an opportunity for a dual brand play. We have to decide on that.

In the track segment, there is a strong proposition with a premium brand play. Secondly, internationalization, we have been talking about raising the saliency of margin accretive international sales from 19%-20% to 25%.

Post this acquisition, the contribution will be close to 26%. Thirdly, this enhances the premium element of CEAT's overall product portfolio, given Camso's steady premium positioning across all segments of the OHT market. This will significantly enhance realization in our own specialty category.

Now, we also see, and I will explain later, beyond compact construction segments, how we can leverage the Camso brand over the next 10 years. We have a long history of successfully operating in Sri Lanka through our JV with Kelani Tyres over the last two decades. Hence, we are well positioned to enhance the operational activity in Sri Lanka for the Camso plants.

We know the ecosystem well. We know the regulations well and we know the people well. Let me now throw some light over the transaction perimeters. Michelin brought this brand in 2018 and it has spread across several categories, including compact construction. We understand that their priorities may have changed over the years as compact construction tyres and tracks, which is being bought by CEAT, is primarily a bias category tyres. They might have decided to exit the category and focus more on radialization.

And I mentioned about the emergence of value segment in the tyre segment of compact construction, which also may be sitting on their minds. The transaction includes business, which is around USD213 million in current year 2023 and global ownership of the Camso brand along with the manufacturing facilities. The margin profile of this segment of the business is in high double digits, maybe close to 20%.

We still have about 35% headroom in terms of capacity utilization in the Sri Lankan plants. The capacity is roughly 200 metric tons per day and split equally almost between tyres and tracks. The manufacturing facilities have been operational in Sri Lanka for the last 40 years, servicing global demand is in world class shape under Michelin patronage.

And of course, integration of a well-grown plant even may have some challenges during the integration, which we will definitely face and handle. As per our agreement, the Camso brand will be permanently assigned to CEAT across categories after a three-year licensing period. This will expand CEAT's product portfolio in the high margin OHT segment.

Let me remind us that the Camso brand straddles a turnover of USD1.2 billion across different categories, including compact construction, which is being manufactured in the plant today. So after three years, this entire set of categories will be available to CEAT. So this compelling opportunity today that we are talking to you about is not only tyres, it's also about rubber tracks.

We spoke about rubber tracks in compact construction, there is rubber tracks in harvester, there is rubber tracks in agriculture segment also. And about 80% of these futuristic segments, 80% of that is premium. And Camso is number one brand in rubber tracks in agriculture and harvester.

It is number two in construction equipment. This is much higher in profitability and there is no value segment play here at all. So on an overall basis, I think we are looking at it positively in first business continuity, ramping up the capacity in the Sri Lankan plants in compact construction, tyres and tracks.

And after three years when the brand is assigned to us, make a foray into the profitable agriculture tracks, harvester tracks, power sports tracks and other categories that we can enter with the, with this kind of technology. So today, as this speak, the plant is 50-50 in terms of capacity between bias compact construction tracks and tyres. The channel is roughly 53 OEM and 47% aftermarket. Geography, as I mentioned, key geography is US with 60% and balance mostly in Europe.

We are also acquiring or getting a team of qualified manpower base of roughly 1600 plus employees, primarily in the manufacturing setup in Sri Lanka and a few highly qualified employees in the product development setup from outside Sri Lanka. We see a strong cultural and operational fit between Camso and CEAT, including high emphasis on customer experience and employee experience, which is close to CEAT's TQM culture and people management approach.

Michelin Group and CEAT have agreed to work very closely in transiting this business from the seller to the buyer across the value chains. We do not foresee any layoffs at either of the plants we are acquiring. As a people-focused organization, we prioritize the well-being and stability of our workforce.

So as we embark on this new chapter, I thank you for your trust and support. The transition will bring both opportunities and challenges, and I want to assure everybody that we have a detailed plan worked out between Michelin Group and CEAT to ensure a smooth and seamless integration with focus on continuity. Our first 100-day plan is business continuity in terms of the entire value chain, especially in relation to customer requirements.

We will build on the synergies and strengths that this acquisition offers, unlocking new opportunities for growth and innovation with TQM as the mantra and people-friendly policies being in CEAT DNA.

With this, I will pause here and hand over the call to Kumar for his remarks.

Kumar Subbiah: Thank you, Arnab. Good morning, ladies and gentlemen, and thank you for joining on this very important moment. As you are aware, the total deal value of this transaction is about $225 million.

