

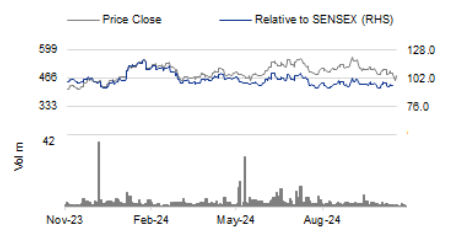
India

**REDUCE** (no change)

Consensus ratings*:	Buy 17	Hold 6	Sell 6
Current price:	Rs475		
Target price:	Rs408		
Previous target:	Rs412		
Up/downside:	-14.1%		
InCred Research / Consensus:	-25.8%		
Reuters:	APLO.NS		
Bloomberg:	APTY IN		
Market cap:	US\$3,576m		
	Rs301,864m		
Average daily turnover:	US\$18.3m		
	Rs1545.7m		
Current shares o/s:	635.1m		
Free float:	63.1%		
*Source: Bloomberg			

**Key changes in this note**

- FY25F-27F sales cut by around 1-3%.
- FY25F-27F EBITDA cut by 2-9%.
- FY25F-27F EPS cut by 4-15%.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(5.6)	(2.3)	14.4
Relative (%)	(0.5)	(0.4)	(3.1)

<b>Major shareholders</b>	% held
Kanwar Family	36.9
Emerald Sage Investment Ltd.	9.9
HDFC Mutual Fund	9.5

**Research Analyst(s)**



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# Apollo Tyres Ltd

## Margin pressure continues

- 2Q consolidated EPS dip of 38% yoy and 12% qoq to Rs4.8 was sharply below our/Bloomberg consensus estimates due to margin pressure.
- Rubber prices easing from recent peak is a relief, but may take some months to reflect in costs. Cut FY25F EPS by 15%, but limit it to 4-8% for FY26F-27F.
- Concerns over slow demand recovery, rise in net debt. Retain REDUCE rating as MRF, the leader, expands its lead over APL in market share and profitability.

### Sustained rise in input costs led to big EBITDA miss

Apollo Tyres or APL's 2QFY25 consolidated EBITDA fell 24% yoy and 3% qoq to Rs8.8bn, sharply below our estimate (15%) and the Bloomberg or BB consensus estimate (9%). Consolidated sales stood at Rs.64bn, up 3% yoy, on the back of European sales growth of 6% yoy, which was offset by India sales growth of 2%, and, overall, there was a 2% miss to our estimate but in line with the BB consensus estimate. Standalone EBITDA margin contracted by 171bp qoq to 12.1%, a 240bp miss to our estimate. Consolidated EPS decline of 38% yoy and 12% qoq was below estimates. Net debt up 30% qoq at Rs30bn.

### Management conference-call highlights

Management stated that 2Q is seasonally weak for the tyre industry and APL expects to see a recovery led by the European market. The replacement segment saw volume growth in mid-single digit on the back of double-digit volume growth in truck and car segments. Net debt spiked to support higher working capital requirement. Management expects elevated input costs to rise further next quarter and then moderate in the Mar 2025F quarter. Europe inventory level rose to cater to the upcoming winter season tyre demand.

### Rubber cost easing to take time to reflect; EBITDA cut by 2-9%

The rise in rubber prices for the last one year peaked in Aug 2024 and has started to ease, however the average cost is still high, which, management feels, will prevail for some more months. APL lags leader MRF on the EBITDA margin front in recent months (Fig. 6). Building in the short-term impact, we cut FY25F consolidated EBITDA by a sharp 9%, but limit the cut to 2-4% for FY26F-27F. Higher interest costs due to a rise in net debt led to FY25F-27F consolidated EPS cut of 4-15%.

### Maintain REDUCE rating on the stock

The stock price correction in recent months has eased P/BV valuation to +1SD above the 10-year mean level, but it's still high considering the weakening market share and profit margin to market leader MRF. We marginally cut our target price to Rs408 (Rs412 earlier) to reflect short-term cost pressure and maintain REDUCE rating. Key upside risk: Quick demand recovery in India and Europe helping in normalizing profitability.

