

BUZZING

STOCK

Apollo Tyres

CMP – Rs.350

Analyst

Viren Bajalia
e.info@idbicapital.com
+91-22-6637 1187

Key Stock Data

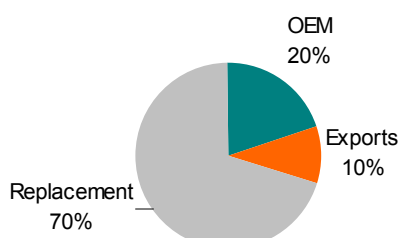
Sensex	13861
Nifty	3983
Sector	Tyres - Large
Bloomberg	APTY@IN
Reuters	APLO.BO
No. of shares (m)	46
Market Cap (Rs m)	15,996
Market Cap (US\$ m)	362
52-week H/L	Rs.386/194

Shareholding Pattern (%)

Promoters	39.25
Mutual Funds	22.54
FII's	20.70
Corporate Bodies	4.48
Pubic & Others	10.43

Business overview

Apollo Tyres Ltd. (ATL) is the second largest player in the commercial vehicle segments of tyre industry and has presence predominantly in the domestic market. The principal activity of the company is the manufacture and supply of automobiles tyres, tubes and flaps. The company has a major presence in the truck and bus tyres market and derives ~70% of its revenues from the replacement market. Apart from the truck/bus segment, the company has presence in the tractor and passenger car radial segment as well. In addition to these products, the company works with BPCL to provide electronic auto cut-off air pressure gauges.

Figure 1: Revenue break-up (market segment-wise)


Source: Company reports; IDBI Capital Market Services

Supreme Court ban on overloading - A mixed bag for ATL

The recent Supreme Court ruling directing the states to curb the overloading of trucks is expected to affect the demand for M&HCV tyres in the following way:

- **Replacement demand:** Lesser overloading is expected to increase the life of tyres. Further, the casing of the tyres in vehicles that are not overloaded retains its shape longer, enabling multiple retreadings before being replaced. This will result in lower replacement demand for tyres.
- **OEM demand:** The curb on overloading is expected to create an additional demand for the trucks. Further, the demand will tend to shift from single-axle vehicles (relatively uncompetitive without overloading) to multi-axle vehicles, which use a number of tyres. This will increase OEM offtakes, both from the increased number of vehicles as well as the higher number of tyres per vehicle.

Synergies from Dunlop Acquisition

In April'06, Apollo Tyres Ltd. acquired 100% equity in Dunlop Tyres (DT), South Africa for a consideration of Rs.3bn in all cash deal. The acquisition of Dunlop S.Africa will increase competition in the nascent bus and truck radial market and the fast-growing market for mining and off-the-road (OTR) tyres. Apollo has a small presence in these segments. Ownership of Dunlop SA has given Apollo access to the former's technology in manufacturing radial tyres for CVs.

Though radial tyres account for ~2% of all CV tyres sold in India, their acceptance may rise, with CV makers planning to launch a new generation of buses and trucks with factory-fitted radial tyres.

In the near term, the Dunlop SA deal could provide Apollo's margins a much-needed boost by giving it an entry into the market for mining and OTR tyres. Valued at over Rs.350 crore, the OTR and mining segment in India is growing at ~19-20% against an industry average of 8-10%. ATL is expected to benefit from business and technological synergies with DT, besides gaining access to the latter's overseas distribution network.

Market leadership in the dominant industry segment:

ATL is the undisputed leader in the replacement market for commercial vehicle (CV) tyres. This segment accounts for almost 47% of the domestic tyre industry turnover. ATL has a replacement market share of ~30% in the truck / bus tyres and 27% in the LCV segment. The company enjoys a market leader status in the rear tractor segment. ATL ranks third in the passenger car radials (PCR) replacement segment.

