

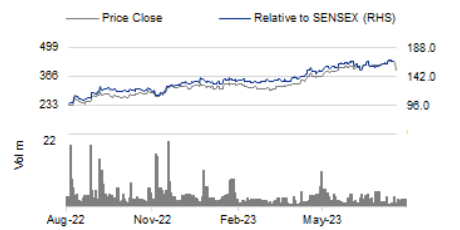
India

REDUCE (no change)

Consensus ratings*: Buy 16 Hold 8 Sell 5	
Current price:	Rs396
Target price:	Rs343
Previous target:	Rs256
Up/downside:	-13.4%
InCred Research / Consensus:	-21.5%
Reuters:	APLO.NS
Bloomberg:	APTY IN
Market cap:	US\$3,035m
	Rs251,405m
Average daily turnover:	US\$10.4m
	Rs862.4m
Current shares o/s:	635.1m
Free float:	62.7%
*Source: Bloomberg	

Key changes in this note

- Sales cut by 5-6% for FY24F-25F.
- EBITDA raised by 10-20% for FY24F-25F.
- EPS raised by 12-32% for FY24F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.4)	7.7	67.9
Relative (%)	(7.4)	2.3	52.8

Major shareholders	% held
Kanwar Family	37.3
Emerald Sage Investment Ltd.	9.9
HDFC Mutual Fund	8.6

Analyst(s)



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Apollo Tyres Ltd

India 1Q profits impressive, Europe dismal

- 1QFY24 EPS growth of 6% qoq to Rs6.5 beat our estimate (3%) and Bloomberg consensus estimate (11%), driven by India business profitability.
- Weak volume in India & Europe is an area of concern, which may derail pricing discipline. Short-term profits leads to an EPS upgrade of 32% for FY24F.
- With P/BV valuation near +2SD above the seven-year mean, we maintain REDUCE rating on the stock with a higher target price of Rs343.

Europe disappoints but India profitability scales a five-year high

Apollo Tyres posted a 5% qoq rise in 1QFY24 consol. EBITDA to Rs10.5bn, beating our estimate (6%) & Bloomberg consensus estimate (4%). India operations scaled a five-year peak EBIT margin of 13.6% aided by lower raw material cost while flattish sales disappointed. European operations also disappointed with an EBIT decline of 16% yoy and 60% qoq to Rs660m. The higher-than-expected interest cost and taxes led to a mere 3% beat in PAT at Rs4.1bn, a growth of 6% qoq.

Management conference-call highlights

Management indicated India replacement volume growth of 3% in 1Q while Europe replacement market volume dipped by 13% in the case of cars and 30% in the case of truck tyres. Management expects the growth to pick up in 2HFY24F. European operations, despite a weak performance, were FCF positive in 1Q. The company has increased electric vehicle or EV tyre SKUs to nine for India customers. Net debt fell by 12% qoq to Rs38bn.

Sustenance of double-digit India EBIT margin leads to EPS upgrade

The pricing discipline in India truck tyre market, despite weak volume growth, surprised us. Considering our earlier experience, we feel it's a short-term (a few quarters) phenomenon (Fig. 5) as tyre-makers preferred volume growth over profitability and hence, passed on lower raw material cost to the customers to revive growth. The leveraged balance sheet of tyre-makers may have helped in better pricing discipline for a longer span. However, European operations' margin weakness reiterates the tyre business characteristic of poor pricing discipline in a weak demand environment. We raise consolidated EBITDA estimates by 10-20% for FY24F-25F, driven by India business growth. Easing debt and interest cost concerns led to our EPS upgrade of 12-32% for FY24F-25F.

