

CMP: ₹ 330

Target: ₹ 390 (18%)

Target Period: 12 months

BUY

February 7, 2023

Sequential margin recovery trend to continue...

About the stock: Apollo Tyres (ATL) is a leading tyre manufacturer, with operations in India & Europe with installed capacity of ~7.9 lakh MT per annum. In India, it 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%

Q3FY23 Results: The company posted a healthy operational performance.

- Total consolidated operating income was up 7.8% QoQ to ₹ 6,432 crore
- EBITDA came in at ₹ 913 crore with margins up 227 bps QoQ to 14.2%
- Consolidated PAT was at ₹ 292 crore, up 50% QoQ
- EBITDA margin at standalone operations were at 12.9% (up 260 bps QoQ)

What should investors do? ATL's stock price has grown ~4% CAGR over past five years (from ~₹ 270 in February 2018), outperforming Nifty Auto Index in that time.

- We retain our **BUY** on ATL amid consistent focus on profitability amid surging OEM demand especially in the M&HCV domain, sweating of assets, calibrated capex spends and targeted revenue of ~US\$5 billion by FY26E.

Target Price and Valuation: Introducing FY25E and rolling over our valuations, we now value ATL at a revised target price of ₹ 390 i.e. 6x FY25E EV/EBITDA.

Key triggers for future price performance:

- We anticipate consolidated sales will increase at a CAGR of 8.4% over FY22-25E on back of CV cyclical upswing, robust PV demand (OEMs as well as replacement), network development in the domestic market and greater share of UHP tyres and market share gains in the European region
- With calibrated capex, debottlenecking of existing facilities & focus on sweating of assets RoE, RoCE is seen at 13%, 15% by FY25E, respectively
- With benign commodity price, rationalisation of energy prices overseas and operational efficiencies, we expect margins to reach 16.1% by FY25E
- Target to achieve US\$5 billion revenues by FY26, EBITDA margin of >= 15%, RoCE of 12-15% and net debt to EBITDA of < 2x

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

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,590



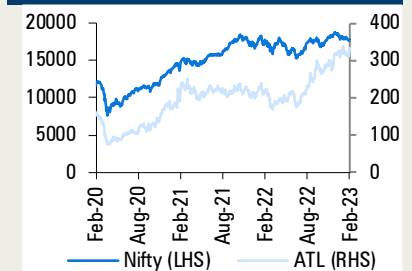
Particulars

Particular	₹ crore
Market Capitalization	20,956.0
Total Debt (FY22)	6,117.7
Cash & Inv. (FY22)	1,531.4
EV (₹ Crore)	25,542.8
52 week H/L (₹)	343 / 165
Equity capital	₹ 63.5 Crore
Face value	₹ 1

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	37.3	37.3	37.3	37.3
FII	19.4	19.4	21.8	22.9
DII	18.6	18.6	17.9	17.1
Other	24.7	24.7	23.0	22.7

Price Chart



Recent event & key risks

- Posts healthy performance in Q3FY23
- Key Risk:** (i) Lower than anticipated gross margin recovery amid benign raw material price outlook, (ii) Slower than anticipated sales recovery in foreign markets

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	17,548.8	16,327.0	17,344.0	20,947.6	9.7	24,348.7	25,638.5	26,705.4	8.4
EBITDA	1,958.9	1,915.6	2,744.5	2,574.1	6.9	3,243.7	3,972.0	4,305.7	18.7
EBITDA Margins (%)	11.2	11.7	15.8	12.3		13.3	15.5	16.1	
Net Profit	680.0	476.4	350.2	638.6	(10.3)	1,011.3	1,597.2	1,904.6	43.9
EPS (₹)	11.9	8.3	5.5	10.1		15.9	25.2	30.0	
P/E	27.8	39.6	59.8	32.8		20.7	13.1	11.0	
RoNW (%)	6.8	4.8	3.1	5.4		8.1	11.8	12.9	
RoCE (%)	7.3	4.5	7.6	6.3		10.0	13.8	14.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results:

