

26 December 2023

India | Equity Research | Company Update

## Apollo Tyres

Auto Ancillaries

### Priced to perfection; mean reversion in margin is a big risk

Apollo Tyres (APTY) is trading at ~15x FY25E earnings vs ~7% EPS CAGR during FY24E-FY26E. As against ~6% India volume CAGR over FY24-26E, we expect India EBITDAM/FCF/RoCE to remain steady during the same period, with business remaining exposed to the mean reversion in GM. We expect India EBITDAM to remain close to the current elevated levels of 18-19% till Q1FY25E, based on current RMB cost trends that may be driving the optimism in the stock currently, other than the controlled capex till FY25E. We believe all good fundamental parameters of the business are priced for perfection in current valuation level, leaving limited room for any earnings upgrade. Maintain **HOLD** with a revised DCF-based TP of INR 436 (earlier INR 412), implying 15x FY25E earnings. Change in TP is due to earnings rollover to FY26.

### Mid way through current elevated gross margin phase

On the back of favourable raw material basket (RMB) costing environment and limited need of price reduction in replacement market, APTY India's gross profit/kg is now above INR 95/kg for the third quarter in a row vs 5-yr mean of INR 83/kg. As per historical trend, Indian auto tyre industry's GP/kg does not sustain at more than 1-S.D. above mean GP/kg levels beyond 3-4 quarters. Thus, looking at RMB levels and pricing discipline, we believe 18-19% India EBITDAM of APTY is set to remain till Q1FY25E vs long-term sustainable levels of ~14-15%. The good part is APTY is currently able to generate 18-19% EBITDAM at RMB/kg of ~INR 150 vs earlier levels of ~INR 120/kg. This implies the market has absorbed price hikes of INR 20-30/kg, without commensurate RMB inflation and industry/APTY is recovering the lost margin in FY22/23 led by severe RMB inflation. Thus, we believe, it would be tough for industry/APTY to hike prices easily going ahead due to major RMB inflation and thus result in margin mean reversion.

### Trading at 15x FY26E earnings; tough to see further re-rating

We are building in India volume CAGR of 6% and mean EBITDAM of 15% vs 5% EU revenue CAGR and 16% mean EU EBITDAM in FY25-26E. As guided by management, we are building in consolidated capex of INR 12bn p.a. on an average in FY25-26E. Thus, with RoCE stabilising at ~15% and FCF/annum at ~INR 20bn, we see limited scope of re-rating for APTY beyond 15x earnings.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	2,45,681	2,49,695	2,65,068	2,80,773
EBITDA	33,137	43,606	41,133	43,533
EBITDA %	13.5	17.5	15.5	15.5
Net Profit	10,818	18,354	18,530	20,859
EPS (INR)	17.0	28.9	29.2	32.8
EPS % Chg YoY	68.0	69.7	1.0	12.6
P/E (x)	25.3	14.9	14.7	13.1
EV/EBITDA (x)	9.7	6.9	6.9	6.1
RoCE (%)	8.0	12.0	10.9	11.5
RoE (%)	8.4	12.6	11.5	11.8

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#### Market Data

Market Cap (INR)	273bn
Market Cap (USD)	3,286mn
Bloomberg Code	APTY IN
Reuters Code	APLO.BO
52-week Range (INR)	485 /302
Free Float (%)	52.0
ADTV-3M (mn) (USD)	16.0

Price Performance (%)	3m	6m	12m
Absolute	16.1	6.7	34.5
Relative to Sensex	8.0	13.3	19.2

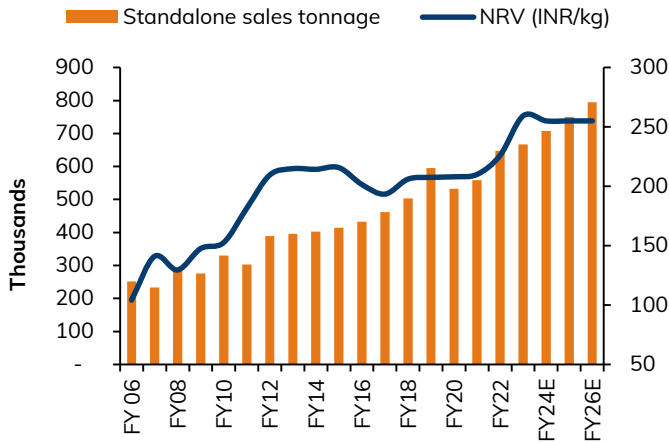
Earnings Revisions (%)	FY24E	FY25E
Revenue	0.0	0.0
EBITDA	0.0	0.0
EPS	(5.0)	0.0

