



India

**REDUCE** (previously HOLD)

Consensus ratings\*: Buy 22 Hold 4 Sell 5

Current price:	Rs250
Target price:	Rs217
Previous target:	Rs184
Up/downside:	-13.2%
InCred Research / Consensus:	-10.1%
Reuters:	
Bloomberg:	APTY IN
Market cap:	US\$2,188m Rs158,871m
Average daily turnover:	US\$9.6m Rs695.3m
Current shares o/s:	635.1m
Free float:	62.7%

\*Source: Bloomberg

**Key changes in this note**

- Sales upgrade by 4-5% for FY23F-25F.
- FY23F-25F EBITDA upgrade by 2-3%.
- FY23F-25F EPS upgrade by 2-4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	18.5	18.9	10.7
Relative (%)	6.4	7.9	3.2

Major shareholders	% held
Kanwar Family	37.3
Emerald Sage Investment Ltd.	9.9
White Iris Investment Ltd.	8.0

**Analyst(s)****Pramod AMTHE**

T (91) 22 4161 1541

E pramod.amthe@incredcapital.com

**Hitesh THAKURANI**

T (91) 22 4161 1554

E hitesh.thakurani@incredcapital.com

# Apollo Tyres Ltd

## Risk-reward adverse; downgrade to Reduce

- 1QFY23 consolidated EPS rose 68% qoq to Rs3, driven by a 10% EBITDA rise and the rest by lower depreciation and interest expenses.
- Aggressive price hikes lead to our 2-4% EPS upgrade for FY23F-25F.
- Stock price spike in last two months has pushed P/BV valuation to above mean level where the risk-reward ratio seems unfavourable. Downgrade to Reduce.

**In-line EBITDA performance in 1QFY23**

Apollo Tyres' 1QFY23 consolidated EBITDA rose 10% qoq to Rs6.9bn, in line with our estimate but better than Bloomberg consensus estimate. Indian operations' performance was impressive with a 28% qoq rise in EBIT. EBIT margin was flat qoq for European operations at 4.9% and rose 66bp qoq to 4.8% for India operations. Lower depreciation, interest cost and taxes led to a 7% beat in EPS (+68% qoq) to Rs3, forming 24% of our FY23F estimate. Net debt rose by 9% qoq to Rs51bn. Capacity utilization stood at 81% for Indian operations and 88% for European operations.

**Management conference-call highlights**

Management gave guidance of subdued India sales outlook in coming quarters due to seasonality and steep price hikes taken. Management indicated that only half of 8% cost hike has been passed on to customers and the rest is yet to follow. Capex was limited to Rs1.25bn in 1QFY23 vs. Rs9bn planned for Indian operations in FY23F. Considering that capacity utilization is above 80%, it indicates scope for brownfield expansion in Andhra Pradesh and Hungary.

**Margin pressure to persist; limit FY23F-25F EPS upgrade to 2-4%**

Considering the sharp price hikes taken in India and Europe to pass on commodity cost pressure to customers, we raise our sales estimates by 4-5% for FY23F-25F. However, following the sustained EBITDA margin pressure due to high commodity input cost, we cut EBITDA margin estimates by 20-30bp. The margin pressure is more pronounced for India, while Europe will be tested in coming quarters if recession hits its economy. With elevated net debt level (9% qoq), we limit consolidated EPS upgrade to 2-4% for FY23F-25F.

**Downgrade our rating to Reduce as risk-reward ratio is unfavourable**

Due to rising competitive intensity in India truck radial tyre business, which is the biggest revenue contributor to industry and for Apollo Tyres, we feel the company may have to prolong capex and compromise on profit margins to sustain its leadership position. This can impact FCF and keep net debt level elevated. Also, the risk of European recession is high, where its capacity utilization has touched 88% currently. The sharp run-up in stock price has pushed forward P/BV valuation to near seven-year mean level, where we feel the risk-reward ratio is unfavourable, leading to downgrading our rating on the stock to Reduce (vs.Hold earlier). We roll forward our P/E-based target price to Rs217 from Rs184 earlier. Upside risks are strong pricing power demonstration and better product mix benefit.

