



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Apollo Ltd Q2FY22 consolidated revenues came in at ₹5,077.3 Cr, up 18.2% YoY and up 10.7% QoQ.
- EBITDA for Q2FY22 stood at ₹638 Cr, down 9.7% YoY and up 12.6% QoQ.
- EBITDA margins for Q2FY22 came at 12.36% as compared to 20.27% in Q1FY22 and 16.46% in Q2FY21.
- PAT for Q1FY22 stood at ₹173.7 Cr, up 36% QoQ.

### 2. MANAGEMENT COMMENTARY:

- Management mentioned that strong demand is seen across both domestic and European markets and is expected to continue.
- Management guided capex of ~₹20 Billion (18 bn for India and 2 bn for Europe) for FY22.
- Management said that they would be reducing Capex intensity from FY23 and would focus on improving their return ratios.

### 3. SEGMENTAL ANALYSIS:

- YTD FY22 Product Mix: Truck & Bus (43%), PV (34%), Farm & Off Highway (12%), Light Truck (6%), Others (6%).
- YTD FY22 Channel Mix: Replacement (81%), OEM (19%).
- YTD FY22 Geographical Mix: APMEA (69%), EUROPE (29%), Others (1%).

### 4. CONCALL SUMMARY

- Volume growth for India is ~13%: T&B (~+7%), PV (~+30%) and 2W (~+40%). Volume growth for European region is ~4%.
- Q2 FY22 operating margins were negatively impacted due to rise in commodity prices and chip shortage.
- Company too price hike of ~3%-7% in Q2FY22 and announced another price hike of ~3%-5% in Q3FY22 to combat increasing RM prices. Company also took ~2% price hike in the European region during Q2FY22.
- Company gained market share in TBR and Off Highway tyres segment in the European region.
- YTD capacity utilization for India and Europe are 80% and 86% respectively.
- During next 5 years company is targeting \$5 bn revenue, 15% Operating margins, ROCE of ~12%-15% and net debt to EBITDA below 2x.

### 5. OTHER DEVELOPMENTS:

- As per the company's internal estimates during FY21, Company gained ~3.5% market share in Farm segment, ~3.3% in PV segment, ~1.5% in TBR segment for the domestic business. For the European business, company gained market share across all the segments.
- Q2FY22 RM costs: Natural Rubber Rs 175/kg, Synthetic Rubber Rs 160/kg, Steel Cords Rs 165/kg and Carbon black Rs 95/kg.

### 6. VALUATION AND OUTLOOK:

Apollo tyres is market leader in T&B segment with ~31% market share, we believe the company will benefit from the cyclical recovery in the CV segment. Also the restriction placed on imports and turnaround in the company's European operations is positive for the stock.

We initiate a "BUY" rating on the stock and value the stock at 16x FY23E earnings to arrive at the target of ₹271.

## RECOMMENDATION - BUY

CMP – 232

TARGET – 271 (17%)

Industry	APOLLOTYRE
NSE CODE	500877
BSE CODE	14689.88
Market Cap (₹ Cr)	63.51
Shares Outstanding (in Cr)	261.25 / 157.65
52 wk High/Low (₹)	14.21
P/E	1.27
P/BV	1.00
Face Value (₹)	181.92
Book Value (₹)	5.51
EPS (FY21) (₹)	1.56
Dividend Yield (%)	0.56
Debt / Equity	2.21
Interest Coverage	APOLLOTYRE

## SHAREHOLDING PATTERN

	Sep 21	Jun 21	Mar 21
Promoters	37.34	37.60	37.31
MF/ DII	13.99	11.19	11.14
FII/FPI	20.48	22.87	24.27
Retail & Others	22.57	22.30	25.30
Promoter Pledging	2.81	4.96	5.01

