

Apollo Tyres

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Q3 EBITDA beats estimates; margin outlook remains positive

- Q3FY23 revenue increased by 13% YoY to Rs64.2bn, coming in 6% above our estimates on the back of better Europe revenues. EBITDA increased by 23% to Rs9.1bn, standing 13% above our estimates, mainly driven by higher-than-expected Europe margins. Management expects Q4 RM-cost to reduce by ~5% QoQ, owing to commodity deflation. We increase FY23-24E EPS by 4-7%, to account for the higher margin assumptions and broadly retain FY25E EPS. Following the revision, we expect FY23E revenue growth to be robust at 15%; this uptrend is likely to endure, with FY23-25E revenue CAGR at 8%, led by robust growth in the OEM segment, gradual pickup in replacement demand and market-share gains in Europe. Driven by better scale and improved net pricing, we expect EBITDA margin to expand, from 12.3% in FY22 to 13.2% in FY23E and to 15.4% in FY25E. We maintain our BUY rating, with revised TP of Rs375/share (Rs360 earlier), applying 13x FY25E EPS (Dec-24E earlier). Key downside risks: Lower-than-expected demand in key geographies, higher competitive intensity and adverse movement in currency/commodity prices.**
- Q3 EBITDA above our estimates:** Consolidated revenues grew by 13% YoY to Rs64.2bn, above our estimates owing to higher Europe revenues. APMEA revenues grew by 12% to Rs42.9bn and Europe revenues grew by 8% to EUR250mn. Consolidated EBITDA grew by 23% to Rs9.1bn, higher than our estimates by 13%, largely driven by higher-than-expected Europe margins. Consolidated EBITDA margin expanded by 120bps to 14.2%. APMEA EBIT margin expanded by 340bps to 7.7%, while Europe EBIT margin contracted by 390bps to 7.9%. Overall, adj. PAT grew by 30% to Rs2.9bn (Emkay est.: Rs2.5bn), above our estimates on higher operating profit. **What we liked:** 1) Gross margin improved QoQ on commodity deflation and better net pricing. Further expansion is expected in Q4 due to commodity deflation. 2) Continual market-share gains in Europe and improving mix of premium tyres. **What we did not like:** 1) Muted demand expected in the replacement segment in India and overseas markets in the near term.
- Earnings-Call KTAs:** 1) Q3 standalone volume declined by 4% YoY, despite 30% growth in the OEM segment, owing to 25% decline in exports and 8% fall in the replacement segment. 2) Standalone exports outlook remains weak in the near term, due to weak demand across regions. 3) Q3 Europe replacement demand was weak, and is expected to remain muted for the next two quarters. 4) Premiumization continues in Europe, with Q3 UHP share increasing to 45% vs. 43% in the corresponding quarter last year. 5) In the Standalone entity, commodity prices reduced by 6% in Q3, with further reduction of ~5% expected in Q4. 6) FY23 capex is expected to be lower than earlier guidance of Rs9bn for the Standalone business. Utilization stands at 75-80%.

CMP	Target Price
Rs 338 as of (February 6, 2023)	Rs 375 (▲) 12 months
Rating	Upside
BUY (■)	10.8 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	6.9/4.3
Target Price change (%)	4.2
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	15.7	24.8
Consensus	14.6	21.2
Mean Consensus TP (12M)	Rs 330	

Stock Details

Bloomberg Code	APTY IN
Face Value (Rs)	1
Shares outstanding (mn)	635
52 Week H/L	343 / 165
M Cap (Rs bn/USD bn)	215 / 2.60
Daily Avg Volume (nos.)	4,237,753
Daily Avg Turnover (USD mn)	15.9

