"CEAT Limited

CAMSO Acquisition Update Conference Call"

September 05, 2025

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MODERATOR: **MR. MUMUKSH MANDLESHA – ANAND RATHI SHARE AND STOCK BROKERS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the CEAT-CAMSO Acquisition Update Call hosted by Anand Rathi Share and Stock Brokers Limited.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions once the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mumuksh Mandlesha. Thank you and over to you, sir.

Mumuksh Mandlesha: Thank you, Alarik. Good morning, everyone. On behalf of Anand Rathi Share and Stock Brokers, I would like to welcome you all to CEAT CAMSO Acquisition Update Call. I thank the management for taking time out for this call.

To represent the Management, today we have with us Mr. Arnab Banerjee – Managing Director and CEO, Mr. Kumar Subbiah – CFO, and Mr. Amit Tolani – Chief Executive, CEAT Specialty.

We will begin the call with the opening remarks from the Management. Post which will open the floor for the Q&A. Over to you, sir.

Arnab Banerjee: Hi, good afternoon and welcome to CEAT CAMSO Acquisition Update Call. I am joined today by Kumar Subbiah, our CFO, and Amit Tolani, who heads our Specialty business.

I would like to thank all of you for taking the time and joining us today. I will take you through a short update on transaction after which Kumar shall share the key financial implications and Amit is also around for answering specific business-related questions in Q&A.

As you know, last December, CEAT entered into a definitive agreement to acquire CAMSO brands Off-Highway construction equipment bias tyres, and rubber track business from Michelin Group in a deal valued at USD225 million.

Following our guidance in the last earnings call, it gives us immense pleasure to inform you that we have closed the acquisition transaction with effect from 1st September 2025, and all the regulatory approvals are in place. Our investment in CAMSO marks one of the largest FDI or FOREX inflows into Sri Lanka's manufacturing and export sector.

This acquisition is significant for CEAT, granting us global access of a premium brand, along with two manufacturing facilities in Sri Lanka. For CEAT, this acquisition reiterates our commitment towards the three pillars of our growth strategy:

- Premiumization
- Globalization
- Investment in the high-margin Specialty segment

We stay with our outlook that in the medium term, once everything stabilizes, this business should be margin accretive and could deliver high-teen to 20% operating margin. CAMSO gives CEAT the ability to considerably widen its product basing to construction tyres and tracks. With its strong presence in Europe and North America, CEAT stands to gain access to 40 plus global OEMs and 200 plus premium OHT distributors, accelerating its vision to be a significant player in Off-Highway mobility segment.

CEAT's OHT business now has 900 plus products. To start with, there is very good complementarity between CEAT and CAMSO. At CEAT, we also have a long history of successfully operating in Sri Lanka through our JV with Kelani Tyres over the last 26 years. Hence, we are well positioned to enhance the operational activity in Sri Lanka for the CAMSO plants. We know the ecosystem, regulations, and people well. The capacity is roughly 250 metric tons per day and split equally almost between tyres and rubber tracks.

The CAMSO facilities have been operational in Sri Lanka for the last three decades servicing global demand, and is in world-class shape under Michelin patronage for the last seven years. Current utilization of the plant is about 50%, thus leaving a significant upside in terms of plant capacity.

As we have closed the deal, for ensuring business continuity, we shall sell the products in the interim to Michelin team, who shall continue to service all the customers on our behalf. We endeavor to take over direct relationships with all customers as soon as possible. At the other end, since the plant is a carve-out from a complex Michelin supply chain, we have to continue buying semi-finished goods from Michelin till we set up our own upstream equipments, namely the mixer and the calendar. This will take up to 18 months approximately. Hence, for the next four to six quarters, our turnover and margins will be lower in this transition phase where we have a supply and offtake arrangement in place with Michelin.

As we take over the business from Michelin, there will be a geography and customer-wise phased transition, as I mentioned, to take over the entire value chain. About 1,500 plus highly skilled workforce encompassing manufacturing R&D have been added to our team. We are putting in place a strong global sales structure to ensure smooth customer transition. We also 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 total quality management (TQM) culture and people management approach. Michelin Group and CEAT have worked very closely in transiting this business to us across value chains and will continue to do so in the coming quarters.

As we begin this chapter, I sincerely thank you for your continued trust and support. 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 the call on this very important moment.