Rich P/BV of +2SD discounts short-term profit spike; retain REDUCE

The sharp rally in the stock price in recent years on the back of India business profitability improving surprised us, but we feel it's well captured in the forward P/BV valuation rising to 1.9x P/BV i.e., +2SD above the seven-year mean level (Fig. 12). We raise target P/E to 14x, from 11x earlier, to reflect management's financial discipline, leading to a higher target price of Rs343 (Rs256 earlier). However, considering the risk from rising crude oil prices and weak demand scenario in Europe, we reiterate REDUCE rating on the stock. The key upside risk is an early demand recovery in Europe aiding the profitability of the company.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	209,475	245,681	266,820	296,290	323,302
Operating EBITDA (Rsm)	25,740	33,137	42,089	44,050	44,930
Net Profit (Rsm)	6,384	11,042	14,833	15,620	15,492
Core EPS (Rs)	10.1	17.0	23.4	24.6	24.4
Core EPS Growth	(12.2%)	67.9%	37.1%	5.3%	(0.8%)
FD Core P/E (x)	39.38	22.77	16.95	16.10	16.23
DPS (Rs)	5.0	4.5	7.0	8.0	9.0
Dividend Yield	1.26%	1.14%	1.77%	2.02%	2.27%
EV/EBITDA (x)	11.55	8.90	6.57	6.25	5.99
P/FCFE (x)	(64.96)	10,223.84	11.04	41.26	21.10
Net Gearing	39.0%	33.7%	18.0%	16.1%	11.2%
P/BV (x)	2.14	1.95	1.81	1.68	1.58
ROE	5.6%	8.8%	11.1%	10.8%	10.0%
% Change In Core EPS Estimates			33.28%	11.81%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

India 1Q profits impressive, Europe dismal

Head 1QFY24 earnings-call highlight ►

- Outlook:** The revenue of the company is likely to grow in the second-half of the year. In 1QFY24, it launched a new product in the EV range by adding nine new stock-keeping units or SKUs and was awarded a new product development deal by Maruti Suzuki. In India, the company introduced TERRA BT, specifically for bulk transportation application. During 1QFY24, the commercial vehicle or CV zone topped 100+ outlets. Recently, the company tied up with the largest Canadian distributor in the passenger car segment.
- Domestic business:** The company reported a 816bp improvement in the EBITDA margin YoY (+188bp QoQ), helped by lower raw material cost & stringent cost control, and expects the margin performance to remain healthy on the back of a correction in input prices and tight cost control. Replacement segment volume went up by 3%, OEM volume was up slightly whereas export volume declined by 30%. The company mentioned that the market share has been maintained in the replacement segment. Export business contribution to the total revenue came down to 11% in 1QFY24 vs. 17% in 1QFY23.
- Europe business:** The European market remained subdued, with the passenger car and truck tyre volume declining by 13% and 33%, respectively, due to high channel inventory and a mild winter season. European demand is likely to remain weak in the near term and the company will continue to focus on cost-control measures. Margins declined by 105bp YoY due to the operating leverage impact due to a lower topline. Despite a sluggish demand environment, the company gained ~15bp market share in the car tyre segment YoY. It gained ~20bp market share in the OHT segment YoY. TBR (truck and bus radial) market volume declined by 33% and OHT (off-highway tyre) market volume fell by 35%. Reifencor's revenue stood at €55m with a 4.5% EBITDA margin.
- Debt and input cost:** Net debt decreased from Rs43bn in 4QFY23 to Rs38bn in 1QFY24 and the net debt-to-EBITDA ratio reduced to 1.2x. Raw material cost declined by 2% YoY and the company expects it to remain stable for the next two quarters.
- Capex:** At a consolidated level, it will be ~Rs10bn of which ~Rs7bn is for Indian operations.

Figure 1: Results comparison

FYE Mar (Rs m)	1QFY24	1QFY23	yoy % chg	4QFY23	qoq % chg	Comments
Revenue	62,446	59,420	5.1	62,473	(0.0)	2% below our estimates.
Raw Materials	34,319	35,840	(4.2)	35,370	(3.0)	
RM as % of revenue	55.0	60.3	(536)	56.6	(165.8)	Gross margin was 204bp below our estimates.
EBITDA	10,515	6,898	52.4	9,985	5.3	7% above our estimates.
<i>EBITDA margin (%)</i>	<i>16.8</i>	<i>11.6</i>	<i>523</i>	<i>16.0</i>	<i>85.6</i>	<i>134bp above our estimates.</i>
Deprn & amort.	3,620	3,437	5.3	3,724	(2.8)	1% above our estimates.
EBIT	6,895	3,461	99.2	6,260	10.1	
Interest expense	1,355	1,182	14.6	1,390	(2.6)	15% above our estimates.
Other Income	355	106	235.2	169	110	
Pretax profit	5,896	2,384	147.3	5,039	17.0	
Tax	1,795	611	193.8	1,163	54.4	
Tax rate (%)	30.4	25.6	482	23.1	737.3	In line with our estimates.
Normalised Net profit	4,101	1,773	131.2	3,876	5.8	3% above our estimates.
Exceptionals	(132)	-	nm	226	nm	
Reported net profit	3,968	1,773	123.8	4,103	(3.3)	
Normalised EPS (Rs)	6.5	2.8	131.2	6.1	5.8	

