

Apollo Tyres

Refer to important disclosures at the end of this report

Moving toward a higher growth trajectory

- In its analyst meet, APTY highlighted revenue target of USD5bn in FY26, implying 16% CAGR over FY21-26E vs. 8% CAGR over FY16-21. Revenue growth will be driven by underlying industry growth, premiumization, and market share gains in India and Europe.
- Management expects ROCE (pre-tax) to increase from 9% in FY21 to 12-15% by FY26E, led by better asset turnover. Future capacity expansions would be only through de-bottlenecking and brownfield capacities.
- Medium-term EBITDA margin guidance stands at over 15%, driven by premiumization and cost-reduction initiatives, such as reduction in material usage, digitization efforts and plant specialization initiatives.
- We are factoring in revenue/earnings CAGRs of 12%/14% over FY21-24E. We maintain Buy with a TP of Rs290 (unchanged), implying an EV/EBITDA of 7x and P/E of 16x on FY23E estimates.

Key takeaways from Analyst Meet

FY26 revenue target at USD5bn: Management has guided for revenue CAGR of 16% over FY21-26E, driven by expectations of: 1) Volume growth in underlying industry in India at 10-13% CAGR for PCR tyres, 5-8% CAGR for CVs, and 2-4% for Tractors; 2) Continuing radialization in Truck & Bus industry from 47% in FY21 to 55-60% in FY25E; 3) Increase in exports for standalone from 9% of revenue in FY21 to 20% in FY26E, with focus on Europe, USA, Middle East and Africa regions; 4) Launch of new products: Vredestein brand in India for PCRs/2Ws and all-season PCRs, OHT as well as EV tyres for Europe/US markets; 5) Increase in revenue share of UHP/UUHP categories in Europe PCR from 36% in FY21 to over 40% in FY26E; 6) Increase in OEM revenues in Europe; 7) Increase in distribution reach in rural India; and 8) Increase in distribution reach in Europe and US markets.

ROCE target at 12-15% for FY26E: EBITDA margin of over 15% and better asset turnover are expected to drive ROCE from 9% in FY21 to 12-15% in FY26E. Future capacity expansions would be through de-bottlenecking and brownfield capacities. For instance, doubling of capacities in the Andhra Pradesh plant for TBR and PCR segments could be achieved at ~25% lower spends in comparison with initial Greenfield investments. In addition, a capacity expansion of 20-25% in the Hungary plant could be achieved with some de-bottlenecking efforts. Going forward, capex is likely to be in a staggered manner and not bunched up, resulting in positive FCF generation.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	163,502	173,970	198,885	220,666	243,477
EBITDA	19,387	27,975	29,149	33,621	37,315
EBITDA Margin (%)	11.9	16.1	14.7	15.2	15.3
APAT	4,764	9,579	8,658	11,495	14,057
EPS (Rs)	8.3	15.1	13.6	18.1	22.1
EPS (% chg)	(41.9)	81.1	(9.6)	32.8	22.3
ROE (%)	4.8	9.0	7.4	9.2	10.4
P/E (x)	27.5	15.2	16.8	12.7	10.3
EV/EBITDA (x)	9.9	6.7	6.4	5.4	4.5
P/BV (x)	1.3	1.3	1.2	1.1	1.0

Source: Company, Emkay Research

CMP	Target Price
Rs 229 as of (June 28, 2021)	Rs 290 (■) 12 months
Rating	Upside
BUY (■)	26.4 %

Change in Estimates	
EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

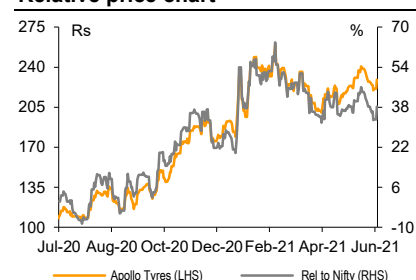
Emkay vs Consensus		
EPS Estimates		
	FY22E	FY23E
Emkay	13.6	18.1
Consensus	13.4	18.4
Mean Consensus TP (12M)	Rs 260	

Stock Details	
Bloomberg Code	APTY IN
Face Value (Rs)	1
Shares outstanding (mn)	635
52 Week H/L	261 / 106
M Cap (Rs bn/USD bn)	145 / 1.96
Daily Avg Volume (nos.)	7,023,058
Daily Avg Turnover (US\$ mn)	20.8

