

November 9, 2011

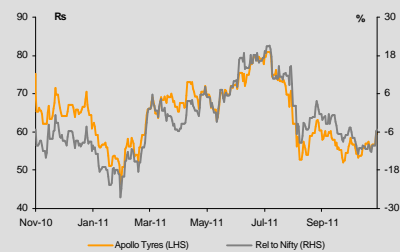
Reco	Previous Reco
Accumulate	Reduce
CMP	Target Price
Rs59	Rs71
EPS change FY12E/13E (%)	6/13
Target Price change (%)	7.5
Nifty	5,221
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(15)	(16)	(19)
Rel. to Nifty	0	(17)	(10)	(2)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Auto Ancillaries
Bloomberg	APTY@IN
Equity Capital (Rs mn)	504
Face Value(Rs)	1
No of shares o/s (mn)	504
52 Week H/L	83/44
Market Cap (Rs bn/USD mn)	30/606
Daily Avg Volume (No of sh)	2933022
Daily Avg Turnover (US\$m)	3.4

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	45.1	44.3	44.3
FII/NRI	25.2	27.3	27.3
Institutions	9.4	9.7	7.7
Private Corp	7.6	5.0	5.4
Public	12.6	13.7	15.3

Source: Capitaline

Chirag Shah

chirag.shah@emkayglobal.com
+91 22 6612 1252

Siddhartha Bera

siddhartha.bera@emkayglobal.com
+91 22 6624 2494

- **Results below est. due to disappointment in India operations. EBIDTA/PAT at Rs 2.3bn/778mn were ~17%/25% below est. Adverse product mix, the key reason for the disappointment**
- **Europe reported strong results. Demand scenario for winter tyres is robust with demand outstripping supply. Non removal of antidumping duty in India to provide cushion to margins**
- **Upgrade FY12/13 EPS est. by 6%/12.6% to Rs 8.1/10.1 (with an upward bias) due to lower rubber prices, strong performance of Europe and sequential improvement in product mix in India**
- **Upgrade rating to ACCUMULATE with a TP of Rs 71(FY13 PER/EV-EBIDTA – 7x/5x). Downside risk arise from lack of improvement in replacement demand in India**

Net sales – Marginally above est.

Apollo Tyre (ATL) reported consolidated net sales at Rs 28.7 bn (our est. of Rs 28 bn) largely driven by better than expected performance in Europe/SA subsidiaries. Europe reported net sales at Rs 7.5bn (our est. of Rs 6.4bn) and South Africa reported net sales at Rs 3 bn (vs our est. of Rs 2.6bn).

Segmental Details (Rs Mn)	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)
Europe							
Net Sales	5,247	6,492	6,230	6,035	7,492	42.8	24.1
Results	432	883	373	589	795	83.9	34.9
Margins (%)	8.2	13.6	6.0	9.8	10.6	237bps	84bps
Capital Employed	5,608	5,941	7,231	7,771	8,720	55.5	12.2
ROCE (%)	7.7	14.9	5.2	7.6	9.1		
South Africa							
Net Sales	2,632	2,995	3,539	2,800	3,023	14.8	7.9
Results	(73)	78	122	(51)	26	(136.3)	
Margins (%)	(2.8)	2.6	3.5	(1.8)	0.9	364bps	271bps
Capital Employed	2,256	2,332	4,328	4,260	4,049	79.5	(5.0)
ROCE (%)	(3.2)	3.3	2.8	(1.2)	0.7		
India							
Net Sales	11,756	14,320	17,616	19,608	18,449	56.9	(5.9)
Results	915	1,155	1,244	1,157	816	(10.8)	(29.5)
Margins (%)	7.8	8.1	7.1	5.9	4.4	-336bps	-148bps
Capital Employed	20,379	21,178	21,727	22,276	22,548	10.6	1.2
ROCE (%)	4.5	5.5	5.7	5.2	3.6		

Source: Company, Emkay Research

Financial Snapshot

YE-Mar	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS %chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY10	81,207	11,750	14.5	5,661	11.2	306.6	34.1	5.3	4.0	1.5
FY11	88,677	9,780	11.0	4,408	8.7	(22.1)	20.1	6.8	5.6	1.2
FY12E	120,668	11,157	9.2	4,083	8.1	(7.4)	15.8	7.3	5.3	1.1
FY13E	135,413	12,895	9.5	5,081	10.1	24.4	17.2	5.9	4.5	0.9

