

Rough ride for Apollo Tyres post Cooper buyout

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Mumbai, June 13: Apollo Tyres lost a fourth of their value a day after the company announced its intention to acquire US-based Cooper Tires and Rubber in an all-cash deal worth \$2.5 billion. A large section of analysts have already expressed concerns that the deal would push up the debt burden of Apollo Tyres to uncomfortable levels.

On Thursday, shares of Apollo Tyres lost over 26% during intraday trades to touch a 52-week-low of ₹67.75. It finally closed at 68.60%, shedding 25.43% or ₹23.40 — its biggest single-day fall in more than two decades. The largest manufacturer of truck tyres in India lost more than ₹1,043 crore in market capitalisation (m-cap) due to heavy selling on Thursday.

The tyre maker said in a statement issued on Wednesday that it will be paying Cooper shareholders \$35/share - 40% premium to Cooper's 30-day volume-weighted average price. The size of the deal is reportedly three times Apollo Tyre's m-cap. Though Apollo expects the acquisition to give a ₹465-700 crore boost to operating profit per annum, brokerages have cut the stock citing concerns over the increased debt burden. The tyre manufacturer had reported a net debt of ₹2,300 crore in the quarter ended March 31, 2013.

Ambit Capital has revised its rating from buy to sell as it expects the company's consolidated net debt to equity ratio post the acquisition to in-

crease to 3.8 times from the current 0.57 times.

Goldman Sachs, in a report, stated that Apollo's net debt to equity ratio would rise even though Cooper would service a significant portion of the additional debt the Indian company would take on to finance the deal.



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Market experts said that given the overall market scenario, investors would not prefer to hold a stock that has high debt service requirements. "When a company acquires a bigger market player — for instance Tata Motors' acquisition of JLR — stock valuations of the buying company tend to suffer. We don't expect Apollo Tyre to recover in the near-term," said Sonam Udasi, senior VP (research), IDBI Capital.

"We expect the stock to come down to ₹50-55 level, where it can see some consolidation," says Nidhi Saraswat, senior research analyst, Bonanza Portfolio.