

Steady prospects, high dividend payout boosts RoEs

About the stock: Goodyear India (GIL) is a global tyre manufacturer with a presence in India since 1922 and first manufacturing plant commissioned in 1961. The listed entity manufactures farm tyre (tractor) and commercial truck tyres while it trades in passenger car radial tyres (manufactured by sister concern operating in India).

- FY22 Mix: Manufacturing: ~59%; Trading: ~41%

Q4FY22 Results: The company posted a muted operational Q4FY22 performance.

- Total consolidated operating income was down 1.1% QoQ to ₹ 598.2 crore
- EBITDA came at ₹ 33.5 crore with margins flat QoQ at 5.6%
- Consolidated PAT at ₹ 17.4 crore was down 11% QoQ

What should investors do? GIL's stock price has grown at ~4% CAGR from ₹ 900 levels in July 2017, outperforming the broader Nifty Auto Index in that timeframe.

- Given mid-single digit growth prospects in medium to long term in the tractor tyre space (GIL's core), we downgrade the stock from BUY to **HOLD**. We, however, remain enthused by GIL's decision of high dividend payouts in recent past amid limited capex spend, thereby improving the RoE, RoCE

Target Price and Valuation: Introducing FY24E, we now value GIL at a target price of ₹ 1,200 i.e., 20x FY24E EPS of ₹ 60 (previous target price: ₹ 1,130).

Key triggers for future price performance:

- Steady state growth prospects in the farm tyre space, CV cyclical upswing and pent-up demand in PV space to be major topline drivers. We expect consolidated sales to grow at a CAGR of 8% in FY22-24E
- Healthy b/s with surplus cash of ₹ 389 crore (~15% of market cap). Amid high dividend payouts, RoE & RoCE seen at 21%, 25%, respectively, in FY24
- Amid high share of trading sales and elevated commodity prices, margins are seen stabilising at ~8% mark by FY24E
- History of consistent positive CFO and FCF generation

Alternate Stock Idea: Apart from GIL, in our ancillary coverage we like ATL.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with target price of ₹ 230



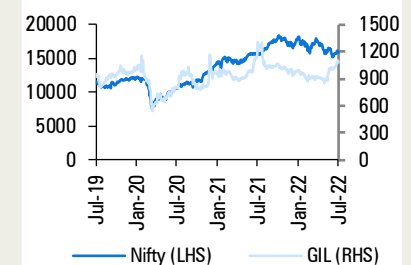
Particulars

Particular	₹ crore
Market Capitalization	2,538
Total Debt (FY22)	0.0
Cash & Inv (FY22)	389.7
EV	2,148
52 week H/L (₹)	1315 / 783
Equity capital (₹ crore)	23.1
Face value (₹)	10.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	74.0	74.0	74.0	74.0
FII	0.8	0.8	0.8	0.8
DII	7.5	7.4	7.0	7.0
Other	17.7	17.8	18.2	18.2

Price Chart



Recent event & key risks

- Posts muted operational performance in Q4FY22
- Key Risk:** (i) Higher than anticipated sales/topline growth, (ii) Further pressure on RM costs due to elevated commodity price

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 Year CAGR (FY17 - 22)	FY23E	FY24E	2 Year CAGR (FY22 - 24E)
Net Sales	1,911.9	1,745.6	1,791.7	2,435.7	10.0%	2,632.9	2,843.2	8.0%
EBITDA	164.5	135.7	216.8	172.0	-2.9%	147.6	227.5	15.0%
EBITDA Margins (%)	8.6	7.8	12.1	7.1		5.6	8.0	
Net Profit	102.1	88.8	136.2	102.9	-4.2%	81.2	138.0	15.8%
EPS (₹)	44.2	38.5	59.1	44.6		35.2	59.8	
P/E	24.9	28.6	18.6	24.7		31.3	18.4	
RoNW (%)	11.8	9.7	16.2	14.4		12.3	21.0	
RoCE (%)	14.1	9.2	19.2	16.5		13.4	24.6	