**Financial Summary**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	245,681	253,777	266,397	294,393	320,727
Operating EBITDA (Rsm)	33,137	44,473	40,839	44,180	49,815
Net Profit (Rsm)	11,042	17,219	14,404	15,574	18,530
Core EPS (Rs)	17.0	27.7	23.3	24.5	29.2
Core EPS Growth	67.9%	62.6%	(15.8%)	5.2%	19.0%
FD Core P/E (x)	27.34	17.53	20.96	19.38	16.29
DPS (Rs)	4.5	6.0	6.0	7.0	8.0
Dividend Yield	0.95%	1.26%	1.26%	1.47%	1.68%
EV/EBITDA (x)	10.42	7.36	7.75	7.03	6.13
P/FCFE (x)	12,275.84	55.01	24.63	32.32	31.63
Net Gearing	33.7%	18.2%	9.9%	5.6%	2.0%
P/BV (x)	2.34	2.17	2.02	1.88	1.73
ROE	8.8%	13.1%	10.3%	10.0%	11.1%
% Change In Core EPS Estimates			(14.47%)	(7.49%)	(3.89%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Margin pressure continues

### Management conference-call highlights➤

- **Demand outlook:** Management stated that 2Q is seasonally weak for the tyre industry. Expects to see a recovery led by the European market.
- **European business:** During the quarter, volume growth in the passenger car segment was broadly in line with overall industry, while it gained market share in premium segments. The premium mix accounted for 46% in 2QFY25, up 700bp qoq.
- **Replacement segment:** Overall replacement volume witnessed a mid-single digit volume growth on the back of TBR (truck, bus and radial tyres) and PCR (passenger car radial tyres) double-digit volume growth. Agri and export segments are likely to recover from current levels.
- **OEM segment:** Sales to OEMs remain muted due to weak demand.
- **Price action:** Management took a price hike of 2% in the truck segment and 3% in the passenger car segment to pass on the increased input costs. 50% of the price action was reflected in 2Q, and the remaining to reflect in next quarter.
- **Input costs:** They rose 8% during the quarter, and a further 1% rise is expected next quarter, after which they are expected to moderate. Management aims to hedge energy costs by 60-70%. Commodity prices during the quarter were as follows - natural rubber prices at Rs210/kg, synthetic rubber at Rs190/kg and carbon black at Rs125/kg.
- **Replacement market share trend:** During the quarter, management believes that APL has gained market share slightly and it expects the momentum to continue in the near future. In the truck segment, its endeavour is to gain market share of ~30% and ~20% in the car segment.
- **Inventory level:** Inventory level in Europe rose to cater to winter tyre demand in the Dec 2024F quarter, which is likely to normalize next quarter.
- **India volume:** The volume growth in Indian market was flat qoq while the replacement segment saw mid-single digit growth. TBR & RBR replacement tyres recorded double-digit growth. OEM demand is still sluggish.
- **Other expenses:** Other expenses were elevated on the back of higher freight rates, EPR (extended producer responsibility) and advertising expenses.
- **Debt and capex:** Net debt for the quarter rose due to the increase in short-term debt because of the rise in working capital requirement. No change in capex guidance for FY25F.
- **Subsidiary Reifen's performance:** Revenue stood at €45m, with the EBITDA margin in the range of 4%.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	2QFY25	2QFY24	yoy % chg	1QFY25	qoq % chg	1HFY25	1HFY24	yoy % chg	Comments
Revenue	64,371	62,797	2.5	63,349	1.6	1,27,719	1,25,242	2.0	2% below our estimate.
Raw material costs	35,565	34,121	4.2	34,517	3.0	70,081	68,441	2.4	
RM costs as a % of revenue	55.2	54.3	91	54.5	76.3	54.9	54.6	22	25bp below our estimate.
<b>EBITDA</b>	<b>8,779</b>	<b>11,599</b>	<b>(24.3)</b>	<b>9,093</b>	<b>(3.4)</b>	<b>17,872</b>	<b>22,113</b>	<b>(19.2)</b>	<b>15% below our estimate.</b>
<i>EBITDA margin (%)</i>	<i>13.6</i>	<i>18.5</i>	<i>(483)</i>	<i>14.4</i>	<i>(71.5)</i>	<i>14.0</i>	<i>17.7</i>	<i>(366)</i>	206bp below our estimate.
Depreciation & amortization	3,759	3,603	4.3	3,695	1.7	7,454	7,222	3.2	2% below our estimate.
EBIT	5,020	7,996	(37.2)	5,398	(7.0)	10,418	14,891	(30.0)	
Interest expenses	1,197	1,328	(9.8)	1,070	11.9	2,267	2,683	(15.5)	19% above our estimate.
Other income	217	253	(14.4)	308	(30)	525	609	(13.7)	
Pre-tax profit	4,040	6,922	(41.6)	4,636	(12.9)	8,676	12,817	(32.3)	
Tax	1,015	2,058	(50.7)	1,212	(16.3)	2,227	3,853	(42.2)	
Tax rate (%)	25.1	29.7	(461)	26.2	(103.5)	25.7	30.1	(439)	688bp above our estimate.
<b>Normalized net profit</b>	<b>3,025</b>	<b>4,864</b>	<b>(37.8)</b>	<b>3,424</b>	<b>(11.6)</b>	<b>6,449</b>	<b>8,965</b>	<b>(28.1)</b>	<b>22% below our estimate.</b>
Exceptional items	(52)	(122)	nm	(404)	nm	(456)	(254)	nm	
<b>Reported net profit</b>	<b>2,972</b>	<b>4,740</b>	<b>(37.3)</b>	<b>3,020</b>	<b>(1.6)</b>	<b>5,992</b>	<b>6,613</b>	<b>(9.4)</b>	
Normalized EPS (Rs)	4.8	7.7	(37.8)	5.4	(11.6)	10.1	14.1	(28.1)	

