

## Quicker recovery on the cards, B/S strength intact...

Goodyear India (BIL) reported soft Q4FY20 numbers. Net sales for the quarter came in at ₹ 375 crore (down 11.5% YoY). Margins rose 144 bps sequentially to 6.2% on account of 86 bps gross margin expansion and 70 bps decline in other expenses as a percentage of sales. Consequent PAT was at ₹ 12.7 crore (down 52.7% YoY) despite lower tax outgo, on the back of revenue dip and YoY slide in margins (430 bps). For full year FY20, revenues fell 8.7% YoY to ₹ 1,745 crore while margins fell 80 bps YoY to 7.8%. Ensuing profitability decline was of 13.2% YoY to ₹ 89 crore.

## Tractor presence aids topline stability

Goodyear India (GIL) is a leading domestic tyre player with manufacturing presence in farm equipment i.e. tractor and CV segments. It also serves the PV segment, albeit through trading route (manufacturing to trading mix as of FY19 was at 67:33). We expect the domestic tractor industry to outperform wider automotive space over FY20-22E as 1) it does not suffer from similar demand-side shocks on account of relatively stable rural incomes pursuant to remunerative crop prices, expectations of a normal monsoon in 2020, government focus on doubling farm incomes and boosting rural infrastructure; 2) farm mechanisation remains underpenetrated in India (~50% of requirement as per industry estimates); and 3) regulatory disruption from new emission norms i.e. BS-VI norms do not apply to this segment. Once Covid-induced supply constraints ease, we expect the space to revive faster than other automotive segments (tractor market leader currently operating at 80% utilisation levels). GIL has a formidable presence in the tractor tyre segment, servicing all major industry players – and is set to benefit from a quicker turnaround.

## Margin performance set to improve

For tyre players, including GIL, the margin trajectory remains closely tied to price movement of key raw materials i.e. natural rubber and crude oil derivatives. Given benign input raw material prices at present, we expect gross margins to start expanding in H1FY21E, thereby aiding margins. Thereafter, accompanied by expected volume support, we build in further strengthening of margins to ~10% levels by FY22E.

## Valuation & Outlook

We expect net sales, EBITDA and PAT CAGR at -0.2%, 13.3% and 9%, respectively, over FY20P-22E. The topline performance is expected to benefit from significant tractor segment exposure, with margins expected to be aided by soft input costs. GIL's MNC parentage and healthy financials (zero debt company with ₹ 546 crore cash on books, controlled ~22 day working capital cycle & ~21% RoIC) continue to provide comfort. We maintain our **BUY** rating, valuing it at ₹ 910 i.e. ~20x P/E on FY22E EPS.

### Key Financial Summary

Key Financials	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20P -22E)
Net Sales	1,664.7	1,911.9	1,745.6	1,531.8	1,739.7	-0.2%
EBITDA	201.1	163.9	135.8	137.9	174.4	13.3%
EBITDA Margins (%)	12.1	8.6	7.8	9.0	10.0	
Net Profit	130.0	102.1	88.8	82.6	105.5	9.0%
EPS (₹)	56.3	44.2	38.5	35.8	45.7	
P/E	13.7	17.4	20.0	21.5	16.8	
RoNW (%)	16.2	11.8	9.7	8.5	10.2	
RoCE (%)	24.9	18.4	13.0	11.6	13.7	

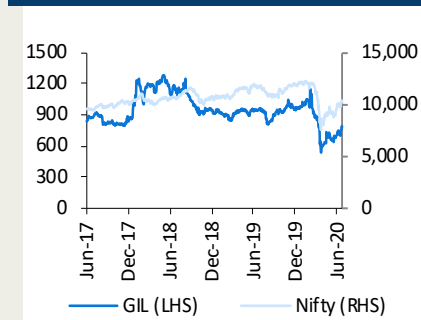
Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Capitalization (₹ crore)	1,776
Total Debt (FY20P) (₹ Crore)	0.0
Cash & Inv (FY20P) (₹ Crore)	545.8
EV (₹ Crore)	1,230.5
52 week H/L (₹)	1187 / 531
Equity capital (₹ crore) (FY20P)	23.1
Face value (₹)	10.0