**Financial Summary**

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	172,006	209,475	249,742	284,345	318,961
Operating EBITDA (Rsm)	26,011	25,740	30,064	34,825	39,437
Net Profit (Rsm)	3,502	6,384	8,644	11,501	14,272
Core EPS (Rs)	11.5	10.1	13.6	18.1	22.5
Core EPS Growth	159.1%	(12.2%)	34.2%	33.1%	24.1%
FD Core P/E (x)	45.36	24.88	18.38	13.81	11.13
DPS (Rs)	3.5	5.0	6.0	7.0	7.0
Dividend Yield	1.40%	2.00%	2.40%	2.80%	2.80%
EV/EBITDA (x)	7.72	7.95	6.91	5.88	5.25
P/FCFE (x)	9.33	(41.05)	175.35	21.46	78.59
Net Gearing	36.7%	39.0%	39.9%	35.4%	34.6%
P/BV (x)	1.39	1.35	1.30	1.23	1.14
ROE	6.9%	5.6%	7.2%	9.1%	10.6%
% Change In Core EPS Estimates			4.21%	3.76%	2.03%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Risk-reward adverse; downgrade to Reduce 1QFY23 earnings-call highlights

**Outlook:** Management mentioned that it is cautiously optimistic on near-term outlook of the business. In India, it expects demand to remain sluggish in the near term, which would also be due to seasonality. It expects a qoq decline in the revenue of India business in 2QFY23F. In Europe, it expects demand to remain strong. Management indicated that margins would remain under pressure in the near term. It expects a 3% qoq increase in raw material cost in 2QFY23F, after which it expects cost to flatten and then decrease. It expects to counter the margin pressure by continuing to take well-timed price hikes and control cost and capex.

**Cost inflation and price hike:** Raw material cost went up 7-8% on a qoq basis. The company took a price hike of 8% in the truck bus radial (TBR) segment and 3% across other categories in India, and a price hike of 9% in the passenger car segment in Europe. It expects to take further price hikes in 2QFY23F and has already taken one in Jul 2022, which amounted to ~3% across categories. The company has hedged 80% of its power requirement cost in FY23F.

**India business:** Management commented that demand was impacted by inflation and steep price hikes. However, volume still grew 21% yoy, with a 13% yoy growth in the replacement segment. The price hikes, along with cost control measures, helped largely offset raw material cost inflation. It is witnessing some degree of slowdown in the commercial vehicle (CV) sector, especially in the OEM segment. However, management was quick to add that going forward it expects the CV cycle to pick up soon on the back of the government's infrastructure initiatives. Management indicated that CV OEM orders for Sep/Oct 2022F were shaping up well. Exports did well and was the leader in volume growth. Capacity utilization was ~81%.

**Europe business:** The price hike in Europe in 1QFY23, coupled with the control over cost, helped largely negate raw material cost and energy cost inflation. Management commented that the passenger car tyre industry in Europe grew 5% yoy in 1QFY23. It expects strong demand to continue in Europe. It will continue to make inroads into the markets and grow. It indicated market share gains across segments with a focus on mix improvement. It mentioned that the premium segment continues to do well. The revenue in 1QFY23 stood at €151m (+32% yoy) and EBITDA was €22m with a margin of 14.4% (vs, a margin of 16.3% yoy). Capacity utilization was ~88%.

**Capex:** Management indicated that it would continue to be judicious on capex and instead focus on profitability and free cash flow. The capex incurred in 1QFY23 was Rs1.25bn and it expects FY23F capex for Indian operations to be Rs9bn and €40m for European operations. The company has the option of going for brownfield expansions in both Andhra Pradesh and Hungary when the need arises. For now, it will focus on debottlenecking through machine learning and artificial intelligence to attain 10-15% more capacity over time.

**Other key data:** Reifencor revenue was at €48m, with EBITDA margin at 5%. Consolidated net debt/EBITDA stood at 1.9 and management indicated that it expects to maintain it below 2.0. Net debt has gone up due to higher working capital requirement as inventory in the India business was higher due to demand fluctuation, and in Europe it had to prepare the inventory of winter tyres for the season that lasts from Aug to Nov.

