

## Calibrated capex spends amid muted margin scenario comforting, retain capital efficiency focus...

**About the stock:** Apollo Tyres (ATL) is a leading tyre manufacturer with operations in India and Europe. APMEA (largely India), Europe comprise ~67%, ~31% of sales, respectively.

- FY22 segment mix: Truck/bus ~43%, PV ~35%, OHT ~10%, others ~12%
- FY22 channel mix: Replacement ~81%, OEM's ~19%

### Corporate Day Key takeaways

- ATL retained its FY26 targets in terms of revenue (US\$5 billion), EBITDA margins (>15%), RoCE profile (12-15%) and leverage on b/s (net debt: EBITDA <2). However, it reiterated that it will not chase revenues at the expense of capital efficiency. Therefore, it refrained from committing any fresh growth capex given the prevailing pressure on margins & return ratios
- Immediate aim is for sweating of assets, taking calibrated price hikes to augment margins & consequently improve return ratios. ATL is taking industry leading price hikes (increase in quantum as well as more frequent) and is prepared for small market share loss for protecting profitability
- Gross margin pressure is expected to continue until Q2FY23 vs. the initial guidance for Q1FY23, a key negative surprise from the meet
- Current domestic demand is driven by OEM segment with replacement segment demand holding steady. In Europe demand was driven by all season tyre segment with focus on OHT segment including agri
- Maintenance capex across Indian & Europe operations is seen at ₹ 400 crore & ₹30-35 million. Capacity utilisation across plants was at >=80%

**What should investors do?** ATL's stock price has de-grown at ~7% CAGR from ~₹ 247 levels in June 2017, underperforming the Nifty Auto Index in that time-frame.

- We retain our **BUY** rating on ATL amid retained focus on capital efficiency

**Target Price and Valuation:** Marginally revising our estimates, we now value ATL at a target price of ₹ 230 i.e., 5x FY24E EV/EBITDA (previous target price: ₹ 250).

### Key triggers for future price performance:

- With demand drivers in place, topline is seen growing at a CAGR of 11.2% over FY22-24E. Margins in a similar timeframe are seen improving to 13.3% with consequent RoCE seen at 10%. Trades at inexpensive valuations

**Alternate Stock Idea:** Apart from ATL, in our auto coverage we like M&M.

- Strong demand traction in PV portfolio. EV proactiveness. BUY with target price of ₹ 1200



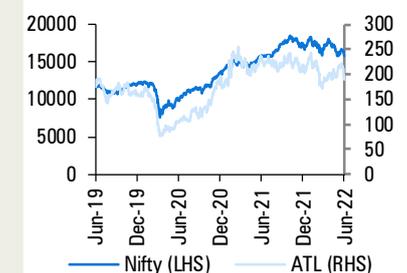
### Particulars

Particular	₹ crore
Market Capitalization	11,113.0
Total Debt (FY22)	6,117.7
Cash & Inv. (FY22)	1,531.4
EV (₹ Crore)	15,699.6
52 week H/L (₹)	250 / 165
Equity capital	₹ 63.5 Crore
Face value	₹ 1

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	37.6	37.3	37.3	37.3
FII	22.9	20.5	19.7	19.4
DII	15.7	18.0	18.4	18.6
Other	23.9	24.1	24.6	24.7

### Price Chart



### Recent event & key risks

- Reiterates FY26 targets with prime focus on capital efficiency
- Key Risk:** (i) Slower than anticipated recovery in topline, (ii) gross margin pressure amid elevated commodity prices

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	17,548.8	16,327.0	17,344.0	20,947.6	9.7	24,097.2	25,890.0	11.2
EBITDA	1,958.9	1,915.6	2,744.5	2,574.1	6.9	2,858.3	3,441.7	15.6
EBITDA Margins (%)	11.2	11.7	15.8	12.3		11.9	13.3	
Net Profit	680.0	476.4	350.2	638.6	(10.3)	808.0	1,233.2	39.0
EPS (₹)	11.9	8.3	5.5	10.1		12.7	19.4	
P/E	14.7	21.0	31.7	17.4		13.8	9.0	
RoNW (%)	6.8	4.8	3.1	5.4		6.6	9.4	
RoCE (%)	7.3	4.5	7.6	6.3		7.3	10.3	

