

May 31, 2010

BUY

Price Rs 71	Target Price Rs 88
Sensex	16,863

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	25	47	121
Rel. to Sensex	2	21	45	87

Source: Bloomberg

Stock Details

Sector	Auto Ancillaries
Reuters	APLO.BO
Bloomberg	APTY@IN
Equity Capital (Rs mn)	504
Face Value(Rs)	1
No of shares o/s (mn)	504
52 Week H/L	83/28
Market Cap (Rs bn/USD mn)	36/776
Daily Avg Volume (No of sh)	7066167
Daily Avg Turnover (US\$m)	10.9

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	39.4	39.4	39.4
FII/NRI	26.1	15.5	14.3
Institutions	15.5	15.9	21.6
Private Corp	6.0	8.2	9.4
Public	13.2	21.1	15.4

Source: Capitaline

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Apollo Tyre (ATL) Q4FY10 standalone operating performance was in line with our estimates, however net profit at Rs 1.2bn was ahead of our estimate of Rs 859mn. Dunlop and VBBV reported strong set of numbers driving the consolidated performance.

We have upgraded our FY11E and FY12E consolidated earnings (ex VBBV), by 8% and 13% to Rs 7.6 and Rs 8.9 per share respectively due to higher average realization assumption. We expect VBBV to report an EPS of Rs 1.2 in FY11. We have not merged VBBV in our consolidated estimates due to limited availability of information. We have valued consolidated business (ex VBBV) at Rs 80 - 9x PER our FY12 EPS (earlier FY11E EPS) and VBBV at Rs 8 - 7x PER our FY11E EPS. We maintain our BUY on the stock with a target price of Rs 88. **Key risks to our call emerges from the recent strike at its Cochin plant (33% capacity) as well as port strike in South Africa, which will affect its operations in 1QFY11 and sharp EPS decline in 1HFY11 due to base effect.**

Sales - in line with expectations

ATL (standalone) reported sales of Rs 13.1bn in line with our estimate of Rs 13.5bn. The topline growth was driven by both volume and realization growth. Tonnage sold during the quarter increased 12.3% YoY (but declined 5.7% QoQ) to 82000 MT, accompanied by a 5.5% YoY growth in realizations.

EBIDTA at Rs 1.85 in line with estimate

ATL (standalone) reported EBIDTA of Rs 1.85bn against our expectation of Rs 1.83bn. It grew 63.8% YoY but sequentially it witnessed a decline of 4.5%.

Rs per ton analysis (standalone)	4QFY10	4QFY10E	3QFY10	2QFY10
Sales	160,095	162,781	152,106	148,821
RM	108,573	113,035	98,465	89,449
Staff	8,720	8,219	9,193	9,188
Other Expenses	20,295	22,250	20,884	25,786
EBIDTA	22,508	19,277	23,564	24,398

Adjusted Net Profit at Rs 1.2 bn, against expectation of Rs 859mn

Lower than expected tax rate and a higher other income resulted in a above expectation APAT of Rs 1.2bn. Tax rate for the quarter stood at 19.3% vs expectation of 34.2%

Consolidated performance – subsidiaries deliver stellar performance

Consolidated sales, EBIDTA and net profit stood at Rs 21.3bn, Rs 3.2bn and Rs 1.9bn respectively. Subsidiaries contributed 38% of consolidated net profits largely driven by VBBV which reported net profit of Rs 660mn due to higher demand for winter tyres on account of elongated winter season. Dunlop reported net profit of Rs 65mn against expectation of loss.

Financial Snapshot

Rs Mn	Net Sales	EBITDA (Rs Mn)	EBIDTA (%)	APAT (Rs Mn)	AEPS (Rs)	ARoCE (%)	ARoE (%)	EV/EBITDA (x)	P/E (x)
FY09	49,841	4,162	8.4	1,392	2.8	13.0	11.0	9.9	25.7
FY10P	61,220	8,793	14.4	4,472	8.9	25.6	28.8	4.9	8.0
FY11E	74,950	8,274	11.0	3,817	7.6	17.8	20.0	6.0	9.4
FY12E	82,827	9,586	11.6	4,487	8.9	18.6	19.9	4.7	8.0

Valuation & view

We have upgraded our FY11E and FY12E consolidated earnings (ex VBBV), by 8% and 13% to Rs 7.6 and Rs 8.9 per share respectively due to higher average realization assumption. We expect VBBV to report an EPS of Rs 1.2 in FY11. We have not merged VBBV in our consolidated estimates due to limited availability of information. We have valued consolidated business (ex VBBV) at Rs 80 - 9x PER our FY12 EPS (earlier FY11E EPS) and VBBV at Rs 8 - 7x PER our FY11E EPS. We maintain our BUY on the stock with a target price of Rs 88. Key risks to our call emerges from the recent strike at its Cochin plant (33% capacity) as well as port strike in South Africa, which will affect its operations in 1QFY11 and sharp EPS decline in 1HFY11 due to base effect.

