

India

REDUCE (no change)

Consensus ratings*: Buy 15 Hold 7 Sell 6	
Current price:	Rs510
Target price: ▲	Rs412
Previous target:	Rs362
Up/downside:	-19.2%
InCred Research / Consensus:	-23.2%
Reuters:	APLO.NS
Bloomberg:	APTY IN
Market cap:	US\$3,900m Rs323,838m
Average daily turnover:	US\$15.0m Rs1242.3m
Current shares o/s:	635.1m
Free float:	62.7%
*Source: Bloomberg	

Key changes in this note

- Sales cut by 5-9% for FY24F-26F.
- EBITDA raised by 7-8% for FY24F-26F.
- EPS raised by 19-23% for FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.9	22.0	53.1
Relative (%)	10.4	11.2	29.8

Major shareholders	% held
Kanwar Family	37.3
Emerald Sage Investment Ltd.	9.9
HDFC Mutual Fund	8.7

Research Analyst(s)



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Apollo Tyres Ltd

Yet another quarter of peak margins

- 3Q EPS growth of 5% qoq beat our/BB consensus estimates as Europe biz's seasonal peak margins scaled a decadal high & interest costs eased slightly.
- We raise our EBITDA estimates by ~7% for FY24F-26F as we remain sceptical of the entire industry sustaining high margins, which are at peak levels.
- We feel the flattening volume growth can challenge pricing discipline and hence, at +3SD P/BV, we retain our REDUCE rating with a higher TP of Rs412.

Europe business margins touch a historic peak in 3QFY24

In 3QFY24, Apollo Tyres's consolidated net sales were up by 3% yoy and 5% qoq, which were 4% below our estimate but 6% above Bloomberg (BB) consensus estimate. The EBITDA margin beat our estimate by 108bp and it was up by 519bp yoy aided by lower raw material costs. The Indian operations' EBITDA margin dipped by 100bp to 17.8% while a seasonally strong quarter for winter tyres helped it scale a nine-year high EBITDA margin of 19.6%. Interest costs fell by 13% yoy and 7% qoq, led by net debt reduction of 30% qoq. PAT rose by 70% yoy and 5% qoq to Rs4.9bn, 8% above our estimate and 14% above BB consensus estimate, aided by higher other income and lower interest costs.

Management conference-call highlights

Management indicated that the mid-single digit volume growth in 3QFY24 will continue next quarter. Exports were slightly hit by the Red Sea crisis, but the situation is not likely to sustain and exports are expected to pick up from the current level. In the domestic market, the company could maintain its market share in passenger vehicle tyres but lost when it came to truck tyres. Digital and Artificial Intelligence or AI investments are helping the company to improve capacity by 7-8% & limit the capex.

Raise our EBITDA estimates by 7-8% for FY24F-26F

The tyre industry's EBITDA margin moderated from the Sep 2023 quarter's historic peak (see Fig. 6), as pricing marginally weakened while raw material prices were up by 2% qoq. However, building in the 3Q beat on EBITDA and PAT fronts, we raise our FY24F-26F EBITDA estimates by 7-8% for FY24F-26F, wherein we build in an EBITDA margin of around 16-17% largely aided by lower raw material prices and a better product mix. Management's plan of keeping the capex light for the next two years and the discipline in debt reduction led to our 19-23% EPS upgrade for FY24F-26F.

Peak profitability ratio well discounted by +3SD P/BV valuation

The sustenance of high-teen EBITDA margin by Apollo Tyres and other tyre makers with good pricing discipline, we feel, is fully captured in the rich P/BV valuation of +3SD above the seven-year mean level (Fig. 12). We maintain our REDUCE rating on the stock with a higher P/E-based target price of Rs412 (Rs362 earlier) to reflect the EPS upgrade. We feel the sharp slowdown in volume growth and imports rising from their lows can disturb pricing discipline in the industry. Upside risks: Prolonged lower commodity prices helping profitability.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	209,475	245,681	253,247	269,273	293,712
Operating EBITDA (Rsm)	25,740	33,137	45,346	47,204	48,156
Net Profit (Rsm)	6,384	11,042	18,237	18,564	18,681
Core EPS (Rs)	10.1	17.0	28.7	29.2	29.4
Core EPS Growth	(12.2%)	67.9%	68.6%	1.8%	0.6%
FD Core P/E (x)	50.72	29.33	17.76	17.44	17.33
DPS (Rs)	5.0	4.5	8.0	10.0	12.0
Dividend Yield	0.98%	0.88%	1.57%	1.96%	2.35%
EV/EBITDA (x)	14.36	11.08	7.78	7.13	6.94
P/FCFE (x)	(83.67)	13,169.48	50.54	15.58	36.33
Net Gearing	39.0%	33.7%	20.5%	8.2%	6.3%
P/BV (x)	2.76	2.51	2.28	2.10	1.96
ROE	5.6%	8.8%	13.5%	12.5%	11.7%
% Change In Core EPS Estimates			8.00%	7.48%	3.96%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Yet another quarter of peak margins

