Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

Apollo Tyres Ltd

Continue to focus on operating excellence!

Automobiles	Sharekhan code: APOLLOTYRE		
Reco/View: Buy ↔	CMP: Rs. 507	Price Target: Rs. 619 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 32,200 cr
52-week high/low:	Rs. 560 /303
NSE volume: (No of shares)	23.3 lakh
BSE code:	500877
NSE code:	APOLLOTYRE
Free float: (No of shares)	39.8 cr

Shareholding (%)

Promoters	37.3
FII	18.0
DII	22.0
Others	22.7

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-6.4	10.0	29.9	60.7
Relative to Sensex	-8.2	4.8	16.6	36.0

Sharekhan Research, Bloomberg

Summary

- EBITDA margins are sustaining in a high trajectory.
- As company focuses on premiumisation, we expect bottomline growth to surpass topline growth in the next 2 years.
- We retain a Buy rating with an unchanged price target (PT) of Rs. 619 led by continued focus on operating profitability via focus on premiumization, market share strategy in the European market, and a judicious capex programme.
- Stock trades at P/E of 13.9x and EV/EBITDA multiple of 7.3x its FY26E estimates.

We reiterate our BUY on Apollo Tyres (ATL) on (1) Its continuous focus on premiumisation (2) Its priority to operating performance in place of plain-vanilla volume growth (3) Judicious capex plans and (4) Disciplined capital allocation plan. ATL continues to sustain its operating profitability via improving product mix focusing, given it has been reporting EBITDA margins above 18% for last two quarters. Given that the ATL is prioritising operating performance over volume growth we expect its bottom-line performance would beat its topline performance in medium term, subjected to sustenance of operating excellence. So far, tyre players have been demonstrating a pricing discipline in the domestic market, however recently tyre players have undertaken a slight price correction in the TBR segment. Following the industry trends, ATL has also rationalised prices by 1.5% in 2 SKUs in TBR segment. However, the price rationalisation is not assumed to result in significant deviation in EBITDA margin trajectory as the price rationalization on a part of a portfolio is expected to be compensated by associated operating leverage on proportionate rise in volumes. Industry 4.0 practises helps it in developing better operation practices. Management continues to focus on profitable growth and is strategically concentrating on capacity debottlenecking in the near term in place of setting up a large green field project. We remain optimistic about the company's growth prospects and expect it to benefit from its strategy of deleveraging its balance sheet, improving operating leverage, and focusing on firm capital allocation and cash management going forward. We maintain a Buy rating on the stock with an unchanged price target (PT) of Rs. 619.

Indian market to regain momentum after elections: We understand a price rationalisation in the domestic TBR replacement market is largely a lagging effect of moderation in input costs in past along with a support to volume growth as pricing discipline in the domestic market is expected to be maintained. ATL did not take any major price hikes in Q3FY2024, and the operating performance was largely driven by a steady raw-material cost trend and improvement in the product mix. However, recently it slashed prices by 1.5% in 2 SKUs in TBR replacement market. Given that the TBR segment constitutes 35% to its Indian business and this 2 SKUs contributes 40% to its TBR revenue, hence a minuscule impact on EBITDA margin can be compensated by operating leverage benefit on if volumes would increase in proportionate rate. The price ranges in PV tyre segment have largely been steady. While Indian market is expected to be flat in Q4FY24, we believe that the Indian market would pick up after the general elections.

Focus on margins: The decline in revenue contribution of small-sized tyres (in the PV segment) in overall revenue is strengthening the product mix and, hence, profitability. Similarly, higher penetration of high tonnage trucks is enriching the product mix in the CV tyre segment. The demand for large-sized tyres has been rising as people switch from driving cars to driving SUVs. As a result, it is anticipated that the PCR segment's profitability trend would also improve. ATL is continuously looking for profitable volume growth in the domestic business. Hence, it is focussing more on the benefits of its brand equity than merely expanding low-margin volumes in the OEM category. Further, its cost-effective production and focus on premiumisation would continue to support profitability levels.

