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22nd February, 2012

Company Overview

Apollo Tyres Ltd (ATL) is the second largest tyre manufacturer in India holding ~19% market share with leadership position in commercial vehicle space (current market share of 27% in both MHCV and LCV segments). We believe long term growth potential is firmly in place as European business has gained traction, increasing radial capacity and as rubber prices have cooled off from its peak.

Investment Rationale

Replacement demand in MHCV Tyres & strong OEM sales in LCV segment to boost revenues– leader ATL to benefit the most

Being the leader in CV space, ATL is well positioned to reap the benefit from shorter life of MHCV segment tyres on the back of expectation of robust demand from replacement market as major portion of OEM sales (between Q4FY10 & Q4FY11) would demand replacement tyre starting from Q4FY12. OEM sales in LCV segment has been stronger (19.3% YoY growth in 9MFY12) compared with other Automobile categories. ATL would benefit the most being the leader in CV space. The company is increasing its radial capacity at its Chennai plant and as we believe replacement demand to improve going forward, ATL can utilize additional capacity by serving to higher margin replacement market. Therefore, we expect standalone revenue to grow at a CAGR of 32.4% between FY11 and FY13.

Margins to expand on the back of higher contribution from Vredestein, lower rubber prices and increasing Radialization

Vredestein is performing well and delivering higher margins since its acquisition by ATL (Q3FY12 EBIT margin:16%) on the back of strong sales of its higher margin winter tyres as many European countries have passed a legislation to use winter tyres mandatorily. Natural rubber prices have cooled from its peak of ~Rs 236 per kg in Apr-11 (current price: Rs 186/kg). In addition, ATL is increasing its proportion of radial tyre capacity from existing ~36% to 46% by FY13 for domestic market. As radial tyres has higher margin compared with bias tyres, we believe with aggressive radial capacity expansion plan, overall margin of the company would improve in FY13.

Inorganic expansion provides diversification benefit coupled with technological Synergies

Since acquisitions of Apollo SA and Vredestein, the dependence on Indian market has been reduced substantially and in Q3FY12, both these companies contributed ~36% of ATL's consolidated revenues and also helps in stabilizing consolidated margins. We believe these acquisitions made it possible for ATL to access their superior radial technologies which would provide long term benefit.

Outlook and Valuation

ATL has a strong presence in domestic CV segment and considering aggressive capex plan of radial tyres, we believe volume growth to remain strong. ATL is currently under capex mode and we believe the benefits of which would accrue over a longer period. Therefore, we have used DCF method to value this stock. We arrive at a DCF based target price of Rs 98. The target price implies a PE multiple of 8.5x FY13 EPS which is at a ~15% premium to its long term Average PE multiple which is justified considering growing European business and declining rubber prices. Therefore, we recommend to **BUY** this stock. (Pre-Initiating Coverage dated 15th Feb: Market Price was Rs 78 with Target of Rs 98)

YE March-Consolidated (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Key Financials					
Net Sales	**49,949**	**81,207**	**88,677**	**121,740**	**139,444**
Sales growth (%)	6.4%	62.6%	9.2%	37.3%	14.5%
EBIDTA	4,223	11,852	9,882	11,068	15,184
Growth %	(29.3%)	180.7%	(16.6%)	12.0%	37.2%
Adj. Net Profit	1,397	5,942	4,295	4,319	5,848
Diluted EPS	**2.8**	**11.8**	**8.5**	**8.0**	**11.6**
Growth %	(49.8%)	325.3%	(27.7%)	(6.6%)	45.8%
Key Ratios					
EBIDTA Margin (%)	**8.5%**	**14.6%**	**11.1%**	**9.1%**	**10.9%**
NPM (%)	2.8%	8.0%	5.0%	3.1%	4.2%
RoE (%)	**11.0%**	**35.8%**	**19.6%**	**15.6%**	**19.5%**
RoCE (%)	13.2%	29.3%	15.7%	13.9%	17.6%
BV Per Share (Rs)	26.8	39.0	47.9	54.0	64.7
Valuation Ratios					
P/E (x)			**9.2**	**9.9**	**6.8**
EV/EBIDTA (x)			6.6	5.9	4.3
P/BV (x)			1.6	1.5	1.2
Market cap/Sales			0.4	0.3	0.3

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook Bullish

Stock

CMP (Rs)	78.60
Target Price (Rs)	98.30
BSE code	500877
NSE Symbol	APOLLOTYRE
Bloomberg	APTY.IN
Reuters	APLO.BO

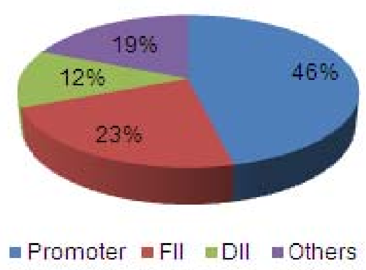
Key Data

Nifty	5,505
52WeekH/L(Rs)	84.20/50.80
O/s Shares (mn)	504
Market Cap (Rs mn)	39,564
Face Value (Rs)	1

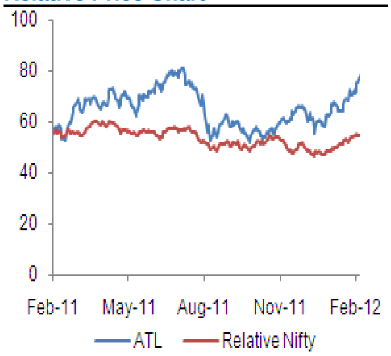
Average volume

3 months	2,684,921
6 months	2,593,905
1 year	3,335,625

Share Holding Pattern (%)



Relative Price Chart



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Investment Rationale

Replacement demand in MHCV Tyres & strong OEM sales in LCV segment to boost revenues– leader ATL to benefit the most

Being the leader in Commercial Vehicle (CV) space, ATL is well positioned to reap the benefit from shorter life of MHCV (Medium & Heavy Commercial Vehicle) tyres on the back of expectation of robust demand from replacement market after phenomenal growth in auto sales volume in FY10 and FY11, as vehicle sold during that period require replacement of tyres. ATL, being the leader in CV space, would benefit the most since it has higher market share. Currently, CV segment accounts for 72% of ATL's domestic revenue.

⇒ **Shorter life cycle of MHCV Tyres to boost replacement demand**

Commercial Vehicle (CV) segment registered phenomenal growth (CAGR 32.7%) during FY09 and FY11 against four wheeler industry growth of 28.5% during the same period. MHCV segment and LCV (Light Commercial Vehicle) segment grew with a CAGR of 32.4% and 33.7% respectively. As MHCV radilal tyre has an average useful life of 1-1.5 years and bias tyre has an average useful life of ~1 year, replacement demand for MHCV tyres are expected to increase substantially since major portion of OEM sales (between Q4FY10 & Q4FY11) would demand replacement tyre starting from Q4FY12.