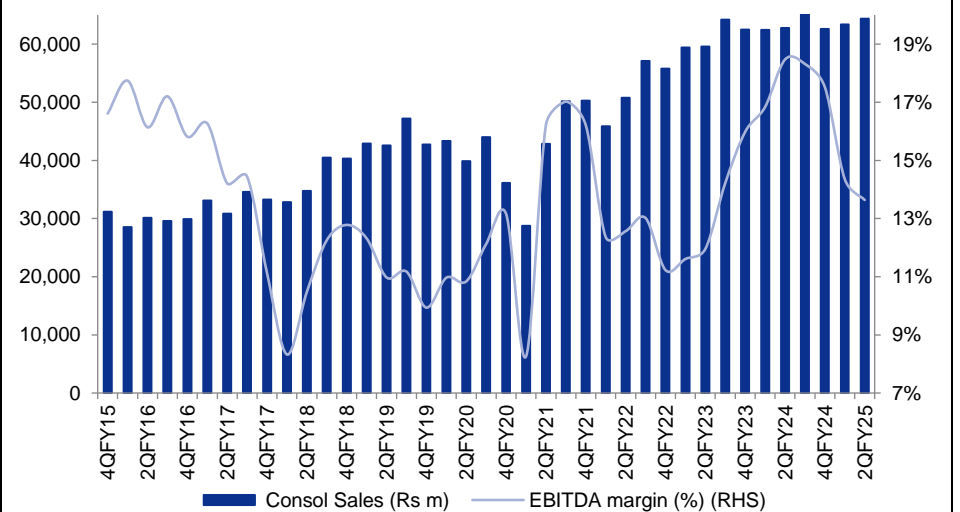
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: India business performance**

In Rs m	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	1HFY25	1HFY24	yoy (%)
Sales	44,617	44,067	1.2%	45,916	-2.8%	90,533	88,200	2.6%
EBITDA	5,389	8,414	-36.0%	6,331	-14.9%	11,720	16,281	-28.0%
EBITDA margin	12.1%	19.1%	(702)	13.8%	(171)	12.9%	18.5%	(551)
PAT	1,689	3,550	-52.4%	2,445	-30.9%	4,134	6,710	-38.4%

