

CMP: ₹ 285

Target: ₹ 350 (23%)

Target Period: 12 months

BUY

November 16, 2022

Raw material tailwinds to start flowing from Q3FY23...

About the stock: Apollo Tyres (ATL) is a leading tyre manufacturer, with operations in India & Europe and an installed capacity of ~7.9 lakh MT per annum. In India, ATL has 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%

Q2FY23 Results: The company posted a steady operational performance.

- Total consolidated operating income was flat QoQ at ₹ 5,956 crore
- EBITDA came in at ₹ 712 crore with margins up 34 bps QoQ to 12%
- Consolidated PAT was at ₹ 194 crore, up 2% QoQ
- Indian operations reported EBITDA margin of 10.3% (up 60 bps QoQ) while overseas operations reported EBITDA margins of 16%

What should investors do? ATL's stock price has grown ~5% CAGR over past five years (from ~₹ 236 in November 2017), outperforming Nifty Auto Index in that time.

- We retain **BUY** on ATL amid focus on increasing profitability, sweating of assets, calibrated capex spends and gross margin expansion on the anvil

Target Price and Valuation: Upgrading our estimates, we now value ATL at a target price of ₹ 350 i.e., 6x FY24E EV/EBITDA (earlier target price: ₹ 335).

Key triggers for future price performance:

- With CV cyclical upswing, uptick in PV space, network expansion and additional opportunity in Europe amid ban on Russian imported tyres, we expect consolidated sales to grow at a CAGR of 11.9% over FY22-24E
- With calibrated capex, debottlenecking of existing facilities, focus on sweating assets, RoE, RoCE is seen at 12.2%, 13.9% by FY24, respectively
- Benign commodity price outlook coupled with operational efficiencies are expected to result in 15.4% EBITDA margins by FY24E
- Target to achieve US\$5 billion revenues by FY26, EBITDA margin of <= 15%, RoCE of 12-15% and net debt to EBITDA of < 2x

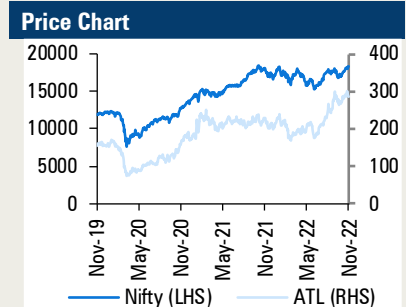
Alternate Stock Idea: Apart from ATL, in our auto OEM coverage, we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,590



Particulars	
Particular	₹ crore
Market Capitalization	18,099.0
Total Debt (FY22)	6,117.7
Cash & Inv. (FY22)	1,531.4
EV (₹ Crore)	22,685.1
52 week H/L (₹)	304 / 165
Equity capital	₹ 63.5 Crore
Face value	₹ 1

Shareholding pattern				
	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	37.3	37.3	37.3	37.3
FII	19.7	19.4	19.4	21.8
DII	18.4	18.6	18.6	17.9
Other	24.6	24.7	24.7	23.0



Recent event & key risks

- Posts steady performance in Q2FY23
- Key Risk:** (i) Hike in input prices affecting margin recovery, (ii) Slower than anticipated sales recovery in foreign markets.

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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	24,691.4	26,224.1	11.9
EBITDA	1,958.9	1,915.6	2,744.5	2,574.1	6.9	3,225.9	4,046.2	25.4
EBITDA Margins (%)	11.2	11.7	15.8	12.3		13.1	15.4	
Net Profit	680.0	476.4	350.2	638.6	(10.3)	1,026.4	1,658.3	61.1
EPS (₹)	11.9	8.3	5.5	10.1		16.2	26.1	
P/E	24.0	34.2	51.7	28.3		17.6	10.9	
RoNW (%)	6.8	4.8	3.1	5.4		8.2	12.2	
RoCE (%)	7.3	4.5	7.6	6.3		9.6	13.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results:

