

**RECOMMENDATION - ACCUMULATE**

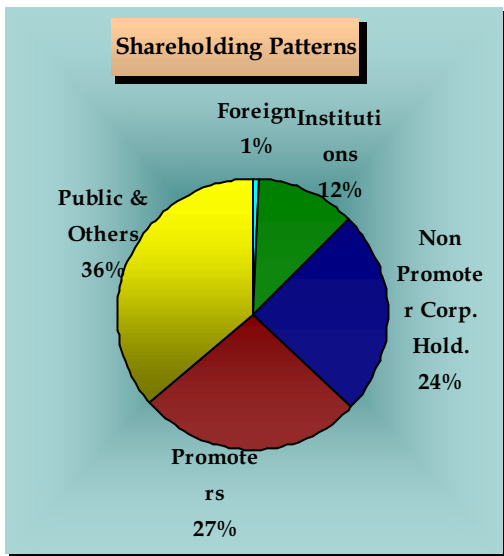
**Data Matrics as on 23.09.09**

Price Target (Rs)	77
CMP (Rs)	47
52 Week High (Rs)	50
52 Week Low (Rs)	14.75
Market Cap (Rs Cr)	2343.6
Share Issued (Cr)	504024770
Book Value (Rs)	26.84
P/E	15.62
P/BV	1.78
Face Value (Rs)	1
Beta	0.6

**COMPANY OUTLINE**

**Apollo Tyre Ltd (ATL)** is India's leading automobile tyre, tubes and flaps manufacturer, with operations in three continents and more than 70 destinations across the world. ATL is having production capacity of around 850 tonnes/day in the domestic market and 300 tonnes/day from international operations. The Company is leading player in commercial vehicles segment, As on 31 March 09, market share of the ATL in Truck & Bus (T&B) tyres segment stood at 27.3% and 24% share in the domestic Light Commercial Vehicle (LCV) tyres. The production of ATL commence across eight manufacturing locations in India, Netherlands and Southern Africa. A ninth facility is currently under construction in southern India, and is expected to commence production towards the end of 2009. The major brands produced buy the company across these locations are Apollo, Dunlop, Kaizen, Maloya, Regal and Vredestein.

It has a network of around 4,500 dealerships in India, of which over 3,000 are exclusive outlets and nearly 230 multi-brand Dunlop accredited dealers in South Africa and Zimbabwe. It is the second largest tyre manufacturer in India with a total installed capacity of 250,000 Million TPA.

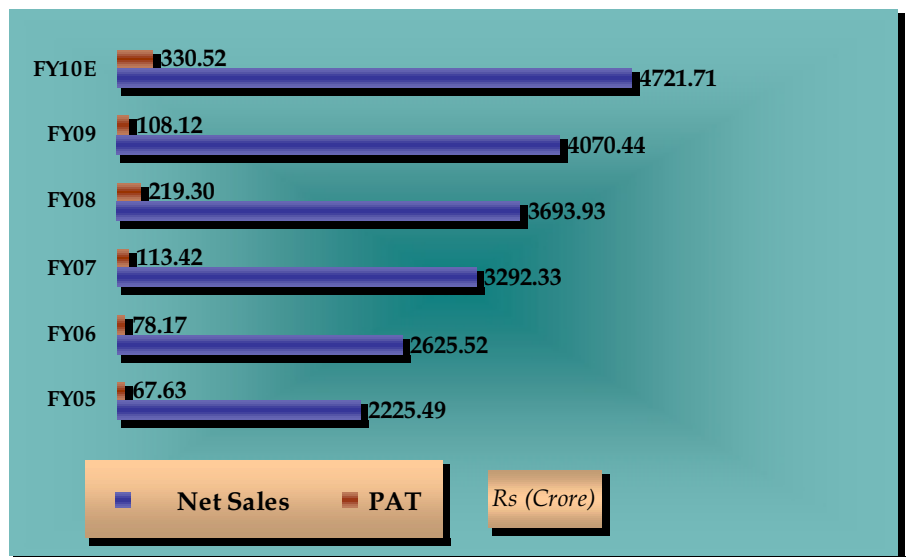


**FINANCIALS**

The Net Profit of ATL is growing at cumulative CAGR of 16% from last five years (FY05-FY09) and NetSales is also growing at CAGR of 12.45% for the same period.

In first quarter FY10, ATL has posted strong growth in Net Profit by 94.7% from Q1 FY09 at Rs 94.67 Cr, Net Sales also grew by 9.7% at Rs 1180.14 Cr for the same period. The PAT Margin of the ATL for Q1 FY10 has recorded exceptional growth at 8.02% from last years (Q1 FY09) PAT Margin of 4.52%.