**Figure 1: Consolidated financial performance**

FYE Mar (Rs m)	1QFY23	1QFY22	yoy % chg	4QFY22	qoq % chg	FY22	FY21	yoy % chg	Comments
Revenue	59,420	45,845	29.6	55,783	6.5	2,09,475	1,72,006	21.8	7% above our estimates.
Raw Materials	35,840	26,245	36.6	33,608	6.6	1,23,855	93,945	31.8	
RM as % of revenue	60.3	57.2	307	60.2	6.8	59.1	54.6	451	Gross margins were 412bps below our estimates.
<b>EBITDA</b>	<b>6,898</b>	<b>5,668</b>	<b>21.7</b>	<b>6,264</b>	<b>10.1</b>	<b>25,740</b>	<b>26,011</b>	<b>(1.0)</b>	<b>In line with our estimates cushioned by lower employee costs.</b>
EBITDA margin (%)	11.6	12.4	(75)	11.2	38.1	12.3	15.1	(283)	79bp below our estimates.
Depn & amort.	3,437	3,404	1.0	3,753	(8.4)	13,997	13,150	6.4	7% below our estimates.
EBIT	3,461	2,264	52.8	2,510	37.9	11,744	12,861	(8.7)	
Interest expense	1,182	1,046	13.1	1,279	(7.6)	4,444	4,430	0.3	2% below our estimates.
Other Income	106	405	(73.8)	372	(71)	1,235	1,908	(35.3)	
Pretax profit	2,384	1,623	46.9	1,603	48.8	8,534	10,339	(17.5)	
Tax	478	336	42.3	467	2.2	2,091	3,005	(30.4)	
Tax rate (%)	20.0	20.7	(65)	29.2	(912.9)	24.5	29.1	(456)	
<b>Normalised Net profit</b>	<b>1,907</b>	<b>1,287</b>	<b>48.1</b>	<b>1,135</b>	<b>68.0</b>	<b>6,443</b>	<b>7,335</b>	<b>(12.2)</b>	<b>7% above our estimates.</b>
Exceptionals	-	(9)	nm	-	nm	(59)	(3,833)	nm	
<b>Reported net profit</b>	<b>1,907</b>	<b>1,278</b>	<b>49.2</b>	<b>1,135</b>	<b>nm</b>	<b>6,384</b>	<b>1,405</b>	<b>354.6</b>	
Normalised EPS (Rs)	3.0	2.0	48.1	1.8	67.9	10.1	11.5	(12.2)	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Demand remained sluggish in India mainly due to the commercial vehicle (CV) original equipment manufacturer (OEM) segment. Management gave guidance of a qoq decline in revenue for 2QFY23F.

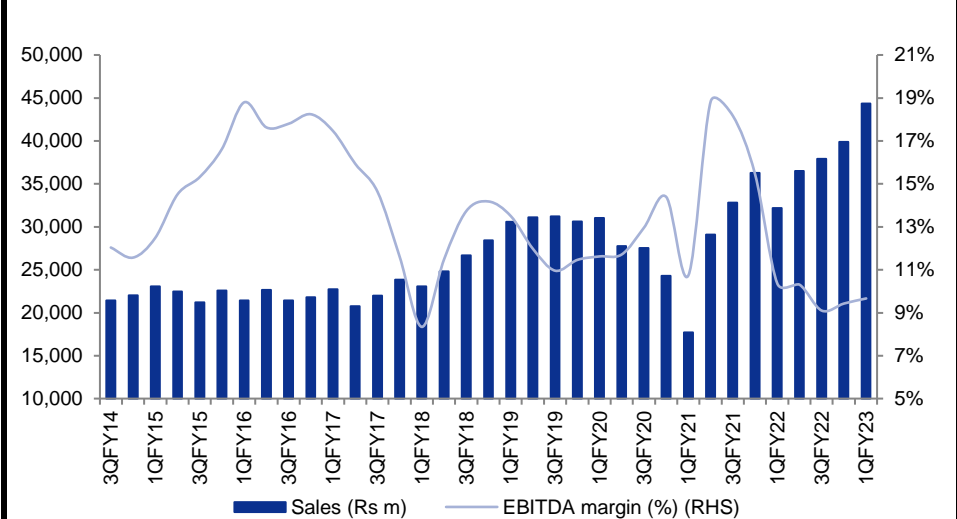
**Figure 2: India business performance**

In Rs m	1QFY23	1QFY22	yoy (%)	4QFY22	qoq (%)	FY22	FY21	yoy (%)
Sales	44,362	32,200	37.8%	39,880	11.2%	1,46,494	1,15,952	26.3%
EBITDA	4,288	3,336	28.6%	3,760	14.0%	14,308	18,961	-24.5%
EBITDA margin	9.7%	10.4%	(69)	9.4%	24	9.8%	16.4%	(659)
PAT	1,043	687	51.9%	543	92.2%	2,623	6,581	-60.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

EBITDA margin improved qoq as the company took large price hikes and continued to control cost.

