

CMP: ₹ 225

Target: ₹ 275 (22%)

Target Period: 12 months

BUY

November 2, 2021

On the right track; value drivers firmly in place...

About the stock: Apollo Tyres (ATL) is a leading tyre manufacturer, with operations in India & Europe with an installed capacity of ~7.9 lakh MT pa. In India, ATL has substantial presence in TBR (31% market share) & PCR space (21% market share)

- Derives ~67% revenues from APMEA (largely India), ~32% from Europe
- FY21 segment mix: Truck/bus ~43%, PV ~35%, OHT ~11%, others ~11%

Q2FY22 Results: The company posted a healthy operational Q2FY22 performance

- Total consolidated operating income was up 10.7% QoQ to ₹ 5,077 crore
- EBITDA margins rose 20 bps QoQ to 12.6% amid limited gross margin dip
- Consolidated PAT at ₹ 174 crore was up 36% QoQ

What should investors do? ATL's stock price has grown at ~2% CAGR from ~₹ 200 levels in October 2016, broadly in line with wider Nifty Auto Index in that time.

- We continue to be positive on ATL and retain **BUY** rating on the stock

Target Price and Valuation: We value ATL at an unchanged target price of ₹ 275 i.e., 6x FY23E EV/EBITDA.

Key triggers for future price performance:

- Expected India CV cyclical rebound, higher radialisation levels, pent up demand in PV and network expansion to be major topline drivers. We expect India-led 16.9% FY21-23E net sales CAGR
- Higher cost competitiveness post Dutch plant specialisation, Europe mix improvement, operating leverage benefits to result in 13.8% FY23E margins
- Ongoing deleveraging focus to accentuate PAT, return ratio momentum

Alternate Stock Idea: Apart from ATL, in our ancillary coverage we like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with target price of ₹ 185



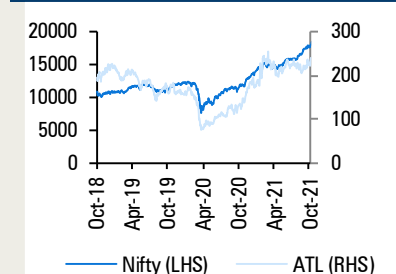
Particulars

Particular	₹ crore
Market Capitalization	14,289.0
Total Debt (FY21)	6,433.7
Cash & Inv. (FY21)	2,235.9
EV (₹ Crore)	18,486.3
52 week H/L (₹)	261 / 139
Equity capital	₹ 63.5 Crore
Face value	₹ 1

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	37.6	37.3	37.6	37.3
FII	20.8	24.3	22.9	20.5
DII	12.4	11.5	15.7	18.0
Other	29.2	26.9	23.9	24.1

Price Chart



Recent event & key risks

- Launched Vredestein brand in India
- Key Risk:** (i) Any cooling off of deleveraging momentum, (ii) market share loss

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	17,548.8	16,327.0	17,344.0	7.9	20,836.3	23,709.5	16.9
EBITDA	1,958.9	1,915.6	2,744.5	6.6	2,644.9	3,268.5	9.1
EBITDA Margins (%)	11.2	11.7	15.8		12.7	13.8	
Net Profit	680.0	476.4	350.2	(20.8)	783.2	1,200.3	85.1
EPS (₹)	11.9	8.3	5.5		12.3	18.9	
P/E	18.9	27.0	40.8		18.2	11.9	
RoNW (%)	8.3	4.8	6.4		6.6	9.4	
RoCE (%)	7.3	4.5	7.6		6.8	9.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results:

- Among geographies, APMEA i.e. largely India revenues grew 12.9% QoQ to ₹ 3,695 crore while Europe growth was at 5% QoQ to ₹ 1,480 crore
- Gross margin decline was limited to 130 bps QoQ vs. expectation of 200 bps decline but the gains were eaten into by higher than anticipated other expenses on percentage of sales basis.
- Standalone margins dipped 10 bps QoQ to 10.3% while Europe margins surprised positively

