

**RESULT UPDATE ✓**

# Apollo Tyres (APOTYR)

**WHAT'S CHANGED...**

PRICE TARGET.....	Unchanged
EPS (FY09E).....	Changed to Rs 1.4 from Rs 1.3
EPS (FY10E).....	Rs 1.6
RATING.....	Unchanged

<b>Current Price</b> Rs 19	<b>Target Price</b> Rs 17
<b>Potential upside</b> -11%	<b>Time Frame</b> 9 months

**UNDERPERFORMER**

Supriya Khedkar  
supriya.khedkar@icicidirect.com  
Rachita Anand  
rachita.anand@icicidirect.com

## Raw material blues...

Lower demand and price cut roll back took a toll on the topline. Net sales fell 7.3% to Rs 903.3 crore (estimates at Rs 875 crore) in Q3FY09. The procurement of key raw material rubber and other oil based products at higher price (in anticipation of further rise) restricted the company from enjoying the benefits of massive correction in raw material prices. The raw material to sales ratio worsened from 65% in Q3FY08 to 80.3% in the reported quarter, thus taking a toll on the EBITDA margin. The EBITDA margin fell from 13.4% to 5.8% (estimated at 5%). EBITDA declined 59.6% to Rs 52.7 crore. Higher interest costs and depreciation provisions along with higher taxation resulted in a bottomline hit of 91% to Rs 5.5 crore (estimated at Rs 3.5 crore). For the first nine months, the company reported a 4.9% growth in net sales to Rs 2,961 crore and net profit of Rs 66.7 crore. We are revising our net profit estimates for FY09 from Rs 65.8 crore to Rs 68.8 crore while maintaining the earning estimates for FY10.

## Outlook

Price roll back, de-growth in demand and procurement of raw material at comparatively higher prices would keep top and bottomline for Q4FY09 under pressure. Though the stimulus package for commercial vehicles (CVs) is likely to revive CV sales but the actual volume growth would decide the fortunes of the ancillary companies hence ATL. We expect the next two to three quarters to witness a slowing demand, subsequently sales to pick up following the revival of economic conditions.

## Valuations

At CMP of Rs 19, it trades at 13.9x and 12.2x FY09E and FY10E EPS, respectively. We maintain our Rs 17 price target & **UNDERPERFORMER** rating.

**Exhibit 1: Key Financials**

	( Rs crore)								
	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr. (%)	QoQ Gr. (%)	YTD FY09	FY09E	FY10E
Net sales	903.3	875.0	974.1	981.9	-7.3	-8.0	2,961.0	3,911.3	4,334.2
EBIDTA	52.7	43.8	130.4	50.8	-59.6	3.6	213.2	263.7	293.2
EBIDTA margin (%)	5.8	5.0	13.4	5.2	-	-	7.2	6.7	6.8
Depreciation	24.1	23.0	22.7	23.3	6.4	3.4	70.6	113.2	137.4
Interest	18.1	16.0	13.0	15.9	39.6	14.1	47.8	48.8	37.0
Other inc/extraord item	0.9	0.5	0.0	0.3	-	208.3	2.2	2.5	0.0
Reported net profit	5.5	3.5	61.3	7.8	-91.0	-29.3	66.7	68.8	78.4
EPS (Rs)	0.1	0.1	1.3	0.2	-91.5	-29.3	1.3	1.4	1.6
<b>Valuations</b>									
PE (x)	-	-	-	-	-	-		13.9	12.2
Target PE (x)	-	-	-	-	-	-		12.5	10.9
EV/EBIDTA (x)	-	-	-	-	-	-		4.8	4.3
Price/book (x)	-	-	-	-	-	-		0.7	0.7
RoNW (%)	-	-	-	-	-	-		5.5	5.9
RoCE (%)	-	-	-	-	-	-		8.8	8.8

Source: ICICIdirect.com Research

**Stock data**

Mcap (Rs cr)	957.8
Debt (FY08 - Rs cr)	460.7
Cash (FY08 - Rs cr)	265.9
EV(Rs cr)	1,418.5
52 week H/L	53 /18
Equity cap(Rs cr)	50.4
Face value (Rs)	1
MF Holding(%)	15.8
FII Holding(%)	4.9