Revision in Estimates	FY11E			FY12E		
	Earlier	Revised	Change	Earlier	Revised	Change
Consolidated ex VBBV						
Sales	70,128	74,950	6.9%	74,576	82,827	11.1%
EBIDTA	8,088	8,274	2.3%	8,933	9,586	7.3%
EBIDTA Margin (%)	11.5%	11.0%		12.0%	11.6%	
APAT	3,529	3,817	8.2%	3,980	4,487	12.7%
AEPS	7.0	7.6	8.2%	7.9	8.9	12.7%

Key Extracts from Conference Call

- Price hikes
 - OEM market - 5% each in December, February and April.
 - Replacement market- 5% and 3.5% in January and May respectively. Another 3.5% will be affected from month of June.
 - South Africa – 10% , Europe – 4% in FY11
- Cochin plant with a capacity of 280 TPD, has operated at 1/5th of its capacity for almost half the quarter (1QFY11), currently is operating at 2/3rd level (200 TPD) , due to strike at the plant. The plant is expected to be running on full capacities by 2QFY11.
- South Africa plant is facing a temporary shut down due to a 3-week port strike. This has impacted the importing of raw material, as the ship traffic at ports got affected. Current status on the same is that the strike has been lifted but ship traffic is not happening.
- Capex for FY11 – India- Rs 12 bn (10bn Chennai plant), South Africa – Rs 1.2 bn, Europe – Rs .8 bn
- Natural rubber, NTC and Carbon black's Q4FY10 average cost was Rs 150, 195 and 50 per kg respectively.

Quarterly Result Summary - Standalone

Rs mn	Q4FY09	Q4FY10	% change	FY09	FY10	% change
Net Sales	11,106	13,128	18.2	40,715	50,366	23.7
Operating Expenses						
Raw Materials	7,749	8,903	14.9	29,375	31,740	8.1
% of Sales	69.8	81.8	81.8	72.1	63.0	34.0
Staff Costs	449	715	59.1	2,075	2,895	39.5
% of Sales	4.0	324.8	324.8	5.1	5.7	166.5
Other Expenses	1,780	1,664	-6.5	5,867	7,894	34.6
% of Sales	16.0	-35.9	-35.9	14.4	15.7	145.8
EBIDTA	1,127	1,846	63.8	3,399	7,838	130.6
EBIDTA %	10.1	14.1	350.6	8.3	15.6	551.0
Depreciation	274	294	7.5	980	1,228	25.3
EBIT	853	1,551	81.9	2,419	6,610	173.3
Other Income	79.3	88.0	11.1	101.3	109.4	8.0
Interest	191	200	5.0	669	739	10.5
PBT	741	1,439	94.1	1,851	5,980	223.1
Extraordinary inc/(exp)						
Tax	279	277	-0.8	630	1,832	190.6
Net Profit	462	1,162	151.5	1,221	4,148	239.8
Net Margin %	4.2	8.8		9.1	24.7	
EPS (Rs)	0.9	2.3	151.5	2.2	8.2	278.4

VBBV – Performa P&L

Rs mn	FY10E	FY11E
Net Sales	19,989	20,789
RM	8,532	9,727
% Sales	42.7	46.8
Staff	5,494	5,878
% Sales	27.5	28.3
Other expenses	3,006	3,126
% Sales	15.0	15.0
EBIDTA	2,958	1888
EBIDTA %	14.8	9.1
Depreciation	958	1,010
Interest	226	152
Other Income	109	130
PBT	1,883	856
Tax	656	282
Net profit	1,227	573
NPM	6.1	2.8
Debt	3,800	
Gross block	14,738	
Net block	13,780	