- Among geographies, APMEA i.e. largely India revenues, de-grew 4% QoQ to ₹ 4,282 crore while Europe grew 9.8% QoQ at ₹ 1,761 crore
- EBITDA margin was at 12%, up 34 bps QoQ. Gross margin was down 80 bps QoQ whereas employee cost & other expense was down 54 bps & 60 bps QoQ, respectively, leading to steady margins for the quarter
- EBITDA margins, on a standalone basis, were at 10.3% (up 62 bps QoQ) primarily led by a decline in other expense, which was down 55 bps QoQ while gross margins remained stable on a QoQ basis
- Consequent consolidated PAT came in at ₹ 194 crore, up 2% QoQ

Q2FY23 Earnings Conference Call highlights

- Capacity utilisation for H1FY23 was: India 76%; Europe 89% vs. ~81% and 88% for Indian and European operations, respectively, for Q1FY23
- The company remains optimistic about the demand outlook over the medium to long term, especially in the PV and CV space in India whereas, demand in PCR, TBR and OHT segment in European region is expected to slow down in H2FY23. The management expects demand in H2FY23 to be sluggish given the economic crisis in Europe. However, a pick-up is expected from the CV replacement segment in H2FY23 amid greater infra spend by the government
- Net debt to EBITDA was at 2.0x as of Q2FY23 vs. ~1.9x in Q1FY23 due to stocking up of tyres for the winter season in the European region. Net debt for Q2FY23 was at ₹ 4,200 crore for Indian operations and ₹ 5,500 crore at the consolidated level
- The company has taken hedge against ~80% of its energy costs for FY23
- During the quarter volume growth was ~1% of which replacement segment de-grew in mid-single digits whereas OEM/exports grew in double digits
- In European region, ATL continues to focus on UHP/UUHP tyres with share of UHP tyres in PV space rising to ~40% vs. ~20% three to five years back
- The company continues to remain in first place in terms of price hike. However, ATL witnessed some market share loss in the CV replacement space due to the same
- In the EU region, the management is optimistic about capturing a share of 10-12 million tyres, which were imported to EU from Russia
- During Q2FY23, the company has taken ~5% price hike in Indian operations and 5-12% hike in the European region. The company witnessed ~3% inflation in Q2FY23 but expects commodity cool-off by ~3% in Q3FY23
- The management said low noise, low resistance EV tyres will be exported to the EU from next month

Capex for H1FY23 was <₹400 crores.

Capacity in Europe stood at 16,000 tyres/day and is currently operating at 14,500 tyres/day.

Management expects topline to grow by 20% YoY in FY23

Key commodity prices for Q2FY23: Natural Rubber: ₹185/kg; Carbon Black: ₹140/kg; Fabric: ₹385/kg; Synthetic Rubber: ₹210/kg. Natural Rubber landed costs is expected to decline to ~160-165/kg in Q3FY23

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)	285	350	Buy	18,099	12.3	13.1	15.4	0.5	0.4	0.3	6.3	9.6	13.9	8.8	6.8	5.0
Balkrishna Inds (BALIND)	1,964	2,200	Buy	37,967	23.9	18.0	23.6	0.4	0.3	0.2	15.9	12.5	19.9	20.1	21.3	13.9
JK Tyre (JKTYRE)	178	180	Hold	4,391	9.0	8.9	10.6	1.8	1.7	1.5	8.1	10.4	13.3	8.7	7.1	5.6

Source: Company, ICICI Direct Research

We believe ATL is well placed to report an improved return ratio profile, going forward, on the back of raw material and operating leverage led expansion in margins and a leaner balanced sheet.

Exhibit 2: Variance Analysis

(₹ crore)	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	5,956	5,842	5,077	17.3	5,942	0.2	Topline came in marginally ahead of estimates tracking better sales performance in Europe
Raw Material Expenses	3,641	3,474	2,973	22.5	3,584	1.6	RM costs came in higher than anticipated at 61.1% of sales, up 80 bps QoQ
Employee Expenses	614	640	639	(3.9)	645	(4.8)	
Other expenses	989	1,038	827	19.6	1,023	(3.3)	Savings were realised in other expenses, which for the quarter were down 60 bps QoQ to 16.6% of sales
EBITDA	712	690	638	11.6	690	3.2	
EBITDA Margin (%)	12.0	11.8	12.6	-61.1 bps	11.6	34.6 bps	EBITDA margins came in marginally ahead of estimates tracking operating leverage benefits as well as cost efficiencies amid further pressure on gross margins
Depreciation	349	376	340	2.6	344	1.4	
Interest	132	112	104	27.4	118	11.6	Interest costs came in much ahead of estimates
Other income	7	30	29	(76.3)	10.6	(35.4)	
Tax	44	59	45	(3.2)	48	(7.9)	
PAT	194	174	174	11.9	190.7	2.0	PAT was higher tracking beat on sales and margins
EPS (₹)	3.1	2.7	2.7	11.9	3.0	2.0	