**Price performance (%)**

	1M	3M	6M	12M
APOTYR	-4.3	-44.1	-38.4	-63.9
JKIND	-11.7	-39.7	-56.7	-77.1
BALIND	-0.1	-26.2	-59.1	-80.3

## Key highlights

- The total sales in terms of tonnage for the company are reported to be 59,055 tonne for the quarter and 202,787 tonne for the YTD FY09 as against the production of 64,120 tonne and 210,204 tonne, respectively. The company observed production cuts on account of slowdown in demand from the original equipment manufacturer (OEM) segment and inventory pileup spilled over from the previous quarter. The total volume de-growth for the quarter was 16.9%.
- Comparatively higher prices as against competitors resulted into loss of market share. It rolled back prices by 3-5% in December. We expect a further price cut to be exercised by the company to re-gain the lost market share as well as to pass on the benefits of lower raw material prices. This would continue to restrict EBITDA margins expansion.

### Exhibit 2: Market share movement (%) YTD

	Apr-Nov'08	Apr-Nov'09
Truck and Bus tyres	29.3	6.9
Light Commercial Vehicles	28.1	27.8
Passenger Car radials	14.8	15.3

Source: Company

- Though rubber prices have started falling for the past few months, average rubber prices for the company have been higher, pressurising the EBITDA margin.

### Exhibit 3: Quarterly natural rubber price

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09
Price (Rs/kg)	100	100	100	105	118	138

Source: Company

## Detailed valuations

At the CMP of Rs 19, the stock is trading at 13.9x and 12.2x its FY09E and FY10E EPS, respectively. We maintain our price target of Rs 17 and an **UNDERPERFORMER** rating.

### Exhibit 4: Valuations

	Sales (Rs cr)	EPS (Rs)	EV/EBITDA		RoNW (%)	RoCE (%)
			PE (x)	(x)		
<b>FY08</b>	3,693.9	4.5	4.2	2.9	20.0	24.4
<b>FY09E</b>	3,911.3	1.4	13.9	4.8	5.5	8.8
<b>FY10E</b>	4,334.2	1.6	12.2	4.3	5.9	8.8

Source: ICICIdirect.com Research, Company

## ICICIdirect.com Coverage Universe

### Exhibit 5: Universe consolidated

<b>Bajaj Auto</b>				<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>	
<b>Idirect Code</b>	BAAUTO	<b>CMP</b>	498	<b>FY08</b>	8,828.6	48.1	10.4	5.9	19.5	22.9
<b>Rating</b>	H	<b>Target</b>	450	<b>FY09E</b>	9,975.6	49.6	10.0	5.3	39.3	36.4
<b>Mcap (Rs cr)</b>	7,205.1	<b>% Upside</b>	-9.6	<b>FY10E</b>	11,131.6	56.3	8.8	4.5	34.8	37.6
				<b>FY11E</b>	12,472.1	64.8	7.7	3.6	31.5	39.8

  

<b>Escorts</b>				<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>	
<b>Idirect Code</b>	ESCORT	<b>CMP</b>	38	<b>FY08</b>	2,177.9	9.7	3.9	5.5	1.3	6.2
<b>Rating</b>	-	<b>Target</b>	-	<b>FY09E</b>	2,126.8	2.6	14.7	5.4	2.9	5.3
<b>Mcap (Rs cr)</b>	320.7	<b>% Upside</b>	-	<b>FY10E</b>	2,398.1	4.2	9.0	4.1	4.6	6.5

  

<b>Apollo Tyres</b>				<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>	
<b>Idirect Code</b>	APOTYR	<b>CMP</b>	19	<b>FY08</b>	3,693.9	4.5	4.2	2.7	20.0	24.4
<b>Rating</b>	UP	<b>Target</b>	17	<b>FY09E</b>	3,911.3	1.4	13.9	4.5	5.5	8.8
<b>Mcap (Rs cr)</b>	928.2	<b>% Upside</b>	-10.5	<b>FY10E</b>	4,334.2	1.6	12.2	3.9	5.9	8.8

  