Shareholding Pattern Mar '21	
Promoters	37.3%
FIIIs	24.3%
DIIIs	11.5%
Public and Others	26.9%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	2	2	29	106
Rel. to Nifty	-	(7)	13	35

Relative price chart



Source: Bloomberg

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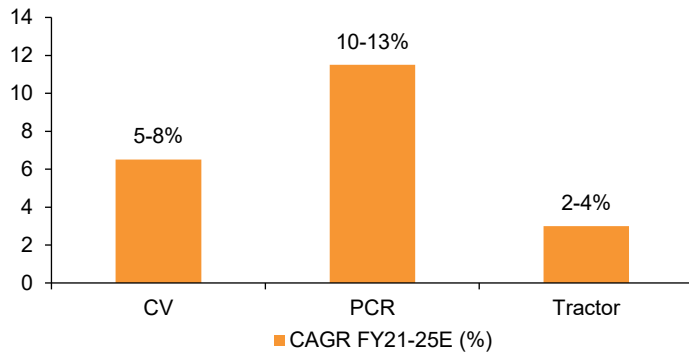
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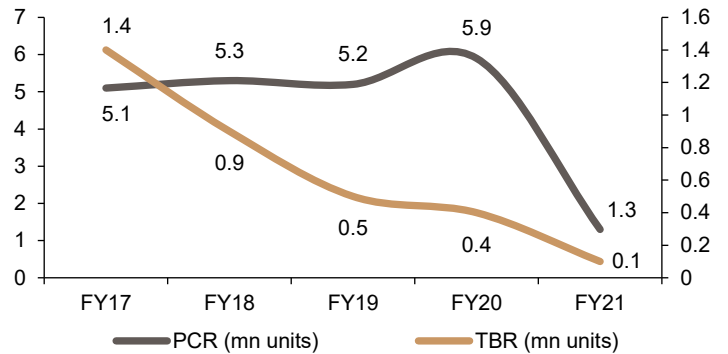
Story in Charts

Exhibit 1: India: Tyre market growth over FY21-25E expected to be healthy



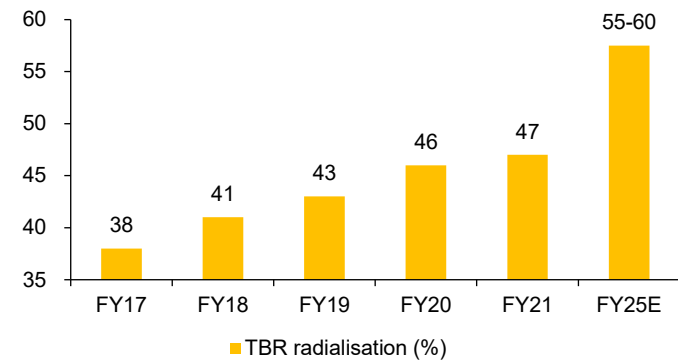
Source: Company, Crisil, Emkay Research

Exhibit 2: India Imports: Government restrictions have led to lower imports and higher volumes for domestic players such as APTY



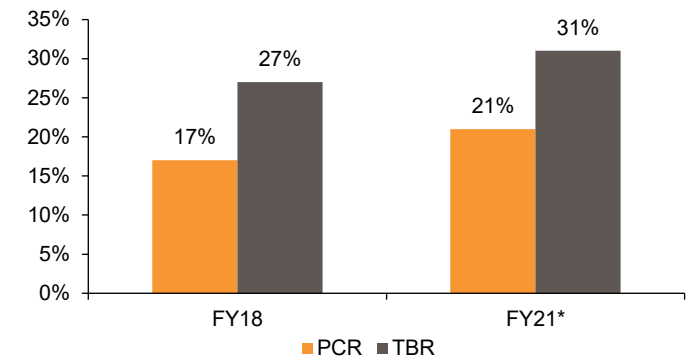
Source: Company, Emkay Research

Exhibit 3: Radialization in India Truck & Bus industry will continue to drive realizations



