

Estimate change	↔
TP change	↔
Rating change	↔



Bloomberg	APTY IN
Equity Shares (m)	635
M.Cap.(INRb)/(USDb)	251.7 / 3
52-Week Range (INR)	441 / 229
1, 6, 12 Rel. Per (%)	-8/11/60
12M Avg Val (INR M)	1044

Financials & valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	245.7	260.4	281.7
EBITDA	33.1	43.9	46.2
Adj. PAT	10.9	18.2	20.6
EPS (Rs)	17.1	28.6	32.4
EPS Growth (%)	69.1	67.2	13.2
BV/Share (Rs)	253.0	282.3	315.8
Ratios			
RoE (%)	8.8	13.3	13.5
RoCE (%)	10.6	15.8	16.1
Payout (%)	24.4	17.6	17.0
Valuations			
P/E (x)	23.2	13.9	12.2
P/BV (x)	1.6	1.4	1.3
Div. Yield (%)	1.1	1.3	1.4
FCF Yield (%)	5.5	14.1	10.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	37.3	37.3	37.3
DII	18.8	19.4	19.0
FII	23.4	22.4	20.7
Others	20.5	21.0	22.9

FII Includes depository receipts

CMP: INR396 TP: INR500 (+26%) Buy

Benign RM prices offset lower revenue

RM prices to remain stable over next 2-3 quarters

- 1QFY24 performance was a mixed bag as a softening in RM prices (down 2% QoQ) offset the impact of lower revenue. While EBITDA margin fully reflects the benefits of low RM costs, we expect margin to remain range-bound over the next few quarters, led by stable RM costs and a recovery in EU operations from 3Q onward.
- APTY continues to focus on profitability and capital efficiency. We raise our FY24E EPS by 8% to factor in lower RM/interest costs, while we cut FY25E EPS by 2.5% for slower recovery in EU. Maintain BUY with a TP of INR500.

Consol. EBITDA margin expanded for sixth straight quarter

- Consol. revenue/EBITDA/adj. PAT grew ~5%/52%/1.1x YoY to INR62.4b/INR10.5b/INR4.1b in 1QFY24 (est. INR65.5b/INR10.4b/INR4.1b).
- Gross margins expanded 530bp YoY (+160bp QoQ) to 45%, supported by RM cost tailwind. RM prices declined ~2% QoQ in 1QFY24 and are expected to remain stable over the next 2-3 quarters.
- EBITDA margins expanded 520bp YoY (+80bp QoQ) to 16.8% (est. 15.9%).
- Aided by higher other income, adj PAT jumped 2.1x YoY to INR4.1b.
- Standalone business revenues at INR44.1b were lower than our estimate of INR47.9b. Gross margins expanded by 990bp YoY (+210bp QoQ) to 39.5% (est. 36.3%). EBITDA margin expanded by 810bp YoY (+190bp QoQ) to 17.8% (est. 15.7%).
- EU business revenue declined ~5% YoY to EUR144m (est. EUR159m), with EBITDA of EUR19m. EBITDA margin stood at 13.4% in 1QFY24 (est. 15.5%) vs. 18.1% in 4QFY23.

Highlights from the management commentary

- Domestic-** A recovery is visible in the replacement segment for the TBR/PCR category. The company expect domestic demand growth to remain stable. Replacement volumes grew ~3% YoY and the recovery should sustain. OE volumes also grew YoY in 1QFY24. Inventory remains at the comfortable level.
- Exports-** Volumes declined 30% YoY. Improvement was slow in ME, SEA, EU and US. However, the company expects 2HFY24 to be much better. The share of exports in 1QFY24 stood at ~11% vs. 17% in 1QFY23.
- EU business outlook-** Revenue declined ~5% YoY to EUR144m with EBITDA of EUR19m. APTY expects demand to remain weak in the coming quarter and some recovery from 3Q onward. As inventory is higher than normal, the company will focus on de-stocking.
- The company has guided for consol capex of INR10b in FY24**, including INR7b for India. Net debt declined to INR38b in 1QFY24 (vs. INR43b in 4QFY23). Capacity utilization for India/EU currently stands at 75%/80%.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- Among its tyre peers, APTY offers the best blend of earnings growth, balance sheet deleveraging, improving capital efficiencies and cheap valuations. We see scope of re-rating, driven by sustained discipline in capital allocation and subsequent improvements in RoCE. The stock trades at 13.9x/12.2x FY24E/FY25E consolidated EPS. We maintain our BUY rating with a TP of INR500/share (~15x Sep'25E consolidated EPS).