This $225 million, includes manufacturing facilities, inventory, intellectual property like brand, trademarks, patents, etc. We will be carrying out this transaction on asset purchase model, and the acquisition of this business is in line with our capital allocation where priority is given to our specialty through OHT business and also to our international business. As you are aware that our balance sheet has strengthened over the last few years significantly, and that covers our leverage ratios, and hence we are comfortable with respect to this acquisition.

Our current leverage ratios currently stand healthy at debt equity of around 0.6x and debt EBITDA of 1.2x. We expect our actual fund flow to happen over after six months once all the approvals are in place. We will be financing the acquisition through mix of internal approvals and debt. We expect the debt to be of 70% of the total value and balance through approvals.

Our incremental debt at no point in time will not be more than 70% of the overall value of the transaction. Given CEAT's healthy financial position currently, it is very well placed to acquire the business, and we have already received necessary help and support from various of our banking partners. Also, it is important to note that the deal value includes some amount of payments which will happen progressively as per the agreed schedule.

Considering that the deal would happen in the financial year, quarter one of the financial year, we expect the acquisition value to reflect in our consolidated profit and loss account and balance sheet only after quarter one of next financial year. In the next six months, we would be carrying out various, we as well as the seller would be applying for various regulatory approvals in Sri Lanka, India and all other relevant parts of the world. And we expect the acquisition to be margin accretive and EPS would be accretive over a period of time.

Post funding of this acquisition, we expect our debt equity ratio to be still within our threshold of under 1x and debt debit ratio to be under 3x. We will continue to drive CEAT's growth journey through organic and selective inorganic opportunities strongly driven by our capital allocation guidelines. We will keep updating you in our future quarterly interactions about the progress till the formal closure happens.

Now we can open the floor for any Q&As.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Mumuksh Mandlesha with Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: Yes. Thank you, sir, for the opportunity and congratulations on the acquisition, sir. Firstly, sir, how should we look at this underlying industry segment growth for the bikes, compact tyres, and tracks? And also, is this segment seen any change to a radialization? And also, can you help us know how the Camso revenue performance has been over the last five to 10 years and how that has been gaining market share?

Arnab Banerjee: I'll answer the first part of the question. The industry is as i mentioned the compact construction tyres and tracks as being two segmentsboth are roughly US$1 billion size. The growth in compact construction tyres is roughly 2% to 3%. The growth in compact construction tracks is roughly 5% to 7%. So, that has been the growth rate. What was the other question?

Mumuksh Mandlesha: Sir, on the radialization, any change happening?

Arnab Banerjee: So, tracks will always be biased. So, that will be biased forever. The tyres – there is some radialization that has happened and will continue to happen. However, the core of compact construction tyres will be biased because of the terrain it operates in, because of the machines and applications that it is subjected to.

It requires strong sidewalls, and the increase in life of radial tyre and the increase in cost of the radial tyre doesn't create a good value equation for the customers. So, the core of compact construction tyre will be biased. With some regularization in the fringes, the tracks will be 100% biased.

Kumar Subbiah: The revenue trend over the last five years and post-COVID, in the year 2021 and 2022, the business saw some good growth momentum. In the 2023, there was a marginal decline because of higher sales happened in the previous years. So, largely in the range of about 5% to 6% kind of growth has happened till 2022. There is some drop in 2023.

Mumuksh Mandlesha: And, sir, it would be gaining some market share there because of a low-cost base we have in Sri Lanka?

Management: So, the market share of the brand is in two digits, and they are market leaders in the premium segment. So, that's what we've seen.

Mumuksh Mandlesha: Okay. Got it, sir. Sir, it's a manufacturing base in Sri Lanka, so though we are exporting only, is there any challenge or advantages in terms of operation and forex, etc, as an economic situation in China has been volatile. And any form of restructuring would be required, sir?

Kumar Subbiah: No, see, with respect to forex, actually, it's a plus. A couple of years back, when Sri Lanka faced issues on account of currency, okay, those who are dependent on imports, where currency outflow happened, faced some challenges. Considering that we have a JV in Sri Lanka, and we had a little bit of challenge with respect to imports, import payment, this entity is 100% exports, earns all of that income in foreign currency.

So, therefore, generally, there would be a government, as well as government agencies would be supporting and encouraging such entities who are highly export-oriented. So, from that point of view, we do not expect any issues in terms of this unit being located in Sri Lanka with respect to forex. Otherwise, I don't think there is any major concern as far as in terms of location of Sri Lanka from overall geopolitical reasons point of view.

Mumuksh Mandlesha: And any restructuring required, sir for that unit, sir?