Management conference-call highlights➤

- **Domestic business:** Management expects volume growth in mid-single digit next quarter, but Apollo Tyres should grow faster than the industry led by superior products. While the company expects topline growth to be subdued in the near term, it expects operating performance to remain strong. The company expects a significant pick-up in demand momentum in the medium-to long-run, mainly in the replacement division.
- **Export business:** During the quarter, exports were slightly impacted by the Red Sea crisis, which resulted in an increase in freight rates by 30-40% and dispatches delayed by 15 days. Management stated the situation is not likely to sustain and exports may pick up from the current level.
- **Europe business:** Volume in the region was up by 4% qoq, with market share improving in PV, truck and agri tyres. The EU market shows growth visibility.
- **Overall performance:** In the truck tyre segment, volume was up by 3% yoy and in the passenger vehicle or PV tyre segment, the volume was up by 7%. The company has maintained its market share in PV tyres while it lost market share in truck tyres. The overall volume was up, with replacement tyres & export segment volume growing in mid-high single digits. The volume from original equipment manufacturers or OEMs was largely flattish.
- **Capacity front:** Management plans to go capex-light for the next two years, focus on AI and Machine Learning to improve production by digitizing its plants. 12–13-inch tyres account for ~25% of the total volume and the company is not focusing on these sizes as such tyres are not profitable.
- **Premium brand:** Apollo Tyres plan to launch retail stores to sell premium products under the Vredestein brand.
- **Cost front:** During the quarter, raw material costs were up by 2% yoy and they are likely to remain in the same range in the near term but inch up later. Other expenses increased, led by advertising and marketing expenses. R&D costs remained stable, mainly in new product development (E-SUV or electric sports utility vehicle) and new-age products.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy % chg	2QFY24	qoq % chg	9MFY24	9MFY23	yoy % chg	Comments
Revenue	65,954	64,228	2.7	62,797	5.0	1,91,196	1,83,208	4.4	6.5% below our estimate.
Raw material costs	35,192	38,754	(9.2)	34,121	3.1	1,03,632	1,11,000	(6.6)	
RM costs as a % of revenue	53.4	60.3	(698)	54.3	(97.8)	54.2	60.6	(638)	216bp below our estimate.
EBITDA	12,081	9,134	32.3	11,599	4.2	34,194	23,152	47.7	8% above our estimate.
EBITDA margin (%)	18.3	14.2	410	18.5	(15.3)	17.9	12.6	525	247bp above our estimate.
Depreciation & amortization	3,676	3,544	3.7	3,603	2.0	10,899	10,467	4.1	3% below our estimate.
EBIT	8,405	5,589	50.4	7,996	5.1	23,296	12,685	83.6	
Interest expenses	1,230	1,420	(13.3)	1,328	(7.3)	3,913	3,922	(0.2)	3% below our estimate.
Other income	184	67	173.2	253	(27)	793	242	227.7	
Pre-tax profit	7,358	4,237	73.7	6,922	6.3	20,175	9,005	124.1	
Tax	2,242	1,316	70.3	2,058	8.9	6,094	2,367	157.5	
Tax rate (%)	30.5	31.1	(60)	29.7	73.5	30.2	26.3	392	473bp above our estimate.
Normalized net profit	5,117	2,921	75.2	4,864	5.2	14,082	6,638	112.2	7% above our estimate.
Exceptional items	(151)	-	nm	(122)	nm	(405)	-	nm	
Reported net profit	4,966	2,920	70.1	4,740	4.8	13,675	4,540	201.2	
Normalized EPS (Rs)	8.1	4.6	75.2	7.7	5.2	22.2	10.5	112.2	