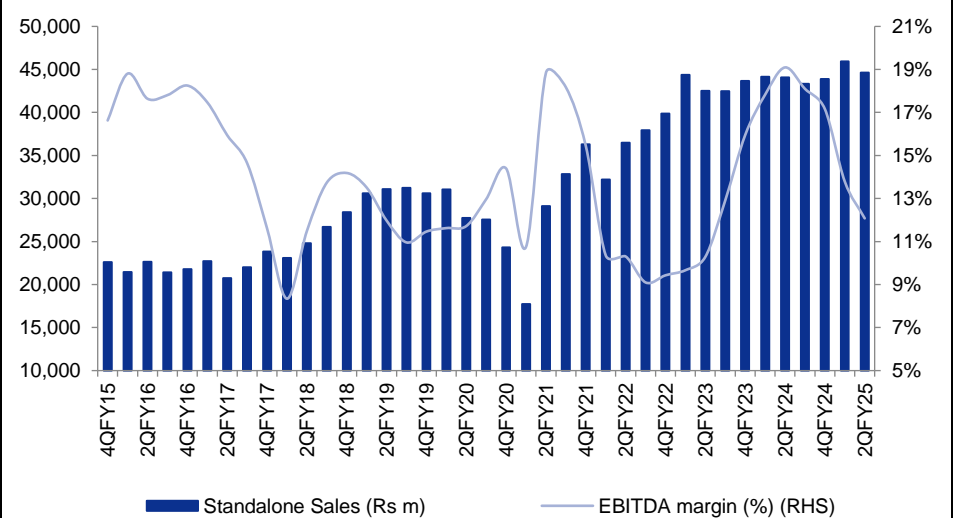
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Consolidated EBITDA margin continues to ease from its peak**



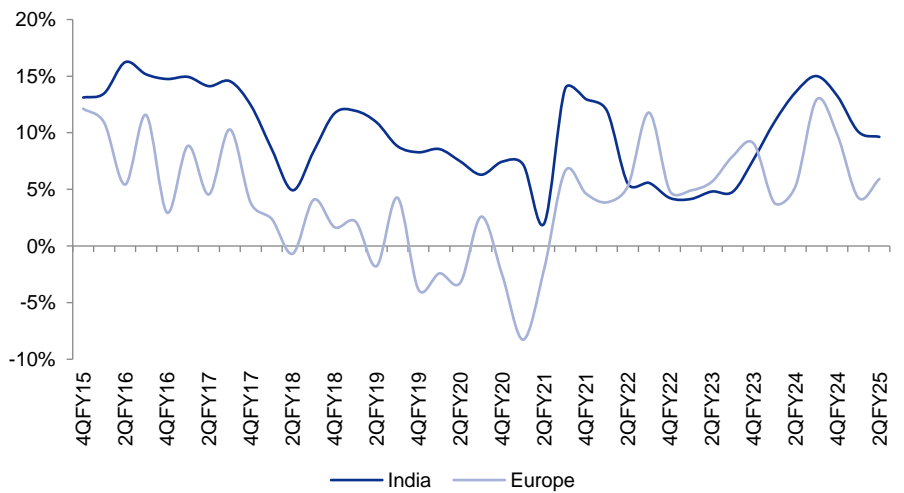
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Standalone EBITDA margin correcting to the normal level (adjusted for EPR provision)**