Kumar Subbiah: Can you repeat the question, sorry?

Mumuksh Mandlesha: Yes, any form of restructuring required for that Sri Lanka plant?

Kumar Subbiah: Restructuring see, look, we are going to get this manufacturing facility along with people who are currently working in that particular facility. What we may have to do is maybe we may have to add some hardware so that the unit is fully self-sufficient so which we would be doing in due course of time, so that there is no dependence with respect to or it is fully independent in terms of its ability to handle all operations of manufacturing. Otherwise, there is no restructuring planned.

Moderator: Thank you. Mr. Mandlesha please rejoin the queue for more questions. Next question comes from the line of Chockalingam Narayanan with ICICI Prudential PMS. Please go ahead.

Chockalingam Narayanan: Sir, one question was with regards to, I think you talked about USD1.2 billion of revenues that this business currently does and it will be available for this factory to do. So, could you kind of elaborate on that?

Arnab Banerjee: Camso does a business of USD1.2 billion from various factories, including Sri Lankan operations, operations in US and operations in EU. The segments are compact construction, mining, power sports, agriculture, material handling, harvesters so on and so forth, solid tyres. So, when this brand straddles this business the factories that we are getting as part of this deal manufactures compact construction and tracks only.

They do not manufacture any of the other categories which I mentioned. So, when the brand is assigned to us after 3 years, we can make a foray in any of these categories with Camso brand and the manufacturing of that will have to come through some other facility which we have to invest in.

Chockalingam Narayanan: So, today, I am assuming you will be present in some of those categories today. What is the pricing difference between your brand and Camso, which is there in those categories?

Management: So, while our realization stands close to USD3 to USD4 per kg, we see that Camso's realization in similar categories is anywhere between USD5.5 to USD7 per kg. So, around 35% to 60% of premium over our brand.

Chockalingam Narayanan: And to kind of - work in that kind of a category, would you have to - how much of capex would you need to kind of put in?

Arnab Banerjee: So, as I mentioned, our first objective is continuity and we have about 35% upside in the Sri Lankan plant in compact construction, tyres and tracks. Our first focus is to utilize that capacity. Post that, the tracks across various segments have significantly higher attractiveness in terms of the brand power, the trust as well as margins. So, this will be relevant only after 3 years. So, we'll have to work out which of those categories we would like to first make an entry. Should we invest in-house or outsource capacity.

All those things are under consideration, but we'll definitely make a foray. We will update you subsequently when we are ready.

Chockalingam Narayanan: And would you be receiving any licensing revenue from Michelin?

Kumar Subbiah: No, we won't be receiving because licensing is given to us by Michelin in the first 3 year period and post which the full ownership of the brand or assignment of the brand will happen. So, therefore the total consideration value, the value includes all, includes some portion that has been assigned for the purpose of licensing, which is a small portion of it.

Chockalingam Narayanan: And Michelin's press release has this word 4.9 times adjusted EBITDA. What does adjusted EBITDA here mean?

Kumar Subbiah: No, I think, see, look, we relied on actual EBITDA for the purpose of evaluation of the business and there could always be upsides whenever you buy a business. So, we went by what has been achieved and there are some opportunities as Arnab just now mentioned, there's an upside possible in terms of utilization of the plant at a higher level. So, our evaluation is based on whatever they have achieved in actuals in the last 2 years or 3 years.

Chockalingam Narayanan: So, if we were to understand what's the difference between the two, would it be possible to quantify?

Kumar Subbiah: See, I think in earlier conversations as mentioned that at this point in time after their way of issuing financial statements, we saw a number of mid-teens kind of a margin number in the financial statements. That was the basis on which we have done the evaluation.

Chockalingam Narayanan: Understood. And as part of this, how much is networking capital today?

Kumar Subbiah: No what we would be getting as part of this value is the manufacturing facilities, normative level of finished goods inventory, normative level of raw materials and some engineering items. We are not going to take over any other elements of working capital as part of this. So, you assume some current assets would be coming along with it. Liabilities and receivables is something which will come into working capital of ours once we completely take over the business.

Chockalingam Narayanan: Okay. And last question from my end, what's the capex currently being incurred for this business and how much of hardware incrementally required that you kind of mentioned, how much would that entail?

Kumar Subbiah: There is not much of capex. In the last 3 years, 4 years, the seller has upgraded the plant to some extent. Considering capacity utilization is not very high. So, therefore, with respect to adding capacities not much of capex is required. However, once we take over this business, some amount of - small amount of capex we will have to incur so that the plant is fully sufficient. We do not expect any significant capex in the initial period. At least 3 years-4 years we don't expect anything as far as this particular plant is concerned.