#### Previous Reports

09-11-2023: [Q2FY24 results review](#)

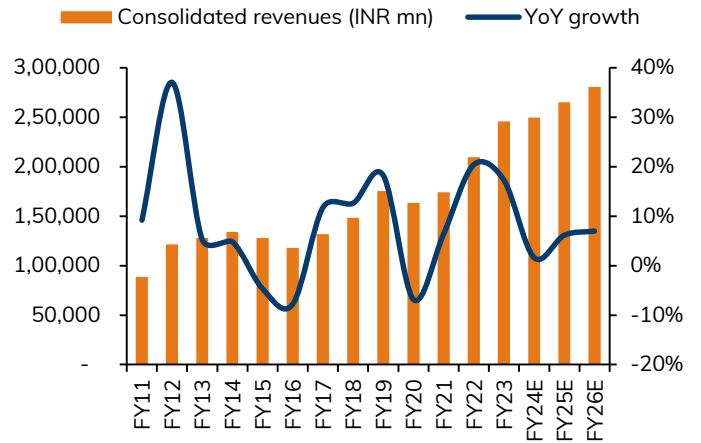
12-08-2023: [Q1FY24 results review](#)

**Exhibit 1: Standalone tonnage vs ASP/kg**



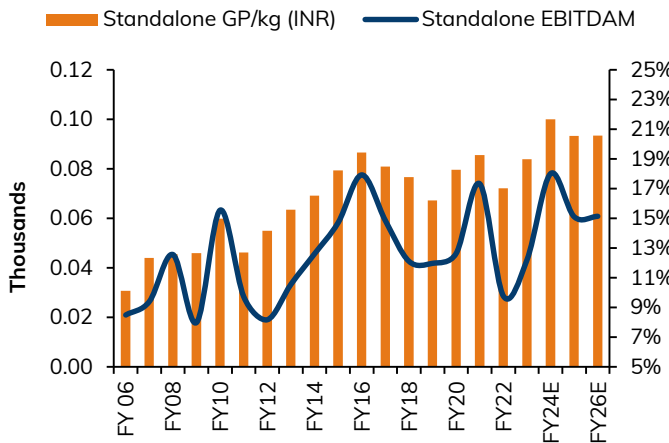
Source: I-Sec research, Company data

**Exhibit 2: Consolidated revenue vs growth**



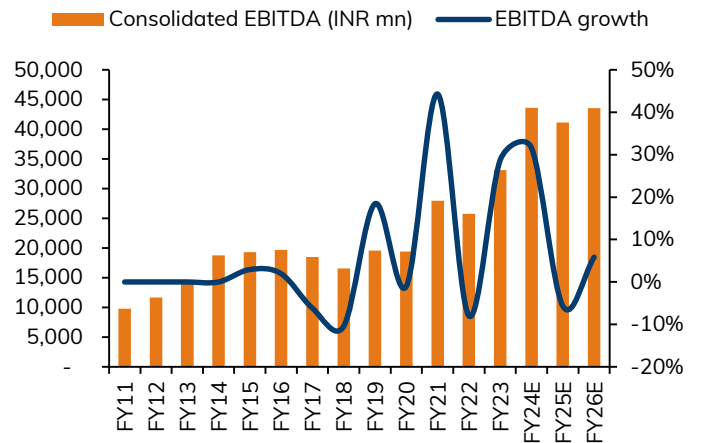
Source: I-Sec research, Company data

**Exhibit 3: Standalone GP/kg vs EBITDAM**



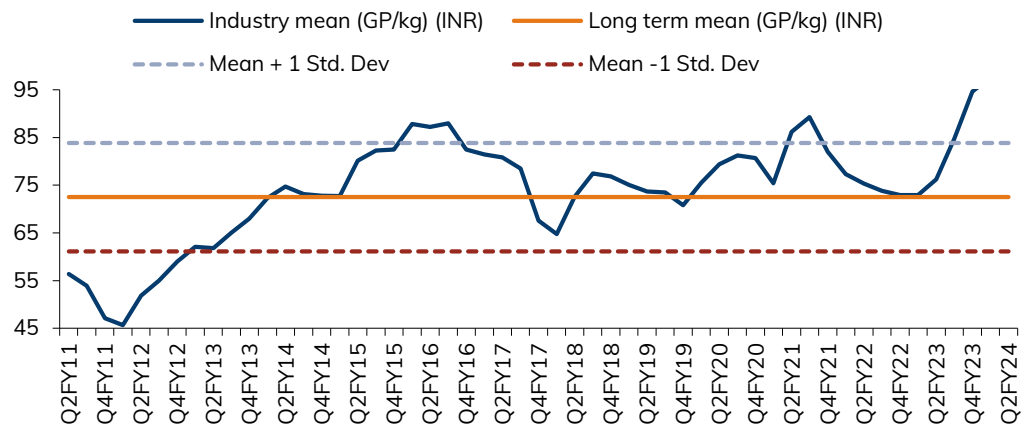
Source: Company data, I-Sec research

**Exhibit 4: Consolidated EBITDA vs EBITDA growth**



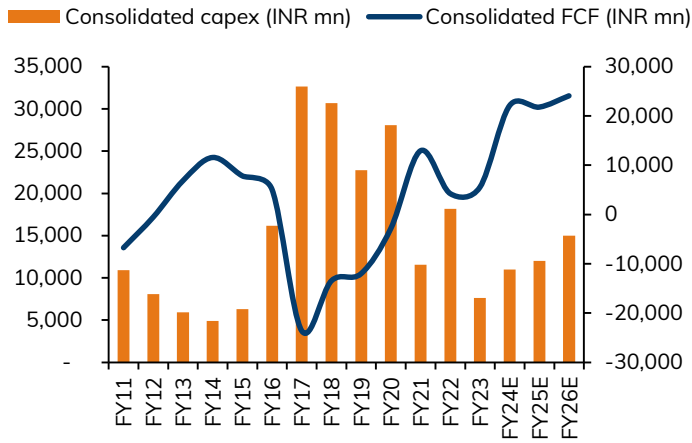
Source: Company data, I-Sec research

**Exhibit 5: Industry mean GP/kg and long term GP/kg trend**



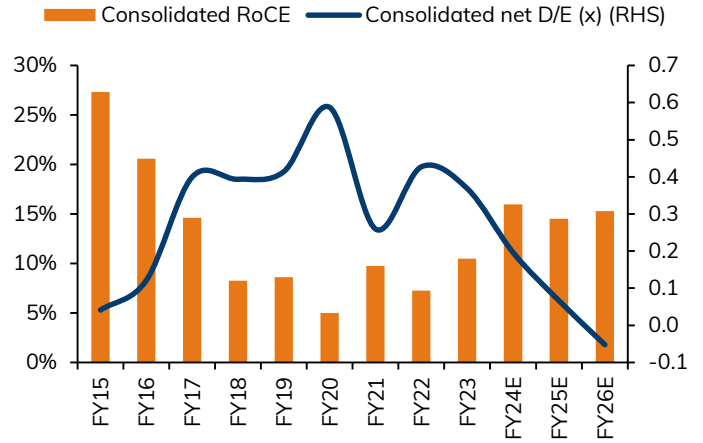
Source: I-Sec research, Company data

**Exhibit 6: Consolidated capex vs FCF trend**



Source: I-Sec research, Company data

