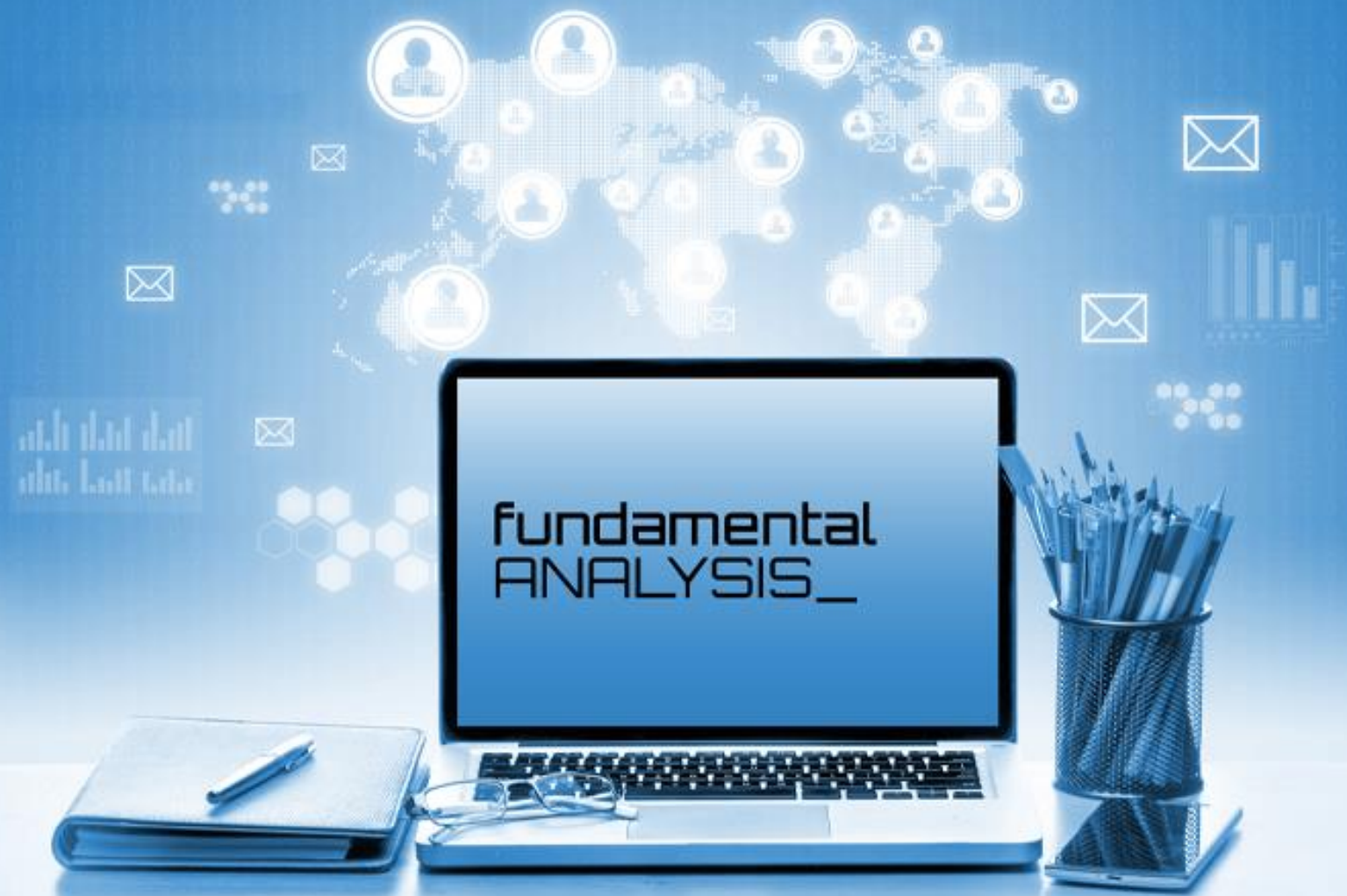


Initiating Coverage Goodyear India Ltd.

