

May 28, 2010

Rating	Accumulate
Price	Rs71
Target Price	Rs79
Implied Upside	11.3%
Sensex	16,863

(Prices as on May 28, 2010)

Trading Data

Market Cap. (Rs bn)	35.6
Shares o/s (m)	504.0
Free Float	60.65%
3M Avg. Daily Vol ('000)	8,544.8
3M Avg. Daily Value (Rs m)	609.3

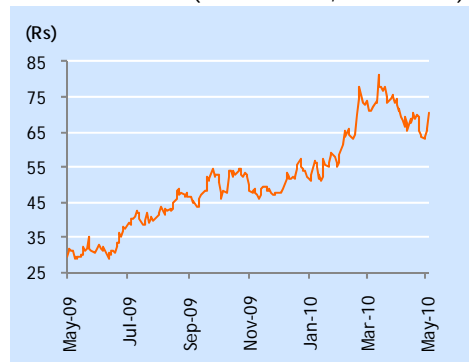
Major Shareholders

Promoters	39.35%
Foreign	25.47%
Domestic Inst.	17.44%
Public & Others	17.74%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.8)	46.8	121.2
Relative	2.1	45.4	103.2

Price Performance (RIC: APLO.BO, BB: APTY IN)



Source: Bloomberg

■ **Results:** Apollo Tyres reported 18.2% YoY growth in its top-line at Rs13.2bn. This was mainly on account of a 10.8% YoY volume growth at 82,000 tonnes and a 6.7% YoY growth in average realization at Rs160/kg. Replacement market accounted for ~67% of the revenues, whereas OE segment accounted for ~25% on account of a strong pick-up in vehicle sales of auto companies. Recipe cost/kg in the current quarter stood at Rs108.6 as compared to Rs98.5 in Q3FY10, an increase of 10.2% QoQ. Other expenses declined by 8% QoQ on account of lower sales promotion expense during the quarter. As a result, the EBITDA margin decline was restricted to only 140bps QoQ at 14.1% for the quarter. On account of robust operating performance and lower tax rate of 19.3% for Q4FY10, the net profit improved by 13.9% QoQ at Rs1.16bn.

■ **Consolidated performance:** On a consolidated basis, Apollo Tyres reported a growth of 65% YoY in net sales at Rs21.4bn, while adjusted PAT stood at Rs1.8bn. On a QoQ basis, consolidated sales and net profit declined by 6.6% on account of seasonal sales being higher in Q3FY10. For FY10, Netherlands Vredestein Banden B.V (VBBV) contributed to Rs19.9bn, whereas Dunlop (SA) operations contributed about Rs10.9bn to the top-line. VBBV reported an EBITDA margin of 17.5%, whereas Dunlop SA reported a margin of 8.7% at the EBITDA level. Debt on the books of VBBV stood at Rs3.8bn, whereas the consolidated net debt for Apollo Tyres is currently at Rs13.6bn.

■ **Conference call highlights:** Rubber prices are currently quoting Rs160/kg compared to average cost to company at Rs140/kg in Q4FY10, thereby, impacting operating margins in the coming quarters. However, the company has taken a price hike of an average 5% in the replacement market and 3.5% each in May and June 2010. On the OEM side, the company has taken a 5% price hike in April 2010. Greenfield expansion plan at its Chennai facility is well on track and will translate into additional 230 tonnes per day (TPD) capacity over the next two years.

■ **Outlook & Valuation:** At the CMP, the stock is trading at 6.5x and 5.3x its FY11E and FY12E consolidated EPS, respectively. We maintain our 'Accumulate' rating on the stock, with a revised price target of Rs79.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	49,841	81,208	93,970	110,555
Growth (%)	6.2	62.9	15.7	17.6
EBITDA (Rs m)	4,161	11,750	12,552	14,999
PAT (Rs m)	1,391	6,533	5,462	6,658
EPS (Rs)	2.8	11.2	10.8	13.2
Growth (%)	(48.4)	369.5	(16.4)	21.9
Net DPS (Rs)	1.0	1.5	1.5	1.5

