

CMP: ₹ 278

Target: ₹ 335 (21%)

Target Period: 12 months

BUY

September 9, 2022

Decline in RM costs to boost profitability, RoCE...

About the stock: Apollo Tyres (ATL) is a leading tyre manufacturer, with operations in India & Europe with an installed capacity of ~7.9 lakh MTPA. 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
- FY22 segment mix: Truck/bus ~43%, PV ~35%, OHT ~10%, others ~12%

Key Highlights:

- Natural rubber and crude derivatives form a majority (~60-70%) of raw material costs for tyre manufacturing. Both these commodities have witnessed a healthy correction with rubber down ~15% from April 2022 levels and crude down ~20%+ from June 2022 levels. This bodes well for ATL with the correction in RM costs much ahead of our expectations
- Domestically, over FY22-24E, ATL is also expected to benefit from a cyclical upswing in the CV space and double digit growth in the PV domain amid need for personal mobility driven by greater consumer preference for SUVs. Media reports suggest ~10+ lakh units of pending order backlog in the PV domain thereby suggesting longevity of growth in this space, a big positive for ancillary players including Apollo Tyres
- ATL is also poised to benefit from its focus on capital efficiency, sweating of assets, controlled capex spends, healthy FCF generation & deleveraging of b/s. With a reduction in debt, RoCE at ATL is seen in double digit by FY24E

What should investors do? ATL's stock price has grown at ~2% CAGR from ~₹ 250 levels in September 2017, underperforming Nifty Auto Index in that time.

- We retain our **BUY** rating on ATL amid strong focus on capital efficiency, controlled capex spends and healthy margin recovery for the base business

Target Price and Valuation: Upgrading our margin estimates, we now value ATL at a target price of ₹ 335 i.e., 6x FY24E EV/EBITDA (previous target price: ₹ 290).

Key triggers for future price performance:

- With topline drivers in place for domestic operations and healthy PV recovery in Europe, we expect sales to grow at a CAGR of 11.4% FY22-24E
- Target to achieve revenues of \$5 billion by FY2026, EBITDA margin of at least 15%, RoCE of 12-15% and net debt to EBITDA of less than 2x

Alternate Stock Idea: Apart from ATL, in our auto OEM coverage, we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,550

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	17,548.8	16,327.0	17,344.0	20,947.6	9.7	24,426.0	25,988.6	11.4
EBITDA	1,958.9	1,915.6	2,744.5	2,574.1	6.9	3,206.2	3,919.5	23.4
EBITDA Margins (%)	11.2	11.7	15.8	12.3		13.1	15.1	
Net Profit	680.0	476.4	350.2	638.6	(10.3)	1,050.3	1,585.1	57.5
EPS (₹)	11.9	8.3	5.5	10.1		16.5	25.0	
P/E	23.4	33.4	50.4	27.6		16.8	11.1	
RoNW (%)	6.8	4.8	3.1	5.4		8.4	11.7	
RoCE (%)	7.3	4.5	7.6	6.3		9.4	13.0	

Source: Company, ICICI Direct Research



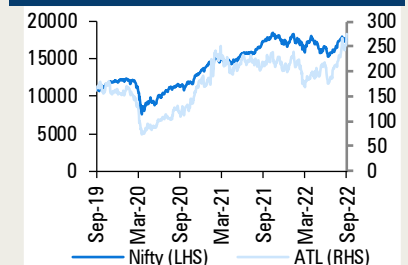
Particulars

Particular	₹ crore
Market Capitalization	17,654.0
Total Debt (FY22)	6,117.7
Cash & Inv. (FY22)	1,531.4
EV (₹ Crore)	22,240.6
52 week H/L (₹)	280 / 165
Equity capital	₹ 63.5 Crore
Face value	₹ 1

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	37.3	37.3	37.3	37.3
FII	20.5	19.7	19.4	19.4
DII	18.0	18.4	18.6	18.6
Other	24.1	24.6	24.7	24.7

Price Chart



Recent event & key risks

- Posts healthy operational performance in Q1FY23
- Key Risk:** (i) Slower than anticipated pick-up in sales volume, (ii) Uptick in input price limiting margin recovery

