Apollo gets a flat tyre

By **Mail Today Bureau**
in New Delhi

ON THE back of its announcement of a $2.5 billion acquisition of Cooper Tire & Rubber, shares of Apollo Tyres tanked by 25.5 per cent as D Street reckoned that it would deal hard to digest. Apollo Tyres shares hit a 52-week low of ₹68.60 on BSE on Thursday and were trading down at ₹68.55 on NSE.

While the ₹14,500 crore deal will catapult Apollo to the seventh largest tyre manufacturer in the world, analysts were wary of what the deal would do to roil the company's books. The Apollo-Cooper combine will have sales to the tune of $6.6 billion and help open markets for Apollo. But with the deal being directly funded by debt, the market is concerned.

"This will result in an increase in the consolidated debt:equity for Apollo from 0.75x to 1.35x and the net debt:EBITDA from 1.7x to 3.8x. The sharp increase in debt we reckon will be an area of concern for investors who were expecting balance sheet deleveraging in the next two years," Credit Suisse analysts Jatin Chawla and Akshay Saxena, said in a report.

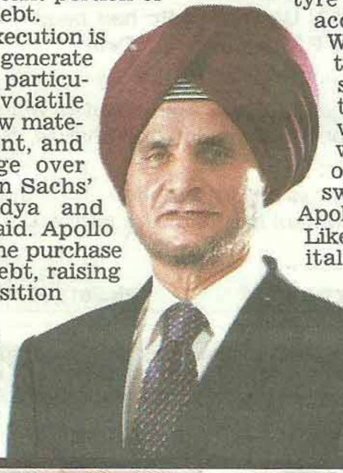
Apollo-Cooper to have $6.6 bn sales

Based on calendar 2012 numbers, the acquisition is EPS accretive, the analysts said, but add that investors will question the sustainability of EBITDA at Cooper, given that 2012 profits to large extent were driven by favourable raw material cycle. Goldman Sachs too feels Apollo Tyre's net debt to equity will rise even though Cooper Tire will service a significant portion of the additional debt.

"We believe, execution is key in order to generate stable margins, particularly amid a volatile demand and raw material environment, and reduce leverage over time," Goldman Sachs' Sandeep Pandya and Sumeet Jain said. Apollo will fully fund the purchase through new debt, raising the post-acquisition leverage for the combined entity to 3.8 times net debt/EBITDA (earnings before interest, tax, depreciation and amortisation) from 1.4 times now, according to analysts' estimates. Goldman Sachs said in a report 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 to finance the deal.

Apollo Tyres is funding the Cooper Tire acquisition via $2.5 billion debt, out of which $2.1 billion will be taken at the holding company level, which will include Cooper Tire and Apollo's European operations (Vredestein). $450 million debt will be taken in Apollo's Mauritius subsidiary and would be serviced by the Indian operations. "After the transaction, debt/EBITDA for the consolidated operations would be close to 3.5x, which is aggressive, in our view, considering that a benign raw material environment has buoyed EBITDA margins of tyre makers globally," according to Jasdeep Walia of Kotak Institutional Equities. Walia says since the size of the transaction is very large, compared with the current operations, it could swing either way for Apollo Tyres.

Like Kotak, Ambit Capital too finds Apollo's acquisition aggressive and has downgraded the stock to 'sell' from 'buy'.



Onkar S Kanwar, chairman, Apollo Tyres

TOP M&A DEALS BY INDIAN GIANTS ABROAD

Year	Acquirer	Target	Value ($ mn)
2006	Tata Steel	Corus	12,780.20
2010	Bharti Airtel	Airtel Africa	10,700.00
2007	Hindalco	Novelis	5,706.11
2012	ONGC	Kashagan assets	5,000.00
2010	Repsol SA*	Carabobo-1	4,848.00
1999	At Home Corp	Excite	4,729.68
2010	Vedanta	Cairn	4,479.71
2008	ONGC	Imperial Energy	2,607.16
2013	Apollo Tyres	Cooper Tire	2,508.00

*Repsol SA, ONGC, IOC, OIL, Petroliam Nasional

SLOWDOWN DENTS M&A APPETITE

By **Mail Today Bureau**
in New Delhi

THE Apollo Tyers' acquisition of US-based Cooper comes at time when India Inc's appetite for buying foreign companies has been on the wane in the wake of the economic slowdown.

According to advisory firm Grant Thornton, the total value of outbound deals (Indian companies acquiring businesses outside India) in first quarter of 2013 was $0.19 billion (21 deals) compared to $0.69 billion (26 deals) during the first quarter of 2012.

The total number of merger and acquisitions during January-March quarter this year stood at $4.56 billion, down from $18.39 billion in the same period last year.

"The quarter clearly saw a decline in deal activity, possibly driven by interplay of factors given the macro conditions as well as the pressure on liquidity," the Grant Thornton report said.