

Goodyear India

Company Update

Expectation of normal monsoon to energize stagnant tractor demand: Goodyear India (GIL) is a leader in the farm tyre segment in India with it having strong tie-ups with OEMs as well as a dominant presence in the replacement market. Farm tyres account for ~50% of the company's overall revenues; however, the segment has been under pressure owing to poor monsoons and erratic rains in the past two years which has impacted tractor demand during the period. This has not only hurt OEM demand but also impacted the replacement market. Given that tractor sales have strong correlation with monsoons, the expectation of a normal monsoon this year should translate into higher tractor sales and resultantly higher demand for tractor tyres. GIL being a market leader in tractor tyres segment should stand to benefit on this account.

Expansion drive to lead to recovery in top-line: GIL has laid out plans to significantly grow its presence in the passenger vehicle (PV) segment in India over the next five years. The company aspires to be one of the top players in the mid to premium and SUV sub-segments of PVs. It is also evaluating an entry into newer segments; in order to reach its goal, the company is weighing organic as well as inorganic growth options. We believe that this increased focus on growing its presence in the PV segment and entry into newer segments will provide additional boost to the revenues.

Strong balance sheet with high RoIC: GIL is a debt free-cash rich company with RoIC estimated at ~84% for FY2018. The company's cash and equivalents are ₹334cr for FY2016, which amount to ~28% of the current market cap. More importantly, GIL is one of the cheapest MNC stocks available to invest in, in the similar market cap range.

Quarterly performance: For 5QFY2016, GIL's top-line grew by 7.3% yoy to ₹295cr and the EBITDA margin stood more or less stable on a yoy basis at 9.3% (v/s 9.6% in the same quarter of the previous year). The margins witnessed a mild compression despite of a 97bp yoy decline in raw material cost/sales as other expenses/sales expanded by 128bp yoy. Factoring this, the EBITDA grew by 3.5% yoy to ₹27cr and the bottom-line remained flat at ₹16cr.

Outlook and valuation: On an adjusted basis (for financial year end March), we expect the top-line to post a CAGR of 7.5% over FY2016-18E to ₹1,704cr mainly on account of rebound in tractor tyre volumes. We have also considered higher raw material costs and factored in a rubber price of ~₹130/kg for FY2017E and ~₹140/kg for FY2018E. As a result, the EBITDA margin is expected to be at 10.2% in FY2018E. Consequently, the net profit is estimated to be at ₹121cr in FY2018E. At the current market price, the stock is trading at a PE of 9.8x its FY2018E earnings. **We maintain our Buy rating on the stock and assign a target price of ₹631 based on a target PE of 12.0x for FY2018E.**

Key Financials

Y/E Mar (₹ cr)	CY2014	FY2015 Adj	FY2016 Adj	FY2017E	FY2018E
Net Sales	1,579	1,470	1,475	1,598	1,704
% chg	0.7	-	0.3	8.4	6.6
Net Profit	101	89	107	114	121
% chg	7.6	-	21.1	6.1	6.5
EBITDA (%)	9.7	9.6	11.5	10.4	10.2
EPS (₹)	43.9	38.4	46.6	49.4	52.6
P/E (x)	11.7	13.4	11.1	10.4	9.8
P/BV (x)	2.4	2.3	2.0	1.8	1.6
RoE (%)	22.0	18.4	19.6	18.2	17.0
RoIC (%)	94.6	-	66.2	60.8	84.2
EV/Sales (x)	0.5	-	0.6	0.4	0.3
EV/EBITDA (x)	5.3	-	5.0	4.0	3.3

Source: Company, Angel Research; Note: *reporting changed from CY to FY starting January 2015; FY15 & FY16 numbers have been adjusted to reflect four quarters

BUY

CMP	₹515
Target Price	₹631

Investment Period	12 Months
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Stock Info

