

Outlines Vision 2026...

In its virtual investor event, Apollo Tyres (ATL) outlined Vision 2026 targets for key performance parameters. It includes **(1) revenues of US\$5 billion, (2) EBITDA margins in excess of 15%, (3) pre-tax RoCE of 12-15% & (4) <2x net debt to EBITDA**. It reiterated its intent of sweating of assets in the near term, de-leveraging b/s, augmenting capital efficiency and calibrated capex spend.

Targets near doubling of revenues over next five years

The company's revenue ambition in FY2026 compares to ~US\$2.3 billion net sales of FY21, placing FY21-26E CAGR at ~17%. In India, ATL is the volume and price leader in TBR (31% market share) and has a sizeable presence in PCR (21% market share). Impending CV cyclical revival is set to benefit the company, with expected improvement in radialisation levels (from 47% as of FY21) and vehicle penetration levels being other tailwinds. In Europe, ATL aims to grow faster than the industry on the back of building upon TBR introduction (~2% market share), entry into new geographies within Europe, targeting all-season tyres and on-boarding German OEMs in PCR. Additionally, product mix improvement remains a focus area, to be achieved via increasing share of ultra-high performance i.e., UHP tyres in sales mix from present ~36% to ~40%. Elsewhere, the company has begun seeding the large US market and would be serving it via facilities in India and Hungary. Share of exports in India revenues is set to increase to ~20% vs. present ~10% in the next five years. ATL would soon be launching EV tyres (value add in terms of low rolling resistance and less noise incidence) under Vredestein brand for Europe and US (to be manufactured in India).

Focus on margins, return ratios encouraging

On the margin front, ATL said that Europe margins achieved in H2FY21 (~15%) are sustainable, with Dutch plant specialisation holding the key to future performance. The company seeks to reduce raw material consumption by ~5-7% on like-to-like basis over the next five years, with production ramp up set to deliver operating leverage benefits across geographies, going forward. ATL is exploring organisation-wide capacity de-bottlenecking opportunities as a means to improve efficiencies. In order to meet revenue target, a fresh round of PCR and TBR expansion would be required by 2026 but capex spends for the same would not be lumpy. Brownfield capacity expansion in the future would require ~25% less capex than PCR, TBR greenfield expansion in the recent past.

Valuation & Outlook

ATL's plans, while ambitious, are largely achievable if stringent focus on profitable growth, capital allocation and deleveraging are maintained. On the revenue target front, it is comforting that it intends to achieve the same through organic route only. We believe a majority of the outlined ambitions would be met in a back-ended manner and, hence, do not alter our estimates at present. We retain our **BUY** rating on the stock with a revised target price of ₹ 275 valuing it at 6x FY23 EV/EBITDA (earlier TP: ₹ 260).

Key Financial Summary

Key Financials	FY19	FY20	FY21P	FY22E	FY23E	CAGR (FY21P-23E)
Net Sales	17,548.8	16,327.0	17,335.7	19,968.5	22,502.0	13.9%
EBITDA	1,958.9	1,915.6	2,736.2	2,652.0	3,283.2	9.5%
EBITDA Margins (%)	11.2	11.7	15.8	13.3	14.6	
Net Profit	680.0	476.4	350.2	627.1	1,031.4	71.6%
EPS (₹)	11.9	8.3	5.5	9.9	16.2	
P/E	19.3	27.6	41.7	23.3	14.2	
RoNW (%)	8.3	4.8	6.4	5.3	8.2	
RoCE (%)	7.3	4.5	7.6	6.1	9.1	

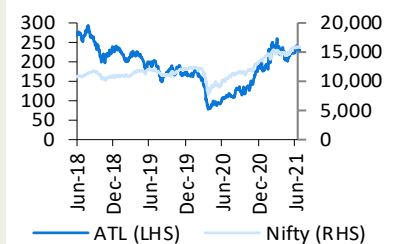
Source: Company, ICICI Direct Research



Particulars

Particular	₹ crore
Market Capitalization	14,606.0
Total Debt (FY21P)	6,436.5
Cash & Inv. (FY21P)	2,235.9
EV (₹ Crore)	18,806.6
52 week H/L (₹)	261 / 106
Equity capital	₹ 63.5 Crore
Face value	₹ 1