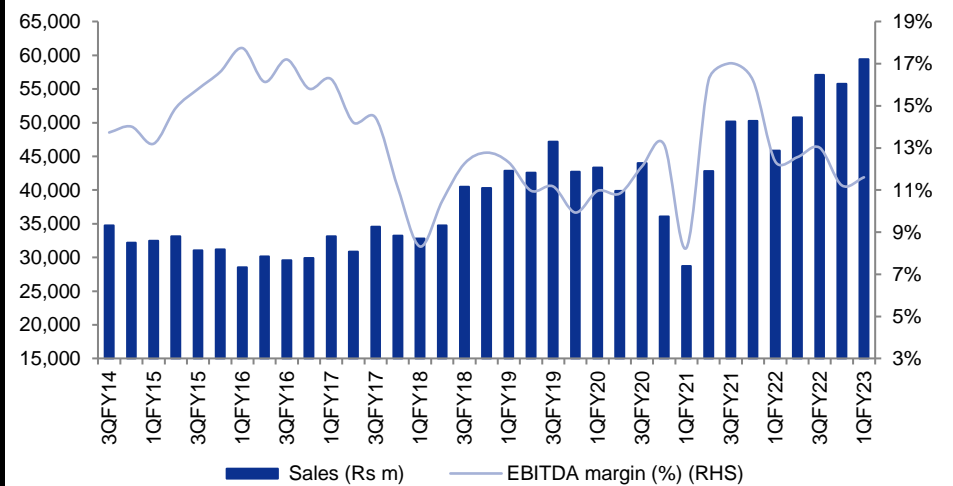
**Figure 3: Standalone EBITDA margin performance**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

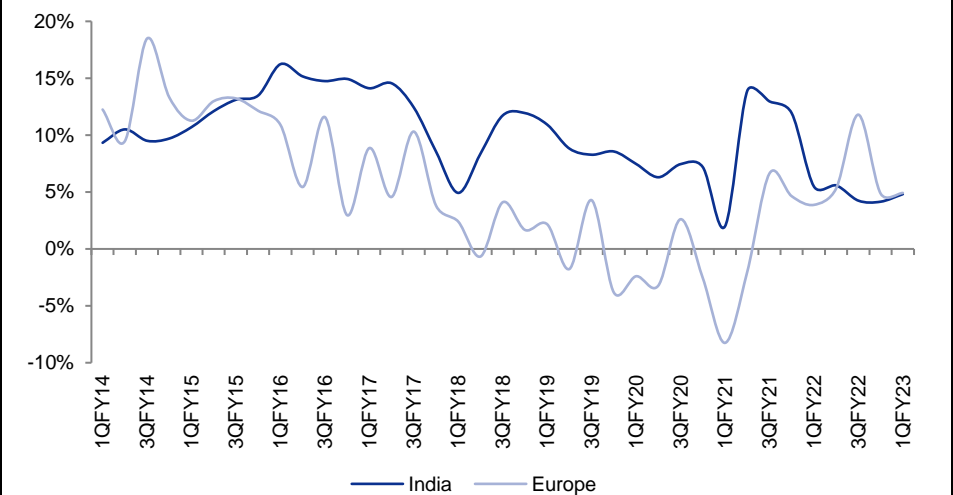
Demand in Europe continues to be strong, especially in the premium segment. EBITDA margin was aided by price hike of 9% in the passenger car tyre segment and cost control measures.

Figure 4: Consolidated EBITDA margin performance



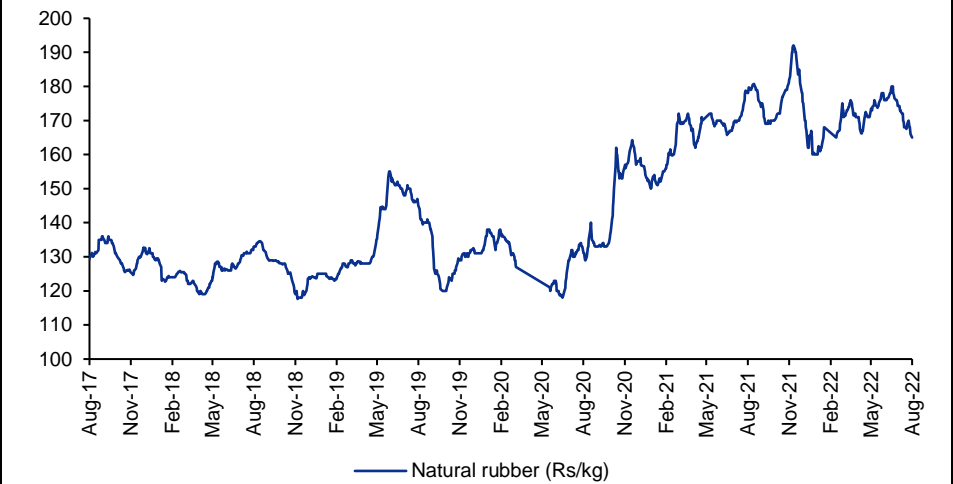
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Apollo Tyres' regional EBIT margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Natural rubber prices corrected recently



SOURCE: BLOOMBERG, INCRED RESEARCH

ERTMA indicated declining demand and challenges linked to rising cost of gas, raw materials, and semi-finished products supply.