Source: Company, ICICI Direct Research

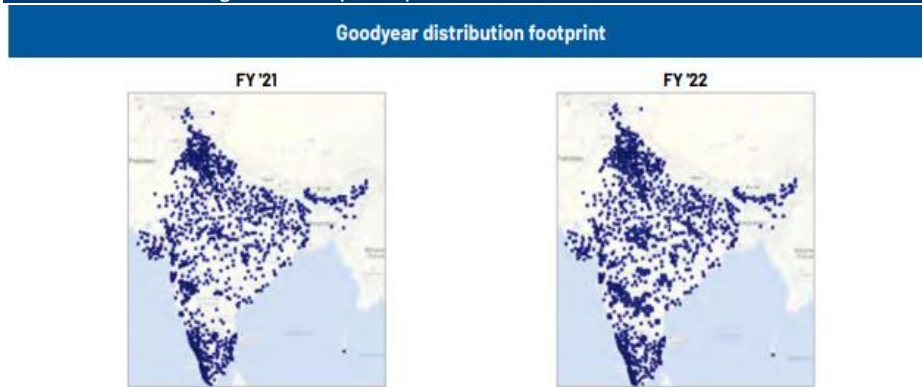
Annual report FY22 – key takeaway

Exhibit 1: Goodyear presence in India – across the years



Source: Company, ICICI Direct Research

Exhibit 2: Increasing dealership footprint in the aftermarket channel



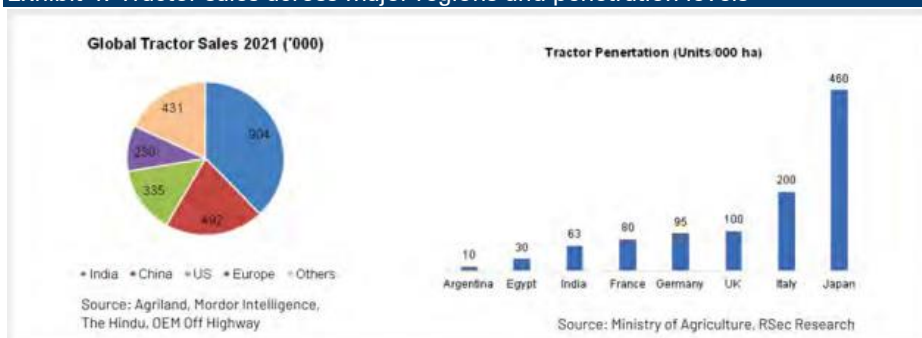
Source: Company, ICICI Direct Research

Exhibit 3: Agriculture as a % of GDP, % population involved across some countries



Source: Company, ICICI Direct Research

Exhibit 4: Tractor sales across major regions and penetration levels



Source: Company, ICICI Direct Research

Annual report FY22 Highlights

The mid to long term farm tyre industry outlook remains positive and is expected to grow at mid-single digit for the coming decade (3%-5%).

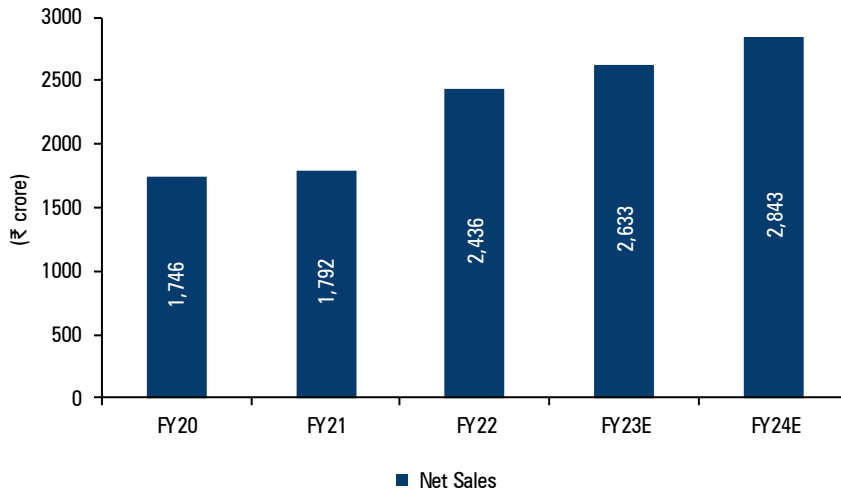
On the farm OEM side, business continued to focus on maintaining category leadership through excellence in operational & key account management, delivering enhanced customer service