Key Metrics

Revenue (₹ crore)

APMEA	4,282	4,234	3,695	15.9	4,460	(4.0)	Indian operations de-grew 4% QoQ to ₹ 4,282 crore
Europe	1,761	1,608	1,480	19.0	1,604	9.8	European operations grew 9,8% QoQ to ₹ 1,761 crore

EBIT Margin (%)

APMEA	4.8	NA	5.6	-79 bps	4.8	-2 bps	EBIT margins were largely flat in Indian operations
Europe	5.7	NA	5.3	37 bps	4.9	76 bps	European operations witnessed a margin uptick

Source: Company, ICICI Direct Research

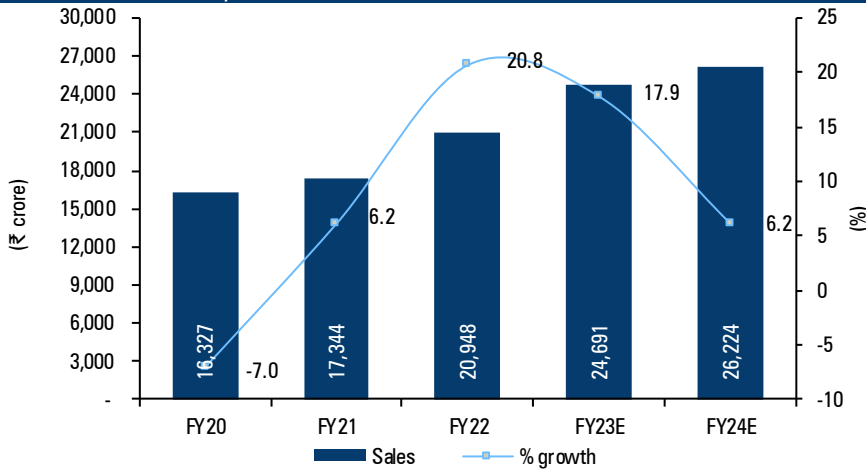
Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	24,426	24,691	1.1	25,989	26,224	0.9	Broadly maintain topline estimates for FY23E, FY24E
EBITDA	3,206	3,226	0.6	3,920	4,046	3.2	
EBITDA Margin (%)	13.1	13.1	-6 bps	15.1	15.4	35 bps	Marginally upgrade our FY24E estimates tracking benign commodity price outlook and operating leverage benefits
PAT	1,050	1,026	-2.3	1,585	1,658	4.6	
EPS (₹)	16.5	16.2	-2.3	25.0	26.1	4.6	Our earnings estimates do not undergo a major change. We expect earnings at the company to grow at a CAGR of

