

Healthy prospects, sound financials...

Goodyear India (GIL) has performed reasonably well, thus far in 9MFY21 in spite of the Covid-19 disruption. On a YTD basis, net sales are down ~11% YoY (Q2FY21, Q3FY21 growth at 6.0%, 20.7% YoY, respectively). Margins, however, are higher by ~400 bps YoY to 12.2% (includes multi-year high readings of 15.3% and 14.5% in Q2FY21 and Q3FY21, respectively). Consequent 9MFY21 PAT is higher by 22.5% YoY to ₹ 93 crore despite loss after tax of ₹ 4.5 crore in Q1FY21. The company also declared an all-time high interim dividend of ₹ 80/share in December 2020.

Strength returning across served segments

GIL's presence spans the tractor, CV, PV segments, including via the trading route – with the share of traded revenues within overall pie averaging ~32-33% in the past few years. The domestic tractor space has performed robustly, thus far, in FY21, with 10MFY21 domestic volumes at ~7.4 lakh units, up ~20% YoY. Stellar outperformance over the rest of the automotive pack has been on the back of robust rural sentiment and cash flows given record crop production & procurement and continued government thrust on farm incomes and rural infrastructure. We anticipate further resilience in the sector over the next year, which would benefit GIL in coming quarters given its status as one of the leading players in the tractor tyre space. Elsewhere, in our opinion, the cyclical bottom of the domestic CV industry has been surpassed as evidenced by (a) pickup in M&HCV truck volumes being reported by major players in the past few months (partly aided by low base), with ~23 months of industry decline behind us post FY19 (usual past CV down cycles have lasted ~two years) and (b) uptick in demand from mining, construction and road building sectors. PV revival post-Covid remains healthy, spurred by personal mobility demand - with low channel inventory levels indicating robust demand prospects. This places GIL well with respect to future demand outlook, with FY21E-23E sales CAGR seen at 11.7%.

Gross margin contraction up ahead

Steep rise in prices of key raw materials viz. natural rubber and crude oil derivatives led to ~217 bps QoQ decline in gross margins in Q3FY21. We expect some part of the increase to continue to impact forthcoming quarters' performance. However, continued topline strength and consequent operating leverage benefits would aid in mitigating the damage. Nevertheless, we build 11.5% and 12% margins in FY22E and FY23E, respectively, lower than ~15% trajectory reported in Q2FY21 and Q3FY21.

Valuation & Outlook

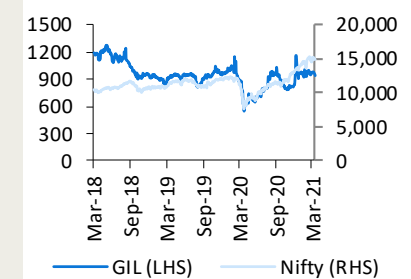
We expect 12.1% PAT CAGR in FY21E-23E. Healthy demand prospects across segments along with MNC parentage and strong B/S and return ratio profile (FY20; zero debt company with ₹ 546 crore cash on books & >20% RoIC) continue to provide valuation comfort. We maintain **BUY**, valuing it at ₹ 1,130, 16x P/E on FY23E EPS of ₹ 70.7 (previous target price ₹ 910).



Particulars

Particular	Amount
Market Capitalization (₹ crore)	2,122
Total Debt (FY20) (₹ Crore)	0.0
Cash & Inv (FY20) (₹ Crore)	546.0
EV (₹ Crore)	1,576
52 week H/L (₹)	1202 / 531
Equity capital (₹ crore)	23.1
Face value (₹)	10.0

Price Performance



Key highlights

- Demand outlook has improved across served segments i.e. tractors, CV, PV
- One of the best balance sheets in the domestic tyre space with net cash on B/S (FY20) >25% of MCAP

Risks to our call

- Lower than anticipated demand recovery in automobile sector
- Elongated muted margin profile amid high raw material cost