Price Performance



Key highlights

- Revenue CAGR of ~17% being targeted amid CV, PV tailwinds in India and industry-beating growth in Europe
- Margins sought to be maintained in excess of 15%, with RoCE at 12-15% and net debt to EBITDA at <2x

Risks to our call

- Any cooling off of deleveraging momentum amid fresh capex spends
- Any loss of market share that would jeopardise revenue ambitions

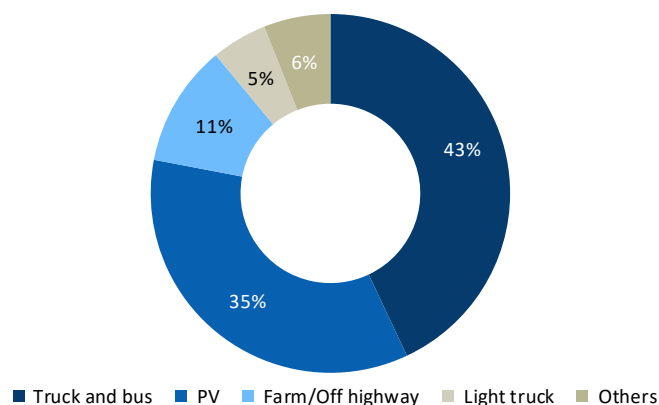
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Story in charts

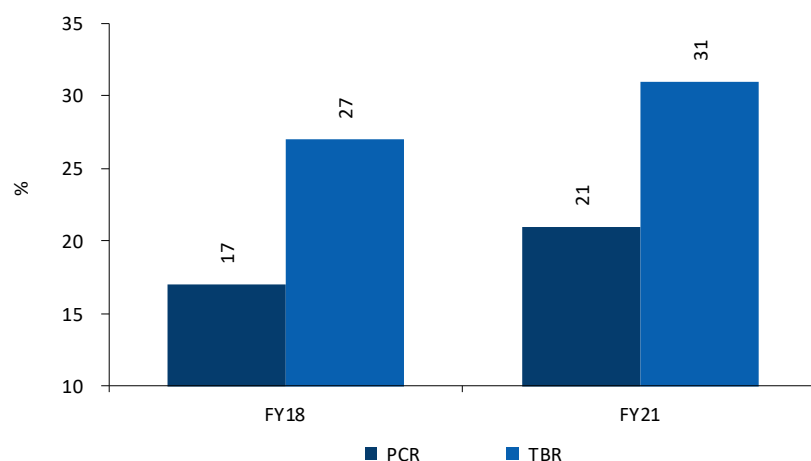
Exhibit 1: ATL consolidated revenue mix (FY21)



In FY21, India comprised 63% of consolidated sales, with Europe comprising 32%. In terms of channels, replacement accounted for 82% of sales with sales to OEMs at 18%

Source: Company, ICICI Direct Research

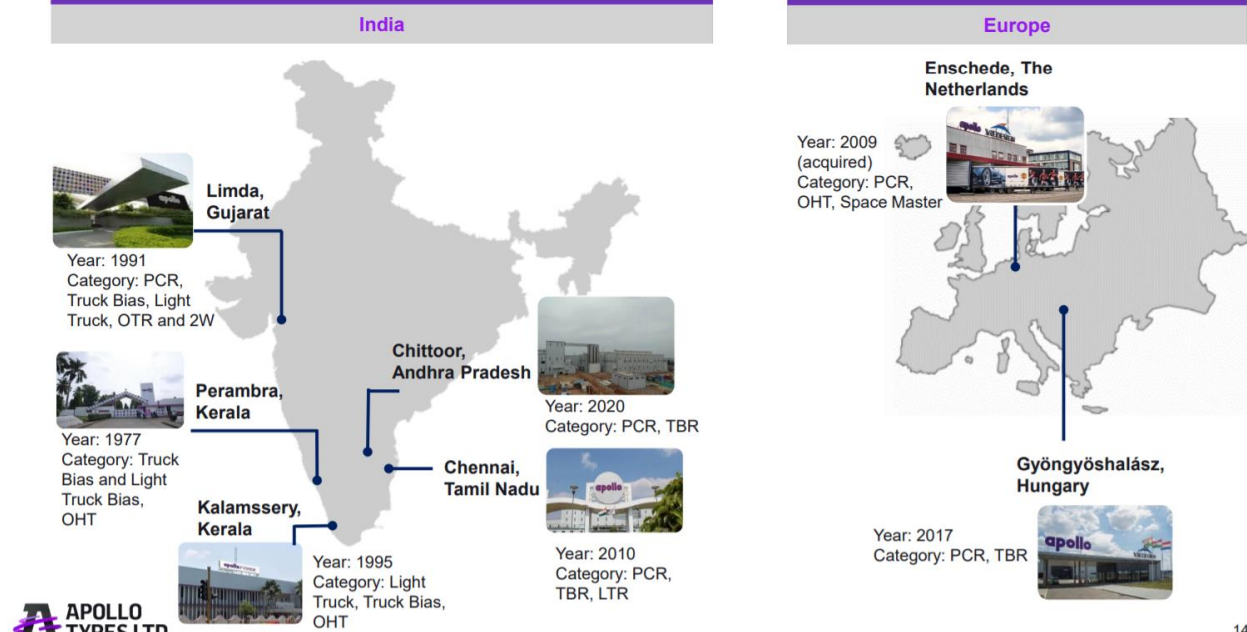
Exhibit 2: ATL market share movement in India served segments