Consolidated - Quarterly Earning Model

(INR M)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
Net Revenues	59,420	59,560	64,228	62,473	62,446	62,591	68,596	66,815	2,45,681	2,60,448	65,531
YoY Change (%)	29.6	17.3	12.5	12.0	5.1	5.1	6.8	7.0	17.3	6.0	10.3
Total Expenditure	52,522	52,440	55,094	52,489	51,931	51,978	57,017	55,573	2,12,545	2,16,499	55,111
EBITDA	6,898	7,120	9,134	9,985	10,515	10,613	11,579	11,242	33,137	43,949	10,421
Margins (%)	11.6	12.0	14.2	16.0	16.8	17.0	16.9	16.8	13.5	16.9	15.9
Depreciation	3,437	3,485	3,544	3,724	3,620	3,835	3,880	3,860	14,191	15,195	3,800
Interest	1,182	1,320	1,420	1,390	1,355	1,250	1,200	1,170	5,312	4,975	1,380
Other Income	106	69	67	169	355	175	175	165	411	871	175
PBT before EO expense	2,384	2,383	4,237	5,039	5,896	5,703	6,674	6,377	14,044	24,649	5,416
Extra-Ord expense	0	0	0	-226	132	0	0	0	-226	132	0
PBT	2,384	2,383	4,237	5,265	5,764	5,703	6,674	6,377	14,269	24,518	5,416
Tax Rate (%)	20.0	18.5	31.1	22.1	31.1	25.2	24.3	25.0	22.6	26.3	24.7
Reported PAT	1,907	1,945	2,921	4,103	3,968	4,268	5,055	4,781	11,046	18,072	4,079
Adj PAT	1,907	1,945	2,921	3,928	4,066	4,268	5,055	4,781	10,872	18,171	4,079
YoY Change (%)	48.4	10.1	30.5	245.9	113.2	119.5	73.0	21.7	69.0	67.1	113.9
Margins (%)	3.2	3.3	4.5	6.3	6.5	6.8	7.4	7.2	4.4	7.0	6.2

E: MOFSL Estimates

Standalone (India)

Net Revenues	44,362	42,519	42,466	43,662	44,133	44,645	45,863	48,375	1,73,010	1,83,017	47,911
YoY Change (%)	37.8	16.5	12.0	9.5	-0.5	5.0	8.0	10.8	18.1	5.8	8.0
EBITDA	4,288	4,374	5,483	6,964	7,867	7,813	7,682	7,940	21,109	31,302	7,498
Margins (%)	9.7	10.3	12.9	15.9	17.8	17.5	16.8	16.4	12.2	17.1	15.7
Adj PAT	1,044	808	1,376	2,560	3,121	3,328	3,217	3,462	5,787	13,128	3,001
YoY Change (%)	52.4	-10.2	179.7	371.5	199.0	311.9	133.9	35.2	120.9	126.8	187.6

Europe (EUR m)

Net Revenues	151	181	180	177	144	163	184	185	688	676	159
YoY Change (%)	10.4	19.4	13.6	18.3	21.6	5.3	4.5	-2.0	15.4	6.6	17.0
Margins (%)	14.4	15.3	15.4	18.1	13.4	14.5	16.0	16.8	16.2	15.3	15.5

