

October 20, 2009

Rating	Accumulate
Price	Rs55
Target Price	Rs62
Implied Upside	13.7%
Sensex	17,223

(Prices as on October 20, 2009)

Trading Data

Market Cap. (Rs bn)	27.5
Shares o/s (m)	504.0
Free Float	60.6%
3M Avg. Daily Vol ('000)	5,396.0
3M Avg. Daily Value (Rs m)	229.1

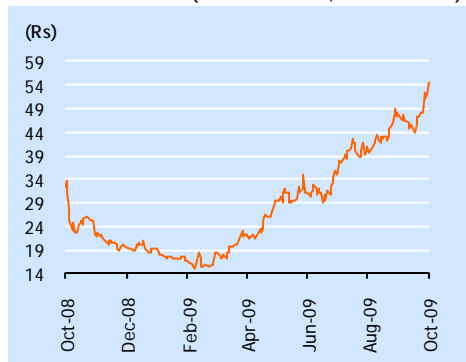
Major Shareholders

Promoters	39.4%
Foreign	13.4%
Domestic Inst.	23.5%
Public & Others	23.7%

Stock Performance

(%)	1M	6M	12M
Absolute	13.7	147.3	69.2
Relative	10.9	91.0	(3.5)

Price Performance (RIC: APLO.BO, BB: APTY IN)



Source: Bloomberg

Apollo Tyres

Lower input costs usher profitability

- Results:** Apollo Tyres reported a 24.4% YoY growth in its topline at Rs12.2bn on account of 24% YoY volume growth at 82,000 tonnes. Replacement market, which accounted for ~80% of the revenues, continues to be robust with signs of recovery in the OEM segment. Recipe cost/kg in the current quarter stood at Rs89.4 compared to Rs110.6 in Q2FY09, resulting in a 19.1% drop in the raw material cost for the quarter. As a result of lower input costs, the company reported a robust EBITDA at Rs2.0bn, with EBITDA margins at a robust 16.4% (compared to 16.5% in Q1FY10 and 5.1% in Q2FY09). As a result, the profit for the quarter stood at Rs1bn compared to Rs78m in Q2FY09 and Rs947m in Q1FY10.
- Consolidated performance:** On a consolidated basis, Apollo Tyres reported a growth of 62% YoY in net sales at Rs20.5bn, while reported PAT grew by 756% at Rs1.3bn. The Netherlands Vredestein Banden B.V contributed to Rs5.5bn, whereas the Dunlop SA operations contributed about Rs2.9bn to the topline. The PBDIT margins stood at 11% in case of Vredestein Banden B.V, whereas the net margins were around 2%. In case of Dunlop SA, the PBDIT margins stood at 9%, whereas the net margins were around 4%.
- Conference call highlights:** According to the management, the replacement demand was robust on account of a pick-up in the economic activity and restrictions on the imports from China. Currently the company is operating at 100% capacity utilization (~ 82,000 tonnes per quarter). The raw material cost on an average is likely to be higher by 10% sequentially in Q3FY10, thereby impacting operating margins in the coming quarters. Rubber prices are currently quoting at Rs110/kg compared to average cost to company at Rs100/kg in Q2FY10. The company has taken an average ~2.5% hike in prices in October 2009. The Greenfield expansion plan at its Chennai facility is well on track and will translate into additional 230 tonnes per day (TPD) capacity over the next two years.
- Outlook & Valuation:** We believe that the new acquisition has a potential to add Rs1.1 to the consolidated EPS in FY11E. At the CMP, the stock is trading at 7.4x and 7.1x its FY10E and FY11E consolidated EPS respectively. We maintain our 'Accumulate' rating on the stock, with a revised price target of Rs62 (earlier Rs53)

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	46,912	49,841	73,812	89,460
Growth (%)	9.1	6.2	48.1	21.2
EBITDA (Rs m)	5,924	4,161	8,917	10,053
PAT (Rs m)	2,697	1,391	3,722	3,877
EPS (Rs)	5.5	2.8	7.4	7.7
Growth (%)	130.4	(48.4)	167.5	4.2
Net DPS (Rs)	0.5	0.5	0.5	0.5