ATL further expects to consolidate and gain market share in its key segments in India with focus on 3R strategy i.e. range, rural and retail

Source: Company, ICICI Direct Research

Exhibit 3: Manufacturing locations in India and Europe



Source: Company, ICICI Direct Research

Exhibit 4: ATL's long term roadmap to value creation

Long-Term Roadmap to Value Creation

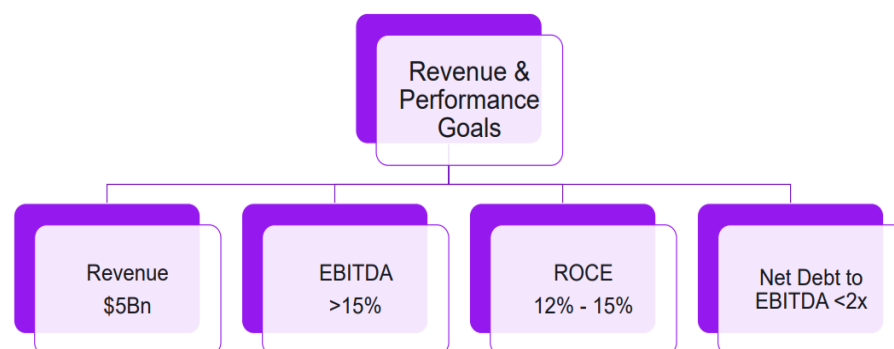


Source: Company, ICICI Direct Research

Exhibit 5: ATL's Vision FY2026 in numbers

Vision FY2026

Medium-Long Term Targets



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Total operating Income	16,327.0	17,335.7	19,968.5	22,502.0
Growth (%)	-7.0	6.2	15.2	12.7
Raw Material Expenses	9,075.5	9,394.6	11,543.6	12,945.3
Employee Expenses	2,482.2	2,513.3	2,480.7	2,618.1
Other Expenses	2,853.7	2,691.7	3,292.2	3,655.4
Total Operating Expenditure	14,411.3	14,599.5	17,316.5	19,218.8
EBITDA	1,915.6	2,736.2	2,652.0	3,283.2
Growth (%)	-2.2	42.8	-3.1	23.8
Depreciation	1,138.1	1,314.9	1,497.6	1,631.4
Interest	280.8	443.0	440.1	368.3
Other Income	46.9	190.7	156.6	149.0
PBT	543.6	561.2	870.9	1432.5
Exceptional items	0.0	607.8	0.0	0.0
Total Tax	67.2	211.0	243.9	401.1
Reported PAT	476.4	350.2	627.1	1,031.4
Growth (%)	-29.9	-26.5	79.1	64.5
EPS (₹)	8.3	5.5	9.9	16.2