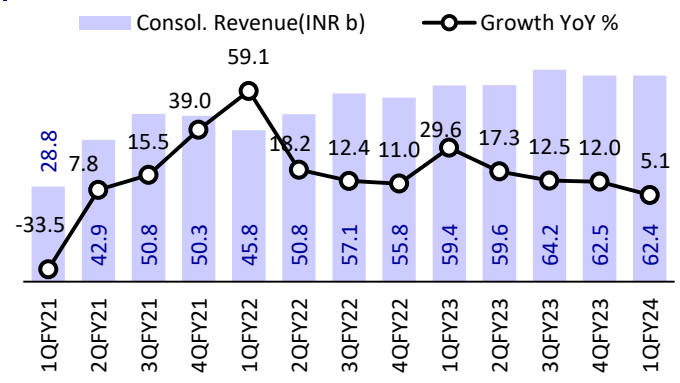


Highlights from the management commentary

- **Domestic-** A recovery is visible in the replacement segment for the TBR/PCR category. The company expects domestic demand growth to remain stable. Replacement volumes grew ~3% YoY and the recovery should sustain. OE volumes also grew YoY in 1QFY24. Inventory remains at a comfortable level.
- **Exports:** Volumes declined 30% YoY. Improvement was slow in ME, SEA, EU and US. However, APTY expects 2HFY24 to be much better. The share of exports in 1QFY24 stood at ~11% vs. 17% in 1QFY23.
- **EU business outlook:** Revenue declined ~5% YoY to EUR144m with EBITDA of EUR19m. The company reported EBITDA margin of 13.4% in 1QFY24 vs. 18.1% in 4QFY24.
 - Believe demand to remain weak in the coming quarter and some recovery from 3Q onwards. As the inventory is higher than the normal, the company will focus on de-stocking.
 - Despite a sluggish demand environment, the company's market share is up 15bp YoY in the PCLT segment and up 20bp in the OHT segment.
- **1Q EBITDA margin reflects benefits of a softening in RM costs (down ~2% QoQ).** RM prices should remain stable in the next 2-3 quarters.
 - Current prices of key commodities- Natural Rubber INR157/kg, Synthetic Rubber- INR167/kg, Carbon black- INR106/kg and nylon tire steel- INR180/kg.
 - Expects margins to sustain at the healthy level, led by stable RM prices and cost control. EU, on the other hand, has a high proportion of fixed costs and there is a lag in RM costs.
- **Capacity utilization for India/EU stood at 75%/80%.** TBR utilization was 77-78%.
- **Capex guidance of INR10b at consol level,** including INR7b for India. The company is focusing on improving return ratios by enhancing capacity utilization and debottlenecking.
- **Net debt declined to INR38b in 1QFY24 (vs. INR43b in 4QFY23).** Net Debt to EBITDA stood at 1.1x. Expects deleveraging to continue.
- **Rifen- 1QFY24 revenue stood at EUR55m (vs. EUR35m in 4QFY23),** with EBITDA margin of 4.5%.
- **EVs-** The company added 9 SKUs and also introduced new generation polymers and low rolling components for EV customers in Europe.

