Apollo Tyres: Good long-term pick with valuation down

Although Apollo Tyres showed a decent topline growth in all the countries that it operates in, it reported a mixed set of numbers for the bottom line. Its consolidated net sales jumped by 47% compared with that in the same period last year. While the standalone entity reported a net sales growth of 57%, triggered by the higher production at its greenfield plant in Chennai and an increased demand for truck-bus radials, the net sales growth of its European operations was 43%, triggered by the demand for winter tyres ahead of the peak season. The South African operations also posted a modest net sales growth of 15%. While it reported a 46% net profit growth at the consolidated level, the standalone net profit for the quarter came to Rs 22 crore, down by 41% compared with Rs 37 crore it reported in the second quarter of 2011-12. This was due to an increase in rubber prices and an unfavourable product mix due to the increased share of direct sales to auto manufacturers (or OEM sales). This differential performance is evident even at the operational level. While the operating profit of its Indian entity came down by 9%, the European operations reported a growth of 84%. Its South African office also turned around and reported an operating profit of Rs 2.6 crore, against an operating loss of Rs 7.5 crore during the same period last year. Easing domestic margin pressure: The recent fall in natural rubber prices in India should help Apollo Tyres increase its operating margins again. The price of natural rubber (grade RSS-4) has fallen from Rs 215/kg to Rs 190/kg in the past two months. Although there was a proposal to remove anti-dumping duties on Chinese tyres, it has not been approved and this should help to keep the prices of domestic tyres stable. Structural changes: Apollo Tyres is expected to benefit immensely from the shift towards radial tyres by truck and bus operators in the domestic market.