December 14, 2022





Goodyear India Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 1097	Buy in Rs 1090-1110 band and add on dips in Rs 970-990 band	Rs 1201	Rs 1303	2-3 quarters

HDFC Scrip Code	GOOINDEQNR
BSE Code	500168
NSE Code	GOODYEAR
Bloomberg	GDYR IN
CMP Dec 13, 2022	1096.7
Equity Capital (Rs cr)	23.1
Face Value (Rs)	10
Equity Share O/S (cr)	2.3
Market Cap (Rs cr)	2530
Book Value (Rs)	238.1
Avg. 52 Wk Volumes	28,200
52 Week High (Rs)	1204.9
52 Week Low (Rs)	783.0

Share holding Pattern % (Sep, 2022)	
Promoters	74.0
Institutions	8.3
Non Institutions	17.7
Total	100.0



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

Atul Karwa

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Our Take:

Goodyear India Ltd. (GIL) commands leadership position in tractor tyres industry in India and supplies to almost all leading tractor manufacturers. With monsoons being normal this year, government's focus on increasing farm income, increasing level of mechanization in agriculture and growing rural wages is likely to drive higher demand for tractors in the coming years. Considering the drop in natural rubber prices, higher/stable price in tyre replacement market, pricing discipline in the industry and improving financials, we think GIL remains a good bet on rural prosperity.

GIL would continue to receive technology support from its parent company "GTRC", which is one of the world's leading tyre companies. GIL's excellent Balance sheet strength (zero debt company) and its MNC parentage (ultimate owner Goodyear Tire & Rubber – US) drives confidence on the company.

Valuation & Recommendation:

Goodyear is a cash rich (~19 percent of the current market cap), debt-free company and has reported good financial numbers over past few years. After hitting a historic high in domestic sales in October (1.24 lakh units – up 7% YoY), tractor sales in the domestic market moderated in November but were still higher when compared with November 2021 sales (up 7% to 67940 units). GIL has recently witnessed market share gains due to rapid channel expansion and extraction, building synergies in the front end, innovation driving new product pipeline, leveraging the strength of Goodyear brand and building a best-in-class team.

We expect GIL's Revenue/EBITDA/PAT to grow at 17/30/35% CAGR over FY22-FY24E, led by increased sales volume and moderation in material prices. We expect RoNW to increase from ~13% in FY22 to ~23% by FY24E. We believe investors can buy the stock in the band of Rs 1090-1110 and add on dips to Rs 970-990 band (12x FY24E EPS) for a base case fair value of Rs 1201 (14.75x FY24E EPS) and bull case fair value of Rs 1303 (16x FY24E EPS) over the next 2-3 quarters.



Financial Summary

Particulars (Rs cr)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY21	FY22	FY23E	FY24E
Operating Income	767	698	9.8	819	-6.4	1,792	2,436	2,984	3,357
EBITDA	46	60	-23.3	60	-23.3	217	172	209	292
APAT	27	39	-30.8	38	-28.2	136	103	127	188
Diluted EPS (Rs)	11.7	17.0	-30.8	16.4	-28.2	59.1	44.6	54.9	81.4
RoE (%)						15.5	13.2	17.2	23.3
P/E (x)						18.6	24.6	20.0	13.5
EV/EBITDA (x)						8.9	12.4	10.0	7.0

(Source: Company, HDFC sec)

Q2FY23 Result Update

GIL reported robust number for Q2FY23. Net sales increased by 9.8% to Rs 767cr. EBITDA fell by 23.3% YoY to Rs 46cr on account of higher raw material expenses. Consequently, EBITDA margin compressed 260/133 bps YoY/QoQ to 6.0%. PAT grew 30.8% YoY to Rs 27cr as other income declined. As on Sep 30, 2022, the Company had Cash & bank balance of Rs 237 crore compared to Rs 390 crore as of Mar 31, 2022. The Company has also spent Rs 54 Crore in Capex during H1 in various expansion and sustaining projects.