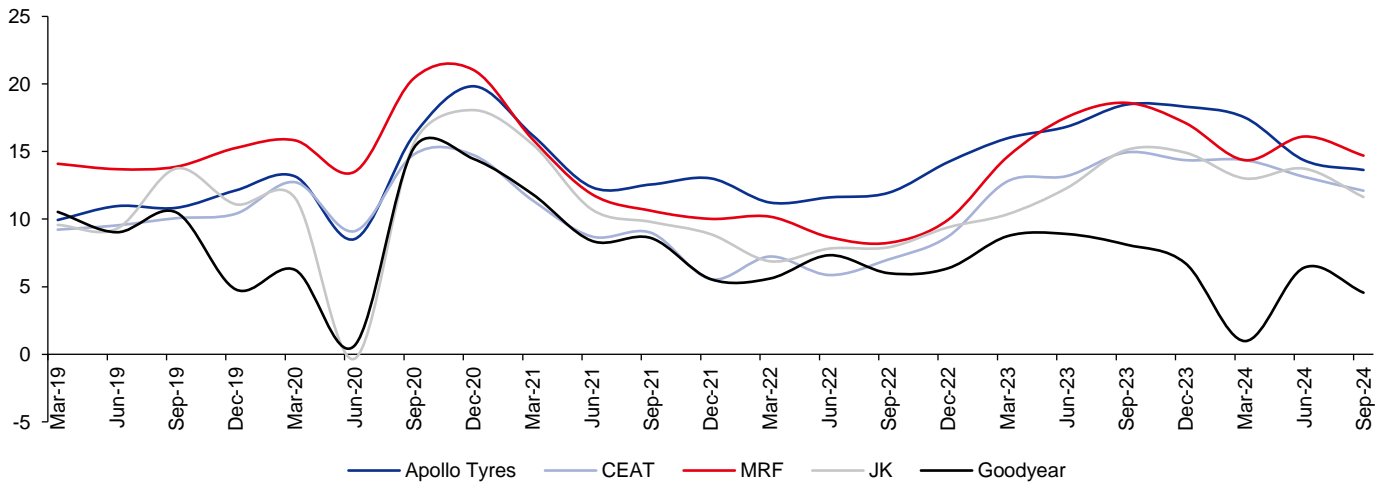
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: EBIT margin trend of various divisions



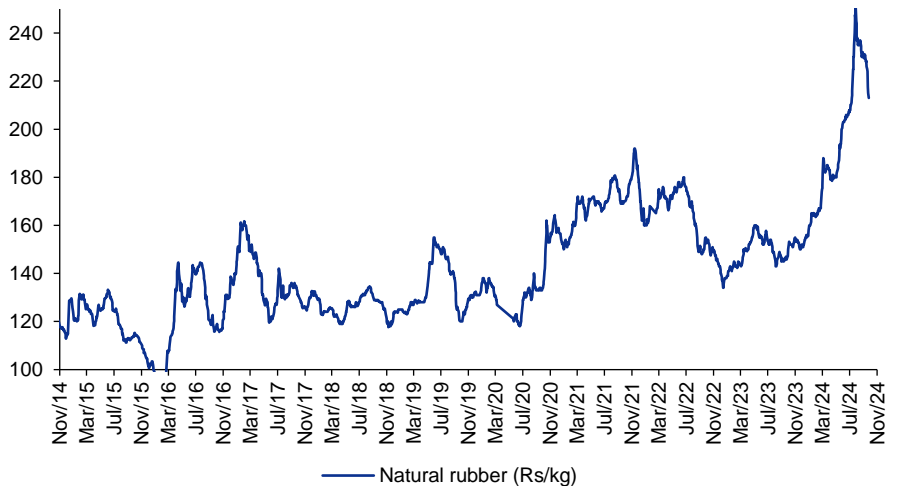
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Margin trend of tyre players continues to decline; MRF leads the pack



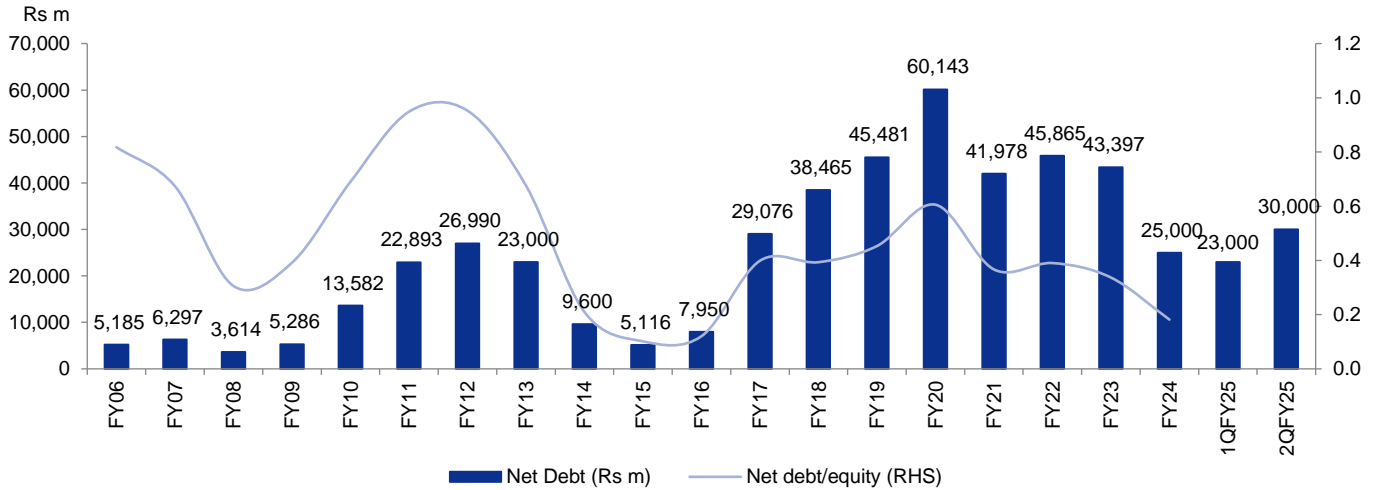
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Natural rubber prices moderate from their peak