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Profit after Tax	476.4	350.2	627.1	1,031.4
Add: Depreciation	1,138.1	1,314.9	1,497.6	1,631.4
(Inc)/dec in Current Assets	434.4	-720.8	-612.4	-769.5
Inc/(dec) in CL and Provisions	644.8	1,005.0	527.9	714.3
CF from operating activities	2693.8	1949.3	2040.3	2607.6
(Inc)/dec in Investments	0.0	-90.1	-10.0	-10.0
(Inc)/dec in Fixed Assets	-4,851.9	-1,738.4	-2,064.0	-715.5
Others	1,167.2	445.2	301.6	288.4
CF from investing activities	-3684.7	-1383.3	-1772.4	-437.1
Issue/(Buy back) of Equity	0.0	6.3	0.0	0.0
Inc/(dec) in loan funds	1,833.3	-327.4	-300.0	-1,750.0
Dividend paid & dividend tax	-205.9	-222.3	-254.0	-317.5
Others	-449.6	1,373.7	-20.0	-20.0
CF from financing activities	1177.8	830.4	-574.0	-2087.5
Net Cash flow	186.9	1,396.3	-306.1	83.0
Opening Cash	562.7	749.6	2,145.8	1,839.7
Closing Cash	749.6	2145.8	1839.7	1922.7

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet ₹ crore				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Liabilities				
Equity Capital	57.2	63.5	63.5	63.5
Reserve and Surplus	9,872.8	11,379.6	11,752.6	12,466.5
Total Shareholders funds	9,930.0	11,443.1	11,816.1	12,530.0
Total Debt	6,763.9	6,436.5	6,136.5	4,386.5
Deferred Tax Liability	747.7	920.9	1,060.8	1,195.3
Total Liabilities	19,152.6	20,961.0	21,478.3	20,869.8
Assets				
Gross Block	22,558.7	24,812.6	27,483.1	28,498.6
Less: Acc Depreciation	8,063.0	9,377.9	10,875.5	12,506.9
Net Block	14,495.7	15,524.8	16,707.7	16,101.8
Capital WIP	1,622.0	1,106.5	500.0	200.0
Total Fixed Assets	16,117.7	16,631.3	17,207.7	16,301.8
Investments	19.4	109.6	169.6	229.6
Goodwill on consolidation	213.5	220.4	220.4	220.4
Inventory	3,206.9	3,318.5	3,829.6	4,315.5
Debtors	939.9	1,380.8	1,367.7	1,541.2
Loans and Advances	43.5	46.2	53.2	60.0
Other current assets	541.6	707.1	814.5	917.9
Cash	749.6	2,145.8	1,839.7	1,922.7
Total Current Assets	5,481.5	7,598.5	7,904.7	8,757.2
Creditors	2,309.1	2,806.7	3,009.0	3,390.7
Provisions	274.4	288.2	309.0	348.2
Total Current Liabilities	2,583.5	3,094.9	3,317.9	3,738.9
Net Current Assets	2,898.0	4,503.6	4,586.8	5,018.3
Application of Funds	19,152.6	20,961.0	21,478.3	20,869.8

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	8.3	5.5	9.9	16.2
Cash EPS	28.2	26.2	33.5	41.9
BV	173.6	180.2	186.1	197.3
DPS	3.0	3.5	4.0	5.0
Cash Per Share	13.1	33.8	29.0	30.3
Operating Ratios (%)				
EBITDA Margin	11.7	15.8	13.3	14.6
PBT / Net sales	4.8	8.2	5.8	7.3
PAT Margin	2.9	4.2	3.1	4.6
Inventory days	71.7	69.9	70.0	70.0
Debtor days	21.0	29.1	25.0	25.0
Creditor days	51.6	59.1	55.0	55.0
Return Ratios (%)				
RoE	4.8	6.4	5.3	8.2
RoCE	4.5	7.6	6.1	9.1
RoIC	5.2	9.2	7.0	10.4
Valuation Ratios (x)				
P/E	27.6	20.0	23.3	14.2
EV / EBITDA	10.8	6.9	7.1	5.2
EV / Net Sales	1.3	1.1	0.9	0.8
Market Cap / Sales	0.9	0.8	0.7	0.6
Price to Book Value	1.3	1.3	1.2	1.2
Solvency Ratios				
Debt/Equity	0.7	0.6	0.5	0.4
Current Ratio	1.8	1.8	1.8	1.8
Quick Ratio	0.6	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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