Chockalingam Narayanan: Thank you and all the best.

Moderator: Thank you. The next question comes from the line of Siddhartha Bera with Nomura. Please go ahead.

Siddhartha Bera: Hi, sir. Thanks for the opportunity and congrats on a great acquisition. Sir, first question again is for some near-term numbers, if you can share in current year, what is the revenue and margins you are looking at for this business in CY24? And if I look at them a bit longer term, you mentioned that they are already the number two player in these categories. And given this industry size about 10% market share is what it seems to have. In the longer term, do you see scope of market share gains or how has been the history and what are the drivers which can help us achieve that?

Arnab Banerjee: So, let me answer the second part of the question. We have got this business with an eye to market share gain. So, both in construction tyres and where we see a possibility of a dual brand play and in tracks where we will focus on the premium brand of Camso, we see definitely a scope of market share gain through better engagement with OEMs in NPD and also in the aftermarket situation. So, that is number one.

The market share, let me clarify. In rubber tracks, our market share Camso market share is 20% entirely in premium segment. So, 20% of the entire market entirely in premium segment. And the tyres market share where there is a value play also and Camso being in premium segment, market share is 10.

So, with Camso as well as with the dual brand strategy, we see our market share growing. This production of tyres can happen in Sri Lanka as well as in our existing setup in Bhandup and Nashik. So, this is possible. So, therefore, we supply-wise as well as intent-wise, we are looking at higher market share definitely in the tyres and tracks business. And looking at current year, you asked about current year situation which is calendar year FY24. We expect turnover to be lower than the USD213 billion that we mentioned in calendar year 23 because of two issues.

Primarily, the headwinds in the market that we see in the OEMs which we are also experiencing, all players are experiencing. And secondly, because of this transition kind of situation and there will be a drop and since fixed costs are not going away, there will be no retrenchment or layoffs. So, therefore, the margins will also appropriately drop and we saw this during the deal and we see this coming back up when the value chain transfers to us. So, it will climb back up FY26-27 onwards.

Siddhartha Bera: Got it. And in the medium term, do you see a possibility of shifting some of the plans from Sri Lanka to India also given the currency scenario which we also have faced in the past and other macro issues or do you think you may continue from there only in the medium term to sort of address the demand?

Arnab Banerjee: We intend to continue utilizing the capacity of Sri Lankan plan where there is a headroom of around 35% at least as we mentioned earlier. But there could be opportunities for faster growth through manufacturing in India. So, looking at the customers and growth opportunities, we could manufacture additional in India. We are not looking at transferring any capacity out of Sri Lanka to start with.

Siddhartha Bera: Got it, sir. Thanks a lot. I will come back in the queue.

Moderator: Thank you. The next question comes from the line of Amar Kant Gaur with Axis Capital. Please go ahead.

Amar Kant Gaur: Hi. Thanks for taking the question and congratulations for a great addition, sir. My question is largely on the brands and synergies that we see. So, let me get it right if this understanding is correct that after 3 years, you would be able to sell the other type of tyres under Camso brand which could be manufactured in plants outside of Sri Lanka. Is that correct?

Arnab Banerjee: Some items could be manufactured in the Sri Lankan plants from the other categories. We have to look at that. We think some more categories will be manufactured and some will be manufactured outside Sri Lanka.

Amar Kant Gaur: Okay, got it. And, sir, in terms of the addition of the brand, is the new category the only benefit that you are seeing or are there some more synergies, quantitative synergies that you are looking to invoke with this acquisition?

Arnab Banerjee: See, there will be synergies in the plant operation, in raw material procurement, in supply chain logistics. There is a cost structure which we have seen is being incurred today. When we get in, we will realize what we can do with it, but we would not be able to quantify it right now because the deal has not closed. There will be 5 months- 6 months of – after May, June, but intuitively we feel in terms of channels, there is synergy.

The CEAT brand and Camso brand there will be a value creation. So across the OEM and distribution channels, there will be cross-selling possibilities which are there. And the new categories, of course, is a completely new opportunity.

Amar Kant Gaur: And, sir, finally, just one last thing. In terms of fungibility of capacity, you talked about 50%-50% capacity being utilized for tyres and tracks. Would there be fungibility if one segment were to grow faster than the other and you had to utilize more of the other plant for this thing?

Arnab Banerjee: As things stand now, as we inherit the capacity, it is not fungible.

