Apollo Tyres (APOTYR)

CMP: ₹ 222	Target: ₹ 275 (24%)	Target Period: 12 months	BUY

August 6, 2021

Long term investment thesis intact…

About the stock: Apollo Tyres (ATL) is a leading tyre manufacturer, with operations in India & Europe with an installed capacity of ~7.9 lakh MT p.a. In India, ATL has a substantial presence in TBR (31% market share) & PCR space (21% market share).

- Derives ~67% revenues from APMEA (largely India), ~32% from Europe
- FY21 segment mix: Truck/bus ~43%, PV ~35%, OHT ~11%, others ~11%

Q1FY22 Results: The company posted a mixed performance in Q1FY22.

- Consolidated net sales decline was limited to 8.8% QoQ (₹ 4,584 crore)
- Consolidated margins were down 385 bps QoQ to 12.4%, with standalone gross margin decline sharp at ~440 bps QoQ
- Consequent consolidated PAT was lower by 55.5% QoQ to ₹128 crore

What should investors do? ATL's stock price has grown at ~6% CAGR from ~₹ 175 levels in August 2016, outperforming the wider Nifty Auto Index in that time.

- We continue to be positive on ATL and retain **BUY** rating on the stock

Target Price and Valuation: We value ATL at an unchanged target price of ₹ 275 i.e. 6x FY23E EV/EBITDA.

Key triggers for future price performance:

- Expected India CV cyclical rebound, higher radialisation levels, pent up demand in PV and network expansion would be major topline drivers. We expect India-led 14.7% FY21-23E net sales CAGR
- Higher cost competitiveness post Dutch plant specialisation, Europe mix improvement, operating leverage benefits to result in 14.3% FY23E margins
- Ongoing deleveraging focus to accentuate PAT, return ratio momentum

Alternate Stock Idea: Apart from ATL, in our ancillary coverage we like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with target a price of ₹ 180

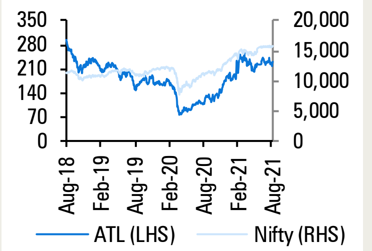
Particulars

Particular	₹ crore
Market Capitalization	14,098.0
Total Debt (FY21)	6,433.7
Cash & Inv. (FY21)	2,235.9
EV (₹ Crore)	18,295.7
52 week H/L (₹)	261 / 109
Equity capital	₹ 63.5 Crore
Face value	₹ 1

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	41.8	37.6	37.3	37.6
FII	20.0	20.8	24.3	22.9
DII	15.6	12.4	11.5	15.7
Other	22.6	29.2	26.9	23.9

Price Chart



Recent event & key risks

- Outlined Vision 2026 - US$ 5 billion sales, 15%+ margins, 12-15% RoCE, <2x net debt/EBITDA
- **Key Risk:** (i) Any cooling off of deleveraging momentum, (ii) market share loss

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	17,548.8	16,327.0	17,344.0	7.9	20,271.7	22,821.0	14.7
EBITDA	1,958.9	1,915.6	2,744.5	6.6	2,630.4	3,272.9	9.2
EBITDA Margins (%)	11.2	11.7	15.8		13.0	14.3	
Net Profit	680.0	476.4	350.2	(20.8)	649.8	1,053.0	73.4
EPS (₹)	11.9	8.3	5.5		10.2	16.6	
P/E	18.7	26.7	40.3		21.7	13.4	
RoNW (%)	8.3	4.8	6.4		5.5	8.4	
RoCE (%)	7.3	4.5	7.6		6.1	9.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results:

- Healthy consolidated revenue performance comprised 11.3% decline in APMEA region (largely India) and flat Europe revenues
- Gross margin depletion of 236 bps QoQ led to sequential decline in EBITDA margins. Steep ~440 bps gross margin decline in standalone operations came as a negative surprise
- Consolidated PAT was down 55.5% QoQ to ₹ 128 crore