**Exhibit 7: Consolidated RoCE vs net debt/equity**



Source: I-Sec research, Company data

**Exhibit 8: 3-year rolling P/E**



Source: I-Sec research, Bloomberg

**Exhibit 9: 3-year rolling EV/EBITDA**



Source: I-Sec research, Bloomberg

**Exhibit 10: Volume, profitability and capex assumptions for India and EU operations**

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
India tonnage	5,95,626	5,32,565	5,58,603	6,47,979	6,67,418	7,07,463	7,49,911
India ASP/kg (INR)	208	208	210	226	259	255	255
India GP/kg (INR)	67	80	86	72	84	100	93
India EBITDA margin	12.0%	12.6%	17.3%	9.8%	12.2%	18.0%	15.1%
Europe revenue (INR mn)	51,930	52,820	56,636	62,982	73,082	69,292	73,840
Europe EBITDA margin	9.2%	10.2%	13.5%	18.1%	15.2%	16.0%	16.6%
Consol. capex (INR mn)	22,740	28,055	11,563	18,164	7,604	11,000	12,000
Consol. PAT (INR mn)	8,198	4,764	9,579	6,441	10,818	19,274	18,530
Consol. FCF (INR mn)	-12,028	-2,881	12,906	4,224	5,497	22,980	21,759