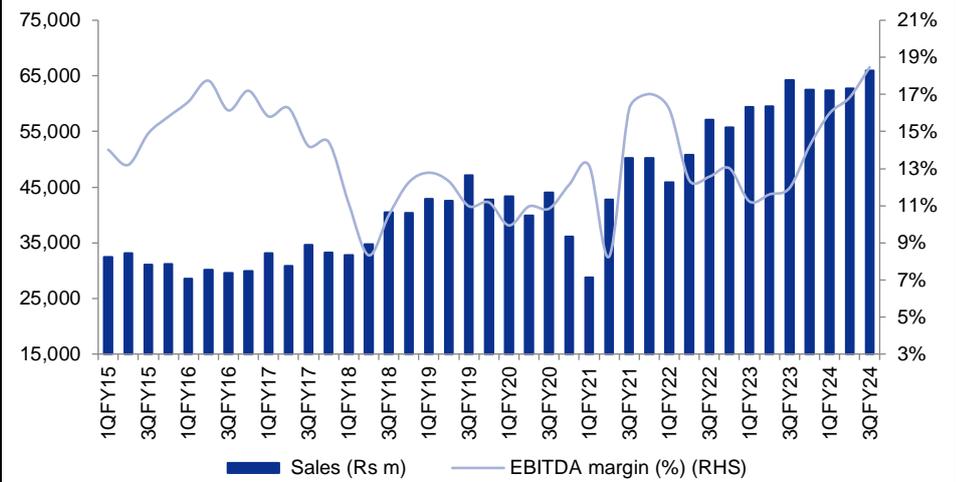
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: India business performance

In Rs m	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Sales	43,319	42,466	2.0%	44,067	-1.7%	1,31,519	1,29,348	1.7%
EBITDA	7,840	5,483	43.0%	8,414	-6.8%	24,106	14,145	70.4%
EBITDA margin	18.1%	12.9%	519	19.1%	(99)	18.3%	10.9%	739
PAT	3,106	1,376	125.8%	3,550	-12.5%	9,801	3,094	216.8%

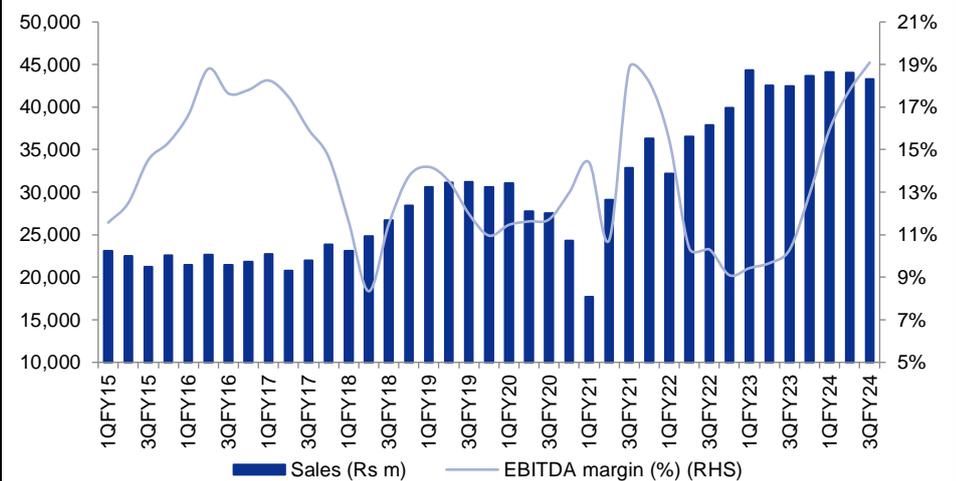
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consolidated EBITDA margin performance