Source: Company, Emkay Research

Quarterly Summary - Consolidated

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	19,489	23,686	27,297	28,224	28,712	47.3	1.7	56,937	37,696	51.0
Expenditure	17,636	20,955	24,984	25,821	26,408	49.7	2.3	52,229	33,858	54.3
as % of sales	90.5	88.5	91.5	91.5	92.0			91.7	89.8	
Consumption of RM	11,476	13,912	17,710	18,553	19,395	69.0	4.5	37,948	21,700	74.9
as % of sales	58.9	58.7	64.9	65.7	67.5			66.6	57.6	
Employee Cost	3,013	3,126	3,102	3,517	3,299	9.5	(6.2)	6,816	5,924	15.1
as % of sales	15.5	13.2	11.4	12.5	11.5			12.0	15.7	
Other expenditure	3,147	3,917	4,171	3,751	3,714	18.0	(1.0)	7,465	6,234	19.7
as % of sales	16.1	16.5	15.3	13.3	12.9			13.1	16.5	
EBITDA	1,853	2,731	2,313	2,403	2,305	24.4	(4.1)	4,708	3,838	22.7
Depreciation	669	673	739	754	777	16.1	3.1	1,531	1,308	17.1
EBIT	1,183	2,058	1,574	1,649	1,528	29.1	(7.3)	3,177	2,530	25.5
Other Income	4	50	11	19	118	2,814.0	507.3	138	39	255.0
Interest	442	529	543	620	654	47.9	6	1,274	781	63.2
PBT	745	1,579	1,043	1,049	992	33.1	(5.4)	2,041	1,789	14.1
Total Tax	213	372	177	274	211	(0.9)	(23.0)	484	514	(5.8)
Adjusted PAT	533	1,207	866	775	781	46.7	0.8	1,556	1,274	22.1
(Profit)/loss from JV's/Ass/MI					4			4	-	
Adjusted PAT after MI	533	1,207	866	775	778	46.0	0.3	1,553	1,274	21.8
Extra ordinary items	-	-	(1,060)	-	-			-	-	
Reported PAT	533	1,207	1,926	775	778	46.0	0.3	1,553	1,274	21.8
Reported EPS	1.1	2.4	3.8	1.5	1.6	46.7	0.8	3.1	2.5	22.1

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	9.5	11.5	8.5	8.5	8.0	(148)	(49)	8.3	10.2	(191)	
EBIT	6.1	8.7	5.8	5.8	5.3	(75)	(52)	5.6	6.7	(113)	
EBT	3.8	6.7	3.8	3.7	3.5	(37)	(26)	3.6	4.7	(116)	
PAT	2.7	5.1	3.2	2.7	2.7	(1)	(2)	2.7	3.4	(65)	
Effective Tax rate	28.5	23.6	16.9	26.1	21.2	(729)	(485)	23.7	28.7	(501)	
Per Ton Analysis						YoY (%)	QoQ (%)				YoY (%)
Sales	214,167	213,391	219,936	225,744	239,042	11.6	5.9				
Raw materials	126,106	125,332	142,697	148,392	161,470	28.0	8.8				
Staff	33,115	28,164	24,997	28,129	27,466	(17.1)	(2.4)				
Other expenses	34,585	35,289	33,608	30,004	30,917	(10.6)	3.0				
EBIDTA	20,361	24,606	18,634	19,218	19,189	(5.8)	(0.1)				

