

Apollo Tyres

On track to achieve Vision 2026

Over the last few years, there has been a noticeable change at Apollo Tyres. From a focus on gaining market share, it is now clearly seen working towards its Vision 2026, which amongst other things, targets to achieve a RoCE of 12-15% on a sustainable basis. Some of the key initiatives undertaken include a rising focus on premiumisation both in India and Europe, a conscious decision to exit certain SKUs which are not remunerative, a focus on increased use of digital tools to improve operational efficiencies and an ever-rising focus on sweating existing assets and hence targeting a much lower annual capex. Further, pricing discipline in the domestic tyre industry has led to a much reduced earnings volatility to change in input costs and has hence improved earnings visibility for the industry. Given this, we remain confident that Apollo is on track towards achieving Vision 2026 - its RoCE has already improved to 10% in FY23 from 4.9% in FY20. The stock has recently underperformed relative to peers despite its strong financial performance and appears attractive at 11.6x FY25 EPS. Reiterate ADD, with a revised TP of INR 415 (earlier INR 404) as we roll forward to Sep2025 (from June 2025 earlier).

- **Well-placed to achieve Vision 2026:** The key targets for its Vision 2026 include 1) RoCE of 12-15% and 2) net debt/EBITDA of <2x. Some of its notable achievements on its path towards its Vision 2026 include: 1) sustaining leadership in TBR replacement and emerging as the volume leader in PCR replacement for 3rd year in a row; 2) its various podium finishes in US and Europe in PCLT test results over the last few years; 3) focus on premiumisation has helped its premium tyre domestic PV sales mix to rise to 27% in FY23 from 12% in FY20 and its UHP mix in Europe to 43% in FY23 from 32% in FY20; 4) target to ramp up in US market where its presence has now increased to 75% of the addressable PCR market from 25% in FY20 and to 55% in TBR from nil in FY20; 5) focus on sweating existing assets has led to controlled capex spends in the recent past. Thus, we remain confident that Apollo appears well on track to achieve its targets set for Vision 2026.
- **Domestic pricing discipline has been commendable:** The pricing discipline in the domestic tyre industry has been commendable over the last few years which has led to far lesser volatility in earnings for industry players than in the past. While reduced Chinese competition would have partially helped, industry participants seem to have realised the need to focus on profitable growth for long-term survival. Such favourable industry dynamics would help improve the earnings visibility of tyre companies in the long run.
- **Valuation and view:** Over the last six months, despite its strong performance, Apollo has underperformed its peers. At 11.6x FY25 earnings, Apollo is attractive relative to peers. Reiterate ADD with a revised TP of INR 415, as we roll forward to Sep 2023 earnings (from June 2023 earlier).

Financial Summary

YE Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	2,09,476	2,45,681	2,59,513	3,01,505	3,18,722
EBIDTA	25,741	33,137	40,225	43,718	46,215
Adj. PAT	6,445	10,821	16,159	20,833	23,048
EPS (Rs)	10.1	17.4	25.4	32.8	36.3
P/E (x)	37.4	22.3	14.9	11.6	10.5
EV / EBITDA (x)	11.1	8.6	6.8	6.0	5.3
RoCE (%)	6.3	9.8	12.9	14.5	14.8

Source: Company, HSIE Research

ADD

CMP (as on 20 Oct 2023)	INR 384
Target Price	INR 415
NIFTY	19,543

KEY STOCK DATA

Bloomberg code	APTY IN
No. of Shares (mn)	635
MCap (INR bn) / (\$ mn)	244/2,982
6m avg traded value (INR mn)	999
52 Week high / low	INR 441/270

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(8.5)	14.9	36.2
Relative (%)	(5.3)	5.2	25.7

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	37.34	37.34
FIs & Local MFs	17.78	17.74
FPIs	22.27	22.1
Public & Others	22.61	22.75