On the farm replacement channel, the focus continued to be on increasing distribution footprint, channel extraction along with delivering high quality products and enhancing consumer experience

The mid to long-term outlook of the passenger tyre industry continues to be positive. Premium and SUV segments in passenger car tyre industry continue to drive growth for the industry. This is resulting in fuelling demand for higher rim size segments, which are also target market segments for Goodyear. This trend is expected to continue in the long-term, driven by preference for SUV segments among car owners. This will ensure profitable growth for the company in coming years

Financial Story in Charts

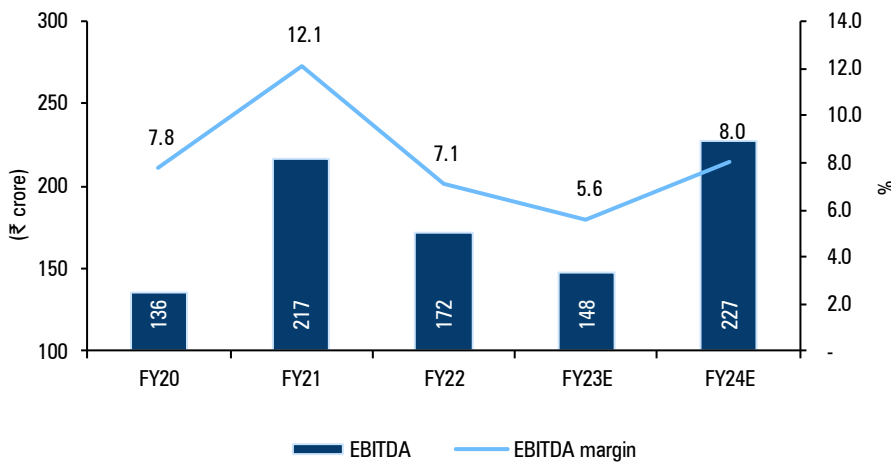
Exhibit 5: Trend in topline



We expect net sales to grow at ~8% CAGR over FY22-24E

Source: Company, ICICI Direct Research

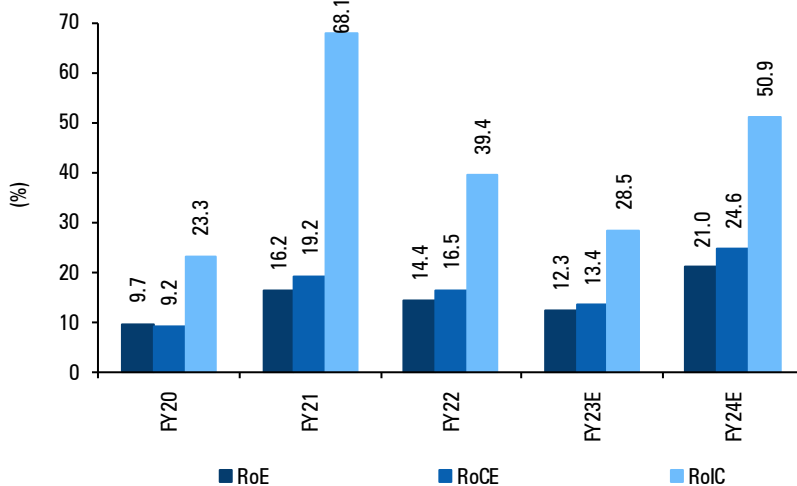
Exhibit 6: Trend in topline



EBITDA margins are seen improving to 8% by FY24E

Source: Company, ICICI Direct Research

Exhibit 7: Trend in topline



Return ratios are seen >20% by FY24E

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	1,791.7	2,435.7	2,632.9	2,843.2
Growth (%)	2.6	35.9	8.1	8.0
Raw Material Expenses	1,177.6	1,741.4	1,892.8	1,990.3
Employee Expenses	138.8	163.2	180.7	199.0
Other Expenses	258.5	359.1	411.8	426.5
Total Operating Expenditure	1,575.0	2,263.7	2,485.4	2,615.8
EBITDA	216.8	172.0	147.6	227.5
Growth (%)	59.7	-20.6	-14.2	54.1
Depreciation	52.8	52.7	57.9	62.6
Interest	3.4	4.1	3.9	3.9
Other Income	22.6	23.2	23.2	24.2
PBT	183.2	138.5	109.0	185.2
Total Tax	46.9	35.6	27.8	47.2
Reported PAT	136.2	102.9	81.2	138.0
Growth (%)	53.5	-24.5	-21.1	70.0
EPS (₹)	59.1	44.5	35.1	59.7