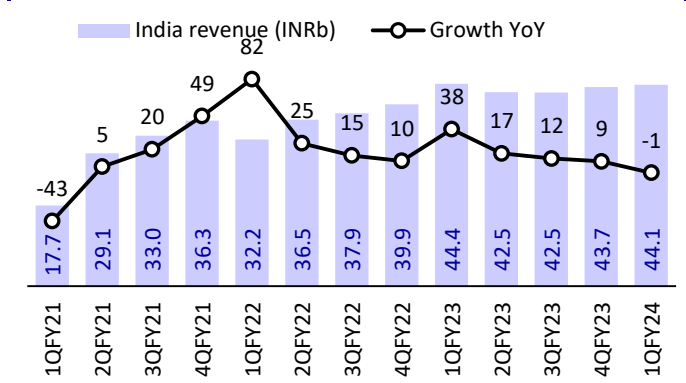
Key exhibits

Exhibit 1: Consolidated revenue trend



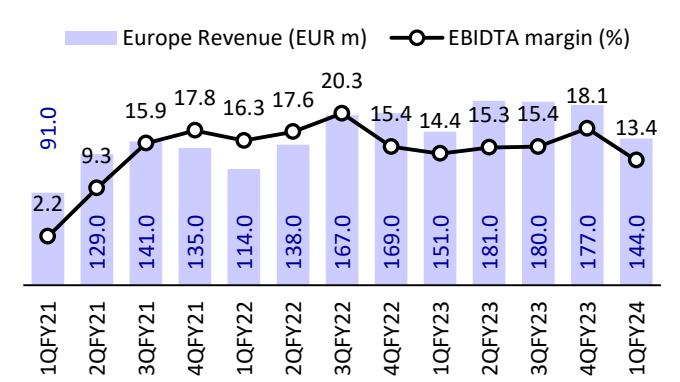
Source: MOFSL, Company

Exhibit 2: Trend in APTY's India revenue



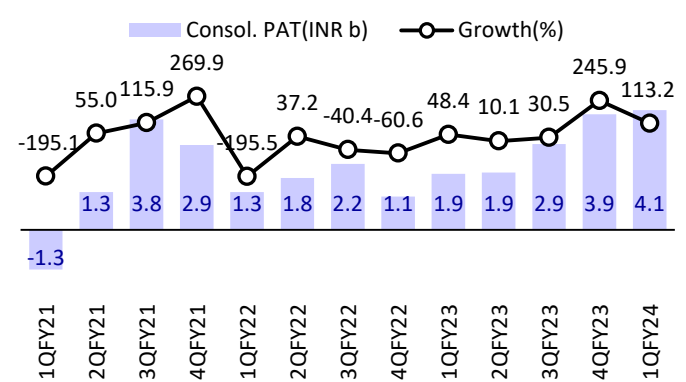
Source: MOFSL, Company

Exhibit 3: Performance trend in APTY's EU operations



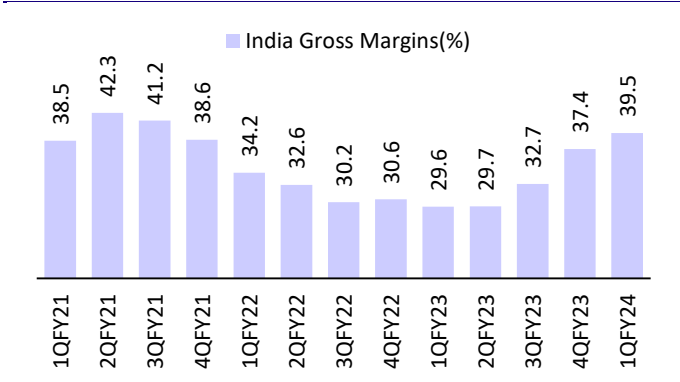
Source: MOFSL, Company

Exhibit 4: Consolidated PAT and PAT growth trend



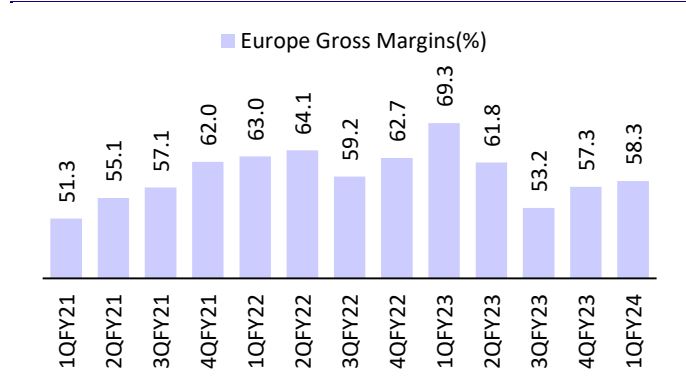
Source: MOFSL, Company

Exhibit 5: Trend in India gross margin (%)



Source: MOFSL, Company

Exhibit 6: Trend in EU (derived) gross margin (%)



Source: MOFSL, Company

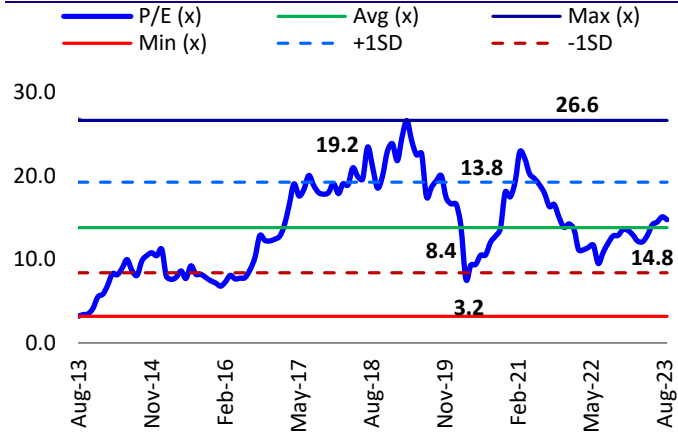
Valuation and view

- **India well placed for growth:** APTY is well placed with a strong competitive positioning, ready capacities to benefit from strong growth in TBR/PCR in OEM, and a recovery in the replacement segment. We estimate a 7% volume CAGR over FY23-25, led by strong growth in the TBR and PCR segment. This should result in a 7% revenue CAGR. The India business has several levers to support margin, diluting the impact of RM cost inflation. These include: 1) operating leverage, 2) increasing share of the most efficient AP plant (not factored in), and 3) likely benefit from PCR exports to the EU, with PLI benefits (not factored in). While we expect a 2.9pp expansion in FY25E EBITDA margin (to 16.4%) over FY23 levels, operating leverage and balance sheet deleveraging will drive a ~38% PAT CAGR.
- **Gradual improvement driven by lower RM basket and energy prices:** Its EU operations are all set for a turnaround, led by strategic initiatives at the front (product side) and back-end (Hungary plant and restructuring in the Netherlands). With improved competitiveness, APTY has gained market share in the Replacement segment and made in-roads with OEMs. With a further ramp-up at the low-cost Hungary plant and specialization at the Netherlands plant, we estimate a 5% revenue CAGR over FY23-25 and a ~60bp gain in EBITDA margin to 17.2% by FY25.
- **Leaner balance sheet augurs well for future growth capex:** APTY raised funds through a preferential placement to an arm of Warburg Pincus. In Feb'20, it issued compulsory convertible preference shares at INR1,713/share (already converted to equity), equivalent to a 9.93% stake in the company for INR10.8b. After this fund infusion, FY21 FCF (post interest) of ~INR12.9b and further net debt reduction of INR3.2b in FY23, consolidated net debt stood at INR43b as of Mar'23 (from INR46.3b as of Mar'22). Net debt to equity stood at 0.3x as of FY23 and is further expected to decline in FY24/25, led by FCF generation of INR60.5b over FY24-25E.
- **Expect ~38% consolidated PAT CAGR over FY23-25E:** Driven by strong growth across its Indian and European operations, APTY is likely to deliver a 7% revenue CAGR over FY23-25E. We expect gross margin to improve to 43.9% by FY25E (vs. 40.4% in FY23). Benefits from the restructuring of its EU operations and operating leverage in India and the EU would provide further benefits, leading to EBITDA margin expansion (by 2.9pp) to 16.4% over FY23-25E. This implies an 18% EBITDA CAGR over FY23E-25E. With a reduction in interest cost due to the debt reduction, we estimate an adjusted PAT CAGR of ~38% over FY23-25E. As a result, we estimate a 470bp improvement in RoE over FY23 to ~13.5% in FY25E.
- **Valuation and view:** APTY continues to focus on profitability and capital efficiency. We raise our FY24E EPS by 8% to factor in lower RM/interest costs, while we cut FY25E EPS by 2.5% for a slower recovery in EU. APTY is geared for the next leg of growth, with sufficient capacity to cater to demand from India and Europe. Among its tyre peers, APTY offers the best blend of earnings growth and cheap valuations. We see scope of re-rating, led by sustained discipline in capital allocation and subsequent improvements in RoCE. The stock trades at 13.9x/12.2x FY24E/FY25E consolidated EPS. We maintain our BUY rating with a TP of INR500/share (~15x Sep'25E consolidated EPS).