Source: ICICI Direct Research

Financial story in charts

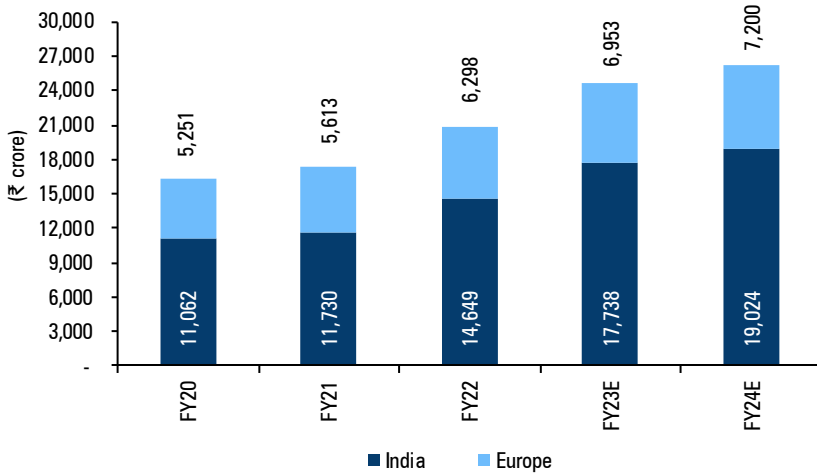
Exhibit 4: Trend in topline



We expect net sales to grow at ~11.9% CAGR over FY22-24E

Source: Company, ICICI Direct Research

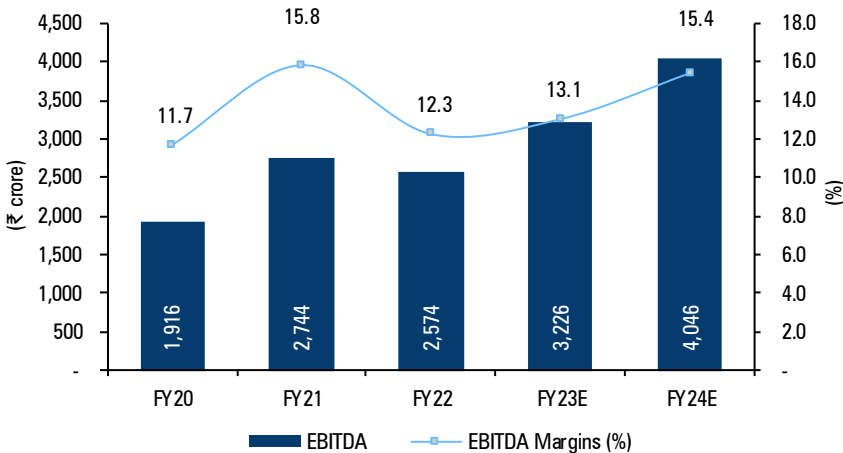
Exhibit 5: Trend in geography wise sales



Growth is expected to be led by India sales, which is expected to grow at a CAGR of 14% over FY22-24E with Europe sales expected to grow at a CAGR of 7% in the aforesaid period

