

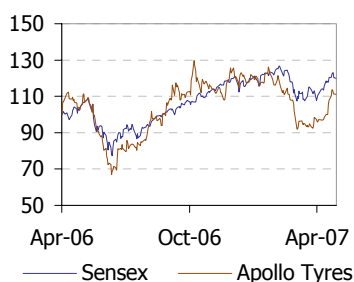
Apollo Tyres

Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 46mn
Market cap : Rs 14.8bn
52 week high/low : Rs 387/ Rs 194
Avg. daily vol. (6mth) : 92,000 shares
Bloomberg code : APTY IN
Reuters code : APLO.BO

Shareholding (%) Mar-07 QoQ chg

Category	Mar-07 (%)	QoQ chg
Promoters	32.4	0.0
FIIs	12.8	0.2
MFs / UTI	24.4	(0.8)
Banks / FIs	4.6	0.0
Others	25.8	0.6

RUBBER PRICES RUB-OFF ON REALIZATIONS

Apollo Tyres' (Apollo) top-line grew by 22% YoY to Rs 9.1bn during Q4FY07, driven by a volume growth of 9% and realization growth of 13%, primarily due to natural rubber prices moving favourably. Margins expanded by a smart 347bps YoY and 25bps on a QoQ basis to 11%. *This is the highest margin for the company in the last 17 quarters.*

South African Operations: For FY07, Dunlop reported a top-line of Rs 10bn, with EBIDTA and PAT margins of 9.6% & 1.9% respectively.

- The debt for Dunlop has been partially re-structured and stands at Rs 2bn, as against 2.5bn in Q3FY07.
- Capacity at Dunlop is likely to be increased from the current 150tpd to 180tpd in FY08 by way of process de-bottlenecking.

EBITDA Margin: For domestic operations continues in its upward trend owing to lesser raw material pressures:

- Natural rubber: prices have corrected sharply (~15%) in the last 3-4 months leading to higher realizations for the tyre industry. The average cost of natural rubber stood at ~Rs 95/ kg in Q4FY07 for the company.
- Price increase: tyre prices have been stable post the last price increase in Jan 2007. Currently there are no plans for a further hike in prices as natural rubber prices have softened.

Capex: Apollo has upped their capex guidance for FY08E to Rs 4bn from Rs 3.3bn guided earlier. The increment has mainly been on account of a captive facility being put up for BEML to manufacture Off-the-Road (OTR) tyres. The greenfield capacity for car radials in Tamil Nadu is expected to come on-stream by H2FY09.

At CMP of Rs 320, the stock trades at 9.5x FY08E and 8.3x FY09E Consolidated FDEPS of Rs 33.6 and Rs 38.1 respectively. Considering the continued softness seen in rubber prices and the better than expected integration benefits from its South African operations, we are upgrading the stock to Sector **Outperformer** from Sector Neutral.

Financial summary (Standalone)

Y/E Mar	Sales (Rs mn)	EBITDA (Rs mn)	PAT (Rs mn)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2006#	26,255	2,227	724	18.9	7	15.3	10.2	8.0	7.3	4.5
2007	32,923	3,093	1,134	22.2	18	12.6	12.2	9.0	5.7	4.5
2008E	37,533	3,438	1,485	29.1	31	11.0	12.6	9.7	6.0	5.0
2009E	42,787	3,876	1,654	32.4	11	9.9	12.7	9.3	5.6	5.0

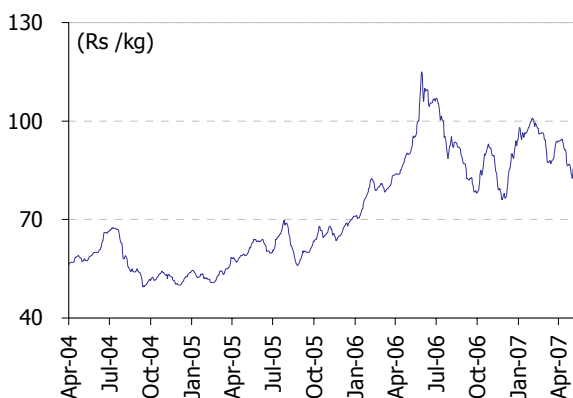
Source: Company, ENAM estimates. # FY06 EPS does not take into account dilution on account of recent QIP.