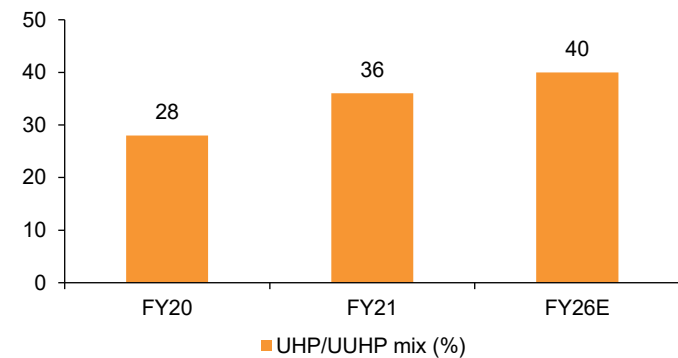
Source: Company, ATMA, Crisil, Emkay Research

Exhibit 4: APTY has been gaining market share across PCR and TBR segments



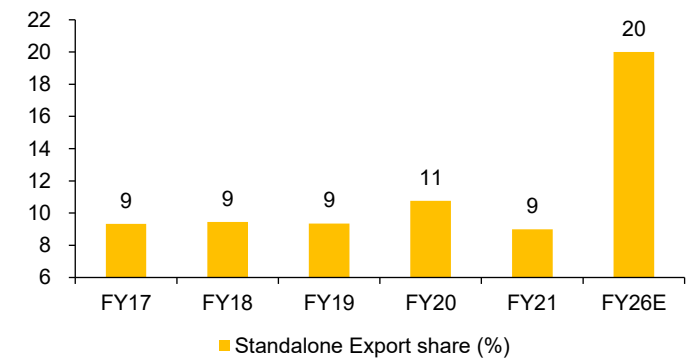
*Note: 11MFY21. Source: Company, Emkay Research

Exhibit 5: APTY Europe: Revenue share of UHP/UUHP tyres in product mix is expected to further increase



Source: Company, Emkay Research

Exhibit 6: Standalone: Exports share likely to increase on higher exports to Europe, USA, Middle East and Africa



Source: Company, Emkay Research

Other takeaways

- **Increasing penetration in US:** APTY has presence in PCR, Truck & Bus and OHT segments through both Vredestein and Apollo brands. Going forward, efforts will be for improving volumes with new products and network expansion.
- **Cost-reduction efforts** remain a focus area with: 1) ramp-up of low-cost Hungary plant; 2) digitization efforts to improve production efficiency and reduce marketing spends; and 3) reduction in material usage by 5-7% through new recipes and alternative sourcing.
- **Specialization of plants to lead to cost savings:** High-performance and short series tyres will be manufactured in the Dutch plant, while long runners will be manufactured in the Hungary plant, and smaller rim sizes will be manufactured in Indian plants.
- **Europe EBITDA margin** is likely to expand from 11% in FY21 to 16% in FY22E, led by higher volumes, efforts on specialization of plants, premiumization and cost savings.
- **In the near term, price increases** in India replacement market would continue with a lag to commodity inflation.
- **R&D spending:** Driven by the focus on new products, R&D spending stood at 2.5% of revenue in FY21. Going forward, the ratio of R&D spends to revenue should sustain at current levels.
- **Network expansion remains a focus area:** APTY expanded India network by 550 to 6,800 dealers in FY21, and Europe network by 300 to 7,000 dealers. In India, it has been expanding network with increased focus on rural areas. In Europe, it is increasing presence in South-West Europe.
- **Net debt/EBITDA target at below 2x for FY26E.** The ceiling by lenders stands at 3.5x but the company expects to retain this ratio below 2x.

