

Dunlop India Ltd.

Key Data

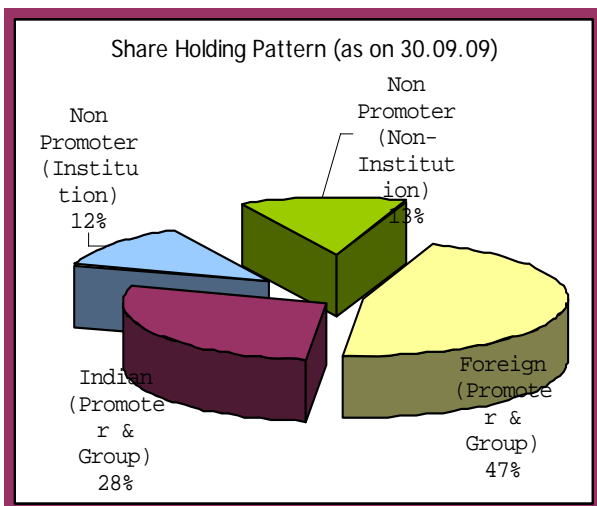
Equity Shares O/S (Cr)	7.198
CMP (Rs.) As on 29.01.10	89.71
52 Week High (Rs.) (29/01/2010)	89.71
52 Week Low (Rs.) (12/01/2010)	50.00

Source:- Capitaline

Latest Figures

Equity (Paid up & fully subscribed) (Rs.Cr)	71.98
Equity (Permitted for trading) (Rs.Cr)	44.99
NW (Rs.Cr)	203.60
Net Profit (9M FY10) (Rs.Cr)	0.76
BV (Current) (Rs.)	28.29
P/BV	3.17
RNOW (9M FY10)	0.05%
EPS(Annualised) (Rs.)	0.04

Source:- Capitaline & company press release



Source:- Capitaline, GSL Research

Company Profile: Dunlop India Ltd. (DIL), headed by the Ruia Group, is present in the auto ancillary segment. The company produces Off the Road Tyres (Grader95, PG 6S E3, PG 6D E4), tyres for buses and trucks (Mahaan, XM-Rib, Centurion Rib etc), farm service tyres (Road Field Master, Mahaans-T etc) as well as tyres for 2-3 wheelers (where Falcon, a subsidiary of Dunlop, is one of the largest players). Dunlop is also into production of conveyor belts, industrial belts and steel chords. It has two factories at Sahagunj (West Bengal) and Ambattur (Tamil Nadu). After a gap of 8 years, the company's shares got re-listed on BSE at a price of Rs.50 per share on 12.01.2010.

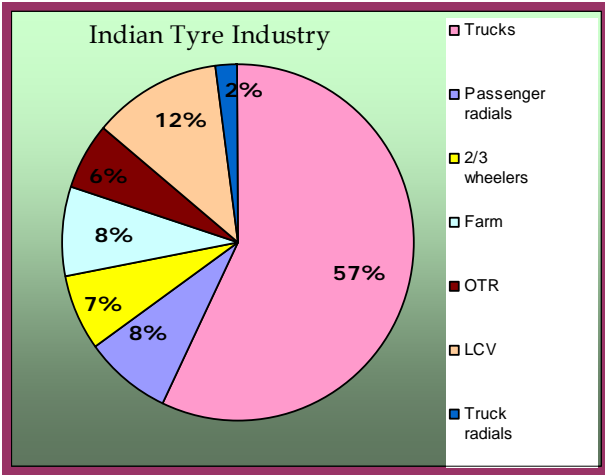
Capacity: Dunlop has recently reopened its Shahagunj plant in West Bengal. Its initial production will be 40 tonnes of Off The Road (OTR) tyres per day. The total installed capacity at these two plants is 130 tons a day. The company currently makes 9lakh units of tyres annually.

