

CMP: ₹ 200

Target: ₹ 250 (25%)

Target Period: 12 months

BUY

May 14, 2022

## Double digit return ratios seen, inexpensive valuations

**About the stock:** Apollo Tyres (ATL) is a leading tyre manufacturer, with operations in India & Europe with an installed capacity of ~7.9 lakh MTPA. 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
- FY22 segment mix: Truck/bus ~43%, PV ~35%, OHT ~10%, others ~12%

**Q4FY22 Results:** The company posted muted operational performance in Q4FY22.

- Total consolidated operating income was down 2.3% QoQ to ₹ 5,578 crore
- EBITDA came at ₹ 626 crore with margins down 180 bps QoQ to 11.2%
- Consolidated PAT at ₹ 113 crore was down 49.2% QoQ

**What should investors do?** ATL's stock price has de-grown at ~3% CAGR from ~₹ 227 levels in May 2017, underperforming Nifty Auto Index in that time.

- We retain our **BUY** rating on ATL amid management intent on sweating on assets, controlled capex spends and return ratios focus for the business

**Target Price and Valuation:** Rolling over our valuations, we now value ATL at a target price of ₹ 250 i.e., 5.25x FY24E EV/EBITDA (previous target price: ₹ 270).

**Key triggers for future price performance:**

- India CV cyclical upswing, high radialisation levels, pent-up demand in PV & network expansion across globe to be major topline drivers. We expect consolidated sales to grow at a CAGR of 10.9% in FY22-24E
- India, Europe sales seen growing at 13%, 7% CAGR, respectively, in FY22-24E
- Strong operational performance in European market to result in 13.5% FY24E margins and double digit return ratios profile (10.6% RoCE in FY24E)
- Healthy FCF generation to lead debt reduction in FY24E and boost PAT

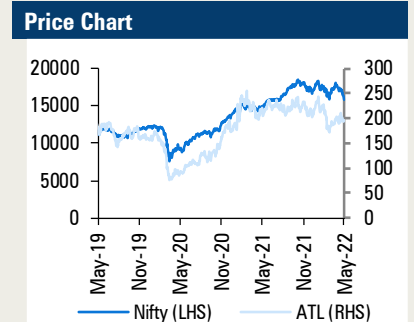
**Alternate Stock Idea:** Apart from ATL, in our ancillary coverage we like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with target price of ₹ 170



Particulars	
Particular	₹ crore
Market Capitalization	12,701.0
Total Debt (FY22P)	6,117.7
Cash & Inv. (FY22P)	1,531.4
EV (₹ Crore)	17,287.2
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



### Recent event & key risks

- Posts muted operational performance in Q4FY22
- Key Risk:** (i) Slower than anticipates sales volume growth, (ii) further pressure on RM costs due to elevated commodity price

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22P)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	17,548.8	16,327.0	17,344.0	20,947.6	9.7	24,051.3	25,775.3	10.9
EBITDA	1,958.9	1,915.6	2,744.5	2,574.1	6.9	3,003.6	3,489.2	16.4
EBITDA Margins (%)	11.2	11.7	15.8	12.3		12.5	13.5	
Net Profit	680.0	476.4	350.2	638.6	(10.3)	932.9	1,318.7	43.7
EPS (₹)	11.9	8.3	5.5	10.1		14.7	20.8	
P/E	16.8	24.0	36.3	19.9		13.6	9.6	
RoNW (%)	8.3	4.8	6.4	5.5		7.5	9.9	
RoCE (%)	7.3	4.5	7.6	6.3		8.1	10.6	

Source: Company, ICICI Direct Research

## Key takeaways of the recent quarter & conference call highlights

### Q4FY22 Results:

- Among geographies, APMEA i.e. largely India revenues grew 5% QoQ to ₹ 4,025 crore while Europe de-grew 15% QoQ at ₹ 1,685 crore
- Gross margin decline was limited to ~20 bps QoQ, aggravated by higher other expenses, which were up ~140 bps QoQ (negative o/p leverage)
- EBITDA margins on standalone basis were at 9.4% (up 30 bps QoQ) with expansion in gross margins a positive surprise up 40 bps QoQ, contrary to peers releasing results till date

