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## Apollo Tyres - Buy Investment overview

- The domestic market is expected to see a good growth in Commercial Vehicles (CVs) which forms a very big revenue earner.
- Apollo Tyres is now working on a strategy to enter China, one of the major consumers of tyres.
- Apollo Tyres' current turnover which is around \$1.7 billion, is expected to cross \$2 billion before the close of the current financial year.
- Apollo Tyres is gearing up to supply tyres to Volkswagen in Europe in its bid to expand the global footprint.
- Increasing radialisation likely to give a boost to the company's revenue in coming years.

## Business Overview

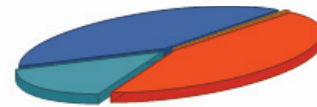
Apollo's present strength and market dynamism stems from its early years of strife in establishing itself as a tyre manufacturer within the closed Indian economy. Over two decades, Apollo worked on a portfolio of products, tuned to customer needs and an array of innovative marketing initiatives to establish itself as a leader in its home market. Some of these include segmenting customers by their load and mileage requirements, running tyre loyalty programmes, establishing customer contact programmes which resulted in better health and driving habits, introducing India's first farm radials and India's first range of high-speed tubeless passenger car tyres.

The company currently produces the entire range of automotive tyres for ultra and high speed passenger cars, truck and bus, farm, Off-The-Road, industrial and specialty applications like mining, retreaded tyres and retreading material. These are produced across Apollo's eight manufacturing locations in India, Netherlands and Southern Africa. A ninth facility is currently under construction in southern India. The major brands produced across these locations are: Apollo, Dunlop, Kaizen, Maloya, Regal and Vredestein.

In the domestic markets of India, Southern Africa and Europe, Apollo operates through a network of branded, exclusive or multi-product outlets. In South Africa the branded outlets are called Dunlop Zones, while in India they are variously named Apollo Tyre World (for commercial vehicles) and Apollo Radial World (for passenger cars). Exports out of these three key manufacturing locations

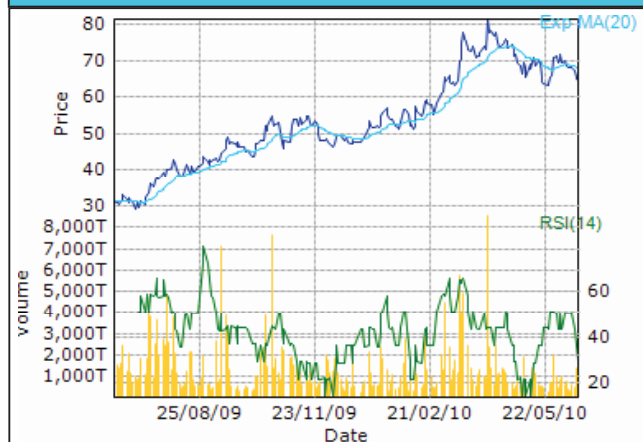
Stock Data		18/06/2010
Current Mkt Price (Rs)		64.45
52 Week High		82.55
52 Week Low		28.60
Mkt Cap (Rs. in Million)		32484.40
Return in last one Month (%)		0.86

## Share Holding



38.95 Indian Promotor	0.39 Foreign Promotor
42.91 Total Institutions	17.75 Total Non-Institutions

## Performance in last one year



## Y-o-Y Performance

(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	40704.41	36939.27	10.19
Other Income	221.12	280.37	-21.13
Total Expenditure	37409.01	32404.51	15.44
Operating Profit	3516.52	4815.13	-26.97
Interest	824.80	602.56	36.88
Profits After Tax	1081.18	2193.03	-50.70
Reserve & Surplus	0.01	0.01	10.62
Reported EPS(Rs)	2.15	4.49	-52.22
Core EBITDA Margin (%)	7.24	10.68	-32.16



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reach over 70 destinations across the world, with key comprising Europe, Africa, the Middle East and South-East Asia.

The company makes tyre for different vehicles like Passenger Car, Alloy Wheels, Sports Utility, Van Passenger Winter, Heavy Commercial, Light Commercial, Small Commercial and Agriculture etc.

## Financial Health

Apollo Tyres reported a rise of 151.15% in its net profit for the final quarter to Rs 116.18 crore compared to Rs 46.19 crore in the same quarter last year. For the fiscal the company's profit zoomed by 283.83% to Rs 414.99 crore from Rs 108.12 crore. Top-line growth was supported by Volume growth and price hike taken by the company during the final quarter.

The sales during the Q4 stood at Rs 1312.78 crore, up by 18.21% from Rs 1110.57 crore in the corresponding previous quarter while for the whole year it was up by 23.71% to Rs 5036.80 crore from Rs 4071.55 crore in the last year.

On the Operating front, the company reported healthy Operating Margin of 14.1% compared to 10.1% during 4QFY2010, on a Standalone basis. In absolute terms, the company's Operating Profit grew 63.8% yoy to Rs 185 crore compared to Rs 113 crore.

## Industry Scenario

The origin of the Indian Tyre Industry dates back to 1926 when Dunlop Rubber Limited set up the first tyre company in West Bengal. MRF followed suit in 1946. Since then the country has witnessed the complete transformation of the industry and as the auto sector has grown manifold the tyre industry too has expanded. The Indian tyre industry produces the complete range of tyres required by the Indian automotive industry, except for aero tyres and some specialised tyres. Domestic manufacturers produce tyres for trucks, buses, passenger cars, jeeps, light trucks, tractors (front, rear and trailer), animal drawn vehicles, scooters, motorcycles, mopeds, bicycles and off-the-road vehicles and special defence vehicles.