Results update (Standalone)

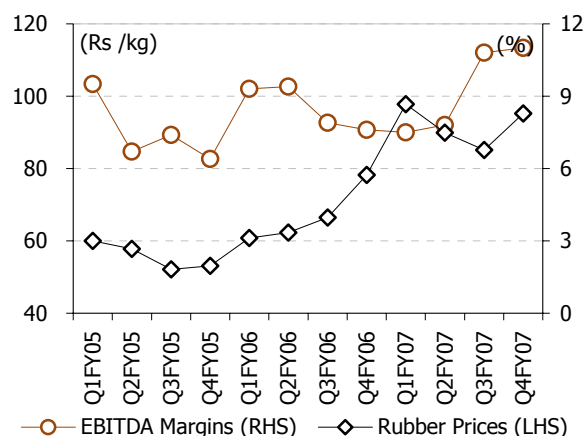
(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	9,102	7,459	22.0	8,575	6.1	37,533	32,923	14.0
EBITDA	1,004	564	78.1	924	8.6	3,438	3,093	11.1
Other income	26	3	708.4	1	-	30	30	0.0
PBIDT	1,030	567	81.6	925	11.3	3,468	3,123	11.0
Depreciation	190	205	(7.4)	183	4.0	842	742	13.4
Interest	133	134	(0.3)	130	2.7	504	527	(4.3)
PBT	707	228	209.4	613	15.3	2,122	1,854	14.4
Tax	280	51	443.9	262	6.5	637	720	(11.6)
Adjusted PAT	427	177	141.4	351	21.8	1,485	1,134	31.0
Extra ordinary income/ (exp.)	-	(87)	-	-	-	-	-	-
Reported PAT	427	264	61.9	351	21.8	1,485	1,134	31.0
No. of shares (mn)	46	38	-	46	-	51	51	-
EBIDTA margins (%)	11.0	7.6	-	10.8	-	9.2	9.4	-
PBIDT margins (%)	11.3	7.6	-	10.8	-	9.2	9.5	-
EPS - annualized (Rs.)	36.8	18.5	99.4	30.2	21.8	29.1	22.2	31.0

Source: Company, ENAM Research

Natural Rubber prices

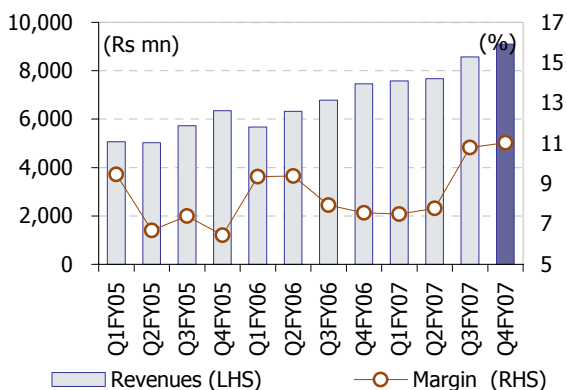


Rubber prices and EBITDA Margin

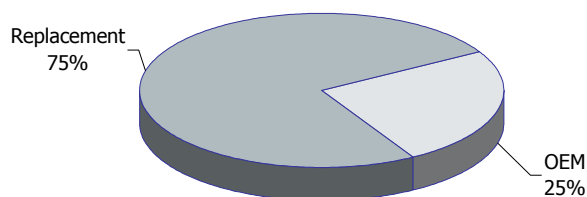


Source: Company, Rubber board of India, ENAM Research

Revenue & Margin trend



Domestic Sales Breakup: FY07



Source: Company, Industry, ENAM Research

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