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Consolidated net debt rose due to increased working capital requirement



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Our revised earnings estimates for the consolidated entity

Consolidated (Rs m)	FY25F		FY26F		FY27F	
	Old	New	Old	New	Old	New
Net Sales	2,70,143	2,66,397	3,02,403	2,94,393	3,28,350	3,20,727
Change (%)		-1.4%		-2.6%		-2.3%
EBITDA	44,633	40,839	45,934	44,180	50,818	49,815
Change (%)		-8.5%		-3.8%		-2.0%
EBITDA Margin	16.5%	15.3%	15.2%	15.0%	15.5%	15.5%
bp Change		(119)		(18)		6
Interest Expenses	4,500	4,575	4,550	4,650	4,505	4,605
Change (%)		1.7%		2.2%		2.2%
Normalized PAT	17,312	14,808	16,835	15,574	19,280	18,530
Change (%)		-14.5%		-7.5%		-3.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Key earning drivers

	FY23A	FY24F	FY25F	FY26F	FY27F
India sales (mt)	9,19,382	9,28,576	9,47,147	10,03,976	10,74,255
Growth (%)	6.0%	1.0%	2.0%	6.0%	7.0%
ASP (Rs/kg)	188.2	188.9	194.4	198.1	203.7
Growth (%)	10.4%	0.4%	2.9%	1.9%	2.8%
India Sales (Rsm)	1,73,010	1,75,393	1,84,163	1,98,896	2,18,786
<b>India EBIT margin (%)</b>	<b>7.1%</b>	<b>13.4%</b>	<b>9.3%</b>	<b>9.5%</b>	<b>10.5%</b>
Europe sales (Rsm)	72,974	76,399	82,511	91,587	1,00,746
<b>Europe EBIT margin (%)</b>	<b>7.0%</b>	<b>8.0%</b>	<b>8.6%</b>	<b>7.5%</b>	<b>7.0%</b>
Consolidate EBIT margin (%)	7.7%	11.7%	9.4%	8.9%	9.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

1-year forward EPS (Rs.)	27.4
P/E(x)	15.0
<b>Target Price (Rs.)</b>	<b>408</b>

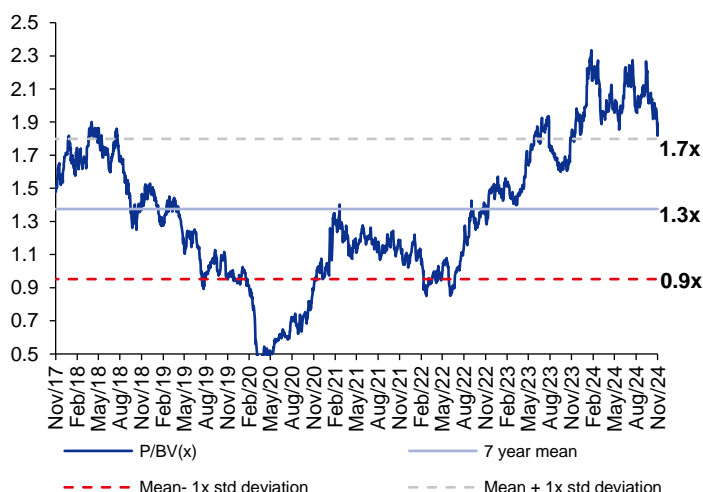
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