Source: Company, ICICI Direct Research

Key Charts from corporate day presentation

Exhibit 1: Tangible FY26 targets



Source: Company, ICICI Direct Research

FY26E targets remained intact. Topline in FY26 is seen at ~US\$3-3.5 billion from Indian operations and ~US\$1 billion from European operations

Exhibit 2: Product Revenue mix – FY22

Balanced Business Portfolio

Product Revenue Mix - FY22



The company is heavy on the CV space in the domestic operations (market share pegged at ~30%) and PV space in European operations



Source: Company, ICICI Direct Research

Exhibit 3: Brief on product portfolio

Product Portfolio

Commercial Vehicle Segment



- Leadership in the commercial vehicle segment in India, with a market share of ~30%
- The company caters to all segments under commercial vehicle – HCV, LCV and SCV
- Launched TBR products in Europe and North America with positive initial response

Passenger Vehicles Segment



- One of the leading players in India with ~20% market share
- Recently launched premium Vredestein brand in India
- Gaining traction in premium segment in Europe (UHP/UUHP) & North America
- Leadership position in fast-growing all-season segment in Europe

Two-Wheeler Segment



- Forayed into Two-wheelers segment in India in 2016 by unveiling "Apollo ACTI" series
- Launched "Apollo Alpha" – India's first "zero degree" steel belted motorcycle radial tyre in 2018
- Two-pronged strategy:
  - Focussing on premium end of the market with its Alpha range (in house production)
  - Leveraging outsourced production for commuter sizes - helps establish market presence, incentivize dealer network and explore opportunities for cross selling

Farm/Off-Highway Segment



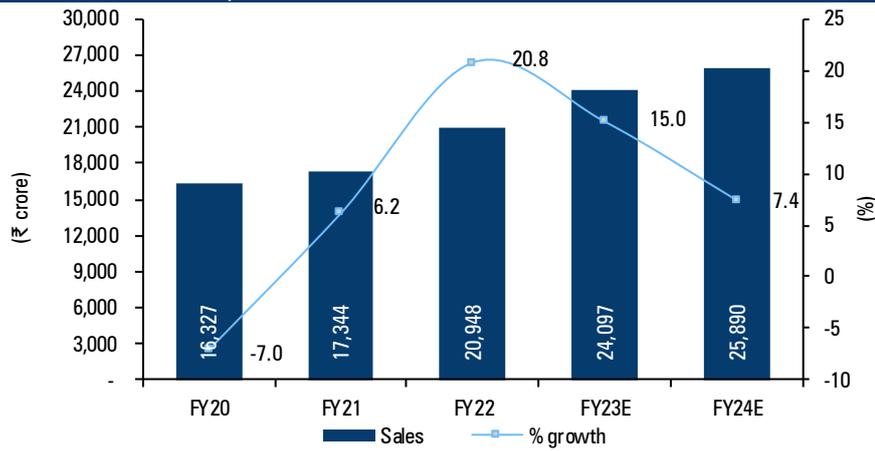
- Focused on three key sub-segments: Agriculture, Industrial and Earthmovers
- Targeting markets in both India and Europe with best in class products