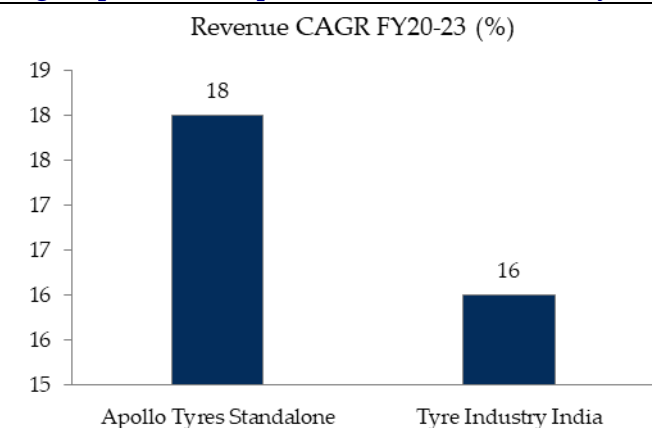
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Aniket Mhatre

aniket.mhatre@hdfcsec.com

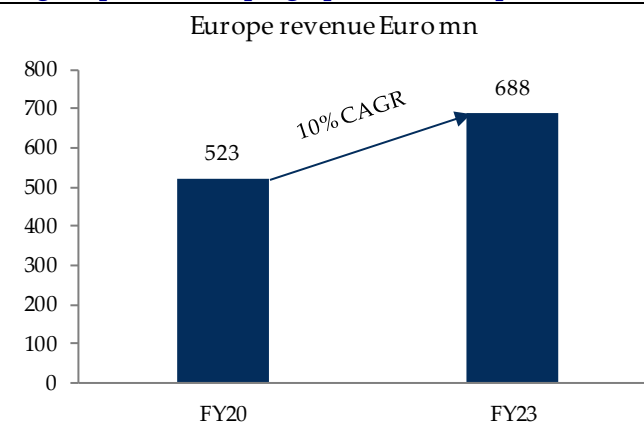
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Fig1: Apollo has outperformed domestic industry



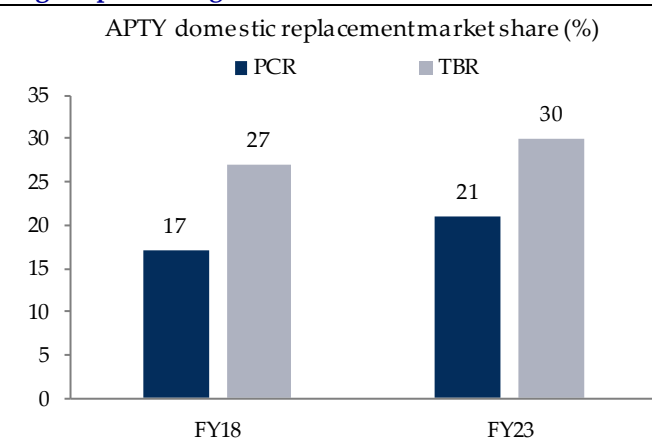
Source: Company

Fig2: Apollo is ramping up well in Europe as well



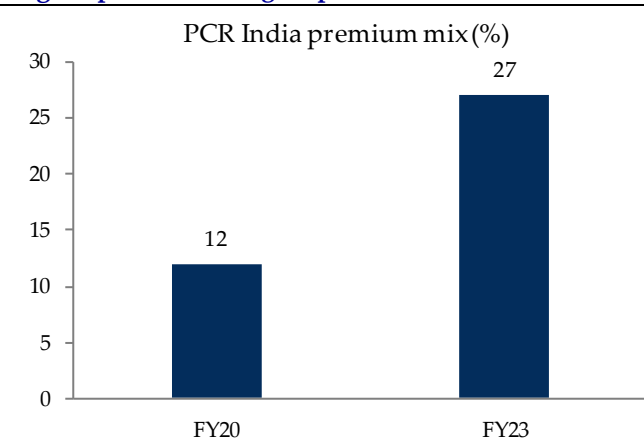
Source: Company

Fig3: Apollo has gained share in both PCR and TBR



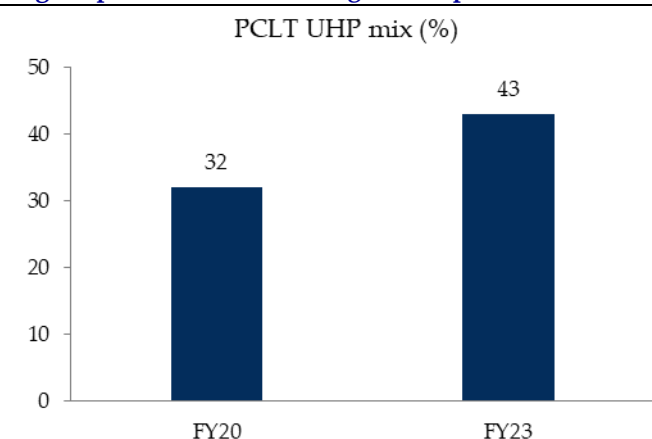
Source: Company; HSIE Research

Fig4: Apollo focussing on premium mix in PCR (domestic)



