

January 3, 2018



Direct
Instinct

Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief
- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company
- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be
- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report
- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

Goodyear India (GOOIND)

₹ 1110

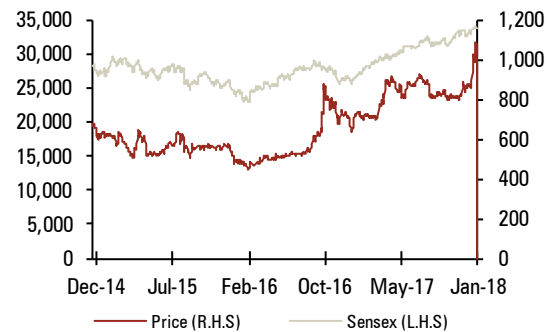
Rating Matrix

Rating	:	Buy
Target	:	₹ 1510
Target Period	:	12-15 months
Potential Upside	:	36%

Stock Data

Particular	Amount
Market Capitalization (₹ crore)	2,560.0
Total Debt (FY17) (₹ crore)	-
Cash (FY17) (₹ crore)	453.4
EV (₹ crore)	2,106.6
52 week H/L (₹)	1115 / 673
Equity capital (₹ crore)	23.1
Face value (₹)	10.0

Price Movement



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Triggers

- **Niche farm tyre player** - Goodyear India (GIL) is one of the leading players in the Indian tractor tyre industry with a market share of >30%. The company supplies both front & rear tractor tyres to some of the major tractor OEMs like Mahindra & Mahindra (M&M) & John Deere. We expect the current growth momentum in tractor volumes (up ~16% YoY to 540,000 units in YTD FY18) to continue, primarily driven by 1) rising farm mechanisation in India (at ~40% vs. >75% in developed economy) ; 2) government's focus on agriculture space & its target to double the farm household income (from ₹ 120,193 in FY16 to ₹ 240,386 in FY23E); 3) near normal monsoon coupled with positive rural sentiment and 4) the expectation of higher allocation towards agriculture sector in the upcoming Budget 2018
- **CV & PV segment to supplement growth** - Apart from farm tyres, GIL also manufactures CV tyres. Buoyant outlook on infrastructure spending & strict implementation of overloading ban will spur M&HCV growth. It also trades in 'Goodyear' branded passenger vehicle tyres (manufactured by Goodyear South Asia Tyres). GIL is focusing on the PV space & has made considerable effort for brand building, refreshing its product portfolio & strengthening its offering in the SUV segment. At present, the traded portfolio accounts for ~33% of its revenue
- **MNC strong parent + Healthy financials** - GIL is backed by its strong MNC parentage – as it is a subsidiary of Goodyear Orient Company (owned by Goodyear Tire & Rubber – US), which holds 74% stake in GIL. The company has healthy balance sheet - debt free, lower working capital cycle (~15 days), cash rich (~18% of market cap) & strong return ratios (RoCE >25%). It also generates healthy FCF yield of >6%. Further, with natural rubber prices expected to remain range bound (₹120-140/kg), we expect stable EBITDA margin, going forward.

Valuation & Outlook

We expect strong traction in tractor, CV demand to continue, aiding GIL. GIL is currently trading at 10.5x its FY17 EV/EBITDA. We believe healthy B/S (strong FCF yield, debt free status, healthy return ratio), positive demand outlook justify premium valuation. We have **BUY** rating on GIL with a target price of ₹ 1510.

Exhibit 1: Financial Performance

(Year-end March)	CY11	CY12	CY13	CY14	FY16*	FY17
P&L						
Revenues (₹ crore)	1,513.4	1,481.3	1,568.7	1,582.9	1,730.3	1,511.8
EBITDA (₹ crore)	107.1	90.8	139.0	156.4	196.4	199.8
Net Profit (₹ crore)	65.3	56.6	94.1	101.0	119.4	127.2
Balance Sheet						
Equity (₹ crore)	65.3	56.6	94.1	101.0	119.4	127.2
Net worth (₹ crore)	316.5	354.0	423.5	496.8	614.1	707.1
Debt (₹ crore)	-	-	-	-	-	-
Ratios						
RONW (%)	22.2	17.0	24.4	22.1	17.3	19.4
ROCE (%)	33.9	25.2	35.4	32.7	26.1	29.3
Core RoIC (%)	96.8	48.9	88.0	76.6	42.6	50.1
Asset turnover (x)	4.1	3.7	3.6	3.3	6.5	4.9
Earnings per share (₹)	26.9	23.3	39.2	41.8	41.5	55.2
Dividend per share (₹)	7.0	7.0	9.0	10.0	12.0	12.5
EV/EBITDA (x)	21.6	25.6	16.1	14.0	11.3	10.5
P/E (x)	39.2	45.3	27.2	25.4	21.4	20.1

Source: Company, C-line, ICICIdirect.com Research, *FY16 is 15 months (change in calendar year)

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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