Figure 7: Demand trend for European replacement consumer tyres

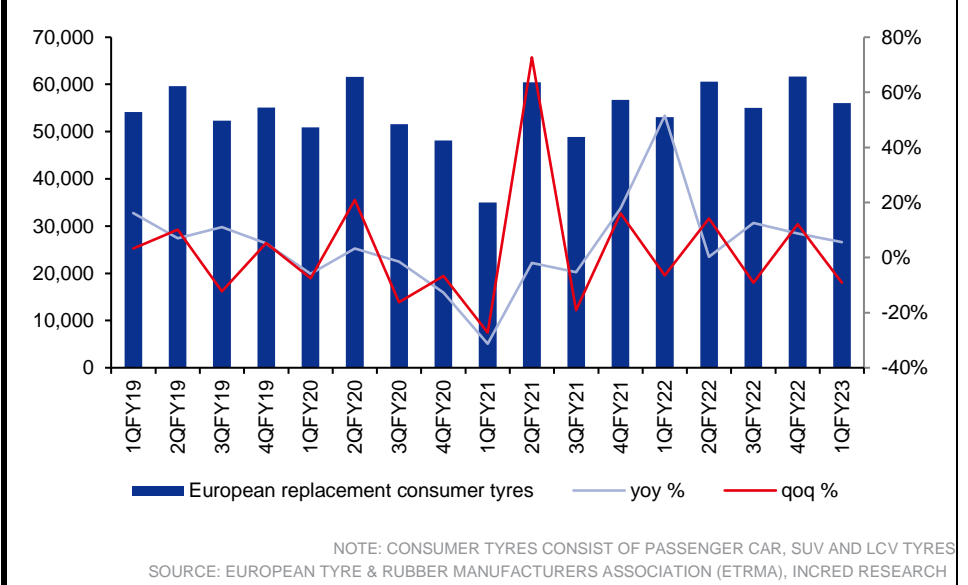
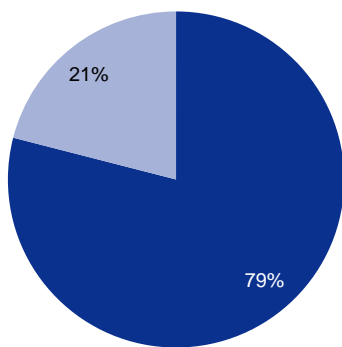
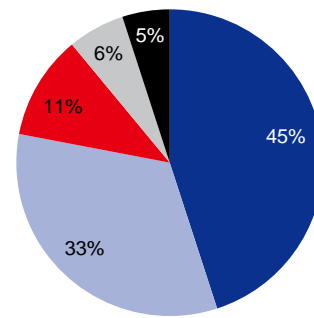


Figure 8: Apollo Tyres' consolidated mix by channel



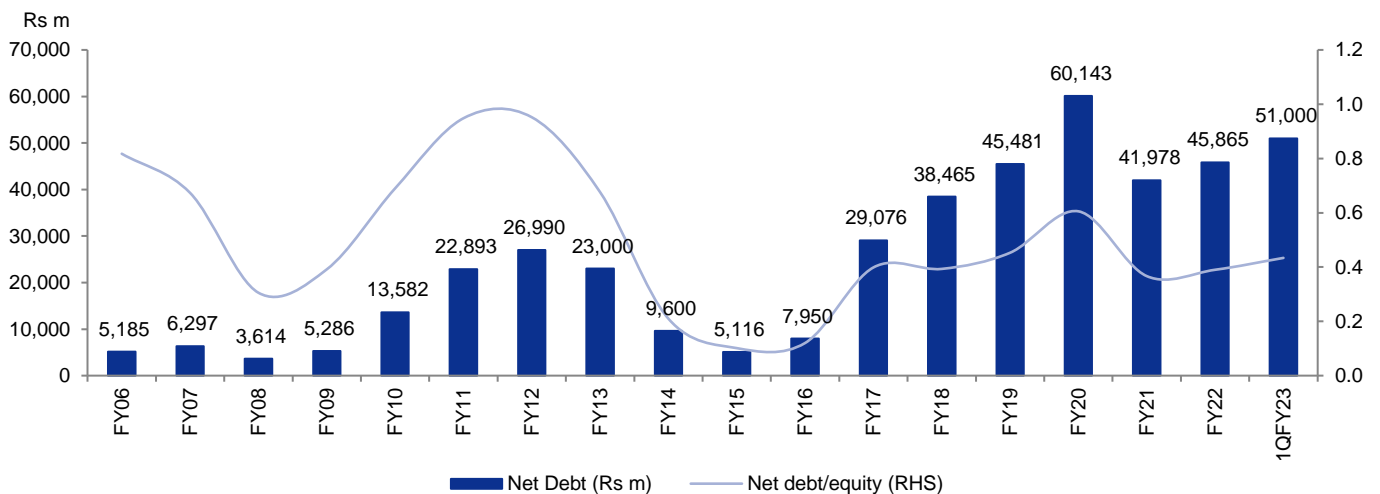
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Apollo Tyres' consolidated mix by products