Amar Kant Gaur: Okay. So if one segment were to grow faster, then you might need to invest more in that particular segment, maybe in Sri Lanka or India, whatever the case maybe?

Arnab Banerjee: In downstream only. The upstream is common like in all tyre plants the upstream has no difference. In downstream capacities, we have to create something if one category grows faster or we can shift it to India that is a separate thing or we can invest in Sri Lanka itself.

Amar Kant Gaur: Understood. And just one clarification. You said you will just be acquiring assets, so there will not be any debt that will be absorbed. So it is a pure cash deal that you are doing?

Kumar Subbiah: Yes true because it's an asset sale basis the seller is selling. So we would be acquiring assets, we'd be acquiring stocks, others and we will take it in another entity. Okay, we already have a presence in Sri Lanka. So we are evaluating how, but it will move to another entity which will be owned 100% by CEAT India. So we are not inheriting any of the past liabilities, including payables. Everything will be a fresh from the day that we take over the business.

Amar Kant Gaur: Understood. And the pricing difference that you talked about between CEAT and Camso brand currently is that difference should go away as and when you start manufacturing or supplies from the Camso plant or would that happen? Do you assume that the difference will go away completely?

Arnab Banerjee: Sorry, can you repeat your question please?

Amar Kant Gaur: What I am asking is, so there is a fair bit of a pricing difference between the Camso brand and the CEAT brand. And once you get hold of the licenses, you own those licenses, you would be able to sell the CEAT manufactured products also under Camso brand. So the pricing difference between those two should go away completely under USD3-4 would go up to USD4.5, USD5 per kg. Would that be a fair statement?

Arnab Banerjee: No, it is not. Because the customer pays for the brand irrespective of where it is manufactured. So Camso will always be a premium play at similar levels at which it is selling today. And CEAT will be a value play at similar levels that CEAT is selling today. So there may be a dual brand play in some categories, for example, in tyres. In tracks, we may not introduce CEAT at all because the market doesn't have any value brand play at all. So we will play only with Camso at the current level.

Amar Kant Gaur: So then the CEAT brand will continue to be a categories where Camso is already playing?

Arnab Banerjee: In a different segment. Camso is in the premium segment, CEAT if at all will be in the value segment where a value segment exists. We may not be willing to create a value segment on our own initially.

Moderator: Thank you. Mr. Gaur, please rejoin the queue for more questions. The next question comes from the line of Jinesh Gandhi with Ambit Capital. Please go ahead.

Jinesh Gandhi: Hi, sir. A couple of clarifications. One is with respect to the Camso brand, you mentioned revenues of 1.2 billion across various categories of which 213 is from tracks and construction tyres. So what happens to the branded revenues post 3 years when the brand comes to us with balance USD1 billion of revenue which Michelin has not sold? Do they move to other brand or they will stay as some brand royalty or how it will work after 3 years for those billion dollar of revenue which is acquired by CEAT?

Arnab Banerjee: So CEAT will get access to all those categories after 3 years because the brand is going to be assigned to us. In the meanwhile, Michelin may migrate from some of those categories to some other brand in their own stable. So that is how the deal will work.

Jinesh Gandhi: Okay. So they may migrate it to some other brand.

Arnab Banerjee: Yes. Just to clarify, in compact construction and tracks, Michelin will completely exit. They are not going to compete in this category in any brand of their own.

Jinesh Gandhi: Right. And secondly, you mentioned margins were close to 18% to 20%, but if we go by the press release of Michelin and go by the EV /EBITDA of 4.66, then employee margins are about 23%. So is that the difference between the way they are calculating ED which will include debt as well and hence the difference or you primarily were rounding it off to 20% and the margin are close to 23%?

Kumar Subbiah: No. See, look, in their public statement, they use the word adjusted EBITDA. So we relied on actual EBITDA when we arrived at the valuation. So therefore, that is always subjective in terms of what you want to adjust to arrive at adjusted EBITDA. So, and therefore, that they've come to a number of whatever they have published. It's about adjusted EBITDA not actual EBITDA.

Jinesh Gandhi: Okay. Got it. And lastly what would be the current overlap in terms of the category in terms of specialty tyre revenues under Camso's brand I am guessing it would be largely on the construction tyre side, what percentage of our specialty revenues from construction tyre?

Kumar Subbiah: So we are highly focused on the agri segment today. And most of our revenues come from the agri segment in the international markets. So construction is a very small percentage of our revenues in the specialty play today. With Camso, we get an access to the construction segment and they have a huge portfolio there.