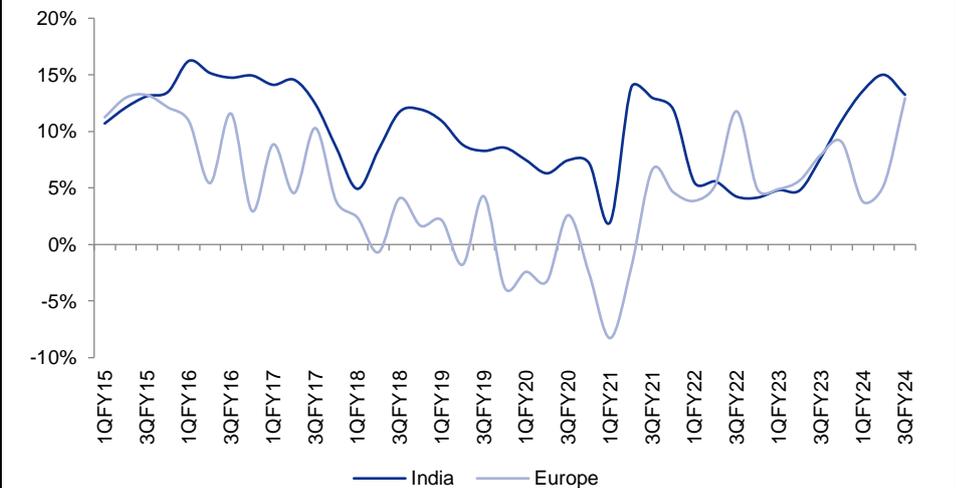
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Standalone EBITDA margin near its historic peak



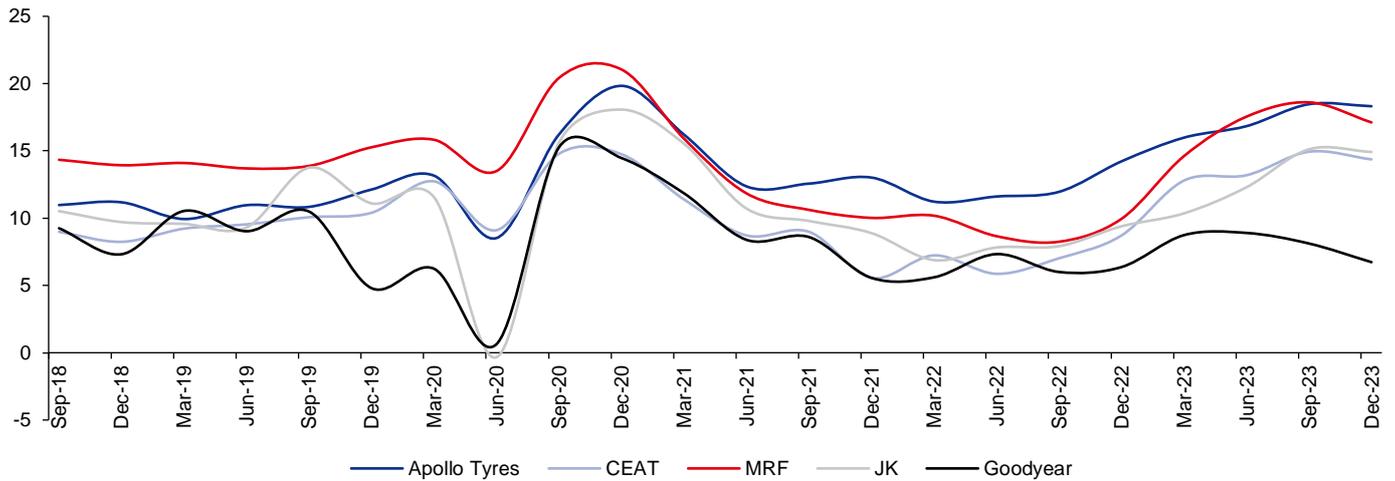
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Figure 5: Region-wise EBIT margin trend