Key Triggers

Increased focus of government to improve agriculture

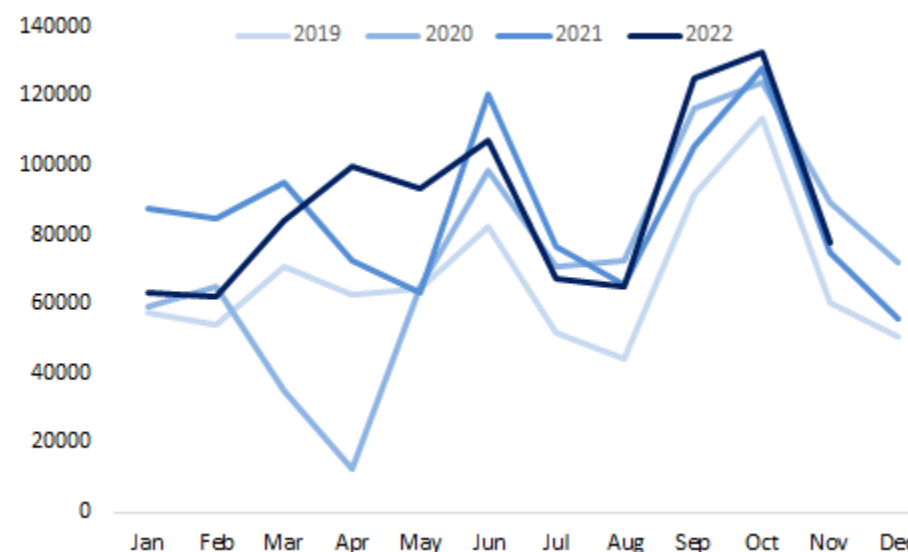
The government has taken several initiatives over the last few years for the entire agri value chain from seed to market and also improved the old systems. Agriculture budget has increased manifold in just six years and farm loans for farmers have also been increased by 2.5 times in seven years. Key drivers of the Farm industry like monsoon, rabi crop harvest, government support through increased MSP and water storage levels are positive. This would lead to increase in rural income. Increasing mechanization in agriculture due to labour shortages could also drive higher sales of tractors in the coming years.

Normal monsoons augur well for tractor sales

GIL is one of the top leaders in the farm tyre segment in India (~30% market share) and has strong tie-ups with OEMs as well as a dominant presence in the replacement market. This year, the country received bountiful rainfall throughout the season, except in June, though the spread was uneven with gangetic plains receiving lesser rains. Also the wedding season has resulted in higher demand for tractors. Being a market leader in tractor tyres segment, GIL could be one of the leading beneficiaries in this regard. YTD tractor sales for Apr-Oct'22 has increased by 9.4% YoY on a high base year.



Tractor sales



(Source: tmaindia.in, HDFC sec)

Focus on expanding PV segment

The Consumer replacement business has outperformed industry growth in FY 2021-22 despite the continuing challenges of Covid-19 and related restrictions, rise in commodity prices and inflation. GIL has also taken many initiatives to increase the sale of PV tyres which it sources from Goodyear South Asia Tyres Private Limited (GSATPL - a 100% subsidiary of Goodyear US). Some of the measures taken by the company include:

- Channel expansion in both urban and rural areas
- Leveraging synergies with farm business to penetrate tier 2 / tier 3 (Rurban) markets
- Sustaining high levels of engagement with channel partners and enabling better service to consumers by effectively leveraging technology.
- Investments in building Goodyear brand visibility - Leveraging milestones of Goodyear's 100th anniversary

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 GIL.



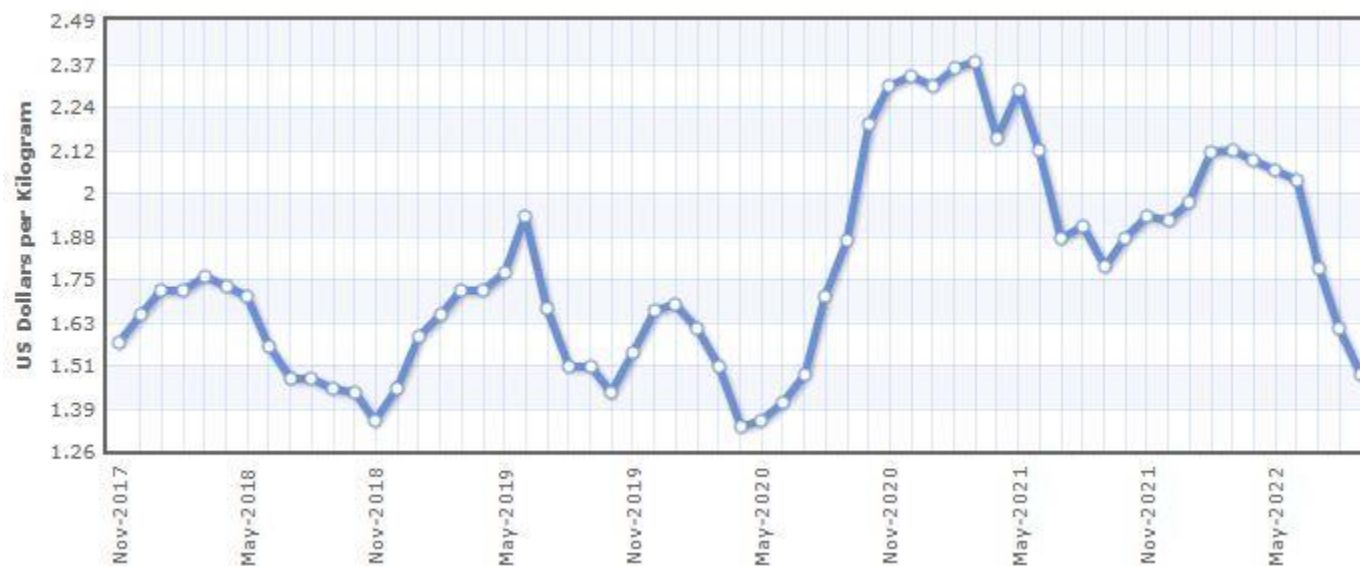
GIL commands leading position in tractor tyres industry in India