We are happy to inform you that we have taken possession of the physical assets and also the operations effective 1st of September. We have signed final asset purchase agreement, supply agreement and also related agreements towards transfer of intellectual and physical properties with Michelin Group entities. As shared with you earlier, the total deal value of this transaction is about 225 million. The deal value has largely three components – one physical assets, inventories that is raw materials and finished goods, and also intangibles like brand, patents, trademarks, etc.

Considering the structure of the deal is in the nature of asset purchase route; in order to carry out operations at Sri Lanka, we have formed two companies namely CEAT OHT Lanka Private Limited – to carry out manufacturing operations and CEAT OHT Lanka Ventures Private Limited – to enable ownership of land and building structure. We would like to inform you that we have obtained key regulatory approval like antitrust approval in relevant countries. We have also signed an agreement with Board of Investment of Sri Lanka in the month of August that would enable us to carry out our export operations smoothly. In our agreement with Board of Investments Sri Lanka, we have indicated an investment of USD171 million that not only includes the purchase of assets towards this particular transaction but also includes future capital expenditure in that unit and also our working capital related requirement. In addition to BOI, that is Board of Investment related agreement, we also obtained necessary approvals from VAT authorities, customs, Income Tax Authority in the form of TIN, and local other approvals for us to carry out our operations, and all of them are effective 1st of September. The acquisition is in line with our capital allocation principles which gives higher priority for our OHT and our international business.

As you are aware, our balance sheet has strengthened over the last few years significantly and that covers our leverage ratios hence we are comfortable with respect to this acquisition. We have so far paid about USD138 million to different Michelin group entities. In addition to the above, we would also be making payment for purchase of finished goods inventory at different locations in the next 12 to 18 months and it would also involve about USD44 million of payment after 3 years towards the brand once the CAMSO brand is formally transferred to us. The consideration for the purchase of assets, inventories and some tangible assets in Sri Lanka were routed through our 100% entity which is CEAT OHT Lanka Limited. In this entity, we have infused both equity and debt as appropriate. We would also form a supervisory board for both the entities created for the purpose of overseeing the function of the business.

As you are aware that the balance sheet strengthening is also being vetted by credit rating agencies. As part of this exercise, we went through credit surveillance with two of our existing credit rating agencies India Rating and CARE and we were happy to inform you that they maintained A1+ for short term and AA with Positive Outlook taking into consideration cash outflows relating to CAMSO.

We would like to thank banks, financial institutions and various regulatory agencies for providing overwhelming support to carry out these transactions. The CAMSO financials would be reflected in our consolidated Profit and Loss account from current quarter onwards and Balance Sheet too from the end of this month onwards. Profit and Loss account impact would be for a month as far as Quarter 2 is concerned. From Quarter 3 onwards, fully it will be reflected. We remain committed to driving CEAT's growth journey and are excited about the opportunity that CAMSO brings.

Thank you. Now, we can open the floor for Q&A.

Moderator: Thank you. The first question comes from the line of Siddharth Bera from Nomura. Please go ahead.

Siddharth Bera: Yes, sir. Thanks for the opportunity. Sir, my first question is now on CAMSO regarding the transition which you have indicated, and given the tariff issues globally also, demand being also a bit soft. So, where do you see the run rates now sort of settling in for in terms of annualized revenue or margins, say for the next six months or for the next one-year, whatever data you can sort of share. So, that will give us some clarity of where is the starting point and then we can build in some improvement like you are indicating. So, if you have some thoughts there, it will be really helpful.

Arnab Banerjee: First, let me address the tariff situation. The tariff situation in Sri Lanka has settled at 20% impact and it is as competitive as earlier in the pre-tariff situation vis-a-vis any other country which manufactures this product. So, we do not expect the tariff thing to be impacting demand to any great extent. So, that is number one. Number two, the plant is utilized up to 50%. So, as and when we take over the customer relationships, we expect to enhance the utilization of the plant and thereby impair the fixed cost impact on the margins. That is number two. Number three, the run rate, if you had asked, it is around USD150 million to USD130 million per annum, the overall run rate. But of course, revenue recognition will be slightly lower till we operate in the supply-and-offtake arrangements as explained to you. So, the turnover accounted by us will be lower than this for maybe up to three to four quarters and the margins also will be thereby lower for about six quarters because we have to also set up the upstream equipments.

Siddharth Bera: So, probably by FY'28, we should target to go towards mid to high-teens or you think that may take a bit longer?

Arnab Banerjee: By FY'28, we should have a stable business scenario. So, we should see the normal turnover and margins by then.