In a development that would help the tyre manufacturers in India, the government has simplified the carbon black import into the country. It has removed restrictions on import of the product and the same can now be imported freely by producers. The move should help the tyre industry for which carbon black is a key input.

Both the replacement and OEM demand for the industry

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Mar 2010	Mar 2009	Change(%)
Net Sales	13127.83	11105.66	18.21
Expenditure	11282.19	9979.08	13.06
Other Income	88.04	79.27	11.06
EBITDA	1933.68	1205.85	60.36
Interest	200.36	190.86	4.98
Net Profit	1161.77	461.92	151.51
EBITDA Margin (%)	0.15	0.11	35.66
NPM (%)	0.09	0.04	112.77
EPS	2.30	0.92	150.00

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	40704.41	36939.27	10.19
Total Income	40925.53	37219.64	9.96
Total Expenditure	37409.01	32404.51	15.44
Operating Profit	3516.52	4815.13	-26.97
Profits After Tax	1081.18	2193.03	-50.70

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	504.09	488.51	3.19
Reserve & Surplus	13053.04	11799.99	10.62
Total Liabilities	20512.28	16940.66	21.08
Investments	2974.48	3027.13	-1.74
Current Liabilities	4601.22	5658.25	-18.68
Net Current Assets	4849.51	4668.90	3.87
Total Assests	20512.28	16940.66	21.08

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	2.15	4.49
Core EBITDA Margin (%)	7.24	10.68
EBIT Margin (%)	5.58	9.27
ROA (%)	5.77	13.32
ROE (%)	8.39	20.03
ROCE (%)	13.57	23.97
Price/Book (x)	0.68	1.64
Net Sales Growth (%)	10.19	12.20
EBIT Growth (%)	-35.57	51.63
PAT Growth (%)	-50.70	93.35
Total Debt/Mcap (%)	0.76	0.23



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## Peer group comparison (Rs. crore)

\*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS*	P/E*
Apollo Tyres	200903	4070.44	329.54	108.12	2.66	8.23	7.83
MRF	200909	5672.84	691.36	256.32	4.52	1040.19	7.14
Balkrishna Inds.	200903	1252.34	197.20	69.69	5.57	107.97	5.44
JK Tyres	200903	4903.61	293.25	19.05	0.39	39.81	4.18

has improved considerably over the current fiscal. With auto sale numbers expected to continue remaining strong and faster-than-expected improvements in domestic economy, we expect demand to remain robust going forward. However, rising imports from China is likely to keep some pressure on the replacement market.

However, the industry is facing cost side problems. Rising natural rubber prices coupled with high import duty has increased the cost of production. Going forward, the prices of natural rubber are likely to remain strong in the near term and there is little relief that industry can expect in this aspect.

While the bullish demand from the auto makers will ensure the tyre makers can hold on to their margins in the OEM market, the same may not be the case with the replacement market. Typically, margins are much higher in replacement market compared to the OEM market. In wake of surging natural rubber prices, and given the cut throat competition, tyre makers are unlikely to pass on all the increase in costs to consumers in replacement market, which can impact the margins to some extent.

## Latest developments

Apollo Tyres has announced a lockout at one of its factories, in Kerala's Thrissur district due to labour unrest, resulting in an estimated daily loss of Rs 3 crore. This unit constitutes a fourth of Apollo's total daily output.

The company has recently launched three passenger car tyre brands- Amazer 3G, Acelere, Aspire - and the Hawkz range of SUV tyres in the European markets of Germany, the Netherlands and the UK.

## Investment Rationale

The rubber prices have been rising continuously and have almost doubled to around Rs 170 a kg but the sharp uptick in demand has allowed tyre makers to improve their operating margins despite rise in raw material costs.

According to industry estimates, 'radialisation' in commercial vehicles is around 14 per cent, up from under

1 per cent in 2005 and is projected to touch 25 per cent by 2013. According to a projection by the Automotive Tyre Manufacturers Association, radial tyres will see a nearly 50 per cent jump in demand in 2011-12 at 62.5 lakh units per annum from the current 26.2 lakh units.

The company's Chennai green-field capacity is progressing well and management expects to commission 100TPD in Phase 1 in FY2011, with 200TPD and 400TPD planned to be added in FY2012 and FY2013, respectively. The expansion entails total investment of Rs 2,000 crore, out of which around Rs 1,000 crore have been estimated to be expended by March 2010.

The domestic market is expected to see a good growth in Commercial Vehicles (CVs). The demand for commercial vehicles tyres is largely driven by replacement market followed by OEM. In the OEM category, prices were increased by 5% each in December 2009, February and April 2010. It was easy to pass on the raw material increases to the OEM customers as they have a significant demand for tyres. The company is in negotiation with the OEMs to further increase the prices.

Apollo Tyres will be spending Rs 1,100 crore for increasing production capacity at its facilities in India and overseas during the 2010-11 fiscal. In India, it would increase capacities at Chennai, Baroda and Kochi and would also raise production capacity at its Netherlands and South Africa units. Out of the total expenditure, the company will spend Rs 300 crore in its factory in Chennai and Rs 150 crore in total on its facilities in Vadodara in Gujarat and Kochi in Kerala.

At the CMP of Rs 64, Apollo Tyres is trading at 5x to its FY11E EBITDA. Though there will be some margin pressure if the raw material prices continue to rise, then even we expect the sales of the company to grow at 15% CAGR over 2010-13 and PAT to grow at 16%. We will recommend a buy in the stock with a price target of Rs 82; being the market leader in the CV segment the company is likely to be benefited with the expected surge in the CV market.



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