Q2FY22 Earnings Conference Call highlights

- YTD capacity utilisation: India 80%, Europe 86%
- India did ~13% YoY volume growth in Q2FY22 – 7% in trucks, 30% in PV and 40% in 2-W. Truck replacement demand was negative and saw some deferral. Bias was preferred to radial due to price gap but in Q3FY22E, OEM and TBR demand is seen coming back
- Q2FY22 Europe sales were €138 million, up 6% YoY led by 4% volume growth and 2% pricing increase. Reifen revenues were up 3% YoY at €36 million. Reifen just about managed breakeven. ATL expects high single digit to low double digit Europe revenue growth, with margins considered sustainable at present run rate. However, there could be some gross margin impact in Europe in coming quarters.
- H2FY22E demand outlook is good. Truck OEM segment is improving although PV OEM category is constrained by chip shortage. Truck demand across OEM and replacement would approach March 2021 levels after another two quarters. PV replacement demand is healthy. Europe Q3FY22E demand momentum is strong
- Present share of UHP tyres in Europe product mix is at 39%. The company expects to take it well above 40% by 2026
- There exists under-recovery of raw material costs to the tune of 3% in India. Thus far, India price hikes have been ~9%. ATL will undertake another 3-5% across segments during Q3FY22E. The company is targeting mid-teen India margins going forward
- Debt repayment schedule - ₹ 500 crore in India €14 million in Europe for H2FY22E
- Working capital levels would reduce a bit, going forward, led by lower India inventory levels (finished goods)
- Q2FY22 costs/kg – Natural rubber 175, synthetic rubber 160, steel cord 165, carbon black 95.

Peer comparison

Exhibit 1: ICICI Direct coverage universe (tyres)

Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			EV/EBITDA (x)		
	₹	₹		₹ crore	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Apollo Tyres (APOTYR)	225	275	Buy	14,289	15.8	12.7	13.8	0.6	0.5	0.3	7.6	6.8	9.7	6.7	6.9	5.0
JK Tyre (JKTYRE)	145	185	Buy	3,571	14.4	11.0	12.0	1.7	1.4	1.1	11.8	11.4	14.1	6.2	5.9	4.6

Source: Company, ICICI Direct Research

We believe ATL is well placed to improve return ratio profile, going forward, on the back of resilient margins, operating leverage and a leaner b/s.

Exhibit 2: Variance Analysis

(₹ crore)	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Total Operating Income	5,077	5,054	4,283	18.6	4,584	10.7	Topline was broadly inline with our estimates
Raw Material Expenses	2,973	2,990	2,301	29.2	2,624	13.3	
Employee Expenses	639	661	623	2.5	654	(2.2)	Savings were realised in employee costs for the quarter
Other expenses	827	803	663	24.7	740	11.8	
EBITDA	638	600	695	(8.2)	567	12.6	
EBITDA Margin (%)	12.6	11.9	16.2	-366 bps	12.4	20 bps	EBITDA margins came in ahead of estimates tracking robust performance at company's European operations. Gross margin declined by 130 bps for the quarter, however operating leverage gains led to overall 20 bps improvement in EBITDA margins
Depreciation	340	364	331	2.7	340	(0.2)	
Interest	104	111	117	(11.2)	105	(0.9)	
Other income	29	42	38	(24.7)	40.5	(28.6)	
Tax	45	47	(69)	(165.9)	34	35.4	Tax rate for the quarter came in lower at ~20%
PAT	174	120	(246)	(170.6)	127.8	36.0	PAT was ahead of estimates tracking beat on operating margins as well as lower effective tax rate
EPS (₹)	2.7	1.9	(4.3)	(163.6)	2.0	36.0	
Key Metrics							
Revenue (₹ crore)							
APMEA	3,695	3,607	2,964	24.7	3,272	12.9	APMEA (largely Indian) revenues were up 13% QoQ
Europe	1,480	1,447	1,385	6.9	1,409	5.0	European revenues were up 5% QoQ
EBIT Margin (%)							
APMEA	5.6	NA	11.1	-555 bps	4.9	72 bps	
Europe	5.3	NA	(2.0)	732 bps	3.9	144 bps	