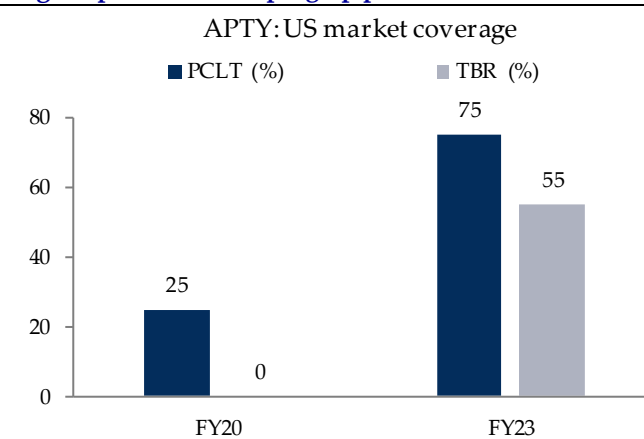
Source: Company; HSIE Research

Fig5: Apollo's UHP mix rising in Europe as well



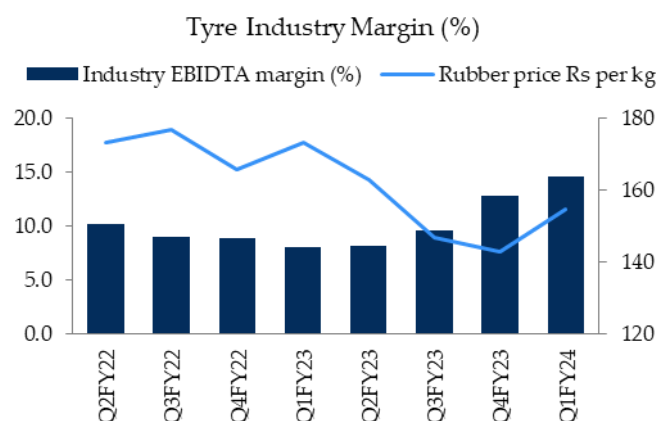
Source: Company; HSIE Research

Fig6: Apollo now ramping up presence in US



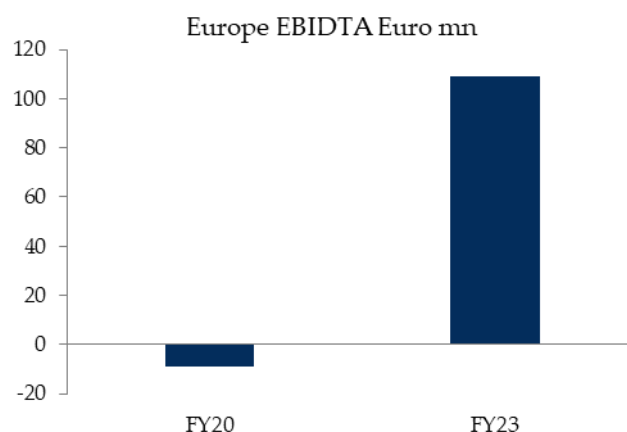
Source: Company; HSIE Research

Fig7: Industry pricing discipline has been commendable



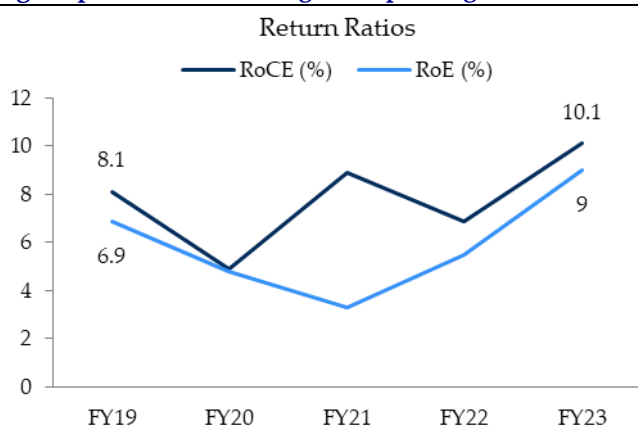
Source: Company; HSIE Research

Fig8: Restructuring has helped boost Europe margins



Source: Company

Fig9: Apollo now focussing on improving returns



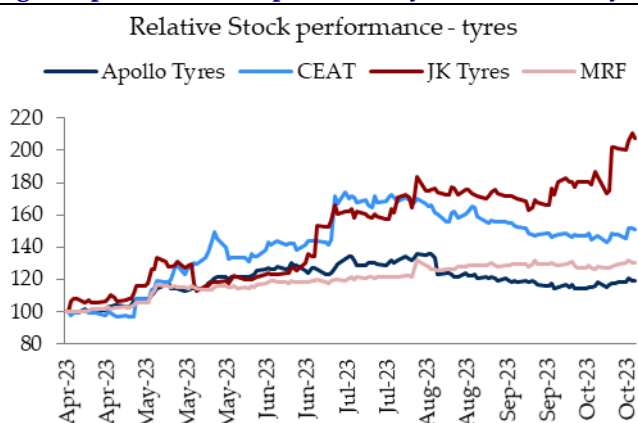
Source: Company

Fig10: Apollo seems on track to achieve Vision 2026

Vision 2026	FY23 Actual	FY26 Vision
Revenue Goal	3.1	5
EBIDTA margin	13.5	> 15%
RoCE (%)	10.1	12-15
Net Debt / EBIDTA	1.4x	<2x

Source: Company

Fig11: Apollo has underperformed tyre stocks recently



Source: Bloomberg; HSIE Research

Fig12: Apollo appears attractive relative to peers

	EPS CAGR (%) FY23-25E	PER (x)		RoE (%)	
		FY24E	FY25E	FY24E	FY25E
Apollo Tyres	38.8	14.9	11.6	8.6	11.5
CEAT	99.4	15.2	13.8	15.5	15.2
MRF	76.6	26.1	22.4	11.5	12.1

Source: Bloomberg; HSIE Research

Financials

Standalone Income Statement

Year ending March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	1,63,269	1,73,970	2,09,476	2,45,681	2,59,513	3,01,505	3,18,722