Judicious capex: With a focus on enhancing operating profitability and maintaining a healthy balance sheet, ATL is expected to pursue a gradual capex plan, with no indication of large green field projects. Presently, ATL operates at a capacity of 68,000 tyres per day in the PCR segment (52k in India, 16k in EU) and 16.2k tyres per day in the TBR segment (15,000 in India, 1,300 in EU), with a capacity utilization of 75%, which is anticipated to further improve before any capacity additions in FY2026E. Construction of a new brownfield capacity for the PCR segment is projected to commence in FY2026E. However, ATL aims to augment PCR tire capacity by 8-10% from 68k tyres per day by FY2025E, leveraging digital technologies, corporate insights, and manufacturing advancements. In line with its vision plan, the company has been continuously focussing on implementing industry4.0 practices in its plant and is looking for high level of digitisation in its operations. With its focus on digitisation, the company has been increasing its expenditure on new advanced technologies.

Our Call

Valuation – Maintain Buy rating with an unchanged PT of Rs. 619: We remain optimistic on ATL's growth prospects and expect it to benefit from its strategy of deleveraging its balance sheet, improving operating leverage, and focusing on firm capital allocation and cash management in the future. While management is hoping for volume recovery in the domestic market, it continues to aspire for a market share gain in the European PCT market. Along with that, it continues to focus on operating profitability. While ATL has been continuously focusing on premium products and an improvement in the product mix, steady raw-material cost trend along with its own cost-control initiatives are likely to support it in sustaining its high EBITDA margins. Given the firm's dominating position in the domestic TBR market, the fact that Vision 2026 is on track, emphasis on premiumization, and the preference for profitability over simple volume growth, we continue to remain positive on ATL's growth prospects. We retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 619 on its continued focus on operating profitability via focus on premiumization, market share strategy in the European market and a judicious capex programme.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenues	20,948	24,568	25,597	26,768	28,236
Growth (%)	20.4	17.3	4.2	4.6	5.5
EBIDTA	2,574	3,314	4,334	4,702	5,124
OPM (%)	12.3	13.5	16.9	17.6	18.1
Adjusted PAT	644	1,082	1,777	2,024	2,311
% YoY growth	-32.7	67.9	64.3	13.9	14.2
Adjusted EPS (Rs)	10.1	17.0	28.0	31.9	36.4
P/E (x)	50.0	29.8	18.1	15.9	13.9
P/B (x)	2.7	2.5	2.2	2.0	1.7
EV/EBITDA (x)	14.7	11.3	8.6	7.9	7.3
RoE (%)	5.5	8.4	12.2	12.4	12.5
RoCE (%)	5.1	7.6	10.2	10.5	10.8

Source: Company; Sharekhan estimates

Premiumisation to drive margins

ATL has been constantly working on cost savings and the whole focus has been on enriching product mix. It is largely focussing on profitable growth and not chasing the market share at the cost of profitability. Further an upsizing the tyres in India and Europe is supporting the rise in profitability. ATL is assumed to be a price leader in the domestic PV tyre segment. ATL has been competing with premium brands in India via the Vredestein range of products. The continuous rise in radialisation in the domestic CV market has been auguring well for the profitability. The radialisation in the CV segment is assumed to reach to 75-80% in coming years as compared to 55-60% currently.

Eye on capacity utilization

Gradually, capex intensity has been moderating as the company has been focussing more on capacity utilisation, strong balance sheet, and high levels of profitability. In the medium term, the company plans to cater to Indian markets through its Indian plants, European markets through Indian and Hungarian plants, and the US market through Indian as well as European plants. The company is not planning a significantly high capex for the near term and is aiming to follow the capex-light model in the near term. While management has indicated that it would have adequate capacity for FY2024-FY2025, it indicates that the future capex would be need based.