- Among geographies, APMEA i.e. largely India revenues were flat QoQ to ₹ 4,292 crore while Europe grew 18.8% QoQ to ₹ 2,092 crore
- EBITDA margin was at 14.2%, up 227 bps QoQ. Gross margin expanded by 80 bps QoQ whereas other expense was down 164 bps QoQ leading to improved margins for the quarter
- EBITDA margins on a standalone basis were at 12.9% (up 262 bps QoQ) primarily led by gross margin expansion, which was up ~300 bps QoQ
- Consequent consolidated PAT came in at ₹ 292 crore, up 50% QoQ

Q3FY23 Earnings Conference Call highlights

- During the quarter the company witnessed healthy demand from OEMs but pressure came from replacement demand & European market
- Capacity utilisation for 9MFY23 was as: India 75%; Europe 87% vs. ~76% & 89% for Indian and European operations, respectively, for H1FY23
- The company remains optimistic about the demand outlook over the medium to long term specially in PV & CV space in India whereas, demand in replacement segment to remain muted for the coming one or two quarters. Further the management informed about demand pressure continuing in European region amidst recessionary scenario
- Net debt to EBITDA was at 1.6x as of Q3FY23 vs. ~2.0x in Q2FY23 due to debt repayment. Net debt for Q3FY23 was at ~₹ 4,000 crore vs. ₹ 4,200 crore in Q2FY23 for Indian operations and ~₹ 4,800 in Q3FY23 vs. ₹ 5,500 as at Q2FY23 crore at the consolidated level
- During the quarter the company launched its first all season EV tyre in European region. In the European market, the company witnessed market share gain as industry declined 14% whereas it de-grew 5%. Further the company did not witness any market share loss in domestic markets
- Overall volume decline for Indian operations was ~4% YoY; whereas same for replacement segment was ~8% YoY. Within replacement segments truck, PV de-grew by 8% each. PCR, TBR segment de-grew ~14%, 10%, respectively in European region amid high channel inventory, mild winters and economic slowdown
- European revenue was at ~€180 million. EBITDA was at ~€28 million with margins at ~15.4%
- During the quarter ATL witnessed ~6% decline in commodity costs with the management expecting further mid-single digit decline QoQ in Q4FY23
- In European region, ATL continues to focus on UHP/UUHP tyres with share of UHP tyres in PV space increasing to ~45% vs. ~43% in Q3FY22

ATL – ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	43.5	36.6	36.6
Social	17.7	20.8	26.2
Governance	84.9	84.9	84.9
Overall ESG Score	48.7	47.5	49.3

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Key commodity prices for Q3FY23: Natural Rubber: ₹ 175/kg; Carbon Black: ₹ 130/kg; Synthetic Rubber: ₹ 185/kg; Steel cords: ₹ 190/kg

TBR utilisation at ~80% in Q3FY23 and the company has sufficient capacity in place to fulfil demand for M&HCV space for coming two years

Capex for 9MFY23E was at ~₹ 450 crore for Indian operations & ~€20 million for European operations incurred largely on maintenance work

In EU region the management continues to benefit from ban on ~10-12 million tyre, which were imported to EU from Russia

In the domestic market the company is normally one step ahead of peers in terms of price hike

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)	330	390	Buy	20,956	12.3	13.3	15.5	0.5	0.4	0.3	6.3	10.0	13.8	9.9	7.6	5.9
Balkrishna Inds (BALIND)	2,294	2,200	Buy	44,347	23.9	18.0	23.6	0.4	0.3	0.2	15.9	12.5	19.9	23.3	24.7	16.1
JK Tyre (JKTYRE)	160	190	Buy	3,940	9.0	9.0	10.8	1.8	1.7	1.3	8.1	10.5	13.5	8.3	6.8	5.1

Source: Company, ICICI Direct Research

We believe ATL is well placed to report improved return ratio profile, going forward on the back of RM and operating leverage led expansion in margins and a leaner b/s.