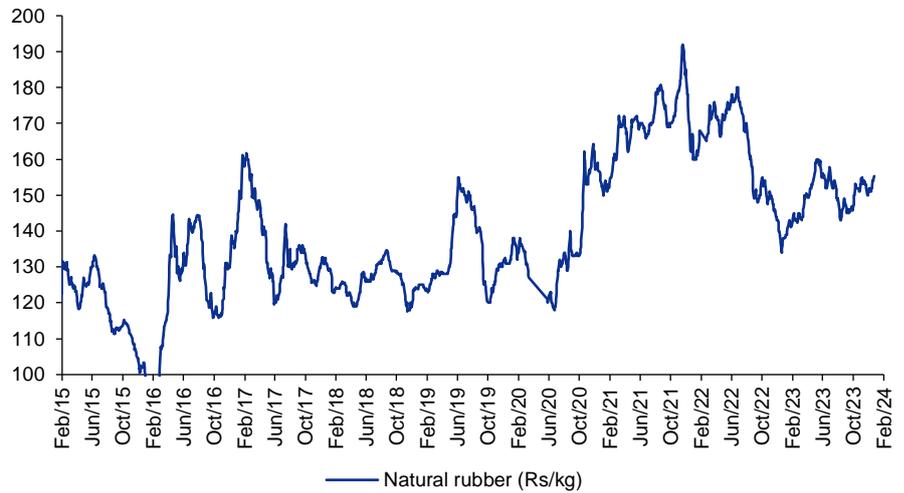
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Margin trend of tyre players indicates close to cyclical peak level



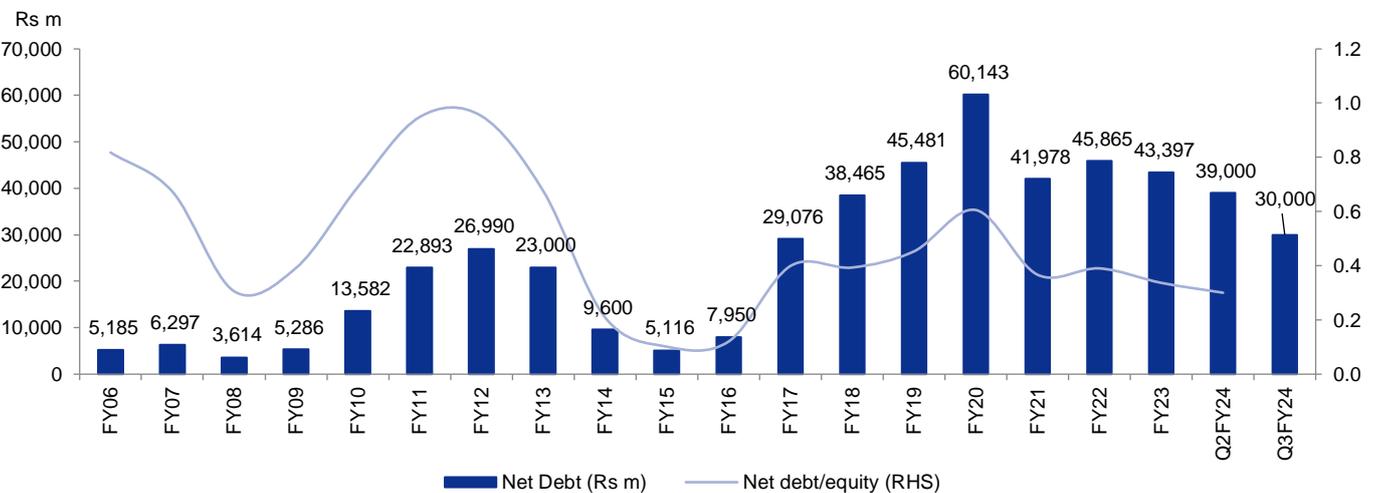
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Natural rubber price trend



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 8: Consolidated net debt eases



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Our revised earnings estimates for consolidated entity

Consolidated (Rs m)	FY24F		FY25F		FY26F	
	Old	New	Old	New	Old	New
Net sales	2,66,819	2,53,247	2,96,290	2,69,273	3,23,302	2,93,712
Change (%)		-5.1%		-9.1%		-9.2%
EBITDA	42,089	45,346	44,050	47,204	44,930	48,156
Change (%)		7.7%		7.2%		7.2%
EBITDA margin	15.8%	17.9%	14.9%	17.5%	13.9%	16.4%
bp change		213		266		250
Interest expenses	5,502	5,154	5,350	4,375	5,070	3,985
Change (%)		-6.3%		-18.2%		-21.4%
Normalized PAT	14,833	18,237	15,620	18,564	15,492	18,681
Change (%)		22.9%		18.9%		20.6%

SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 10: Key drivers

	FY22A	FY23A	FY24F	FY25F	FY26F
India sales (mt)	8,59,236	9,19,382	9,28,576	9,75,005	10,43,255
Growth (%)	15.0%	6.0%	1.0%	5.0%	7.0%
ASP (Rs/kg)	170.5	188.2	191.3	202.3	206.1
Growth (%)	9.9%	10.4%	1.7%	5.7%	1.9%
India Sales (Rsm)	1,46,494	1,73,010	1,77,681	1,97,226	2,14,977
India EBIT margin (%)	4.8%	7.1%	13.4%	12.4%	11.2%
Europe sales (Rsm)	65,563	72,974	76,988	86,226	93,987
Europe EBIT margin (%)	6.8%	7.0%	7.5%	6.5%	6.0%
Consolidated EBIT margin (%)	5.6%	7.7%	11.9%	11.4%	10.3%

SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 11: One-year forward P/E-based target price

One-year forward EPS (Rs.)	29.4
P/E(x)	14.0
Target price (Rs.)	412

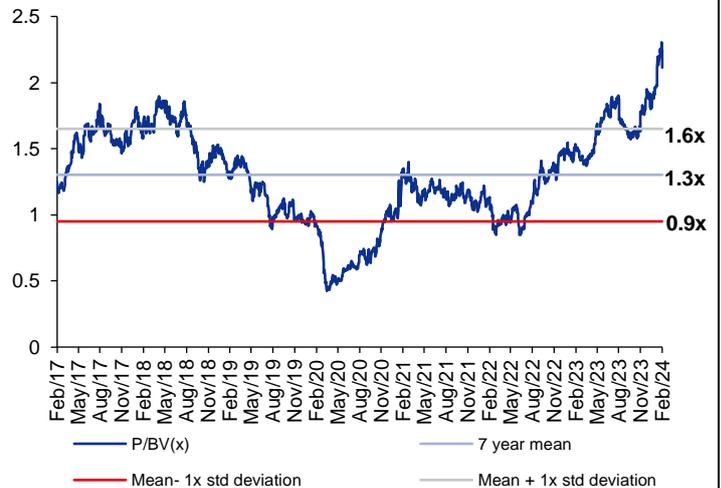
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 12: Forward P/E valuation above its seven-year mean



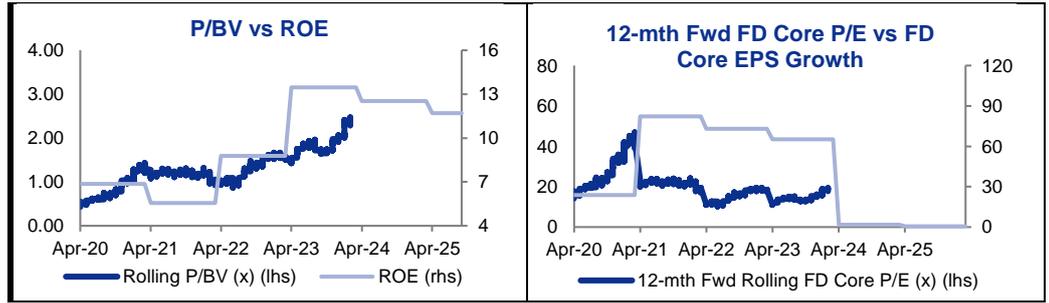
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Rich forward P/BV valuation



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	209,475	245,681	253,247	269,273	293,712
Gross Profit	85,620	99,311	116,240	118,480	126,296
Operating EBITDA	25,740	33,137	45,346	47,204	48,156
Depreciation And Amortisation	(13,997)	(14,191)	(15,085)	(16,541)	(17,781)
Operating EBIT	11,744	18,945	30,261	30,664	30,375
Financial Income/(Expense)	(3,209)	(4,901)	(4,209)	(3,364)	(2,903)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	8,534	14,044	26,052	27,300	27,472
Exceptional Items					
Pre-tax Profit	8,534	14,044	26,052	27,300	27,472
Taxation	(2,091)	(3,226)	(7,816)	(8,736)	(8,791)
Exceptional Income - post-tax	(59)	226			
Profit After Tax	6,384	11,044	18,237	18,564	18,681
Minority Interests		(2)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,384	11,042	18,237	18,564	18,681
Recurring Net Profit	6,443	10,816	18,237	18,564	18,681
Fully Diluted Recurring Net Profit	6,443	10,816	18,237	18,564	18,681