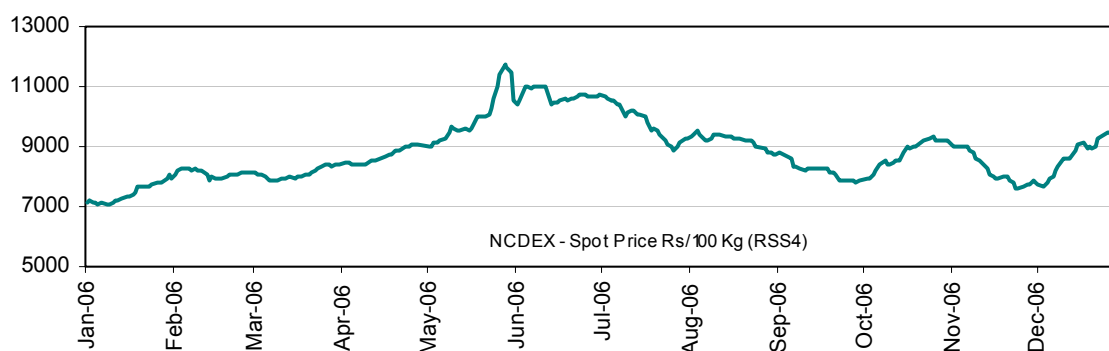
Apollo Tyres to set up a manufacturing facility near Chennai:

Apollo Tyres Ltd. has firmed up plans to set up a Greenfield facility at Chennai. The facility shall be used exclusively for the manufacture of high quality truck, bus and light truck radial tyres, along with high and ultra-high performance passenger car radial tyres for domestic and exports markets. The plant shall have an initial capacity of 75MT with the potential to scale up to 200 MT in near future. The Capex shall entail an investment to the tune of Rs.520 crores.

Softening raw material prices to aid margin growth:

The tyre industry is raw material intensive. On an average the raw material cost accounts for approximately 60% of the sales and roughly 70% of the production cost. The major raw materials required to manufacture a tyre include natural rubber, nylon tyre cord, carbon black and rubber chemicals. The industry has been plagued by very low operating profit margins (OPMs) due to high raw material prices, which have behaved in a very volatile manner in the past one year, with the price of rubber shooting up to a record level of Rs.115/kg (RSS-4 in the Kottayam market) during the last year. Currently, rubber prices have depleted to around ~Rs.80 levels. If the current levels persist, it would result in better for tyre companies.

Figure 2:



Q2FY07 – Result Highlights

Net Sales at Rs.7,673m grew by 21% on YoY basis. The margins declined by 160 bps mainly on account of higher input costs. PAT at Rs. 194m posted a marginal growth of 4% on YoY basis. The stock is trading at 17.3x its half-yearly annualized EPS of Rs. 20.

Financial Snapshot

Apollo Tyres Ltd.				Rs.m			Ratios (%)			
	Q2 FY07	Q2 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
Financial Year End: March										
Net Sales	7673	6328	21	26255	22255	18	Debt -Equity	1.1	0.8	27
Other Income	2	8	(79)	70	198	(65)	PBIDTM	8	7	10
Total Income	7675	6336	21	26325	22453	17	PBDDTM	6	5	12
Total Expenditure	7076	5768	23	24028	20607	17	RoCE	13	13	4
PBIDT	599	568	5	2297	1846	24	RoNW	13	12	10
Interest	128	131	(3)	506	429	18				
PBDT	471	437	8	1792	1417	26				
Depreciation	180	173	4	728	568	28				
Tax	64	59	9	218	37	497				
Reported Profit After Tax	194	187	4	782	676	16				
Extra -ordinary Items	0	(26)	(100)	44	0	0				
Adj. Profit After Extra-ordinary item	194	212	(9)	738	676	9				
No. of shares (m)	46	38	-	38	38	-				
EPS (annualised.) (Rs.)	20	19	-	20	18	-				
P/E	17.3	18.0	-	17.2	19.8	-				