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Consolidated net debt (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Revision in our earnings estimates for the consolidated entity

Consolidated (Rs m)	FY23F		FY24F		FY25F	
	Old	New	Old	New	Old	New
Net Sales	2,39,659	2,49,742	2,71,468	2,84,345	3,04,501	3,18,961
Change (%)		4.2%		4.7%		4.7%
EBITDA	29,340	30,064	34,102	34,825	38,442	39,437
Change (%)		2.5%		2.1%		2.6%
EBITDA Margin	12.2%	12.0%	12.6%	12.2%	12.6%	12.4%
bp Change		(20)		(31)		(26)
Interest Expense	4,459	4,496	4,585	4,585	4,320	4,320
Change (%)		0.8%		0.0%		0.0%
Normalised PAT	8,295	8,644	11,084	11,501	13,988	14,272
Change (%)		4.2%		3.8%		2.0%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: Key drivers

	FY21A	FY22A	FY23F	FY24F	FY25F
India sales (MT)	7,47,161	8,59,236	9,53,752	10,39,589	11,22,756
Growth(%)	5.0%	15.0%	11.0%	9.0%	8.0%
ASP (Rs/kg)	155.2	170.5	187.4	194.3	201.5
Growth(%)	-0.2%	9.9%	9.9%	3.7%	3.7%
India Sales (Rsm)	1,15,952	1,46,494	1,78,723	2,01,957	2,26,191
<b>India EBIT margin(%)</b>	<b>11.4%</b>	<b>4.8%</b>	<b>4.9%</b>	<b>6.1%</b>	<b>7.0%</b>
Europe sales (Rsm)	56,138	65,563	76,709	87,448	99,691
<b>Europe EBIT margin(%)</b>	<b>1.2%</b>	<b>6.8%</b>	<b>6.9%</b>	<b>6.3%</b>	<b>5.5%</b>
Consolidate EBIT margin(%)	7.5%	5.6%	5.9%	6.5%	6.9%

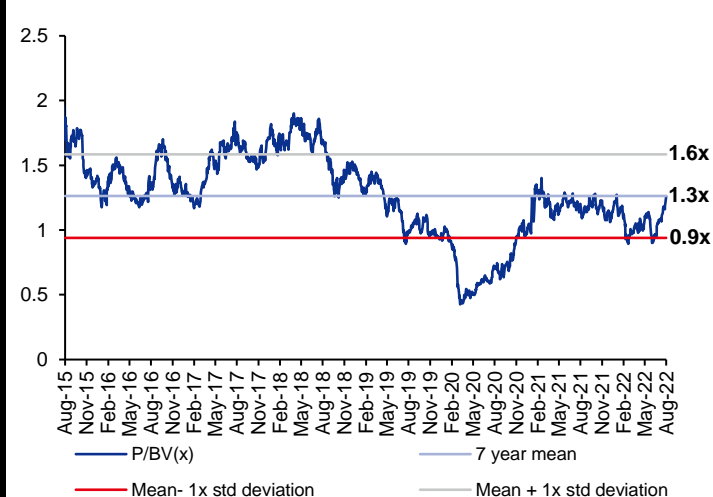
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 13: Target price methodology