Q1FY22 Earnings Conference Call highlights

- Demand outlook is optimistic across geographies. In India, post second wave, revival has been strong across segments and channels with the exception of OEM trucks, which may take another quarter to rebound. Present healthy exports performance from India is sustainable
- Q1FY22 volume decline in India was at ~11% QoQ
- Europe EBITDA margins in Q1FY22 were at ~16%
- ATL experienced a sharp 11% QoQ raw material cost increase in India in Q1FY22 and took a price hike of 3-4% in India replacement markets. Further 5% QoQ raw material cost increase is expected in Q2FY22E, which is sought to be negated by spillover of earlier price hikes, a fresh ~3% hike. Europe input cost rise in Q1FY22 was at 6-7% QoQ
- Raw material prices in Q1FY22 (₹/kg) – natural rubber 170, synthetic rubber 155, carbon black 90, steel cord 155
- Consolidated FY22E capex guidance is for ₹ 2,000 crore (₹ 1,800 crore in India, ₹ 200 crore in Europe)
- On the standalone operations, the company expects employee costs to inch up due to new hiring for the AP plant as well as wage negotiation underway at its Kerala manufacturing unit

Peer comparison

Exhibit 1: ICICI Direct coverage universe (tyres)

Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			Debt to Equity (x)			RoE (%)			RoCE (%)			EV/EBITDA (x)		
	₹	₹		₹ crore	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Apollo Tyres (APOTYR)	222	275	Buy	14,098	15.8	13.0	14.3	0.6	0.5	0.4	6.4	5.5	8.4	7.6	6.1	9.1	6.7	6.9	5.0
JK Tyre (JKTYRE)	162	180	Buy	3,989	14.4	11.2	12.6	1.7	1.5	1.1	11.9	10.4	16.5	11.8	10.3	14.4	6.5	6.7	5.0

Source: Company, ICICI Direct Research

We believe ATL is well placed to improve return ratio profile, going forward, on the back of resilient margins, operating leverage and a leaner b/s.

Exhibit 2: Variance Analysis

(₹ crore)	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	4,584	3,830	2,882	59.1	5,026	(8.8)	Topline came in ahead of estimates, tracking beat at Indian as well as overseas operations
Raw Material Expenses	2,624	2,141	1,631	60.9	2,759	(4.9)	RM costs increased by 235 bps QoQ to 57.2% of sales
Employee Expenses	654	543	537	21.7	670	(2.5)	
Other expenses	740	613	468	57.9	782	(5.4)	Other expenses were contained at ~16% of sales
EBITDA	567	534	246	130.8	815	(30.4)	
EBITDA Margin (%)	12.4	13.9	8.5	384 bps	16.2	-385 bps	EBITDA margin for the quarter came in lower than anticipated due to sequential rise in RM costs
Depreciation	340	364	309	10.1	348	(2.1)	
Interest	105	110	117	(10.8)	104	0.4	Interest expense was broadly on expected lines
Other income	40	39	19	118.2	61.9	(34.7)	
Tax	34	27	(28)	(221.6)	136	(75.3)	
PAT	128	71	(135)	(194.9)	287.3	(55.5)	PAT for the quarter was at ₹ 128 crore, ahead of estimates tracking beat on topline
EPS (₹)	2.0	1.1	(2.4)	(185.5)	4.5	(55.5)	
Key Metrics							
Revenue (₹ crore)							
APMEA	3,272	2,536	1,818	80.0	3,688	(11.3)	APMEA (largely India) revenues decline was limited to 11.3% QoQ to ₹ 3,272 crore
Europe	1,409	1,294	1,099	28.3	1,404	0.3	Europe revenues were nearly flat on QoQ basis
EBIT Margin (%)							
APMEA	5.5	NA	1.1	439 bps	13.4	-796 bps	Indian operations EBIT margins declined sharply due to RM costs pressure
Europe	3.9	NA	(8.2)	1206 bps	4.6	-76 bps	