Due to Increase in Price of raw material (Primarily in Rubber) in FY09 ATL's Net Profit has declined by 50.7% to Rs 108.12 over the previous year's profit of Rs 219.30 Cr, Net Sales for the same period surge by 10.2% at Rs 4070.44 Cr from last years net sales.



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## INDUSTRY SIZE

- ✍ Number of Players 43
- ✍ Tyre Produced 42.35 million in FY 09 (8% more than previous year)

## MAJOR TYRE CONSUMERS:-

### Heavy & Light Commercial Vehicles:

Tata Motors, Ashok Leyland, Eicher, Tatra Udyog, Force Motors, Swaraj Mazda, Mahindra, Asia Motors, Kamaz-Vectra.

### Farm Vehicles :

Mahindra, TAFE, New Holland, Punjab Tractors, International Tractors, John Deere.

### Passenger Vehicles:

Maruti Suzuki, Tata Motors, Mahindra, General Motors, Hyundai Motors, Skoda Auto, International Cars & Motors, Volkswagen.

## Profits declining

- ✍ Price increase taken but insufficient to counter the raw material cost impact (Rubber price up by 40%)
- ✍ Production cuts resulting in relatively higher fixed overheads
- ✍ Improvement in Q2 FY 10 due to pick up in demand and softening of raw material cost

## Strengthening of Dollar

- ✍ Up from an average Rs.40.0 in FY 2008 to Rs.46.5 in FY 2009
- ✍ Industry a net importer in passenger car tyre (around 51% more in last three years) adverse impact on profitability

## Rivalry

- ✍ Facing Competition by import from China

## Measures taken by the Government

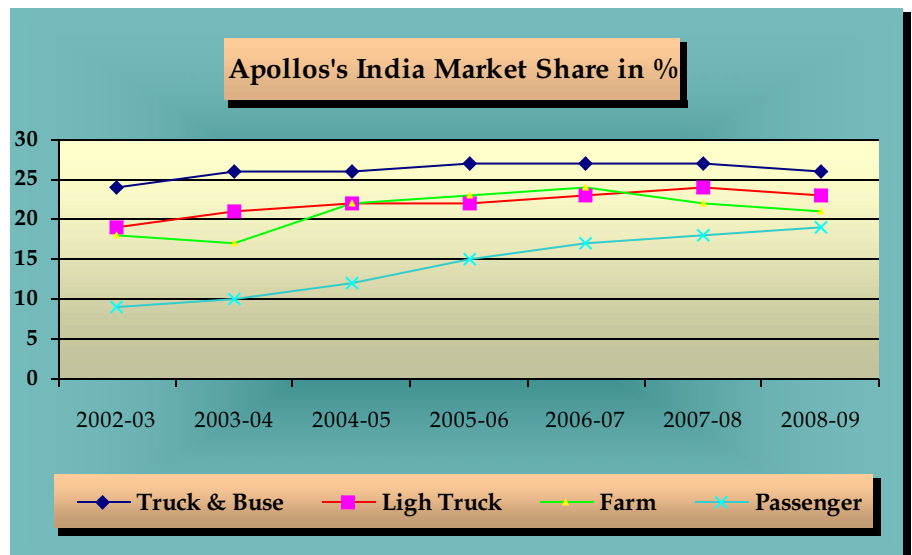
- ✍ License required to import Truck Bus Radials (TBR) in Nov 2008.
- ✍ Excise duty cut by 4% in December '08 and 2% in February '09

## INDUSTRY OVERVIEW

According to the top credit rating agency research, the tyre industry in India expected to grow at 6.81% in FY10 and at CAGR of 8.21% till FY13. The Truck and Bus T&B and Light Commercial Vehicle (LCV) tyre categories are expected to register a 5-year CAGR of 6.83% and 8.97%, respectively during this period

However, as the economy in general and automobile industry in specific slowed down in FY09, the tyre demand too came under pressure. In the first nine months of FY09, the industry managed a tonnage growth of only 2.19% against a growth of 7.38% in the same period last year. The T&B tyre category was the worst affected with the total off take of these tyres declining by 0.01% in the first nine months. Also in the face of global slowdown and stiff Chinese competition, the export market off take declined by 9.82% during this period.

**On Demand-Side** pressures, the tyre industry saw production adjustments from all the major players in the last couple of months. The government too tried to provide external stimulus by effecting 6% excise duty cut across industries. In all the gloom; one silver lining for the industry has been the easing of the raw material prices from Sep 08 onwards. However, the impact of the fall in commodity prices was not visible in the nine months results of the companies, as the companies were laden with high-price inventories. The benefits of the sublime raw material prices will become visible only in the last quarter of FY09 provided; the demand too supports the top line.



