Apollo Tyres (APOTYR)

ICICI direct Research

CMP: ₹ 250	Target: ₹ 290 (16%)	Target Period: 12 months	BUY

August 17, 2022

Healthy performance, capital efficiency focus retained

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%

Q1FY23 Results: The company posted a healthy operational performance

- Total consolidated operating income was up 6.5% QoQ to ₹ 5,942 crore
- EBITDA came in at ₹ 690 crore with margins up 40 bps QoQ to 11.6%
- Consolidated PAT at ₹ 191 crore was up 68% QoQ

What should investors do? ATL's stock price has remained largely flat from ~₹ 257 levels in August 2017, underperforming the Nifty Auto Index in that time.

- We retain our **BUY** rating on ATL amid strong intent on sweating of assets, controlled capex spends and return ratios focus for the business

Target Price and Valuation: Upgrading our estimates, we now value ATL at a target price of ₹ 290 i.e., 6x FY24E EV/EBITDA (earlier target price: ₹ 250).

Key triggers for future price performance:

- CV cyclical upswing, high radialisation levels, uptick in PV space, network expansion & healthy PV recovery in Europe to be major topline drivers. We expect consolidated sales to grow at a CAGR of 11.4% in FY22-24E
- With calibrated capex, debottlenecking of existing facilities & focus on capital efficiency RoE, RoCE is seen at 9.7%, 10.8% by FY24, respectively
- Benign commodity price outlook amid recent cool off in crude prices along with operational efficiencies to result in 13.5% EBITDA margins by FY24E
- Healthy FCF generation to substantially reduce debt on b/s over FY23-24E

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 target price of ₹ 1,550

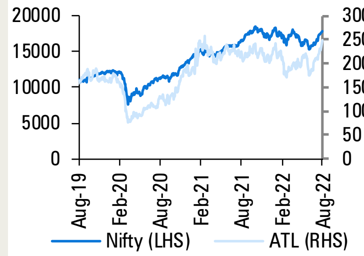
Particulars

Particular	₹ crore
Market Capitalization	15,876.0
Total Debt (FY22)	6,117.7
Cash & Inv. (FY22)	1,531.4
EV (₹ Crore)	20,462.5
52 week H/L (₹)	258 / 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 anticipates CV sales volume growth, (ii) Lower than anticipated fall in input prices.

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Result Update

ICICI Securities – Retail Equity Research

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	2,896.0	3,512.2	16.8
EBITDA Margins (%)	11.2	11.7	15.8	12.3		11.9	13.5	
Net Profit	680.0	476.4	350.2	638.6	(10.3)	814.5	1,268.3	40.9
EPS (₹)	11.9	8.3	5.5	10.1		12.8	20.0	
P/E	21.0	30.0	45.3	24.9		19.5	12.5	
RoNW (%)	6.8	4.8	3.1	5.4		6.6	9.7	
RoCE (%)	7.3	4.5	7.6	6.3		7.7	10.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results:

- Among geographies, APMEA i.e. largely India revenues grew 10.8% QoQ to ₹ 4,460 crore while Europe de-grew 4.8% QoQ at ₹ 1,604 crore
- Gross margin was flat QoQ whereas employee cost was down 58 bps QoQ leading to healthy margins for the quarter
- EBITDA margins on a standalone basis were at 9.7% (up 30 bps QoQ) supported by a decline in employee cost and other expense down 30 bps & 90 bps QoQ, respectively, partially offset by gross margin decline (down ~96 bps QoQ). On a standalone basis, the company realised healthy operating leverage gains amid adverse RM price movement

Q1FY23 Earnings Conference Call highlights

- Capacity utilisation for Q1FY23 was at: India 81%; Europe 88% vs. ~84% & 85% for Indian and European operations, respectively, for Q4FY22
- The company remains optimistic about the demand outlook over the medium to long term specially in PV space in European region whereas, demand in Indian CV space remained sluggish due to muted OEM sales. The management expects demand in Q2FY22 to be sluggish given the seasonality with monsoon effecting demand in the replacement segment. However, pickup is expected from CV OEMs in H2FY23 amid greater infra spend by government
- Net debt to EBITDA was at 1.9x as of Q1FY23 vs ~1.8x in FY22 largely due to increase in working capital borrowing in Indian operations and stocking up of tyres for winter season in European region
- Going forward, the management expects low single digit rise in commodity cost and eventually cooling off post attainment of peak. The company has passed commodity related hike to its customers in Indian operations whereas European operation continued to be affected by energy cost related inflation
- During Q1FY23, the company took up to ~8% hike in TBR segment (replacement) & ~3% in other segment in Indian operations. In European operations, the company took ~9% hike in PV segment. Further hikes to extend of 3-4% are planned in Q2FY23
- The company has successfully developed tyres for E2W & electric PV and are in discussion with OEMs for the same. Further during the quarter the company added key models of M&M, Maruti Suzuki, VW, Skoda as clients
- Capex for Q1FY23 was ~₹ 125 crore with the management planning to increase 10-15% productivity through debottlenecking & AI learning techniques. On a consolidated basis, the company would incur ~₹ 1,100 crore capex for FY23

