

## Apollo Tyres

### Speeding ahead!

Apollo Tyres (APTY) saw a strong consolidated performance during Q3FY10. Moreover, buoyant demand and strong pricing power in the domestic market along with continued improvement in international operations reinstates our confidence on the company's growth prospects. However, we maintain our target price at Rs 65, as the impact of higher revenues from strong demand and realisations appears to be negated by lower margins arising from spiralling input costs. Buy.

**Domestic performance - ahead of expectations:** During Q3FY10, APTY's net revenue grew 46.5% YoY to Rs 13.2bn, driven by higher volumes from strong replacement and OEM demand. On a QoQ basis, volumes grew 6% while realisations were up 2.2% aided by a price hike taken in October (replacement market). Raw material cost grew 460bps QoQ as prices of natural rubber and crude derivatives surged. The average cost of raw material increased 10% QoQ from Rs 89/kg to Rs 98/kg. We were positively surprised by a 360bps QoQ drop in other expenses during the quarter as the company cut its marketing expenses in the backdrop of a strong revival in demand. EBITDA margin stood at 15.5%, down 90bps QoQ. Net profit for the quarter was at Rs 1bn.

**International operations – raising eyebrows:** APTY's South African and Dutch operations exhibited robust improvement in their performance over Q2. Vredestein Banden (VBBV), which historically has a strong Q3 due to its presence in the high-margin winter tyres, clocked a phenomenal 22.3% EBITDA margin on net revenues of Rs 6.8bn (up 23% QoQ). Revenues from the South African operations were stable QoQ at Rs 2.9bn, with a slightly better EBITDA margin of 10.9%. The management indicated that the South African economy is emerging out of the downturn and volumes should be looking up, going ahead. However, it is important to note that both these operations will bear the impact of higher raw material costs in the forthcoming quarters. In contrast, the company's Indian operations have already started feeling the pinch of higher input costs.

**Maintain Buy with target price of Rs 65:** We raise our net revenue forecast for FY11 by 12% on expectations of higher volumes and realisations. However, due to the sharper-than-expected increase in raw material prices, we reduce our margin forecast to 11.9%. Consequently, our FY11E EPS now stands 6% higher.

We roll-forward our valuation for Indian and South African operations to FY11-end and value these operations at 9x FY11E EPS of Rs. 6.3 at Rs 57. We continue to value VBBV separately at Rs 8/share. Our target price for APTY stands at Rs 65. Maintain Buy.

#### Financial highlights | \* Excludes Vredestein Banden

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	49,841	62,410	70,423	76,151
Growth (%)	6.2	25.2	12.8	8.1
Adj net income	1,392	3,880	3,178	3,605
Growth (%)	(48.5)	178.8	(18.1)	13.4
FDEPS (Rs)	2.8	7.7	6.3	7.2
Growth (%)	(51.7)	178.8	(18.1)	13.4

#### Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	8.3	14.0	11.9	11.7
EBIT margin	5.8	11.0	8.5	8.4
Adj PAT margin	2.8	6.2	4.5	4.7
ROE	11.0	25.4	17.2	16.7
ROIC	10.3	19.2	12.9	12.2
ROCE	10.4	17.9	12.7	12.3

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 54	Rs 65	BUY	HIGH

BSE	NSE	BLOOMBERG
500877	APOLLOTYRES	APTY IN

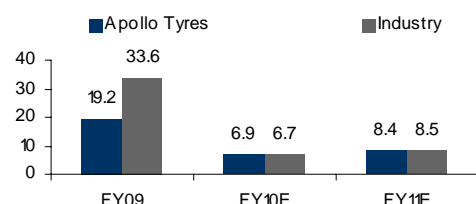
#### Company data

Market cap (Rs mn / US\$ mn)	26,712 / 578
Outstanding equity shares (mn)	504
Free float (%)	60.6
Dividend yield (%)	0.8
52-week high/low (Rs)	58 / 14
2-month average daily volume	3,877,256