Exhibit 2: Variance Analysis

(₹ crore)	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Operating Income	6,423	6,366	5,707	12.5	5,956	7.8	Topline was broadly in line with our estimates
Raw Material Expenses	3,875	3,667	3,427	13.1	3,641	6.4	RM costs came in higher than anticipated at 60.3% of sales, down 80 bps QoQ vs. our estimates of 57.6%
Employee Expenses	672	671	643	4.5	614	9.5	
Other expenses	962	1,108	894	7.5	989	(2.8)	Savings were realised on the other expenses front which declined 160 bps QoQ at 15% of sales
EBITDA	913	920	743	22.9	712	28.3	
EBITDA Margin (%)	14.2	14.5	13.0	120.4 bps	12.0	226.6 bps	EBITDA margins came in marginally lower than anticipated due to lower than expected gross margin expansion amidst lower other expenses
Depreciation	354	355	344	2.9	349	1.7	
Interest	142	126	108	31.1	132	7.5	Interest costs came in higher than anticipated
Other income	7	25	17	(60.3)	6.9	(1.8)	
Tax	132	117	83	58.0	44	199.3	Tax rate for the quarter came in higher at 31% of PBT
PAT	292	348	224	30.7	194.5	50.2	
EPS (₹)	4.6	5.5	3.5	30.7	3.1	50.2	PAT came in lower tracking higher interest costs as well as higher than usual tax rate

Key Metrics

Revenue (₹ crore)

APMEA	4,292	4,301	3,834	11.9	4,282	0.2	Indian operations revenues were flat QoQ at ₹4,292 crore
Europe	2,092	2,065	1,982	5.6	1,761	18.8	European operations witnessed QoQ uptick in revenues due to seasonality and stood at ₹2092 crore

EBIT Margin (%)

APMEA	7.7	NA	4.2	342 bps	4.8	288 bps	Indian operations witnessed healthy 290 bps EBIT margin expansions (largely gross margin led)
Europe	7.9	NA	11.8	-386 bps	5.7	226 bps	European operations too witnessed healthy 230 bps EBIT margin expansion (largely operating leverage led)

Source: Company, ICICI Direct Research

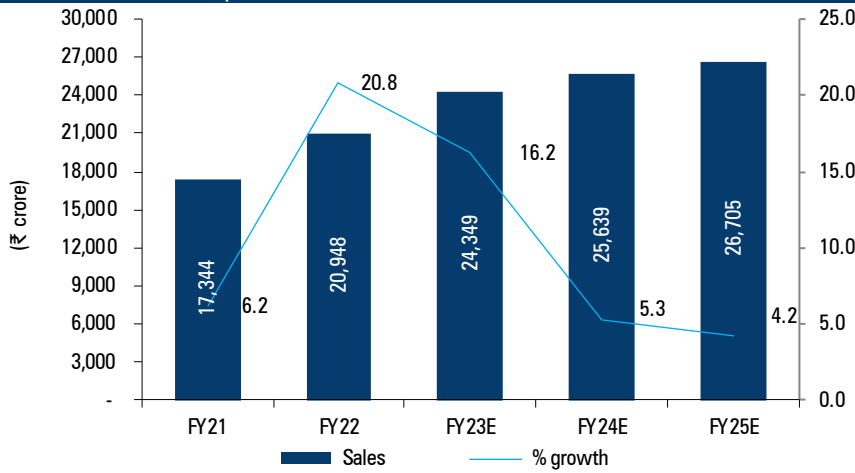
Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	24,691	24,349	-1.4	26,224	25,639	-2.2	26,705	Broadly retained revenues estimates for FY23-24E. Introduced FY25E numbers. We expect topline at the company to grow at a CAGR of 8.4% over FY22-25E
EBITDA	3,226	3,244	0.6	4,046	3,972	-1.8	4,306	
EBITDA Margin (%)	13.1	13.3	26 bps	15.4	15.5	6 bps	16.1	Introduced FY25E margins at 16.1%. Marginally upgraded estimates for FY23E-24E
PAT	1,026	1,011	-1.5	1,658	1,597	-3.7	1,905	
EPS (₹)	16.2	15.9	-1.5	26.1	25.2	-3.7	30.0	We expect bottom-line at the company to grow healthy at 44% CAGR over FY22-25E, albeit on a low base

