

# Retail Equity Research

## Apollo Tyres Limited

Auto Components

BSE CODE: 500877

NSE CODE: APOLLOTYRE

Bloomberg CODE: APTY:IN

SENSEX: 51,544

**BUY**

12M Investment period Rating as per Mid Cap  
CMP Rs. 239 TARGET Rs. 289 RETURN 21% ↑  
(Closing: 12-02-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

### Growth momentum continues; Outlook intact

Apollo Tyres Limited manufactures tires and tubes for cars, trucks, farm equipment, and light commercial vehicles. The company markets its products with two global brands: Apollo and Vredestein in APMEA (Asia Pacific, Middle East and Africa) and Europe regions.

- Topline expanded 14.2% YoY (+17.3% QoQ) in Q3FY21 on robust sales seen across domestic and abroad markets in both OEM & replacements.
- EBITDA margin improved 760bps YoY to 19.9% due to high margin product mix and lower costs. Adj. PAT rose 158.5% YoY to Rs. 449 cr.
- We expect growth momentum to continue with ongoing cost containment measures, focus on digitalization, capex conservation, strong recovery from replacement market in India and focus on premium products in Europe. Hence, we reiterate our BUY rating on the stock with a rolled forward TP of Rs. 289 based on 18x FY23E adj. EPS.

### Demand recovery aids topline, PAT more than doubles

Company recorded revenue growth of 14.2% YoY (+17.3% QoQ) to Rs. 4,965cr in Q3FY21 driven by robust performance in APMEA (+22.7% YoY, +16.4% QoQ to Rs. 3,449cr), as the demand in replacement business for most of the products reported double digit volume growth along with robust increase in the OEM segment for some of the key products. Similarly in Europe, sales grew 7.5% YoY (+27.3% QoQ) to Rs. 1,747cr, as the company improved its market share in premium segment, despite a demand weakness seen in winter tyres. Despite the unfavourable conditions, company also managed to gain market share in both PCR (+26bps in UHP) and TBR (+75bps) segments.

### Margin expands with effective cost control measures

In Q3FY21, EBITDA grew by 85.4% YoY to Rs. 989cr, supported with margin expansion of ~760bps YoY to 19.9%, owing to favorable operating leverage, lower raw material cost and staff expenses and prudent control over fixed overheads. Resultantly, the company posted robust growth in adj. net profit of 158.5% YoY to Rs. 449cr partially offset by increase in interest and tax expenses. Management plans to continue its focus on reducing fixed costs and remain cautious over capex and capital allocation.

### Key highlights

- During Q3FY21, Apollo commenced production at its plant at Andhra Pradesh.
- Within India, company estimates to have gained market share of ~500bps in Agri, ~400bps in Passenger Vehicles, and ~300bps in Truck & Bus segments.
- Despite continued adverse market conditions in Europe, company added 300 new customers on YTD basis during FY21.
- Company expanded its distribution footprint further during the quarter, with total dealer addition of 451 on YTD basis in FY21.
- Raised Rs. 10.8bn from Warburg Pincus to strengthen its balance sheet and fund further growth. Net Debt/EBITDA stood at 1.6x as of Dec. 31, 2020.

### Valuation

We expect company's earnings to grow at healthy 30% CAGR over FY20-22E. With a roadmap in place outlining further investments to be made towards capacity additions, R&D of new high margin products, and improving its distribution network, Apollo Tyres is well-placed to leverage recovery in demand thereby aiding its future growth. We reiterate our BUY rating on the stock with a rolled forward target price of Rs. 289 based on 18x FY23E adj. EPS.

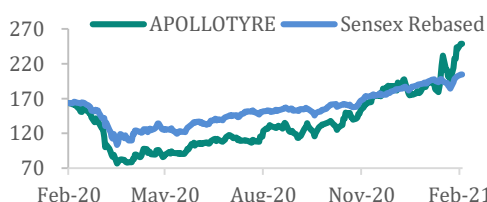
### Company Data

Market Cap (cr)	Rs. 15,758
Enterprise Value (cr)	Rs. 22,031
Outstanding Shares (cr)	63.3
Free Float	52.0%
Dividend Yield	1.2%
52 week high	Rs. 257
52 week low	Rs. 74
6m average volume ('000)	6.3
Beta	0.9
Face value	Rs. 1

Shareholding %	Q1FY21	Q2FY21	Q3FY21
Promoters	39.5	39.6	40.6
FII's	18.7	19.0	20.8
MFs/Insti	18.9	16.5	11.0
Public	8.1	8.6	7.3
Others	14.9	16.4	20.4
Total	100.0	100.0	100.0
Promoters' pledge	14.1	13.9	13.9

Price Performance	3 Month	6 Month	1 Year
Absolute Return	62.1%	101.6%	51.9%
Absolute Sensex	22.6%	35.0%	24.8%
Relative Return*	39.6%	66.6%	27.1%