Siddharth Bera: Understood. And the second question is on the capex now. So, given that you need to make some more investments also on the machinery side, how much capex do you think you need to do in the Sri Lanka's, in the CAMSO plants in Sri Lanka, at least in the next, this year and next year?

Arnab Banerjee: So, over the next two years, it will be around USD 30 million .

Siddharth Bera: Per annum?

Arnab Banerjee: Over two years.

Siddharth Bera: Over two years. Okay. Understood. Okay, sir. I will come back in the queue.

Moderator: Thank you. The next question comes from the line of Raghunandan NL from Nuvama Research. Please go ahead.

Raghunandan NL: Thank you, sir, for the opportunity. Sir, firstly to Subbiah, sir. Sir, if you can give some numbers in terms of how much would be the gross block of the company and currently within the revenue, how would be the share of various geographies, if you can remind that how much is US currently? And that was the first part. And second question is, in terms of that 20% tariff of US on Sri Lanka, would it be, you know, like partly passed on and partly absorbed? How much are you able to pass on?

Kumar Subbiah: Okay. See, approximate gross block is estimated to be around close to about USD90 million to USD100 million. That is the expectation. Gross block means fixed assets value that will come. I think as we mentioned, the total consideration includes, okay, some intangible, it includes finished goods inventory in different parts of the world and also some raw material and semi-finished goods. So, that is the gross block approximate estimate. The gross block means whatever is the value at which it comes into our books, it will become gross block from here onwards. Okay, so, with respect to US, I think Amit will be able to

Arnab Banerjee: Yes, Amit will share the sales breakup.

Amit Tolani: So, the exposure to US is around 50% to 55% of the revenue. And you asked a question about the tariff. Eventually, everything will be passed on to the customer in terms of tariff.

Raghunandan NL: Thanks for that. But trying to understand more, would there be competitors in US who are locally manufacturing, you know, who may not need to take a 20% kind of a price increase? And if we are eventually passing on the entire 20%, how do you see the impact on our competitiveness? So, that is what I was trying to understand.

Amit Tolani: In this segment, there are no manufacturers in the US. That is number one. And the competitiveness, as Arnab mentioned earlier, is as competitive as it was before.

Raghunandan NL: Got it. And fair to understand that our position will be relatively better compared to exporters from other geographies. Because Sri Lanka relatively is at 20%, which is, you know, which is either in line or favorable compared to other exporting countries.

Amit Tolani: Yes, it is definitely better than countries like China. Otherwise, you should read it as same as it was previously.

Raghunandan NL: Got it. And can you also share the revenue mix for Europe, South Africa and rest of the world, I mean, South America and rest of the world?

Amit Tolani: So, as I said, North America would be roughly 55%. Europe would be another 35% to 37%. Whereas, South Africa and Australia, Middle East form the remainder of the pie.

Raghunandan NL: Got it, sir. Thank you. And to Subbiah sir, because there is some part of the payment, which is getting deferred, like some payment is happening over the next 12 to 18 months, and some payment of USD 44 million you said is happening over after three years. So, in FY'26, how much would be the debt increase on CEAT Balance Sheet?

Kumar Subbiah: See, so far, approximately about USD138 million is what we have paid. Okay. And beyond this, we do not expect it much payment to happen during the current financial year. So, it translates about Rs. 1,200 crores kind of overall payment. At consolidated level, look, we would also like to maintain about Rs. 1,000 crores of capex for the company during the year. So, overall, I think, about 70% of that relating to this could be an incremental debt relating to these operations. And similarly, there could be some portion of the debt that may arise on account of capex plan that we have within the entity. So, about Rs. 1,000 – 1,200 kind of a debt impact could be there for the current year.

Mihir Vora: Sir, so I have one clarification question. Sir, previously in the call you had mentioned that on the track, the tariff would be lesser than tyres. So, is it true that in current situation also 20% would be for tyres and tracks would be at a lesser tariff or how is it?

Kumar Subbiah: 20% applies to both tyres and tracks because it is a reciprocal tariff. So, it applies at the same level for both.

Mihir Vora: Okay. So, it will both be on 20. And basically, out of the total revenues in US, how much would be the tracks and tyres break up?

Amit Tolani: It is similar. So, as I shared this earlier, it is similar. You can refer to those numbers. The split of the businesses is 50-50.

Mihir Vora: Alright. And currently, are we seeing some kind of slowdown into the US imports right now as an industry on the OHT segment?