Quarterly Summary - Standalone

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	11,756	14,321	17,618	19,608	18,449	56.9	(5.9)	38,057	22,969	65.7
Expenditure	10,541	12,830	16,155	18,040	17,199	63.2	(4.7)	35,239	20,585	71.2
as % of sales	89.7	89.6	91.7	92.0	93.2			92.6	89.6	
Consumption of RM	7,886	9,926	13,091	15,018	14,357	82.1	(4.4)	29,375	15,528	89.2
as % of sales	67.1	69.3	74.3	76.6	77.8			77.2	67.6	
Employee Cost	769	779	747	916	867	12.8	(5.3)	1,783	1,543	15.6
as % of sales	6.5	5.4	4.2	4.7	4.7			4.7	6.7	
Other expenditure	1,887	2,126	2,317	2,106	1,974	4.6	(6.3)	4,081	3,514	16.1
as % of sales	16.0	14.8	13.2	10.7	10.7			10.7	15.3	
EBITDA	1,215	1,491	1,463	1,568	1,250	2.9	(20.3)	2,818	2,384	18.2
Depreciation	377	367	388	424	442	17.4	4.4	866	718	20.6
EBIT	838	1,123	1,075	1,144	807	(3.7)	(29.4)	1,951	1,666	17.1
Other Income	58	31	9	13	8	(85.3)	(34.3)	21	64	(66.8)
Interest	362	434	438	528	522	44.2	(1)	1,050	621	69.2
PBT	534	720	647	629	294	(45.0)	(53.3)	922	1,109	(16.8)
Total Tax	160	172	145	184	73	(54.4)	(60.3)	257	329	(21.9)
Adjusted PAT	374	548	502	444	221	(40.9)	(50.3)	665	780	(14.7)
(Profit)/loss from JV's/Ass/MI								-	-	
Adjusted PAT after MI	374	548	502	444	221	(40.9)	(50.3)	665	780	(14.7)
Extra ordinary items	-	-	160	-	-			-	-	
Reported PAT	374	548	662	444	221	(40.9)	(50.3)	665	780	(14.7)
Reported EPS	0.7	1.1	1.3	0.9	0.4	(40.9)	(50.3)	1.3	1.5	(14.7)

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	10.3	10.4	8.3	8.0	6.8	(356)	(122)	7.4	10.4	(297)	
EBIT	7.1	7.8	6.1	5.8	4.4	(275)	(146)	5.1	7.3	(212)	
EBT	4.5	5.0	3.7	3.2	1.6	(295)	(161)	2.4	4.8	(240)	
PAT	3.2	3.8	2.8	2.3	1.2	(198)	(107)	1.7	3.4	(165)	
Effective Tax rate	30.0	23.9	22.4	29.3	24.9	(515)	(444)	27.9	29.7	(179)	

Per Ton Analysis						YoY(%)	QoQ(%)				YoY(%)
Sales	172,427	182,147	194,670	200,717	197,481	14.5	(1.6)				
Raw materials	115,658	126,240	144,649	153,732	153,687	32.9	(0.0)				
Staff	11,277	9,908	8,250	9,374	9,284	(17.7)	(1.0)				
Other expenses	27,673	27,036	25,605	21,563	21,133	(23.6)	(2.0)				
EBIDTA	17,819	18,962	16,166	16,049	13,377	(24.9)	(16.6)				

Adj. EBIDTA – ~17% below est.

Adj. consolidated EBIDTA at Rs 2.3bn (our est. of Rs 2.7bn) was impacted by weak operating performance in standalone business. Conso RM to sales at 67.5% was significantly higher than our est. of 63%. This is due to adverse product mix, higher share of OE business at 34% vs 25% in Q2FY11. Subsidiary EBIDTA surprised positively at Rs 1bn vs our est. of Rs 965mn. Standalone EBIDTA disappointed significantly at Rs 1.3bn vs our est. of Rs 1.8bn

EBIDTA and margins	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
EBIDTA					
Standalone	1,215	1,491	1,463	1,568	1,250
Margins (%)	10.3	10.4	8.3	8.0	6.8
Subsidiaries					
Margins (%)	8.3	13.2	8.8	9.7	10.3

APAT at Rs 778mn vs our est. of Rs 1bn

APAT at Rs 778mn was impacted by lower than anticipated operating performance. Higher depreciation and interest costs at Rs 777mn/654 mn also impacted profits. However, higher other income at Rs 118mn (due to forex gains) and lower tax rate of 21% vs our est. of 26% (due to R&D related expenses) benefited earnings.

Revision in Estimates

We have increased our revenue est. by 2.3% in FY12/13 largely driven by strong traction seen in European and South African geographies. We have upgraded our FY12/FY13 EPS est. by 5.8%/12.6% due to lower rubber prices, strong performance of subsidiaries and improving product mix (sequentially)

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Sales	117,980	120,668	2.3	132,353	135,413	2.3
EBIDTA	10,606	11,157	5.2	11,634	12,895	10.8
EBIDTA margins (%)	9.0	9.2		8.8	9.5	
Net Profits	3,861	4,083	5.8	4,511	5,081	12.6
EPS	7.7	8.1	5.8	8.9	10.1	12.6

Valuations and View

At Rs 59, the stock trades at PER of 7.3x/5.9x and EV/EBIDTA of 5.3x/4.5x on our FY12/FY13 consolidated estimates respectively. We upgrade our rating to ACCUMULATE with a TP of Rs 71 (FY13 - PER of 7x, EV/EVIDTA of 5x). Key downside risk arises from lack of improvement in replacement demand in India