GIL commands leadership position in tractor tyres industry in India and supplies to almost all leading tractor manufacturers. In the tractor segment, it is an original equipment supplier to M&M, TAFE, Escorts, ITL, John Deere and Eicher. Its parent company Goodyear considers its Innovation Center in Colmar-Berg, Luxembourg its most important research and development facility in Europe and the second most important worldwide.

Margins to expand on the back of soft rubber prices

The margin profile of tyre players, including GIL, was heavily impacted by price movement in key raw materials i.e. crude oil derivatives, natural rubber. Historically, these companies have enjoyed margin expansion only during times of benign input material prices. The war between Russia and Ukraine has created uncertainty across markets and impacted the demand of Rubber. Over the last 1 year rubber prices have corrected by ~20-25% to \$1.48/kg in Sep'22 after rising to ~\$2.37/kg in Mar'21. Consequently, operating margins of GIL had fallen from 12.1% in FY21 to 7.1% in FY22. Lower rubber prices could help GIL to add its margins going forward.

RSS3 rubber prices



(Source: indexmundi, HDFC sec)



Acquisition of Cooper Tire by parent

Goodyear Tire & Rubber Company, the ultimate parent company of Goodyear India has acquired Cooper Tire & Rubber Company for approximately \$2.5 billion in 2021. The transaction will expand Goodyear's product offering by combining two portfolios of complementary brands in the highly profitable light truck and SUV product segments. Cooper tyres is a proven American brand and these tyres are likely to be introduced in India in the coming years giving an additional option in the tyre industry.

High dividend payout

GIL has historically paid out ~25% of its earnings as dividends. Over the last 2 years the company has utilized its reserves and paid out huge dividends. It paid a dividend of Rs 178/share for FY21 and Rs 100/share for FY22. The company has no debts and currently there are no plans of significant capex. We believe dividend payouts are likely to remain high (though not to this extent) for the coming few years.

Strong brand & parentage

By virtue of Goodyear Tire & Rubber of USA being the parent company, the company uses the strong global brand of 'Goodyear' apart from technology and better management practices support from parent. This gives brand leverage in a market such as farm equipment tyre segment, where the market is dominated by local players. Further the strong global brand gives an edge in a replacement market for both farm equipment as well as passenger vehicles.

Risk & Concern

Vulnerable to cyclical demand from Tractor industry

GIL's growth fortunes are linked to the growth in tractor industry. If the tractor sector slows down or takes time to recover, then GIL's sales growth (volume off take) could continue to be impacted. Implementation of emission norms could increase tractor prices and impact its demand.

Below normal monsoons could hit demand

Tractors are largely used by the agriculture sector in India which is highly correlated with monsoons. Lower than normal monsoons could impact rural income and thereby the target market for the company.

Competition with established domestic players

GIL faces competition from other established tyre manufacturers like Apollo Tyres, MRF, Ceat Tyres & JK Tyres. GIL is a market leader in tractor tyre segment. Other companies have lower presence in tractor tyre segment and higher presence in PV and MHCV segment.