Source: ICICI Direct Research

Financial story in charts

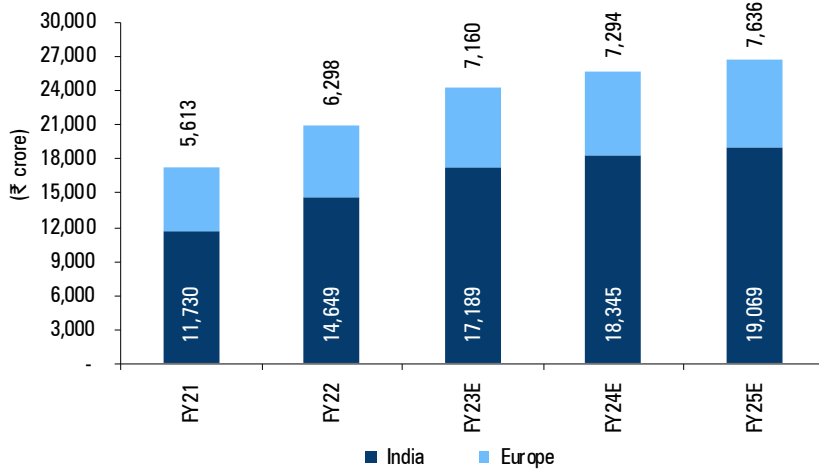
Exhibit 4: Trend in topline



We expect net sales to grow at 8.4% CAGR over FY22-25E to |26,705 crore by FY25E

Source: Company, ICICI Direct Research

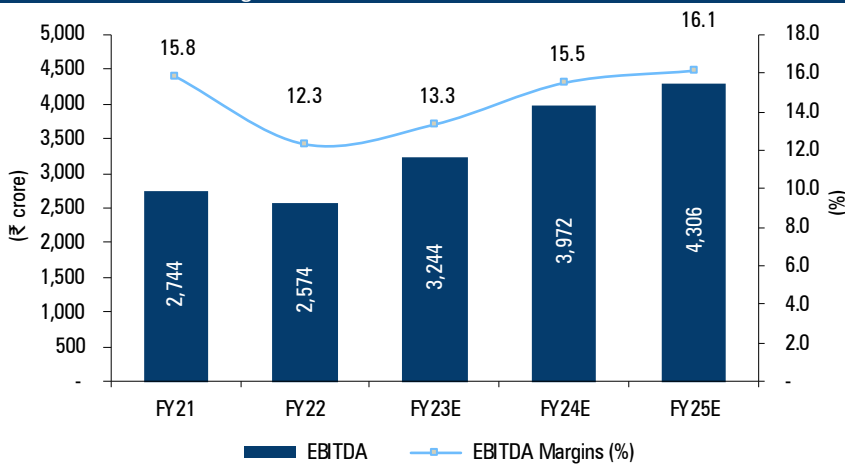
Exhibit 5: Trend in geography wise sales



Growth is expected to be led by India sales, which is expected to grow at a CAGR of 9.1% over FY22-25E with Europe sales expected to grow at a CAGR of 6.6% in the aforesaid period