<i>Growth (%)</i>	<i>-6.8</i>	<i>5.3</i>	<i>21.4</i>	<i>17.3</i>	<i>5.5</i>	<i>16.2</i>	<i>5.5</i>
Material Expenses	90,756	93,945	1,23,855	1,46,371	1,49,220	1,76,381	1,86,452
Employee Expenses	24,822	25,134	25,742	26,199	27,249	31,357	33,147
SG&A Expenses	5,388	5,741	6,913	8,107	9,083	10,854	11,474
Other Operating Expenses	23,149	21,176	27,225	31,868	33,737	39,196	41,434
EBITDA	19,154	27,975	25,741	33,137	40,225	43,718	46,215
<i>EBITDA Margin (%)</i>	<i>11.7</i>	<i>16.1</i>	<i>12.3</i>	<i>13.5</i>	<i>15.5</i>	<i>14.5</i>	<i>14.5</i>
<i>EBITDA Growth (%)</i>	<i>-2.2</i>	<i>46.0</i>	<i>-8.0</i>	<i>28.7</i>	<i>21.4</i>	<i>8.7</i>	<i>5.7</i>
Depreciation	11,381	13,150	13,997	14,191	14,877	14,055	14,613
EBIT	7,773	14,825	11,744	18,945	25,347	29,663	31,601
Other Income (Including EO Items)	469	-4,784	1,176	637	850	1,020	1,122
Interest	2,808	4,430	4,444	5,312	5,188	3,634	2,798
PBT	5,433	5,612	8,476	14,269	21,010	27,049	29,925
Tax (Incl Deferred)	670	2,110	2,091	3,226	4,851	6,216	6,877
Minority Interest	0	0	-1	-2	0	0	0
RPAT	4,763	3,502	6,386	11,046	16,159	20,833	23,048
EO (Loss) / Profit (Net Of Tax)	0	-6,077	-59	226	0	0	0
APAT	4,763	9,580	6,445	10,821	16,159	20,833	23,048
<i>APAT Growth (%)</i>	<i>2.9</i>	<i>5.5</i>	<i>3.1</i>	<i>4.4</i>	<i>6.2</i>	<i>6.9</i>	<i>7.2</i>
Adjusted EPS (Rs)	8.3	5.5	10.1	17.4	25.4	32.8	36.3
<i>EPS Growth (%)</i>	<i>-30%</i>	<i>-34%</i>	<i>82%</i>	<i>73%</i>	<i>46%</i>	<i>29%</i>	<i>11%</i>