Source: Company, ICICI Direct Research

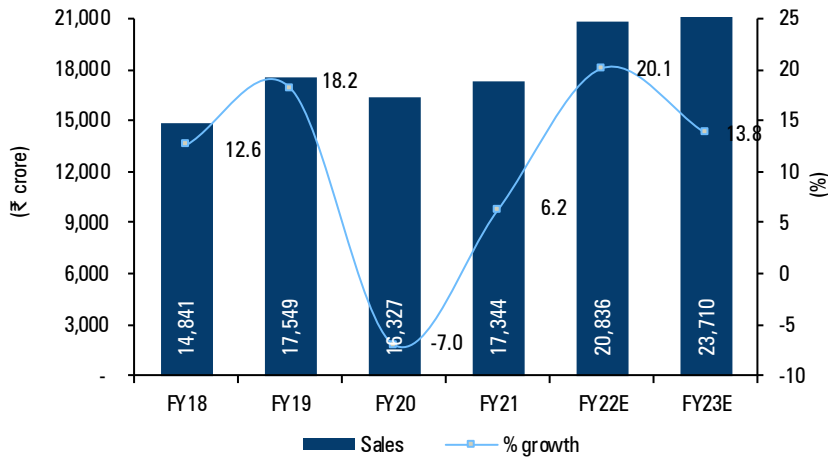
Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	20,272	20,836	2.8	22,821	23,710	3.9	Marginally tweaked top-line estimates for FY22E-23E. We expect sales at the company to grow at a CAGR of 16.9% over FY21-23E
EBITDA	2,630	2,645	0.6	3,273	3,269	-0.1	
EBITDA Margin (%)	13.0	12.7	-31 bps	14.3	13.8	-51 bps	Lowered consol margin estimates tracking management commentary on continued pressure on input costs amid calibrated price hikes
PAT	650	783	20.5	1,053	1,200	14.0	
EPS (₹)	10.2	12.3	20.5	16.6	18.9	14.0	Lowering the tax rate assumption leads to upward revision in PAT estimates for FY22E,23E

Source: ICICI Direct Research

Financial story in charts

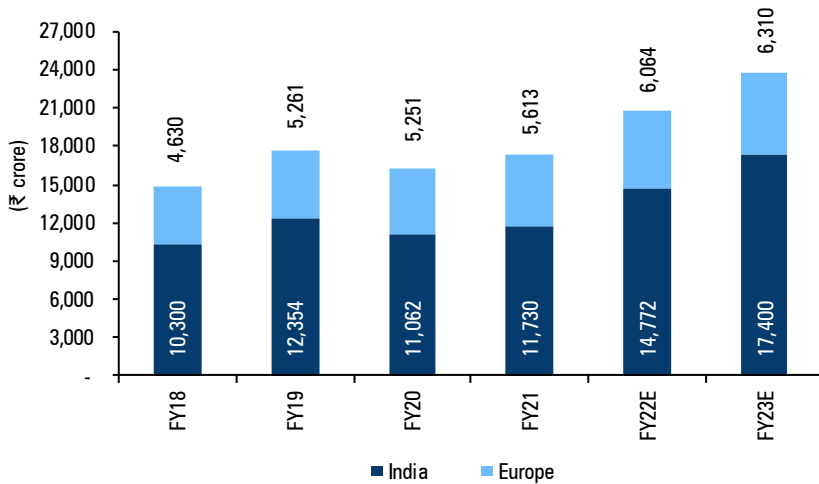
Exhibit 4: Trend in topline



We expect net sales to grow at 16.9% CAGR over FY21-23E

Source: Company, ICICI Direct Research

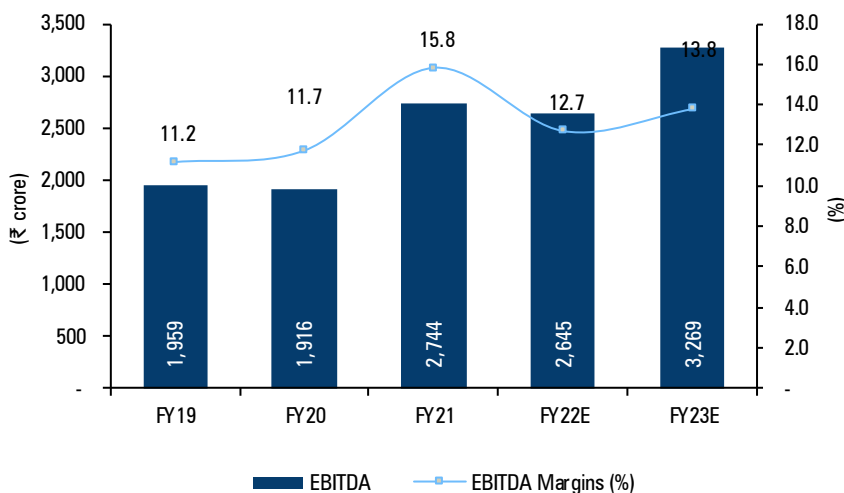
Exhibit 5: Trend in geography wise sales