Source: Company, ICICI Direct Research

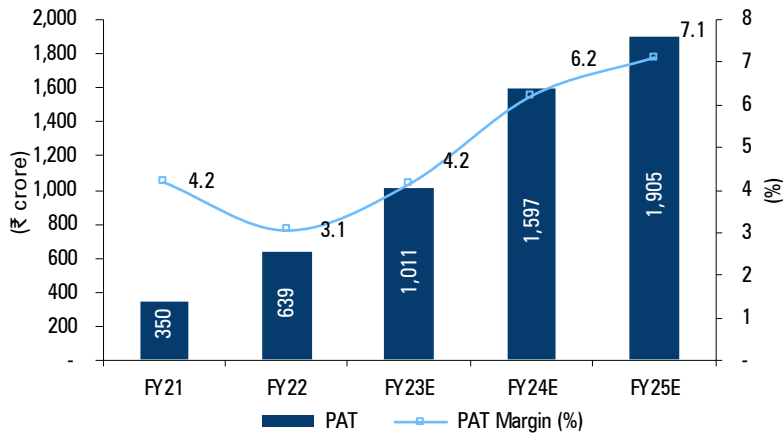
Exhibit 6: Trend in margins



Margins are expected at 15.5% in FY24E and thereafter 16.1% in FY25E led by operational efficiencies post bottoming out of gross margin gains

Source: Company, ICICI Direct Research

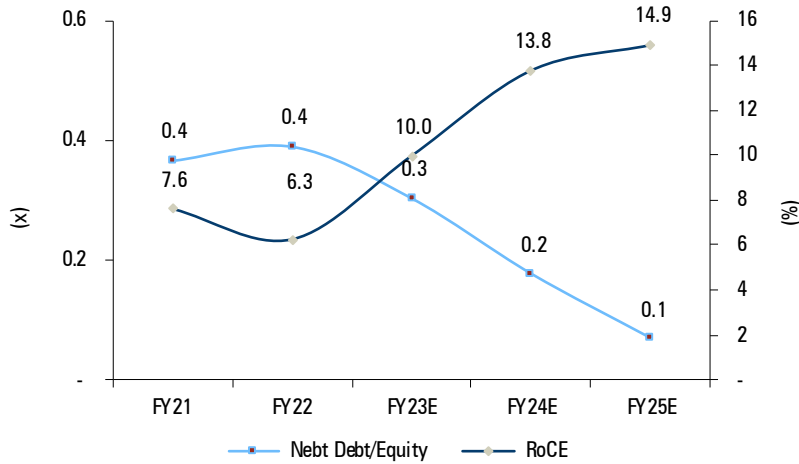
Exhibit 7: Trend in profitability



We expect ATL to clock ₹1,905 crore PAT in FY25E

Source: Company, ICICI Direct Research

Exhibit 8: Trend in debt and RoCE



RoCE is seen touching 14.9% by FY25E, with leverage on the downward trajectory amid surplus CFO utilised for retiring debt on balance sheet