Source: Company, ICICI Direct Research

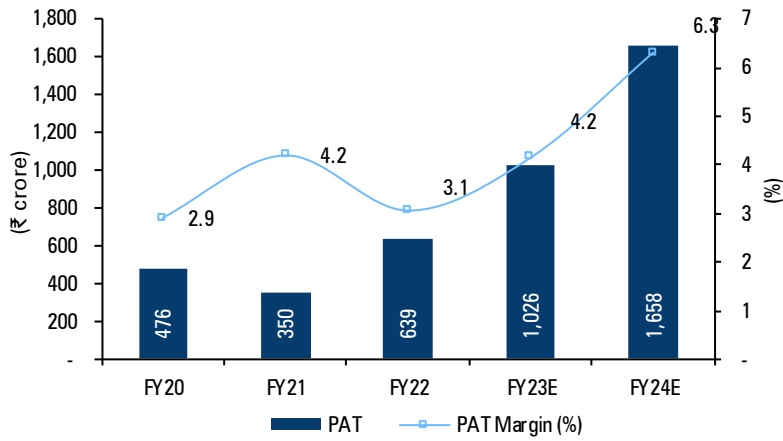
Exhibit 6: Trend in margins



Margins are expected at 15.4% by FY24E

Source: Company, ICICI Direct Research

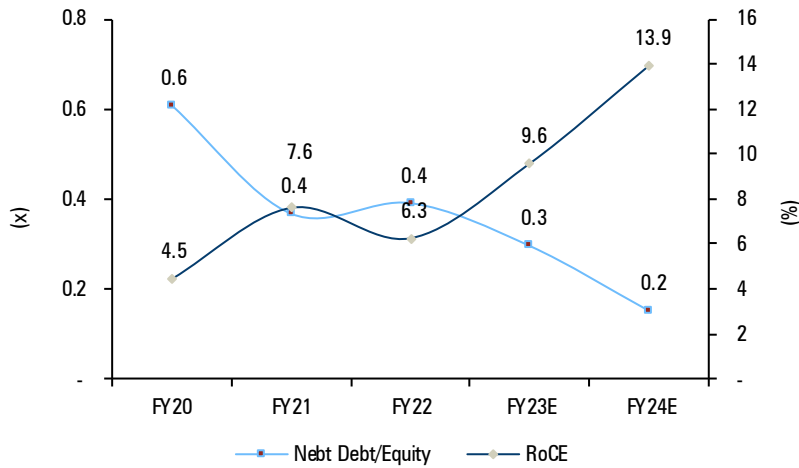
Exhibit 7: Trend in profitability



We expect ATL to clock ₹ 1,658 crore PAT in FY24E

Source: Company, ICICI Direct Research

Exhibit 8: Trend in debt and RoCE



RoCE is seen touching 13.9% by FY24E, with leverage on a downward trajectory

Source: Company, ICICI Direct Research

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)	34.2	12.6	4.8	4.5
FY21	17,344	6.2	5.5	(33.8)	51.7	8.1	3.1	7.6
FY22	20,948	20.8	10.1	82.4	28.3	8.8	5.4	6.3
FY23E	24,691	17.9	16.2	60.7	17.6	6.8	8.2	9.6
FY24E	26,224	6.2	26.1	61.6	10.9	5.0	12.2	13.9

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	24,691.4	26,224.1
Growth (%)	6.2	20.8	17.9	6.2
Raw Material Expenses	9,394.6	12,385.5	14,664.1	14,941.6
Employee Expenses	2,513.3	2,574.3	2,586.1	2,725.4
Other Expenses	2,691.7	3,413.7	4,215.4	4,510.9
Total Operating Expenditure	14,599.5	18,373.5	21,465.5	22,177.8
EBITDA	2,744.5	2,574.1	3,225.9	4,046.2
Growth (%)	43.3	-6.2	25.3	25.4
Depreciation	1,314.9	1,399.7	1,456.8	1,521.0
Interest	443.0	444.4	503.0	393.1
Other Income	182.4	123.5	66.8	82.1
PBT	561.2	847.6	1332.8	2214.2
Exceptional items	607.8	5.9	0.0	0.0
Total Tax	211.0	209.1	307.5	558.0
Reported PAT	350.2	638.6	1,026.4	1,658.3
Growth (%)	-26.5	82.4	60.7	61.6
EPS (₹)	5.5	10.1	16.2	26.1

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	1,026.4	1,658.3
Add: Depreciation	1,314.9	1,399.7	1,456.8	1,521.0
(Inc)/dec in Current Assets	-720.8	-865.7	-1,097.7	-460.3
Inc/(dec) in CL and Provisions	1,007.8	639.5	817.1	407.3
CF from operating activities	1952.1	1812.1	2202.6	3126.3
(Inc)/dec in Investments	-90.1	-360.5	250.0	50.0
(Inc)/dec in Fixed Assets	-1,718.5	-2,115.0	-1,000.0	-1,100.0
Others	445.2	216.6	55.9	145.6
CF from investing activities	-1363.4	-2258.8	-694.1	-904.4
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	-539.8
Others	1,353.7	-96.0	-20.0	-20.0
CF from financing activities	807.5	-618.3	-1353.4	-2059.8
Net Cash flow	1,396.2	-1,065.1	155.2	162.1
Opening Cash	749.7	2,145.8	1,080.8	1,235.9
Closing Cash	2145.8	1080.8	1235.9	1398.1

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	12,381.7	13,500.2
Total Shareholders funds	11,443.1	11,752.1	12,445.2	13,563.7
Total Debt	6,433.7	6,117.7	5,117.7	3,617.7
Deferred Tax Liability	920.9	901.4	939.0	997.3
Total Liabilities	20,958.1	20,960.3	20,808.8	20,619.7
Assets				
Gross Block	24,812.6	27,415.8	28,834.1	29,934.1
Less: Acc Depreciation	9,377.9	10,777.6	12,234.4	13,755.4
Net Block	15,524.8	17,088.8	16,800.3	16,329.3
Capital WIP	1,106.5	618.2	200.0	200.0
Total Fixed Assets	16,631.3	17,707.1	17,000.3	16,529.3
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	4,735.3	5,029.3
Debtors	1,380.8	1,610.4	2,029.4	2,155.4
Loans and Advances	46.2	45.0	53.0	56.3
Other current assets	707.1	507.6	598.3	635.4
Cash	2,145.8	1,080.8	1,235.9	1,398.1
Total Current Assets	7,598.5	7,399.2	8,652.0	9,274.5
Creditors	2,806.7	3,606.9	4,058.9	4,310.8
Provisions	288.2	317.9	357.7	379.9
Total Current Liabilities	3,094.9	3,924.7	4,416.6	4,690.7
Net Current Assets	4,503.6	3,474.4	4,235.5	4,583.8
Application of Funds	20,958.1	20,960.3	20,808.8	20,619.7