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
<b>Crore</b>			
Sales	17397	20006	22807
Sales Gr. (%)	6.40	15.00	14.00
EBITDA	2818	2601	3193
EBITDA %	16.94	13.00	14.00
PAT	350.2	671.6	1078.2
EPS (₹)	5.51	10.57	16.96
EPS Gr. (%)	-33.79	91.77	60.56
BV/Sh. (₹)	180.13	190.5	201.5
<b>Ratios</b>			
RoE (%)	3.28	6.5	9.2
RoCE (%)	5.93	7.2	10.4
Payout (%)	63.47	52.5	48.5
<b>Valuation</b>			
P/E (x)	19.5	16.2	12.5
P/BV (x)	1.24	1.20	1.20
EV/EBITDA	6.28	6.5	6.8

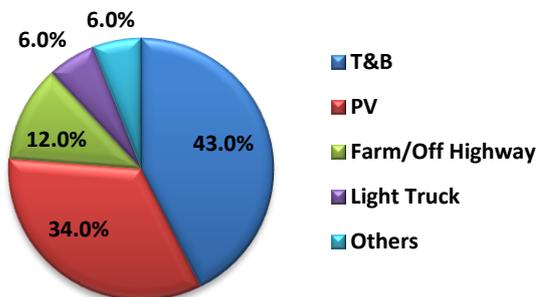
## Historical & Industrial Val Ratios

Historical P/E	22.70
Industry P/E	36.43
Historical P/B	15.78
Industry P/B	10.70

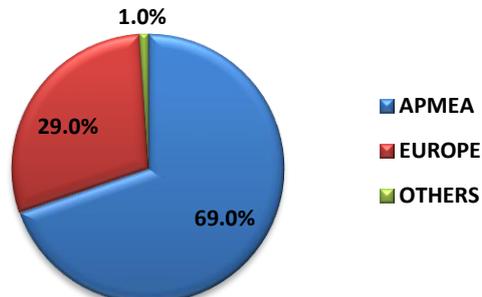


## REVENUE SPLIT (YTD FY22)

Product Mix (YTD FY22)



Geography Mix (YTD FY22)



## QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY20		FY21			FY22			FY21	FY22E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*		
<b>Net sales</b>	<b>3,616</b>	<b>2,882</b>	<b>4,295</b>	<b>5,195</b>	<b>5,026</b>	<b>4,584</b>	<b>5,077</b>	<b>5,686</b>	<b>17,397</b>	<b>20,006</b>
YoY change (%)	-15.40%	-33.47%	7.76%	18.07%	39.00%	59.09%	18.22%	12%	6.40%	15.00%
<b>Total Expenditures</b>	<b>3,135</b>	<b>2,636</b>	<b>3,588</b>	<b>4,164</b>	<b>4,211</b>	<b>4,018</b>	<b>4,439</b>	<b>4,890</b>	<b>14,579</b>	<b>17,406</b>
<b>EBITDA</b>	<b>480</b>	<b>246</b>	<b>707</b>	<b>1,030</b>	<b>815</b>	<b>567</b>	<b>638</b>	<b>796</b>	<b>2,818</b>	<b>2,601</b>
Margins (%)	13%	9%	16%	20%	16%	12%	13%	14%	16%	13%
Depreciation	314	309	331	327	348	340	340	357	1,315	1,381
Interest	91	117	117	105	104	105	104	105	463	417
Other income	-8	19	-575	17	61	40	25	25	-478	129
<b>PBT</b>	<b>68</b>	<b>-162</b>	<b>-315</b>	<b>615</b>	<b>423</b>	<b>161</b>	<b>219</b>	<b>359</b>	<b>561</b>	<b>933</b>
Rate (%)	-15%	17%	22%	28%	32%	21%	21%	22%	38%	28%
<b>Adjusted PAT</b>	<b>78</b>	<b>-135</b>	<b>-246</b>	<b>444</b>	<b>287</b>	<b>128</b>	<b>174</b>	<b>280</b>	<b>350</b>	<b>672</b>
<b>EPS in Rs</b>	<b>1.36</b>	<b>-2.35</b>	<b>-4.31</b>	<b>6.99</b>	<b>4.52</b>	<b>2.01</b>	<b>2.74</b>	<b>4</b>	<b>5.51</b>	<b>10.57</b>