Red sea issue

As export volumes were slightly impacted by the Red Sea issue, but export volumes have started showing the upward trend. Earlier the management has indicated that freight rates has gone up by 30-40% and shipment has been delaying. However, the increase in cost would be largely borne by customers, though with a lag, and already planned inventory would cushion the impact of Red Sea issue in the near term.

Strengthening its position in the market

The European PCT industry is expected to improve gradually, and the company would continue to focus on market share gain and operating profitability. Similarly, the Indian business is expected to remain flat in Q4FY24 and may pick up after Union elections. ATL has been gaining market share across segments in the European market and UHP mix has inched up to more than the 45% mark. A fall in revenue contribution of small-sized tyres (in the PV segment) in the overall revenue is strengthening the product mix and, hence, profitability in the Indian business. Similarly, the increase in penetration of high tonnage trucks is enriching the product mix in the CV tyre segment. No major capex is scheduled for the next few years, while the company continues to focus on debottlenecking the capacities via a high level of digitisation.

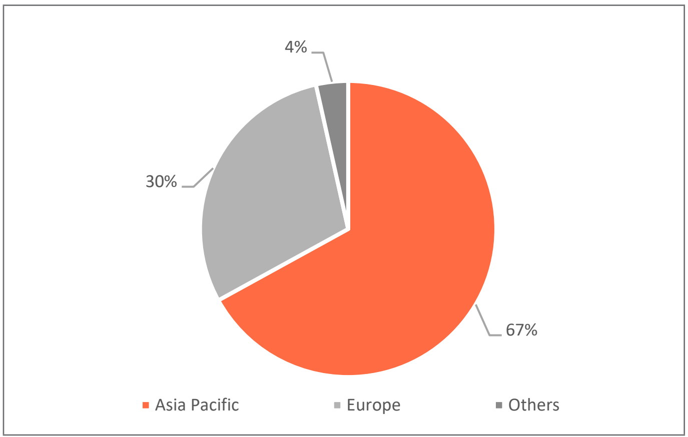
Change in estimates Rs cr

Particulars	Earlier			New			% change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	25,597	26,768	28,236	25,597	26,768	28,236	0.0%	0.0%	0.0%
EBITDA	4,334	4,702	5,124	4,334	4,702	5,124	0.0%	0.0%	0.0%
EBITDA margin	16.9%	17.6%	18.1%	16.9%	17.6%	18.1%			
PAT	1,777	2,024	2,311	1,777	2,024	2,311	0.0%	0.0%	0.0%
EPS (Rs)	28.0	31.9	36.4	28.0	31.9	36.4	0.0%	0.0%	0.0%

Source: Company, Sharekhan Research

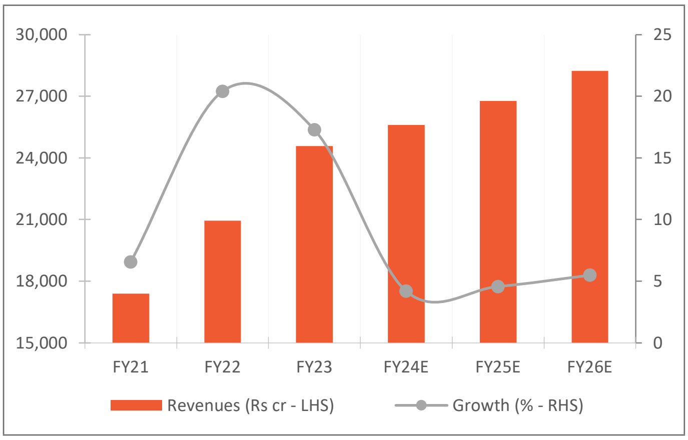
Financials in charts

Geographical Mix (%)