Amit Tolani: No, it is too early to comment. And as we have been saying that competitively for Sri Lanka, nothing has changed. So, that is where we are.

Mihir Vora: Alright. Okay. That is all from me. Thank you.

Moderator: Thank you. The next question comes from the line of Basudeb Banerjee from CLSA. Please go ahead.

Basudeb Banerjee: Hi, sir. Just to understand with India tariff at 50% for the similar portfolio which you have been or the normal OHT portfolio you have been building from Ambernath so will it be possible to route it via Lanka to US now or is that not possible as such? So, that you can benefit from the lower tariff in Lanka and operate your India operations without much of an impact because of tariff?

Arnab Banerjee: So, theoretically, it is possible, but it all depends on what kind of equipments are there, what sizes can be transferred, how fast it can transfer. There is also a negotiation that is going on between India and US as we understand. So, how long will this 50% stay that is also a factor. So, we are waiting and watching the situation but also acting to explore what can be transferred to Sri Lanka.

Basudeb Banerjee: Sure. And second thing, sir, like where again after last few years where debt reduction was happening well, now again is debt moving up. Will there be any plans of raising secondary equity to of the debt and have a much leaner balance sheet as such?

Kumar Subbiah: See, look, we continue to even after infusion of money into Sri Lankan part of the entity at overall level, Balance Sheet will continue to remain healthy. So, you are aware as of June, debt -to-EBITDA was about 1.25 around that. So, even with this Rs. 1,200 crores of outflow for this in the current year and assuming we spend about Rs. 1,000 crores towards capex, our leverage ratios would remain well within our thresholds. So, at this point in time, we are not seeing any need for us to raise any money.

Basudeb Banerjee: Sure. And as you said this USD 44 million after three years, so by then that the radial portfolio under CAMSO, you can also make and sell. That will be the key thing after the three-year period?

Arnab Banerjee: Yes, after three-year period, many more categories will be accessible to us. But before three years, it is only compact construction, tyres and tracks. You are right.

Basudeb Banerjee: And brand CAMSO as such will be, can be used even now or after three years only?

Arnab Banerjee: After three years. Right now, we can use it only for compact construction and tracks.

Basudeb Banerjee: And the portfolio what you will be producing now?

Arnab Banerjee: Yes.

Basudeb Banerjee: Yes, I was just asking last few weeks, so some domestic natural rubber prices finally have started correcting. So, for your core India business, do you see some better sourcing rates? Are you seeing that? And second thing is similar to the other OHT listed player in India where raw material sensitivity in the P&L is relatively lesser. So, is it similar for CAMSO also? These are the two questions. Thanks.

Kumar Subbiah: See, the local natural rubber prices are currently hovering around 190, 192 in that range in Kerala. So, therefore, it was hovering around 200 to 205 maybe a month back. But international prices are at USD1,750, maybe about USD50, USD60 increase is there, and currency Indian rupees also depreciated. So, overall, as far as the current quarter is concerned, any movement in natural rubber prices in the last couple of weeks is unlikely to have any impact for the current quarter. Okay but we are happy that local prices have come closer to international. It was at a premium to international prices, largely on account of lower availability of natural rubber inventory in India, arising out of increase in lead times. Now that the import arrivals have normalized, so the local prices may not be at a premium to international prices in the short term that is what we feel. And coming to Sri Lanka, I think Sri Lanka is also a producer of natural rubber. And based on overall supply demand situation, the natural rubber for that entity would be bought locally or produced or imported depending on the requirement.

Basudeb Banerjee: I was just trying to understand the raw material sensitivity, RM-to-sales ratio in P&L for the other listed OHT player in India is far lower than the typical automotive tyre makers. So, is it similar for CAMSO also? Or RM-to-sales is similar to your CEAT's standalone operations?

Kumar Subbiah: No, I think at the gross margin level, which is selling price minus raw material, there is a similar difference between a non-OHT category and a normal category in terms of CEAT India versus that entity. That is likely to be similar to what you are seeing in Indian OHT entities in terms of gross margin.

Basudeb Banerjee: That is helpful. Thanks.

Moderator: Thank you. The next question comes from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: Yes, thank you. Sir, just your take on the recent GST announcement, government has rationalized the rates for the tyres as well. How do you see it impacting the demand, the premiumization happening because the costs have come down? And also, do you see the impact on the margins?

