

Can Camso transform Ceat into a high-margin business?

Ceat is buying Michelin's Camso brand's off-highway tyres and tracking business for \$225 mn

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Anant Goenka, vice-chairman of RPG Group, recalls a chance meeting with an HSBC banker during a flight from Delhi to Mumbai some six months ago, which sparked the conglomerate's interest in acquiring Michelin's off-highway tyres and tracks business.

In the next 4-6 months, Ceat faced a brief process as it had to navigate competing interests from Indian and Chinese tyre manufacturers that were also pursuing Camso. The company needed to determine its strategy and propose a price, which ultimately led to a deal announcement last week.

On Friday, tyre maker and RPG Group company Ceat said that it has entered into a definitive agreement with the French tyre maker Michelin to acquire its Camso brand's off-highway tyres (OHT) and tracking business for \$225 million (about ₹1,905 crore). The deal also includes two manufacturing plants in Sri Lanka.

The business comes with very large OEM (original equipment manufacturer) clients such as JCB and New Case Holland and distributors. Ceat will also have access to high-technology products and Camso's track business customers. Although Ceat will not have access to the tyres business now, in three years, it will gain access to the Camso brand.

"It is a high-technology product that we now get access to. To that extent, the opportunity is quite high and there are very few players in the tracks segment," Goenka said in an interview with *Mint*, a day after the deal was announced. The transaction is expected to close by May or June. Ceat is funding this deal



Ceat will start accounting and consolidating the new business revenues after the first quarter of FY26.

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through internal accruals as well as debt. About 70% of the payout will be through debt. For Michelin, the world's second-largest tyre maker after Japan's Bridgestone, the track's business is in a niche segment, which perhaps is a reason for it to sell. For Ceat, which is looking at high-margin products, this acquisition fits in well.

About three-fourths of the deal amount would be paid upfront when the transaction closes, with the rest to be paid when the brand becomes fully available to Ceat, which is three years away.

"One is it enhances the portfolio of the current business. It is also a high-margin segment, so to that extent, it is margin-accretive for us, and it has been an area of focus for us for the last 10-15 years,"

Goenka said.

"A good share of Ceat will now be in off-highway tyre space. And our whole desire has been to premiumize the company as well across categories, whether it is two-wheelers, cars, off-highway tyres, and this allows a very nice premium positioning for the company as well," he added.

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"India is uniquely placed to do well in this business segment, as evidenced from the success of BKT (Bal-Krishna Industries Ltd) and Mahansaria Tyres. This business segment requires not only low-cost manufacturing (but also) frugal and good engineering skills.

It's for this reason Japanese player, Yokohama, bought Alliance Tires a few years ago," said Pramod Kumar, CEO and head of investment banking for Barclays India.

"Camso has a strong brand and marquee clients which Ceat can benefit from immensely with its manufacturing capabilities in India," Kumar added.

Ceat reported a net profit of ₹121.4 crore on net sales of ₹3,304.5 crore for the September quarter of FY25. In FY24, it reported consolidated sales of ₹11,943.4 crore and net profit of ₹635 crore.

About half of the newly-acquired business earns revenues from the high-margin track business. Track tyres, made of steel and other metals, provide a better grip on vehicles and command a higher margin.

"We can grow the business faster and look at a higher global footprint. Second, we can enter Ceat tracks, which we never had as a category. Third, we get access to the Camso brand for many categories, which they are not currently doing. We can get into agricultural tracks. We can get into farm equipment tyres and have a dual positioning of the brand over time," Goenka said.

The tracks business can command a 15-20% margin range.

"The game is going to be that. How do we sell many more products at that existing margin," Goenka said.

Ceat's branded tracks business could also include power sports tracks (used for racing or recreational riding of motorized vehicles, such as

motorcycles, ATVs or all-terrain vehicles, snowmobiles, personal watercraft, and dirt bikes) or power train tracks (made of rubber or metal and can be used in a variety of vehicles, including metro systems, construction vehicles, and military vehicles).

70%

The percentage of deal payout that will be via debt.

15-20%

Margin range that the tracks business can command.