### Price Chart



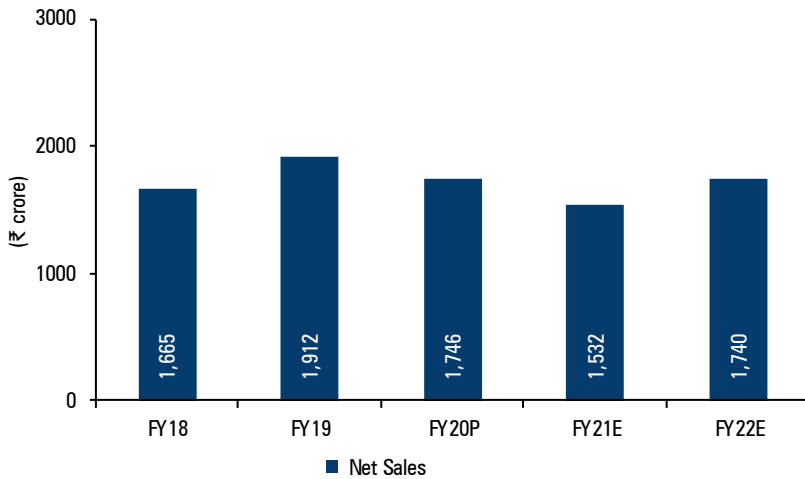
### Research Analyst

**Shashank Kanodia, CFA**  
shashank.kanodia@icicisecurities.com

**Jaimin Desai**  
Jaimin.desai@icicisecurities.com

## Financial story in charts

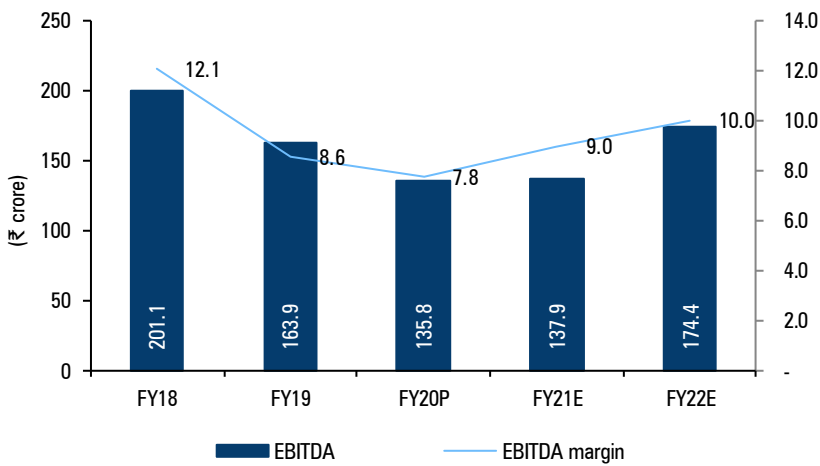
Exhibit 1: Topline trend



We expect sales to remain flattish over FY20P-22E

Source: Company, ICICI Direct Research

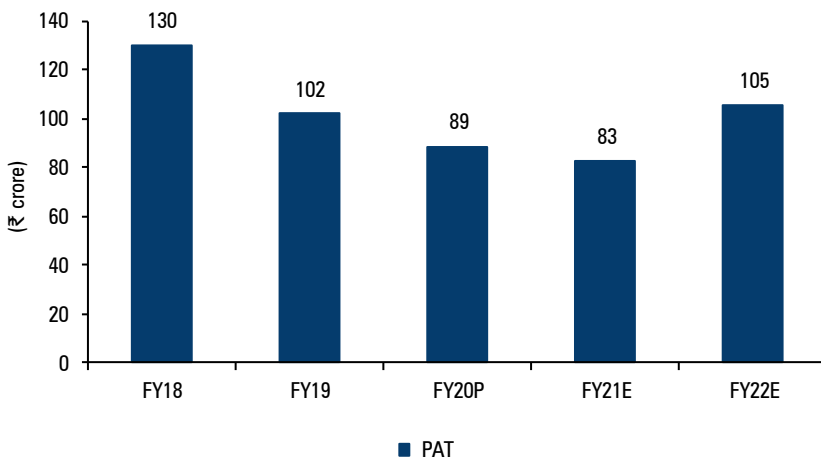
Exhibit 2: EBITDA margins trend



Margins are seen rising to 9% in FY21E before strengthening further to ~10% levels by FY22E