Jinesh Gandhi: And is there a scope to use Camso brand in agri category? Would it be relevant or, I mean, I'm just trying to understand if the use of Camso brand in agri can enable us to improve our realization?

Kumar Subbiah: Yes, the channel is the same, the customers are the same, the distribution is the same, the OEMs are the same. So there is a definite possibility for us to use the Camso category in the agri play as well.

Jinesh Gandhi: Got it. Thanks. No questions. I'll come back in queue.

Moderator: Thank you. Next question comes from the line of Mitul Shah with DAM Capital. Please go ahead.

Mitul Shah: Thank you for the opportunity and congratulations. So my first question is on SKUs. How we are placed in terms of we have full range or there is a potential to further expand the SKUs vis-a-vis competition and how the competitive landscape in terms of SKU as well as network or any further potential for penetration in new geographies?

Management: So in the compact construction category, as Camso is the market leader, so they have a complete range of SKU and customer offering. So we see that the range is totally complete. There are certain projects also that they are doing with various OEMs, which is industry first sizes that come in. And that is also something in the pipeline. So from a range point of view, it is more or less complete. And since they are market leaders, they have the adequate range.

Mitul Shah: Even on the track side and on the network side?

Management: When I say construction, it includes both tracks as well as tyres.

Mitul Shah: Okay. Network-wise?

Amit Tolani: So network-wise, the distribution is more than 200 plus distributors worldwide, high quality distributors and more than 40 OEMs that we have access to now. So very well entrenched in terms of distribution as well as OEM coverage.

Mitul Shah: The second and last question is on plant-wise efficiency, is there any further scope for improvement in plant efficiency irrespective of the utilization if we assume utilization to remain more or less stable at present? And whether it is more efficient compared to India plant or India plant is relatively better productivity?

Arnab Banerjee: The plants are very well run, very well maintained, and we are aware of some of the efficiency figures. They are absolutely world class. Very, very well run plant. With, of course, further utilization of capacity, efficiencies will get enhanced to the extent of fixed cost coverage. But as it is, even today, the plant efficiencies are very good.

Mitul Shah: Thanks and all the best.

Moderator: Thank you. Next question comes on the line of Rishi Vora with Kotak Securities. Please go ahead.

Rishi Vora: Thank you for the opportunity and congratulations for the acquisition. Sorry whether I missed it, but did you by any chance share the actual EBITDA numbers for CY23 and 9M of CY24 just for us to get some sense on the profitability or despite a challenging environment at this point in time?

Kumar Subbiah: See, look, it is not a separate company by itself. These are all called out numbers. We are unable to share at this point in time. We would be able to share and update once it becomes part of our business so that we will be able to have more hold on those numbers.

Rishi Vora: Understand, can you also comment on what would be their average ROCEs over the last couple of years just to get some sense on the business?

Kumar Subbiah: See, on the margin side, it is around mid-teens. And the ROCE, if you were to set up a plant of this size, we would need to incur that much amount that we are paying for the total value. So that includes other elements also. We expect ROCE to be attractive, but we will give you an update as we start operating the business. But we expect it to be higher than Indian ROCE and we expect the margins to be accretive to see at India. So beyond that, I think we will give you more updates in the future.

Rishi Vora: And on a FY25 basis, once the integration happens, should we assume that it would be initially an EPS dilutive transaction and maybe from FY27 onwards it will become accretive?

Kumar Subbiah: On the margin side, on a financial year basis, assuming that by Q1 of next financial year this happens, maybe for 9 months we will have the revenue and balance sheet consolidated. We hope margins could be accretive for the next year. But from EPS point of view, maybe one to two years from then it is possible for it to be EPS accretive. That is the way we are seeing at this point in time.

Moderator: Thank you. Mr. Vora, please rejoin the queue for more questions. Next question comes on the line of Joseph George with IIFL Securities. Please go ahead.

Joseph George: I have two questions. One is when we look at the business model which is practiced in India of manufacturing it in a low-cost geography and then exporting it to say US, Europe, etc., players in India make 25%-30% EBITDA margin. So this business with a similar structure of low-cost manufacturing and higher realization markets, does this eventually have a potential to go to 20% plus kind of a margin?

Arnab Banerjee: In a steady state, when we get in and have run the full value chain to ourselves, it has a potential of replicating those kind of margins.

Joseph George: Understood. Thanks. And the second question that I had was you mentioned that you have access to about 200 distributors or dealers as you call it. Now, do any of these dealers and distributors overlap with the existing network for the CEAT specialty brand or will this entire 200 be incremental? And if it is incremental, does it provide you the opportunity to use these distributors for the CEAT brand as well?