Exhibit 7: Changes to our estimates

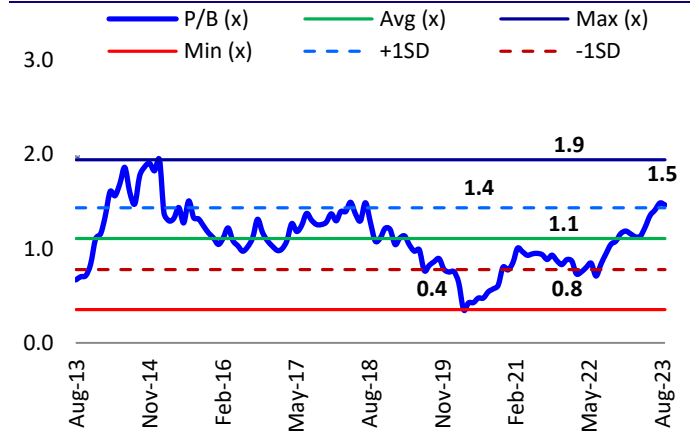
Revised forecast (Consol) (INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	2,60,448	2,68,833	-3.1	2,81,721	2,91,200	-3.3
EBITDA	43,949	42,309	3.9	46,175	46,906	-1.6
EBITDA (%)	16.9	15.7	110bp	16.4	16.1	30bp
EPS (INR)	28.6	26.4	8.4	32.4	33.2	-2.4