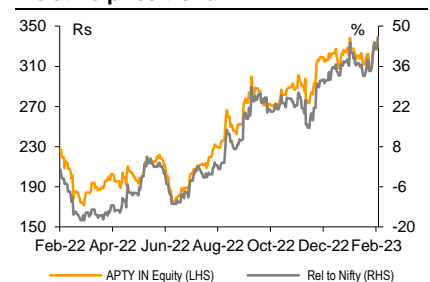
Shareholding Pattern Dec '22

Promoters	37.3%
FIIs	22.9%
DIIIs	17.1%
Public and Others	22.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	17	47	51
Rel. to Nifty	4	19	44	49

Relative price trend



Source: Bloomberg

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Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	173,970	209,476	241,763	262,459	283,526
EBITDA	27,975	25,741	31,866	39,974	43,726
EBITDA Margin (%)	16.1	12.3	13.2	15.2	15.4
APAT	9,580	6,445	9,984	15,778	18,321
EPS (Rs)	15.1	10.1	15.7	24.8	28.8
EPS (% chg)	81.1	(32.7)	54.9	58.0	16.1
ROE (%)	9.0	5.6	8.2	12.0	12.7
P/E (x)	22.4	33.3	21.5	13.6	11.7
EV/EBITDA (x)	9.6	10.5	8.3	6.4	5.7
P/BV (x)	1.9	1.8	1.7	1.6	1.4

Source: Company, Emkay Research

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Exhibit 1: Revenue assumptions – Expect 8% revenue CAGR over FY23-25E

Revenues (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E	CAGR (FY23-25E)
APMEA	119,187	148,265	173,010	190,068	208,079	10
Growth (%)	5.9	24.4	16.7	9.9	9.5	
Europe	56,754	65,543	72,753	76,391	79,447	4
Growth (%)	7.6	15.5	11.0	5.0	4.0	
Others	25,443	40,972	51,215	58,897	65,964	13
Growth (%)	(1.3)	61.0	25.0	15.0	12.0	
Inter-segmental	(27,415)	(45,305)	(55,215)	(62,897)	(69,964)	
Total	173,970	209,476	241,763	262,459	283,526	8
Growth (%)	6.4	20.4	15.4	8.6	8.0	

Source: Company, Emkay Research

Exhibit 2: EBIT assumptions – Expect 24% EBIT CAGR over FY23-25E

EBIT	FY21	FY22	FY23E	FY24E	FY25E	CAGR (FY23-25E)
APMEA	14,695	7,151	11,397	17,481	19,517	31
Margins %	12.3	4.8	6.6	9.2	9.4	
Europe	649	4,481	4,511	5,271	5,720	13
Margins %	1.1	6.8	6.2	6.9	7.2	
Others	775	1,347	2,510	2,915	3,298	15
Margins %	3.0	3.3	4.9	5.0	5.0	
Other un-allocable	-	-	-	-	-	
Total	16,135	12,994	18,435	25,688	28,557	24
Margins %	9.3	6.2	7.6	9.8	10.1	

Source: Company, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY23E				FY24E				FY25E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Revenue	239,015	241,763	1.1	15.4	260,474	262,459	0.8	8.6	283,200	283,526	0.1	8.0
EBITDA	30,695	31,866	3.8	23.8	38,873	39,974	2.8	25.4	43,582	43,726	0.3	9.4
Margin (%)	12.8	13.2	34 bps	89 bps	14.9	15.2	31 bps	205 bps	15.4	15.4	3 bps	19 bps
APAT	9,340	9,984	6.9	54.9	15,122	15,778	4.3	58.0	18,324	18,321	(0.0)	16.1
EPS	14.7	15.7	6.9	54.9	23.8	24.8	4.3	58.0	28.9	28.8	(0.0)	16.1

Source: Company, Emkay Research

Exhibit 4: Actual vs. Estimates (Q3FY23)

(Rs mn)	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue	64,228	60,308	62,012	6.5	3.6	Above estimates due to better Europe revenues
EBITDA	9,134	8,060	8,239	13.3	10.9	Above estimates, mainly driven by higher-than-expected Europe margins
EBITDA Margin (%)	14.2	13.4	13.3	86 bps	93 bps	
Adjusted net profit	2,921	2,518	2,726	16.0	7.2	Above estimates due to higher operating profit