Source: Company, ICICI Direct Research

Market share in the domestic PV space is pegged at ~20%

## Financial story in charts

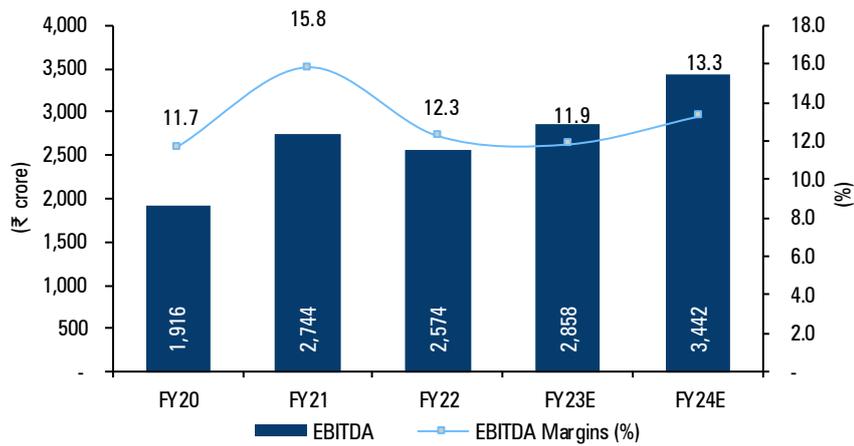
Exhibit 4: Trend in topline



We expect net sales to grow at ~11.2% CAGR over FY22-24E

Source: Company, ICICI Direct Research

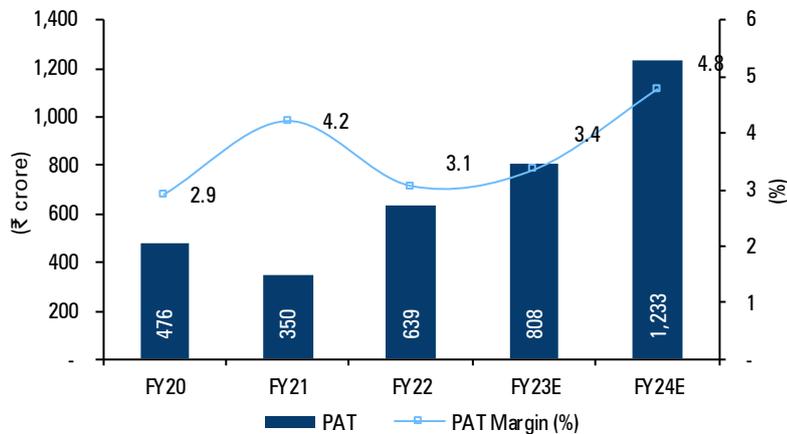
Exhibit 5: Trend in margins



Margins are expected at 13.3% by FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Trend in profitability



We expect ATL to clock ₹ 1,233 crore PAT in FY24E

Source: Company, ICICI Direct Research

Exhibit 7: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	16,327	(7.0)	8.3	(29.9)	21.0	8.9	4.8	4.5
FY21	17,344	6.2	5.5	(33.8)	31.7	5.6	3.1	7.6
FY22	20,948	20.8	10.1	82.4	17.4	6.1	5.4	6.3
FY23E	24,097	15.0	12.7	26.5	13.8	5.3	6.6	7.3
FY24E	25,890	7.4	19.4	52.6	9.0	4.0	9.4	10.3