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	25,740	33,137	45,346	47,204	48,156
Cash Flow from Invt. & Assoc.		(2)			
Change In Working Capital	(2,663)	(14,042)	(12,936)	(2,336)	(11,057)
(Incr)/Decr in Total Provisions	374	1,757	1,740	1,550	2,050
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,235	411	945	1,011	1,082
Net Interest (Paid)/Received	(4,444)	(5,312)	(5,154)	(4,375)	(3,985)
Tax Paid	(948)	(2,507)	(6,513)	(6,825)	(6,868)
Cashflow From Operations	19,294	13,441	23,428	36,230	29,378
Capex	(20,877)	(11,021)	(1,823)	(11,000)	(17,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	872	2,905	(2,197)	(2,449)	(2,464)
Cash Flow From Investing	(20,005)	(8,116)	(4,020)	(13,449)	(19,464)
Debt Raised/(repaid)	(3,160)	(5,301)	(13,000)	(2,000)	(1,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,176)	(2,858)	(5,081)	(6,351)	(7,621)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(6,335)	(8,159)	(18,081)	(8,351)	(8,621)
Total Cash Generated	(7,046)	(2,833)	1,327	14,430	1,293
Free Cashflow To Equity	(3,870)	25	6,408	20,781	8,914
Free Cashflow To Firm	3,733	10,638	24,561	27,156	13,899

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	15,313	12,479	13,806	28,236	29,529
Total Debtors	16,104	24,885	27,753	29,509	33,797
Inventories	41,554	44,285	52,037	53,117	60,352
Total Other Current Assets	10,539	11,828	13,500	15,000	16,000
Total Current Assets	83,510	93,477	107,096	125,863	139,678
Fixed Assets	179,938	172,589	163,504	157,963	157,183
Total Investments	399	341	375	412	454
Intangible Assets	2,158	2,288	2,288	2,288	2,288
Total Other Non-Current Assets					
Total Non-current Assets	182,495	175,218	166,167	160,664	159,924
Short-term Debt	17,093	17,978	14,978	14,978	14,978
Current Portion of Long-Term Debt					
Total Creditors	36,069	33,539	31,222	31,723	32,188
Other Current Liabilities	38,610	42,313	44,113	45,913	47,713
Total Current Liabilities	91,772	93,830	90,314	92,614	94,879
Total Long-term Debt	44,085	37,898	27,898	25,898	24,898
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	44,085	37,898	27,898	25,898	24,898
Total Provisions	12,627	12,367	13,118	13,867	14,618
Total Liabilities	148,483	144,095	131,330	132,380	134,395
Shareholders Equity	117,521	128,778	141,934	154,147	165,207
Minority Interests					
Total Equity	117,521	128,778	141,934	154,147	165,207

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	21.8%	17.3%	3.1%	6.3%	9.1%
Operating EBITDA Growth	(1.0%)	28.7%	36.8%	4.1%	2.0%
Operating EBITDA Margin	12.3%	13.5%	17.9%	17.5%	16.4%
Net Cash Per Share (Rs)	(72.22)	(68.33)	(45.77)	(19.90)	(16.29)
BVPS (Rs)	185.04	202.77	223.48	242.71	260.13
Gross Interest Cover	2.64	3.57	5.87	7.01	7.62
Effective Tax Rate	24.5%	23.0%	30.0%	32.0%	32.0%
Net Dividend Payout Ratio	49.3%	26.4%	27.9%	34.2%	40.8%
Accounts Receivables Days	26.06	30.45	37.93	38.81	39.34
Inventory Days	110.13	107.03	128.31	127.26	123.69
Accounts Payables Days	94.50	86.79	86.26	76.18	69.67
ROIC (%)	4.6%	7.1%	11.1%	11.0%	11.1%
ROCE (%)	6.3%	10.0%	15.6%	15.4%	14.5%
Return On Average Assets	3.3%	5.3%	7.8%	7.4%	7.0%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	9.9%	10.4%	1.7%	5.7%	1.9%
Unit sales grth (% , main prod./serv.)	15.0%	6.0%	1.0%	5.0%	7.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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