### Q4FY22 Earnings Conference Call highlights

- Capacity utilisation for FY22 was as: India 80%, Europe 83%; for Q4FY22 capacity utilisation was as: India 84% Europe: ~85%; the company remains optimistic about demand outlook, going forward, but for Q4FY22 demand from India remained subdued (flat volumes on a YoY basis)
- Net debt to EBITDA was at 1.8x as of FY22. Gross debt at Indian operation was at ₹ 4,500 crore with net debt at ₹ 3,600 crore
- ATL witnessed highest ever EBITDA margins of 17.5% in European operations for FY22 with PAT at €103 million (revenues at €589 million)
- With respect to demand European PV segment grew high single digit YoY, further ~€8-10 million of PCR tyre market was served by Russian companies which post war would stop. ATL hope to carter this demand. ATL forecasts double digit growth in FY23
- ATL has opened new distribution channels in Paris, Spain, UK with Netherlands demand still strong. Going forward, focus would be on improving product mix to improve margins
- ATL is well positioned to carter to growing demand and debottlenecking existing capacity with no big capex is committed for FY23, ~₹ 900 crore is planned for FY23 primarily for completing AP plant of which ~₹ 250-300 crore is maintenance capex. European maintenance capex is ~€40 million of which ~€25-30 million is maintenance capex
- Volume growth in India for Q4FY22 was flat QoQ. Topline movement was largely due to price hike, volumes for FY22 were up ~15%. When it comes to Europe volume, growth was ~14% QoQ for Q4FY22 with ~12% growth in volumes for full year basis
- ATL has taken ~3% price hike in Q1FY23 to offset rise in material, which is expected to rise by further 3-4% in Q1FY23. Further raw material is expected to be at elevated level till Q2FY23. Post 3% hike still the company is two hikes behind to reach to normal operating margin level. Raw material basket was up ~4% QoQ in Q4FY22
- Q4FY22 costs/kg – Natural rubber 183, synthetic rubber 180, carbon black 105

Exports were primarily led by North American & Middle East markets & ATL expects healthy growth in export markets

Peak revenue generation capability with 100% capacity utilization is pegged at ~₹ 25,000-26,000 crores on consolidated basis

Gross debt at consolidated basis was at ~₹ 6,100 crore with net debt at ~₹ 4,600 crore

The company is focusing on developing special tyres for EV space and is currently under R&D stage

Rise in depreciation & interest costs was on account of capex in AP plant and new leases taken

PCR segment witnessed headwinds of semiconductor shortage, further demand from farm segment remained muted, however CV demand remained strong. Replacement demand remained flat QoQ

The company lost some market share in the replacement market due to price hike taken by ATL ahead of competition

## 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	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyres (APOTYR)	200	250	Buy	12,701	12.3	12.5	13.5	0.5	0.4	0.3	6.3	8.1	10.6	6.7	5.5	4.3
Balkrishna Inds (BALIND)	1,888	2,650	Buy	36,497	24.7	24.2	24.2	0.2	0.2	0.1	17.6	17.4	20.2	19.1	17.3	13.8
JK Tyre (JKTYRE)	119	170	Buy	2,926	9.7	11.2	11.6	1.7	1.4	1.1	11.8	9.3	12.9	5.7	6.6	4.9

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)	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Operating Income	5,578	5,627	5,026	11.0	5,707	(2.3)	Topline came in broadly inline with our estimates
Raw Material Expenses	3,361	3,476	2,759	21.8	3,427	(1.9)	RM costs for the quarter came in at 60.2% of sales vs. our estimates of 61.8% of sales
Employee Expenses	638	652	670	(4.8)	643	(0.8)	
Other expenses	953	837	782	21.8	894	6.6	Other expenses came in much higher at 17.1% of sales
EBITDA	626	662	815	(23.1)	743	(15.7)	
EBITDA Margin (%)	11.2	11.8	16.2	-498 bps	13.0	-179 bps	EBITDA margins came in lower than our estimates at 11.2% tracking sequential decline in performance at European operations with Indian operations reporting steady numbers
Depreciation	375	361	348	7.9	344	9.0	
Interest	128	106	104	22.8	108	18.2	
Other income	37	34	62	(39.9)	17.0	119.2	
Tax	47	57	136	(65.7)	83	(43.9)	
PAT	113	170	287	(60.5)	223.5	(49.2)	PAT for the quarter came in lower tracking lower than anticipated margins as well as higher interest out-go
EPS (₹)	1.8	2.7	4.5	(60.5)	3.5	(49.2)	
<b>Key Metrics</b>							
<b>Revenue (₹ crore)</b>							
APMEA	4,025	4,078	3,688	9.2	3,834	5.0	Indian operations reported 5% QoQ growth in sales
Europe	1,685	1,549	1,404	20.0	1,982	(15.0)	European operations reported 15% QoQ decline in sales
<b>EBIT Margin (%)</b>							
APMEA	4.1	NA	11.9	-778 bps	4.2	-9 bps	EBIT margins were steady in Indian operations
Europe	4.9	NA	4.6	24 bps	11.8	-693 bps	EBIT margin fall was drastic at European operations