1-year forward EPS (Rs.)	19.8
P/E(x)	11.0
<b>Target Price (Rs.)</b>	<b>217</b>

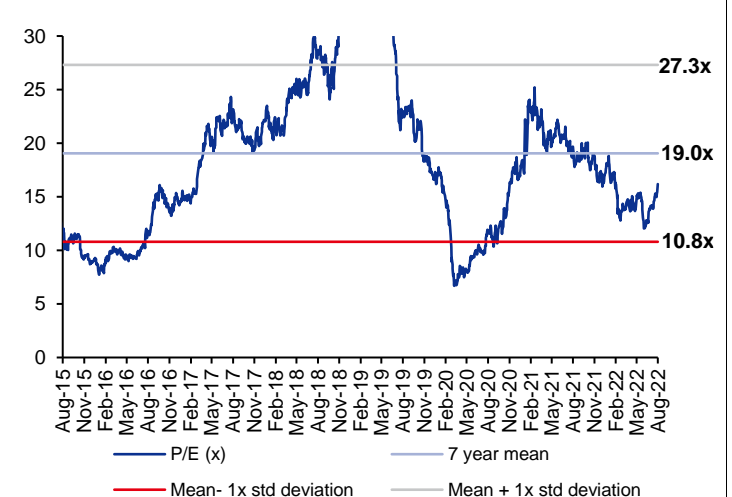
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: Forward P/BV valuation at mean level



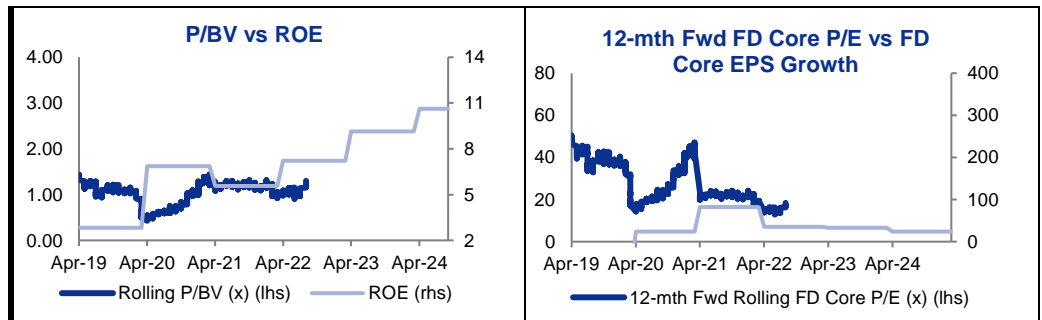
SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 15: Forward P/E valuation nearing mean level



SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenue</b>	<b>172,006</b>	<b>209,475</b>	<b>249,742</b>	<b>284,345</b>	<b>318,961</b>
<b>Gross Profit</b>	<b>78,061</b>	<b>85,620</b>	<b>104,891</b>	<b>122,268</b>	<b>139,705</b>
<b>Operating EBITDA</b>	<b>26,011</b>	<b>25,740</b>	<b>30,064</b>	<b>34,825</b>	<b>39,437</b>
Depreciation And Amortisation	(13,150)	(13,997)	(15,315)	(16,241)	(17,517)
<b>Operating EBIT</b>	<b>12,861</b>	<b>11,744</b>	<b>14,749</b>	<b>18,584</b>	<b>21,921</b>
Financial Income/(Expense)	(2,522)	(3,209)	(3,224)	(3,250)	(2,891)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>10,339</b>	<b>8,534</b>	<b>11,525</b>	<b>15,334</b>	<b>19,029</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>10,339</b>	<b>8,534</b>	<b>11,525</b>	<b>15,334</b>	<b>19,029</b>
Taxation	(3,005)	(2,091)	(2,881)	(3,834)	(4,757)
Exceptional Income - post-tax	(3,833)	(59)			
<b>Profit After Tax</b>	<b>3,502</b>	<b>6,384</b>	<b>8,644</b>	<b>11,501</b>	<b>14,272</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>3,502</b>	<b>6,384</b>	<b>8,644</b>	<b>11,501</b>	<b>14,272</b>
Recurring Net Profit	7,335	6,443	8,644	11,501	14,272
<b>Fully Diluted Recurring Net Profit</b>	<b>7,335</b>	<b>6,443</b>	<b>8,644</b>	<b>11,501</b>	<b>14,272</b>