Source: Company, ICICI Direct Research

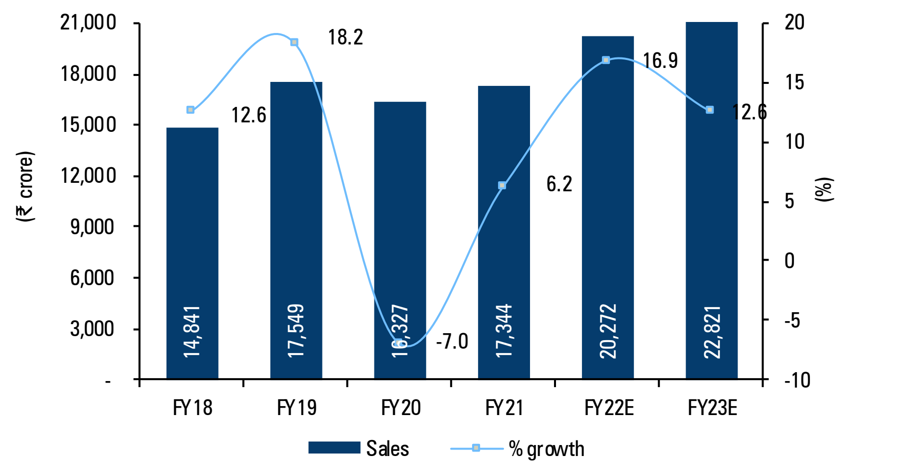
Exhibit 3: Change in estimates

(₹ Crore)	FY22E Old	FY22E New	FY22E % Change	FY23E Old	FY23E New	FY23E % Change	Comments
Revenue	19,969	20,272	1.5	22,502	22,821	1.4	Broadly maintained our topline estimates. We expect sales at the company to grow at a CAGR of 14.7% over FY21-23E, lead by Indian operations
EBITDA	2,652	2,630	-0.8	3,283	3,273	-0.3	
EBITDA Margin (%)	13.3	13.0	-32 bps	14.6	14.3	-26 bps	Incorporated Q1FY22 readings and broadly maintained forward numbers
PAT	627	650	3.6	1,031	1,053	2.1	
EPS (₹)	9.9	10.2	3.6	16.2	16.6	2.1	Broadly maintained PAT estimates. We expect Apollo Tyres to clock PAT of ₹ 650 crore in FY22E and ₹ 1053 crore in FY23E

Source: ICICI Direct Research

Financial story in charts

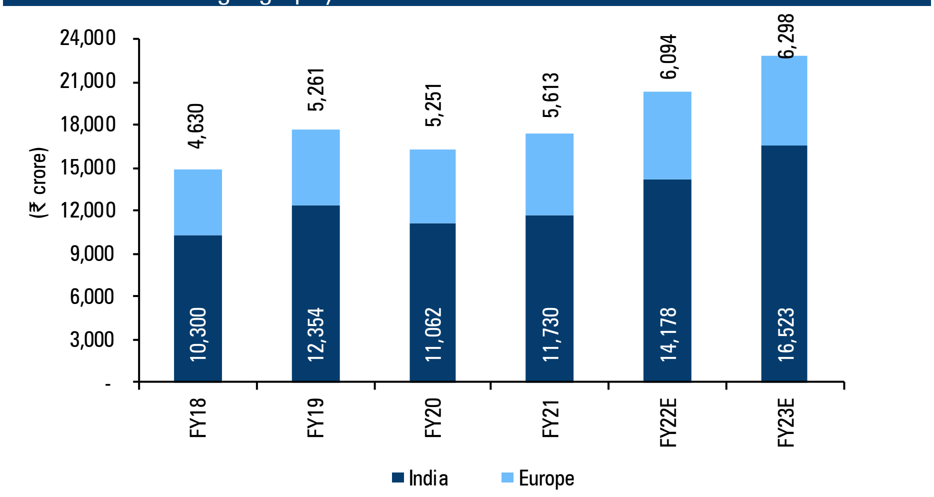
Exhibit 4: Trend in topline



Source: Company, ICICI Direct Research

We expect net sales to grow at 14.7% CAGR over FY21-23E

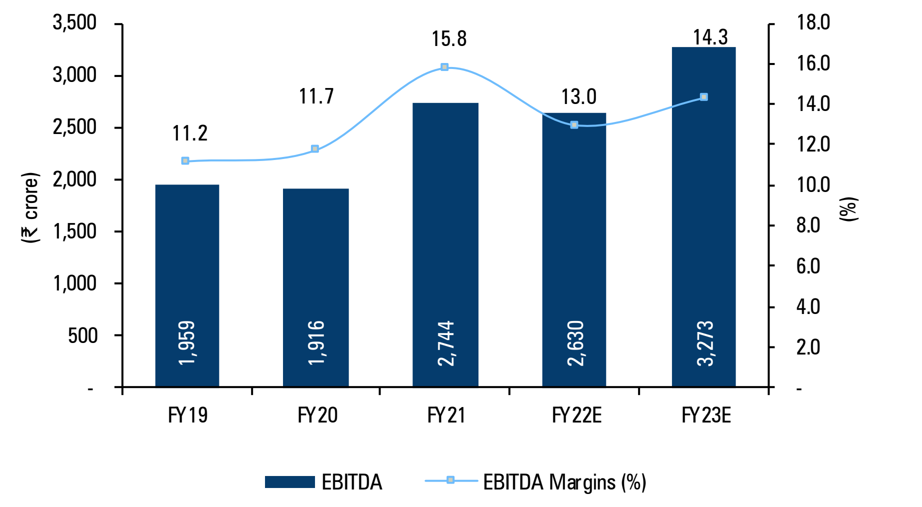
Exhibit 5: Trend in geography wise sales