Source: Company, HSIE Research

Standalone Balance Sheet

As at March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS							
Share Capital - Equity	572	635	635	635	635	635	635
Reserves	98,728	1,13,796	1,16,886	1,28,143	1,39,856	1,54,973	1,71,670
Total Shareholders Funds	99,300	1,14,431	1,17,521	1,28,778	1,40,491	1,55,608	1,72,305
Long Term Debt	51,479	48,082	44,085	37,898	29,898	21,898	13,898
Short Term Debt	14,320	3,033	17,093	17,978	17,978	17,978	17,978
Total Debt	65,799	51,115	61,177	55,877	47,877	39,877	31,877
Net Deferred Taxes	7,032	7,020	7,968	8,875	8,875	8,875	8,875
Other Non-current Liabilities & Provns	4,421	4,440	4,658	3,492	3,599	3,599	3,599
TOTAL SOURCES OF FUNDS	1,76,552	1,77,007	1,91,325	1,97,021	2,00,841	2,07,959	2,16,656
APPLICATION OF FUNDS							
Net Block	1,52,550	1,61,992	1,73,755	1,74,241	1,70,453	1,67,443	1,66,049
CWIP	16,219	11,065	6,182	2,526	2,526	2,526	2,526
Goodwill	2,134	2,204	2,158	2,288	2,288	2,288	2,288
Investments	194	1,096	4,905	4,358	7,858	11,858	20,858
Total Non-current Assets	1,71,098	1,76,357	1,87,001	1,83,413	1,83,124	1,84,114	1,91,721
Cash & Equivalents	7,496	21,458	10,807	8,462	8,699	7,323	6,290
Inventories	32,069	33,185	41,554	44,285	50,235	58,375	61,606
Debtors	9,399	13,808	16,104	24,885	26,246	30,498	32,187
Other Current Assets	11,993	13,637	10,539	11,828	13,248	14,837	16,618
Total Current Assets	60,957	82,088	79,004	89,461	98,427	1,11,033	1,16,700
Creditors	23,090	28,067	36,069	33,539	36,281	40,538	42,782
Other Current Liabilities & Provns	32,412	53,371	38,610	42,313	44,429	46,651	48,983
Total Current Liabilities	55,503	81,438	74,679	75,852	80,710	87,189	91,765
Net Current Assets	5,454	650	4,324	13,609	17,717	23,845	24,935
TOTAL APPLICATION OF FUNDS	1,76,552	1,77,007	1,91,325	1,97,021	2,00,841	2,07,959	2,16,656

Source: Company, HSIE Research

Standalone Cash Flow

Year ending March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	7,773	14,825	11,744	18,945	25,347	29,663	31,601
Interest Expenses	469	1,294	1,235	411	850	1,020	1,122
Depreciation	11,381	13,150	13,997	14,191	14,877	14,055	14,613
Working Capital Change	21,355	18,785	-14,108	-12,795	-3,765	-7,504	-2,123
Tax Paid	-1,345	-2,122	-1,143	-2,319	-4,851	-6,216	-6,877
OPERATING CASH FLOW (a)	39,633	39,855	11,668	18,662	32,459	31,019	38,337
Capex	-49,352	-17,506	-20,832	-11,151	-11,089	-11,045	-13,220
Free Cash Flow (FCF)	-9,719	22,348	-9,164	7,511	21,370	19,974	25,117
Investments	-134	-902	-3,809	548	-3,500	-4,000	-9,000
INVESTING CASH FLOW (b)	-49,486	-18,408	-24,641	-10,603	-14,589	-15,045	-22,220
Debt Issuance/(Repaid)	20,392	-14,684	10,062	-5,301	-8,000	-8,000	-8,000
Interest Expenses	-2,808	-4,430	-4,444	-5,312	-5,188	-3,634	-2,798
FCFE	7,865	3,235	-3,546	-3,102	8,182	8,340	14,318
Dividend	-1,974	-2,223	-2,064	-2,858	-4,446	-5,716	-6,351
FINANCING CASH FLOW (c)	11,723	-7,484	2,322	-10,403	-17,633	-17,350	-17,149
NET CASH FLOW (a+b+c)	1,869	13,962	-10,651	-2,344	236	-1,376	-1,033
Add: opening cash balance	5,627	7,496	21,458	10,807	8,462	8,699	7,323
Closing Cash & Equivalents	7,496	21,458	10,807	8,462	8,699	7,323	6,290