### Key Performance Indicators

<b>RM Cost (% of Sales)</b>	<b>53%</b>	<b>57%</b>	<b>54%</b>	<b>52%</b>	<b>55%</b>	<b>57%</b>	<b>59%</b>		<b>54%</b>	
<b>Staff Cost (% of Sales)</b>	<b>17%</b>	<b>19%</b>	<b>15%</b>	<b>13%</b>	<b>13%</b>	<b>14%</b>	<b>13%</b>		<b>14%</b>	
<b>EBITDA Margin (%)</b>	<b>13%</b>	<b>9%</b>	<b>16%</b>	<b>20%</b>	<b>16%</b>	<b>12%</b>	<b>13%</b>		<b>16%</b>	
<b>PAT Margin (%)</b>	<b>2%</b>	<b>-5%</b>	<b>-6%</b>	<b>9%</b>	<b>6%</b>	<b>3%</b>	<b>3%</b>		<b>2%</b>	

Source: Company, Hem Securities Research.

### \*Insights into the assumptions:

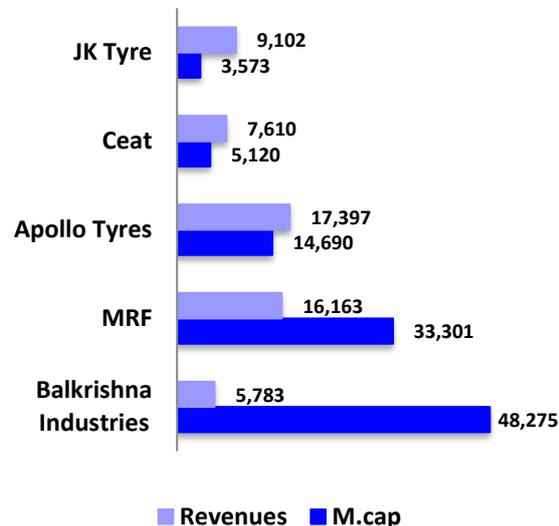
- We expect revenues to increase by around 12% QoQ in Q3FY22 due to strong demand and price hike by the company.
- We also believe that operating margins would sustain or slightly improve from current levels.



## INDUSTRY OVERVIEW

- Indian Tyre industry's turnover is around Rs 60000 Cr.
- Indian Tyre industry is expected to be one of the top 3 manufacturing destinations in Asia Pacific by 2026.
- The Indian Tyre Industry is expected to witness strong demand in coming years with ~11%-12% CAGR over next 5 years.
- The above mentioned growth is supported by ramp up of new capacities, reduction in Capex intensity and debt reduction by major players.
- T&B is the largest segment with ~54% revenue share followed by PV (14%), 2W/3W (13%), LCV (9%), Tractors (8%) and Others (2%).
- Replacement remains the dominant segment of industry with 62% revenue share followed by OEM (27%) and Exports (11%).
- MRF is the market leader in TBB and 2W while Apollo Tyres is the market leader in TBR.
- We believe volume recovery will sustain as the replacement and OEM segment are expected to recover in coming time.
- RM costs and competitive intensity are main factors that drive pricing in the tyre industry.
- Major RM constituents include Natural Rubber (44%), Carbon Black (23%), Nylon Tyre Cord Fabric (13%).
- Key Industry players are MRF, Apollo Tyres, CEAT, JK Tyre etc.