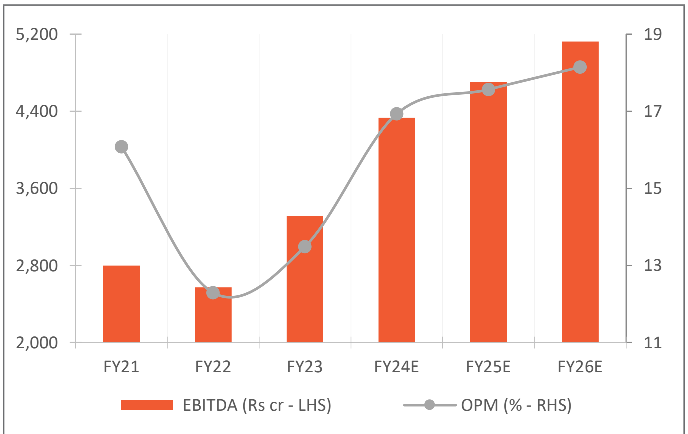
Source: Company, Sharekhan Research

Revenue and Growth Trend



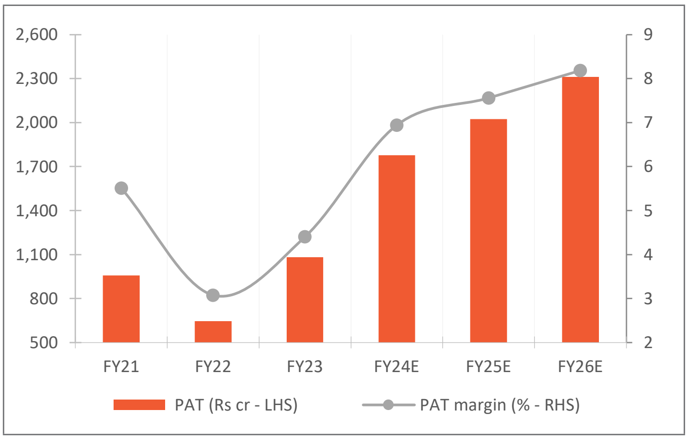
Source: Company, Sharekhan Research

EBITDA and OPM Trends



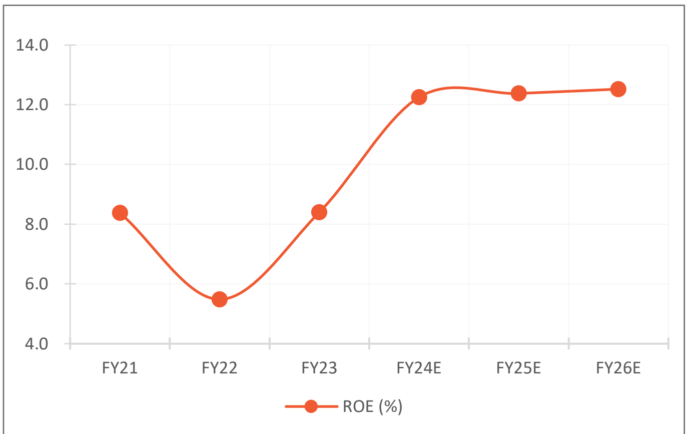
Source: Company, Sharekhan Research

PAT and PAT margin Trends



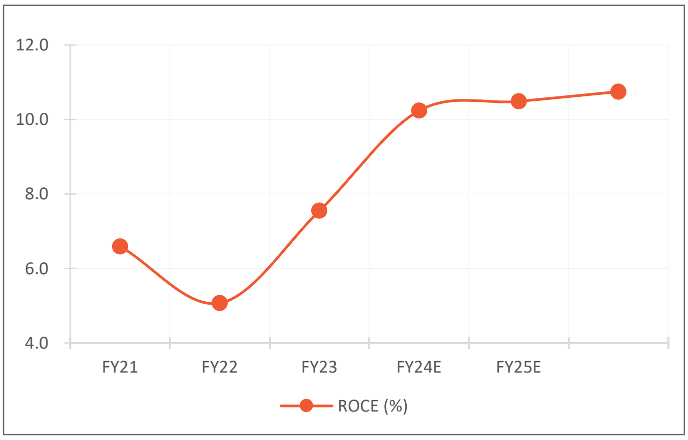
Source: Company, Sharekhan Research

ROE Trend



Source: Company, Sharekhan Research

ROCE trend (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Strong recovery eyed

We expect the domestic tyre industry to benefit from a recovery in automobile sales in rural and semi-urban markets, driven by pent-up demand, preference for personal mobility and faster-than-expected recovery in infrastructure, mining, and other economic activities. The tyre industry is well-positioned to gain momentum in the future, backed by higher OEM offtake. The ripple effect of OEM demand is likely to result in steady growth for the replacement demand. Further sharp correction in the raw material basket augurs well for the surge in profitability.