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>26,011</b>	<b>25,740</b>	<b>30,064</b>	<b>34,825</b>	<b>39,437</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(549)	(2,663)	(11,937)	(4,645)	(7,269)
(Incr)/Decr in Total Provisions	12,117	374	1,460	1,550	1,350
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,908	1,235	1,272	1,335	1,429
Net Interest (Paid)/Received	(4,430)	(4,444)	(4,496)	(4,585)	(4,320)
Tax Paid	(2,068)	(948)	(2,305)	(3,067)	(3,806)
<b>Cashflow From Operations</b>	<b>32,989</b>	<b>19,294</b>	<b>14,058</b>	<b>25,414</b>	<b>26,822</b>
Capex	(17,437)	(20,877)	(11,500)	(16,500)	(23,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	4,773	872	(1,652)	(1,510)	(1,800)
<b>Cash Flow From Investing</b>	<b>(12,664)</b>	<b>(20,005)</b>	<b>(13,152)</b>	<b>(18,010)</b>	<b>(24,800)</b>
Debt Raised/(repaid)	(3,302)	(3,160)			
Proceeds From Issue Of Shares	63				
Shares Repurchased					
Dividends Paid	(2,223)	(3,176)	(3,811)	(4,446)	(4,446)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(5,462)</b>	<b>(6,335)</b>	<b>(3,811)</b>	<b>(4,446)</b>	<b>(4,446)</b>
Total Cash Generated	14,863	(7,046)	(2,905)	2,958	(2,424)
<b>Free Cashflow To Equity</b>	<b>17,022</b>	<b>(3,870)</b>	<b>906</b>	<b>7,404</b>	<b>2,022</b>
<b>Free Cashflow To Firm</b>	<b>24,754</b>	<b>3,733</b>	<b>5,402</b>	<b>11,989</b>	<b>6,342</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

**Balance Sheet**

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	22,359	15,313	12,408	15,366	12,942
Total Debtors	13,808	16,104	20,527	23,371	26,216
Inventories	33,185	41,554	50,633	56,090	62,918
Total Other Current Assets	13,637	10,539	12,500	14,200	16,200
<b>Total Current Assets</b>	<b>82,989</b>	<b>83,510</b>	<b>96,067</b>	<b>109,027</b>	<b>118,276</b>
Fixed Assets	173,057	179,938	176,123	176,382	181,865
Total Investments	195	399	439	483	531
Intangible Assets	2,204	2,158	2,158	2,158	2,158
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>175,456</b>	<b>182,495</b>	<b>178,720</b>	<b>179,023</b>	<b>184,554</b>
Short-term Debt	3,033	17,093	17,093	17,093	17,093
Current Portion of Long-Term Debt					
Total Creditors	28,067	36,069	37,632	41,288	43,693
Other Current Liabilities	40,150	38,610	40,410	42,210	44,010
<b>Total Current Liabilities</b>	<b>71,250</b>	<b>91,772</b>	<b>95,135</b>	<b>100,591</b>	<b>104,796</b>
Total Long-term Debt	61,304	44,085	44,085	44,085	44,085
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>61,304</b>	<b>44,085</b>	<b>44,085</b>	<b>44,085</b>	<b>44,085</b>
Total Provisions	11,460	12,627	13,213	13,964	14,713
<b>Total Liabilities</b>	<b>144,014</b>	<b>148,483</b>	<b>152,433</b>	<b>158,640</b>	<b>163,594</b>
Shareholders' Equity	114,431	117,521	122,355	129,410	139,236
Minority Interests					
<b>Total Equity</b>	<b>114,431</b>	<b>117,521</b>	<b>122,355</b>	<b>129,410</b>	<b>139,236</b>

**Key Ratios**

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	6.6%	21.8%	19.2%	13.9%	12.2%
Operating EBITDA Growth	51.0%	(1.0%)	16.8%	15.8%	13.2%
Operating EBITDA Margin	15.1%	12.3%	12.0%	12.2%	12.4%
Net Cash Per Share (Rs)	(66.10)	(72.22)	(76.79)	(72.13)	(75.95)
BVPS (Rs)	180.18	185.04	192.65	203.76	219.23
Gross Interest Cover	2.90	2.64	3.28	4.05	5.07
Effective Tax Rate	29.1%	24.5%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	30.3%	49.3%	44.1%	38.7%	31.1%
Accounts Receivables Days	24.62	26.06	26.77	28.17	28.37
Inventory Days	126.76	110.13	116.15	120.17	121.16
Accounts Payables Days	99.38	94.50	92.86	88.87	86.52
ROIC (%)	5.0%	4.6%	5.6%	6.7%	7.7%
ROCE (%)	7.1%	6.3%	7.8%	9.5%	10.8%
Return On Average Assets	3.7%	3.3%	4.0%	4.8%	5.5%

**Key Drivers**

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
ASP (% chg, main prod./serv.)	(0.2%)	9.9%	9.9%	3.7%	3.7%
Unit sales grth (% , main prod./serv.)	5.0%	15.0%	11.0%	9.0%	8.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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