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⇒ **Strong OEM sales for LCV to boost revenue for ATL**

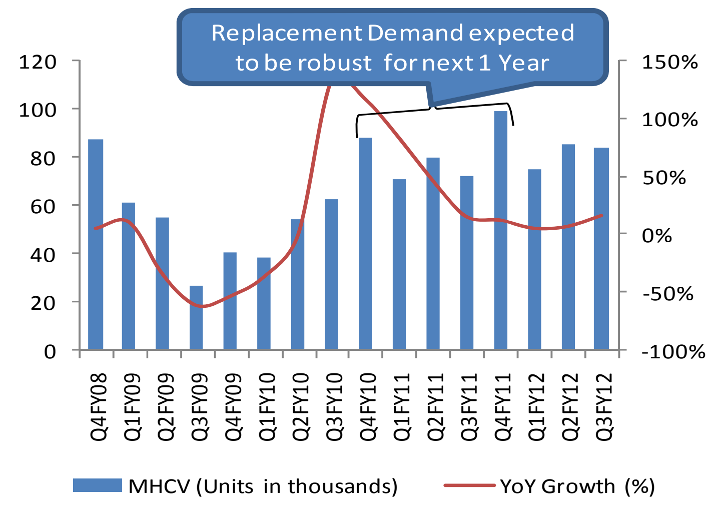
In FY12, LCV sales has been stronger compared with other Automobile categories. In FY12 till December, LCV sales grew by 19.3% YoY against a marginal growth of 0.5% YoY in Passenger Vehicle category and a 15.2% YoY growth in Two-wheeler category. Strong growth in LCV segment was possible mainly on the back of increasing demand from small and medium enterprises (SMEs) and new launches by Tata Motors and M&M. We believe growth in LCV sales to continue in future as this market is relatively new (only 8 years old in India) and growing on the back of strong demand from emerging SMEs and considering capex plans announced by OEM players such as M&M and Ashok Leyland.

⇒ **Expansion of capacity in full swing at Chennai plant**

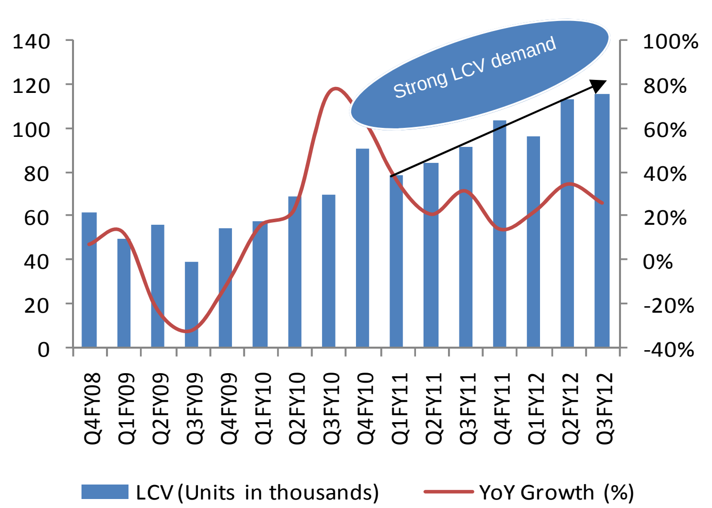
From the initial production capacity of 250 TBR tyres per day in Q1FY11, the company has currently reached at a production capacity of 3,700 TBR (Trucks & Bus Radial) tyres per day and 8,500 PCR (Passenger Car Radial) per day (total current capacity ~275 TPD). From Chennai plant, ATL supplies TBR to Tata Motors, Ashok Leyland and Eicher as well as supplies PCR to its clients like Hyundai and M&M.

We expect standalone revenue to grow at a CAGR of 32.4% to Rs 96.2 bn between FY11 and FY13 on the back of expansion of capacity by setting up greenfield facility at Chennai, strong LCV sales and

MHCV Quarterly Volume Trend



LCV Quarterly Volume Trend



Source: Bloomberg, SIAM, BP Equities Research

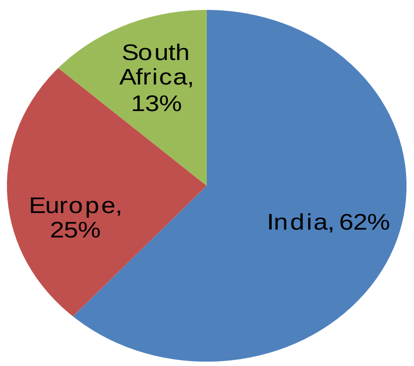
Margins to expand on the back of higher contribution from Vredestein, lower rubber prices & increasing Radialization

Rubber Expenses accounts for more than 60% of total raw material cost of ATL. We believe softness in rubber prices, increasing contribution from higher margin Vredestein business and increasing radialization level of the company would lead to expansion of margins going forward.

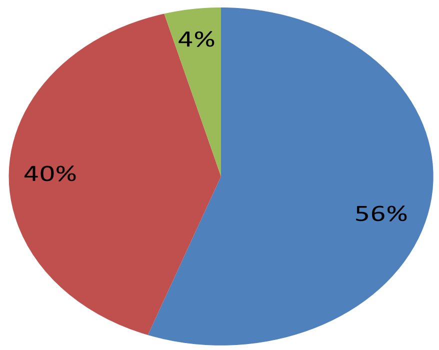
⇒ **Increasing contribution from higher margin European business to improve overall margin**

Vredestein serves mainly to the replacement tyre market of European countries and replacement segment accounts for more than 85% of total revenues of Vredestein. PV replacement segment commands premium pricing and which contributes ~75% of total volume. At the consolidated level of ATL, Vredestein contributes ~25% in the top-line. As Vredestein commands higher margins (16% EBIT margin against 7% Standalone EBIT margin), it's contributes ~40% to ATL's consolidated operating profit.

Geography wise Revenue Break up



Contribution in Operating Profit

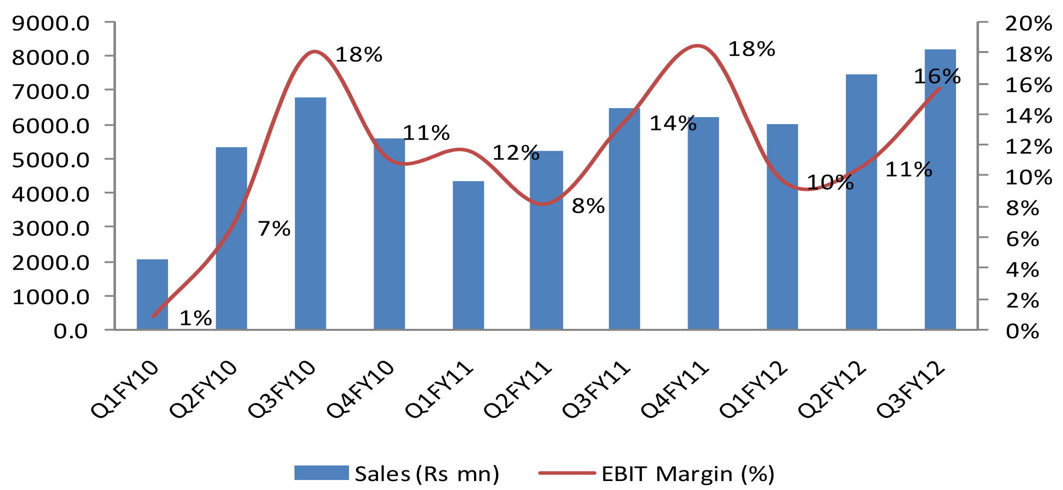


Source: company, BP Equities Research **figures for FY11*

Vredestein has registered strong performance in both sales and operating profit level on the back of rising demand of its winter tyres which commands higher margin. We expect margins to remain strong as demand scenario of winter tyres are expected to remain healthy after many European countries have passed a legislation to use winter tyres mandatorily. Therefore, we expect Vredestein's EBIT margin to expand by 170bps from 13.3% in FY11 to 15% in FY13.

The demand scenario of winter tyres are expected to remain strong as many European countries have passed a legislation to use winter tyres mandatorily.

