

\$6.6-b Turnover Expected

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Also, Apollo is getting scale and size with the Cooper bid. The Findlay, Ohio based Cooper is the 11th largest tyre manufacture of the world with 2012 revenue of about \$4.2 billion, or about Rs 24,500 crore, almost double Apollo's consolidated revenues of Rs 12,794 crore in FY13. The US company posted an operating profit of \$397 million or \approx 2,300 crore in 2012 which is 9.5% of its net sales. Apollo had a consolidated operating profit of \approx 1,853 crore in FY13, which is 14.5% of its net sales. The margins of both the companies were supported by softening rubber prices which may be difficult to sustain if commodity prices were to rise again. But with global economy slowing and hot money exiting commodities, it is difficult to foresee a return to the era of sky-high prices that seemed the new normal only about six years ago.

The deal will substantially add to the operating profits of the combined entity. According to the Apollo management, the EBITDA of the combined entity could increase by \$80-120 million over the next three years through cost savings and

synergies. The management also expects a turnover of \$6.6 billion, or Rs 38,280 crore, for the merged entity.

Apollo already has an international presence and North America was the biggest gap in its network. That has now been filled. The deal will also help Apollo save on capital expenditure needed to establish its brand in that market. Now, it has a readymade brand and factories. Cooper, according to a report by Ambit Capital, has spent close to \$462 million (approx. Rs 2,500 crore) in capex over the past three years.

Signs of a revival in the American automobile market are encouraging, though any recovery should probably be considered too feeble to make a meaningful impact on profitability. The North American market contributes close to 70% to Cooper's top line and should help the combined entity generate operating cash to service the fresh debt.

The Apollo management may face a problem if the scenario does not pan out as predicted. A raft of brokerage reports have advised caution, some even recommending a sell. The Apollo top brass must be a worried lot but there are also enough reasons for them to be confident.