The growth is expected to be led by 21.8% India sales CAGR

Source: Company, ICICI Direct Research

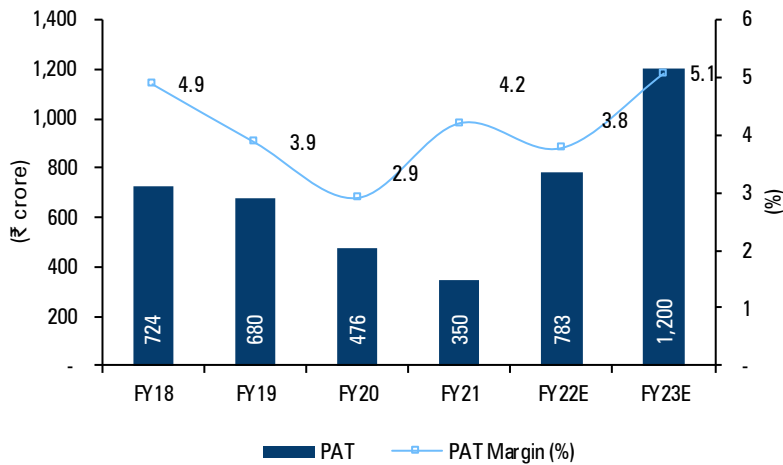
Exhibit 6: Trend in margins



Margins are expected at 13.8% by FY23E

Source: Company, ICICI Direct Research

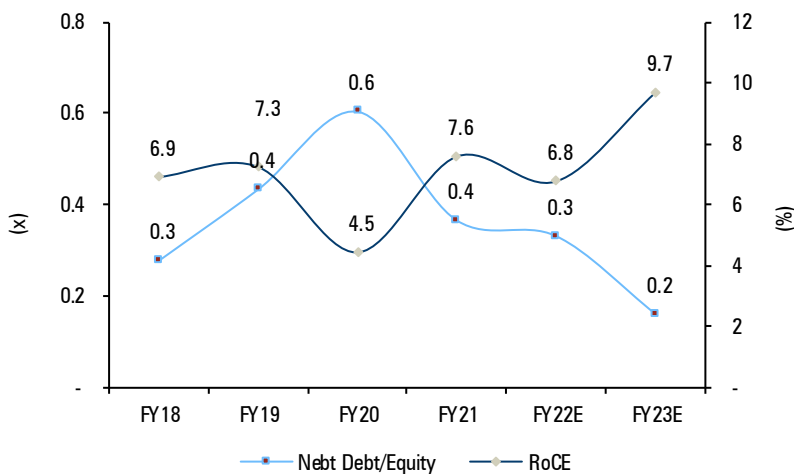
Exhibit 7: Trend in profitability



We expect ATL to clock ₹ 1,200 crore PAT in FY23E

Source: Company, ICICI Direct Research

Exhibit 8: Trend in debt and RoCE



RoCE is seen touching 9.7% by FY23E, with leverage tightly controlled

Source: Company, ICICI Direct Research

Exhibit 9: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	14,841	12.6	12.7	(34.1)	17.8	10.3	7.4	6.9
FY19	17,549	18.2	11.9	(6.1)	18.9	9.5	8.3	7.3
FY20	16,327	(7.0)	8.3	(29.9)	27.0	10.6	4.8	4.5
FY21	17,344	6.2	5.5	(33.8)	40.8	6.7	6.4	7.6
FY22E	20,836	20.1	12.3	123.7	18.2	6.9	6.6	6.8
FY23E	23,710	13.8	18.9	53.3	11.9	5.0	9.4	9.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	16,327.0	17,344.0	20,836.3	23,709.5
Growth (%)	-7.0	6.2	20.1	13.8
Raw Material Expenses	9,075.5	9,394.6	12,266.0	14,168.1
Employee Expenses	2,482.2	2,513.3	2,613.1	2,724.7
Other Expenses	2,853.7	2,691.7	3,312.3	3,548.2
Total Operating Expenditure	14,411.3	14,599.5	18,191.4	20,441.0
EBITDA	1,915.6	2,744.5	2,644.9	3,268.5
Growth (%)	-2.2	43.3	-3.6	23.6
Depreciation	1,138.1	1,314.9	1,354.4	1,481.8
Interest	280.8	443.0	409.1	333.7
Other Income	46.9	182.4	146.6	147.5
PBT	543.6	561.2	1022.6	1600.4
Exceptional items	0.0	607.8	5.3	0.0
Total Tax	67.2	211.0	239.5	400.1
Reported PAT	476.4	350.2	783.2	1,200.3
Growth (%)	-29.9	-26.5	123.7	53.3
EPS (₹)	8.3	5.5	12.3	18.9

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	476.4	350.2	783.2	1,200.3
Add: Depreciation	1,138.1	1,314.9	1,354.4	1,481.8
(Inc)/dec in Current Assets	434.4	-720.8	-875.5	-872.6