Volatility in raw material prices

Rubber, Nylon Fabric and Carbon Black are the major raw materials used by the company to manufacture its final product. Sharp rise in the prices of Natural rubber, could impact GIL's margins significantly, if the company is unable to pass on the price increase to its consumers.

Currency Fluctuations

Sharp rupee depreciation could make the imports costlier and impact GIL's margins. In FY22, GIL imported around 5% of its raw material requirements. However, its exports are just 1.5% of net sales.

Conflict of interest due to other 100% subsidiary

Besides GIL, GIL's parent company has one more wholly subsidiary, Goodyear South Asia Tyres Private Ltd. (GSATPL), which manufactures passenger tyres (including radial tyres) and off the road bias tyres at Aurangabad facility. Hence there is a conflict of interest, as going forward parent's focus could shift in favour of GSATPL and/or the present structure of marketing PV tyres through GIL could be altered in a manner that is against the interest of GIL's minority shareholders.

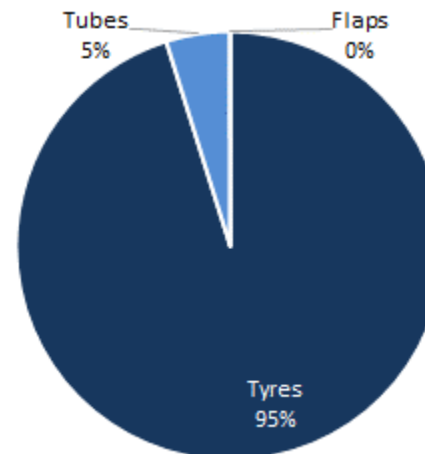


Company Background:

Goodyear India Ltd (GIL) is a step down subsidiary of ‘The Goodyear Tire & Rubber Company’, Akron, Ohio, USA (“GTRC”). GIL is engaged in the business of manufacturing of bias tyres (farm tyres and medium commercial truck tyres), tubes and flaps at Ballabgarh (Haryana) facility. GIL also trades in “Goodyear” branded tyres [including radial passenger tyres (consumer) and Off The Road (OTR) bias tyres] manufactured by Goodyear South Asia Tyres Private Limited (‘GSATPL’), Aurangabad. Goodyear has also been a pioneer in introducing tubeless radial tyres in the passenger car and in the farm segment in India; Goodyear tyres are supplied to all the major tractor companies including M&M, Escorts and John Deere. Approximately 40% of the net sales of GIL (vs 37% in FY21) were attributable to the sale of products procured from Goodyear South Asia Tyres Private Limited (GSATPL - a 100% subsidiary of Goodyear US), Aurangabad and some more being procured from other Goodyear group companies.

Goodyear is one of the world’s largest tyre companies. It employs about 72,000 people and manufactures its products in 55 facilities in 23 countries around the world. Its two Innovation Centers in Akron, Ohio, and Colmar-Berg, Luxembourg, strive to develop state-of-the-art products and services that set the technology and performance standard for the industry.

Sales breakup (FY22)



(Source: Company, HDFC sec)



Financials

Income Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	1746	1792	2436	2984	3357
Growth (%)	-8.7	2.6	35.9	22.5	12.5
Operating Expenses	1610	1575	2264	2775	3065
EBITDA	136	217	172	209	292
Growth (%)	-17.5	59.7	-20.6	21.4	39.8
EBITDA Margin (%)	7.8	12.1	7.1	7.0	8.7
Depreciation	50	53	53	56	61
Other Income	35	23	23	21	25
EBIT	121	187	143	174	256
Interest expenses	4	3	4	5	5
PBT	117	183	138	169	251
Tax	28	47	36	43	63
PAT	89	136	103	127	188
Growth (%)	-13.0	53.4	-24.5	23.1	48.3
EPS	38.5	59.1	44.6	54.9	81.4