## KEY PLAYERS in Tyre Industry



## PEER PERFORMANCE

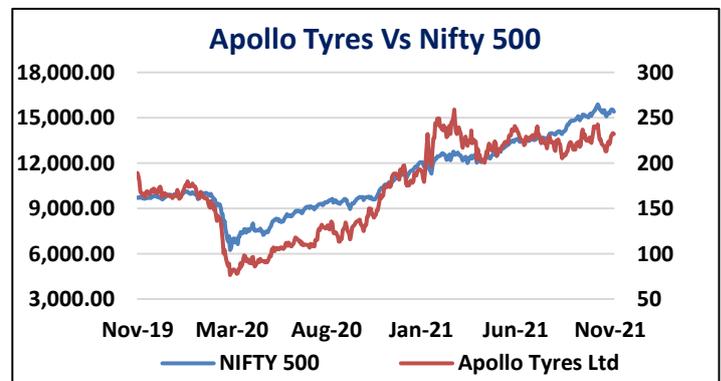
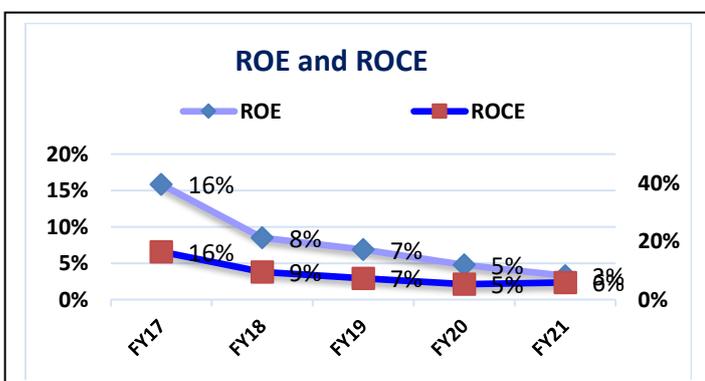
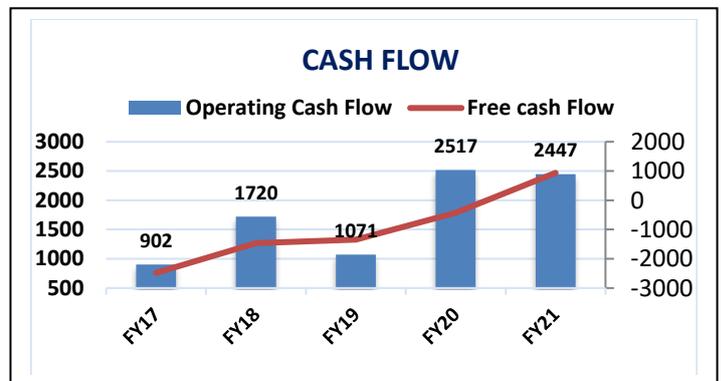
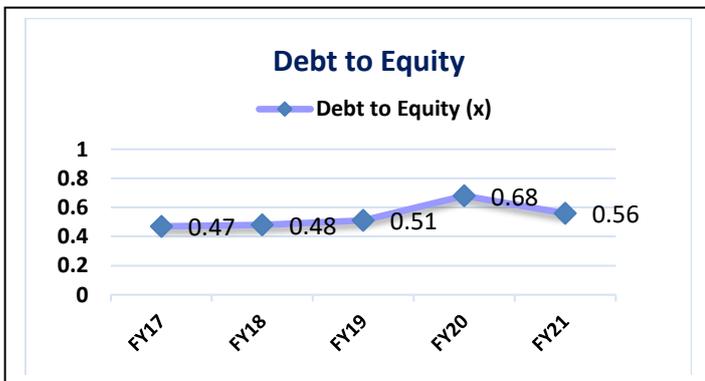
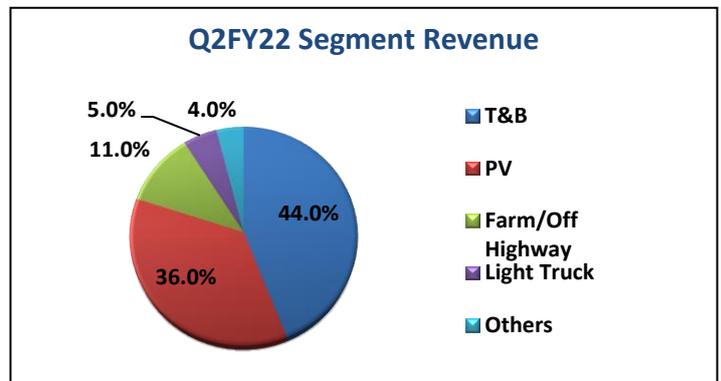
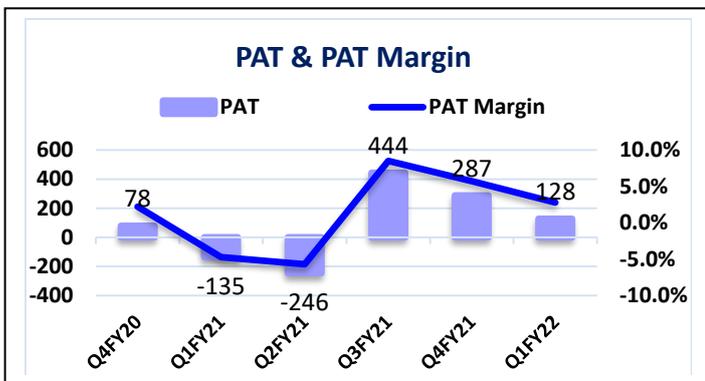
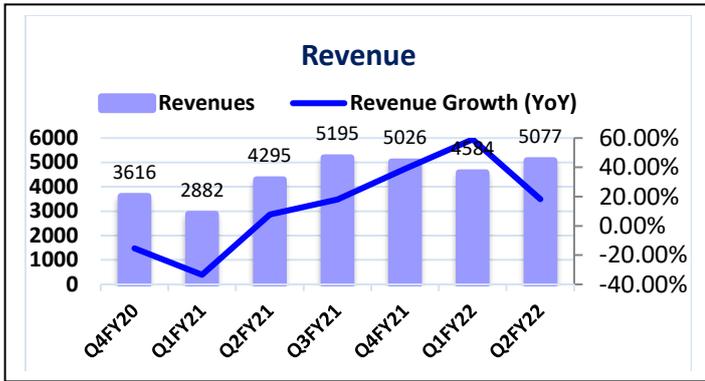
(₹ Cr)