Amit Tolani: Yes. So the overlap is very minimal. As I said that CEAT's portfolio is more agri focused, agriculture focused and this is a completely compact construction and OTR space. So the overlap in terms of OEMs as well as distribution is very minimal today. And we get access to these distributors as well.

Joseph George: Yes, but would those distributors be useful in the context of selling what CEAT makes in the specialty division today?

Kumar Subbiah: Yes. They would be relevant and contextual with our range that we currently have.

Joseph George: Understood. Thank you.

Moderator: Thank you. Next question comes from the line of Himanshu Singh with Baroda BNP Paribas. Please go ahead.

Himanshu Singh: Hi. Thank you so much for the opportunity. So I just wanted to understand what is the revenue split by geography and segment for the Camso brand currently?

Amit Tolani: So 60% of the revenues come from the North American market. 30% of the revenues come from Europe. 4% comes from South America and rest is the rest of the world.

Himanshu Singh: Okay. Sure. Thanks. And so Camso brand, they have been in very specialized markets. So are we getting anything on the R&D front also apart from the factories in Sri Lanka? Are we getting the R&D team or anything on that?

Arnab Banerjee: Yes. So we are getting people who have the expertise in product development. So they are coming along both from Sri Lankan team as well as from outside Sri Lanka. We are getting all the technology. They use some proprietary technology in manufacturing the tracks. So we'll have access to that, of course. And all technologies being used in the plan to manufacture the current product portfolio servicing current customer needs are also coming to us. From here on, future development will have to be on our account.

Himanshu Singh: Okay. Sure. And just last question. So from our portfolio in the specialty side, how much of the remaining USD1.2 billion business which Camso currently does, we can actually cover out of that?

Arnab Banerjee: So agriculture, tyres, bias and radials, we are in that business today. So that can easily migrate. We are selling in CEAT brand and some of that can migrate to the premium end. For others, which is tracks and for some other segments, we'll have to develop the range and introduce it to the market through a production setup which could be internal or outsourced.

Himanshu Singh: Is there any indication in terms of what portion of the $1.2 billion can service from our existing portfolio?

Arnab Banerjee: So the tyres part, some of it can be serviced. The tracks part which is there in various segments, that is completely new to us. So you can say from our current capacity, it will be 10%-20%, maybe 30% at best.

Moderator: Thank you. Mr. Singh, please rejoin the queue for more questions. Next question comes from the line of Abhishek Jain with AlfAccurate. Please go ahead.

Abhishek Jain: Thanks for the opportunity and congratulations, sir. Sir, how many SKUs the company would add post this acquisition in the OHT segment?

Amit Tolani: So more than 750 SKUs would be added into the portfolio.

Abhishek Jain: So the total SKUs would be around 900 plus 750 would be around 1650 for the CEAT in OHT segment.

Amit Tolani: Yes. After the addition, we would be more than 1,700 in terms of our portfolio.

Moderator: Thank you. Mr. Jain, please rejoin the queue for more questions. Next question comes from the line of Rishi Vora with Kotex Securities. Please go ahead.

Rishi Vora: Yes. Thanks for the follow-up. Just on the distributor side, for Camso brand, we have 200 distributors. And obviously, one of the reasons why they would be a distributor is also because

Camso brand was linked to Michelin brand. And now with CEAT taking over and globally, we are obviously not as renowned as Michelin. So will the margin structure change and how easy or difficult for us it would be to retain these distributors?

Arnab Banerjee: So Camso brand existed before Michelin took over in 2018. And it was a premium brand right through its history. So the interaction during the due diligence phase that we had with OEM customers and some distributors is that the brand matters, the service matters, the product performance matters. The premiums didn't go up when Michelin took over. Therefore, the premiums may not go down when Michelin is selling it to us.

Rishi Vora: Understood. Thank you.

Moderator: Thank you. Next question comes from the line of Jatin Parashar with Parashar Estate Pvt. Ltd. Please go ahead.

Jatin Parashar: Thank you for giving me an opportunity, sir. This is my first time talking to any company, sir My question to you is that, sir, if we are taking this company, sir, if I talk about the quick ratio, sir, will it hamper or not, sir?

Arnab Banerjee: Can you please repeat your question?

Jatin Parashar: My question to you is that, sir, the quick ratio, sir, you said that 30% will come from equity and 70% will come from debt, sir. So if we follow the balance sheet, sir, the quick ratio is very less, sir. So will it hamper, sir, or not, sir? If we are not able to manage the current shortcomings, sir, so how will this acquisition be useful or what will happen, sir? So this is my question.