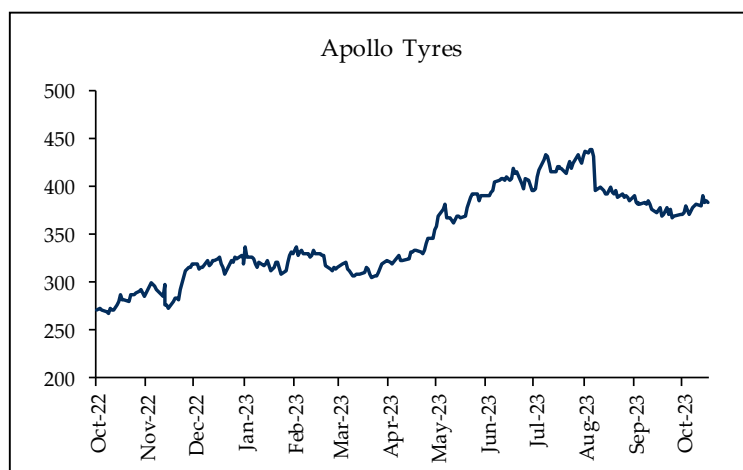
Source: Company, HSIE Research

Key Ratios

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)							
GPM	44.4	46.0	40.9	40.4	42.5	41.5	41.5
EBITDA Margin	11.7	16.1	12.3	13.5	15.5	14.5	14.5
APAT Margin	2.9	5.5	3.1	4.4	6.2	6.9	7.2
RoE	4.8	3.1	5.4	8.6	11.5	13.4	13.4
RoIC (or Core RoCE)	5.0	9.4	7.2	10.5	13.6	15.4	15.7
RoCE	4.5	8.6	6.3	9.8	12.9	14.5	14.8
EFFICIENCY							
Tax Rate (%)	12.3	37.6	24.7	22.6	23.1	23.0	23.0
Fixed Asset Turnover (x)	0.9	1.0	1.1	1.2	1.3	1.4	1.5
Inventory (days)	73	71	74	67	72	72	72
Debtors (days)	21	30	29	38	38	38	38
Other Current Assets (days)	27	29	19	18	19	18	19
Payables (days)	52	60	64	51	52	50	50
Cash Conversion Cycle (days)	-5	-45	-11	8	13	20	22
Debt/EBITDA (x)	3.4	1.8	2.4	1.7	1.2	0.9	0.7
Net D/E (x)	0.7	0.4	0.5	0.4	0.3	0.3	0.2
Interest Coverage (x)	3	3	3	4	5	8	11
PER SHARE DATA (Rs)							
EPS	8	6	10	17	25	33	36
CEPS	28	26	32	40	49	55	59
Dividend	3	4	3	5	7	9	10
Book Value	174	180	185	203	221	245	271
VALUATION							
P/E (x)	50.6	25.1	37.4	22.3	14.9	11.6	10.5
P/BV (x)	2.2	2.1	2.0	1.9	1.7	1.5	1.4
EV/EBITDA (x)	14.4	9.6	11.1	8.6	6.8	6.0	5.3
EV/Revenues (x)	1.7	1.6	1.4	1.2	1.1	0.9	0.8
OCF/EV (%)	14.4	14.7	4.0	6.5	11.6	11.3	14.4
FCF/EV (%)	-3.5	8.3	-3.1	2.6	7.6	7.3	9.4
FCFE/Mkt Cap (%)	3.6	1.3	-1.5	-1.3	3.4	3.5	5.9
Dividend Yield (%)	0.8	0.9	0.9	1.2	1.8	2.4	2.6

Source: Company, HSIE Research

1 Yr Price movement



Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

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Compliance Officer: Murlu V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com