Source: Company, ICICI Direct Research

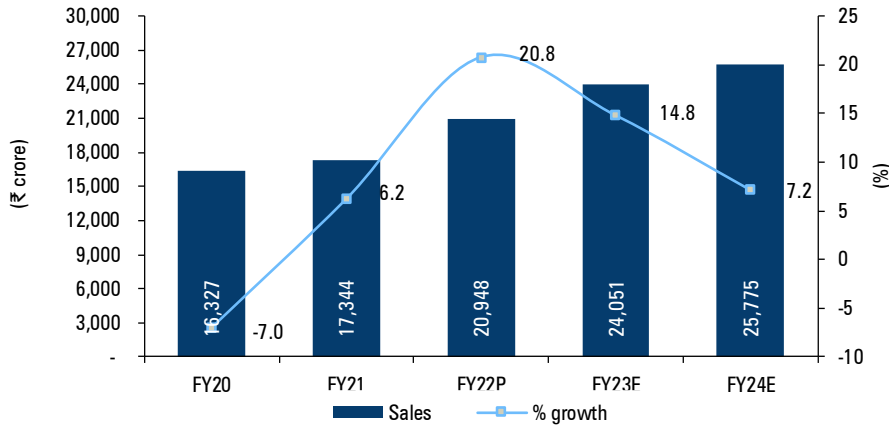
**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	24,113	24,051	-0.3	26,160	25,775	-1.5	Broadly maintained our topline estimates. We expect sales at Apollo tyres to grow at a CAGR of 10.9% over FY22-24E
EBITDA	3,110	3,004	-3.4	3,711	3,489	-6.0	
EBITDA Margin (%)	12.9	12.5	-41 bps	14.2	13.5	-65 bps	Marginally lowered margin estimates for FY23E-24E
PAT	984	933	-5.2	1,481	1,319	-11.0	
EPS (₹)	15.5	14.7	-5.2	23.3	20.8	-11.0	Tapering of margin estimates leads to downward revision in earning estimates over FY23-24E