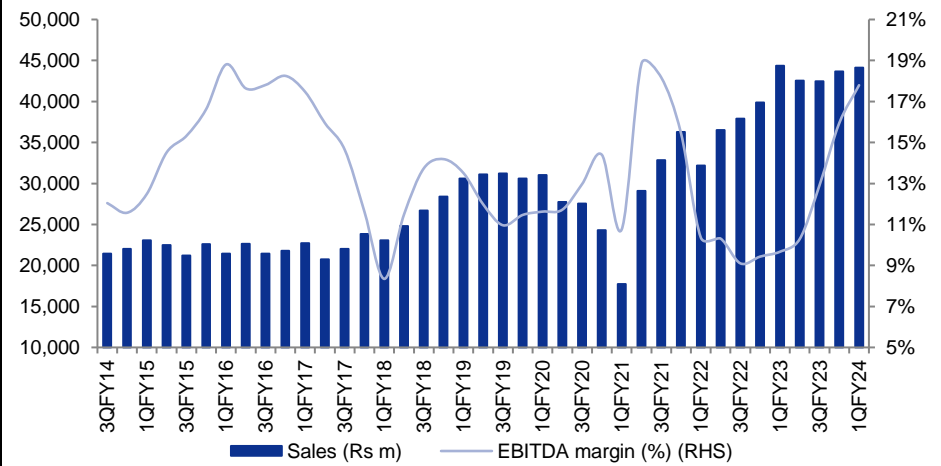
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: India business performance

In Rs m	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Sales	44,133	44,362	-0.5%	43,662	1.1%
EBITDA	7,852	4,288	83.1%	6,964	12.8%
EBITDA margin	17.8%	9.7%	813	15.9%	184
PAT	3,145	910	245.5%	2,389	31.6%

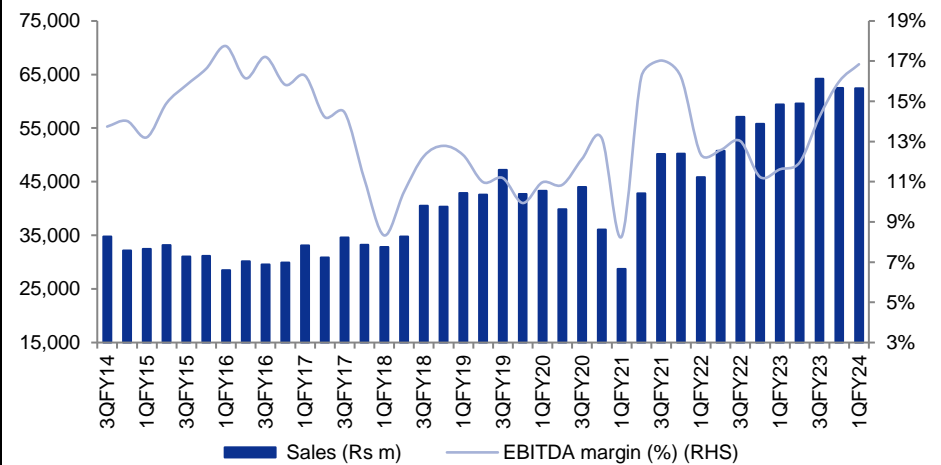
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Standalone EBITDA margin performance