Sector	Tyres
Market Cap (₹ cr)	1,188
Net Debt	(334)
Beta	0.7
52 Week High / Low	662 / 443
Avg. Daily Volume	10,729
Face Value (₹)	10
BSE Sensex	26,763
Nifty	8,204
Reuters Code	GDYR.BO
Bloomberg Code	GDYR IN

Shareholding Pattern (%)

Promoters	74.0
MF / Banks / Indian Fls	8.0
FII / NRIs / OCBs	0.0
Indian Public / Others	18.0

Abs. (%)	3m	1yr	3yr
Sensex	8.3	(0.3)	37.7
GOODYEAR	8.0	(1.6)	60.6

3-year Daily Price Chart



Source: Company, Angel Research

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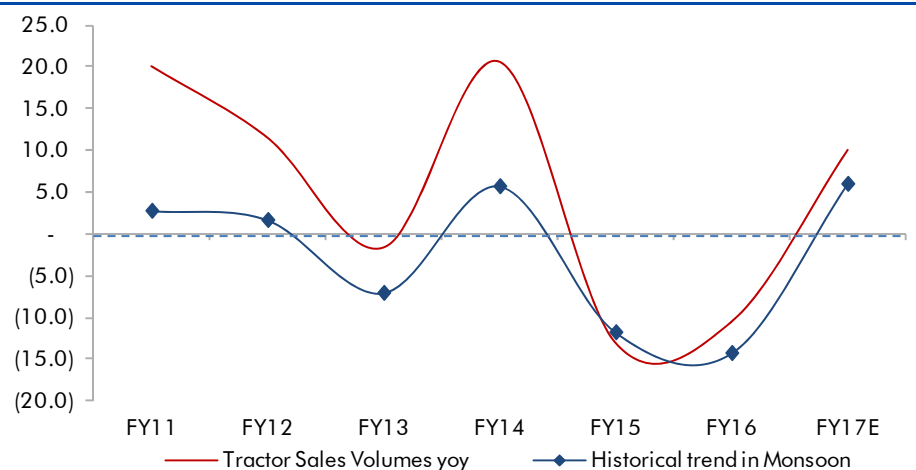
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Exhibit 1: 5QFY2016 performance

Y/E December (₹ cr)	5QFY16	1QCY15*	yoy chg (%)	4QFY16	qoq chg (%)	FY2016 Adj	FY2015 Adj	% chg
Net Sales	295	275	7.3	366	(19.2)	1,475	1,470	0.3
Net raw material	181	172	5.7	243	(25.2)	944	992	(4.8)
(% of Sales)	61.4	62.4	(97)bp	66.4	(493)bp	64.0	67.5	(347)bp
Staff Costs	27	25	7.7	30	(9.9)	113	102	11.0
(% of Sales)	9.0	9.0	3bp	8.1	93bp	7.7	7.0	74bp
Other Expenses	60	52	14.5	55	8.8	247	234	5.3
(% of Sales)	20.3	19.0	128bp	15.0	523bp	16.7	15.9	79bp
Total Expenditure	268	249	7.7	327	(18.1)	1,304	1,328	(1.8)
EBITDA	27	26	3.5	38	(28.7)	170	141	20.6
EBITDA margin (%)	9.3	9.6	(34)bp	10.5	(123)bp	11.5	9.6	194bp
Interest	1	1	6.7	1	(1.5)	3	3	(12.6)
Depreciation	8	9	(5.7)	8	7.8	32	31	3.5
Other Income	7	7	(0.6)	10.0	(34.3)	30	27	9.2
PBT	25	24	5.7	40	(37.5)	166	135	12.6
(% of Sales)	8.5	8.6		11.0		11.2	9.2	
Tax	9	8		14		58	46	
(% of PBT)	36.0	34.4		35.1		35.1	34.1	
Reported PAT	16	16	3.1	26	(38.3)	107	89	21.1
PATM	5.4	5.7		7.1		7.3	6.0	
Equity capital (cr)	23	23		23		23	23	
EPS (₹)	7	7	3.1	11	(38.3)	47	38	21.1