Arnab Banerjee: So, the rate reduction is a definite positive, especially for the commuter segment. In the rural markets, two-wheeler and farm will see better traction is what we believe. Farm tyres rate has come down to 5%, lowest slab, two-wheelers 18%, four-wheelers, truck tyres also 18%. For truck tyres, which is price sensitive, we can see better traction. The four-wheeler market was seeing some demand slowdown in terms of low single-digit kind of growth. So, we have to wait and see what happens there because there is a structural change in that market where consumers are moving towards bigger vehicles and bigger rim-sized tyres. That may not be that price sensitive. So, we will have to wait and watch that segment. So, overall, very positive development, I can say.

Mumuksh Mandlesha: Got it, sir. And on the CAMSO side, if possible, in near term, next six months, any broader margin we can expect, sir? If you can share some range, sir, then?

Arnab Banerjee: Yes, it is difficult to share anything at all because as you understand, we have taken over the running of the business on just 1st of September. So, we have to understand the exact situation.

It is also all tyre margins are dependent on also the throughput of the plant, which is running at 50%, as I mentioned. So, we will just take control, maybe wait for some more consolidation of the results before we have a fix on what kind of margins we will have and we can share thereafter.

Mumuksh Mandlesha: Got it, sir. Thank you so much for this.

Moderator: Thank you. The next question comes from the line of Joseph George. Please go ahead.

Joseph George: Hi, thank you for the opportunity. I have two questions. One is, if I look at the purchase consideration, you mentioned that it is 225, of which 44 is to be paid after three years, the remaining is 171 of which you have paid 138. So, when is the remaining 33 million due? Is that not this year?

Kumar Subbiah: See, remainder is 181. So, 225 minus 44. We have paid about 38. Balance is largely relating to inventory. So, our estimate is in the current financial year, we may not have any payment relating to that. It could be sometime in the next year.

Joseph George: Understood. The second question was on the gross block that you quoted at USD 90 to 100. I wanted a clarification. Is this the gross block or is it the value of all the physical assets that you are taking over? Because you mentioned gross block, you mentioned asset value, you mentioned inventory, all of that. So, just wanted to be sure what you are referring to.

Kumar Subbiah: See, since the question was on gross block, I indicated. See, once we take over, for us, it will become a gross block. So, we carried out a proper valuation of these assets. Through reported external agency and accordingly, we assigned that value, taking into consideration the remainder life of the assets, actual age of the assets, condition of the assets and things like that. So, approximately USD 90 million is the amount attributed towards that. So, from here onwards, it will be a gross block in our books. Okay. But it is based on our external valuation.

Joseph George: So, this is basically the net block or for you now, it is a gross block. It does not include inventory, right? This USD90 million.

Kumar Subbiah: It does not include inventory. It does not include finished goods inventory. It does not include raw material inventory. And it does not include some spares, engineering spares and all of this. It does not include.

Joseph George: Understood. That is clear. Thank you.

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

Siddharth Bera: I have come for the follow up. Sir, on this initial duration when you will be operating, you mentioned that you will be selling to the Michelin team. And so, just wanted to understand a bit more here. I mean, will we be free to set our own pricing and also explore other markets during this period or by when do you plan to take full control of the operations in CAMSO?

Arnab Banerjee: So, in the front end, which is the customer relationship, we would like to do it as soon as possible. But it could stretch to maybe four quarters from now. Earlier is better for us. We are putting in place our sales team and structure at this point of time. And as and when geographies come over to us in terms of the adequacy of our sales system, we will be taking over the full customer relationship. So, it could stretch up to four quarters maybe earlier.

Siddharth Bera: And during this period, will we be able to explore or sell in other markets like ASEAN or other regions also or that will also take some more time?

Amit Tolani: So, it will be in a phased manner. Certain geographies would be available earlier. We would take over certain geographies earlier. But as we said earlier that expect a four-quarter period for the complete takeover.

Siddharth Bera: Understood. And sir lastly, I think since we started this acquisition of close to USD200 million revenue, there has been a lot of change in what we are finally able to see. So, do you see during this period, the numbers can have sort of more downside risk to what we are expecting, or do you think things can only improve from where we are starting now at USD130 million?

Amit Tolani: So, right now, we feel that the market is and again, it's a volatile market, but we feel that the market is at its bottom. So, things should only look up from now on.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for the closing remarks.

Arnab Banerjee: So, thanks, all of you for joining us today and for discussing the closure of the transaction. And see you soon on the other side of Quarter 2 results. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of CEAT and Anand Rathi Brokers, that conclude this conference. Thank you for joining us. You may now disconnect your lines.