Vredestein's Quarterly Performance since its acquisition



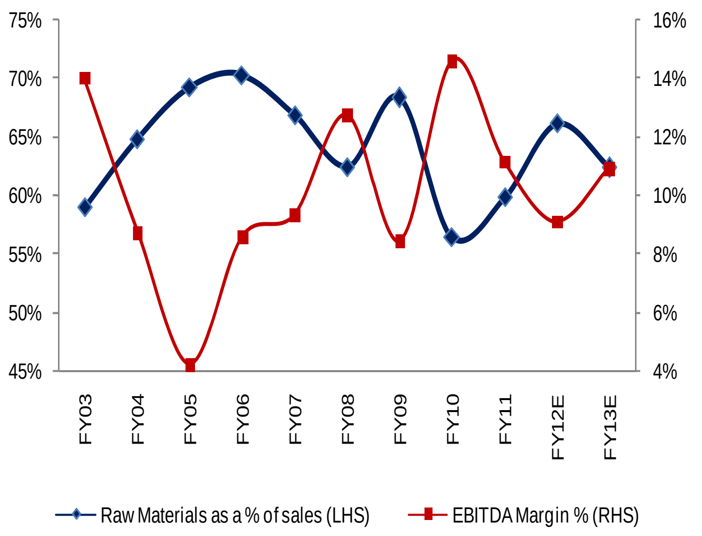
Source: Company, BP Equities Research

Raw material expenses accounted for more than 70% of total operating expenses in FY11. Raw material components mainly comprise of commodities like natural & synthetic rubber which accounted for more than 60% of total raw material cost.

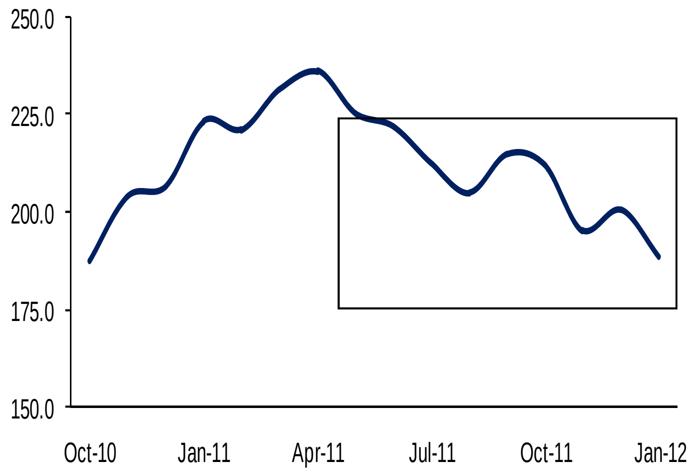
⇒ **Rubber prices are expected to remain flat to negative**

The cumulative domestic rubber production for FY12 till January increased by 4.6% YoY to 784,000 MT which led to a reduction in cumulative shortfall to 15,580 MT during Apr-Jan 2012 against a shortfall of 38,385 MT during Apr-Dec 2011 (Source: Business Standard article, Rubber Board). We expect rubber prices to remain flat to negative (RSS 4 Price: Rs 186/kg) considering lower consumption level of China and benefit of plantation in major rubber producing countries during 2003-04.

Negative co-relation between RM expenses & Margin



Declining Rubber Price to boost margins



Source: Rubber Board, RSS 4 (Monthly Average Price excluding VAT), BP Equities Research

⇒ **Standalone Margin expected to expand with increase in Radialization level**

Radial tyre command higher margin than bias tyre due to its longer life. Currently, the company has a capacity of 36% (~425 TPD) out of total capacity at standalone level. As the company has a plan to increase its radial capacity at Chennai plant to 500 TPD from existing 275 TPD, we believe the level of radialization in total standalone capacity to increase to 46% by FY13 and with the increase in radialization would improve margin at the standalone level.

We believe EBITDA margin to expand by 180bps YoY to 10.9% in FY13 after an expected decrease in EBITDA margin by 200bps YoY to 9.1% in FY12.

Inorganic expansion provides diversification benefit coupled with technological Synergies

ATL had acquired Dunlop's South African unit, Apollo Tyres South Africa (Pty) Ltd. (Apollo SA) in Apr-2006 for Rs 2.9bn and thereafter the company had acquired Netherland based bankrupt company 'Vredestein Branden BV (Vredestein) in May-2009 for Rs 2.5bn.

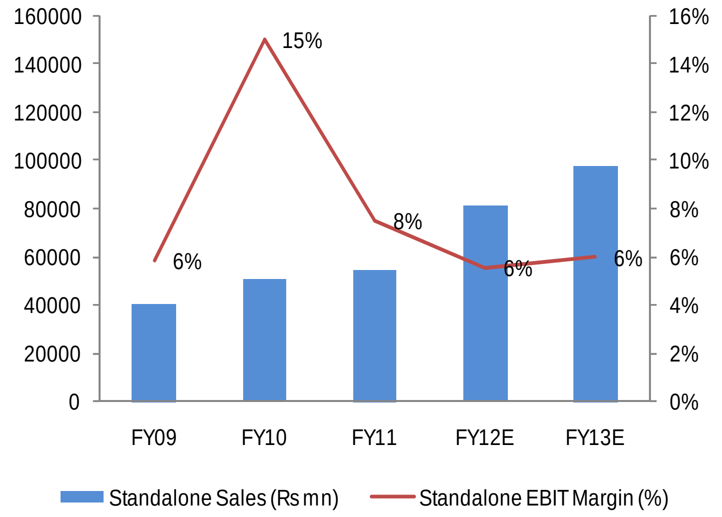
⇒ **Overseas acquisition provides diversification by reducing dependence on domestic market**

In Q3FY12, Apollo SA and Vredestein together accounted for ~36% of ATL's revenues. We believe overseas acquisition would not reduce its dependence on Indian market but also stabilizes consolidated margin.

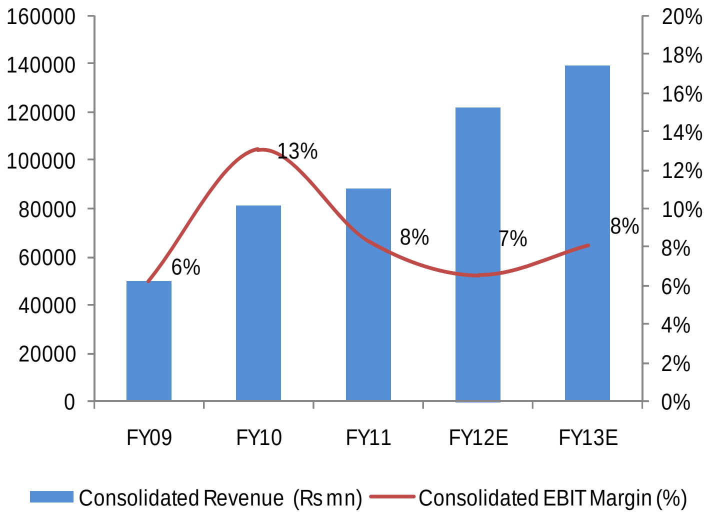
As the local customers in European market prefer only local and known brands, it became easier for ATL to establish its foothold by acquiring local brand than to increase its export revenues using domestic brand.

It became easier for ATL to establish its foothold by acquiring local brand than to increase its export revenues using domestic brand in European market.