■ Company Outlook – Convincing strategy to achieve a profitable growth model

The management has laid down its long-term targets to achieve revenue of US$5 billion by FY2026, an EBITDA margin profile to reach at least 15%, RoCE of 12-15%, and net debt to EBITDA of less than 2x. The replacement volumes are expected to recover with a recovery in macro-economic activities. The overseas business is expected to do well because of a richer product mix and gradual capacity additions.

■ Valuation – Maintain Buy rating with an unchanged PT of Rs. 619

We remain optimistic on ATL's growth prospects and expect it to benefit from its strategy of deleveraging its balance sheet, improving operating leverage, and focusing on firm capital allocation and cash management in the future. While management is hoping for volume recovery in the domestic market, it continues to aspire for a market share gain in the European PCT market. Along with that, it continues to focus on operating profitability. While ATL has been continuously focusing on premium products and an improvement in the product mix, steady raw-material cost trend along with its own cost-control initiatives are likely to support it in sustaining its high EBITDA margins. Given the firm's dominating position in the domestic TBR market, the fact that Vision 2026 is on track, emphasis on premiumization, and the preference for profitability over simple volume growth, we continue to remain positive on ATL's growth prospects. We retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 619 on its continued focus on operating profitability via focus on premiumization, market share strategy in the European market and a judicious capex programme.

About company

ATL is the second largest tyre manufacturer in India. ATL is a diversified player present in India as well as Europe. APMEA business contributes about 67% to revenue, while European business contributes about 29%. With its recent entry into the two-wheeler space, ATL has become a full-fledged tyre player present across automotive categories viz. passenger vehicles, commercial vehicles, and two-wheelers. The OEM segment contributes about 23% to revenue, while the replacement segment accounts for the balance 77%.

Investment theme

ATL is one of the leading tyre companies in India, with a leadership position in the largest truck and bus tyre segment. The company is also one of India's leading players in the passenger vehicle segment. Over the past few years, ATL has been increasing its presence globally and acquired businesses in Europe, which has opened new markets for the company and strengthened its R&D capabilities globally. ATL is expected to gain market share in other segments and in multiple geographies (e.g. Vredestein in passenger vehicles and Apollo in truck and bus segments), driven by a strong brand, R&D, technology, and distribution network. In addition, the company will operationally improve its margin, aided by specialisation of Dutch plant (through a significant uptick in cost competitiveness, given ramping up production in Hungary); cost reductions through the digitalization of its businesses, and improvement in passenger vehicle mix.

Key Risks

ATL derives about 30% of its revenue from European operations, which exposes it to currency risks. Any adverse movement in the INR-Euro pair would impact its financial performance.

Additional Data

Key management personnel

Onkar Singh Kanwar	Chairman
Mr Neeraj Kanwar	Managing Director
Gaurav Kumar	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Sunrays Properties & Investments Co Pvt Ltd	31.83%
2	Emerald Sage Investment Ltd	9.93%
3	HDFC Asset Management Co Ltd	9.38%
4	White Iris Investment Ltd	3.54%
5	Kotak Mahindra Asset Management Co Ltd/India	3.15%
6	Classic Industries & Exports Ltd	2.94%
7	Norges Bank	2.33%
8	Vanguard Group Inc/The	2.27%
9	Mehta Ashwin Shantilal	2.13%
10	Nippon Life India AMC	1.95%

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): -U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200 / 022-69920600.