Source: Company, Angel Research; *reporting changed from CY to FY starting January 2015

Exhibit 2: Correlation between monsoon & tractor sales



Source: Company, Angel Research

Company Background

GIL is a subsidiary of Goodyear Orient Company (Private) Ltd (a wholly owned subsidiary of Goodyear Tire and Rubber Company, USA), which holds a 74% stake in the company. The Company manufactures automotive bias tyres viz. farm tyres and commercial truck tyres at its Ballabgarh plant and also trades in “Goodyear” branded tyres [including radial passenger and Off The Road (OTR) bias tyres] manufactured by Goodyear South Asia Tyres Private Limited (GSATPL), Aurangabad. The other products in which the Company markets and sells include tubes, flaps and Radial OTR imported tyres. GIL is a leader in the farm tyre segment in India with it having strong tie-ups with OEMs as well as a dominant presence in the replacement market. Farm tyres account for ~50% of the company’s overall revenues.

Profit & Loss Statement

Y/E December (₹ cr)	CY2014	FY2015 Adj.	FY2016 Adj.	FY2017E	FY2018E
Total operating income	1,579	1,470	1,475	1,598	1,704
% chg	0.7	-	0.3	8.4	6.6
Net Raw Materials	1,094	992	944	1,059	1,133
Personnel	99	102	113	120	127
Other	232	234	247	254	271
Total Expenditure	1,426	1,328	1,304	1,433	1,531
EBITDA	154	141	170	165	173
% chg	10.5	-	10.9	(2.8)	4.7
(% of Net Sales)	9.7	9.6	11.5	10.4	10.2
Depreciation	29	31	32	34	36
EBIT	125	111	139	131	137
% chg	9.9	-	10.7	(5.2)	4.1
(% of Net Sales)	7.9	7.5	9.4	8.2	8.0
Interest & other charges	3	3	3	1	1
Other Income	32	27	30	40	46
(% of sales)	2.0	1.8	2.0	2.5	2.7
PBT	154	135	166	170	181
% chg	8.2	-	7.8	2.8	6.5
Tax	52	46	58	56	60
(% of PBT)	34.0	34.1	35.1	33.0	33.0
PAT (reported)	101	89	107	114	121
Extraordinary (Exp)/Inc.	-	-	-	-	-
ADJ. PAT	101	89	107	114	121
% chg	7.6	-	22.4	6.1	6.5
(% of Net Sales)	6.4	6.0	7.3	7.1	7.1
Basic EPS (₹)	43.9	38.4	46.6	49.4	52.6
Fully Diluted EPS (₹)	43.9	38.4	46.6	49.4	52.6
% chg	7.6	-	22.4	6.1	6.5

Note: *reporting changed from CY to FY starting January 2015; FY15 & FY16 numbers have been adjusted to reflect four quarters

Balance Sheet

Y/E December (₹ cr)	CY2013	CY2014	FY2016*	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity Share Capital	23	23	23	23	23
Preference Capital	-	-	-	-	-
Reserves & Surplus	400	474	559	645	739
Shareholders' Funds	424	497	582	668	762
Minority Interest	-	-	-	-	-
Total Loans	-	-	-	-	-
Deferred Tax Liability	13	14	10	10	10
Other Long Term Liabilities	3	5	2	2	2
Long Term Provisions	20	21	19	17	18
Total Liabilities	459	536	613	697	792
APPLICATION OF FUNDS					
Gross Block	430	481	517	553	592
Less: Acc. Depreciation	220	241	282	316	352
Net Block	210	240	235	237	239
Capital Work-in-Progress	32	17	14	10	10
Goodwill	-	-	-	-	-
Investments	-	-	-	-	-
Long Term Loans and adv.	17	19	22	22	22
Other non-current assets	0	1	1	1	1
Current Assets	600	617	649	822	942
Cash	317	365	334	520	624
Loans & Advances	10	6	17	16	17
Inventory	99	123	129	120	125
Debtors	165	112	158	154	164
Other Current Assets	9	10	12	12	12
Current liabilities	400	358	309	396	423
Net Current Assets	200	259	340	426	519
Misc. Exp. not written off	-	-	-	-	-
Total Assets	459	536	613	697	792