Source: Company, ICICI Direct Research

Exhibit 9: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	14,841	12.6	12.7	(34.1)	26.1	14.3	7.4	6.9
FY19	17,549	18.2	11.9	(6.1)	27.8	12.9	6.8	7.3
FY20	16,327	(7.0)	8.3	(29.9)	39.6	14.1	4.8	4.5
FY21	17,344	6.2	5.5	(33.8)	59.8	9.2	3.1	7.6
FY22	20,948	20.8	10.1	82.4	32.8	9.9	5.4	6.3
FY23E	24,349	16.2	15.9	58.4	20.7	7.6	8.1	10.0
FY24E	25,639	5.3	25.2	57.9	13.1	5.9	11.8	13.8
FY25E	26,705	4.2	30.0	19.2	11.0	5.1	12.9	14.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	20,947.6	24,348.7	25,638.5	26,705.4
Growth (%)	20.8	16.2	5.3	4.2
Raw Material Expenses	12,385.5	14,523.8	14,652.0	15,254.4
Employee Expenses	2,574.3	2,577.2	2,659.5	2,738.3
Other Expenses	3,413.7	4,004.0	4,355.0	4,407.0
Total Operating Expenditure	18,373.5	21,104.9	21,666.5	22,399.7
EBITDA	2,574.1	3,243.7	3,972.0	4,305.7
Growth (%)	-6.2	26.0	22.5	8.4
Depreciation	1,399.7	1,400.0	1,451.1	1,508.9
Interest	444.4	532.6	435.6	311.5
Other Income	123.5	35.9	48.3	57.8
PBT	847.6	1347.0	2133.5	2543.1
Exceptional items	5.9	0.0	0.0	0.0
Total Tax	209.1	335.9	537.7	640.9
Reported PAT	638.6	1,011.3	1,597.2	1,904.6
Growth (%)	82.4	58.4	57.9	19.2
EPS (₹)	10.1	15.9	25.2	30.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	638.6	1,011.3	1,597.2	1,904.6
Add: Depreciation	1,399.7	1,400.0	1,451.1	1,508.9
(Inc)/dec in Current Assets	-865.7	-994.8	-387.4	-320.4
Inc/(dec) in CL and Provisions	639.5	726.0	342.8	283.5
CF from operating activities	1812.1	2142.7	3003.7	3376.5
(Inc)/dec in Investments	-360.5	250.0	0.0	-250.0
(Inc)/dec in Fixed Assets	-2,115.0	-1,000.0	-1,200.0	-1,500.0
Others	216.6	21.1	121.0	98.3
CF from investing activities	-2258.8	-728.9	-1079.0	-1651.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-315.9	-1,000.0	-1,300.0	-900.0
Dividend paid & dividend tax	-206.4	-333.4	-527.1	-590.6
Others	-96.0	-20.0	-20.0	-20.0
CF from financing activities	-618.3	-1353.4	-1847.1	-1510.6
Net Cash flow	-1,065.1	60.4	77.6	214.2
Opening Cash	2,145.8	1,080.8	1,141.2	1,218.7
Closing Cash	1080.8	1141.2	1218.7	1433.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	63.5	63.5	63.5	63.5
Reserve and Surplus	11,688.6	12,366.6	13,436.7	14,750.6
Total Shareholders funds	11,752.1	12,430.1	13,500.2	14,814.1
Total Debt	6,117.7	5,117.7	3,817.7	2,917.7
Deferred Tax Liability	901.4	926.0	975.0	1,015.6
Total Liabilities	20,960.3	20,750.7	20,682.7	21,230.5
Assets				
Gross Block	27,415.8	28,834.1	30,034.1	30,984.1
Less: Acc Depreciation	10,777.6	12,177.7	13,628.8	15,137.6
Net Block	17,088.8	16,857.0	16,605.9	16,297.0
Capital WIP	618.2	200.0	200.0	750.0
Total Fixed Assets	17,707.1	17,057.0	16,805.9	17,047.0
Investments	490.5	250.5	260.5	520.5
Goodwill on consolidation	215.8	215.8	215.8	215.8
Inventory	4,155.4	4,669.6	4,917.0	5,121.6
Debtors	1,610.4	2,001.3	2,107.3	2,195.0
Loans and Advances	45.0	52.3	55.1	57.4
Other current assets	507.6	590.0	621.2	647.1
Cash	1,080.8	1,141.2	1,218.7	1,433.0
Total Current Assets	7,399.2	8,454.3	8,919.3	9,454.0
Creditors	3,606.9	4,002.5	4,214.5	4,389.9
Provisions	317.9	352.7	371.4	386.9
Total Current Liabilities	3,924.7	4,355.3	4,586.0	4,776.8
Net Current Assets	3,474.4	4,099.1	4,333.3	4,677.2
Application of Funds	20,960.3	20,750.7	20,682.7	21,230.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	10.1	15.9	25.2	30.0
Cash EPS	32.1	38.0	48.0	53.8
BV	185.1	195.7	212.6	233.3
DPS	3.3	5.3	8.3	9.3
Cash Per Share	17.0	18.0	19.2	22.6
Operating Ratios (%)				
EBITDA Margin	12.3	13.3	15.5	16.1
PBT / Net sales	5.6	7.6	9.8	10.5
PAT Margin	3.1	4.2	6.2	7.1%
Inventory days	72.4	70.0	70.0	70.0
Debtor days	28.1	30.0	30.0	30.0
Creditor days	62.8	60.0	60.0	60.0
Return Ratios (%)				
RoE	5.4	8.1	11.8	12.9
RoCE	6.3	10.0	13.8	14.9
RoIC	7.1	10.9	15.1	17.4
Valuation Ratios (x)				
P/E	32.6	20.7	13.1	11.0
EV / EBITDA	9.9	7.6	5.9	5.1
EV / Net Sales	1.2	1.0	0.9	0.8
Market Cap / Sales	1.0	0.9	0.8	0.8
Price to Book Value	1.8	1.7	1.6	1.4
Solvency Ratios				
Debt/Equity	0.5	0.4	0.3	0.2
Current Ratio	1.6	1.7	1.7	1.7
Quick Ratio	0.6	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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

