

# Apollo Tyres Skids to 18-Month Low

Shares fall as much as 26.35% intra-day on concerns that the all-cash ₹14,500-cr deal will weigh heavily on the tyre maker's balance sheet

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A day after Apollo Tyres' bulge-bracket acquisition of US-based Cooper Tire & Rubber for ₹14,500 crore, investors punished the Indian tyre maker with its shares suffering its biggest one-day fall in two decades on Thursday.

The acquisition, however, has clearly not gone well with investors. At intra-day, the shares of Apollo fell as much as 26.35% to a low of ₹67.75, on concerns that the all-cash deal would weigh heavily on the Indian tyre maker's balance sheet, even as its promoter attempted to douse the concerns of investors.

The stock later closed 25% lower on the BSE.

The shares of Cooper Tire after skyrocketing 40% on Wednesday on the New York Stock Exchange and within a nudging distance of Apollo's offer of \$35 a share, on Thursday shed 1.54% to \$34.13, during intra-day trading.

"It seems the Indian investors look at it differently," Apollo Tyres VC & MD Neeraj Kanwar told ET. "We need to put across the fact that the Indian subsidiary carries only \$450 million debt on its books, which would be serviced from the Indian operations, while the larger \$2.1 billion would be met through overseas funding at very competitive interest rates."

Apollo compared itself to Tata Motors which it claimed had experienced similar reaction from investors, when it had acquired the British marquee brand Jaguar & Land Rover in 2008 for \$2.3 billion. "We too have experienced similar trends in the past for our earlier acquisitions, especially when we acquired a tyre company in Europe, though the size was much smaller," Kanwar added. Apollo had acquired bankrupt Dutch tyre maker Vredestein Banden in May 2009. Apollo had also acquired Dunlop Tyres in South Africa earlier.

The investor community, however, remained skeptical wondering whether the tyre maker bit more than it could chew. Their fear is that Apollo Tyres could struggle in the manner of other Indian companies who had made aggressive acquisitions in 2007-08.

In a research report, titled "Cooper Acquisition: A Giant



## Debt Worries

▶ Markets fear co could struggle like other cos did with their aggressive buys in 2007-08

▶ Apollo Tyres is also taking a \$450-million debt in a Mauritius-based entity

▶ Apollo had acquired bankrupt Dutch tyre maker Vredestein Banden in May 2009

Step for Apollo, Execution Key," Goldman Sachs analysts Sandeep Pandya and Sumeet Jain gave a neutral rating and wrote: "We believe execution is key in order to generate stable margins, particularly amid a volatile demand and raw material environment, and reduce the leverage over time."

An analyst tracking the company said that Apollo Tyres already has debt of ₹2,549 crore and while the cash of ₹173 crore on its books is minuscule in comparison. "It's more of a tactical buy for the Apollo Group, rather than a strategic fit to the Indian entity," the analyst said. Apollo

had posted a consolidated turnover of ₹12,412 crore with a profit of ₹412 crore for the quarter ended March 31, 2013, he added.

The company claims an "accrued benefit" of ₹465-700 crore (\$80-120 million) on its EBITDA levels after three years, a number it claims to have arrived at after careful study.

Further, the fact that the Indian promoters themselves have a high

44% stake in the company means that they are exposed to the downside of the acquisition. As a result they have every incentive to make it a success.

Jatin Chawla and Akshay Saxena, analysts at Credit Suisse gave an underperform rating to the tyre maker on Thursday. "While the Vredestein acquisition has been a big success for the company, Apollo had acquired it from a bankrupt company at a very reasonable valuation. Though Cooper seems like a good strategic fit, Apollo is paying a fair price for it and, hence, any upside would be based on the synergies it can get," the analyst duo wrote in a report titled, "Cooper Acquisition: EPS Accretive But Still Risky."

The deal is fully debt funded. Cooper and Vredestein (European company acquired by Apollo in 2009) would come under a holding company based out of Netherlands which would be taking \$2.1 billion debt and it would be serviced by operations of these two entities. Apollo is also taking a \$450 million debt in a Mauritius based entity which will be used to fund the equity contribution of the Netherlands entity, Credit Suisse analysts said. The debt will be raised via bonds in the US market which are likely to have a 7-8 year maturity, a funding cost of 10% and a bullet repayment, the Credit Suisse analysts added.

There is another reason why some investors are disenchanted by the acquisition. "They were holding Apollo as a proxy on the Indian commercial vehicle cycle recovery but post this acquisition only about 20% of revenues will come from India," Chawla and Saxena in their report said.

Kanwar reiterated that the acquisition was based on a clear strategy to de-risk its dependence on India and CV tyre business in India, where much of its revenues are generated.

"We have tried to de-risk the business. We are expecting 44% revenue to flow from the US, 22% from India and 18% originating from China and 12% from Europe. Virtually, we will have a pie in every major market across the world that would insulate the business from any geography and add new established brands to our kitty," Kanwar clarified.