Subsidiary(catering only to 2-3 wheeler tyres):

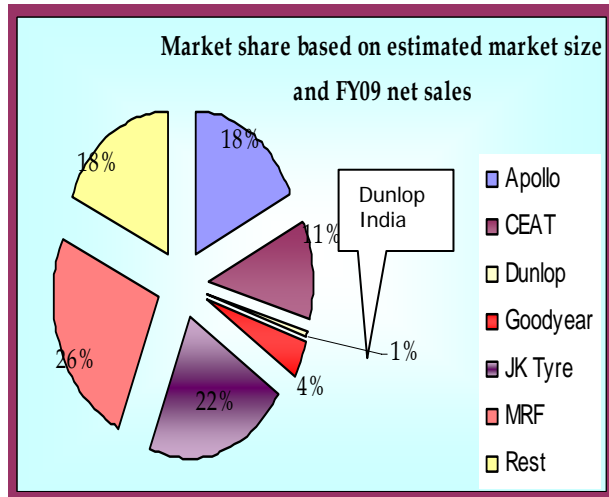
- **Falcon Tyres** (based in Mysore)
 - 6 MW co-generation power plant
 - 27% market share in its segment.
 - Tyre production capacity at 750,000 per month
 - Produces 900,000 tyres a month.
 - Tube production capacity at 11,25,000 per month
 - Technological tie up with Sumitomo Corp.
 - Catering mostly to Bajaj Auto, Hero Honda, Kinetic Engineering, Kinetic Motor Company
 - **Montana Tyres** (based out in Mumbai)- 100% subsidiary of Falcon
 - ✓ Plant at Wada, Maharashtra
 - ✓ Capacity of Tubes 400,000 per month and Tyres 250,000 per month.
 - ✓ Makes 300,000 tyres a month
 - ✓ Catering mainly to Bajaj Auto.

Other Subsidiaries

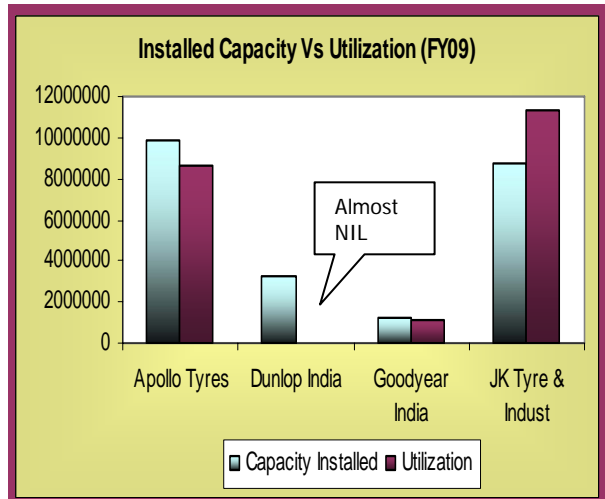
- *Wizer Advertising Pvt. Ltd.*
- *Ebony Commercials Pvt. Ltd.*



Source: www.bloombergtv.com



Source: Capitaline, GSL Research



Source: Capitaline, GSL Research

Key Take Away and Outlook:

- **Demat Issues:** Addressing the concerns of the present shareholders, the company has clarified that SEBI has allowed the trading of its shares in both physical and dematerialized forms under the T-group category. It is **not mandatory for the shareholders to convert the existing physical shares into demat form as long as SEBI doesn't instruct otherwise** but for demat shares the market lot is 1 while that for shares in physical format is 100. As for the shares issued on right basis in 2007, they have still not received the permission for being traded on the stock exchanges. The number of shares outstanding and **permitted for trading at the moment is 4.5cr and does not include the shares issued in 2007 on right basis because of a case pending in Delhi High Court.**
- **Listing Issues:** The re-listing of Dunlop on BSE was a positive step for the company. But Dunlop has no plans yet to get listed on the NSE. The company however is looking forward to get listed on the Calcutta and Ahmedabad Stock Exchanges. **Listing on the NSE would be beneficial for the shareholders.**
- **Industry Structure:** The Indian tyre industry has an **estimated size of \$5bn which at the current exchange rate translates to around Rs.22,500cr.** The Market segments are: 23% OEM, 59% replacement, 18% exports. Among the **key industry players are CEAT, JK Tyres, Goodyear, Birla Tyres (unlisted), and Apollo Tyres.** All the industry players produce products which are comparable in terms of quality. As this is a monopolistically competitive market the products are differentiated only to a certain degree. The competitive edge depends on qualitative factors like after sales services, advertising, branding and sales promotion measures like price discounts being offered on the products and guarantees on products' quality and durability.
- **Peer Comparison:** The focus of the management at this point of time is on reaching a competitive size in terms of turnover to come to a level playing field with its competitors. The competitors are much too big in size to be compared with Dunlop at the moment. It is to be kept in mind that resumption of production has occurred only recently and full capacity utilization would take considerable time. Once production comes into full swing, **Dunlop's prime focus would be on**