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

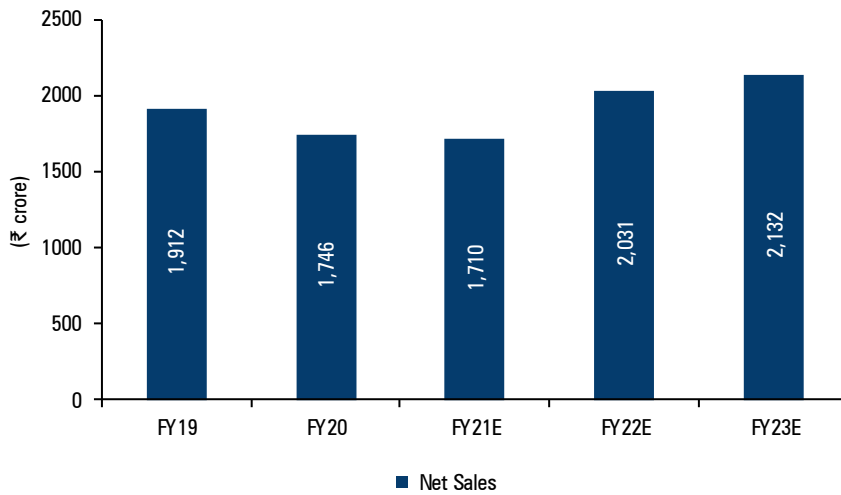
Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E -23E)
Net Sales	1,911.9	1,745.6	1,709.8	2,030.6	2,132.1	11.7%
EBITDA	164.5	135.7	207.8	233.5	255.9	11.0%
EBITDA Margins (%)	8.6	7.8	12.2	11.5	12.0	
Net Profit	102.1	88.8	129.7	147.3	163.1	12.1%
EPS (₹)	44.2	38.5	56.2	63.8	70.7	
P/E	20.8	23.9	16.4	14.4	13.0	
RoNW (%)	11.8	9.7	15.1	15.5	15.4	
RoCE (%)	14.1	9.2	17.7	18.3	18.3	