Source: Bloomberg, Company, Emkay Research

Exhibit 5: Consolidated quarterly performance trend

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	FY23 YTD	FY22 YTD	YoY (%)
Revenue	57,075	55,783	59,420	59,560	64,228	12.5	7.8	183,208	153,693	19.2
Expenditure	49,645	49,520	52,522	52,440	55,094	11.0	5.1	160,056	134,215	19.3
as % of sales	87.0	88.8	88.4	88.0	85.8			87.4	87.3	
Consumption of RM	34,271	33,608	35,840	36,406	38,754	13.1	6.4	111,001	90,247	23.0
as % of sales	60.0	60.2	60.3	61.1	60.3			60.6	58.7	
Employee Cost	6,432	6,383	6,453	6,141	6,724	4.5	9.5	19,317	19,359	(0.2)
as % of sales	11.3	11.4	10.9	10.3	10.5			10.5	12.6	
Other expenditure	8,942	9,528	10,229	9,893	9,616	7.5	(2.8)	29,738	24,609	20.8
as % of sales	15.7	17.1	17.2	16.6	15.0			16.2	16.0	
EBITDA	7,429	6,264	6,898	7,120	9,134	22.9	28.3	23,152	19,477	18.9
EBITDA margin (%)	13.0	11.2	11.6	12.0	14.2			12.6	12.7	
Depreciation	3,443	3,753	3,437	3,485	3,544	2.9	1.7	10,467	10,243	2.2
EBIT	3,987	2,510	3,461	3,635	5,589	40.2	53.8	12,685	9,234	37.4
Other Income	170	372	106	69	67	(60.3)	(1.8)	242	863	(72.0)
Interest	1,083	1,279	1,182	1,320	1,420	31.1	7.5	3,922	3,165	23.9
PBT	3,073	1,603	2,384	2,383	4,237	37.9	77.8	9,005	6,932	29.9
Minority interest	0	-1	0	1	0			2	2	
Total Tax	833	467	478	440	1,316	58.0	199.3	2,234	1,623	37.6
Adjusted PAT after MI	2,241	1,135	1,907	1,945	2,921	30.4	50.2	6,772	5,311	27.5
Extra ordinary items Loss/(Gain)	5	0	0	0	0			0	59	
Reported PAT	2,235	1,135	1,907	1,945	2,921	30.7	50.2	6,772	5,251	29.0
Adjusted EPS (Rs)	3.5	1.8	3.0	3.1	4.6	30.4	50.2	10.7	8.4	27.5
(%)						(bps)	(bps)			(bps)
EBITDA margin	13.0	11.2	11.6	12.0	14.2	120	227	12.6	12.7	(4)
EBIT margin	7.0	4.5	5.8	6.1	8.7	172	260	6.9	6.0	92
EBT margin	5.4	2.9	4.0	4.0	6.6	121	260	4.9	4.5	40
PAT margin	3.9	2.0	3.2	3.3	4.5	62	128	3.7	3.5	24
Effective Tax rate	27.1	29.2	20.0	18.5	31.1	395	1,261	24.8	23.4	139