ATL's Standalone Performance



Diversification reduces volatility in Consolidated Margins

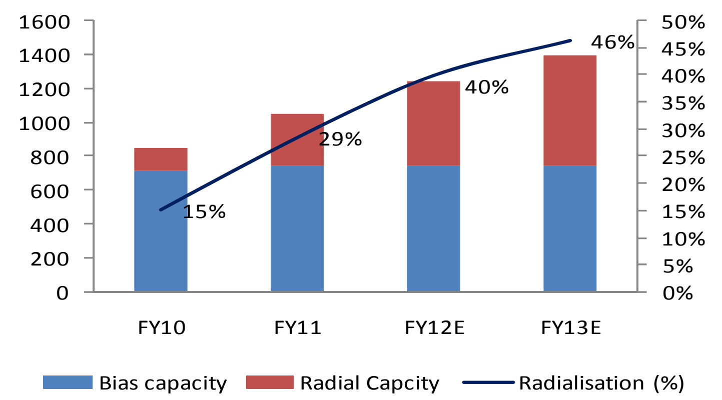


Source: Company, BP Equities Research

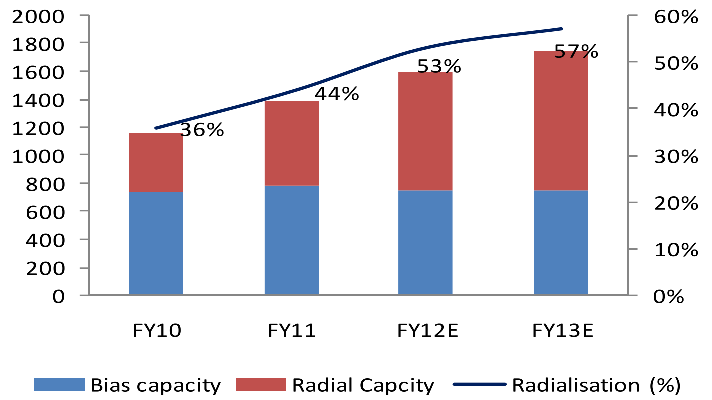
⇒ **Acquisitions would provide long term synergies in terms of radial technology**

The company has done two acquisitions in South Africa (Apollo SA) and Europe (Vredestein). Apollo SA operates its plants in Durban and Ladysmith which has combined radial capacity of 175 TPD. Vredestein has its plant in Netherland which has a radial capacity of 170 TPD. We believe these acquisitions made it possible for ATL to access their superior radial technologies which would provide long term benefit.

ATL's Standalone capacity

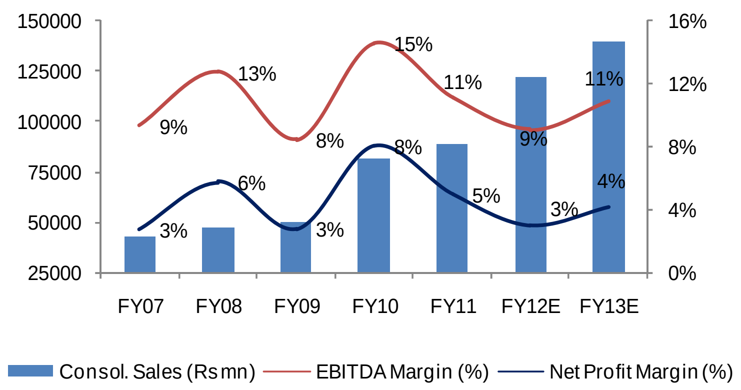


ATL's Consolidated Capacity

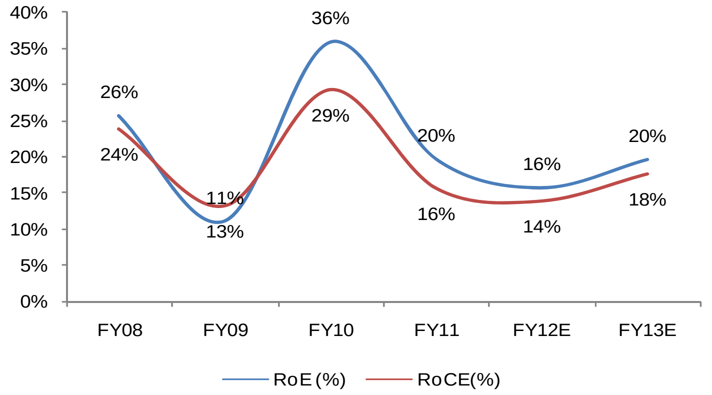


Source: Company, BP Equities Research

Revenue & Margin Trend

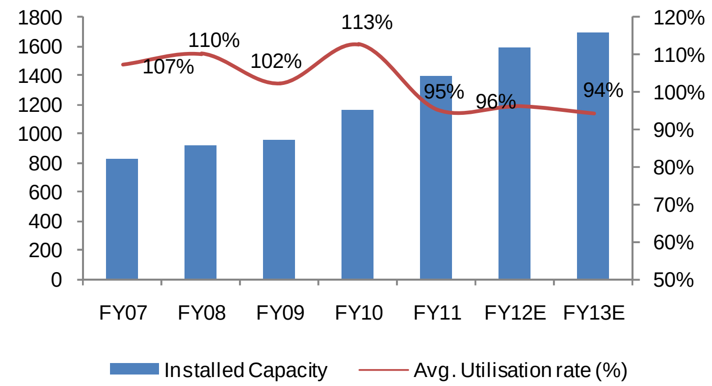


ROE & ROCE Trend

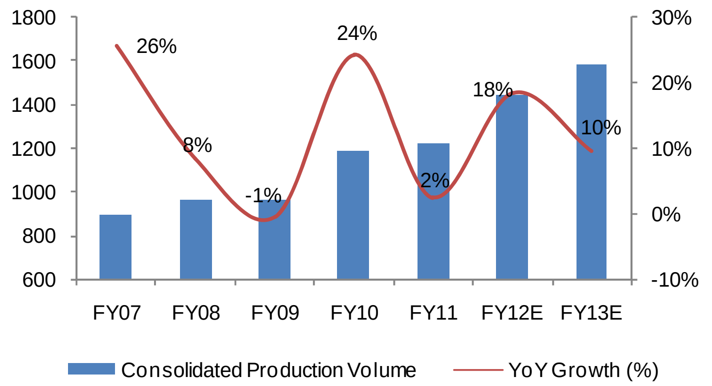


Source: Company, BP Equities Research

Installed & Capacity Utilization Trend

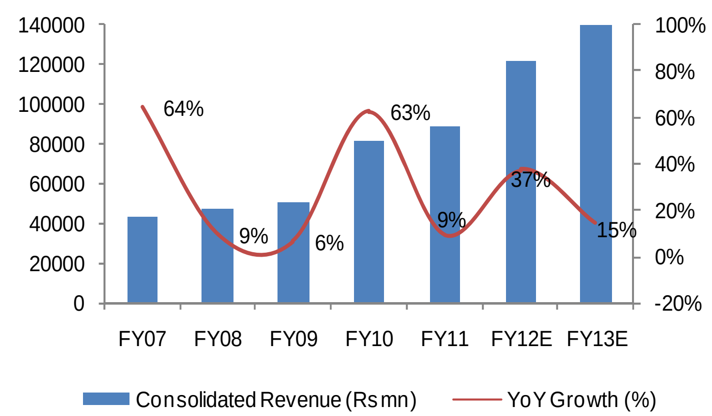


Consolidated Volume Trend

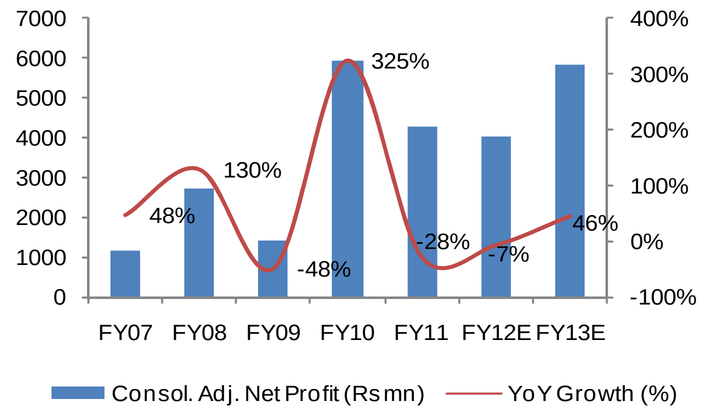


Source: Company, BP Equities Research

Consolidated Revenues Trend (YoY)