Peak revenue generation capability with 100% capacity utilisation is pegged at ~₹ 25,000-26,000 crores on consolidated basis

Volume growth (YoY) in TBR segment was ~30% & for pass cars was ~35% (on YoY basis)

Peer comparison

Exhibit 1: ICICI Direct coverage universe (tyres)

Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			EV/EBITDA (x)		
	₹	₹		₹ crore	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyres (APOTYR)	**250**	**290**	**Buy**	**15,876**	**12.3**	**11.9**	**13.5**	**0.5**	**0.4**	**0.3**	**6.3**	**7.7**	**10.8**	**7.9**	**6.8**	**5.3**
Balkrishna Inds (BALIND)	2,207	2,550	Buy	42,674	23.9	18.2	23.5	0.4	0.3	0.2	15.9	13.1	19.7	22.5	23.4	15.5
JK Tyre (JKTYRE)	133	135	Hold	3,278	9.0	7.5	9.0	1.8	1.8	1.7	8.1	7.4	10.4	7.7	7.9	6.0

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)	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	5,942	5,390	4,584	29.6	5,578	6.5	Topline came in much ahead of estimates tracking more than anticipated QoQ growth at Indian operations
Raw Material Expenses	3,584	3,330	2,624	36.6	3,361	6.6	RM costs were contained at 60.3% of sales
Employee Expenses	645	665	654	(1.3)	638	1.1	
Other expenses	1,023	856	740	38.3	953	7.4	Other expenses came in a tad higher at 17.2% of sales
EBITDA	690	538	567	21.7	626	10.1	
EBITDA Margin (%)	11.6	10.0	12.4	-75.4 bps	11.2	38.1 bps	EBITDA margins came in much higher tracking lower than anticipated rise in RM costs amid operating leverage benefits that kicked in due to increase in scale
Depreciation	344	377	340	1.0	375	(8.4)	
Interest	118	104	105	13.1	128	(7.6)	Interest costs were broadly on expected lines
Other income	11	36	40	(73.8)	37.2	(71.5)	
Tax	48	23	34	42.3	47	2.2	
PAT	191	70	128	49.2	113.4	68.1	PAT came in much ahead of estimates tracking beat on topline as well as margins
EPS (₹)	3.0	1.1	2.0	49.2	1.8	68.1	
Key Metrics							
Revenue (₹ crore)							
APMEA	4,460	3,950	3,272	36.3	4,025	10.8	Indian operations reported impressive revenues growth of 10.8% QoQ at ₹ 4,460 crore
Europe	1,604	1,440	1,407	14.0	1,685	(4.8)	European operations came in higher than estimates
EBIT Margin (%)							
APMEA	4.8	NA	5.5	-68 bps	4.1	66 bps	India EBIT margins improved 66 bps QoQ to 4.8%
Europe	4.9	NA	3.9	104 bps	4.9	5 bps	EBIT margins were steady at European operations at 4.9%