Source: Company, ICICI Direct Research

Financial story in charts

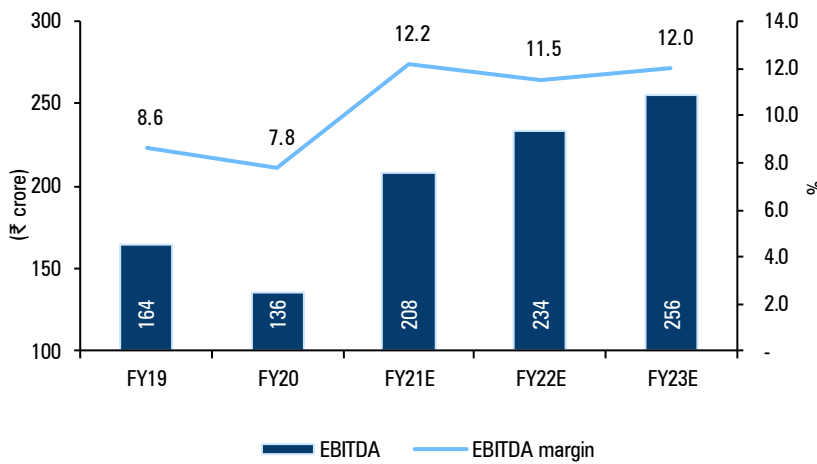
Exhibit 1: Topline trend



We expect sales to grow at a CAGR of 11.7% over FY21E-23E

Source: Company, ICICI Direct Research

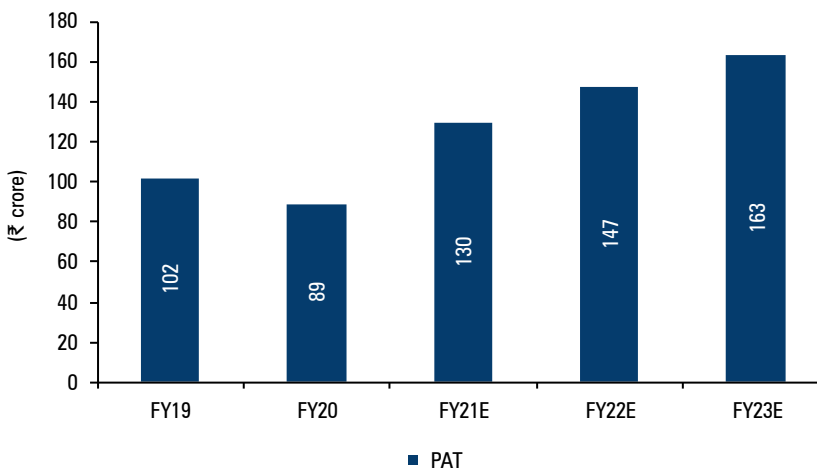
Exhibit 2: EBITDA & EBITDA margin trend



Margins are seen remaining stable around the ~12% mark in FY22E & FY23E

Source: Company, ICICI Direct Research

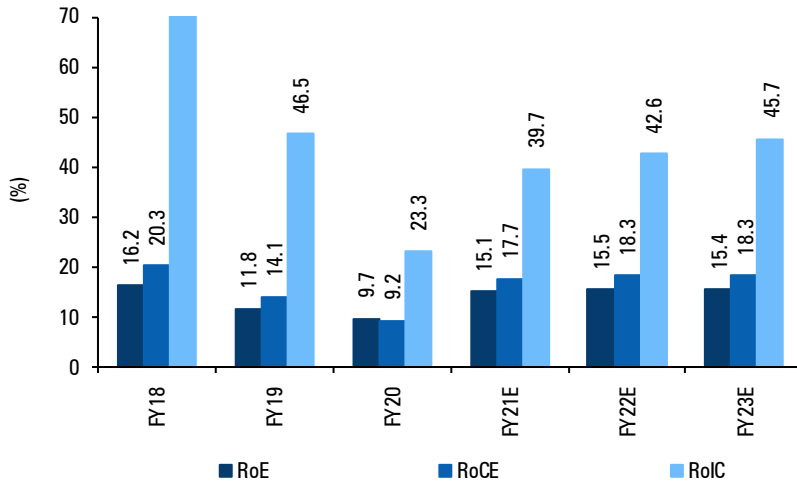
Exhibit 3: Profitability trend



PAT is expected to grow to ₹ 163 crore by FY23E at a CAGR of 12.1% from FY21E

Source: Company, ICICI Direct Research

Exhibit 4: Return ratios



Return ratios are expected to be in the high teens in coming years with forward RoIC >40% due to high share of cash in B/S as a % of networth

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1,665	10.1	56.3	2.0	16.3	7.7	16.2	20.3
FY19	1,912	14.9	44.2	(21.5)	20.8	9.5	11.8	14.1
FY20	1,746	-8.7	38.5	(13.0)	23.9	11.6	9.7	9.2
FY21E	1,710	(2.0)	56.2	46.1	16.4	8.0	15.1	17.7
FY22E	2,031	18.8	63.8	13.6	14.4	6.8	15.5	18.3
FY23E	2,132	5.0	70.7	10.7	13.0	5.9	15.4	18.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	1,745.6	1,709.8	2,030.6	2,132.1
Growth (%)	-8.7	-2.0	18.8	5.0
Raw Material Expenses	1,192.4	1,111.0	1,340.2	1,407.2
Employee Expenses	139.6	140.0	152.3	159.9
Other Expenses	277.9	251.0	304.6	309.2
Total Operating Expenditure	1,609.9	1,502.0	1,797.0	1,876.2
EBITDA	135.7	207.8	233.5	255.9
Growth (%)	-17.5	53.1	12.4	9.6
Depreciation	50.1	53.0	56.9	59.7
Interest	4.0	3.5	3.3	3.2
Other Income	35.2	22.5	23.6	25.0
PBT	116.8	173.7	196.9	218.0
Total Tax	28.0	44.1	49.6	54.9
Reported PAT	88.8	129.7	147.3	163.1
Growth (%)	-13.0	46.1	13.6	10.7
EPS (₹)	38.4	56.1	63.8	70.6