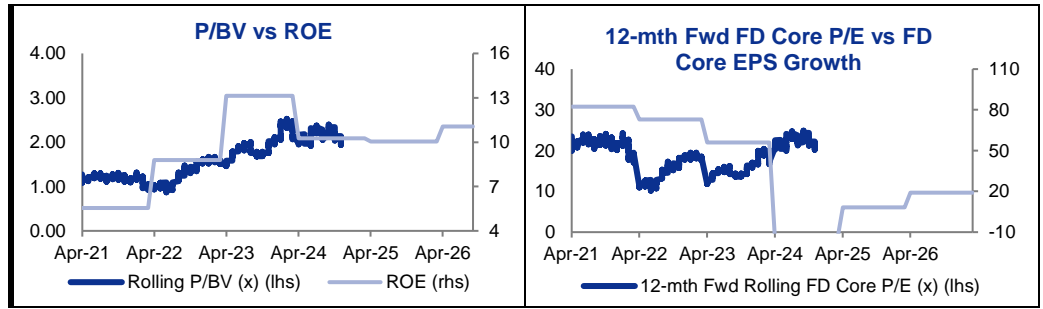
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Rich forward P/BV valuation at +1SD level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	<b>245,681</b>	<b>253,777</b>	<b>266,397</b>	<b>294,393</b>	<b>320,727</b>
<b>Gross Profit</b>	<b>99,311</b>	<b>117,146</b>	<b>117,214</b>	<b>126,589</b>	<b>137,913</b>
<b>Operating EBITDA</b>	<b>33,137</b>	<b>44,473</b>	<b>40,839</b>	<b>44,180</b>	<b>49,815</b>
Depreciation And Amortisation	(14,191)	(14,778)	(15,794)	(17,999)	(19,401)
<b>Operating EBIT</b>	<b>18,945</b>	<b>29,695</b>	<b>25,045</b>	<b>26,181</b>	<b>30,414</b>
Financial Income/(Expense)	(4,901)	(3,924)	(3,269)	(3,279)	(3,165)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>14,044</b>	<b>25,771</b>	<b>21,776</b>	<b>22,902</b>	<b>27,249</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>14,044</b>	<b>25,771</b>	<b>21,776</b>	<b>22,902</b>	<b>27,249</b>
Taxation	(3,226)	(8,183)	(6,968)	(7,329)	(8,720)
Exceptional Income - post-tax	226	(373)	(404)		
<b>Profit After Tax</b>	<b>11,044</b>	<b>17,215</b>	<b>14,404</b>	<b>15,574</b>	<b>18,530</b>
Minority Interests	(2)	4			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>11,042</b>	<b>17,219</b>	<b>14,404</b>	<b>15,574</b>	<b>18,530</b>
Recurring Net Profit	10,816	17,592	14,808	15,574	18,530
<b>Fully Diluted Recurring Net Profit</b>	<b>10,816</b>	<b>17,592</b>	<b>14,808</b>	<b>15,574</b>	<b>18,530</b>