Source: Company, ICICI Direct Research

The growth is expected to be led by 18.7% India sales CAGR

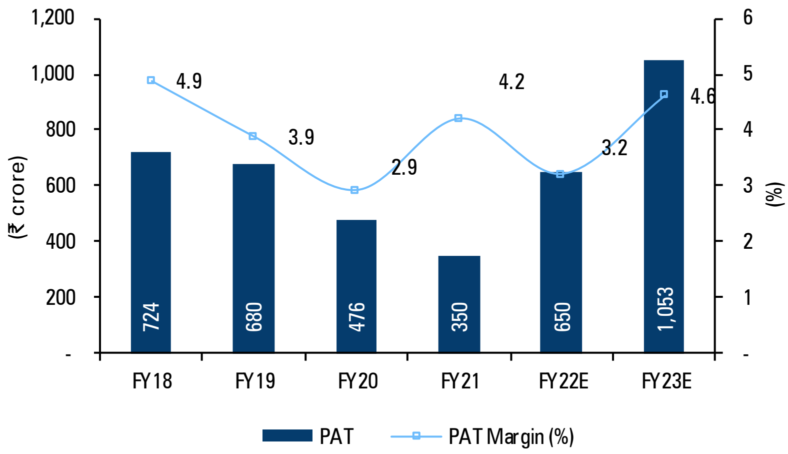
Exhibit 6: Trend in margins



Source: Company, ICICI Direct Research

Margins are expected at 14.3% by FY23E

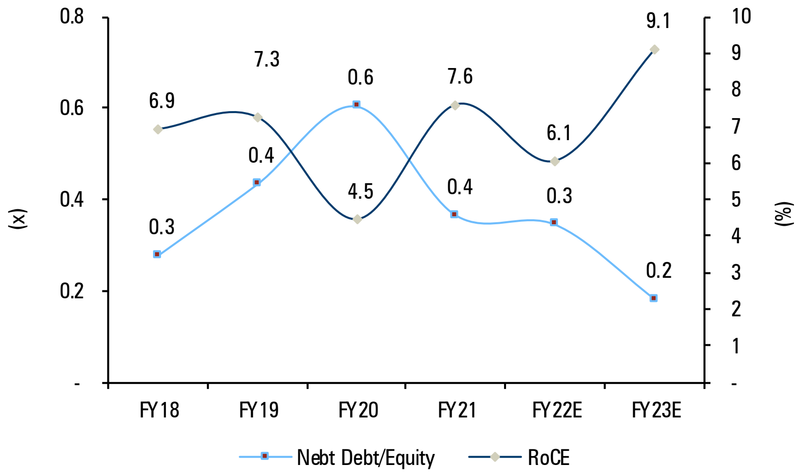
Exhibit 7: Trend in profitability



Source: Company, ICICI Direct Research

We expect ATL to clock ₹ 1,053 crore PAT in FY23E

Exhibit 8: Trend in debt and RoCE



Source: Company, ICICI Direct Research

RoCE is seen touching 9% by FY23E, with leverage tightly controlled

Exhibit 9: Valuation summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	14,841	12.6	12.7	(34.1)	17.5	10.2	7.4	6.9
FY19	17,549	18.2	11.9	(6.1)	18.7	9.4	8.3	7.3
FY20	16,327	(7.0)	8.3	(29.9)	26.7	10.5	4.8	4.5
FY21	17,344	6.2	5.5	(33.8)	40.3	6.7	6.4	7.6
FY22E	20,272	16.9	10.2	85.6	21.7	6.9	5.5	6.1
FY23E	22,821	12.6	16.6	62.0	13.4	5.0	8.4	9.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	**16,327.0**	**17,344.0**	**20,271.7**	**22,821.0**
Growth (%)	-7.0	6.2	16.9	12.6
Raw Material Expenses	9,075.5	9,394.6	11,795.9	13,194.9
Employee Expenses	2,482.2	2,513.3	2,668.8	2,745.6
Other Expenses	2,853.7	2,691.7	3,176.5	3,607.5
Total Operating Expenditure	14,411.3	14,599.5	17,641.3	19,548.1
EBITDA	**1,915.6**	**2,744.5**	**2,630.4**	**3,272.9**
Growth (%)	-2.2	43.3	-4.2	24.4
Depreciation	1,138.1	1,314.9	1,469.7	1,597.5
Interest	280.8	443.0	437.1	380.4
Other Income	46.9	182.4	163.8	167.4
PBT	**543.6**	**561.2**	**886.4**	**1462.4**
Exceptional items	0.0	607.8	0.9	0.0
Total Tax	67.2	211.0	236.6	409.5
Reported PAT	**476.4**	**350.2**	**649.8**	**1,053.0**
Growth (%)	-29.9	-26.5	85.6	62.0
EPS (₹)	**8.3**	**5.5**	**10.2**	**16.6**

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	**476.4**	**350.2**	**649.8**	**1,053.0**
Add: Depreciation	1,138.1	1,314.9	1,469.7	1,597.5
(Inc)/dec in Current Assets	434.4	-720.8	-704.0	-774.2
Inc/(dec) in CL and Provisions	644.8	1,007.8	612.7	719.1
CF from operating activities	**2693.8**	**1952.1**	**2028.3**	**2595.3**
(Inc)/dec in Investments	0.0	-90.1	-10.0	-10.0
(Inc)/dec in Fixed Assets	-4,871.8	-1,718.5	-2,000.0	-715.5
Others	1,167.2	445.2	340.8	290.3
CF from investing activities	**-3704.6**	**-1363.4**	**-1669.2**	**-435.2**
Issue/(Buy back) of Equity	0.0	6.3	0.0	0.0
Inc/(dec) in loan funds	1,833.3	-330.2	-200.0	-1,600.0