Exhibit 7: Revenue assumptions: Expect revenue CAGR of 12% over FY21-24E

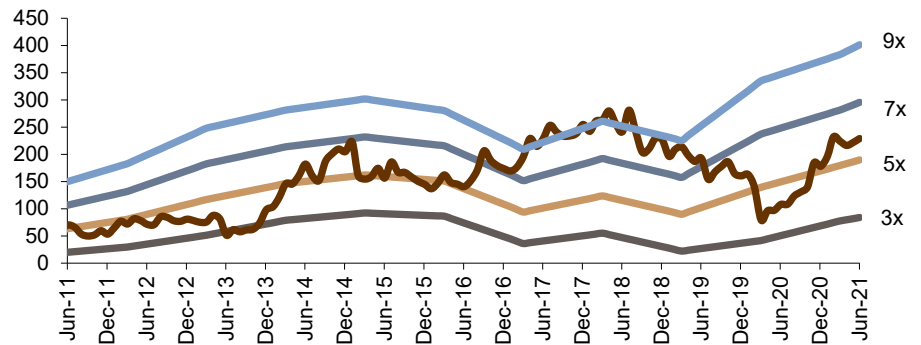
Revenues (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)
APMEA	104,360	125,273	112,555	119,187	138,455	155,867	174,001	13
Growth (%)	3.2	20.0	(10.2)	5.9	16.2	12.6	11.6	
Europe	46,292	52,729	52,740	56,754	62,430	66,800	71,476	8
Growth (%)	7.8	13.9	0.0	7.6	10.0	7.0	7.0	
Others	28,082	35,832	25,781	25,276	29,067	31,974	35,172	12
Growth (%)	86.7	27.6	(28.1)	(2.0)	15.0	10.0	10.0	
Inter-segmental	(30,305)	(38,346)	(27,574)	(27,248)	(31,067)	(33,974)	(37,172)	
Total	148,429	175,488	163,502	173,970	198,885	220,666	243,477	12
Growth (%)	4.7	18.2	(6.8)	6.4	14.3	11.0	10.3	

Note: Others segment includes sales operations in Americas and all other corporate entities. Source: Company, Emkay Research

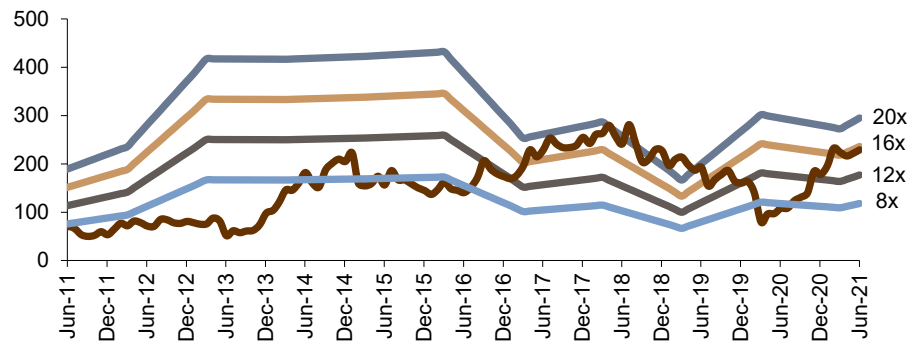
Exhibit 8: EBIT assumptions: Expect EBIT margin to sustain at 8-9% over FY22-24E

EBIT	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)
APMEA	9,864	11,448	8,000	14,695	11,816	14,543	16,839	5
Margin %	9.5	9.1	7.1	12.3	8.5	9.3	9.7	
Europe	1,208	289	(571)	649	3,121	3,607	4,074	NM
Margin %	2.6	0.5	(1.1)	1.1	5.0	5.4	5.7	
Others	954	1,067	814	775	930	1,055	1,196	16
Margin %	3.4	3.0	3.2	3.1	3.2	3.3	3.4	
Other un-allocable	273	113	-	-	-	-	-	
Total	12,315	12,929	8,252	16,135	15,885	19,223	22,127	11
Margin %	8.3	7.4	5.0	9.3	8.0	8.7	9.1	

Note: Others segment includes sales operations in Americas and all other corporate entities. Source: Company, Emkay Research

Exhibit 9: One-year forward EV/EBITDA (average during last upcycle stood at 7x)

Source: Company, Emkay Research

Exhibit 10: One-year forward P/E (average during last upcycle stood at 13x)

