

India's Apollo Tyres to Buy Cooper Tire for \$2.5 Billion

Apollo Tyres Ltd. (APTY), India's second-biggest tiremaker by market value, yesterday agreed to acquire Cooper Tire & Rubber Co. (CTB) for about \$2.5 billion for greater access to the U.S. automotive market. Apollo Tyres, based in Gurgaon, India, said it will pay \$35 a share to Cooper Tire shareholders. That's 43 percent higher than the June 11 closing price of \$24.56. Cooper Tire shares rose 41 percent yesterday to \$34.66 at the close in New York. Apollo Tyres, which last month agreed to sell most of its South African operations to Sumitomo Rubber Industries Ltd. (5110) for \$60 million, is looking to offset slower automobile demand in India and Europe amid weaker economic expansion. The company, which has said it wants to be among the top 10 tiremakers by 2016, would enter the U.S., the second-biggest auto market, where deliveries are on pace for the best year since 2007. "These kinds of cross-border transactions, suppliers from different countries investing in each other's markets, is always good for the industry," Sanjeev Varma, managing director of Stellar Alliance Group LLC, a Troy, Michigan-based automotive industry consultant, said in an interview yesterday. The deal would be the biggest takeover of an auto-parts maker since 2007, according to data compiled by Bloomberg. The acquisition will provide "scale and geographical presence including the American and European market, that's a mature market, and India and China that's a growing market," Neeraj Kanwar, vice chairman of Apollo Tyres, told reporters at a briefing yesterday in Gurgaon. The companies expect the deal to close in the second half of the year. New Debt Apollo Tyres and Findlay, Ohio-based Cooper Tire will borrow money from four banks, Apollo Tyres Chief Financial Officer Sunam Sarkar said at the briefing. The two companies will jointly raise \$2.5 billion from the sale of bonds with maturity of as long as eight years, he said. Apollo Tyres's exposure to new debt will be about \$450 million, Sarkar said. The companies will also raise some funds with asset-backed loans, he said. "This is a highly leveraged transaction which seems a bit risky," Stellar Alliance's Varma said. The four banks that will help arrange the funds are Standard Chartered Plc, Morgan Stanley, Deutsche Bank AG and Goldman Sachs Group Inc., according to a joint statement issued by the two companies. Sullivan & Cromwell LLP and Amarchand & Mangaldas & Suresh A Shroff & Co. served as legal advisers to Apollo Tyres. BofA Merrill Lynch served as financial adviser and Jones Day served as legal adviser to Cooper Tire, according to the statement. Morgan Stanley and Deutsche Bank also served as financial advisers to Apollo Tyres. Shares of Apollo Tyres rose 2.7 percent to close at 91.95 rupees yesterday in Mumbai, before the announcement. They have advanced 3.3 percent this year, compared with a 2 percent drop in the benchmark S&P BSE Sensex. Cooper Tire has gained 37 percent this year, compared with a 14 percent increase for the Russell 2000 Index.