Dividend paid & dividend tax	-205.9	-222.3	-254.0	-349.3
Others	-429.5	1,353.7	-20.0	-20.0
CF from financing activities	**1197.8**	**807.5**	**-474.0**	**-1969.3**
Net Cash flow	**187.0**	**1,396.2**	**-114.9**	**190.8**
Opening Cash	562.7	749.7	2,145.8	2,030.9
Closing Cash	**749.7**	**2145.8**	**2030.9**	**2221.7**

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	57.2	63.5	63.5	63.5
Reserve and Surplus	9,872.8	11,379.6	11,775.4	12,479.1
Total Shareholders funds	**9,930.0**	**11,443.1**	**11,838.9**	**12,542.6**
Total Debt	6,763.9	6,433.7	6,233.7	4,633.7
Deferred Tax Liability	747.7	920.9	1,076.4	1,211.7
Total Liabilities	**19,152.6**	**20,958.1**	**21,647.8**	**21,181.5**
Assets				
Gross Block	22,558.6	24,812.6	27,419.1	28,434.6
Less: Acc Depreciation	8,063.0	9,377.9	10,847.6	12,445.1
Net Block	**14,495.6**	**15,524.8**	**16,671.6**	**16,099.6**
Capital WIP	1,642.0	1,106.5	500.0	200.0
Total Fixed Assets	16,137.6	16,631.3	17,171.6	16,299.6
Investments	19.4	109.6	169.6	229.6
Goodwill on consolidation	213.5	220.4	220.4	220.4
Inventory	3,206.9	3,318.5	3,887.7	4,376.6
Debtors	939.9	1,380.8	1,388.5	1,563.1
Loans and Advances	43.5	46.2	54.0	60.8
Other current assets	541.6	707.1	826.5	930.4
Cash	**749.7**	**2,145.8**	**2,030.9**	**2,221.7**
Total Current Assets	5,481.6	7,598.5	8,187.6	9,152.6
Creditors	2,309.1	2,806.7	3,054.6	3,438.8
Provisions	274.4	288.2	313.7	353.1
Total Current Liabilities	2,583.5	3,094.9	3,368.3	3,791.9
Net Current Assets	2,898.1	4,503.6	4,819.3	5,360.7
Application of Funds	**19,152.6**	**20,958.1**	**21,647.8**	**21,181.5**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	8.3	5.5	10.2	16.6
Cash EPS	28.2	26.2	33.4	41.7
BV	173.6	180.2	186.4	197.5
DPS	3.0	3.5	4.0	5.5
Cash Per Share	13.1	33.8	32.0	35.0
Operating Ratios (%)				
EBITDA Margin	11.7	15.8	13.0	14.3
PBT / Net sales	4.8	8.2	5.7	7.3
PAT Margin	2.9	4.2	3.2	4.6
Inventory days	71.7	69.8	70.0	70.0
Debtor days	21.0	29.1	25.0	25.0
Creditor days	51.6	59.1	55.0	55.0
Return Ratios (%)				
RoE	4.8	6.4	5.5	8.4
RoCE	4.5	7.6	6.1	9.1
RoIC	5.2	9.2	7.0	10.6
Valuation Ratios (x)				
P/E	26.7	19.3	21.7	13.4
EV / EBITDA	10.5	6.7	6.9	5.0
EV / Net Sales	1.2	1.1	0.9	0.7
Market Cap / Sales	0.9	0.8	0.7	0.6
Price to Book Value	1.3	1.2	1.2	1.1
Solvency Ratios				
Debt/Equity	0.7	0.6	0.5	0.4
Current Ratio	1.8	1.8	1.8	1.8
Quick Ratio	**0.6**	**0.7**	**0.7**	**0.7**