Source: Company, Emkay Research

Exhibit 6: Standalone quarterly performance trend

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	FY23 YTD	FY22 YTD	YoY (%)
Revenue	37,917	39,880	44,362	42,519	42,466	12.0	(0.1)	129,348	106,614	21.3
Expenditure	34,467	36,120	40,074	38,146	36,983	7.3	(3.0)	115,203	96,066	19.9
as % of sales	90.9	90.6	90.3	89.7	87.1			89.1	90.1	
Consumption of RM	26,452	27,672	31,211	29,901	28,581	8.0	(4.4)	89,693	72,248	24.1
as % of sales	69.8	69.4	70.4	70.3	67.3			69.3	67.8	
Employee Cost	2,555	2,462	2,604	2,480	2,498	(2.2)	0.7	7,581	7,778	(2.5)
as % of sales	6.7	6.2	5.9	5.8	5.9			5.9	7.3	
Other expenditure	5,460	5,986	6,259	5,765	5,904	8.1	2.4	17,929	16,041	11.8
as % of sales	14.4	15.0	14.1	13.6	13.9			13.9	15.0	
EBITDA	3,450	3,760	4,288	4,374	5,483	58.9	25.4	14,145	10,547	34.1
EBITDA margin (%)	9.1	9.4	9.7	10.3	12.9			10.9	9.9	
Depreciation	2,027	2,338	2,155	2,225	2,269	11.9	2.0	6,649	5,901	12.7
EBIT	1,423	1,423	2,133	2,149	3,215	125.8	49.6	7,496	4,646	61.3
Other Income	190	383	289	192	99	(48.0)	(48.4)	579	886	(34.6)
Interest	951	1,081	1,058	1,206	1,226	28.9	1.7	3,489	2,741	27.3
PBT	663	725	1,364	1,135	2,088	215.1	84.0	4,586	2,791	64.3
Total Tax	171	182	320	327	712	317.1	117.9	1,359	711	91.1
Adjusted PAT	492	543	1,043	808	1,376	179.6	70.2	3,227	2,080	55.1
Extra ordinary items Loss/(Gain)	0	0	0	0	0			0	13	
Reported PAT	492	543	1,043	808	1,376	179.6	70.2	3,227	2,068	56.1
Adjusted EPS (Rs)	0.8	0.9	1.6	1.3	2.2	179.6	70.2	5.1	3.3	55.1
(%)						(bps)	(bps)			(bps)
EBITDA margin	9.1	9.4	9.7	10.3	12.9	381	263	10.9	9.9	104
EBIT margin	3.8	3.6	4.8	5.1	7.6	382	252	5.8	4.4	144
EBT margin	1.7	1.8	3.1	2.7	4.9	317	225	3.5	2.6	93
PAT margin	1.3	1.4	2.4	1.9	3.2	194	134	2.5	2.0	54
Effective Tax rate	25.8	25.1	23.5	28.8	34.1	835	531	29.6	25.5	416

Source: Company, Emkay Research

Exhibit 7: Segmental quarterly performance trend

Segmental Details (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	FY23 YTD	FY22 YTD	YoY (%)
APMEA										
Net Sales	38,342	40,250	44,600	42,821	42,921	11.9	0.2	130,342	108,015	20.7
EBIT	1,626	1,670	2,145	2,049	3,289	102.3	60.5	7,483	5,482	36.5
Margins (%)	4.2	4.1	4.8	4.8	7.7	342 bps	288 bps	5.7	5.1	67 bps
Europe										
Net Sales	19,824	16,847	16,042	17,613	20,925	5.6	18.8	54,580	48,696	12.1
EBIT	2,336	818	786	998	1,659	(29.0)	66.2	3,443	3,663	(6.0)
Margins (%)	11.8	4.9	4.9	5.7	7.9	(386) bps	226 bps	6.3	7.5	(121) bps
Other										
Net Sales	11,382	11,361	12,968	15,132	12,129	6.6	(19.8)	40,229	29,611	35.9
EBIT	195	394	635	656	709	264.5	8.1	2,000	952	110.0
Margins (%)	1.7	3.5	4.9	4.3	5.8	414 bps	151 bps	5.0	3.2	176 bps

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	173,970	209,476	241,763	262,459	283,526
Expenditure	145,995	183,735	209,897	222,485	239,799
EBITDA	27,975	25,741	31,866	39,974	43,726
Depreciation	13,150	13,997	14,048	15,012	15,965
EBIT	14,825	11,744	17,818	24,962	27,761
Other Income	1,294	1,235	599	706	774
Interest expenses	4,430	4,444	5,193	4,769	4,269
PBT	11,689	8,535	13,224	20,898	24,266
Tax	2,110	2,091	3,240	5,120	5,945
Extraordinary Items	(6,077)	(59)	0	0	0
Minority Int./Income from Assoc.	0	1	0	0	0
Reported Net Income	3,502	6,386	9,984	15,778	18,321
Adjusted PAT	9,580	6,445	9,984	15,778	18,321