Source: Company, ICICI Direct Research

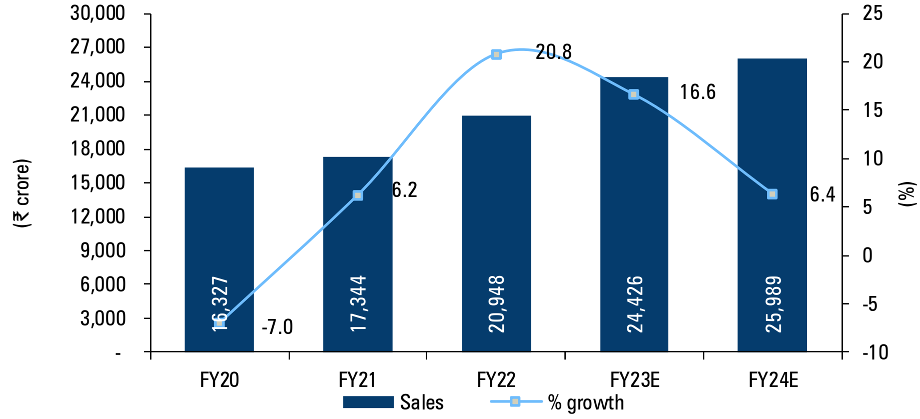
Exhibit 3: Change in estimates

	FY23E			FY24E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	24,097	24,426	1.4	25,890	25,989	0.4	Broadly retained our topline estimates. We expect topline at the company to grow at a CAGR of 11.4% over FY22-24E
EBITDA	2,858	2,896	1.3	3,442	3,512	2.0	
EBITDA Margin (%)	11.9	11.9	-1 bps	13.3	13.5	22 bps	Marginally upgraded our margin estimates for FY24E
PAT	808	815	0.8	1,233	1,268	2.8	
EPS (₹)	12.7	12.8	0.8	19.4	20.0	2.8	Marginally upgraded our earning estimates. We expect net earnings at the company to grow at a CAGR of 40.9% over FY22-24E

Source: ICICI Direct Research

Financial story in charts

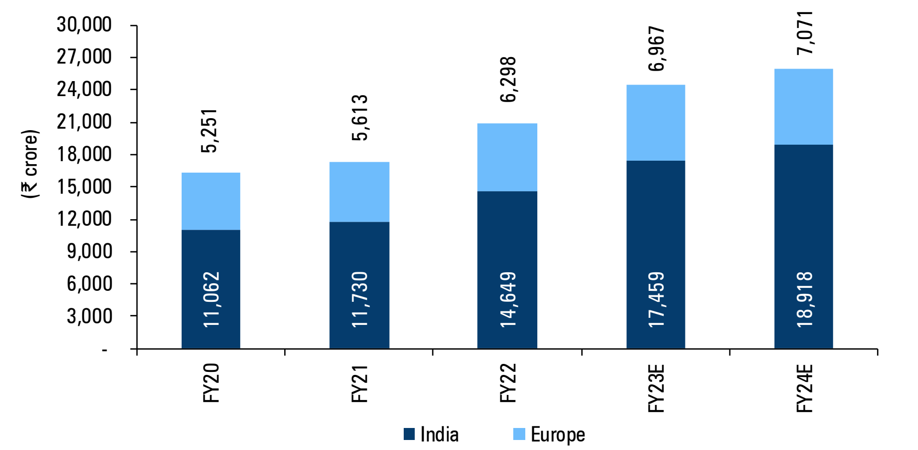
Exhibit 4: Trend in topline



Source: Company, ICICI Direct Research

We expect net sales to grow at ~11.4% CAGR over FY22-24E

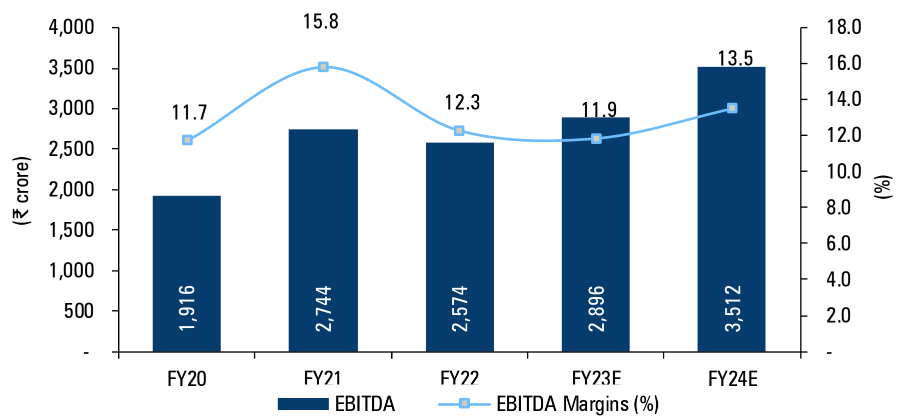
Exhibit 5: Trend in geography wise sales



Source: Company, ICICI Direct Research

Growth is expected to be led by India sales, which is expected to grow at a CAGR of 13.6% over FY22-24E with Europe sales expected to grow at a CAGR of 6% in the aforesaid period