Source: Company, ICICI Direct Research

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

Sector / Company	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
Apollo Tyre (APOTYR)	**222**	**275**	**Buy**	**14,098**	**5.5**	**10.2**	**16.6**	**40.3**	**21.7**	**13.4**	**6.7**	**6.9**	**5.0**	**7.6**	**6.1**	**9.1**	**6.4**	**5.5**	**8.4**
Ashok Leyland (ASHLEY)	134	150	Buy	39,223	-1.1	1.1	4.4	-125.4	121.6	30.5	78.8	32.1	15.8	-1.9	4.8	15.7	-4.4	4.5	16.5
Bajaj Auto (BAAUTO)	3,819	4,350	Hold	1,10,496	157.4	167.7	193.6	24.3	22.8	19.7	18.0	16.7	14.1	18.2	19.3	22.5	18.1	18.9	21.4
Balkrishna Ind. (BALIND)	2,497	2,250	Buy	48,271	59.8	68.2	80.5	41.8	36.6	31.0	27.3	23.5	19.9	19.3	20.4	21.6	19.2	19.0	19.4
Bharat Forge (BHAFOR)	778	875	Buy	36,221	-2.7	15.9	25.0	NM	49.1	31.1	44.7	24.0	17.1	2.2	8.0	12.1	3.3	12.3	16.9
Eicher Motors (EICMOT)	2,732	2,970	Hold	74,474	49.3	66.7	87.4	55.4	41.0	31.3	37.5	28.8	21.9	11.3	13.5	15.8	11.8	14.3	16.6
Escorts (ESCORT)	1,225	1,140	Hold	15,016	71.2	62.0	76.9	17.2	19.7	15.9	10.7	12.3	9.6	18.7	13.8	14.8	16.2	12.6	13.7
Hero Moto (HERHON)	2,820	3,440	Buy	56,315	148.4	170.8	196.5	19.0	16.5	14.4	12.0	10.2	8.7	20.8	23.1	24.5	19.5	20.7	21.7
M&M (MAHMAH)	760	1,000	Buy	94,483	2.3	29.9	37.8	337.6	25.4	20.1	14.0	14.8	11.8	9.5	8.2	10.5	2.7	9.6	11.1
Maruti Suzuki (MARUTI)	7,025	6,400	Reduce	2,12,211	140.0	153.1	228.5	50.2	45.9	30.7	31.6	26.4	18.0	4.3	5.9	9.5	8.2	8.5	11.7
Minda Industries (MININD)	735	725	Buy	19,985	7.6	10.9	19.1	96.7	67.5	38.4	28.7	24.0	17.0	9.1	10.6	16.7	10.4	14.2	19.6
Motherson (MOTSUM)	237	300	Buy	74,843	3.3	7.4	10.0	NM	31.9	23.7	16.5	10.0	8.0	6.7	16.2	20.5	8.8	16.7	19.7
Tata Motors (TATMOT)	300	375	Buy	1,14,870	-35.0	0.9	37.9	NM	348.4	7.9	5.2	5.0	3.2	6.3	7.9	14.8	-23.6	0.6	20.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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