Kumar Subbiah: Okay. See, quick ratio is basically a better version of current ratio. Okay, where our understanding, I'm just saying. So assets which can be current assets and current liabilities which can be converted into cash within a period of six months is normally we call it as quick. And current assets is, say, average about a year.

That's the way we see. We don't see any implications with respect to that because of this acquisition. As of now, say, it's working capital is little on the negative side. I do not think it will undergo any change on account of this particular acquisition. So, therefore, it may not have any adverse impact. I hope I've responded to your question.

Moderator: The next question comes from the line of Amar Kant Gaur with Axis Capital.

Amar Gaur: My question was on the acquisition that you did. At the time of that acquisition, the margins were about 14%. And in your opening remarks, you mentioned that the margins might be lower because you have acquired high teens .

Arnab Banerjee: Your voice is not audible. There's noise in the background. We can't hear you properly.

Amar Gaur: So my question is when Michelin acquired this business, the margins that they had reported was about 14%. And in your opening remarks, you said that the margins of the business that you acquired is in high teens close to 20%. So the reason for that is that you have acquired a higher margin bit of the business or the margins of the entire business itself have gone up over the years? And what has led to this margin improvement?

Arnab Banerjee: So firstly, we are not aware of the overall margin of Camso brand. We are aware of what we have seen in the construction equipment segment. Post-transition, this business has potential to have very strong margins, which we have indicated. In one of the questions, we also indicated it could track close to 20% or even above 20% in a stable situation.

Moderator: Next question comes from the line of Ronak Mehta with JM Financial.

Ronak Mehta: I just have one clarification on the depreciation part. So given that now there will be some licensing fees which will be applicable for the three years and there would be also customer contracts, trademarks, which would have come along with this acquisition. Is the understanding correct that for the next three years, there will be an accelerated depreciation? And post that, the depreciation to normalize?

Kumar Subbiah: No, see, look, the brand full ownership of the main brand comes after three years. So there will not be any depreciation associated with that. We can assume that it will be replaced by some licensing fee portion. So after it becomes part of our brand, becomes entirely with us, there may not be any material change.

Okay, so as we deploy the brand for larger applications, for a larger turnover, etc, we should, in fact, the total income or total revenue that this brand would generate should be able to offset more than the depreciation. And we will take a reasonable period of time with respect to life of these intangible assets and accordingly depreciate.

So overall, we do not expect any high level of depreciation in the initial period. Even post that also, with respect to depreciation as a percentage or depreciation per kg, may not be very different. Sure, thank you.

Moderator: The last question comes from the line of Ashutosh Tiwari with Equirus Securities.

Ashutosh Tiwari: The first question is, out of 200 distributors that you talked about, how many would be common between Camso and what Ceat is catering to right now?

Amit Tolani: So Ashutosh, there would be only few distributors that are common, that cater to Ceat and Camso today.

Ashutosh Tiwari: So you will be able to sell all these aggregates that are selling in the market to these distributors over time. That is the main benefit?

Amit Tolani: Yes, yes.

Management: And secondly, on the depreciation part, roughly what depreciation we expect per year on this? Because this also includes intangible plus also inventory. So what will be the depreciation per year?

Kumar Subbiah: No. Depreciation is linked to the life of the asset. And plant and machinery is sufficiently depreciated in the books. We have not applied our minds in terms of what it would be. It will be normal levels of depreciation that you are seeing even in CEAT's P&L as a percentage of value of assets.

Management: So around 5%-6% you can say?

Kumar Subbiah: No, plant and machinery may be 5%-6% because generally the life of the plant and machinery is about 15 years. So we could assume with respect to plant and machinery, with respect to intangibles, we are in the process of working out what should be the right life for the purpose of depreciating that. And we will share more details maybe in due course of time.

But it is not likely to be more than that range, 5%-6% that you indicated.

Moderator: Ladies and gentlemen, due to time constraints, we have reached the end of question and answer session. I would now like to hand the conference over to the management for closing comments.

Arnab Banerjee: So thank you very much for this special Analyst call. And thanks for some of the questions which were indeed very high quality. And we will be able to share more and more as we get closer to the completion of the deal which will happen in Q1 of next financial year. Till that point of time, bear with us and we will be in touch with you in a most transparent manner as we have been always. Thank you.

Moderator: Thank you. On behalf of Emkay Global Financial Services Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.