\*over or under performance to benchmark index



Consolidated (cr)	FY21E	FY22E	FY23E
Sales	16,707	18,771	20,932
Growth (%)	2.3	12.4	11.5
EBITDA	2,393	2,656	2,983
EBITDA Margin (%)	14.3	14.1	14.3
Adj. PAT	768	837	1,018
Growth (%)	61.2	9.0	21.6
Adj. EPS	12.1	13.2	16.1
Growth (%)	45.6	9.0	21.6
P/E	20.5	18.8	15.5
P/B	1.6	1.5	1.4
EV/EBITDA	9.2	8.3	7.2
ROE (%)	1.6	7.9	9.0
D/E	0.7	0.7	0.6

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %	9MFY21	9MFY20	YoY Growth %
Revenue	4,965	4,347	14.2	4,234	17.3	12,027	12,545	(4.1)
<b>EBITDA</b>	<b>989</b>	<b>534</b>	<b>85.4</b>	<b>695</b>	<b>42.4</b>	<b>1,921</b>	<b>1,440</b>	<b>33.4</b>
EBITDA margins	19.9	12.3	760bps	16.4	350bps	16.0	11.5	450bps
Depreciation	327	283	15.7	331	(1.1)	967	824	17.3
<b>EBIT</b>	<b>662</b>	<b>251</b>	<b>164.2</b>	<b>364</b>	<b>81.9</b>	<b>954</b>	<b>616</b>	<b>54.9</b>
Interest	105	67	55.9	117	(10.1)	339	190	78.7
Other Income	64	18	258.3	38	65.3	129	49	161.6
Exceptional Items	(6)	-	n.m.	(601)	99.1	(606)	-	n.m.
<b>PBT</b>	<b>615</b>	<b>201</b>	<b>206.0</b>	<b>(315)</b>	<b>295.2</b>	<b>138</b>	<b>476</b>	<b>(71.0)</b>
Tax	171	27	530.1	(69)	348.6	75	77	(3.0)
Share of profit from Associate	0	(0)	n.m.	0	n.m.	0	0	n.m.
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>444</b>	<b>174</b>	<b>155.3</b>	<b>(246)</b>	<b>280.2</b>	<b>63</b>	<b>399</b>	<b>(84.2)</b>
Adjustments	6	-	n.m.	601	(99.1)	606	-	n.m.
<b>Adj. PAT</b>	<b>449</b>	<b>174</b>	<b>158.5</b>	<b>355</b>	<b>26.7</b>	<b>669</b>	<b>399</b>	<b>68.0</b>
No. of shares	63.3	57.2	10.7	60.4	4.8	63.3	57.2	10.7
<b>Adj. EPS (Rs.)</b>	<b>7.1</b>	<b>3.0</b>	<b>133.5</b>	<b>5.9</b>	<b>20.9</b>	<b>10.6</b>	<b>7.0</b>	<b>51.8</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E
Revenue	15,866	17,902	16,707	18,771	20,932	5.3	4.9
EBITDA	2,102	2,415	2,393	2,656	2,983	13.8	10
Margins (%)	13.2	13.5	14.3	14.1	14.3	110bps	60bps
Adj. PAT	367	588	768	837	1,018	109.5	42.4
Adj. EPS	6.4	10.3	12.1	13.2	16.1	89.3	28.7

## PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>17,549</b>	<b>16,327</b>	<b>16,707</b>	<b>18,771</b>	<b>20,932</b>
% change	16.3	(7.0)	2.3	12.4	11.5
<b>EBITDA</b>	<b>1,959</b>	<b>1,916</b>	<b>2,393</b>	<b>2,656</b>	<b>2,983</b>
% change	18.6	(2.2)	24.9	11.0	12.3
Depreciation	813	1,138	1,300	1,435	1,371
<b>EBIT</b>	<b>1,146</b>	<b>777</b>	<b>1,093</b>	<b>1,221</b>	<b>1,612</b>
Interest	181	281	443	408	407
Other Income	(77)	47	(426)	260	100
<b>PBT</b>	<b>888</b>	<b>544</b>	<b>224</b>	<b>1,073</b>	<b>1,305</b>
% change	(12.3)	(38.8)	(58.7)	378.5	21.6
Tax	208	67	63	236	287
Tax Rate (%)	23.5	12.3	28.0	22.0	22.0
<b>Reported PAT</b>	<b>680</b>	<b>476</b>	<b>162</b>	<b>837</b>	<b>1,018</b>
Adj*	200	-	606	-	-
<b>Adj PAT</b>	<b>880</b>	<b>476</b>	<b>768</b>	<b>837</b>	<b>1,018</b>
% change	21.5	(45.9)	61.2	9.0	21.6
No. of shares (cr)	57.2	57.2	63.3	63.3	63.3
<b>Adj EPS (Rs.)</b>	<b>15.4</b>	<b>8.3</b>	<b>12.1</b>	<b>13.2</b>	<b>16.1</b>
% change	14.5	(45.8)	45.6	9.0	21.6
DPS (Rs.)	3.3	3.0	3.3	3.0	4.5
CEPS (Rs.)	29.6	28.2	32.7	35.9	37.7

## CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net inc. + Depn.</b>	<b>1,493</b>	<b>1,615</b>	<b>1,461</b>	<b>2,272</b>	<b>2,389</b>
Non-cash adj.	78	(14)	800	426	622
Changes in W.C	(499)	917	86	(518)	(305)
<b>C.F. Operation</b>	<b>1,071</b>	<b>2,517</b>	<b>2,347</b>	<b>2,180</b>	<b>2,705</b>
Capital exp.	(2,274)	(2,806)	(1,313)	(1,478)	(1,651)
Change in inv.	1,137	(13)	(2)	(3)	-
Other invest.CF	141	23	-	-	-
<b>C.F - Investment</b>	<b>(996)</b>	<b>(2,796)</b>	<b>(1,315)</b>	<b>(1,481)</b>	<b>(1,651)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	327	1,127	(235)	(224)	(212)
Dividends paid	(207)	(431)	(206)	(191)	(286)
Other finance.CF	(182)	(223)	(443)	(408)	(407)
<b>C.F - Finance</b>	<b>(62)</b>	<b>472</b>	<b>(884)</b>	<b>(822)</b>	<b>(906)</b>
Chg. in cash	(18)	173	147	(122)	149
Closing cash	563	750	897	775	924

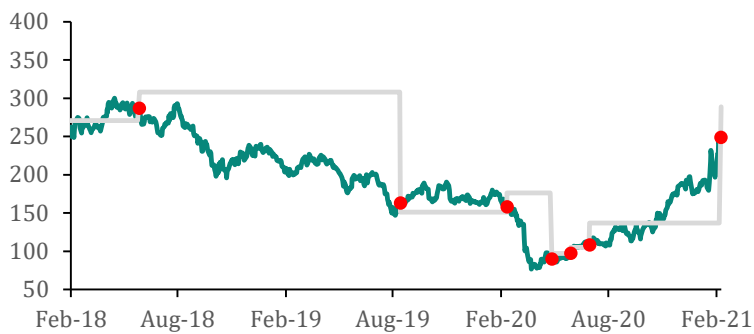
## BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	563	750	897	775	924
Accounts Receivable	1,155	940	944	1,154	1,341
Inventories	3,484	3,207	3,117	3,626	4,188
Other Cur. Assets	527	585	572	579	587
Investments	6	19	24	30	30
Gross Fixed Assets	17,800	20,606	21,919	23,397	25,047
Net Fixed Assets	10,884	14,750	14,900	15,066	15,456
CWIP	1,520	1,368	1,231	1,108	997
Intangible Assets	889	973	973	973	973
Def. Tax (Net)	53	45	94	47	57
Other Assets	963	614	633	652	652
<b>Total Assets</b>	<b>20,044</b>	<b>23,250</b>	<b>23,385</b>	<b>24,010</b>	<b>25,206</b>
Current Liabilities	3,843	4,281	4,659	4,932	5,451
Provisions	147	168	171	174	178
Debt Funds	4,542	7,405	7,169	6,946	6,733
Other Liabilities	1,472	1,466	1,501	1,427	1,580
Equity Capital	57	57	57	57	57
Reserves & Surplus	9,983	9,873	9,828	10,475	11,207
Shareholder's Fund	10,040	9,930	9,885	10,532	11,264
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>20,044</b>	<b>23,250</b>	<b>23,385</b>	<b>24,010</b>	<b>25,206</b>
<b>BVPS (Rs.)</b>	<b>176</b>	<b>174</b>	<b>156</b>	<b>166</b>	<b>178</b>

## RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	11.2	11.7	14.3	14.1	14.3
EBIT margin (%)	6.5	4.8	6.5	6.5	7.7
Net profit mgn.(%)	3.9	2.9	1.0	4.5	4.9
ROE (%)	6.8	4.8	1.6	7.9	9.0
ROCE (%)	7.9	4.5	6.4	7.0	9.0
<b>W.C &amp; Liquidity</b>					
Receivables (days)	24.0	21.0	20.6	22.4	23.4
Inventory (days)	125.6	129.0	124.1	125.9	127.8
Payables (days)	81.0	92.9	91.9	87.2	90.1
Current ratio (x)	1.4	1.0	0.9	1.0	1.0
Quick ratio (x)	0.4	0.3	0.3	0.3	0.3
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.0	0.9	0.8	0.8	0.9
Total asset T.O (x)	0.9	0.8	0.7	0.8	0.9
Int. coverage ratio (x)	6.3	2.8	2.5	3.0	4.0
Adj. debt/equity (x)	0.5	0.7	0.7	0.7	0.6
<b>Valuation</b>					
EV/Sales (x)	0.9	0.7	1.3	1.2	1.0
EV/EBITDA (x)	8.2	5.8	9.2	8.3	7.2
P/E (x)	13.6	9.5	20.5	18.8	15.5
P/BV (x)	1.2	0.5	1.6	1.5	1.4

## Recommendation Summary



Dates	Rating	Target
11-May-17	BUY	271
28-May-18	BUY	308
14-Aug-19	REDUCE	151
11-Feb-20	HOLD	176
27-Apr-20	HOLD	97
29-May-20	HOLD	105
30-Jun-20	BUY	137
15-Feb-21	BUY	289

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

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