Source: ICICI Direct Research

### Financial story in charts

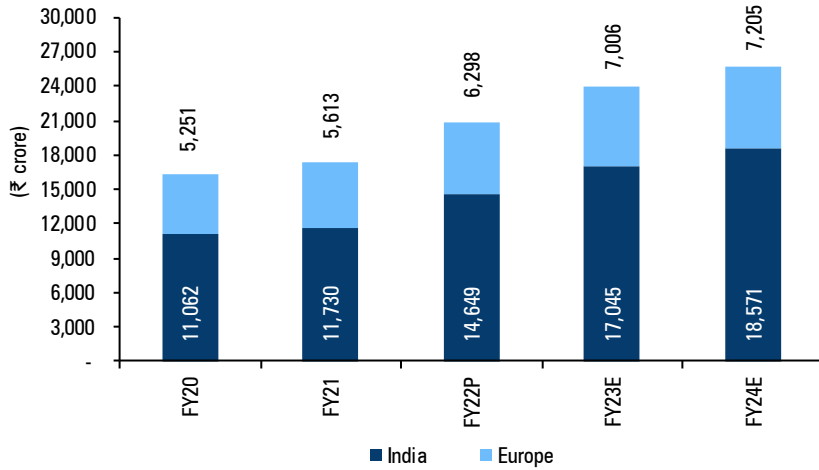
Exhibit 4: Trend in topline



We expect net sales to grow at ~10.9% CAGR over FY22-24E

Source: Company, ICICI Direct Research

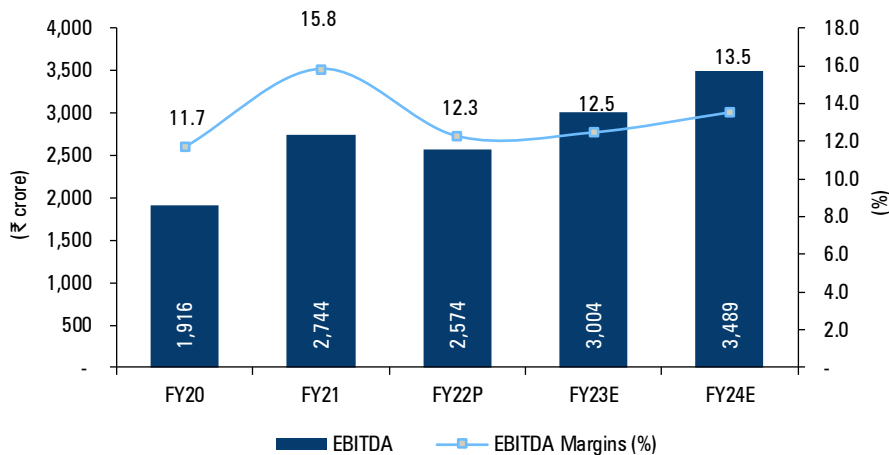
Exhibit 5: Trend in geography wise sales



Growth is expected to be led by India sales which is expected to grow at a CAGR of 13% over FY22-24E with Europe sales expected to grow at a CAGR of 7% in the aforesaid period

Source: Company, ICICI Direct Research

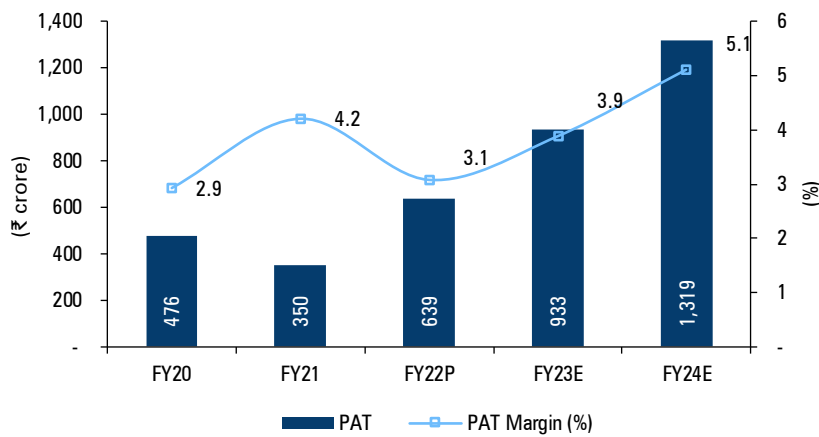
Exhibit 6: Trend in margins



Margins are expected at 13.5% by FY24E

Source: Company, ICICI Direct Research

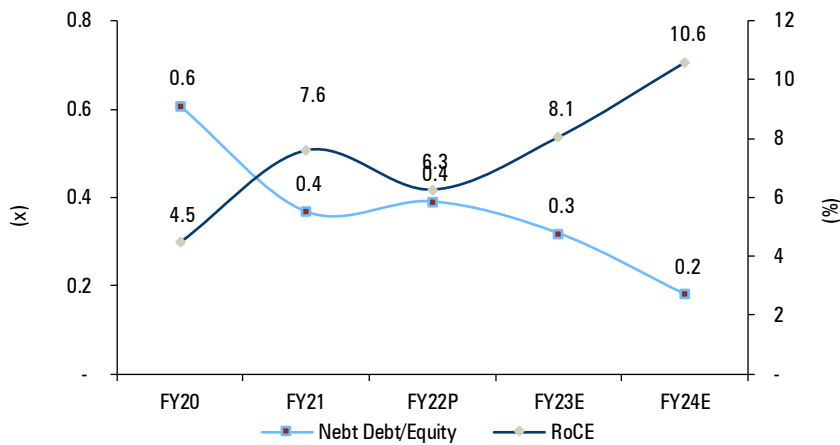
Exhibit 7: Trend in profitability



We expect ATL to clock ₹ 1,319 crore PAT in FY24E

Source: Company, ICICI Direct Research

Exhibit 8: Trend in debt and RoCE



RoCE is seen touching 10.6% by FY24E, with leverage on the downward trajectory

Source: Company, ICICI Direct Research

Exhibit 9: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	16,327	(7.0)	8.3	(29.9)	24.0	9.8	4.8	4.5
FY21	17,344	6.2	5.5	(33.8)	36.3	6.2	6.4	7.6
FY22P	20,948	20.8	10.1	82.4	19.9	6.7	5.5	6.3
FY23E	24,051	14.8	14.7	46.1	13.6	5.5	7.5	8.1
FY24E	25,775	7.2	20.8	41.4	9.6	4.3	9.9	10.6