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Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	17,344.0	20,947.6	24,426.0	25,988.6
Growth (%)	6.2	20.8	16.6	6.4
Raw Material Expenses	9,394.6	12,385.5	14,490.1	15,070.3
Employee Expenses	2,513.3	2,574.3	2,705.3	2,822.6
Other Expenses	2,691.7	3,413.7	4,024.4	4,176.2
Total Operating Expenditure	14,599.5	18,373.5	21,219.8	22,069.1
EBITDA	2,744.5	2,574.1	3,206.2	3,919.5
Growth (%)	43.3	-6.2	24.6	22.2
Depreciation	1,314.9	1,399.7	1,465.6	1,559.3
Interest	443.0	444.4	455.3	349.4
Other Income	182.4	123.5	100.9	105.5
PBT	561.2	847.6	1386.2	2116.3
Exceptional items	607.8	5.9	0.0	0.0
Total Tax	211.0	209.1	337.0	533.3
Reported PAT	350.2	638.6	1,050.3	1,585.1
Growth (%)	-26.5	82.4	64.5	50.9
EPS (₹)	5.5	10.1	16.5	25.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	350.2	638.6	1,050.3	1,585.1
Add: Depreciation	1,314.9	1,399.7	1,465.6	1,559.3
(Inc)/dec in Current Assets	-720.8	-865.7	-1,018.0	-469.3
Inc/(dec) in CL and Provisions	1,007.8	639.5	746.6	415.3
CF from operating activities	1952.1	1812.1	2244.5	3090.4
(Inc)/dec in Investments	-90.1	-360.5	250.0	50.0
(Inc)/dec in Fixed Assets	-1,718.5	-2,115.0	-1,100.0	-1,100.0
Others	445.2	216.6	29.0	148.7
CF from investing activities	-1363.4	-2258.8	-821.0	-901.3
Issue/(Buy back) of Equity	6.3	0.0	0.0	0.0
Inc/(dec) in loan funds	-330.2	-315.9	-1,000.0	-1,500.0
Dividend paid & dividend tax	-222.3	-206.4	-333.4	-508.0
Others	1,353.7	-96.0	-20.0	-20.0
CF from financing activities	807.5	-618.3	-1353.4	-2028.0
Net Cash flow	1,396.2	-1,065.1	70.0	161.0
Opening Cash	749.7	2,145.8	1,080.8	1,150.8
Closing Cash	2145.8	1080.8	1150.8	1311.8

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	63.5	63.5	63.5	63.5
Reserve and Surplus	11,379.6	11,688.6	12,405.5	13,482.6
Total Shareholders funds	11,443.1	11,752.1	12,469.0	13,546.1
Total Debt	6,433.7	6,117.7	5,117.7	3,617.7
Deferred Tax Liability	920.9	901.4	928.9	988.3
Total Liabilities	20,958.1	20,960.3	20,799.4	20,572.5
Assets				
Gross Block	24,812.6	27,415.8	28,934.1	30,034.1
Less: Acc Depreciation	9,377.9	10,777.6	12,243.2	13,802.5
Net Block	15,524.8	17,088.8	16,891.5	16,382.2
Capital WIP	1,106.5	618.2	200.0	200.0
Total Fixed Assets	16,631.3	17,707.1	17,091.5	16,582.2
Investments	109.6	490.5	250.5	210.5
Goodwill on consolidation	220.4	215.8	215.8	215.8
Inventory	3,318.5	4,155.4	4,684.4	4,984.1
Debtors	1,380.8	1,610.4	2,007.6	2,136.1
Loans and Advances	46.2	45.0	52.5	55.8
Other current assets	707.1	507.6	591.8	629.7
Cash	2,145.8	1,080.8	1,150.8	1,311.8
Total Current Assets	7,598.5	7,399.2	8,487.2	9,117.5
Creditors	2,806.7	3,606.9	4,015.2	4,272.1
Provisions	288.2	317.9	353.9	376.5
Total Current Liabilities	3,094.9	3,924.7	4,369.1	4,648.6
Net Current Assets	4,503.6	3,474.4	4,118.1	4,468.9
Application of Funds	20,958.1	20,960.3	20,799.4	20,572.5

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	5.5	10.1	16.5	25.0
Cash EPS	26.2	32.1	39.6	49.5
BV	180.2	185.1	196.3	213.3
DPS	3.5	3.3	5.3	8.0
Cash Per Share	33.8	17.0	18.1	20.7
Operating Ratios (%)				
EBITDA Margin	15.8	12.3	13.1	15.1
PBT / Net sales	8.2	5.6	7.1	9.1
PAT Margin	4.2	3.1	4.3	6.1
Inventory days	69.8	72.4	70.0	70.0
Debtor days	29.1	28.1	30.0	30.0
Creditor days	59.1	62.8	60.0	60.0
Return Ratios (%)				
RoE	3.1	5.4	8.4	11.7
RoCE	7.6	6.3	9.4	13.0
RoIC	9.2	7.1	10.3	14.3
Valuation Ratios (x)				
P/E	24.2	27.5	16.8	11.1
EV / EBITDA	8.0	8.6	6.7	5.1
EV / Net Sales	1.3	1.1	0.9	0.8
Market Cap / Sales	1.0	0.8	0.7	0.7
Price to Book Value	1.5	1.5	1.4	1.3
Solvency Ratios				
Debt/Equity	0.6	0.5	0.4	0.3
Current Ratio	1.8	1.6	1.7	1.7
Quick Ratio	0.7	0.6	0.6	0.6

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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