Source: I-Sec research, Company data

**Exhibit 11: Estimates revision (consolidated)**

	FY24E			FY25E		
	Old	Revised	% change	Old	Revised	% change
Revenue (INR mn)	2,49,695	2,49,695	0%	2,65,068	2,65,068	0%
EBITDA (INR mn)	43,606	43,606	0%	41,133	41,133	0%
EBITDA margin (%)	17.5%	17.5%	-	15.5%	15.5%	-
PAT (INR mn)	19,274	18,354	-5%	18,530	18,530	0%
EPS (INR)	30.3	28.9	-5%	29.2	29.2	0%

Source: I-Sec research, Company data

**Downside risks**

- Uptick in industrial activity in key markets like China could raise input commodity prices again from present lows and in turn impact EBITDAM.
- Any surge in demand for TBR in replacement market in FY24 would expedite the next round of TBR capex – thus, taking down RoCE and FCF.
- Too much focus on profitability could hurt market share structurally and impact operating leverage. With rising capital cost of machineries, both asset sweating and pricing discipline may be needed to focus on RoCE ahead.
- Continuous subdued demand in EU affecting EBITDAM from ~16-18% levels to sub-15% levels would impact estimates.

**Upside risks**

- Continuation of subdued RMB till FY25 would result in upward margin revision and earnings correspondingly. This would also enhance the RoCE further and in turn lead to further re-rating beyond 14-15x forward earnings.
- Extending the subdued capex beyond FY25 would also add to RoCE beyond 15% levels.

**Exhibit 12: Shareholding pattern**

%	Mar'23	Jun'23	Sep'23
Promoters	37.3	37.3	37.3
Institutional investors	40.1	40.6	39.9
MFs and others	15.0	14.3	14.0
FIs/Banks	0.0	0.0	0.0
Insurance	2.5	2.6	3.5
FIIIs	22.6	23.7	22.4
Others	22.5	22.1	22.8

Source: Bloomberg

**Exhibit 13: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	2,45,681	2,49,695	2,65,068	2,80,773
<b>Operating Expenses</b>	<b>66,174</b>	<b>72,454</b>	<b>76,597</b>	<b>80,868</b>
EBITDA	33,137	43,606	41,133	43,533
<b>EBITDA Margin (%)</b>	<b>13.5</b>	<b>17.5</b>	<b>15.5</b>	<b>15.5</b>
Depreciation & Amortization	14,191	15,021	15,597	16,317
EBIT	18,945	28,586	25,536	27,217
Interest expenditure	5,312	5,314	2,329	979
Other Non-operating Income	411	1,200	1,500	1,575
Recurring PBT	14,044	24,472	24,707	27,813
<b>Profit / Loss from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	3,226	6,118	6,177	6,953
PAT	10,818	18,354	18,530	20,859
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	11,046	18,354	18,530	20,859
<b>Net Income (Adjusted)</b>	<b>10,818</b>	<b>18,354</b>	<b>18,530</b>	<b>20,859</b>

Source Company data, I-Sec research

### Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	93,477	98,236	1,06,472	1,16,805
of which cash & cash eqv.	8,462	12,348	15,296	20,226
Total Current Liabilities & Provisions	79,344	79,902	84,822	92,094
<b>Net Current Assets</b>	<b>14,134</b>	<b>18,333</b>	<b>21,650</b>	<b>24,711</b>
Investments	341	341	341	341
Net Fixed Assets	1,74,241	1,70,220	1,66,624	1,65,307
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,526	2,526	2,526	2,526
Total Intangible Assets	2,288	2,288	2,288	2,288
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>1,93,529</b>	<b>1,93,708</b>	<b>1,93,428</b>	<b>1,95,173</b>
Liabilities				
Borrowings	55,877	40,877	25,877	10,877
Deferred Tax Liability	8,875	7,032	7,032	7,032
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	635	635	635	635
Reserves & Surplus	1,28,143	1,45,165	1,59,885	1,76,629
<b>Total Net Worth</b>	<b>1,28,778</b>	<b>1,45,800</b>	<b>1,60,520</b>	<b>1,77,264</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>1,93,530</b>	<b>1,93,708</b>	<b>1,93,428</b>	<b>1,95,173</b>