Exhibit 8: One-year forward P/E



Source: MOFSL, Company

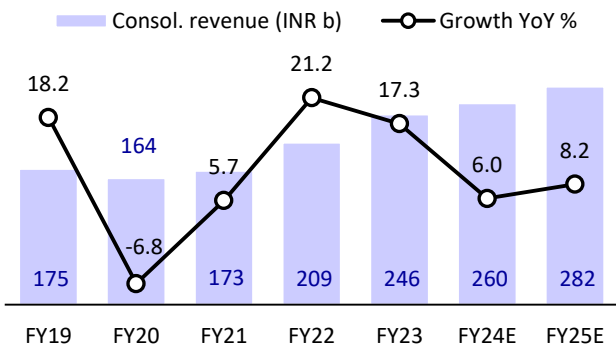
Exhibit 9: One-year forward P/B band



Source: MOFSL, Company

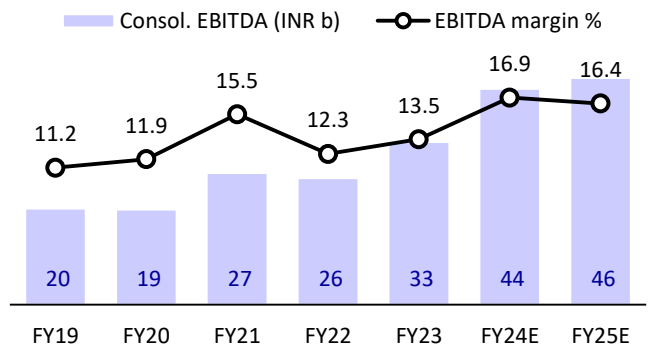
Story in charts

Exhibit 10: Revenue and growth trend



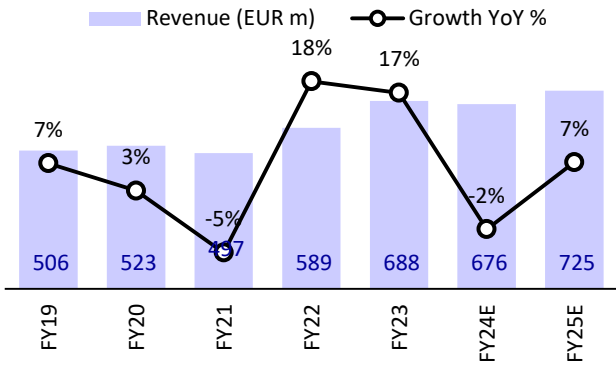
Source: Company, MOFSL

Exhibit 11: EBITDA and EBITDA margin trend



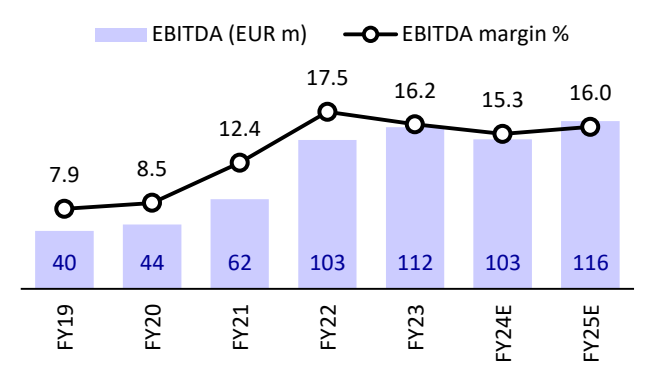
Source: Company, MOFSL

Exhibit 12: Revenue and growth trend for EU business



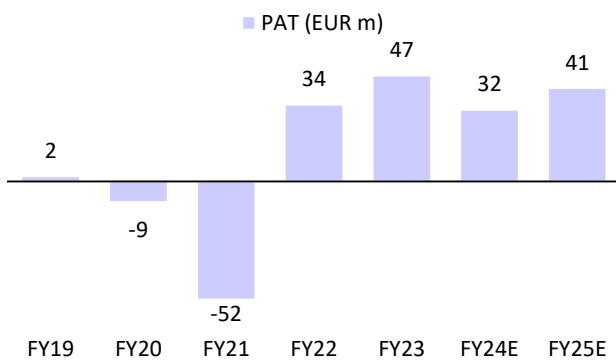
Source: Company, MOFSL

Exhibit 13: EBITDA margin trend for APTY's European operations



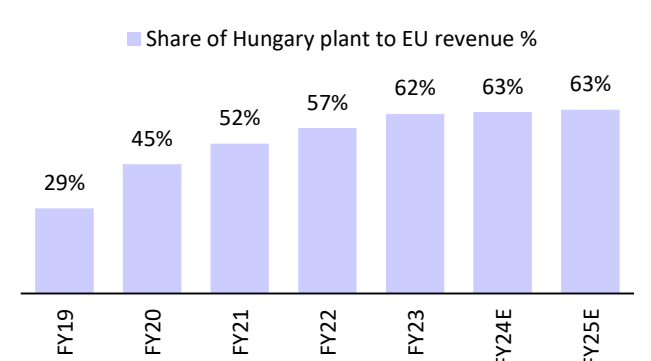
Source: Company, MOFSL

Exhibit 14: APTY's Europe operations to remain profitable despite challenges



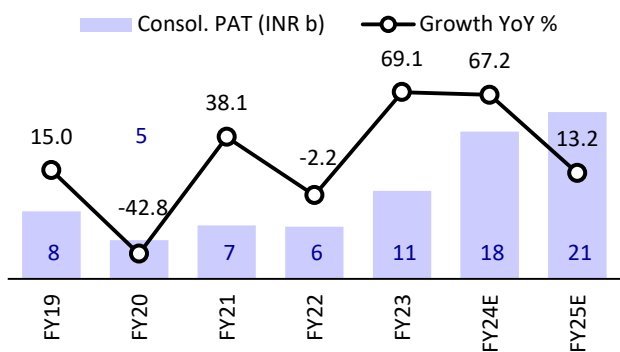
Source: Company, MOFSL

Exhibit 15: Hungary plant's contribution to APTY's European operations



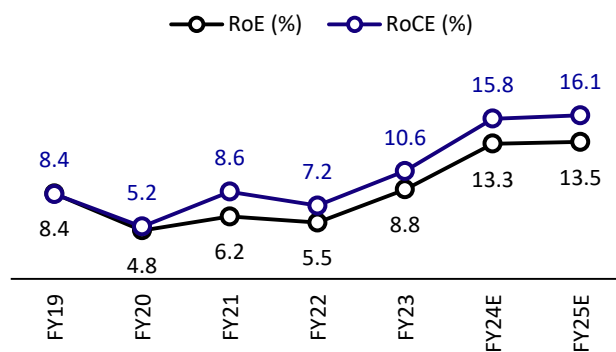
Source: Company, MOFSL

Exhibit 16: PAT and PAT growth trend



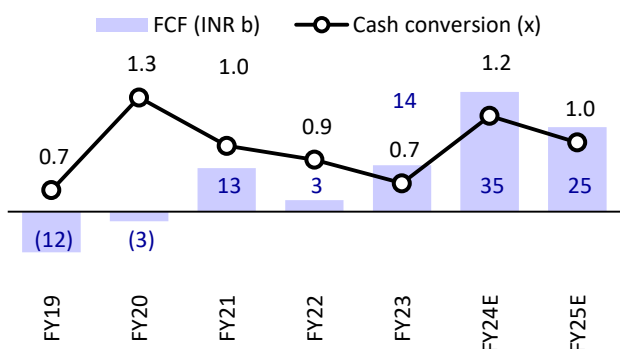
Source: MOFSL, Company

Exhibit 17: Trend in APTY's return profile



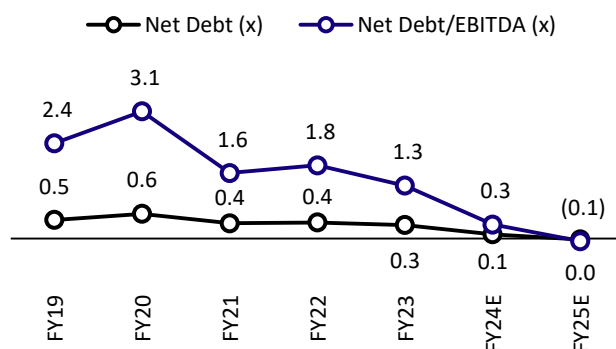
Source: MOFSL, Company

Exhibit 18: FCF turns positive in FY21 after an elongated capex cycle



Source: MOFSL, Company

Exhibit 19: Expect net debt to reduce to 0.1x EBITDA in FY23E



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	1,75,488	1,63,502	1,72,820	2,09,476	2,45,681	2,60,448	2,81,721
Change (%)	18.2	-6.8	5.7	21.2	17.3	6.0	8.2
Raw Materials	1,01,383	90,756	93,945	1,23,855	1,46,371	1,44,570	1,58,121
Employees Cost	24,296	24,822	25,134	25,742	26,199	28,753	31,002
Other Expenses	30,224	28,537	26,917	34,137	39,975	43,176	46,421
Total Expenditure	1,55,902	1,44,115	1,45,995	1,83,735	2,12,545	2,16,499	2,35,545
% of Sales	88.8	88.1	84.5	87.7	86.5	83.1	83.6
EBITDA	19,586	19,387	26,825	25,741	33,137	43,949	46,175
EBITDA Margin (%)	11.2	11.9	15.5	12.3	13.5	16.9	16.4
Depreciation	8,127	11,381	13,150	13,997	14,191	15,195	15,858
EBIT	11,460	8,006	13,675	11,744	18,945	28,754	30,318
EBIT Margin (%)	6.5	4.9	7.9	5.6	7.7	11.0	10.8