Key Con Call Extracts

- Management expects demand to pick up in domestic business from Oct onwards (both QoQ/YoY). Company had to take production cuts in domestic bias segment due to weaker demand during 2QFY12. This resulted in QoQ drop in tonnage sales in India.
- Management expects moderation in rubber prices to benefit margins. However, given the unfavorable USD/INR movement, Q3 margins to remain flat sequentially for India/SA business with improvement in Q4. Europe business to witness RM benefit from Q3 onwards
- Removal of antidumping duty has not yet been approved and hence antidumping duty on imports from China continues to stay. Does not expect anti dumping duty to be removed.
- Product mix: OEM contribution has increased significantly to 34% vs ~25% last year largely driven by higher proportion of passenger cars and truck radial sales. This has affected the profitability of the domestic business
- Capacity: Company currently has a capacity of 1,150 tpd in the domestic business, ~170 tpd in South Africa and ~170 tpd in Europe. Chennai TBR capacity ramp up is on track with a run rate of 250 MT/day by the end of Q2FY12.
- European business outlook remains robust. Contribution of winter tyre sales has increased by few percentage points during the quarter and should gain momentum in Q3FY12. Product mix involves ~85% contribution from replacement segment and ~75% of overall sales from passenger cars.
- Working capital has increased largely due to higher inventory in anticipation of strong winter tyre sales in Europe. This is a normal phenomenon. This should moderate from Q4FY12 onwards.
- Average RM prices/kg for quarter - Natural rubber Rs 235, NTC – Rs 250 and Carbon black – Rs 70. Normally, consumption prices of natural rubber are higher as compared to that reported by index due to taxes and freight cost.
- Tonnage sold for quarter – ~120,000MT (Conso)
- Price hike: In domestic business, ~2.5% in TBR segment from August end onwards, ~10% in exports during September and ~1.5% in OEM segment. No hikes have been taken in Europe and South Africa geographies.
- Pricing discipline exists in the domestic business with no signs of aggressive price cuts by major players. Globally, ~10% increase in natural rubber prices should be followed by ~4% increase in prices to maintain margins. However, in Indian scenario, required pricing action is ~7.5%. Price hikes are not the extent of increases in costs
- Capex: Expects to incur only Rs 1.5bn for the Chennai plant and no major capex for other geographies.
- Exports were ~11% of standalone business

Financials – Consolidated

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	81,207	88,677	120,668	135,413
<i>Growth (%)</i>	62.9	9.2	36.1	12.2
Expenditure	69,458	78,897	109,511	122,519
Materials Consumed	45,808	53,022	78,501	87,539
Employee Cost	10,885	11,553	13,885	15,641
Other Exp	12,765	14,322	17,126	19,339
EBITDA	11,750	9,780	11,157	12,895
<i>Growth (%)</i>	182.3	(16.8)	14.1	15.6
EBITDA margin (%)	14.5	11.0	9.2	9.5
Depreciation	2,542	2,719	3,153	3,440
EBIT	9,207	7,061	8,004	9,454
EBIT margin (%)	11.3	8.0	6.6	7.0
Other Income	214	263	123	138
Interest expenses	1,154	1,852	2,546	2,555
PBT	8,267	5,471	5,581	7,038
Tax	2,607	1,063	1,498	1,957
<i>Effective tax rate (%)</i>	31.5	19.4	26.8	27.8
Adjusted PAT	5,661	4,408	4,083	5,081
<i>Growth (%)</i>	306.6	(22.1)	(7.4)	24.4
Net Margin (%)	7.0	5.0	3.4	3.8
(Profit)/loss from JV's/Ass/MI	-	-	-	-
Adj. PAT After JVs/Ass/MI	5,661	4,408	4,083	5,081
E/O items	874	0	0	0
Reported PAT	6,534	4,408	4,083	5,081
<i>Growth (%)</i>	306.6	(22.1)	(7.4)	24.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	8,054	5,208	5,458	6,900
Depreciation	2,542	2,719	3,153	3,440
Interest Provided	1,154	1,852	2,546	2,555
Other Non-Cash items	5,129	438	-	-
Chg in working cap	(1,148)	(5,101)	(593)	(573)
Tax paid	(2,607)	(1,063)	(1,498)	(1,957)
Operating Cashflow	13,125	4,053	9,066	10,364
Capital expenditure	(35,334)	(12,990)	(7,372)	(4,100)
Free Cash Flow	(22,209)	(8,936)	1,694	6,264
Other income	214	263	123	138
Investments	35,323	(53)	-	-
Investing Cashflow	(12,142)	(12,780)	(7,248)	(3,962)
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	8,164	7,731	5,000	(1,000)
Interest Paid	(1,154)	(1,852)	(2,546)	(2,555)
Dividend paid (incl tax)	(441)	(293)	(682)	(907)
Income from investments	-	-	-	-
Others	(7,371)	-	-	-
Financing Cashflow	(801)	5,586	1,772	(4,461)
Net chg in cash	182	(3,141)	3,590	1,941
Opening cash position	3,621	3,490	1,909	5,499
Closing cash position	3,803	349	5,499	7,440