Source Company data, I-Sec research

### Exhibit 16: 5-stage DuPont analysis

(% , year ending March)

	FY23A	FY24E	FY25E	FY26E
Tax Burden	0.8	0.8	0.8	0.8
Interest Burden	0.7	0.7	0.9	1.0
EBIT Margin (EBIT/Sales)	0.1	0.1	0.1	0.1
Asset Turnover	1.1	1.3	1.3	1.4
Financial Leverage	1.6	1.5	1.3	1.2
RoE	5.5	8.4	13.1	11.5

Source Company data, I-Sec research

### Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Operating Cashflow</b>	<b>13,101</b>	<b>33,060</b>	<b>33,759</b>	<b>39,046</b>
Working Capital Changes	(11,908)	(314)	(369)	1,870
Capital Commitments	(7,604)	(11,000)	(12,000)	(15,000)
<b>Free Cashflow</b>	<b>5,497</b>	<b>22,060</b>	<b>21,759</b>	<b>24,046</b>
Other investing cashflow	2,512	-	-	-
<b>Cashflow from Investing Activities</b>	<b>(5,093)</b>	<b>(11,000)</b>	<b>(12,000)</b>	<b>(15,000)</b>
Issue of Share Capital	3,578	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(5,301)	(15,000)	(15,000)	(15,000)
Dividend paid	(2,858)	(3,175)	(3,810)	(4,115)
Others	(5,772)	1	0	0
<b>Cash flow from Financing Activities</b>	<b>(10,352)</b>	<b>(18,175)</b>	<b>(18,810)</b>	<b>(19,115)</b>
Chg. in Cash & Bank balance	(2,344)	3,885	2,948	4,931
Closing cash & balance	8,462	12,348	15,296	20,226

Source Company data, I-Sec research

### Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	17.0	28.9	29.2	32.8
Adjusted EPS (Diluted)	17.0	28.9	29.2	32.8
Cash EPS	39.4	52.6	53.7	58.5
Dividend per share (DPS)	4.5	5.0	6.0	6.5
Book Value per share (BV)	202.8	229.6	252.8	279.1
Dividend Payout (%)	26.4	17.3	20.6	19.7
<b>Growth (%)</b>				
Net Sales	17.3	1.6	6.2	5.9
EBITDA	28.7	31.6	(5.7)	5.8
EPS (INR)	68.0	69.7	1.0	12.6
<b>Valuation Ratios (x)</b>				
P/E	25.3	14.9	14.7	13.1
P/CEPS	10.9	8.2	8.0	7.4
P/BV	2.1	1.9	1.7	1.5
EV / EBITDA	9.7	6.9	6.9	6.1
EV / Sales	1.3	1.2	1.1	0.9
<b>Profitability Ratios</b>				
Gross Profit Margins (%)	40.4	46.5	44.4	44.3
EBITDA Margins (%)	13.5	17.5	15.5	15.5
EBIT Margins (%)	7.7	11.4	9.6	9.7
Net Profit Margins (%)	4.4	7.4	7.0	7.4
RoCE (%)	8.0	12.0	10.9	11.5
RoE (%)	8.4	12.6	11.5	11.8
Dividend Yield (%)	1.0	1.2	1.4	1.5
<b>Operating Ratios</b>				
Fixed Asset Turnover (x)	1.4	1.4	1.6	1.7
Inventory Turnover Days	66	70	70	70
Receivables Days	37	30	30	30
Payables Days	113	110	110	110
Effective Tax Rate (%)	23.3	25.0	25.0	25.0
Net Debt / Equity (x)	0.4	0.2	0.1	(0.1)
Net Debt / EBITDA (x)	1.4	0.7	0.3	(0.2)

Source Company data, I-Sec research

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