Consolidated Figures			
Rs.Cr	FY07	FY08	FY09
Equity (Paid up)	44.99	71.98	71.98
Equity (permitted for trading)	44.99	44.99	44.99
Reserves (Excl. revaluation)	177.89	162.90	133.95
Reserves (Incl. Revaluation)	1068.94	1240.96	1294.01
Net Worth	222.88	234.88	205.93
Book Value	49.54	32.63	28.61
Secured Debt	90.06	12.86	12.06
Unsecured Debt	183.34	151.69	190.16
Total Debt	273.40	164.55	202.22
Debt Equity Ratio	1.23	0.70	0.98

Rs.Cr	FY07	FY08	FY09
Market Cap	348.72	557.92	557.92
Enterprise Value (EV)	621.07	719.99	758.93
Capital Employed	496.28	399.43	408.15
Freehold Land	528.93	432.44	338.43
Net Block	1443.24	1367.77	1235.28
Inventories	9.51	16.4	14.07
Cash & Bank Balance	1.05	2.48	1.75
Other Current Assets	13.3	52.98	74.79
Total Current Assets	23.86	71.86	90.61
Total Current Liabilities	42.09	93.75	74.93
Current Ratio	0.57	0.77	1.21
Contingent Liabilities	229.19	233.96	218.53

Source: Capitaline

garnering market share by exploiting the brand image it owns and taking to aggressive marketing. Concentrating on pricing issues, providing better after sales services and understanding the needs of the consumers would play key roles behind product development and hence Dunlop's growth.

➤ **Capacity Utilization & Expected Bottlenecks:** For Dunlop India, the current capacity utilization is extremely low and is not comparable to any of its competitors as of now. Considering the fact that the company has resumed production only recently, there would be several problems and shortcomings in utilizing the current installed capacity. These could only be identified once 30-40% capacity utilization comes in (**FY10 expected capacity utilization is around 25%**). The company is not starting from scratch. Putting new capacity to use does not give rise to as many problems as the ones which come to the fore front if the **existing capacity which had been lying idle for 8-9 years**, is put to utilization. These would relate to not only the working conditions of the machineries installed but also the existing level of technology. Technology is a dynamic feature of the tyre industry and the company has to keep pace with the competitors. Once these problems are identified and sorted out then the company will be in a position to figure out the extent of expenditure required for financing replacement of old machineries as also technology upgradation requirement if any. Capacity expansion would come in at a much later stage. **The company expects to maintain its production in the vicinity of 9lakh tyres in FY10. Full capacity utilization is likely to come in 12-15 months time.**

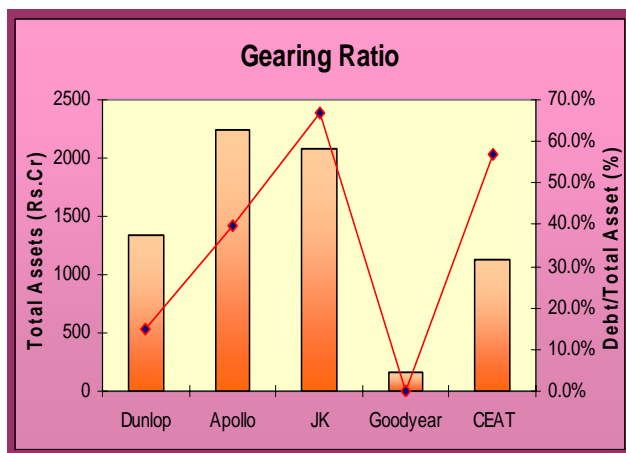
➤ **Technical Tie-ups:** The Company had technical tie ups with Mitsuboshi Beltings Ltd, Sumitomo Rubber Inds and BTR Belting Ltd which do not exist at this point of time. The company is looking forward to getting into some technical collaboration for R&D expansion in the near future. However, the timeline has not been indicated.