Net Profit Trend (YoY)

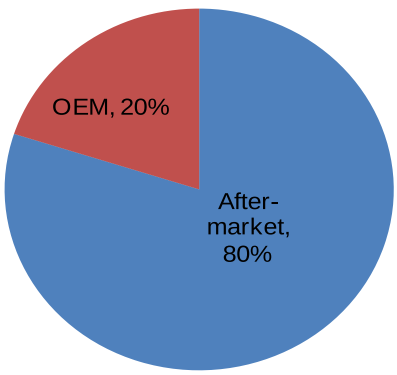


Source: Company, BP Equities Research

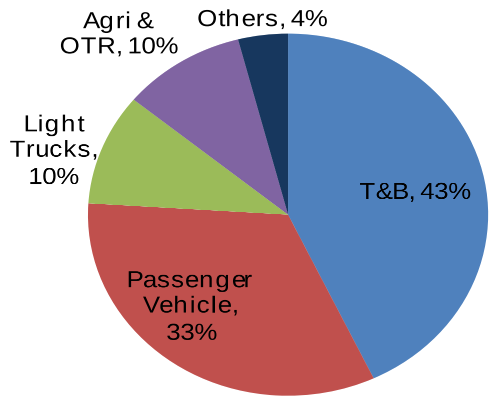
Company Description

ATL is the second largest tyre manufacturer in India holding ~19% market share (FY11) with leadership position in commercial vehicle space (currently 27% market share in both MHCV and LCV segments). The company has total nine manufacturing facilities out of which 4 are located in India (2 in Kerala, 1 in Gujarat and 1 in Tamil Nadu), 1 in Europe and 2 in South Africa (1 in Durban and 1 in Lady Smith). The company also has its plant in Zimbabwe (Bulawayo, Matabeleland) for manufacturing passenger vehicle (radial & cross ply), Truck (Cross ply), farm and Off-the-road (OTR) tyres. ATL has retreading facility in Harare (Zimbabwe). The company has ~16,000 employees across India, South Africa and Europe.

Consolidated Market wise- Revenue Break-up



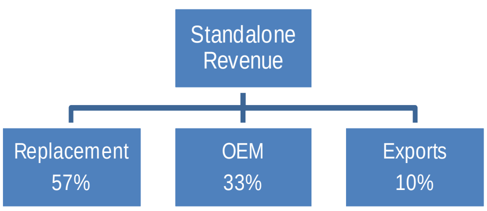
Consolidated Product wise Revenue Break-up



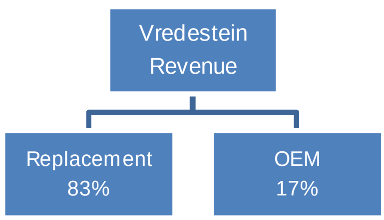
Source: Company, BP Equities Research   Figures for FY11

While India accounts for ~63% revenues in ATL's consolidated revenues, South Africa and Europe account for 10% and 26% of revenue respectively in consolidated revenues of the company in Q3FY12. As Vredestein Banden BV (European subsidiary) commands higher operating margin (13% in FY11) than Indian operation (8% in FY11), European subsidiary contributes ~40% in the operating profit of the company, Indian operation has moderate margin and contributes 56% in the operating profit and South African operation contributes only 4% in the operating profit which commands lowest margin of 3% in FY11. ATL does not manufacture two wheeler and three wheeler tyres in India.

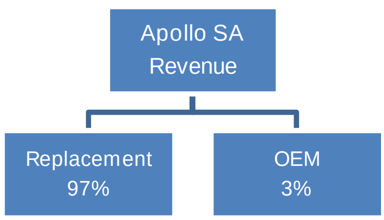
Domestic– Revenue Break-up



Vredestein – Revenue Break-up*



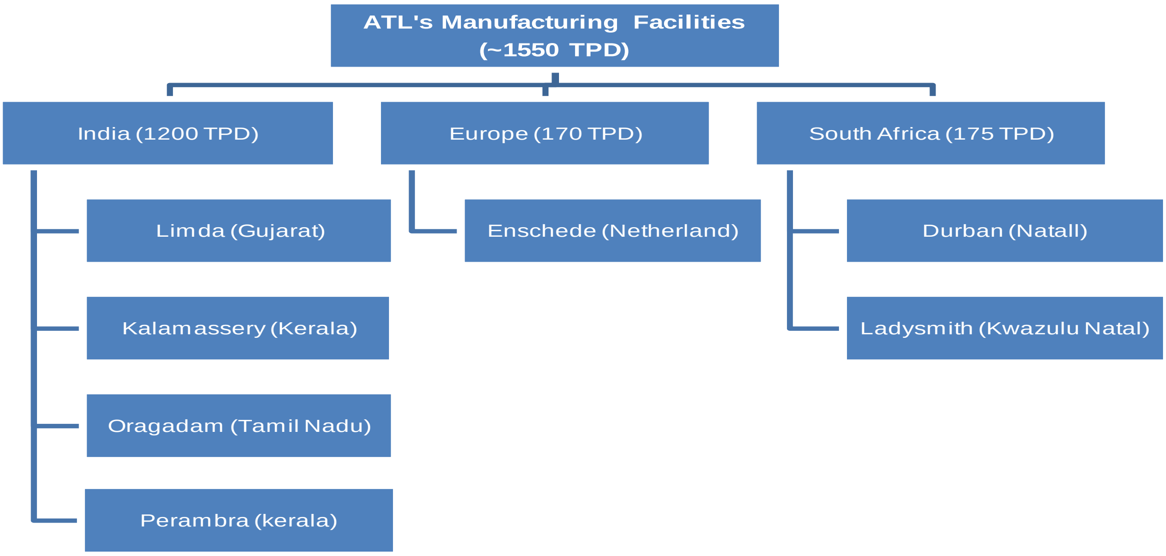
Apollo SA – Revenue Break-up*



*Source: Company, BP Equities Research   Revenue Break up for 9MFY12: Apr to Dec 2011,   * Exports figures are included in Replacement & OEM categories*

Combining all four plants at India, ATL has an installed capacity of 1,200 TPD at standalone level, two plant in South Africa account for 175 TPD radial tyre capacity and European plant accounts for another 170 TPD radial tyre capacity. The company has a total installed capacity of ~1550 TPD. Out of four plants in India, ATL has a radial tyre capacity of ~425 TPD which includes ~275 TPD capacity at Chennai (Tamil Nadu) and 150 TPD capacity at Baroda.

Geography wise Manufacturing Facilities & Capacity



Source: Company, BP Equities Research

Apollo Tyre South Africa (Apollo SA):

Apollo Tyres has ~175 TPD Radial capacity at South Africa and serving 32 countries in Africa with its Dunlop brand. Apollo SA's Ladysmith plant (~104 TPD Capacity) which manufactures passenger tyres is well located between the African business hub of Johannesburg and Durban. Apollo SA manufactures truck tyres in Durban which has an installed capacity of ~72 TPD. Apollo SA contributed 13.3% and 4.3% in top-line and in operating profit respectively in FY11.