Sector / Company	CMP	TP	Rating	M Cap (? Cr)	EPS (?)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(?)	(?)			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyre (APOTYR)	330	390	Buy	20,956	10.1	15.9	25.2	32.8	20.7	13.1	9.9	7.6	5.9	6.3	10.0	13.8	5.4	8.1	11.8
Ashok Leyland (ASHLEY)	152	185	Buy	44,492	1.8	3.9	6.8	82.3	39.2	22.4	45.9	17.4	12.3	2.1	15.9	23.3	0.2	14.1	22.0
Bajaj Auto (BAAUTO)	3,849	4,100	Hold	1,11,379	173.4	197.5	240.9	22.2	19.5	16.0	17.1	14.4	11.5	18.4	24.2	29.0	17.6	22.3	26.1
Balkrishna Ind. (BALIND)	2,294	2,200	Buy	44,347	73.0	72.4	100.1	31.4	31.7	22.9	23.3	24.7	16.1	15.9	12.5	19.9	20.4	17.6	20.7
Bharat Forge (BHAFOR)	876	1,050	Buy	40,784	23.1	17.5	28.2	37.9	50.0	31.0	21.8	23.2	16.8	9.6	8.4	12.6	15.2	11.4	16.4
Eicher Motors (EICMOT)	3,261	4,310	Buy	89,123	61.3	101.4	124.6	53.2	32.2	26.2	37.1	22.3	18.0	13.3	20.5	21.6	13.3	19.2	20.4
Escorts Kubota (ESCORT)	2,062	2,365	Buy	27,206	58.0	47.8	73.7	35.5	43.1	28.0	23.5	27.0	19.1	10.4	7.8	10.4	9.7	8.4	10.5
Hero Moto (HERHON)	2,695	2,910	Hold	53,819	123.8	138.0	178.2	21.8	19.5	15.1	13.5	11.4	9.0	16.3	19.4	23.9	15.7	16.8	20.6
M&M (MAHMAH)	1,376	1,590	Buy	1,71,064	41.4	54.7	72.0	33.3	25.1	19.1	23.6	16.6	12.6	9.3	13.0	16.2	13.1	15.4	17.1
Maruti Suzuki (MARUTI)	8,908	11,200	Buy	2,69,093	124.7	261.9	369.0	71.4	34.0	24.1	39.9	20.8	14.9	5.1	12.9	16.9	7.0	13.3	16.7
Uno Minda (MININD)	495	650	Buy	28,302	6.2	10.4	14.4	79.5	47.8	34.4	32.6	24.8	19.3	10.2	13.5	16.9	10.3	14.9	17.4
Tata Motors (TATMOT)	442	530	Buy	1,69,242	-29.9	-3.1	24.3	-14.8	-144.3	18.2	7.2	6.4	4.3	4.8	7.9	15.1	-23.5	-2.5	16.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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