Inc/(dec) in CL and Provisions	644.8	1,007.8	772.0	810.4
CF from operating activities	2693.8	1952.1	2034.0	2620.0
(Inc)/dec in Investments	0.0	-90.1	50.0	-10.0
(Inc)/dec in Fixed Assets	-4,871.8	-1,718.5	-2,000.0	-715.5
Others	1,167.2	445.2	456.2	373.5
CF from investing activities	-3704.6	-1363.4	-1493.8	-352.0
Issue/(Buy back) of Equity	0.0	6.3	0.0	0.0
Inc/(dec) in loan funds	1,833.3	-330.2	-500.0	-1,600.0
Dividend paid & dividend tax	-205.9	-222.3	-254.0	-349.3
Others	-429.5	1,353.7	-20.0	-20.0
CF from financing activities	1197.8	807.5	-774.0	-1969.3
Net Cash flow	187.0	1,396.2	-233.8	298.8
Opening Cash	562.7	749.7	2,145.8	1,912.0
Closing Cash	749.7	2145.8	1912.0	2210.8

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	57.2	63.5	63.5	63.5
Reserve and Surplus	9,872.8	11,379.6	11,908.7	12,759.8
Total Shareholders funds	9,930.0	11,443.1	11,972.2	12,823.3
Total Debt	6,763.9	6,433.7	5,933.7	4,333.7
Deferred Tax Liability	747.7	920.9	1,106.3	1,258.9
Total Liabilities	19,152.6	20,958.1	21,576.4	21,312.1
Assets				
Gross Block	22,558.6	24,812.6	27,419.1	28,434.6
Less: Acc Depreciation	8,063.0	9,377.9	10,732.3	12,214.1
Net Block	14,495.6	15,524.8	16,727.0	16,270.6
Capital WIP	1,642.0	1,106.5	500.0	200.0
Total Fixed Assets	16,137.6	16,631.3	17,227.0	16,470.6
Investments	19.4	109.6	69.6	89.6
Goodwill on consolidation	213.5	220.4	220.4	220.4
Inventory	3,206.9	3,318.5	3,996.0	4,547.0
Debtors	939.9	1,380.8	1,427.1	1,623.9
Loans and Advances	43.5	46.2	55.5	63.1
Other current assets	541.6	707.1	849.5	966.7
Cash	749.7	2,145.8	1,912.0	2,210.8
Total Current Assets	5,481.6	7,598.5	8,240.2	9,411.6
Creditors	2,309.1	2,806.7	3,139.7	3,572.7
Provisions	274.4	288.2	322.4	366.9
Total Current Liabilities	2,583.5	3,094.9	3,462.1	3,939.5
Net Current Assets	2,898.1	4,503.6	4,778.1	5,472.1
Application of Funds	19,152.6	20,958.1	21,576.4	21,312.1