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	8.3	14.5	13.4	13.6
RoE (%)	11.0	33.6	24.2	23.8
RoCE (%)	14.0	29.6	24.2	24.4
EV / sales (x)	0.8	0.6	0.5	0.4
EV / EBITDA (x)	9.3	4.0	3.6	2.8
PE (x)	24.8	6.3	6.5	5.3
P / BV (x)	1.3	0.9	0.7	0.6
Net dividend yield (%)	1.4	2.1	2.1	2.1

Source: Company Data; PL Research

Surjit Arora
SurjitArora@PLIndia.com
+91-22-6632 2235

Q4FY10 Result Overview (Standalone)

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	13,128	11,106	18.2	13,234	50,369	40,705	23.7
Expenditure							
Raw Material	8,903	7,749	14.9	8,566	31,740	29,375	8.1
<i>% of Net Sales</i>	<i>67.8</i>	<i>69.8</i>	<i>81.7</i>	<i>64.7</i>	<i>63.0</i>	<i>72.2</i>	<i>33.9</i>
Salaries & Wages	715	449	59.1	800	2,895	2,075	39.5
<i>% of Net Sales</i>	<i>5.4</i>	<i>4.0</i>		<i>6.0</i>	<i>5.7</i>	<i>5.1</i>	
Other Exp.	1,664	1,780	(6.5)	1,817	7,894	6,007	31.4
<i>% of Net Sales</i>	<i>12.7</i>	<i>16.0</i>		<i>13.7</i>	<i>15.7</i>	<i>14.8</i>	
Total Expenditure	11,282	9,979	1	11,183	42,528	37,457	13.5
EBITDA	1,846	1,126	63.8	2,051	7,841	3,248	141.4
<i>EBITDA Margin (%)</i>	<i>14.1</i>	<i>10.1</i>	<i>350.6</i>	<i>15.5</i>	<i>15.6</i>	<i>8.0</i>	<i>595.5</i>
Depreciation	294	274	7.5	293	1,228	980	25.3
Net interest	200	191	5.0	211	739	668	10.6
Non Operative Income	88	79		3	109	112	-2.7
PBT	1,439	741	94.1	1,550	5,983	1,712	249.4
Tax Total	277	279	(0.8)	529	1,832	630	190.6
<i>Tax Rate-Total (%)</i>	<i>19.3</i>	<i>37.7</i>	<i>(48.9)</i>	<i>36.5</i>	<i>30.6</i>	<i>36.8</i>	<i>76.4</i>
Rep. PAT	1,162	462	151.5	1,020	4,150	1,082	283.6

Operating Metrics

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Sale Tonnage (MT)	82,000	74,000	10.8	87,000	330,400	290,500	13.7
Realisation in (Rs / Kg)	160.1	150.1	6.7	152.1	152.4	140.1	8.8
Recipe (RM) cost in (Rs / Kg)	108.6	104.7	3.7	98.5	96.1	101.1	-5.0

Q3FY10 Result Overview (Consolidated)

(Rs m)

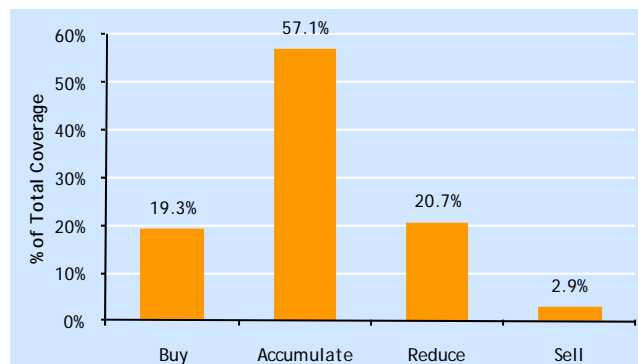
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	21,436	12,992	65.0	22,962	81,210	49,852	62.9
Net Profit	1,756	565	210.9	1,874	5,660	1,391	306.8

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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