Particulars	Apollo Tyres	Ceat	JK Tyre & Industries	MRF	Balkrishna Industries
Market Cap	14,689.9	5,119.6	3,572.8	33,301.3	48,275.2
Net Sales	17,397.0	7,609.6	9,102.2	16,163.2	5,783.2
EBITDA	2,817.6	962.0	1,306.3	2,949.3	1,810.8
PAT	350.2	432.0	319.3	1,277.1	1,177.5
EPS(₹)	5.5	106.8	13.0	3,011.9	60.9
EBITDA MARGIN %	16.9	13.1	14.8	19.5	34.3
PAT MARGIN %	2.0	5.2	3.7	7.9	20.4
ROCE %	5.9	13.1	13.2	13.7	24.2
ROE %	3.3	12.7	13.4	10.0	21.4
P/E TTM	14.2	14.6	6.8	27.6	34.8
P/B TTM	1.3	1.5	1.3	2.4	7.6
Dividend Yield %	1.5	1.4	1.4	0.1	0.7
MCap/ Sales TTM	0.8	0.6	0.3	1.8	7.3

Source: Company, Hem Securities Research.



**STORY IN CHARTS**





## INVESTMENT RATIONALE:

- Strong demand momentum seen across domestic and international markets.
- Strong volume growth in India in Q2FY22 with +7% in T&B segment, +30% in PV segment and +40% in 2W segment.
- Company gained market share in TBR and Off highway segment in the European markets.
- Management is expecting the topline growth to be in high double digits for their European operations.
- Company is currently market leader in TBR segment with 31% market share in domestic markets.
- Recently launched Vredestein brand in India which would help the company to expand in premium segment in the domestic markets.
- Company taking judicial price increase to combat increasing RM prices.
- Apollo tyres is the key beneficiary of restriction on imports of tyre.
- Company is strongly focusing on deleveraging the balance sheet and improving the cash flow.
- Apollo Tyres enjoys an extensive distribution network for its products across its two key markets.
- The Company is aggressively pursuing its strategy of building OEM relationships in Europe and has found success towards this.
- With a global and culturally diversified management team, the Company drives growth across geographies.