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	8.3	5.5	12.3	18.9
Cash EPS	28.2	26.2	33.7	42.2
BV	173.6	180.2	188.5	201.9
DPS	3.0	3.5	4.0	5.5
Cash Per Share	13.1	33.8	30.1	34.8
Operating Ratios (%)				
EBITDA Margin	11.7	15.8	12.7	13.8
PBT / Net sales	4.8	8.2	6.2	7.5
PAT Margin	2.9	4.2	3.8	5.1
Inventory days	71.7	69.8	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	6.6	9.4
RoCE	4.5	7.6	6.8	9.7
RoIC	5.2	9.2	7.8	11.2
Valuation Ratios (x)				
P/E	27.0	19.6	18.1	11.9
EV / EBITDA	10.6	6.7	6.9	5.0
EV / Net Sales	1.2	1.1	0.9	0.7
Market Cap / Sales	0.9	0.8	0.7	0.6
Price to Book Value	1.3	1.2	1.2	1.1
Solvency Ratios				
Debt/Equity	0.7	0.6	0.5	0.3
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

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Apollo Tyre (APOTYR)	225	275	BUY	14,289	5.5	12.3	18.9	40.8	18.2	11.9	6.7	6.9	5.0	7.6	6.8	9.7	6.4	6.6	9.4
Ashok Leyland (ASHLEY)	144	160	Buy	42,209	-1.1	0.4	4.6	-134.9	326.0	31.0	84.4	37.7	15.5	-1.9	3.2	16.5	-4.4	1.9	17.7
Bajaj Auto (BAAUTO)	3,726	4,220	Hold	1,07,067	157.4	164.9	191.3	23.7	22.6	19.5	17.3	16.5	13.8	18.2	18.9	22.0	18.1	18.6	21.1
Balkrishna Ind. (BALIND)	2,514	2,825	Buy	48,598	59.8	67.0	78.4	42.1	37.5	32.1	27.5	24.1	20.9	19.3	19.9	21.0	19.2	18.7	19.0
Bharat Forge (BHAFOR)	791	1,000	Buy	36,834	-2.7	17.2	25.1	NM	46.0	31.5	45.6	21.5	16.8	2.2	9.3	12.7	3.3	14.0	16.8
Eicher Motors (EICMOT)	2,560	2,920	Hold	69,972	49.3	64.9	96.4	52.0	39.5	26.5	35.0	26.9	18.2	11.3	13.7	17.8	11.8	14.0	18.0
Escorts (ESCORT)	1,545	1,900	Buy	18,936	71.2	71.0	84.0	21.7	21.8	18.4	14.1	14.2	11.6	18.7	15.7	16.0	16.2	14.1	14.6
Hero Moto (HERHON)	2,681	3,115	Hold	53,540	148.4	155.9	188.8	18.1	17.2	14.2	11.2	10.6	8.5	20.8	20.1	22.3	19.5	18.6	20.3
M&M (MAHMAH)	870	1,000	Buy	1,08,158	2.3	33.6	39.1	386.4	25.9	22.3	16.2	15.1	13.2	9.5	9.8	10.9	2.7	10.9	11.4
Maruti Suzuki (MARUTI)	7,613	6,000	Sell	2,29,964	140.0	88.4	200.0	54.4	86.1	38.1	35.0	42.5	21.8	4.3	2.5	8.9	8.2	5.0	10.6
Minda Industries (MININD)	775	835	Buy	22,132	7.6	10.7	19.4	102.0	72.3	39.9	31.6	25.5	18.1	9.1	10.3	15.9	9.2	9.5	14.8
Motherson (MOTSUM)	231	280	Buy	72,790	3.3	5.5	9.3	NM	41.7	24.7	16.0	11.5	8.3	6.7	12.6	19.9	8.8	12.9	19.4
Tata Motors (TATMOT)	500	600	Buy	1,91,450	-35.0	-13.9	35.7	NM	-36.0	14.0	7.3	7.5	4.4	6.3	6.7	16.2	-23.6	-10.3	21.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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