Source: Company, Emkay Research

Exhibit 11: Peer comparison

	CMP (Rs)	Target (Rs)	Mcap (Rs bn)	Reco	EPS (Rs)			PE (x)			ROE (%)			ROCE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Ashok Leyland	125	155	366	Buy	-1.0	3.5	6.6	-121.4	36.1	18.9	-4.2	13.9	23.7	-0.9	13.8	23.3
Atul Auto	185	260	4	Buy	-4.6	6.0	26.0	-39.8	30.6	7.1	-3.4	4.4	17.3	-4.0	6.1	21.6
Bajaj Auto	4,183	4,340	1211	Buy	157.4	200.8	237.1	26.6	20.8	17.6	20.2	22.8	26.3	25.7	29.1	33.6
Eicher Motors	2,740	3,180	749	Buy	49.3	99.1	129.4	55.6	27.6	21.2	12.6	21.6	23.5	16.1	26.3	28.1
Escorts Ltd	1,203	1,240	162	Hold	86.4	87.2	88.6	13.9	13.8	13.6	19.8	15.3	13.7	26.3	20.5	18.3
Hero Motocorp	2,944	3,870	588	Buy	148.4	177.5	204.1	19.8	16.6	14.4	20.2	22.5	24.2	26.0	29.0	31.1
Mahindra & Mahindra	794	920	986	Hold	33.0	39.9	42.1	24.1	19.9	18.8	11.7	13.3	12.7	13.9	15.5	15.1
Maruti Suzuki	7,596	8,500	2295	Buy	140.1	262.5	334.2	54.2	28.9	22.7	8.5	14.7	17.0	10.4	18.8	21.8
Tata Motors	343	410	1218	Buy	-3.7	25.1	42.0	-92.3	13.6	8.2	-2.4	16.7	23.7	5.2	10.9	14.8
TVS Motor	622	730	295	Buy	12.9	21.3	28.4	48.2	29.2	21.9	15.7	22.3	25.2	17.1	25.0	29.1
Amara Raja Batteries	751	850	128	Hold	37.9	46.2	56.7	19.8	16.3	13.3	16.4	17.6	19.0	22.1	23.3	25.2
Apollo Tyres	229	290	145	Buy	15.1	13.6	18.1	15.2	16.8	12.7	9.0	7.4	9.2	8.9	8.5	10.1
Exide Industries	183	200	156	Hold	8.9	10.1	11.7	20.6	18.1	15.6	11.5	12.0	12.9	15.6	16.2	17.3
Motherson Sumi	235	325	743	Buy	3.5	10.5	13.5	67.5	22.4	17.4	10.1	28.1	29.7	6.8	19.5	22.0
Bharat Forge	739	830	344	Buy	7.0	19.8	30.0	105.3	37.2	24.6	5.8	14.7	19.7	5.5	13.0	18.0

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	163,502	173,970	198,885	220,666	243,477
Expenditure	144,115	145,995	169,735	187,045	206,162
EBITDA	19,387	27,975	29,149	33,621	37,315
Depreciation	11,381	13,150	14,526	15,506	16,407
EBIT	8,006	14,825	14,624	18,115	20,908
Other Income	237	1,294	1,244	1,090	1,201
Interest expenses	2,808	4,430	4,400	3,980	3,490
PBT	5,434	11,689	11,468	15,225	18,618
Tax	670	2,110	2,810	3,730	4,562
Extraordinary Items	0	(6,077)	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	4,764	3,502	8,658	11,495	14,057
Adjusted PAT	4,764	9,579	8,658	11,495	14,057

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	572	635	635	635	635
Reserves & surplus	98,728	113,796	120,504	129,262	139,978
Net worth	99,300	114,431	121,139	129,897	140,613
Minority Interest	0	0	0	0	0
Loan Funds	67,639	65,358	60,358	53,358	46,358
Net deferred tax liability	7,032	7,020	7,020	7,020	7,020
Total Liabilities	173,971	186,810	188,517	190,276	193,991
Net block	154,484	164,196	169,670	171,164	171,757
Investment	194	1,096	1,096	1,096	1,096
Current Assets	60,957	82,088	86,161	93,260	103,949
Cash & bank balance	7,496	21,458	18,119	18,618	22,393
Other Current Assets	11,993	13,637	14,319	15,035	15,786
Current liabilities & Provision	58,081	71,632	79,472	86,307	93,872
Net current assets	2,876	10,456	6,689	6,954	10,076
Misc. exp	0	0	0	0	0
Total Assets	173,971	186,810	188,517	190,276	193,991