➤ **Raw material prices:** The tyre industry in India is witnessing hardening of rubber prices. Rubber prices have increased from Rs.108 per kg to Rs.128 a kg (the highest was around was Rs.147 per kg). Further price hike is expected which could be anywhere between 3-8%, which **will squeeze the company's margins unless it is able to pass the increased raw material prices on to the customers.** Dunlop

Rs.Cr	FY07	FY08	FY09
Net Sales	0	117.96	177.38
Other Income	491.37	4.99	6.98
Stock Adjustments	0	1.54	-5.18
Total Income	491.37	124.49	179.18
Total Expenditure	8.61	118.17	169.16
Operating Profit	-8.61	-0.21	8.22
Operating Profit Margin	-	-	4.6%
PBIDTA	482.76	6.32	10.02
Interest	3.46	0.37	7.3
PBDT	479.3	5.95	2.72
Depreciation	0.95	1.12	1.36
PBT	478.35	4.83	1.36
Tax	-10.5	0	0
PAT (Before EO)	488.85	4.83	1.36
EO Items	497.09	-0.71	0
Adj. PAT	-8.24	5.54	1.36
EPS	-	0.67	0.19

Ratios	FY07	FY08	FY09
P/E	-	115.51	410.23
P/BV	1.49	2.38	2.71
ROCE	97.1%	1.3%	2.1%
RONW	-	2.4%	0.7%

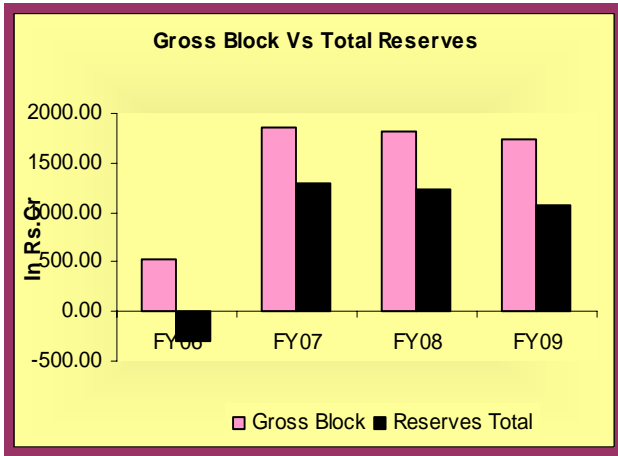
Source:- Capitaline



Source:- GSL Research, Capitaline

has rate contract with some OEM companies till March 2010 which is likely to put some kind of ceiling on tyre prices that can be charged to them. Under such circumstances, the company will not enjoy pricing advantages and it will be difficult to pass on the increased costs to the customers. The company has hiked its prices and is likely to do so again if rubber prices remain stiff.

- **Captive Power Plant at Shahaganj:** Dunlop is planning to set up a 50 MW captive power plant for the Shahaganj plant. It is expected that the **cost for setting up** the plant would be **around Rs.250cr**. The **timeline given is 1-1.5yrs**. All the power produced would not be consumed in-house. The excess production would be sold outside. This on the one hand would reduce the power cost and on the other would mean addition to the company's earning.
- **Expansion of Falcon:** Falcon has commendable presence in the 2-3 wheeler segments where its main competitors are TVS and CEAT. It is likely to see a capacity expansion by an additional 500,000 tyres a month. On completion, this will be the largest 2 and 3 wheeler tyre capacity in India. The capex for expansion in Falcon would be around Rs.300cr. Almost Rs.150cr has been tied up in loans. Another Rs.50cr still remains to be tied up. The balance Rs.100cr would be raised through one of the options — FCCB, GDR or a QIP.
- **Earning Issues:** The year-end result would give us some idea of what we can look forward to in terms of growth. The company can then make comments on revenue guidance and further expansion. Although the company had not given us any forward looking statement in terms of revenue guidance, it is being said that the company is **eyeing a topline of Rs.700cr in FY10 for Falcon Tyres**. The company is also targeting a revenue of **Rs.600cr for Dunlop India in FY11**.
- **Merger Issues:** Falcon Tyres, a subsidiary of DIL, has considerable presence in South India and is among the largest players in the small tyre segment in terms of turnover. The company has **no plans of merging any of its subsidiaries** as they cater to an altogether different segment of the tyre industry (2-3 wheeler tyres) where Dunlop is not present. **Merger would not bring in any kind of vertical or horizontal integration.**