Apollo Vredestein BV (Vredestein)

Currently, Vredestein has ~170 TPD radial capacity at Enschede (Netherland). Vredestein generates its revenues mainly from replacement market (~83% contribution in total revenue). The company sells winter tyres which contributes ~35% and the main season for winter tyres is between Sept– November month. While PCR accounts for ~75% of total sales volume, 10% comes from Agri Tyres and remaining from other categories like bicycle tyres.

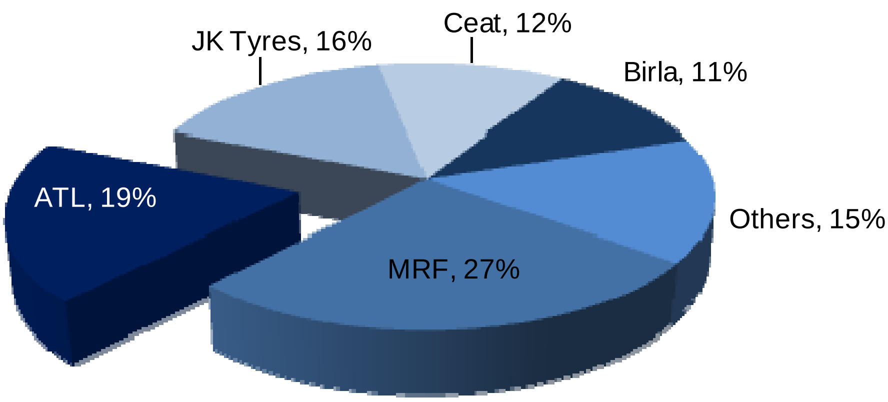
Industry Overview

The Indian Tyre industry is valued at Rs 300bn as per ATMA's (Automotive Tyre Manufacturers Association) expectation.

Domestic Automobile industry has registered 17.1% CAGR between FY08 and FY11. On the back of sustained demand and upcoming new launches, we believe automobile industry to grow at a CAGR of ~9% and tyres sales to grow at a CAGR of 12.3% between FY11 and FY13.

In India, ~65% tyre demand comes from the replacement market, wherein the T&B segment contributes to ~57% of the total tyre volume. T&B tyre segment is highly dominated by ATL, MRF, CEAT, Birla Tyres and JK Tyre, whereas in the Passenger car tyre segment, domestic players are facing stiff competition from International players. Currently, the top five players has ~85% market share in Indian tyre industry.

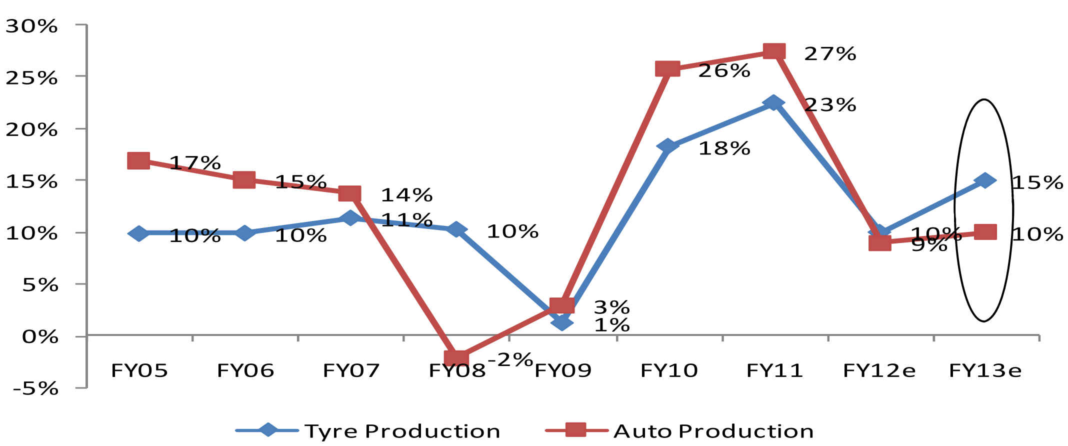
Market Share– Indian Tyre Industry (%)



Source: Company, data for FY11, BP Equity Research

Due to healthy GDP growth, improving infrastructure and the increase in auto sector demand, we expect the Tyre industry to grow at ~12% of CAGR over FY11-13e. The Indian tyre industry growth mainly depends upon the growth of the Indian Automobile industry.

Indian Auto and Tyre Industries growth



Source: ATMA, BP Equities Research

Indian Tyre Industry- OEM Sales Trend

Category wise Tyre Production	FY08	FY09	FY10	FY11	FY12E	FY13E
Trucks & Buses	13,137	12,839	14,811	15,668	16,451	17,768
YoY Growth (%)	6%	(2%)	15%	6%	5%	8%
Passenger Cars	16,437	16,571	20,047	26,201	27,511	30,097
YoY Growth (%)	15%	1%	21%	31%	5%	9%
LCV	5,320	5,298	5,739	6,029	7,355	9,297
YoY Growth (%)	10%	(0%)	8%	5%	22%	26%
Total Tractor & Trailers	3,934	3,915	4,923	5,423	5,694	6,002
YoY Growth (%)	2%	(0%)	26%	10%	5%	5%
Scooter/Moped	11,604	10,882	13,557	20,140	24,168	29,727
YoY Growth (%)	20%	(6%)	25%	49%	20%	23%
Motor cylce	27,921	30,148	35,664	43,118	47,430	54,734
YoY Growth (%)	7%	8%	18%	21%	10%	15%
OTR	141	136	161	191	206	223
YoY Growth (%)	23%	(4%)	18%	19%	8%	8%
Others	2,609	2,318	2,234	2,427	2,500	2,575
YoY Growth (%)	9%	(11%)	(4%)	9%	3%	3%
Total	81,103	82,107	97,136	119,197	131,316	150,422
YoY Growth (%)	10%	1%	18%	23%	10%	15%

Source: ATMA, BP Equities

European Tyre Industry

The European Tyre industry is dominated by six major players, namely, Bridgestone, Continental, Goodyear, Hankook, Michelin and Pirelli, who account for about 90% of the total volume. In FY11, passenger car tyre sales grew by ~8% (European Rubber Manufacturers' Conference -ERMC) mainly driven by the demand in winter tyres. We expect the demand from winter tyres to increase substantially as many European countries have introduced a legislation for using winter tyres mandatorily.

South African Tyre Industry

Apart from Apollo SA, South African tyre industry has other three major players, Continental, Bridgestone and Goodyear. All four players have equal market share. South African Tyre Industry is facing problems like shortage of fuel, labour problem and strong union culture.