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	5,198	4,318	10,224	14,135	17,418
Other Non-Cash items	0	0	0	0	0
Chg in working cap	7,952	4,616	428	234	652
Operating Cashflow	24,700	21,881	26,768	30,125	33,406
Capital expenditure	(28,055)	(11,563)	(20,000)	(17,000)	(17,000)
Free Cash Flow	(3,355)	10,318	6,768	13,125	16,406
Investments	(134)	(12,550)	0	0	0
Other Investing Cash Flow	467	1,964	0	0	0
Investing Cashflow	(27,485)	(20,855)	(18,756)	(15,910)	(15,799)
Equity Capital Raised	0	10,800	0	0	0
Loans Taken / (Repaid)	13,863	(3,222)	(5,000)	(7,000)	(7,000)
Dividend paid (incl tax)	(4,310)	0	(1,951)	(2,736)	(3,341)
Other Financing Cash Flow	(2,666)	8,765	0	0	0
Financing Cashflow	4,655	12,936	(11,351)	(13,716)	(13,831)
Net chg in cash	1,869	13,962	(3,339)	499	3,775
Opening cash position	5,627	7,496	21,458	18,119	18,618
Closing cash position	7,496	21,458	18,119	18,618	22,393

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	11.9	16.1	14.7	15.2	15.3
EBIT Margin	4.9	8.5	7.4	8.2	8.6
Effective Tax Rate	12.3	18.1	24.5	24.5	24.5
Net Margin	2.9	5.5	4.4	5.2	5.8
ROCE	4.9	8.9	8.5	10.1	11.5
ROE	4.8	9.0	7.4	9.2	10.4
RoIC	5.6	9.8	9.4	11.4	13.1

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	8.3	15.1	13.6	18.1	22.1
CEPS	28.2	35.8	36.5	42.5	48.0
BVPS	173.6	180.2	190.7	204.5	221.4
DPS	3.0	3.5	3.1	4.3	5.3

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	27.5	15.2	16.8	12.7	10.3
P/CEPS	7.8	6.2	6.1	5.2	4.6
P/BV	1.3	1.3	1.2	1.1	1.0
EV / Sales	1.2	1.1	0.9	0.8	0.7
EV / EBITDA	9.9	6.7	6.4	5.4	4.5
Dividend Yield (%)	1.3	1.5	1.3	1.9	2.3

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	0.6	0.4	0.3	0.3	0.2
Net Debt/EBITDA	3.1	1.5	1.4	1.0	0.6
Working Cap Cycle (days)	(10.3)	(23.1)	(21.0)	(19.3)	(18.5)

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	(6.8)	6.4	14.3	11.0	10.3
EBITDA	(1.0)	44.3	4.2	15.3	11.0
EBIT	(30.1)	85.2	(1.4)	23.9	15.4
PAT	(23.1)	(26.5)	147.2	32.8	22.3

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue	36,156	28,734	42,827	51,947	50,257
EBITDA	4,805	2,373	6,948	10,302	8,147
EBITDA Margin (%)	13.3	8.3	16.2	19.8	16.2
PAT	779	(1,346)	3,547	4,493	2,885
EPS (Rs)	1.4	(2.4)	6.2	7.1	4.5

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	41.7	41.8	37.6	37.6	37.3
FIs	19.7	20.0	20.8	18.8	24.3
DIs	18.2	15.6	12.4	13.5	11.5
Public and Others	20.5	22.6	29.2	30.1	26.9

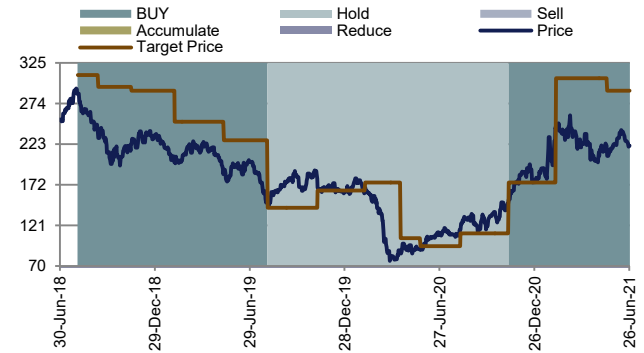
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
18-Jun-21	227	290	12m	Buy	Raghunandhan NL
1-Jun-21	222	290	12m	Buy	Raghunandhan NL
30-May-21	224	290	12m	Buy	Raghunandhan NL
14-May-21	208	290	12m	Buy	Raghunandhan NL
5-Feb-21	242	306	12m	Buy	Raghunandhan NL
6-Nov-20	153	175	12m	Buy	Raghunandhan NL
11-Oct-20	138	111	12m	Hold	Raghunandhan NL
28-Sep-20	128	111	12m	Hold	Raghunandhan NL
6-Aug-20	116	111	12m	Hold	Raghunandhan NL
29-Jun-20	108	95	12m	Hold	Raghunandhan NL
21-May-20	92	95	12m	Hold	Raghunandhan NL
4-May-20	89	105	12m	Hold	Raghunandhan NL
13-Apr-20	86	105	12m	Hold	Raghunandhan NL
27-Feb-20	150	175	12m	Hold	Raghunandhan NL
14-Feb-20	159	175	12m	Hold	Raghunandhan NL
5-Feb-20	168	175	12m	Hold	Raghunandhan NL
27-Dec-19	164	165	12m	Hold	Raghunandhan NL
27-Nov-19	172	165	12m	Hold	Raghunandhan NL
6-Nov-19	169	165	12m	Hold	Raghunandhan NL
2-Aug-19	150	143	12m	Hold	Raghunandhan NL
10-May-19	191	228	12m	Buy	Raghunandhan NL
5-Feb-19	203	251	12m	Buy	Raghunandhan NL
14-Nov-18	223	290	12m	Buy	Raghunandhan NL
11-Sep-18	231	295	12m	Buy	Raghunandhan NL
3-Aug-18	287	310	12m	Buy	Raghunandhan NL