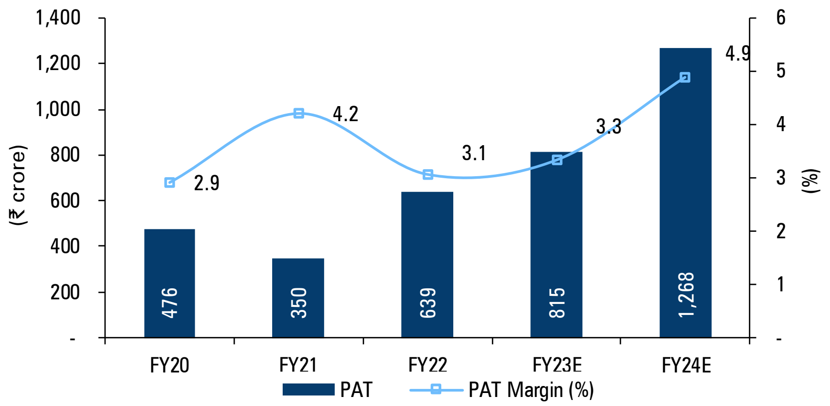
Exhibit 6: Trend in margins



Source: Company, ICICI Direct Research

Margins are expected at 13.5% by FY24E

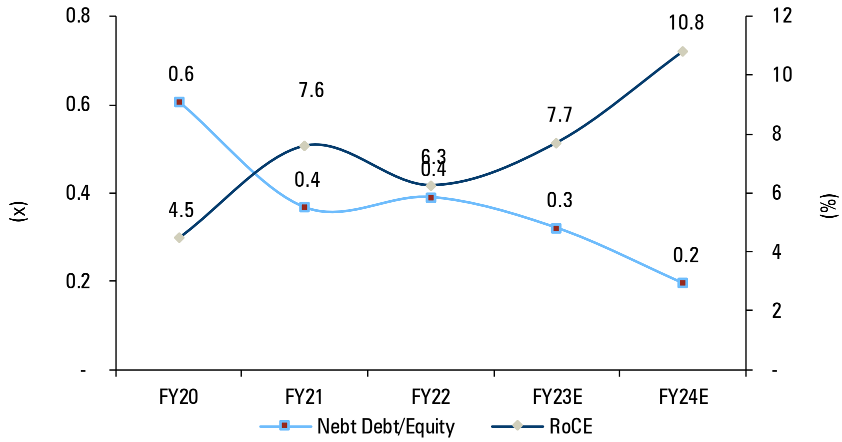
Exhibit 7: Trend in profitability



Source: Company, ICICI Direct Research

We expect ATL to clock ₹1,268 crore PAT in FY24E

Exhibit 8: Trend in debt and RoCE



Source: Company, ICICI Direct Research

RoCE is seen touching 10.8% by FY24E, with leverage on the downward trajectory

Exhibit 9: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	16,327	(7.0)	8.3	(29.9)	30.0	11.4	4.8	4.5
FY21	17,344	6.2	5.5	(33.8)	45.3	7.3	3.1	7.6
FY22	20,948	20.8	10.1	82.4	24.9	7.9	5.4	6.3
FY23E	24,426	16.6	12.8	27.5	19.5	6.8	6.6	7.7
FY24E	25,989	6.4	20.0	55.7	12.5	5.3	9.7	10.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: 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	14,868.8	15,605.1
Employee Expenses	2,513.3	2,574.3	2,705.3	2,813.1
Other Expenses	2,691.7	3,413.7	3,955.9	4,058.2
Total Operating Expenditure	14,599.5	18,373.5	21,530.0	22,476.4
EBITDA	**2,744.5**	**2,574.1**	**2,896.0**	**3,512.2**
Growth (%)	43.3	-6.2	12.5	21.3
Depreciation	1,314.9	1,399.7	1,465.6	1,559.3
Interest	443.0	444.4	461.3	369.4
Other Income	182.4	123.5	101.9	109.3
PBT	**561.2**	**847.6**	**1071.0**	**1692.8**
Exceptional items	607.8	5.9	0.0	0.0
Total Tax	211.0	209.1	257.6	426.6
Reported PAT	**350.2**	**638.6**	**814.5**	**1,268.3**
Growth (%)	-26.5	82.4	27.5	55.7
EPS (₹)	**5.5**	**10.1**	**12.8**	**20.0**

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	**350.2**	**638.6**	**814.5**	**1,268.3**
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**	**2008.7**	**2773.5**
(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	-800.0	-1,400.0
Dividend paid & dividend tax	-222.3	-206.4	-269.9	-428.7
Others	1,353.7	-96.0	-20.0	-20.0
CF from financing activities	**807.5**	**-618.3**	**-1089.9**	**-1848.7**
Net Cash flow	**1,396.2**	**-1,065.1**	**97.7**	**23.5**
Opening Cash	749.7	2,145.8	1,080.8	1,178.5
Closing Cash	**2145.8**	**1080.8**	**1178.5**	**1202.1**