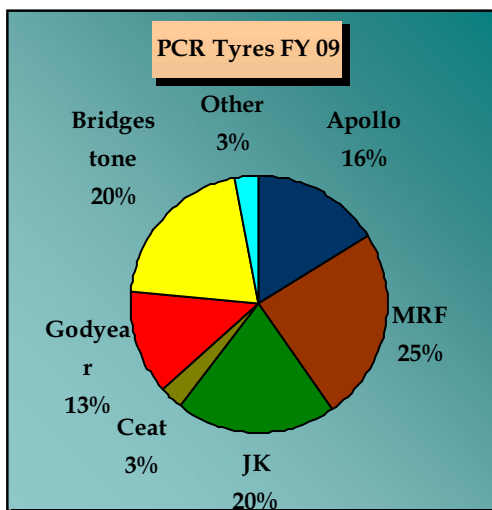
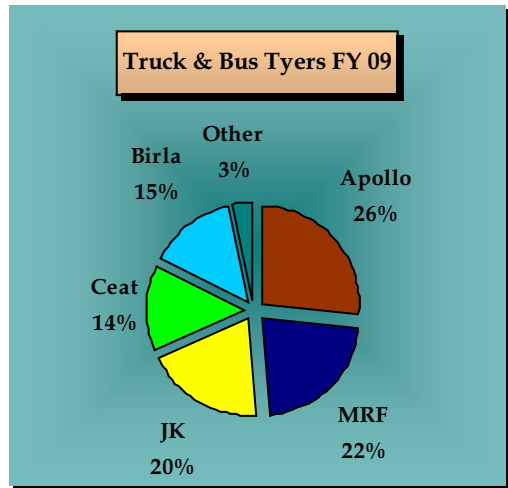
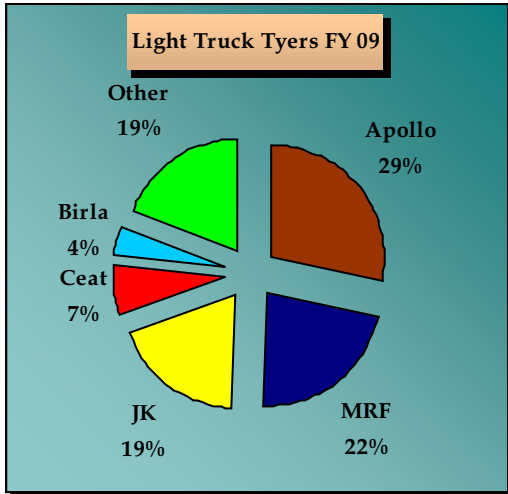
## Industry Outlay and Capacity Extensions

- ✍ Estimated Investment by 2011 would be around Rs 26.15 billion.
- ✍ Capacity Expansion by 3.7 million for the same period.

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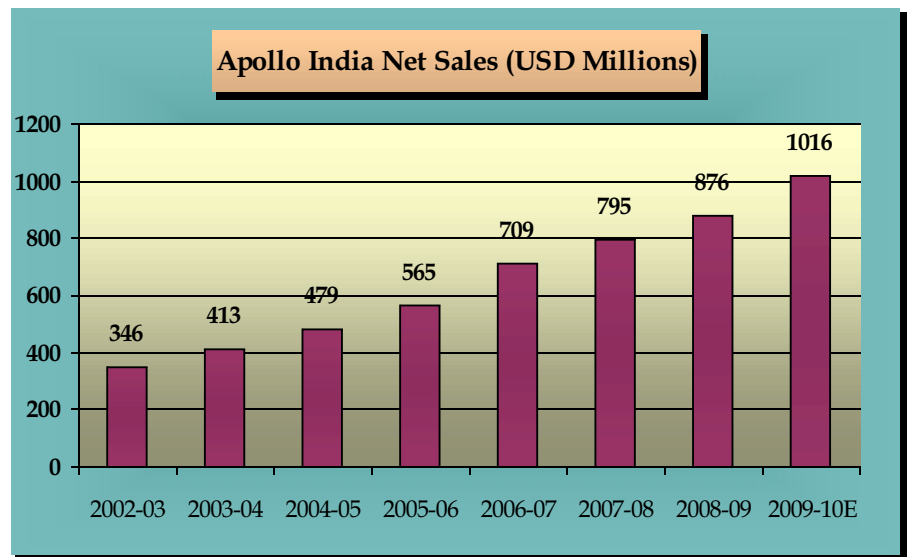
**INVESTMENT RATIONALE**

ATL a tremendous leverage in the international tyre market and with technology skills of the Indian company would be integrated to the newly acquired plants to generate better operational efficiency and also improve production and productivity. Sourcing of raw materials like natural and synthetic rubber and chemicals could be made more efficient because of the acquisitions in the European arena and could result in better economies of scale for Apollo tyre.