Int. and Finance Charges	1,811	2,808	4,430	4,444	5,312	4,975	4,127
Other Income	1,231	237	1,294	1,235	411	871	931
PBT bef. EO Exp.	10,880	5,434	10,539	8,535	14,044	24,649	27,122
EO Items	2,000	0	4,927	59	-226	132	0
PBT after EO Exp.	8,880	5,434	5,612	8,476	14,269	24,518	27,122
Total Tax	2,083	670	2,110	2,091	3,226	6,446	6,558
Tax Rate (%)	23.5	12.3	37.6	24.7	22.6	26.3	24.2
Reported PAT	6,797	4,764	3,502	6,385	11,044	18,072	20,564
Adjusted PAT	8,328	4,764	6,576	6,429	10,869	18,169	20,564
Change (%)	15.0	-42.8	38.1	-2.2	69.1	67.2	13.2

Consolidated - Balance Sheet

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	572	572	635	635	635	635	635
Total Reserves	99,826	98,728	1,13,796	1,16,886	1,28,143	1,43,039	1,60,109
Net Worth	1,00,398	99,300	1,14,431	1,17,521	1,28,778	1,43,674	1,60,745
Total Loans	51,801	68,383	65,843	61,937	55,877	46,468	36,468
Deferred Tax Liabilities	7,707	7,032	7,020	9,014	9,594	9,594	9,594
Capital Employed	1,59,906	1,74,715	1,87,294	1,88,471	1,94,248	1,99,736	2,06,807
Gross Block	1,93,899	2,42,083	2,64,875	2,90,635	3,05,312	3,12,942	3,25,391
Less: Accum. Deprn.	78,352	89,734	1,02,883	1,16,880	1,31,071	1,46,266	1,62,124
Net Fixed Assets	1,15,547	1,52,350	1,61,992	1,73,755	1,74,241	1,66,676	1,63,267
Goodwill on Consolidation	1,993	2,134	2,204	2,158	2,288	2,288	2,288
Capital WIP	15,393	16,420	11,065	6,182	2,526	6,114	8,781
Total Investments	60	194	1,096	4,813	4,358	4,358	4,358
Curr. Assets, Loans&Adv.	68,516	60,957	82,088	84,550	90,179	1,15,338	1,30,912
Inventory	34,841	32,069	33,185	41,554	44,285	49,949	54,029
Account Receivables	13,144	9,399	13,808	20,513	24,885	24,974	27,014
Cash and Bank Balance	5,627	7,496	21,458	10,807	8,462	27,113	35,481
Loans and Advances	14,905	11,993	13,637	11,677	12,547	13,301	14,388
Curr. Liability & Prov.	41,603	57,340	71,151	82,987	79,344	95,037	1,02,799
Account Payables	20,665	23,090	28,067	35,309	33,539	39,246	42,451
Other Current Liabilities	16,002	29,115	38,644	44,193	42,313	52,090	56,344
Provisions	4,936	5,134	4,440	3,484	3,492	3,702	4,004
Net Current Assets	26,913	3,617	10,937	1,563	10,836	20,301	28,112
Appl. of Funds	1,59,906	1,74,715	1,87,294	1,88,471	1,94,248	1,99,736	2,06,807