Source: Company, ICICI Direct Research

Exhibit 12: 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	12,233.2	13,072.9
Total Shareholders funds	**11,443.1**	**11,752.1**	**12,296.8**	**13,136.4**
Total Debt	6,433.7	6,117.7	5,317.7	3,917.7
Deferred Tax Liability	920.9	901.4	928.9	988.3
Total Liabilities	**20,958.1**	**20,960.3**	**20,827.1**	**20,462.8**
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**	**1,178.5**	**1,202.1**
Total Current Assets	7,598.5	7,399.2	8,514.9	9,007.8
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	4,145.8	4,359.2
Application of Funds	**20,958.1**	**20,960.3**	**20,827.1**	**20,462.8**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	5.5	10.1	12.8	20.0
Cash EPS	26.2	32.1	35.9	44.5
BV	180.2	185.1	193.6	206.9
DPS	3.5	3.3	4.3	6.8
Cash Per Share	33.8	17.0	18.6	18.9
Operating Ratios (%)				
EBITDA Margin	15.8	12.3	11.9	13.5
PBT / Net sales	8.2	5.6	5.9	7.5
PAT Margin	4.2	3.1	3.3	4.9
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	6.6	9.7
RoCE	7.6	6.3	7.7	10.8
RoIC	9.2	7.1	8.4	11.8
Valuation Ratios (x)				
P/E	21.8	24.7	19.5	12.5
EV / EBITDA	7.3	7.9	6.8	5.3
EV / Net Sales	1.2	1.0	0.8	0.7
Market Cap / Sales	0.9	0.8	0.6	0.6
Price to Book Value	1.4	1.4	1.3	1.2
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

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)	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E
Apollo Tyre (APOTYR)	**250**	**290**	**Buy**	**15,876**	**10.1**	**12.8**	**20.0**	**24.9**	**19.5**	**12.5**	**7.9**	**6.8**	**5.3**	**6.3**	**7.7**	**10.8**	**5.4**	**6.6**	**9.7**
Ashok Leyland (ASHLEY)	149	180	Buy	43,746	1.8	1.7	4.8	81.0	87.4	31.3	45.2	27.5	15.6	2.1	7.6	17.7	0.2	6.5	17.1
Bajaj Auto (BAAUTO)	4,092	4,180	Hold	1,18,415	173.4	218.4	247.2	23.6	18.7	16.6	18.5	13.7	12.0	18.4	27.1	29.3	17.6	24.5	26.3
Balkrishna Ind. (BALIND)	2,207	2,550	Buy	42,674	73.0	65.3	98.3	30.3	33.8	22.5	22.5	23.4	15.5	15.9	13.1	19.7	20.4	16.0	20.4
Bharat Forge (BHAFOR)	790	900	Buy	36,780	23.1	19.8	28.3	34.1	39.9	27.9	19.8	19.3	15.1	9.6	9.2	12.2	15.2	12.7	16.1
Eicher Motors (EICMOT)	3,338	3,650	Buy	91,223	61.3	99.0	120.2	54.4	33.7	27.8	38.1	23.9	19.6	13.3	19.6	20.5	13.3	18.7	19.7
Escorts Kubota (ESCORT)	1,843	1,650	Hold	24,311	55.8	56.4	71.9	33.0	32.7	25.6	20.5	20.9	16.4	10.4	8.8	10.1	9.3	8.7	10.2
Hero Moto (HERHON)	2,817	2,925	Hold	56,248	123.8	137.3	164.7	22.7	20.5	17.1	14.2	12.5	10.5	16.3	18.4	21.1	15.7	16.6	19.0
M&M (MAHMAH)	1,288	1,550	Buy	1,60,174	41.4	48.7	60.6	31.1	26.4	21.3	22.0	17.7	13.9	9.3	11.4	13.9	13.1	13.5	14.9
Maruti Suzuki (MARUTI)	8,999	10,000	Buy	2,71,855	124.7	236.8	333.3	72.2	38.0	27.0	40.6	22.8	16.5	5.1	11.5	15.2	7.0	12.1	15.3
Uno Minda (MININD)	564	650	Buy	32,238	6.2	10.0	13.6	90.6	56.2	41.5	37.1	28.5	22.7	10.2	13.4	16.9	10.3	14.5	16.7
Tata Motors (TATMOT)	490	530	Buy	1,87,506	-29.9	-9.5	17.9	-16.4	-51.3	27.3	7.8	6.4	4.8	4.8	8.2	14.5	-23.5	-8.1	13.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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