Source:- GSL Research, Capitaline

Comparison		
Company Name	P/BV (current)	P/BV (12.01.10)*
Apollo Tyres	2.0	1.9
CEAT	0.9	1.1
Dunlop India	3.1	1.7
Goodyear India	2.8	2.9
JK Tyre & Indust	2.1	1.9
MRF	2.2	2.3

*based on the listing day prices & FY09 BV

Break Up of Gross Block				
(Rs.Cr)	FY06	FY07	FY08	FY09
Freehold Land	64.49	528.93	432.44	338.43
Buildings	93.16	282.59	186.93	186.96
Plants & Machineries	364.16	1040.16	1193.32	1193.81
Furnitures & Fixtures	5.40	5.41	5.53	5.58
Vehicles	1.49	1.53	4.12	4.50
Gross Block	528.70	1858.62	1822.34	1729.28

Source:- Capitaline

Justification of listing at Rs.50

Dunlop got re-listed on the BSE on 12.01.2010 at a price of Rs.50. At the re-listing price Dunlop India was trading at 1.7x its FY09 book value, which seems to be a fair price compared with the industry peers who were trading on the same day at around same P/BV level considering their FY09 book values. P/E cannot give a fair view at this stage since because of the aforesaid reasons the company's EPS cannot work as a comparable figure.

Financials

- The company was holding 100 equity shares of Dunlop Properties Ltd aggregating to Rs.1lakh (approx) in FY08. This component of unquoted investment doesn't exist in FY09.
- 5.66lakh equity shares of Bhartia Hotels Ltd aggregating to Rs.54.92cr which also comprised unquoted investments in FY08 do not exist in FY09.
- The **contingent liabilities** relate to disputed sales tax and excise duty. We have no information related to disputes in areas like PF, Gratuity, ESI etc. In respect of the sale proceeds of Rs.70lacs realized from a certain party in earlier years, the Company deposited the amount with the Chennai High Court, and out of the same, a sum of Rs.35lacs has been utilized for payment of outstanding dues of employees. The balance lying with the court is pending adjudication.
- The lion's share of other income in FY07 has come from profit on sale of fixed assets.
- **Revaluation of core fixed assets** (plant and machinery, factory land and building, offices and warehouses) **increased the reserves** in Dunlop's balance sheet to Rs.1294cr for FY07 from a negative Rs.306cr in of FY06 and improved the company's net worth. This has been shown in the adjacent figure.
- For the 9m period ended 31.12.09, the company has seen negative growth in sales. **Profit has been boosted by the "other operating income"** which has grown by close to 200% (yoy). The growth in net profit has been the result of the combined effect of the decrease in total expenditure, interest expenses and depreciation.
- The Q3 FY10 results are somewhat impressive compared to the 9m FY10 results. For Q3 FY10, the

Standalone Figures			
9 months Results			
In Rs. Cr	9M FY10	9M FY09	YOY (%)
Net Sales	158.65	166.86	-4.9
Other Operating Income	2.10	0.72	191.4
Other Income	0.22	2.76	-92.0
Total Income	160.97	170.34	-5.5
Total Expenditure	158.91	168.17	-5.5
Operating Profit	1.83	-0.59	LTP
Operating Profit Margin	1.2%	-	-
PBIDT	2.06	2.17	LTP
Interest	0.24	4.86	-95.0
PBDT	1.82	-2.69	LTP
Depreciation	1.08	7.94	-86.4
PBT	0.74	-10.63	LTP
Tax	0.00	0.00	-
PAT	0.74	-10.63	-106.9
NPM	0.5%	-	-
EO Items	-0.05	-0.73	-93.2
Adj PAT	0.79	-9.90	LTP
EPS (ann)	0.15	-	-

LTP- Loss To Profit
Source:- Capitaline

net sales have witness 13% growth on a yoy basis along with improvement in operating margin. But for this quarter as well there has been **substantial increase in other operating income**. On a sequential basis sales have witnessed over 30% decline. The **profit figure has been boosted by substantial decline in depreciation and interest outgo and marginal decline in total expenditure**.