Source: Company, ICICI Direct Research

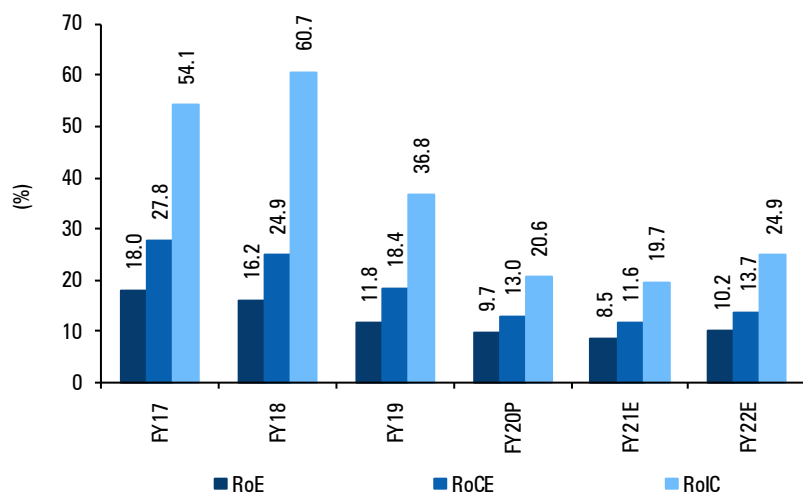
Exhibit 3: Trend in profitability



Relative stability in topline accompanied by margin uptick are seen helping the company post strong YoY increase in profitability in FY22E

Source: Company, ICICI Direct Research

**Exhibit 4: Trend in return ratios**



*After suffering a dip in FY21E, margin recovery is expected to push return ratios back towards double digit territory in FY22E*

Source: Company, ICICI Direct Research

**Exhibit 5: Valuation Summary**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1,665	10.1	56.3	2.0	13.7	6.0	16.2	24.9
FY19	1,912	14.9	44.2	(21.4)	17.4	7.4	11.8	18.4
FY20P	1,746	-8.7	38.5	(13.0)	20.0	9.1	9.7	13.0
FY21E	1,532	(12.2)	35.8	(7.0)	21.5	8.7	8.5	11.6
FY22E	1,740	13.6	45.7	27.8	16.8	6.6	10.2	13.7