Balance Sheet

Y/E, Mar (Rs. Mn)	FY10	FY11	FY12E	FY13E
Equity share capital	504	504	504	504
Reserves & surplus	19,174	23,621	27,023	31,197
Net worth	19,678	24,125	27,527	31,701
Minority Interest	-	8	8	8
Secured Loans	14,465	15,783	16,783	16,783
Unsecured Loans	2,607	9,019	13,019	12,019
Loan Funds	17,072	24,802	29,802	28,802
Net deferred tax liability	2,514	3,162	3,162	3,162
Total Liabilities	39,264	52,098	60,500	63,674
Gross Block	55,628	68,950	76,350	80,450
Less: Depreciation	31,203	35,007	38,160	41,600
Net block	24,425	33,943	38,190	38,850
Capital work in progress	6,536	6,278	6,250	6,250
Investment	59	112	112	112
Current Assets	23,704	32,896	41,985	46,582
Inventories	9,929	17,538	18,573	19,703
Sundry debtors	7,869	9,502	12,348	13,162
Cash & bank balance	3,490	1,909	5,499	7,440
Loans & advances	2,372	3,948	5,557	6,268
Other current assets	44	0	8	8
Current lia & Prov	15,459	21,131	26,036	28,119
Current liabilities	13,122	17,127	20,545	21,935
Provisions	2,337	4,003	5,492	6,184
Net current assets	8,245	11,765	15,948	18,463
Misc. exp	-	-	-	-
Total Assets	39,264	52,098	60,500	63,674

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	14.5	11.0	9.2	9.5
Net Margin	7.0	5.0	3.4	3.8
ROCE	29.6	16.0	14.4	15.5
ROE	34.1	20.1	15.8	17.2
RoIC	39.3	19.3	17.3	19.2
Per Share Data (Rs)				
EPS	11.2	8.7	8.1	10.1
CEPS	16.3	14.1	14.4	16.9
BVPS	39.0	47.9	54.6	62.9
DPS	0.8	0.5	1.2	1.5
Valuations (x)				
PER	5.3	6.8	7.3	5.9
P/CEPS	3.6	4.2	4.1	3.5
P/BV	1.5	1.2	1.1	0.9
EV / Sales	0.5	0.6	0.4	0.4
EV / EBITDA	4.0	5.6	5.3	4.5
Dividend Yield (%)	1.1	0.7	1.6	2.2
Gearing Ratio (x)				
Net Debt/ Equity	0.7	0.9	0.9	0.7
Net Debt/EBIDTA	1.2	2.3	2.2	1.6
Working Cap Cycle (days)	21.0	40.8	31.4	29.5

* The difference between the closing cash as per balance sheet and as per cash flow is due to cash credit balances

Recommendation History: Apollo Tyres – APTY IN

Date	Reports	Reco	CMP	Target
07/09/2011	Auto Sector Report Cruising through barriers			
11/08/2011	Apollo Tyres Q1FY12 Result Update	Reduce	67	66
11/05/2011	Apollo Tyres Q4FY11 Result Update	Reduce	71	70
14/02/2011	Apollo Tyres Q3FY11 Result Update	Accumulate	51	58

Recent Research Reports

Date	Reports	Reco	CMP	Target
08/11/2011	Motherson Sumi Q2FY12 Result Update	Accumulate	177	210
04/11/2011	Ashok Leyland Q2FY12 Result Update	Hold	28	30
03/11/2011	TVS Motor Q2FY12 Result Update	Hold	66	72
24/10/2011	Bajaj Auto Q2FY12 Result Con Call Update	Buy	1,693	2,210

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

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