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	88.8	129.7	147.3	163.1
Add: Depreciation	50.1	53.0	56.9	59.7
Sub: Other Income	-35.2	-22.5	-23.6	-25.0
(Inc)/dec in Current Assets	41.6	-4.5	-74.9	-23.7
Inc/(dec) in CL and Provisions	-82.6	-10.5	64.1	20.3
CF from operating activities	62.7	145.2	169.8	194.3
Other Income	35.2	22.5	23.6	25.0
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-65.0	-70.0	-70.0	-70.0
Others	-5.4	0.1	-1.3	-0.4
CF from investing activities	-35.1	-47.4	-47.7	-45.4
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-36.1	-184.6	-57.7	-57.7
Others	-4.0	0.0	0.0	0.0
CF from financing activities	-40.1	-184.6	-57.7	-57.7
Net Cash flow	-12.5	-86.8	64.4	91.3
Opening Cash	558.5	546.0	459.2	523.6
Closing Cash	546.0	459.2	523.6	614.9

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	23.1	23.1	23.1	23.1
Reserve and Surplus	892.7	837.8	927.4	1,032.8
Total Shareholders funds	915.8	860.9	950.5	1055.9
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	12.8	12.8	12.8	12.8
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	954.7	899.8	989.4	1094.8
Assets				
Gross Block	507.6	567.5	637.5	707.5
Less: Acc Depreciation	206.4	259.4	316.2	375.9
Net Block	301.2	308.1	321.2	331.5
Capital WIP	14.9	25.0	25.0	25.0
Total Fixed Assets	316.1	333.1	346.2	356.5
Investments	14.3	14.3	14.3	14.3
Inventory	149.8	149.9	178.0	186.9
Debtors	219.9	224.9	267.0	280.4
Loans and Advances	11.7	11.5	13.6	14.3
Cash	546.0	459.2	523.6	614.9
Other current assets	13.2	12.9	15.4	16.1
Total Current Assets	940.7	858.4	997.6	1,112.6
Creditors	266.3	257.6	306.0	321.3
Provisions	13.6	13.1	15.6	16.4
Other current liabilities	72.4	70.9	84.2	88.4
Total Current Liabilities	352.2	341.7	405.7	426.0
Net Current Assets	588.5	516.7	591.9	686.6
Others	35.6	35.4	36.7	37.2
Application of Funds	954.7	899.8	989.4	1094.8

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	38.5	56.2	63.8	70.6
Cash EPS	60.2	79.2	88.5	96.6
BV	397.0	373.2	412.0	457.7
DPS	13.0	80.0	25.0	25.0
Cash Per Share	236.7	199.1	227.0	266.5
Operating Ratios (%)				
EBITDA Margin	7.8	12.2	11.5	12.0
PBT / Net sales	4.9	9.1	8.7	9.2
PAT Margin	5.1	7.6	7.3	7.6
Inventory days	31.3	32.0	32.0	32.0
Debtor days	46.0	48.0	48.0	48.0
Creditor days	55.7	55.0	55.0	55.0
Return Ratios (%)				
RoE	9.7	15.1	15.5	15.4
RoCE	9.2	17.7	18.3	18.3
RoIC	23.3	39.7	42.6	45.7
Valuation Ratios (x)				
P/E	23.9	16.4	14.4	13.0
EV / EBITDA	11.6	8.0	6.8	5.9
EV / Net Sales	0.9	1.0	0.8	0.7
Market Cap / Sales	1.2	1.2	1.0	1.0
Price to Book Value	2.3	2.5	2.2	2.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.4	1.5	1.5	1.5
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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