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>33,137</b>	<b>44,473</b>	<b>40,839</b>	<b>44,180</b>	<b>49,815</b>
Cash Flow from Invt. & Assoc.	(2)	4			
Change In Working Capital	(14,042)	(3,688)	(10,311)	(8,442)	(9,588)
(Incr)/Decr in Total Provisions	1,757	691	1	250	250
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	411	1,136	1,306	1,371	1,440
Net Interest (Paid)/Received	(5,312)	(5,059)	(4,575)	(4,650)	(4,605)
Tax Paid	(2,507)	(4,209)	(5,444)	(5,726)	(6,812)
<b>Cashflow From Operations</b>	<b>13,441</b>	<b>33,348</b>	<b>21,816</b>	<b>26,983</b>	<b>30,500</b>
Capex	(11,021)	(9,242)	(4,532)	(14,000)	(17,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	2,905	(2,161)	(3,029)	(2,645)	(2,955)
<b>Cash Flow From Investing</b>	<b>(8,116)</b>	<b>(11,403)</b>	<b>(7,561)</b>	<b>(16,645)</b>	<b>(19,955)</b>
Debt Raised/(repaid)	(5,301)	(16,458)	(2,000)	(1,000)	(1,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,858)	(3,811)	(3,811)	(4,446)	(5,081)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(8,159)</b>	<b>(20,268)</b>	<b>(5,811)</b>	<b>(5,446)</b>	<b>(6,081)</b>
Total Cash Generated	(2,833)	1,677	8,444	4,893	4,463
<b>Free Cashflow To Equity</b>	<b>25</b>	<b>5,487</b>	<b>12,255</b>	<b>9,339</b>	<b>9,544</b>
<b>Free Cashflow To Firm</b>	<b>10,638</b>	<b>27,005</b>	<b>18,830</b>	<b>14,989</b>	<b>15,149</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Cash And Equivalents	12,479	14,156	22,600	27,493	31,957
Total Debtors	24,885	26,648	29,194	33,069	36,906
Inventories	44,285	42,457	51,090	58,072	65,903
Total Other Current Assets	11,828	12,389	15,000	17,000	19,000
<b>Total Current Assets</b>	<b>93,477</b>	<b>95,650</b>	<b>117,884</b>	<b>135,634</b>	<b>153,765</b>
Fixed Assets	172,589	165,763	159,969	155,970	153,570
Total Investments	341	382	420	462	508
Intangible Assets	2,288	2,311	2,311	2,311	2,311
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>175,218</b>	<b>168,455</b>	<b>162,700</b>	<b>158,743</b>	<b>156,389</b>
Short-term Debt	17,978	12,691	12,691	12,691	12,691
Current Portion of Long-Term Debt					
Total Creditors	33,539	29,786	30,654	33,069	35,148
Other Current Liabilities	42,313	42,500	43,500	44,500	45,300
<b>Total Current Liabilities</b>	<b>93,830</b>	<b>84,978</b>	<b>86,845</b>	<b>90,260</b>	<b>93,140</b>
Total Long-term Debt	37,898	26,727	24,727	23,727	22,727
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>37,898</b>	<b>26,727</b>	<b>24,727</b>	<b>23,727</b>	<b>22,727</b>
Total Provisions	12,367	18,846	19,396	19,646	20,095
<b>Total Liabilities</b>	<b>144,095</b>	<b>130,552</b>	<b>130,969</b>	<b>133,634</b>	<b>135,962</b>
Shareholders Equity	128,778	139,022	149,615	160,743	174,192
Minority Interests					
<b>Total Equity</b>	<b>128,778</b>	<b>139,022</b>	<b>149,615</b>	<b>160,743</b>	<b>174,192</b>

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue Growth	17.3%	3.3%	5.0%	10.5%	8.9%
Operating EBITDA Growth	28.7%	34.2%	(8.2%)	8.2%	12.8%
Operating EBITDA Margin	13.5%	17.5%	15.3%	15.0%	15.5%
Net Cash Per Share (Rs)	(68.33)	(39.78)	(23.33)	(14.05)	(5.45)
BVPS (Rs)	202.77	218.90	235.58	253.10	274.27
Gross Interest Cover	3.57	5.87	5.47	5.63	6.60
Effective Tax Rate	23.0%	31.8%	32.0%	32.0%	32.0%
Net Dividend Payout Ratio	26.4%	21.7%	25.7%	28.5%	27.4%
Accounts Receivables Days	30.45	37.06	38.26	38.60	39.82
Inventory Days	107.03	115.86	114.44	118.72	123.76
Accounts Payables Days	86.79	84.58	73.94	69.30	68.10
ROIC (%)	7.1%	10.9%	9.3%	9.4%	10.6%
ROCE (%)	10.0%	15.3%	12.7%	12.6%	13.9%
Return On Average Assets	5.3%	7.6%	6.2%	6.2%	6.8%

<b>Key Drivers</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
ASP (% chg, main prod./serv.)	10.4%	0.4%	2.9%	1.9%	2.8%
Unit sales grth (% , main prod./serv.)	6.0%	1.0%	2.0%	6.0%	7.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

##### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

##### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.