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	635	635	635	635	635
Reserves & surplus	113,796	116,886	124,266	136,589	150,923
Net worth	114,431	117,521	124,901	137,224	151,558
Minority Interest	0	0	0	0	0
Loan Funds	77,214	70,190	64,690	59,190	51,690
Net deferred tax liability	7,020	7,968	7,968	7,968	7,968
Total Liabilities	198,665	195,679	197,559	204,382	211,216
Net block	164,196	175,913	171,415	173,953	178,538
Investment	1,096	4,905	4,905	4,905	4,905
Current Assets	81,807	79,004	93,273	102,184	108,883
Cash & bank balance	21,458	10,807	15,662	18,323	18,643
Other Current Assets	13,356	10,539	11,066	11,619	12,200
Current liabilities & Provision	59,496	70,322	78,213	82,839	87,290
Net current assets	22,312	8,681	15,060	19,345	21,593
Misc. exp	0	0	0	0	0
Total Assets	198,665	195,679	197,559	204,382	211,216

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	4,318	7,300	12,625	20,192	23,493
Other Non-Cash items	0	0	0	0	0
Chg in working cap	4,616	3,927	(1,523)	(1,624)	(1,929)
Operating Cashflow	21,881	21,153	27,103	33,230	35,852
Capital expenditure	(11,563)	(15,545)	(9,550)	(17,550)	(20,550)
Free Cash Flow	10,318	5,608	17,553	15,680	15,302
Investments	(12,550)	(3,809)	0	0	0
Other Investing Cash Flow	1,964	7,539	0	0	0
Investing Cashflow	(20,855)	(10,580)	(8,951)	(16,844)	(19,776)
Equity Capital Raised	10,800	0	0	0	0
Loans Taken / (Repaid)	(3,222)	(7,024)	(5,500)	(5,500)	(7,500)
Dividend paid (incl tax)	0	(2,064)	(2,604)	(3,455)	(3,987)
Other Financing Cash Flow	8,765	(7,691)	0	0	0
Financing Cashflow	12,936	(21,224)	(13,297)	(13,724)	(15,756)
Net chg in cash	13,962	(10,651)	4,855	2,661	320
Opening cash position	7,496	21,458	10,807	15,662	18,323
Closing cash position	21,458	10,807	15,662	18,323	18,643

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	16.1	12.3	13.2	15.2	15.4
EBIT Margin	8.5	5.6	7.4	9.5	9.8
Effective Tax Rate	18.1	24.5	24.5	24.5	24.5
Net Margin	5.5	3.1	4.1	6.0	6.5
ROCE	6.5	4.9	7.0	9.6	10.3
ROE	9.0	5.6	8.2	12.0	12.7
RoIC	7.7	5.2	7.8	10.9	11.8

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	15.1	10.1	15.7	24.8	28.8
CEPS	35.8	32.2	37.8	48.5	54.0
BVPS	180.2	185.0	196.7	216.1	238.6
DPS	3.5	3.3	4.1	5.4	6.3

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	22.4	33.3	21.5	13.6	11.7
P/CEPS	9.5	10.5	8.9	7.0	6.3
P/BV	1.9	1.8	1.7	1.6	1.4
EV / Sales	1.6	1.3	1.1	1.0	0.9
EV / EBITDA	9.6	10.5	8.3	6.4	5.7
Dividend Yield (%)	1.0	1.0	1.2	1.6	1.9

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.5	0.5	0.4	0.3	0.2
Net Debt/EBIDTA	2.0	2.1	1.5	1.0	0.8
Working Cap Cycle (days)	1.8	(3.7)	(0.9)	1.4	3.8