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



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Sector

Automobiles and Ancillaries

Analyst bio

Raghu holds an MBA and comes with total 12 years of research experience. His team currently covers 14 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Auto & Auto Ancillaries	5.21	5.21	0%	0	100.00
Amara Raja Batteries	0.07	0.05	-25%	-2	0.98
Apollo Tyres	0.00	0.00	NA	0	0.00
Ashok Leyland	0.19	0.24	24%	5	4.57
Atul Auto	0.00	0.00	NA	0	0.00
Bajaj Auto	0.60	0.60	0%	0	11.54
Bharat Forge	0.21	0.26	26%	5	4.99
Eicher Motors	0.42	0.46	11%	4	8.90
Escorts	0.00	0.00	NA	0	0.00
Exide Industries	0.09	0.07	-22%	-2	1.39
Hero Motocorp	0.42	0.42	0%	0	8.06
Mahindra & Mahindra	0.84	0.54	-36%	-30	10.34
Maruti Suzuki India	1.12	1.18	5%	5	22.56
Motherson Sumi	0.31	0.31	0%	0	6.00
Tata Motors	0.71	0.76	6%	5	14.51
Tata Motors DVR*	0.08	0.13	57%	5	2.51
TVS Motor	0.14	0.19	38%	5	3.64
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

High Conviction/Strong Over Weight High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	25-Jun-20	24-Dec-20	25-Mar-21	26-May-21	25-Jun-21
EAP - Auto & Auto Ancillaries	100.0	75.9	104.1	114.8	124.4	128.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	78.6	106.5	115.5	124.5	127.9

*Performance measurement base date 1st April 2019

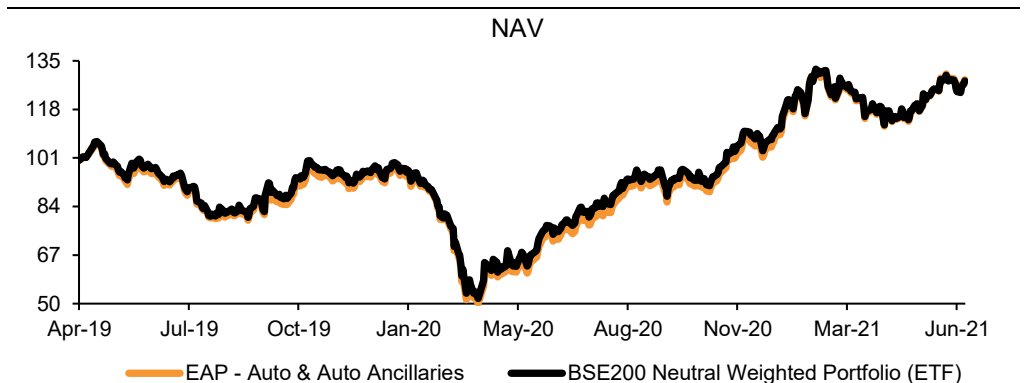
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	3.2%	11.8%	23.3%	69.0%
BSE200 Neutral Weighted Portfolio (ETF)	2.8%	10.7%	20.1%	62.8%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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