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Total operating Income</b>	<b>17,344.0</b>	<b>20,947.6</b>	<b>24,051.3</b>	<b>25,775.3</b>
Growth (%)	6.2	20.8	14.8	7.2
Raw Material Expenses	9,394.6	12,385.5	14,618.2	15,601.1
Employee Expenses	2,513.3	2,574.3	2,702.3	2,814.0
Other Expenses	2,691.7	3,413.7	3,727.2	3,871.1
Total Operating Expenditure	14,599.5	18,373.5	21,047.7	22,286.2
<b>EBITDA</b>	<b>2,744.5</b>	<b>2,574.1</b>	<b>3,003.6</b>	<b>3,489.2</b>
Growth (%)	43.3	-6.2	16.7	16.2
Depreciation	1,314.9	1,399.7	1,503.2	1,572.3
Interest	443.0	444.4	400.2	296.9
Other Income	182.4	123.5	145.5	140.2
<b>PBT</b>	<b>561.2</b>	<b>847.6</b>	<b>1245.7</b>	<b>1760.2</b>
Exceptional items	607.8	5.9	0.0	0.0
Total Tax	211.0	209.1	313.9	443.6
<b>Reported PAT</b>	<b>350.2</b>	<b>638.6</b>	<b>932.9</b>	<b>1,318.7</b>
Growth (%)	-26.5	82.4	46.1	41.4
<b>EPS (₹)</b>	<b>5.5</b>	<b>10.1</b>	<b>14.7</b>	<b>20.8</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Profit after Tax</b>	<b>350.2</b>	<b>638.6</b>	<b>932.9</b>	<b>1,318.7</b>
Add: Depreciation	1,314.9	1,399.7	1,503.2	1,572.3
(Inc)/dec in Current Assets	-720.8	-865.7	-905.4	-517.8
Inc/(dec) in CL and Provisions	1,007.8	639.5	647.0	458.2
<b>CF from operating activities</b>	<b>1952.1</b>	<b>1812.1</b>	<b>2177.6</b>	<b>2831.4</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	-9.1	165.0
<b>CF from investing activities</b>	<b>-1363.4</b>	<b>-2258.8</b>	<b>-959.1</b>	<b>-845.0</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	-301.6	-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>-1121.6</b>	<b>-1948.7</b>
<b>Net Cash flow</b>	<b>1,396.2</b>	<b>-1,065.1</b>	<b>96.9</b>	<b>37.8</b>
Opening Cash	749.7	2,145.8	1,080.8	1,177.7
<b>Closing Cash</b>	<b>2145.8</b>	<b>1080.8</b>	<b>1177.7</b>	<b>1215.4</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	63.5	63.5	63.5	63.5
Reserve and Surplus	11,379.6	11,688.6	12,319.8	13,209.9
<b>Total Shareholders funds</b>	<b>11,443.1</b>	<b>11,752.1</b>	<b>12,383.3</b>	<b>13,273.4</b>
Total Debt	6,433.7	6,117.7	5,317.7	3,817.7
Deferred Tax Liability	920.9	901.4	914.7	980.2
<b>Total Liabilities</b>	<b>20,958.1</b>	<b>20,960.3</b>	<b>20,866.7</b>	<b>20,473.0</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	12,280.8	13,853.1
<b>Net Block</b>	<b>15,524.8</b>	<b>17,088.8</b>	<b>16,953.9</b>	<b>16,391.6</b>
Capital WIP	1,106.5	618.2	200.0	200.0
Total Fixed Assets	16,631.3	17,707.1	17,153.9	16,591.6
Investments	109.6	490.5	250.5	270.5
Goodwill on consolidation	220.4	215.8	215.8	215.8
Inventory	3,318.5	4,155.4	4,612.6	4,943.2
Debtors	1,380.8	1,610.4	1,976.8	2,118.5
Loans and Advances	46.2	45.0	51.7	55.4
Other current assets	707.1	507.6	582.8	624.5
<b>Cash</b>	<b>2,145.8</b>	<b>1,080.8</b>	<b>1,177.7</b>	<b>1,215.4</b>
Total Current Assets	7,598.5	7,399.2	8,401.5	8,957.1
Creditors	2,806.7	3,606.9	3,953.6	4,237.0
Provisions	288.2	317.9	348.4	373.4
Total Current Liabilities	3,094.9	3,924.7	4,302.1	4,610.4
Net Current Assets	4,503.6	3,474.4	4,099.5	4,346.7
<b>Application of Funds</b>	<b>20,958.1</b>	<b>20,960.3</b>	<b>20,866.7</b>	<b>20,473.0</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	5.5	10.1	14.7	20.8
Cash EPS	26.2	32.1	38.4	45.5
BV	180.2	185.1	195.0	209.0
DPS	3.5	3.3	4.8	6.8
Cash Per Share	33.8	17.0	18.5	19.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	15.8	12.3	12.5	13.5
PBT / Net sales	8.2	5.6	6.2	7.4
PAT Margin	4.2	3.1	3.9	5.1
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	6.4	5.5	7.5	9.9
RoCE	7.6	6.3	8.1	10.6
RoIC	9.2	7.1	8.8	11.7
<b>Valuation Ratios (x)</b>				
P/E	17.4	19.8	13.6	9.6
EV / EBITDA	6.2	6.7	5.5	4.3
EV / Net Sales	1.0	0.8	0.7	0.6
Market Cap / Sales	0.7	0.6	0.5	0.5
Price to Book Value	1.1	1.1	1.0	1.0
<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