Note: *reporting changed from CY to FY starting January 2015

Cash Flow Statement

Y/E December (₹ cr)	CY2013	CY2014	FY2016*	FY2017E	FY2018E
Profit before tax	142	154	190	170	181
Depreciation	25	29	41	34	36
Change in Working Capital	29	(11)	(112)	100	12
Other income	(30)	(32)	(36)	(40)	(46)
Direct taxes paid	(48)	(52)	(66)	(56)	(60)
Others	14	12	-	-	-
Cash Flow from Operations	131	99	17	208	124
(Inc.)/Dec. in Fixed Assets	(46)	(36)	(34)	(32)	(39)
(Inc.)/Dec. in Investments	-	-	(4)	-	-
(Incr)/Decr In L.T. loan and adv.	2	(2)	(4)	-	-
Other income	30	32	36	40	46
Others	(18)	(17)	-	-	-
Cash Flow from Investing	(32)	(24)	(6)	8	7
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	-	2	(7)	(0)	0
Inc./(Dec.) in L.T. Pro. & Liab.	1	1	(2)	(2)	1
Dividend Paid (Incl. Tax)	(24)	(28)	(33)	(28)	(28)
Others	3	(2)	-	-	-
Cash Flow from Financing	(21)	(27)	(42)	(30)	(27)
Inc./(Dec.) in Cash	78	48	(31)	186	104
Opening Cash balances	238	317	365	334	520
Closing Cash balances	317	365	334	520	624

Note: *reporting changed from CY to FY starting January 2015

Key Ratios

Y/E December	CY2014	FY2015 Adj.	FY2016 Adj.	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	11.7	13.4	11.1	10.4	9.8
P/CEPS	9.2	9.9	8.5	8.0	7.5
P/BV	2.4	2.3	2.0	1.8	1.6
Dividend yield (%)	1.9	-	2.3	1.9	1.9
EV/Sales	0.5	-	0.6	0.4	0.3
EV/EBITDA	5.4	-	5.0	4.1	3.3
EV / Total Assets	1.5	-	1.4	1.0	0.7
Per Share Data (₹)					
EPS (Basic)	43.9	38.4	46.6	49.4	52.6
EPS (fully diluted)	43.9	38.4	46.6	49.4	52.6
Cash EPS	56.3	51.8	60.3	64.2	68.4
DPS	10.0	-	12.0	10.0	10.0
Book Value	215.4	222.1	252.4	289.7	330.3
Returns (%)					
ROCE (Pre-tax)	25.1	-	27.2	20.1	18.4
Angel ROIC (Pre-tax)	94.6	-	74.7	59.4	79.1
ROE	22.0	18.4	19.6	18.2	17.0
Turnover ratios (x)					
Asset Turnover	3.5	-	2.9	3.0	3.0
Inventory / Sales (days)	26	-	31	29	27
Receivables (days)	32	-	33	33	33
Payables (days)	126	-	129	130	130
WC (ex-cash) (days)	(26)	-	(12)	(9)	(19)
Solvency ratios (x)					
Net debt to equity	(0.7)	-	(0.6)	(0.8)	(0.8)
Net debt to EBITDA	(2.4)	-	(2.0)	(3.1)	(3.5)
Interest Coverage	36.7	36.6	52.5	111.6	108.9

Note: *reporting changed from CY to FY starting January 2015; FY15 & FY16 numbers have been adjusted to reflect four quarters

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Disclosure of Interest Statement	Goodyear India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)