Details about Top Management

Management Profile		
Name	**Designation**	**Brief Profile**
Mr Onkar Kanwar	Chairman & Managing Director	A science and administration graduate from the University of California. A former member of the Government of India's National Manufacturing Competitiveness Council and the Kerala development and Poverty Alleviation Advisory Council. He is also the Past President of the FICCI, International Chamber of Commerce (ICC), ATMA, Director, Export Credit Guarantee Corporation of India and of the Kerala State Industrial Corporation.
Mr Neeraj Kanwar	Vice Chairman & M.D.	An engineering graduate from Lehigh University in Pennsylvania, USA. Neeraj began his career with Apollo Tyres as Manager, Product & Strategic Planning. Neeraj Kanwar was appointed Joint Managing Director in 2006 and elevated to Vice Chairman in 2008, and soon after to Managing Director in 2009 for his initiatives in establishing the company in the global arena. He is associated with leading industry associations and is currently the Chairman of the ATMA, India.
Mr. Sunam Sarkar	CFO & Whole-time Director	He graduated in B.Com (Hons) from St. Xavier's College, University of Calcutta. Mr. Sunam Sarkar serves as Chief Financial Officer and Member of Management Board at ATL. Mr. Sarkar served as Chief of Corporate Strategy & Marketing of ATL. and served as its Chief Strategy & Business Operations. Mr. Sarkar is responsible for providing strategic thrust in the area of business operations, strategic planning and supply chain management at ATL. His acumen in the area of marketing, alliances, business development and corporate communications has enabled the organization to evolve into the acknowledged leader of the industry and a benchmark of growth in challenging times.
Mr. U. S. Oberoi	Whole-time Director	Mr. U. S. Oberoi serves as Chief of Corporate Affairs at ATL. Mr. Oberoi served as Chief of Projects and Corporate Affairs of ATL. Mr. Oberoi has been a part of Apollo Tyres for more than 23 years. He worked at various departments of ATL. Starting his journey with sales Mr. Oberoi, moved on to marketing and then went on to conquer the vistas of production planning and manufacturing. His rich experience has helped him make invaluable contributions in operational planning.
Dr. S. Narayan	Director (Non-Executive)	He has M.Sc- Physics, MBM Finance, M. Phil- Cambridge and Ph. D. from IIT Delhi. He was an IAS. He served as Economic Advisor to the Prime Minister of India. He has expertise in administration, economics, finance, commerce and industry affairs. He has been an Independent Director of Fem Care Pharma Ltd. since June 25, 2009, has been a Non-Executive Independent Director of ATL. since February 2005, served as a Director of Punjab Tractors Ltd. until May 10, 2007, served as a Director at Dabur India Limited, Godrej Properties Limited and Laxmi Vilas Bank.

Source: Company

Major Milestone	
1976	Registration of Apollo Tyres
1977	First plant at Perambra, Kerala
1991	Commissioned 2nd plant at Limda, Gujarat
1995	Acquired Premier Tyres at Kalamassery in Kerala
1996	Commissioned tubes plant Ranjangoan in Maharashtra
2000	Established exclusive radial capacity in Limda
2004	India's first H-Rated tubeless passenger car tyre range "Acelere"
2007	Launch of India's first branded retreaded tyre "DuraTyre"
2006	Acquired Dunlop Tyres Intl. in South Africa
2008	Announced greenfield plant in Chennai (Tamil Nadu), India
2009	Acquired Vredestein Banden BV in the Netherlands
2010	Commissioned Fully radial plant at Chennai (4th Plant in India)

Source: Company, Capline

Key Risks

Rising raw material prices can put pressure on margins

Raw materials expenses constitute more than 70% of total operating cost and rubber cost constitute ~60% of total raw material cost (more than 45% of net sales). Though natural rubber prices have cooled off from its peak, natural rubber prices had shown sharp increase of ~37% in FY11 and increased with ~53% CAGR between FY09 and FY11. We believe similar kind of increase in natural rubber prices would impact the overall profitability of the Tyre industry.

Any rise in rubber or crude oil prices would impact the margin of the company negatively.

In addition, Synthetic rubber, carbon black and nylon tyre cord are the by-products of petro-chemicals. Therefore, we believe rise in crude oil prices would impact the margin of the company. Inability of passing on full increased cost to end customers is a major concern for all companies across the industry.

Changes in regulatory environment may impact negatively

The market in which the company operates is highly regulated. Any changes in duties/tax structure declared by regulatory authorities would impact company's margins. The company is currently facing threat from removal of anti-dumping duty on imported TBR.

Delay in capacity addition at Chennai Plant

Like other competitors, ATL is expanding its capacity at its Chennai plant. The company has a plan to achieve a capacity of 500 TPD by FY13 and already achieved a manufacturing capacity of ~275 TPD. However, any delays in setting up planned capacity as per schedule could result in market-share loss for the company.

Valuation & Recommendation

We have used DCF Method to value ATL's stock. We believe ATL's stock should not be compared with Ceat and JK Tyres as they have relatively smaller scale of production capacities as well as operating at lower margins. MRF has similar scale of production capacity and operating at slightly lower margins compared with ATL. However, MRF has September year ending which makes comparison difficult. In addition, ATL is more diversified in terms of geographical revenues as it derives ~26% and ~10% of its revenues from European and South African subsidiaries.

Domestic Peer Group Margin Comparison

	FY07	FY08	FY09	FY10	FY11
EBITDA Margin (%)					
ATL	**9.7%**	**12.7%**	**8.1%**	**15.8%**	**9.8%**
Ceat	6.5%	8.4%	2.0%	11.2%	4.2%
MRF*	10.2%	8.9%	12.5%	11.2%	8.4%
JK Tyres	7.0%	7.2%	10.2%	13.9%	7.4%

Source: Bloomberg, BP Equities Research **Sept ending*

Peer Group Valuation Ratios Comparison

		Market	P/E		EV/EBITDA		P/BV		P/Sales	
Companies	**CMP**	**Cap#**	**FY12**	**FY13**	**FY12**	**FY13**	**FY12**	**FY13**	**FY12**	**FY13**
ATL	**79**	**39,564**	**9.9**	**6.8**	**5.9**	**4.3**	**1.5**	**1.2**	**0.3**	**0.3**
Major Indian Tyre Companies										
MRF*	9,411	39,508	10.1	8.5	6.5	5.4	1.8	1.5	0.4	0.3
Ceat	93	3,129	N.A	4.3	8.7	4.8	0.5	0	0.1	0.1
JK Tyre	81	3,352	N.A	8.5	7.9	5.0	0.6	0.6	0.1	0.0
Indian Players Average		**15,330**	**10.1**	**7.1**	**7.7**	**5.1**	**1.0**	**0.9**	**0.2**	**0.1**
Other Asian Major										
Bridgestone Corp^ (Japan)		**1,490,420**	8.6	7.8	4.3	4.0	1.1	1.0	0.5	0.4
Sumitomo Rubber^ (Japan)		**258,571**	7.8	6.8	5.4	5.1	1.1	1.0	0.4	0.4
Cheng Shin Rubber^ (Taiwan)		**165,161**	16.6	12.3	11.5	9.3	2.9	2.5	1.4	1.2
Hankook Tyre^ (South Korea)		6,699,340	10.3	9.2	6.7	6.1	1.8	1.6	0.9	0.9
Other Asian Players Average		**2,153,373**	**10.3**	**9.2**	**6.7**	**6.1**	**1.8**	**1.6**	**0.9**	**0.9**
Europe										
Pirelli & C SpA^		3,945	12.2	9.6	6.3	5.1	1.8	1.5	0.7	0.6
Continental AG		13,662	8.9	8.1	5.3	5.0	1.9	1.6	0.5	0.4
Nokian Renkaat		4,424	13.1	11.6	8.7	7.7	3.3	2.8	2.7	2.4
Delticom AG^		885	22.3	18.9	14.7	12.4	11.9	11.4	1.6	1.4
CGDE Michelin^		9,843	7.4	6.8	3.9	3.6	1.0	0.9	0.5	0.4
Global Batteries Players Average		**6,552**	**12.8**	**11.0**	**7.8**	**6.8**	**4.0**	**3.7**	**1.2**	**1.1**

Source: Bloomberg except for ATL, BP Equities **Sept ending for MRF, ^Dec ending: data taken for CY12 & CY13 #Market Cap in respective Country's Local Currency*

ATL is currently under capex mode and we believe the benefits of which would accrue over a longer period. Therefore, we have used DCF method to value this stock. We arrive at a DCF based target price of Rs 98.30 which offers 25.1% upside potential from current level. The target price implies a PE multiple of 8.5x FY13 EPS which is at a ~15% premium to its long term Average PE multiple which is justified considering growing European business and declining rubber prices. Therefore, we recommend to **BUY** this stock.