- Refurbishment work for restoration of production capacities in full is in progress at both the plants of the Company. Related expenses have been booked under Capital WIP. **No depreciation has been provided on assets capitalized on 31.3.2006 not put to use. Provisions, if any, for Tax/Deferred tax will be made at the close of financial year.** Once these figures get added to depreciation and total expenditure, the bottomline will be adversely impacted.

Our Views:

We feel that it is **too early to comment** on whether or not the company will do well inspite of the fact that growth potentials do exist. The industry is characterized by fierce competition among the key players who enjoy substantial market shares. Dunlop has restarted its operations after a long gap of 8-9 years and it will take some time to come to some sort of comparable turnover before it can be placed on the same footing with industry peers since capacity utilization at this point of time is very low compared even to its own subsidiary Falcon Tyres which over is utilizing its capacity.

We are looking forward to the forthcoming full year results after which it will be possible to make some kind of financial projections. The 9m FY10 results are an indicative of the improved performance we can expect at the yearend and for the forthcoming quarters in terms of net profit. What **target the management has stated about the company expecting to generate revenue of Rs600cr in the next fiscal, might be a little difficult to achieve considering the 9 months results of this fiscal.**

Standalone Figures					
Quarterly Results					
In Rs. Cr	Q3 FY10	Q3 FY09	YOY (%)	Q2 FY10	QOQ (%)
Net Sales	40.74	36.07	12.9%	58.41	-30.3
Other Operating Income	1.16	0.11	952.7%	0.02	5690.0
Other Income	0.12	0.56	-78.6%	0.10	20.0
Total Income	42.02	36.74	14.4%	58.53	-28.2
Total Expenditure	40.93	39.15	4.5%	58.05	-29.5
Operating Profit	0.97	-2.97	LTP	0.38	153.9
Operating Profit Margin	2.4%	-	-	0.7%	170bps
PBIDT	1.09	-2.41	LTP	0.48	127.1
Interest	0.08	1.83	-95.6%	0.09	-10.0
PBDT	1.01	-4.24	LTP	0.39	158.7
Depreciation	0.37	2.67	-86.1%	0.37	0.3
PBT	0.64	-6.91	LTP	0.02	3090.0
Tax	0.00	0.00	-	0.00	-
PAT	0.64	-6.91	LTP	0.02	3090.0
NPM	1.6%	-	-	0.03%	157bps
EO Items	-0.02	0.12	-116.7%	-0.03	-33.3
Adj PAT	0.66	-7.03	LTP	0.05	1216.0
EPS (ann)	0.37	-	-	0.03	1216.0

LTP- Loss To Profit
Source: Capitaline

Considering the fact that **for the said period, net sales have actually declined on a yoy basis.** The revenue forecast would require over 160% growth over the annualized 9m FY10 net sales. The topline for the Dec'09 quarter however, shows a growth. For both the Dec'09 quarter and the 9m ended Dec'09, the company has been able to generate profits as compared to the corresponding periods in the previous years which have seen losses. **The management remains extremely positive about the growth scenario and expects to cash in on its Brand Equity backed by aggressive marketing.**

The overall outlook for the tyre industry is positive as the auto sector is seeing a growth trajectory once again. The tyre industry is characterized by fierce competition among the key players. Supply shortages exist which should help the company to garner a respectable market share but it **all depends on how the management is effectively able to handle the labour issues and utilize the existing capacity keeping pace with the changing technologies since both the plants of Dunlop were closed down in 2008 due to recession and labour issues.** **Garnering a respectable market share remains a crucial issue as well.**

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