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	6.4	20.4	15.4	8.6	8.0
EBITDA	44.3	(8.0)	23.8	25.4	9.4
EBIT	85.2	(20.8)	51.7	40.1	11.2
PAT	(26.5)	82.3	56.3	58.0	16.1

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	57,075	55,783	59,420	59,560	64,228
EBITDA	7,429	6,264	6,898	7,120	9,134
EBITDA Margin (%)	13.0	11.2	11.6	12.0	14.2
PAT	2,241	1,135	1,907	1,945	2,921
EPS (Rs)	3.5	1.8	3.0	3.1	4.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	37.3	37.3	37.3	37.3	37.3
FIs	19.7	19.4	20.7	21.8	22.9
DIs	18.4	18.6	17.5	17.9	17.1
Public and Others	24.6	24.7	24.5	23.0	22.7

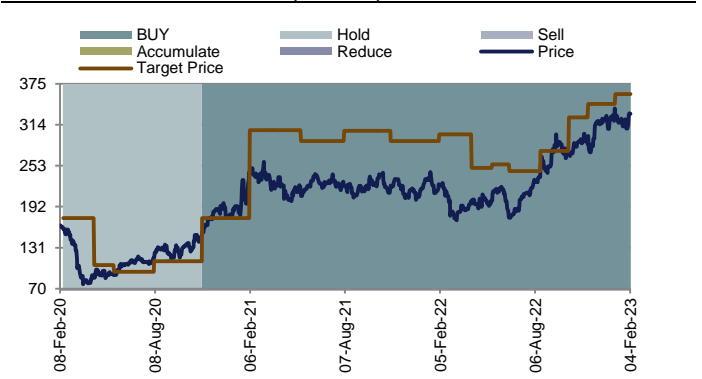
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
05-Feb-23	330	360	12m	Buy	Raghunandhan NL
06-Jan-23	328	360	12m	Buy	Raghunandhan NL
15-Nov-22	298	345	12m	Buy	Raghunandhan NL
09-Oct-22	271	325	12m	Buy	Raghunandhan NL
16-Aug-22	250	275	12m	Buy	Raghunandhan NL
10-Jul-22	203	245	12m	Buy	Raghunandhan NL
17-Jun-22	176	245	12m	Buy	Raghunandhan NL
15-May-22	201	255	12m	Buy	Raghunandhan NL
06-Apr-22	197	250	12m	Buy	Raghunandhan NL
24-Feb-22	179	300	12m	Buy	Raghunandhan NL
03-Feb-22	225	300	12m	Buy	Raghunandhan NL
02-Nov-21	223	290	12m	Buy	Raghunandhan NL
05-Aug-21	222	305	12m	Buy	Raghunandhan NL
02-Jul-21	227	290	12m	Buy	Raghunandhan NL
29-Jun-21	226	290	12m	Buy	Raghunandhan NL
18-Jun-21	227	290	12m	Buy	Raghunandhan NL
01-Jun-21	222	290	12m	Buy	Raghunandhan NL
30-May-21	224	290	12m	Buy	Raghunandhan NL
14-May-21	208	290	12m	Buy	Raghunandhan NL
05-Feb-21	242	306	12m	Buy	Raghunandhan NL
06-Nov-20	153	175	12m	Buy	Raghunandhan NL
11-Oct-20	138	111	12m	Hold	Raghunandhan NL
28-Sep-20	128	111	12m	Hold	Raghunandhan NL
06-Aug-20	116	111	12m	Hold	Raghunandhan NL
29-Jun-20	108	95	12m	Hold	Raghunandhan NL
21-May-20	92	95	12m	Hold	Raghunandhan NL
04-May-20	89	105	12m	Hold	Raghunandhan NL
13-Apr-20	86	105	12m	Hold	Raghunandhan NL
27-Feb-20	150	175	12m	Hold	Raghunandhan NL
14-Feb-20	159	175	12m	Hold	Raghunandhan NL

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 07 Feb 2023 00:25:57 (SGT)

Dissemination Date: 07 Feb 2023 00:26:57 (SGT)

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