## RISK FACTORS:

- A weak Indian currency can result in pressure on margins, since the Company is a net importer.
- The continuing lockdown at the Company's operational locations can have a significant impact on the business.
- A growing influence of budget tyres, mainly Tier 2 and 3 brands from established manufacturers, could further impact business in Europe.
- Increase in raw material cost can impact the profitability of the Company.

## COMPANY RECAP

- Apollo Tyres is one of the leading tyre player with 7 manufacturing locations across India and Europe, 2 global R&D centres and company serves more than 100 nations around the world.
- The two key brands of company are Apollo (India) and Vredestein (Europe). Company caters tyres for passenger vehicles, commercial vehicles, two wheelers, farm and industrial sector.
- Key Raw materials include natural rubber and crude oil.
- Revenue Segmentation by Geography: APMEA (67.2%), Europe (31.9%), Others (0.9%).
- Revenue Segmentation by Customers: Replacement (82.2%), OEM (17.8%).
- Revenue Segmentation by Products: Passenger Vehicle (35%), Truck & Bus (42.5%), Off Highway (10.7%), Light Truck (5.5%), Others (6.3%).
- Company has long-established relationships with international OEM manufacturers in India and is aggressively pursuing its strategy of building OEM relationships in Europe.
- The Company is witnessing gains in market leadership gains in the passenger car tyre due to its strong and robust product portfolio.
- The Company plans to introduce the Vredestein brand in India which will cater to the higher segment of the market.
- The company has an experienced and skilled leadership team. The key people includes Onkar Kanwar (Chairman & MD), Neeraj Kanwar (Vice Chairman & MD), Gaurav Kumar (Finance and Legal), Daniele Lorenzetti (Research and Technology).



## ANNUAL PERFORMANCE

### Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
<b>Revenue from operations</b>	<b>13,180.04</b>	<b>14,842.85</b>	<b>17,548.84</b>	<b>16,350.20</b>	<b>17,397.00</b>	<b>20006.55</b>	<b>22807.47</b>
Growth YoY (%)	11.24	12.62	18.23	-6.83	6.40	15.00	14.00
<b>Total Expenditure</b>	<b>11,316.57</b>	<b>13,174.82</b>	<b>15,572.66</b>	<b>14,392.14</b>	<b>14,579.41</b>	<b>17405.70</b>	<b>19614.42</b>
(%) of sales	85.86	88.76	88.74	88.02	83.80	87.00	86.00
<b>EBITDA</b>	<b>1,863.47</b>	<b>1,668.03</b>	<b>1,976.19</b>	<b>1,958.05</b>	<b>2,817.59</b>	<b>2600.85</b>	<b>3193.05</b>
EBITDA Growth (%)	-2.68	-11.56	17.79	-5.60	48.71	-7.69	22.77
EBITDA Margin (%)	14.22	11.80	11.96	12.12	16.94	13.00	14.00
Depreciation	461.81	592.55	812.67	1,138.12	1,314.95	1380.70	1449.73
<b>EBIT</b>	<b>1,553.47</b>	<b>1,189.69</b>	<b>1,086.64</b>	<b>843.61</b>	<b>1,024.27</b>	<b>1220.15</b>	<b>1743.31</b>
EBIT Growth (%)	-8.17	-23.42	-8.66	-22.37	21.42	19.12	42.88
Net Interest Expenses	117.62	177.36	198.63	300.17	463.09	416.78	375.10
Other Income	151.81	114.21	123.12	23.68	129.38	129.38	129.38
<b>Earnings before Taxes</b>	<b>1,435.85</b>	<b>1,012.33</b>	<b>888.01</b>	<b>543.44</b>	<b>561.19</b>	<b>932.75</b>	<b>1497.59</b>
EBT Margin (%)	10.13	6.71	5.06	3.32	3.23	4.66%	6.57%
Tax-Total	336.55	288.45	208.29	67.04	211.00	261.17	419.33
Rate of tax (%)	23.44	28.49	23.46	12.34	37.60	28.00	28.00
<b>Net Profit</b>	<b>1,099.30</b>	<b>723.88</b>	<b>679.72</b>	<b>476.40</b>	<b>350.19</b>	<b>671.58</b>	<b>1078.26</b>
PAT Growth (%)	-2.11	-34.15	-6.10	-29.91	-26.49	91.78	60.56
PAT Margin (%)	7.76	4.79	3.87	2.91	2.01	3.36	4.73
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Adjusted PAT</b>	<b>1,099.00</b>	<b>723.88</b>	<b>679.84</b>	<b>476.40</b>	<b>350.21</b>	<b>671.58</b>	<b>1078.26</b>
<b>EPS</b>	<b>21.59</b>	<b>12.65</b>	<b>11.88</b>	<b>8.33</b>	<b>5.51</b>	<b>10.57</b>	<b>16.96</b>
EPS Growth (%)	-2.13	-41.39	-6.08	-29.93	-33.79	91.77	60.56

### Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Share Capital	51	51	57	57	57
Reserves	6,554	7,239	9,719	9,983	9,873
<b>Net Worth</b>	<b>7,290</b>	<b>9,776</b>	<b>10,040</b>	<b>9,930</b>	<b>11,444</b>
Borrowings	3,437	4,661	5,111	6,764	6,434
Other Liabilities	4,507	5,620	5,000	6,512	7,968
<b>Total Liabilities &amp; Equity</b>	<b>15,233</b>	<b>20,058</b>	<b>20,151</b>	<b>23,205</b>	<b>25,845</b>
Fixed Assets	6,692	10,403	11,754	15,448	16,420
CWIP	2,915	2,304	1,539	1,642	1,107
Investments	396	1,342	6	19	110
Other Assets	5,230	6,008	6,852	6,096	8,209
<b>Total Assets</b>	<b>15,233</b>	<b>20,058</b>	<b>20,151</b>	<b>23,205</b>	<b>25,845</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>					
<b>Y/E March</b> (Basic (INR))	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	7.76	4.79	3.87	2.91	2.01
EBITDA margin (%)	14.22	11.80	11.96	12.12	16.94
EBIT margin (%)	10.96	7.88	6.19	5.16	5.89
ROE (%)	15.83	8.49	6.86	4.77	3.28
ROCE (%)	16.46	9.46	7.35	5.30	5.93
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)	46.33	48.97	46.98	54.10	62.04
Inventory (Days)	59.05	67.58	66.86	74.68	68.45
Receivables (Days)	28.49	30.98	28.59	25.16	24.34
Current Ratio (x)	1.09	1.29	1.24	0.97	1.10
<b>Valuations Ratios</b>					
EV/sales (x)	1.04	1.34	0.98	0.65	1.06
EV/EBITDA (x)	6.81	11.12	8.21	5.33	6.28
P/E (x)	9.66	21.76	18.66	9.53	40.58
P/BV (x)	1.46	1.61	1.26	0.46	1.24
Dividend Yield (%)	1.44	1.09	1.47	3.78	1.56
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.47	0.48	0.51	0.68	0.56

<b>Cash Flow Statement</b>					
<b>Y/E March</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>CF from Operating activities (A)</b>	902	1,720	1,071	2,517	2,447
<b>CF from Investing Activities (B)</b>	-3,368	-3,891	-1,027	-2,817	-2,342
<b>CF from Financing Activities (C)</b>	1,895	2,321	-62	472	152
Net Cash Flow	<b>-571</b>	<b>150</b>	<b>-18</b>	<b>173</b>	<b>257</b>
Add: Opening Bal.	228	19	481	462	633
<b>Closing Balance</b>	<b>19</b>	<b>481</b>	<b>462</b>	<b>633</b>	<b>890</b>

Source: Company, Hem Securities Research.



## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
12 Nov 2021	Buy	271

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