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>17,344.0</b>	<b>20,947.6</b>	<b>24,097.2</b>	<b>25,890.0</b>
Growth (%)	6.2	20.8	15.0	7.4
Raw Material Expenses	9,394.6	12,385.5	14,702.7	15,558.0
Employee Expenses	2,513.3	2,574.3	2,724.7	2,865.4
Other Expenses	2,691.7	3,413.7	3,811.6	4,024.9
Total Operating Expenditure	14,599.5	18,373.5	21,239.0	22,448.3
<b>EBITDA</b>	<b>2,744.5</b>	<b>2,574.1</b>	<b>2,858.3</b>	<b>3,441.7</b>
Growth (%)	43.3	-6.2	11.0	20.4
Depreciation	1,314.9	1,399.7	1,506.1	1,605.2
Interest	443.0	444.4	414.5	319.7
Other Income	182.4	123.5	141.1	129.1
<b>PBT</b>	<b>561.2</b>	<b>847.6</b>	<b>1078.8</b>	<b>1645.9</b>
Exceptional items	607.8	5.9	0.0	0.0
Total Tax	211.0	209.1	271.9	414.8
<b>Reported PAT</b>	<b>350.2</b>	<b>638.6</b>	<b>808.0</b>	<b>1,233.2</b>
Growth (%)	-26.5	82.4	26.5	52.6
<b>EPS (₹)</b>	<b>5.5</b>	<b>10.1</b>	<b>12.7</b>	<b>19.4</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>350.2</b>	<b>638.6</b>	<b>808.0</b>	<b>1,233.2</b>
Add: Depreciation	1,314.9	1,399.7	1,506.1	1,605.2
(Inc)/dec in Current Assets	-720.8	-865.7	-919.2	-538.5
Inc/(dec) in CL and Provisions	1,007.8	639.5	659.2	476.4
<b>CF from operating activities</b>	<b>1952.1</b>	<b>1812.1</b>	<b>2054.1</b>	<b>2776.4</b>
(Inc)/dec in Investments	-90.1	-360.5	250.0	10.0
(Inc)/dec in Fixed Assets	-1,718.5	-2,115.0	-1,200.0	-1,000.0
Others	445.2	216.6	-4.4	172.0
<b>CF from investing activities</b>	<b>-1363.4</b>	<b>-2258.8</b>	<b>-954.4</b>	<b>-818.0</b>
Issue/(Buy back) of Equity	6.3	0.0	0.0	0.0
Inc/(dec) in loan funds	-330.2	-315.9	-800.0	-1,500.0
Dividend paid & dividend tax	-222.3	-206.4	-269.9	-428.7
Others	1,353.7	-96.0	-20.0	-20.0
<b>CF from financing activities</b>	<b>807.5</b>	<b>-618.3</b>	<b>-1089.9</b>	<b>-1948.7</b>
<b>Net Cash flow</b>	<b>1,396.2</b>	<b>-1,065.1</b>	<b>9.8</b>	<b>9.7</b>
Opening Cash	749.7	2,145.8	1,080.8	1,090.6
<b>Closing Cash</b>	<b>2145.8</b>	<b>1080.8</b>	<b>1090.6</b>	<b>1100.3</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	63.5	63.5	63.5	63.5
Reserve and Surplus	11,379.6	11,688.6	12,226.8	13,031.3
<b>Total Shareholders funds</b>	<b>11,443.1</b>	<b>11,752.1</b>	<b>12,290.3</b>	<b>13,094.8</b>
Total Debt	6,433.7	6,117.7	5,317.7	3,817.7
Deferred Tax Liability	920.9	901.4	916.4	984.6
<b>Total Liabilities</b>	<b>20,958.1</b>	<b>20,960.3</b>	<b>20,779.4</b>	<b>20,308.8</b>
<b>Assets</b>				
Gross Block	24,812.6	27,415.8	29,034.1	30,034.1
Less: Acc Depreciation	9,377.9	10,777.6	12,283.7	13,888.9
<b>Net Block</b>	<b>15,524.8</b>	<b>17,088.8</b>	<b>16,951.0</b>	<b>16,335.8</b>
Capital WIP	1,106.5	618.2	200.0	200.0
Total Fixed Assets	16,631.3	17,707.1	17,151.0	16,535.8
Investments	109.6	490.5	250.5	250.5
Goodwill on consolidation	220.4	215.8	215.8	215.8
Inventory	3,318.5	4,155.4	4,621.4	4,965.2
Debtors	1,380.8	1,610.4	1,980.6	2,127.9
Loans and Advances	46.2	45.0	51.8	55.6
Other current assets	707.1	507.6	583.9	627.3
<b>Cash</b>	<b>2,145.8</b>	<b>1,080.8</b>	<b>1,090.6</b>	<b>1,100.3</b>
Total Current Assets	7,598.5	7,399.2	8,328.2	8,876.4
Creditors	2,806.7	3,606.9	3,961.2	4,255.9
Provisions	288.2	317.9	349.1	375.1
Total Current Liabilities	3,094.9	3,924.7	4,310.3	4,631.0
Net Current Assets	4,503.6	3,474.4	4,017.9	4,245.4
<b>Application of Funds</b>	<b>20,958.1</b>	<b>20,960.3</b>	<b>20,779.4</b>	<b>20,308.8</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	5.5	10.1	12.7	19.4
Cash EPS	26.2	32.1	36.4	44.7
BV	180.2	185.1	193.5	206.2
DPS	3.5	3.3	4.3	6.8
Cash Per Share	33.8	17.0	17.2	17.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	15.8	12.3	11.9	13.3
PBT / Net sales	8.2	5.6	5.6	7.1
PAT Margin	4.2	3.1	3.4	4.8
Inventory days	69.8	72.4	70.0	70.0
Debtor days	29.1	28.1	30.0	30.0
Creditor days	59.1	62.8	60.0	60.0
<b>Return Ratios (%)</b>				
RoE	3.1	5.4	6.6	9.4
RoCE	7.6	6.3	7.3	10.3
RoIC	9.2	7.1	7.9	11.2
<b>Valuation Ratios (x)</b>				
P/E	15.2	17.3	13.8	9.0
EV / EBITDA	5.6	6.1	5.3	4.0
EV / Net Sales	0.9	0.7	0.6	0.5
Market Cap / Sales	0.6	0.5	0.5	0.4
Price to Book Value	1.0	0.9	0.9	0.8
<b>Solvency Ratios</b>				
Debt/Equity	0.6	0.5	0.4	0.3
Current Ratio	1.8	1.6	1.7	1.7
<b>Quick Ratio</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>

Source: Company, ICICI Direct Research

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