Balance Sheet

As at March (Rs cr)	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	23	23	23	23	23
Reserves	893	817	692	738	829
Shareholders' Funds	916	840	715	761	852
Total Debt	0	0	0	0	0
Net Deferred Taxes	2	2	0	0	0
Other Non-curr. Liab.	11	12	11	13	15
Total Sources of Funds	929	853	725	773	866
APPLICATION OF FUNDS					
Net Block & Goodwill	316	312	317	343	350
CWIP	15	16	33	17	8
Investments	0	0	0	0	0
Other Non-Curr. Assets	36	41	51	62	70
Total Non Current Assets	366	369	401	422	428
Inventories	150	133	301	282	327
Debtors	220	271	250	378	426
Cash & Equivalents	546	597	390	432	476
Other Current Assets	25	20	22	35	36
Total Current Assets	941	1021	964	1127	1265
Creditors	266	405	483	574	598
Other Current Liab & Provisions	112	132	156	201	230
Total Current Liabilities	378	537	640	775	827
Net Current Assets	563	484	324	352	438
Total Application of Funds	929	853	725	773	866

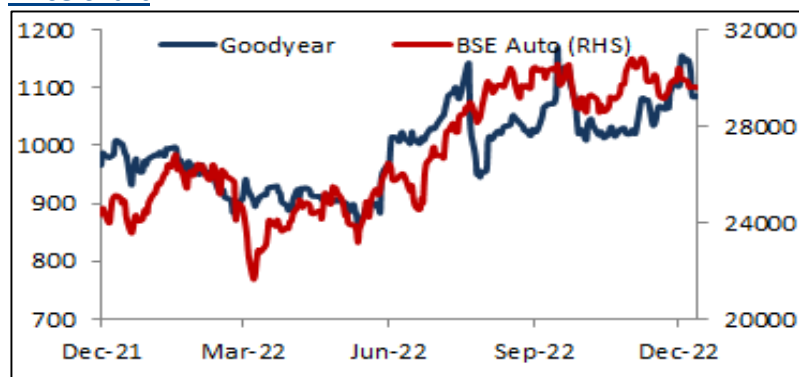


Goodyear India Ltd.

Cash Flow Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	117	183	138	169	251
Non-operating & EO items	1	1	-1	-9	-6
Interest Expenses	-27	-15	-11	5	5
Depreciation	50	53	53	56	61
Working Capital Change	-38	123	-51	14	-42
Tax Paid	-37	-51	-39	-43	-63
OPERATING CASH FLOW (a)	65	294	89	192	206
Capex	-62	-44	-73	-65	-60
Free Cash Flow	4	250	16	127	146
Investments	0	0	0	0	0
Non-operating income	-34	131	23	0	0
INVESTING CASH FLOW (b)	-96	87	-50	-65	-60
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-4	-4	-4	-5	-5
FCFE	-35	377	35	123	141
Share Capital Issuance	0	0	0	0	0
Dividend	-30	-214	-225	-81	-97
Others	-4	-6	-7	0	0
FINANCING CASH FLOW (c)	-34	-217	-229	-85	-102
NET CASH FLOW (a+b+c)	-65	163	-190	42	44

Price chart



Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
Profitability Ratios (%)					
EBITDA Margin	7.8	12.1	7.1	7.0	8.7
EBIT Margin	6.9	10.4	5.9	5.8	7.6
APAT Margin	5.1	7.6	4.2	4.2	5.6
RoE	10.0	15.5	13.2	17.2	23.3
RoCE	13.6	21.3	18.3	23.6	31.8
Solvency Ratio (x)					
Net Debt/EBITDA	-4.0	-2.8	-2.3	-2.1	-1.6
Net D/E	-0.6	-0.7	-0.5	-0.6	-0.6
PER SHARE DATA (Rs)					
EPS	38.5	59.1	44.6	54.9	81.4
CEPS	60.2	81.9	67.4	79.1	107.9
BV	396.9	363.9	309.9	329.7	369.2
Dividend	13.0	178.0	100.0	35.0	42.0
Turnover Ratios (days)					
Inventory days	48	50	39	38	44
Debtor days	33	29	33	36	33
Creditors days	64	68	67	65	64
VALUATION (x)					
P/E	28.5	18.6	24.6	20.0	13.5
P/BV	2.8	3.0	3.5	3.3	3.0
EV/EBITDA	14.6	8.9	12.4	10.0	7.0
EV/Revenues	1.1	1.1	0.9	0.7	0.6
Dividend Yield (%)	1.2	16.2	9.1	3.2	3.8
Dividend Payout (%)	33.8	301.4	224.2	63.8	51.6

(Source: Company, HDFC sec)



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, **Atul Karwa**, Research Analyst, **MMS**, 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. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. 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.

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