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	5.5	10.1	16.2	26.1
Cash EPS	26.2	32.1	39.1	50.1
BV	180.2	185.1	196.0	213.6
DPS	3.5	3.3	5.3	8.5
Cash Per Share	33.8	17.0	19.5	22.0
Operating Ratios (%)				
EBITDA Margin	15.8	12.3	13.1	15.4
PBT / Net sales	8.2	5.6	7.2	9.6
PAT Margin	4.2	3.1	4.2	6.3
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	8.2	12.2
RoCE	7.6	6.3	9.6	13.9
RoIC	9.2	7.1	10.5	15.4
Valuation Ratios (x)				
P/E	24.8	28.1	17.6	10.9
EV / EBITDA	8.1	8.8	6.8	5.0
EV / Net Sales	1.3	1.1	0.9	0.8
Market Cap / Sales	1.0	0.9	0.7	0.7
Price to Book Value	1.6	1.5	1.5	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

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

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyre (APOTYR)	285	350	Buy	18,099	10.1	16.2	26.1	28.3	17.6	10.9	8.8	6.8	5.0	6.3	9.6	13.9	5.4	8.2	12.2
Ashok Leyland (ASHLEY)	153	185	Buy	44,638	1.8	2.7	5.8	82.6	57.0	26.4	46.1	22.0	13.8	2.1	11.5	20.9	0.2	10.0	20.0
Bajaj Auto (BAAUTO)	3,731	3,910	Hold	1,07,958	173.4	200.2	232.2	21.5	18.6	16.1	16.5	13.6	11.6	18.4	24.7	28.0	17.6	22.6	25.4
Balkrishna Ind. (BALIND)	1,964	2,200	Buy	37,967	73.0	72.4	100.1	26.9	27.1	19.6	20.1	21.3	13.9	15.9	12.5	19.9	20.4	17.6	20.7
Bharat Forge (BHAFOR)	850	1,000	Buy	39,573	23.1	17.5	28.4	36.7	48.5	29.9	21.2	22.5	16.3	9.6	8.4	12.4	15.2	11.4	16.4
Eicher Motors (EICMOT)	3,519	4,310	Buy	96,174	61.3	101.4	124.6	57.4	34.7	28.2	40.4	24.4	19.7	13.3	20.5	21.6	13.3	19.2	20.4
Escorts Kubota (ESCORT)	2,020	2,330	Buy	26,652	58.0	47.8	72.5	34.8	42.3	27.8	22.9	26.3	18.8	10.4	7.8	10.0	9.7	8.4	10.4
Hero Moto (HERHON)	2,745	2,910	Hold	54,822	123.8	138.0	178.2	22.2	19.9	15.4	13.8	11.7	9.2	16.3	19.4	23.9	15.7	16.8	20.6
M&M (MAHMAH)	1,287	1,590	Buy	1,60,000	41.4	54.7	72.0	31.1	23.5	17.9	22.0	15.5	11.8	9.3	13.0	16.2	13.1	15.4	17.1
Maruti Suzuki (MARUTI)	9,109	11,200	Buy	2,75,165	124.7	234.9	350.2	73.1	38.8	26.0	40.9	22.0	15.6	5.1	12.5	16.7	7.0	12.0	16.0
Uno Minda (MININD)	543	650	Buy	31,049	6.2	10.4	14.4	87.3	52.4	37.7	35.7	27.2	21.1	10.2	13.5	16.9	10.3	14.9	17.4
Tata Motors (TATMOT)	434	465	Hold	1,65,987	-29.9	-22.3	8.2	-14.5	-19.4	52.9	7.1	7.5	4.9	4.8	4.4	11.9	-23.5	-21.3	7.2

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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