Income Statement

YE March-Consolidated (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Net operating Income	**49,949**	**81,207**	**88,677**	**121,740**	**139,444**
% chg (YoY)	*6.4%*	*62.6%*	*9.2%*	*37.3%*	*14.5%*
Raw Materials (Net)	34,111	45,808	53,022	80,481	86,889
Power & Fuel Cost	1,717	2,385	2,589	3,287	4,183
Staff Cost	4,149	10,883	11,553	14,000	17,430
Other	5,749	10,280	11,631	12,904	15,757
Total Expenditure	45,726	69,356	78,795	110,672	124,260
EBITDA	**4,223**	**11,852**	**9,882**	**11,068**	**15,184**
% chg (YoY)	*(29.3%)*	*180.7%*	*(16.6%)*	*12.0%*	*37.2%*
Depreciation& Amortisation	1,285	2,542	2,719	3,118	3,738
EBIT	**2,937**	**9,309**	**7,163**	**7,949**	**11,446**
% chg (YoY)	*(37.2%)*	216.9%	*(23.1%)*	*11.0%*	44.0%
Interest	1,118	1,343	1,983	2,680	3,179
Non-Operating Income	314	1,174	291	87	87
PBT	**2,134**	**9,140**	**5,471**	**5,356**	**8,354**
% chg (YoY)	*(47.3%)*	*328.3%*	*(40.1%)*	*(2.1%)*	*56.0%*
Tax	742	2,607	1,063	1,331	2,506
(% of PBT)	*34.8%*	*28.5%*	*19.4%*	*24.9%*	*30.0%*
Reported PAT	**1,392**	**6,533**	**4,408**	**4,025**	**5,848**
Extra Ordinary Item	**(6)**	**591**	**113**	**(294)**	**0**
ADJ. PAT	**1,397**	**5,942**	**4,295**	**4,319**	**5,848**
% chg (YoY)	*(48.2%)*	*325.3%*	*(27.7%)*	*0.5%*	*35.4%*
Adj. EPS (Rs)	**2.8**	**11.8**	**8.5**	**8.0**	**11.6**
% chg (YoY)	*(49.8%)*	*325.3%*	*(27.7%)*	*(6.6%)*	*45.8%*

Source: Company, BP Equities Research

Balance Sheet

YE March- Consolidated (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Liabilities					
Equity Share Capital	504	504	504	504	504
Reserves& Surplus	12,992	19,174	23,621	26,711	32,116
Net Worth	**13,496**	**19,678**	**24,125**	**27,215**	**32,620**
Total Loans	8,907	17,072	24,802	31,802	31,802
Deferred Tax Liability	1,942	2,514	3,162	3,162	3,162
Minority Interest	0	0	9	9	9
Capital Employed	**24,345**	**39,264**	**52,098**	**62,187**	**67,593**
Assets					
Goodwill	**235**	**1175**	**1250**	**1250**	**1250**
Gross Block	22,841	55,628	68,950	76,087	79,682
Less:Depreciation	8,822	31,203	35,007	38,125	41,864
Net Block	**14,019**	**24,425**	**33,943**	**37,962**	**37,819**
Capital WIP	2,814	5,360	5,028	5,326	5,179
Investments	**48**	**59**	**112**	**112**	**112**
Current Assets	14,230	24,387	32,896	43,429	46,969
Cash	3,621	3,490	1,909	6,286	5,803
Loans & Advances	2,059	3,100	3,948	4,261	4,881
Inventories	6,302	9,929	17,538	20,947	22,615
Debtors	2,247	7,869	9,502	11,935	13,671
Current liabilities	7,001	16,142	21,131	25,891	23,735
Creditors	5,860	12,451	17,127	21,692	19,012
Provisions	1,141	3,691	4,003	4,199	4,724
Net Current Assets	**7,228**	**8,245**	**11,765**	**17,538**	**23,234**
Misc. Exp.	**2**	**0**	**0**	**0**	**0**
Capital Applied	**24,345**	**39,264**	**52,098**	**62,187**	**67,593**

Source: Company, BP Equities Research

Valuation Ratios

YE March- Consolidated	FY09	FY10	FY11	FY12E	FY13E
Key Operating Ratio					
EBITDA Margin (%)	8.5%	14.6%	11.1%	9.1%	10.9%
Tax / PBT (%)	34.8%	28.5%	19.4%	26.3%	30.0%
Net Profit Margin (%)	2.8%	8.0%	5.0%	3.0%	4.2%
ROE (%)	11.0%	35.8%	19.6%	15.4%	19.6%
ROCE %	13.2%	29.3%	15.7%	13.8%	17.7%
Current Ratio (x)	2.0	1.5	1.6	1.7	2.0
Dividend Payout (%)	16.2%	6.4%	5.9%	9.5%	6.5%
Book Value Per Share (Rs.)	27	39	48	54	65
Financial Leverage Ratios					
Net debt to equity	0.4	0.7	0.9	0.9	0.8
Interest Coverage	2.6	6.9	3.6	2.9	3.6
Interest / Debt (%)	14.5%	10.3%	9.5%	9.5%	10.0%
Growth Indicators %					
Growth in Gross Block (%)	16.8%	143.5%	23.9%	10.4%	4.7%
Sales Growth (%)	6.4%	62.6%	9.2%	37.3%	14.5%
EBITDA Growth (%)	(29.3%)	180.7%	(16.6%)	12.0%	37.2%
Net Profit Growth (%)	(48.2%)	325.3%	(27.7%)	(7.8%)	47.7%
Diluted EPS Growth (%)	(49.8%)	325.3%	(27.7%)	(7.8%)	47.7%
Turnover Ratios					
Debtors (Days of net sales)	20	23	36	36	36
Creditors (Days of Operating Exp.)	46	66	60	60	60
Inventory Days	46	45	72	72	72

Source: Company, BP Equities Research

Free Cash Flow Analysis

YE March- Consolidated (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
EBITA	2,937	9,309	7,163	7,949	11,446
Less: Adjusted Taxes	742	2,607	1,063	1,331	2,506
NOPLAT	2,195	6,703	6,100	6,618	8,939
Plus: Depreciation	1,285	2,542	2,719	3,118	3,738
Gross Cashflow	3,480	9,245	8,819	9,736	12,678
Less: (Increase) in Working Cap.	(372)	2,008	5,002	1,784	7,060
Operating Cashflow	3,852	7,237	3,817	7,952	5,618
Less: Net Capex	5,117	15,495	11,905	7,435	3,448
FCF From Operation	(1,265)	(8,258)	(8,088)	517	2,169
Less: (Inc)/Dec in Investment	4	(11)	(53)	0	0
Total FCF	**(1,261)**	**(8,269)**	**(8,141)**	**517**	**2,169**

Source: Company, BP Equities Research

Key Ratios

YE March (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
P/E (x)			9.2	9.9	6.8
P/BV (x)			1.6	1.5	1.2
EV/EBITDA (x)			6.6	5.9	4.3
Market Cap. /Sales (x)			0.4	0.3	0.3
Dividend Yield (%)			0.6%	1.0%	1.0%

Source: Company, BP Equities Research

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

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