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**Ajcon's Xpress idea: Goodyear India Ltd. (GIL) - "BUY", Target price: Rs. 741**

**About the Company:** Goodyear India Ltd (GIL), 74% subsidiary of Goodyear Tire and Rubber Company, US, is engaged in the manufacturing and marketing of automotive tyres, tubes and flaps. Automotive tyres include farm, truck and passenger tyres. Other products of the company include tubes/flaps, rubber products and two- and three-wheeler tyres. Goodyear's presence in India is over 90 years old, with two plants, one each in Ballabgarh and Aurangabad. In the passenger car segment, Goodyear India supplies tyres to many of the leading Original Equipment Manufacturers. Goodyear India has also been a pioneer in introducing tubeless radial tyres in this segment.

**About its parent company -** Goodyear is one of the world's largest tire companies. It employs approximately 73,000 people and manufactures its products in 54 facilities in 22 countries around the world. Its two Innovation Centers in Akron, Ohio and Colmar-Berg, Luxembourg strive to develop state-of-the-art products and services that set the technology and performance standard for the industry.

**Key clientele:** GIL supplies tyres to many of the leading Original Equipment Manufacturers (OEMs). Its prestigious clientele includes Maruti Suzuki, Hyundai, and Tata Motors in the Passenger Vehicle (PV) segment. The Company is a preferred tyre supplier within the foreign PV players in India such as Volkswagen, GM, Toyota and Ford. On the tractor front, the Company supplies to all the leading names in India.

**Leadership position in tractor tyres industry:** GIL commands leadership position in tractor tyres industry with a market share of about 22% in front tyres and 36% in rear tyres. This segment is expected to see strong growth buoyed by rising tractor sales driven by growth in the agricultural sector and increasing tractor penetration. Softening rubber prices would help to improve the margins as natural rubber is the principal raw material for the tyre manufacturers. Natural rubber prices currently stand at around Rs. 137-139/kg and are expected to remain stable or increase marginally in the near future due to increase in global surplus coupled with delay in revival in auto demand

**Financial position and performance:** The Company is a zero debt company with Rs.342.61 crore cash balance as of 30th June 2014 which is equivalent to Rs. 148 Cash per share. GIL witnessed an impressive Q2CY2014 result. The Company's top-line registered a marginal improvement by 2.5% yoy to Rs. 433 crores, which is slightly lower than street estimate of Rs. 442 crores. Raw material cost as a percentage of sales declined by 78bps yoy to 70.7% while other expenses as a percentage of sales declined by 54bp yoy to 13.6%. The EBITDA came in at Rs. 45 crores, up 10.7% yoy, while margins expanded by 78bp yoy to 10.3%. Consequently, the net profit came in at Rs29cr, 12.8% higher yoy and in-line with street estimate.

**Delisting attempt:** Goodyear India's promoters were reportedly trying to delist its subsidiary yet again in 2013. However, the parent company, Goodyear Orient Company will have to up its stake to 90% to delist the subsidiary. Further, the company had also appointed two bankers for finalizing the delisting plan. The promoter currently holds 74% stake in the company, while the remaining 26% holdings are with public shareholders. Goodyear India's offer to delist in 2010 from the bourse failed due to a poor response from shareholders. It had fixed Rs. 340 per share as the discovered price, which was the price at which the maximum numbers of offer shares were tendered by public shareholders. The bid started on May 28, 2010 and closed on June 3, 2010.

**Outlook:** We believe stronger growth in tractor tyre market, softening natural rubber prices, superior margins and improving macro-economic scenario, would lead to GIL's better performance in the near future. We recommend a "BUY" on the stock with a price target of Rs 741 assuming a P/E of 15x CY14E earnings, an upside of 21%, over a period of 3 to 6 months.

#### Stock Holding Disclosure under SEBI regulations:

- a) **Analyst holding: No**
- b) **Company holding: Yes**
- c) **Directors holding: No**
- d) **Group/Associates Position: No**
- e) **Relationship with management: No**

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