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Apollo Tyres	53	9.0	10.4	32.8
BSE Auto	6,953	(6.5)	10.2	21.7
Sensex	16,358	(6.3)	2.9	4.4

#### P/E comparison



#### Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	19.2	6.9	8.4	7.4
P/E @ Target* (@ 57)	20.6	7.4	9.0	8.0
EV/EBITDA @ CMP	7.7	3.7	3.8	3.6





## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	13,199	13,234	0.3
EBITDA	1,666	2,051	23.1
Adj net income	779	1,020	31
FDEPS (Rs)	1.5	2.0	31

Source: RHH

Margin growth above-expected due to a 360bps QoQ drop in other expenses

**Fig 2 - Quarterly performance**

(Rs mn)	Q3FY10	Q3FY09	% Chg YoY	Q2FY10	% Chg QoQ
Volume	87,000	59,055	47.3	82,000	6.1
Realisation/tonne (Rs/tonne)	152,118	152,952	(0.5)	148,821	2.2
Net sales	13,234	9,033	46.5	12,203	8.4
Expenditure	11,183	8,506	31.5	10,203	9.6
RM Cost/ tonne (Rs/tonne)	98,466	114,984	(14.4)	89,449	10.1
Operating profit	2,051	527	289.5	2,001	2.5
EBITDA margin (%)	15.5	5.8	970 bps	16.4	(90 bps)
Depreciation	293	241	21.5	329	(10.9)
Interest	211	181	16.6	126	68.1
Other income	3	9	-	13	(77.2)
PBT	1,550	114	-	1,559	(0.6)
Tax	529	59	-	538	(1.5)
PAT	1,020	55	-	1,021	(0.1)
EPS (Rs)	2.0	0.1	-	2.0	(0.1)

Source: Company, RHH

A 2% price hike in October aids higher realisations QoQ; another 5% price hike taken in January

RM cost/tonne rises 10% QoQ; mgmt. guides to a further 10% increase in Q4

**Fig 3 - Revised estimates**

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	56,924	62,410	9.6	63,009	70,423	11.8
EBITDA margin (%)	13.9	14.0	10 bps	12.5	11.9	(60 bps)
Net profit	3,420	3,880	13.5	2,991	3,178	6.3
FDEPS (Rs)	6.8	7.7	13.5	5.9	6.3	6.3

Source: RHH

Revenue estimates upgraded on higher volumes/realisations; margin estimates pruned on higher input costs



## Consolidated financials\*

### Profit and Loss statement | \* Excluding Vredestein Banden

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
<b>Revenues</b>	<b>49,841</b>	<b>62,410</b>	<b>70,423</b>	<b>76,151</b>
Growth (%)	6.2	25.2	12.8	8.1
<b>EBITDA</b>	<b>4,161</b>	<b>8,722</b>	<b>8,405</b>	<b>8,898</b>
Growth (%)	(29.8)	109.6	(3.6)	5.9
Depreciation & amortisation	1,285	1,878	2,440	2,519
EBIT	2,876	6,844	5,965	6,378
Growth (%)	(37.9)	137.9	(12.9)	6.9
Interest	973	1,177	1,411	1,123
Other income	231	254	259	264
EBT	2,134	5,921	4,812	5,519
Income taxes	742	2,041	1,634	1,914
Effective tax rate (%)	34.8	34.5	34.0	34.7
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	1,392	3,880	3,178	3,605
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>1,392</b>	<b>3,880</b>	<b>3,178</b>	<b>3,605</b>
Growth (%)	(48.5)	178.8	(18.1)	13.4
Shares outstanding (mn)	504.0	504.0	504.0	504.0
<b>FDEPS (Rs) (adj)</b>	<b>2.8</b>	<b>7.7</b>	<b>6.3</b>	<b>7.2</b>
Growth (%)	(51.7)	178.8	(18.1)	13.4
DPS (Rs)	0.5	0.5	0.5	0.5

### Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	2,677	5,758	5,619	6,124
Non-cash adjustments	182	2,037	(578)	59
Changes in working capital	467	(269)	(225)	(112)
Cash flow from operations	3,326	7,527	4,816	6,070
Capital expenditure	(4,912)	(9,350)	(9,350)	(1,937)
Change in investments	23	(100)	(50)	(8)
Other investing cash flow	(523)	-	-	-
Cash flow from investing	(5,412)	(9,450)	(9,400)	(1,945)
Issue of equity	411	-	-	-
Issue/repay debt	2,786	4,167	2,602	(3,195)
Dividends paid	(290)	(265)	(281)	(309)
Other financing cash flow	(1,121)	-	-	-
Change in cash & cash eq	(300)	1,979	(2,263)	621
Closing cash & cash eq	3,621	5,599	3,336	3,957

### Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	13.7	13.7	13.7	7.2
ROIC (%)	10.3	19.2	12.9	12.2
Invested capital (Rs mn)	19,922	26,829	34,186	33,945
EVA (Rs mn)	(689)	1,460	(285)	1,696
EVA spread (%)	(3.5)	5.4	(0.8)	5.0

### Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	3,621	5,599	3,336	3,957
Accounts receivable	2,247	2,472	2,404	2,495
Inventories	6,302	6,825	7,743	8,378
Other current assets	2,057	2,159	2,265	2,376
Investments	48	148	198	206
Gross fixed assets	22,840	30,788	38,735	40,635
Net fixed assets	14,019	20,185	26,034	25,737
CWIP	2,814	4,217	5,619	5,657
Intangible assets	235	235	235	235
Deferred tax assets, net	(1,940)	(2,097)	(2,266)	(2,368)
Other assets	-	-	-	-
<b>Total assets</b>	<b>29,403</b>	<b>39,743</b>	<b>45,568</b>	<b>46,674</b>
Accounts payable	5,470	6,825	7,493	8,174
Other current liabilities	391	489	552	597
Provisions	1,139	2,321	1,943	2,254
Debt funds	8,907	13,074	15,676	12,481
Other liabilities	-	-	-	-
Equity capital	504	504	504	504
Reserves & surplus	12,992	16,530	19,399	22,664
Shareholder's funds	13,496	17,034	19,903	23,168
<b>Total liabilities</b>	<b>29,403</b>	<b>39,743</b>	<b>45,568</b>	<b>46,674</b>
BVPS (Rs)	27.8	34.8	40.5	47.0

### Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	8.3	14.0	11.9	11.7
EBIT margin	5.8	11.0	8.5	8.4
Net profit margin	2.8	6.2	4.5	4.7
ROE	11.0	25.4	17.2	16.7
ROCE	10.4	17.9	12.7	12.3
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	20	14	13	12
Inventory (days)	72	63	58	59
Payables (days)	62	59	57	58
Current ratio (x)	2.4	2.3	2.0	2.0
Quick ratio (x)	0.9	1.1	0.7	0.7
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	2.4	2.3	2.0	1.9
Total asset turnover	1.8	1.8	1.7	1.7
Interest coverage ratio	3.0	5.8	4.2	5.7
Adjusted debt/equity	0.7	0.8	0.8	0.5
<b>Valuation ratios (x)</b>				
EV/Sales	0.6	0.5	0.5	0.4
EV/EBITDA	7.7	3.7	3.8	3.6
P/E	19.2	6.9	8.4	7.4
P/BV	1.9	1.5	1.3	1.1



### Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	9,033	11,106	11,803	12,203	13,234
YoY growth (%)	(7.3)	10.9	9.7	24.4	46.5
QoQ growth (%)	(7.9)	23.0	6.3	3.4	8.4
EBITDA (Rs mn)	527	1,127	1,943	2,001	2,051
EBITDA margin (%)	5.8	10.1	16.5	16.4	15.5
Adj net income (Rs mn)	55	462	947	1,021	1,020
YoY growth (%)	(91.1)	(22.1)	94.7	1,210.8	1,752.4
QoQ growth (%)	(29.3)	738.6	105.0	7.9	(0.1)

### DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	66.6	65.2	65.5	66.0	65.3
Interest burden (PBT/EBIT)	87.5	74.2	86.5	80.7	86.5
EBIT margin (EBIT/Revenues)	9.9	5.8	11.0	8.5	8.4
Asset turnover (Revenues/Avg TA)	178.6	178.9	180.5	165.1	165.1
Leverage (Avg TA/Avg equity)	248.1	220.1	226.5	231.0	214.2
<b>Return on equity</b>	<b>25.5</b>	<b>11.0</b>	<b>25.4</b>	<b>17.2</b>	<b>16.7</b>

### Company profile

Apollo Tyres (APTY) is the largest tyre manufacturer in India and South Africa and the fourteenth largest in the world. APTY dominates the truck & bus tyre and light commercial vehicle segments with 29% and 27% market share respectively in India. It ranks fourth in the passenger car radial (PCR) segment with a 15% market share. APTY is also the largest exporter in the PCR segment.

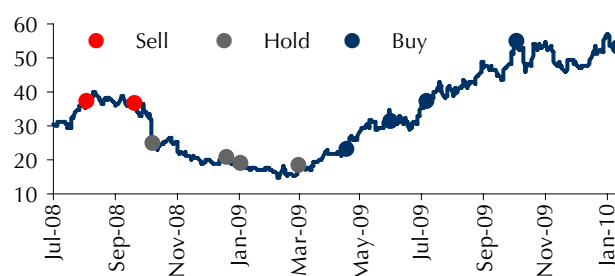
### Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	39.4	39.4	39.4
FIs	5.5	13.4	14.7
Banks & FIs	19.0	23.6	17.9
Public	36.1	23.6	28.0

### Recommendation history

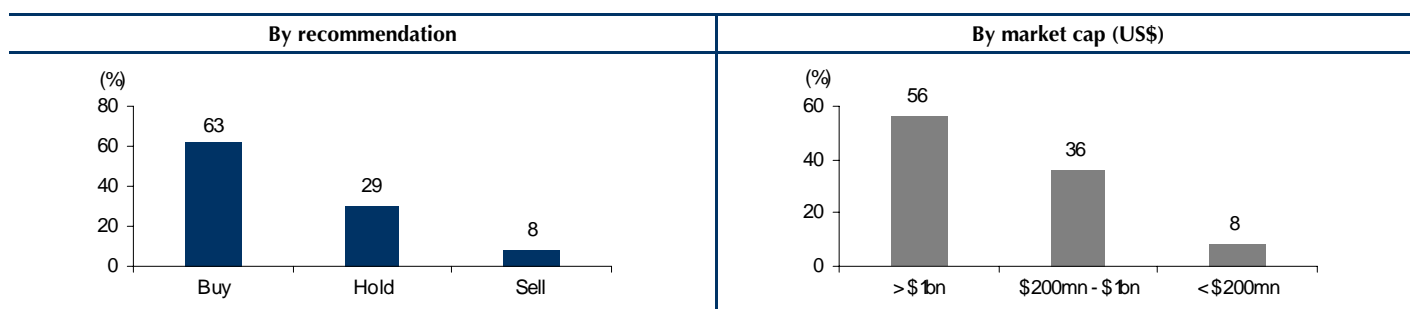
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	39	39	Sell
6-Oct-08	Quarterly Preview	37	40	Sell
27-Oct-08	Results Review	25	28	Hold
6-Jan-09	Company Update	20	24	Hold
21-Jan-09	Results Review	19	22	Hold
19-Mar-09	Company Update	18	22	Hold
6-May-09	Results Review	23	31	Buy
18-Jun-09	Company Update	31	44	Buy
24-Jul-09	Results Review	37	52	Buy
20-Oct-09	Results Review	55	65	Buy
30-Jan-10	Results Review	54	65	Buy

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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