**Recent Attainments**

To diversify its presence in global markets and to generate nearly 60% revenue from overseas market, ATL has undertaken overseas acquisitions. In May 2009 ATL has acquired Dutch tyre-maker Vredestein Banden BV for Rs 1,200-1,500 Cr, this acquisition taken place with the mix of internal accruals and debt financing. Vredestein Banden BV a strong sales and marketing network besides a production unit in Enschede, Netherlands with capacity of 55 lakh tyres. It will give ATL access to the challenging European market. ATL's revenue will reflect as a result of this acquisition in upcoming quarter results.

To increase its presence in the radial tyres segment of commercial vehicles, ATL has also made an investment of about Rs 1,300 crore in Chennai for a greenfield project, which is likely to be operational November this year.



**Investment Plans**

Being a part of its investment plan of Rs 30 billion in five years (2008-13) to establish plants in India and abroad for expanding its existing facilities ATL has planned to expend Rs 9 billion this year on doubling the capacity at its new factory in Chennai and for off-the-road tyres (OTRs) and also for expanding production at the Baroda (Gujarat) plant. The company had earlier set aside Rs 7 billion as capital expenditure but company decided to increase the output of commercial vehicle tyres by more than two fold to meet demand, which is expected to rise in the end of this year.

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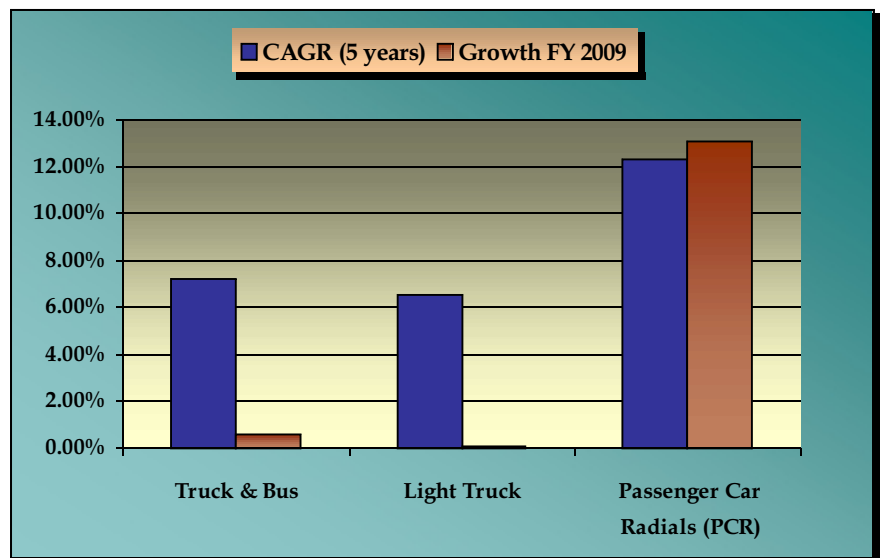
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Annual Results Rs (Cr)			
	FY08	FY09	FY10E
REVENUES	3693.93	4070.44	4721.71
INTEREST	52.04	66.84	66.84
DEPRECIATION	87.81	98.01	112.34
EBIDTA	473.29	336.02	391.46
PAT	219.3	108.12	330.52
OPM %	12.81	8.26	8.29
NPM %	5.94	2.66	7.00
Quarterly Results Rs (Cr)			
	Q3FY09	Q4FY09	Q1FY10
REVENUES	903.26	1110.56	1180.14
INTEREST	18.09	19.09	20.25
DEPRECIATION	24.13	27.37	31.15
EBIDTA	53.59	120.58	194.84
PAT	5.51	46.19	94.67
OPM %	5.93	10.86	16.51
NPM %	0.61	4.16	8.02
EPS	0.11	0.92	1.88

ATL has also planned to invest Rs 10 billion for setting up IT Park and a hotel complex in Kerala. There were plans to set up a five star hotel and IT park at the 30 acres land at nearby Kalamassery where it has a tyre unit. The company has decided to shift the unit to the Rubber Park at nearby Irapuram and is planning to double the capacity of the unit from 100 tons per day to 200 tons per day after shifting to the rubber park.

ATL plans to enter the healthcare sector with a 500-bed hospital in Gurgaon with an investment of Rs 2,500 million. Artemis Health Sciences, a group company, would be a wholly-owned subsidiary of ATL and will have interests in medical education, research and manufacturing of medical accessories. The phase I would be completed in the next 18 months with an investment of around Rs 1,450 million. The company will also invest Rs 400 million in truck and bus radial (TBR) tyre projects in Limda.

**Valuation:** At Rs 47 the stock is trading at 15.36 times its EPS and assuming a modest 15% growth in revenue and continued improvement in operating margins. ATL's forward P/E ratio works out to around 11.43, which provides ample upside potential to long-term investors.



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