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	12.6	8.3	12.1	11.2
RoE (%)	25.5	11.0	23.7	16.7
RoCE (%)	24.6	14.0	22.6	17.9
EV / sales (x)	0.6	0.7	0.6	0.4
EV / EBITDA (x)	4.9	7.5	4.7	3.8
PE (x)	9.9	19.2	7.4	7.1
P / BV (x)	1.1	1.0	0.8	0.5
Net dividend yield (%)	0.9	0.9	0.9	0.9

Source: Company Data; PL Research

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Q1FY10 Result Overview (Standalone)

(Rs m)

Y/e March	Q2FY10	Q2FY09	YoY gr. (%)	Q1FY10	H1FY10	H1FY09	YoY gr. (%)
Net Sales	12,204	9,808	24.4	11,803	24,007	20,567	16.7
Expenditure							
Raw Material	7,335	8,256	0.2	6,892	14,226	15,916	(4.1)
Change in stock	-	(933)		44	44	(1,082)	
<i>% of Net Sales</i>	<i>60.1</i>	<i>74.7</i>		<i>58.8</i>	<i>59.4</i>	<i>72.1</i>	
Salaries & Wages	753	548	37.4	626	1,380	1,164	18.5
<i>% of Net Sales</i>	<i>6.2</i>	<i>5.6</i>		<i>5.3</i>	<i>5.7</i>	<i>5.7</i>	
Other Exp.	2,114	1,438	47.0	2,298	4,413	2,973	48.4
<i>% of Net Sales</i>	<i>17.3</i>	<i>14.7</i>		<i>19.5</i>	<i>18.4</i>	<i>14.5</i>	
Total Expenditure	10,203	9,311	26.4	9,860	20,063	18,972	5.8
EBITDA	2,001	497	302.4	1,943	3,944	1,595	147.2
<i>EBITDA Margin (%)</i>	<i>16.4</i>	<i>5.1</i>		<i>16.5</i>	<i>16.4</i>	<i>7.8</i>	
Depreciation	329	233	41.0	312	640	465	37.7
Net interest	126	159	(20.9)	203	328	297	10.6
Non Operative Income	13	14	(10.9)	6	19	24	(22.3)
PBT	1,560	120	—	1,435	2,994	857	249.2
Total Tax	538	41	—	488	1,026	292	250.7
<i>Tax Rate (%)</i>	<i>34.5</i>	<i>34.6</i>		<i>35.0</i>	<i>35.0</i>	<i>35.0</i>	
PAT	1,022	78	—	947	1,968	565	248.4

Operating Metrics

Y/e March	Q2FY10	Q2FY09	YoY gr. (%)	Q1FY10	H1FY10	H1FY09	YoY gr. (%)
Sale Tonnage (MT)	82,000	66,201	23.9	78,000	160,000	143,731	11.3
Realisation (Rs / Kg)	148.8	148.2	0.5	151.3	150.0	143.1	4.9
Recipe cost in (Rs / Kg)	89.4	110.6	(19.1)	88.9	89.2	103.2	(13.6)

Q2FY10 Result Overview (Consolidated)

(Rs m)

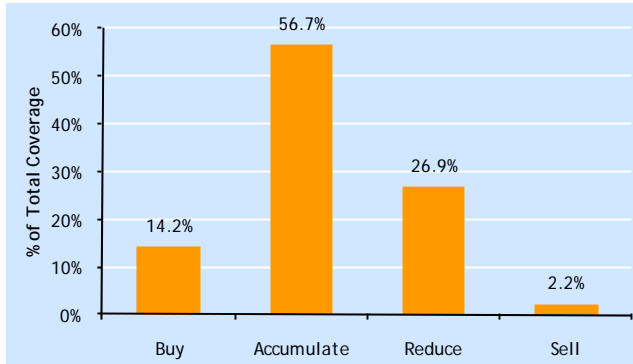
Y/e March	Q2FY10	Q2FY09	YoY gr. (%)	Q1FY10	H1FY10	H1FY09	YoY gr. (%)
Net Sales	20,462	12,622	62.1	16,350	36,812	25,843	42.4
Net Profit	1,292	151	755.6	758	2,031	738	175.3

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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