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	136.2	102.9	81.2	138.0
Add: Depreciation	52.8	52.7	57.9	62.6
Sub: Other Income	-22.6	-23.2	-23.2	-24.2
(Inc)/dec in Current Assets	-30.0	-149.0	-27.6	-48.0
Inc/(dec) in CL and Provisions	161.4	98.9	31.8	51.4
CF from operating activities	297.8	82.2	120.0	179.7
Other Income	22.6	23.2	23.2	24.2
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-51.1	-73.0	-70.0	-70.0
Others	-6.5	-11.4	0.5	0.4
CF from investing activities	-35.0	-61.2	-46.3	-45.3
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-226.1	-230.7	-138.4	-138.4
Others	13.6	3.1	0.0	0.0
CF from financing activities	-212.5	-227.6	-138.4	-138.4
Net Cash flow	50.3	-206.6	-64.7	-4.0
Opening Cash	546.0	596.4	389.7	325.0
Closing Cash	596.4	389.7	325.0	321.0

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	23.1	23.1	23.1	23.1
Reserve and Surplus	816.5	691.8	634.5	634.1
Total Shareholders funds	839.6	714.8	657.6	657.1
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	13.3	9.9	10.4	10.9
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	877.1	752.6	696.9	697.9
Assets				
Gross Block	557.5	613.5	686.6	761.6
Less: Acc Depreciation	259.1	311.8	369.7	432.3
Net Block	298.4	301.7	316.9	329.3
Capital WIP	16.1	33.1	30.0	25.0
Total Fixed Assets	314.4	334.8	346.9	354.3
Investments	13.7	15.5	16.0	16.5
Inventory	133.2	301.0	288.5	311.6
Debtors	271.1	250.3	288.5	311.6
Loans and Advances	9.9	9.9	10.7	11.5
Cash	596.4	389.7	325.0	321.0
Other current assets	10.4	12.5	13.5	14.6
Total Current Assets	1,021.0	963.4	926.3	970.3
Creditors	405.2	483.1	504.9	545.3
Provisions	12.0	14.5	15.1	16.3
Other current liabilities	96.4	114.8	124.1	134.0
Total Current Liabilities	513.5	612.4	644.2	695.6
Net Current Assets	507.5	351.0	282.1	274.7
Others	41.3	51.1	51.6	52.2
Application of Funds	877.1	752.6	696.8	697.9

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	59.1	44.5	35.1	59.7
Cash EPS	81.9	67.4	60.3	86.9
BV	363.9	309.9	285.0	284.8
DPS	178.0	100.0	60.0	60.0
Cash Per Share	258.5	168.9	140.9	139.1
Operating Ratios (%)				
EBITDA Margin	12.1	7.1	5.6	8.0
PBT / Net sales	9.2	4.9	3.4	5.8
PAT Margin	7.6	4.2	2.6	2.3
Inventory days	27.1	45.1	40.0	40.0
Debtor days	55.2	37.5	40.0	40.0
Creditor days	82.5	72.4	70.0	70.0
Return Ratios (%)				
RoE	16.2	14.4	12.3	21.0
RoCE	19.2	16.5	13.4	24.6
RoIC	68.1	39.4	28.5	50.9
Valuation Ratios (x)				
P/E	18.6	24.7	31.3	18.4
EV / EBITDA	9.0	12.5	15.0	9.7
EV / Net Sales	1.1	0.9	0.8	0.8
Market Cap / Sales	1.4	1.0	1.0	0.9
Price to Book Value	3.0	3.6	3.9	3.9
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	1.2	1.2	1.2
Quick Ratio	0.7	0.5	0.6	0.6

Source: Company, ICICI Direct Research

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