Key Financials

Profit & Loss Account - Consolidated ex VBBV *

Mar ending (Rs mn)	FY09	FY10E	FY11E	FY12E
Net Sales	49,841	61,220	74,950	82,827
Growth YoY %	6.2	22.8	22.4	10.5
Operating Expenses				
Raw Materials	34,003	37,276	49,637	54,539
% of sales	83.5	74.0	80.3	79.8
Staff Costs	4,150	5,391	5,966	6,520
% of sales	10.2	10.7	9.7	9.5
Other Expenses	7,526	9,760	11,073	12,182
% of sales	18.5	19.4	17.9	17.8
EBIDTA	4,162	8,793	8,274	9,586
Growth %	-29.7	111.2	-5.9	15.9
EBIDTA %	8.4	14.4	11.0	11.6
Depreciation	1,285	1,584	1,789	1,993
EBIT	2,877	7,208	6,486	7,593
Other Income	230	251	266	274
Interest	973	1,037	1,084	1,213
PBT	2,135	6,422	5,668	6,654
Tax	742	1,950	1,851	2,167
Extraordinary (income) / exp*	0	0	0	0
Net Profit	1,392	4,472	3,817	4,487
NPM %	2.8	7.3	5.1	5.4
EPS	2.8	8.9	7.6	8.9
Adj EPS	2.8	8.9	7.6	8.9
CEPS	5.3	12.0	11.1	12.9

Cash Flow- Consolidated ex VBBV

Mar ending (Rs mn)	FY09	FY10E	FY11E	FY12E
Net Profit before tax	2,135	6,422	5,668	6,654
Add: Depreciation	1,285	1,584	1,789	1,993
Add: Interest	973	1,037	1,084	1,213
Less: Other income	230	251	266	274
Dec/ (Inc) in Working capital	317	-1,219	-1,038	-615
Other non operating items	513			
Less: Tax paid	742	1,950	1,851	2,167
Cash from operations	4,250	5,624	5,385	6,804
Capex	5,151	6,586	10,400	400
Investments and Others	-4	2,450	0	0
Other income	-74	251	266	274
Cash from Investing	-5,221	-8,785	-10,134	-126
Borrowings	2,446	3,500	5,800	-4,000
Less interest paid	973	1,037	1,084	1,213
Less dividend paid	265	442	632	731
Others	-537			
Cash from financing	671	2,021	4,084	-5,945
Cash generation during the year	-300	-1,140	-664	734
Opening Balance	2,846	3,621	2,481	1,817
Closing Balance	3,621	2,481	1,817	2,550

* We have not considered VBBV due to limited availability of information

Balance Sheet - Consolidated ex VBBV

Mar ending (Rs mn)	FY09	FY10E	FY11E	FY12E
Share Capital	504	504	504	504
Reserves	12,992	17,022	20,207	23,963
Miscellaneous exp	-2	-2	-2	-2
Owned Funds	13,495	17,525	20,710	24,466
Secured Loans	6,368	6,368	6,368	6,368
Unsecured Loans	2,539	6,039	11,839	7,839
Loan Funds	8,907	12,407	18,207	14,207
Minority interest	0	0	0	0
Deferred Tax Liability	1,942	1,942	1,942	1,942
Total	24,344	31,874	40,859	40,614
Gross Fixed Assets	22,840	27,240	32,640	38,040
Acc. Depreciation	8,822	10,406	12,195	14,188
Net Fixed Assets	14,019	16,834	20,446	23,853
Capital WIP	2,814	5,000	10,000	5,000
Goodwill on consolidation	235	235	235	235
Net Block	16,833	21,834	30,446	28,853
Investments	48	2,498	2,498	2,498
Sundry Debtors	2,247	2,566	3,124	3,447
Inventory	6,302	7,907	9,968	10,964
Cash & Bank	3,621	2,481	1,817	2,550
Advances	2,057	2,375	2,913	3,221
Current Assets	14,228	15,330	17,822	20,182
Liability	5,860	6,720	8,490	9,337
Provisions	1,139	1,303	1,651	1,816
Current Liabilities	6,999	8,023	10,141	11,153
Net Current Assets	7,228	7,307	7,681	9,029
Total	24,344	31,874	40,859	40,614

Ratios - Consolidated ex VBBV

Mar ending	FY09	FY10E	FY11E	FY12E
Per Share Data				
EPS	2.8	8.9	7.6	8.9
Cash EPS	5.3	12.0	11.1	12.9
BVPS	26.8	34.8	41.1	48.5
Net cash per share	-10.5	-19.7	-32.5	-23.1
Valuation ratio				
P/E	25.7	8.0	9.4	8.0
Cash P/E	13.4	5.9	6.4	5.5
P/BV	2.7	2.0	1.7	1.5
EV/EBIDTA	9.9	4.9	6.0	4.7
Return Ratios (%)				
AROE	11.0	28.8	20.0	19.9
AROC	13.0	25.6	17.8	18.6
Dupont				
NPM (%)	2.8	7.3	5.1	5.4
Sales/TA	1.8	1.7	1.6	1.8
TA/Equity	2.0	2.0	2.2	1.9
Other key ratios				
D/E	0.4	0.6	0.8	0.5
NCA/Sales (%)	7.2	7.9	7.8	7.8

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