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	14.6	8.3	10.4	10.1	17.1	28.6	32.4
BV/Share	197.2	195.1	224.8	230.9	253.0	282.3	315.8
DPS	3.0	6.2	3.5	3.3	4.3	5.0	5.5
Payout (%)	30.4	90.5	63.5	32.3	24.4	17.6	17.0
Valuation (x)							
P/E	27.2	47.6	38.3	39.1	23.2	13.9	12.2
P/BV	2.0	2.0	1.8	1.7	1.6	1.4	1.3
EV/Sales	1.6	1.8	1.7	1.4	1.2	1.0	0.9
EV/EBITDA	13.9	14.8	11.0	11.8	9.0	6.2	5.5
Dividend Yield (%)	0.8	1.6	0.9	0.8	1.1	1.3	1.4
FCF per share	-21.0	-5.0	20.3	5.3	21.6	55.9	39.5
Return Ratios (%)							
RoE	8.4	4.8	6.2	5.5	8.8	13.3	13.5
RoCE (pre-tax)	8.4	5.2	8.6	7.2	10.6	15.8	16.1
RoIC	6.9	4.8	5.6	5.5	8.5	12.4	14.4
Working Capital Ratios							
Fixed Asset Turnover (x)	0.9	0.7	0.7	0.7	0.8	0.8	0.9
Asset Turnover (x)	1.1	0.9	0.9	1.1	1.3	1.3	1.4
Inventory (Days)	72	72	70	72	66	70	70
Debtor (Days)	27	21	29	36	37	35	35
Creditor (Days)	43	52	59	62	50	55	55
Leverage Ratio (x)							
Net Debt/Equity	0.5	0.6	0.4	0.4	0.3	0.1	0.0

Consolidated - Cash Flow Statement

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	8,881	5,434	5,612	8,477	14,272	24,649	27,122
Depreciation	8,127	11,381	13,150	13,997	14,191	15,195	15,858
Interest & Finance Charges	1,811	2,808	4,430	4,444	5,312	4,105	3,196
Direct Taxes Paid	-2,199	-925	-2,035	-1,222	-2,168	-6,446	-6,558
(Inc)/Dec in WC	-5,433	7,996	4,616	-1,829	-7,890	9,186	556
CF from Operations	11,187	26,695	25,772	23,867	23,717	46,689	40,174
Others	-476	-1,522	-1,303	-2,332	-2,373	0	0
CF from Operating incl EO	10,711	25,174	24,469	21,535	21,344	46,689	40,174
(Inc)/Dec in FA	-22,740	-28,055	-11,563	-18,164	-7,604	-11,217	-15,117
Free Cash Flow	-12,028	-2,881	12,906	3,371	13,739	35,471	25,057
(Pur)/Sale of Investments	11,366	-134	-12,547	5,960	2,512	0	0
Others	1,414	230	667	482	331	871	931
CF from Investments	-9,959	-27,959	-23,443	-11,722	-4,761	-10,347	-14,185
Issue of Shares	0	0	10,800	0	0	0	0
Inc/(Dec) in Debt	3,265	13,863	-3,222	-1,875	-7,484	-9,408	-10,000
Interest Paid	-1,819	-2,232	-3,407	-4,022	-4,793	-4,975	-4,127
Dividend Paid	-2,069	-4,310	0	-2,223	-2,064	-3,176	-3,493
Others	-314	-2,810	-2,626	-2,694	-2,577	0	0
CF from Fin. Activity	-936	4,510	1,545	-10,814	-16,918	-17,559	-17,621
Inc/Dec of Cash	-184	1,725	2,571	-1,000	-336	18,783	8,368
Opening Balance	4,806	4,622	6,347	9,725	8,724	8,389	27,171
Closing Balance	4,622	6,347	8,918	8,724	8,389	27,171	35,539

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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