Apollo Becomes a Whipping Boy of a Quick-to-Judge Dalal Street

CALCULUS

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Apollo's acquisition of US-based Cooper Tire was expected to pull its shares down on Thursday. The Delhi-based Apollo was not only paying a hefty premium but also taking on a load of debt — ₹14,500 crore — at a time of economic stress.

This has obviously not gone down well with local and foreign investors who have seen the damage caused by expensive overseas acquisitions. Tata Steel, Suzlon, Dr Reddy's are some of the companies suffering from the hangover of debt-fuelled acquisition binges.

But the 25.43% crash in Apollo shares to ₹68.6 is probably unwarranted and excessive. Apollo has now become the cheapest tyre stock among the top four players by market capitalisation in the Indian market with a trailing price-to-earnings multiple of 5.7 times. Its market cap is now down 32% to ₹3,457 crore from its peak.

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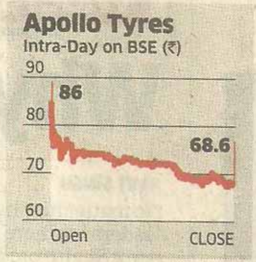
The knee-jerk reaction focuses on debt to the exclusion of everything else. Apollo's net debt/EBITDA ratio of 3.7 times is far higher than the 1.3 times before the deal. What has added to analyst concerns is also the cautious outlook given by Cooper on margins for 2013.

Investors may have a point here but they should note that Apollo is better placed than other Indian companies were when they purchased big overseas assets. Apollo has paid about 0.6 times Cooper's CY12 revenues, which may appear a tad higher compared to the 0.5 times paid by Hindalco for Novelis in Feb 2007 and 0.3 times paid by Tata for JLR. But Cooper is a healthy company with a strong balance sheet while JLR and aluminium maker Novelis were both loss making.

$6.6-b Turnover Expected ▸▸ 10

Scrip Falls Off a Cliff, Crashes 25%



The Apollo Tyres scrip fell by as much as 26.35% on Thursday, ending the day 25% lower on the BSE, reports **Chanchal Pal Chauhan.** ▸▸ 5