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

Sector / Company	CMP		TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E
<b>Apollo Tyre (APOTYR)</b>	<b>200</b>	<b>250</b>	<b>Buy</b>	<b>12,701</b>	<b>10.1</b>	<b>14.7</b>	<b>20.8</b>	<b>19.9</b>	<b>13.6</b>	<b>9.6</b>	<b>6.7</b>	<b>5.5</b>	<b>4.3</b>	<b>6.3</b>	<b>8.1</b>	<b>10.6</b>	<b>5.5</b>	<b>7.5</b>	<b>9.9</b>
Ashok Leyland (ASHLEY)	123	140	Buy	35,901	-0.8	1.3	3.7	-148.2	95.6	33.4	63.7	25.7	15.7	-1.1	6.5	14.4	-4.2	5.6	15.2
Bajaj Auto (BAAUTO)	3,641	3,950	Hold	1,05,357	173.4	183.4	204.1	21.0	19.9	17.8	15.6	13.9	12.3	18.4	19.9	21.6	17.6	19.1	20.5
Balkrishna Ind. (BALIND)	1,888	2,650	Buy	36,497	72.8	74.2	91.6	25.9	25.4	20.6	19.1	17.3	13.8	17.6	17.4	20.2	20.6	18.3	19.5
Bharat Forge (BHAFOR)	629	910	Buy	29,291	23.3	24.4	29.3	27.0	25.8	21.5	16.2	13.8	11.6	10.2	11.8	13.5	15.8	15.8	16.6
Eicher Motors (EICMOT)	2,436	2,535	Hold	66,576	57.9	83.5	100.5	42.0	29.2	24.2	28.0	19.9	16.4	12.6	16.3	17.2	12.7	16.3	17.3
Escorts (ESCORT)	1,549	2,050	Hold	20,438	53.8	66.1	78.1	28.8	23.4	19.8	16.7	14.7	12.0	10.0	10.0	10.6	9.0	10.1	10.9
Hero Moto (HERHON)	2,449	2,495	Hold	48,901	123.8	156.1	176.3	19.8	15.7	13.9	12.1	9.5	8.3	16.3	20.7	22.2	15.7	18.7	19.9
M&M (MAHMAH)	889	1,045	Buy	1,10,514	40.5	46.7	56.5	21.9	19.0	15.7	15.2	12.5	10.4	9.8	11.5	13.1	13.4	13.2	14.3
Maruti Suzuki (MARUTI)	7,102	8,545	Hold	2,14,531	124.7	206.4	284.8	57.0	34.4	24.9	30.5	19.3	14.1	5.1	9.5	12.8	7.0	10.7	13.5
Minda Industries (MININD)	833	1,115	Hold	23,788	10.7	17.1	24.2	77.5	48.7	34.4	28.7	21.9	16.7	9.9	13.5	17.8	9.5	13.3	16.0
Tata Motors (TATMOT)	404	500	Buy	1,54,826	-29.9	1.7	21.1	-13.5	241.6	19.2	6.8	5.5	4.1	4.8	8.1	13.7	-23.4	1.3	14.0

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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