Source: Bloomberg, ICICI Direct Research

## Financial Summary

Exhibit 6: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Total operating Income</b>	<b>1,911.9</b>	<b>1,745.6</b>	<b>1,531.8</b>	<b>1,739.7</b>	
Growth (%)	14.9	-8.7	-12.2	13.6	
Raw Material Expenses	1,322.5	1,192.3	1,003.5	1,161.2	
Employee Expenses	126.7	139.6	143.7	141.1	
Other Expenses	298.8	277.9	246.7	263.0	
Total Operating Expenditure	1,748.0	1,609.8	1,393.9	1,565.3	
<b>EBITDA</b>	<b>163.9</b>	<b>135.8</b>	<b>137.9</b>	<b>174.4</b>	
Growth (%)	-18.5	-17.2	1.6	26.5	
Depreciation	41.0	50.1	55.1	60.9	
Interest	3.0	4.0	3.8	3.6	
Other Income	38.2	35.2	31.4	31.1	
<b>PBT</b>	<b>158.2</b>	<b>116.9</b>	<b>110.4</b>	<b>141.0</b>	
Total Tax	56.1	28.0	27.8	35.5	
<b>Reported PAT</b>	<b>102.1</b>	<b>88.8</b>	<b>82.6</b>	<b>105.5</b>	
Growth (%)	-21.4	-13.0	-7.0	27.8	
<b>EPS (₹)</b>	<b>44.2</b>	<b>38.5</b>	<b>35.7</b>	<b>45.7</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Profit after Tax</b>	<b>102.1</b>	<b>88.8</b>	<b>82.6</b>	<b>105.5</b>	
Add: Depreciation	41.0	50.1	55.1	60.9	
(Inc)/dec in Current Assets	-22.9	41.6	37.1	-58.1	
Inc/(dec) in CL and Provisions	-30.7	-82.6	-46.1	41.5	
<b>CF from operating activities</b>	<b>89.5</b>	<b>97.9</b>	<b>128.7</b>	<b>149.9</b>	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-69.9	-65.0	-70.0	-70.0	
Others	-0.3	-5.4	0.9	-0.9	
<b>CF from investing activities</b>	<b>-70.2</b>	<b>-70.3</b>	<b>-69.1</b>	<b>-70.9</b>	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-36.2	-36.1	-30.0	-34.6	
Others	-1.0	-4.2	0.0	0.0	
<b>CF from financing activities</b>	<b>-37.2</b>	<b>-40.3</b>	<b>-30.0</b>	<b>-34.6</b>	
Net Cash flow	-17.9	-12.7	29.6	44.4	
Opening Cash	576.5	558.6	545.8	575.4	
<b>Closing Cash</b>	<b>558.6</b>	<b>545.8</b>	<b>575.4</b>	<b>619.8</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Liabilities</b>					
Equity Capital	23.1	23.1	23.1	23.1	
Reserve and Surplus	844.1	892.5	945.1	1,016.0	
<b>Total Shareholders funds</b>	<b>867.1</b>	<b>915.6</b>	<b>968.2</b>	<b>1039.1</b>	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	6.7	12.8	12.8	12.8	
Minority Interest / Others	0.0	0.0	0.0	0.0	
<b>Total Liabilities</b>	<b>895.7</b>	<b>954.5</b>	<b>1007.1</b>	<b>1077.9</b>	
<b>Assets</b>					
Gross Block	407.2	507.6	567.5	637.5	
Less: Acc Depreciation	156.3	206.4	261.5	322.4	
<b>Net Block</b>	<b>250.9</b>	<b>301.2</b>	<b>305.9</b>	<b>315.0</b>	
Capital WIP	50.3	14.9	25.0	25.0	
Total Fixed Assets	301.2	316.1	330.9	340.0	
Investments	0.1	14.3	14.3	14.3	
Inventory	167.3	149.8	134.3	152.5	
Debtors	243.5	219.9	201.4	238.3	
Loans and Advances	9.6	11.7	10.3	11.7	
<b>Cash</b>	<b>558.6</b>	<b>545.8</b>	<b>575.4</b>	<b>619.8</b>	
Other current assets	15.9	13.2	11.6	13.2	
Total Current Assets	994.8	940.5	933.0	1,035.4	
Creditors	342.2	266.3	230.8	262.1	
Provisions	11.1	13.6	11.8	13.4	
Other current liabilities	81.6	72.4	63.5	72.1	
Total Current Liabilities	434.8	352.2	306.1	347.6	
<b>Net Current Assets</b>	<b>560.0</b>	<b>588.3</b>	<b>626.9</b>	<b>687.8</b>	
Others	34.2	35.6	34.7	35.5	
<b>Application of Funds</b>	<b>895.7</b>	<b>954.5</b>	<b>1007.1</b>	<b>1077.9</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	44.2	38.5	35.8	45.7
Cash EPS	62.0	60.2	59.7	72.1
BV	375.9	396.9	419.7	450.4
DPS	13.0	13.0	13.0	15.0
Cash Per Share	242.1	236.6	249.4	268.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	8.6	7.8	9.0	10.0
PBT / Net sales	6.4	4.9	5.4	6.5
PAT Margin	5.3	5.1	5.4	6.1
Inventory days	31.9	31.3	32.0	32.0
Debtor days	46.5	46.0	48.0	50.0
Creditor days	65.3	55.7	55.0	55.0
<b>Return Ratios (%)</b>				
RoE	11.8	9.7	8.5	10.2
RoCE	18.4	13.0	11.6	13.7
RoIC	36.8	20.6	19.7	24.9
<b>Valuation Ratios (x)</b>				
P/E	17.4	20.0	21.5	16.8
EV / EBITDA	7.4	9.1	8.7	6.6
EV / Net Sales	0.6	0.7	0.8	0.7
Market Cap / Sales	0.9	1.0	1.2	1.0
Price to Book Value	2.0	1.9	1.8	1.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.4	1.5	1.5
<b>Quick Ratio</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), and Jaimin Desai, CA, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com)

ICICI Securities is one of the leading merchant bankers/underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icidirect.com](http://icidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.