<b>Automotive Axle</b>				<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>	
<b>Idirect Code</b>	AUTAXL	<b>CMP</b>	97	<b>FY08</b>	776.0	44.2	2.2	1.8	45.0	44.0
<b>Rating</b>	UP	<b>Target</b>	114	<b>FY09E</b>	814.8	30.2	3.2	2.2	24.3	27.4
<b>Mcap (Rs cr)</b>	146.7	<b>% Upside</b>	17.5	<b>FY10E</b>	936.4	38.1	2.5	1.4	25.3	32.1

  

<b>Balkrishna Industries</b>				<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>	
<b>Idirect Code</b>	BALIND	<b>CMP</b>	168	<b>FY08</b>	991.4	54.6	3.1	4.8	28.2	23.9
<b>Rating</b>	P	<b>Target</b>	185	<b>FY09E</b>	1,175.4	35.6	4.7	4.8	15.6	14.7
<b>Mcap (Rs cr)</b>	324.8	<b>% Upside</b>	10.1	<b>FY10E</b>	1,309.1	46.2	3.6	4.1	17.5	14.6

  

<b>Bharat Forge</b>				<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>	
<b>Idirect Code</b>	BHAFOR	<b>CMP</b>	83	<b>FY08</b>	2,196.5	12.2	6.8	5.5	19.6	18.8
<b>Rating</b>	P	<b>Target</b>	87	<b>FY09E</b>	2,406.2	3.3	24.9	5.2	4.9	16.0
<b>Mcap (Rs cr)</b>	1,848.4	<b>% Upside</b>	4.8	<b>FY10E</b>	2,729.6	8.5	9.7	4.1	11.8	17.1

  

<b>JK Tyres</b>				<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>	
<b>Idirect Code</b>	JKIND	<b>CMP</b>	39	<b>FY08</b>	3,263.7	23.7	1.6	4.3	13.3	13.1
<b>Rating</b>	H	<b>Target</b>	43	<b>FY09E</b>	3,623.2	9.5	4.1	5.2	4.7	8.5
<b>Mcap (Rs cr)</b>	160.1	<b>% Upside</b>	10.3	<b>FY10E</b>	4,065.0	14.4	2.7	5.2	6.7	9.6

  

<b>Subros</b>				<b>Sales</b>	<b>EPS</b>	<b>PE(x)</b>	<b>EV/E (x)</b>	<b>RoNW(%)</b>	<b>RoCE(%)</b>	
<b>Idirect Code</b>	SUBROS	<b>CMP</b>	17	<b>FY08</b>	662.6	4.8	3.6	2.6	17.6	20.1
<b>Rating</b>	UP	<b>Target</b>	17	<b>FY09E</b>	619.3	4.1	4.1	2.4	13.4	16.6
<b>Mcap (Rs cr)</b>	102.0	<b>% Upside</b>	0	<b>FY10E</b>	653.9	4.5	3.8	2.0	13.1	16.0

Source: ICICIdirect.com Research, EV/E signifies EV/EBITDA

## Peer Valuation

### Exhibit 6: Peer comparison

	CMP( TP		M Cap	EPS(Rs)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)			
	Rs)	(Rs)		Rating	(Rs Cr.)	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E
Apo Tyre	19	17	UP	957.8	4.5	1.4	1.6	4.2	13.9	12.2	2.7	4.5	3.9	24.4	8.8	8.8	20.0	5.5	5.9
Bal Ind	153	185	P	295.8	54.6	35.6	46.2	2.8	4.3	3.3	4.9	4.8	4.2	23.9	14.7	14.6	28.2	15.6	17.5
JK Ind	40	43	H	164.2	23.7	9.5	14.4	1.7	4.2	2.8	4.3	5.2	5.2	13.1	8.5	9.6	13.3	4.7	6.7

Source: ICICIdirect.com Research, CMP-Current market price, TP-Target price

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**Outperformer (O):** 20% or more;

**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

**Underperformer (U):** -10% or more;

**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicidirect.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
Gr. Floor, Mafatlal House,  
163, HT Parekh Marg,  
Backbay Reclamation  
Churchgate,  
Mumbai – 400 020**

**research@icicidirect.com**

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