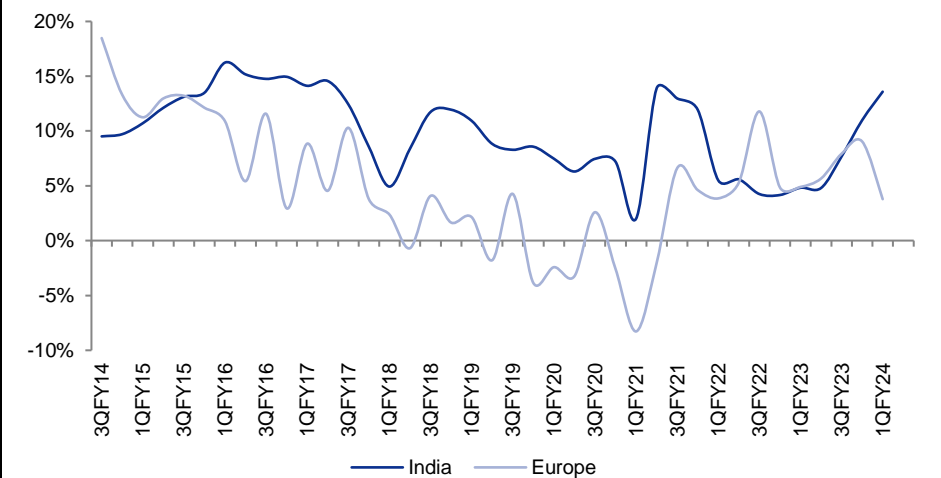
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Consolidated EBITDA margin performance



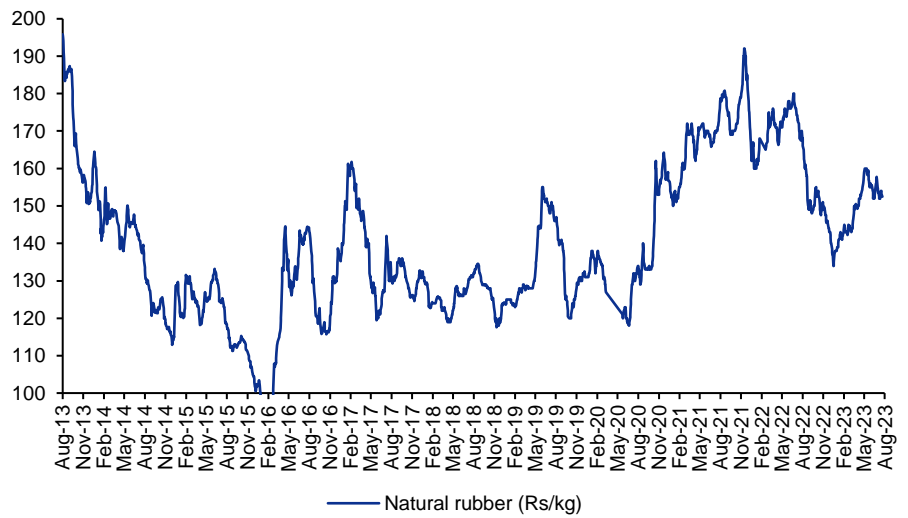
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Region-wise EBIT margin trend



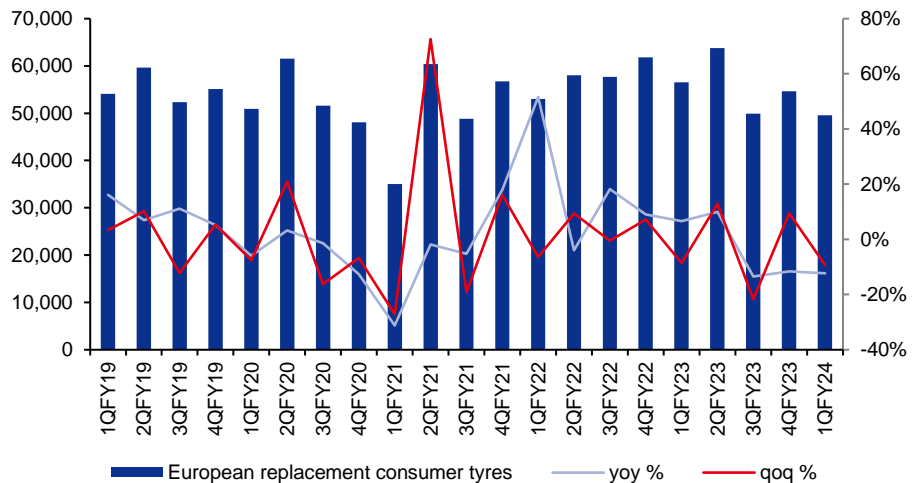
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Natural rubber price trend



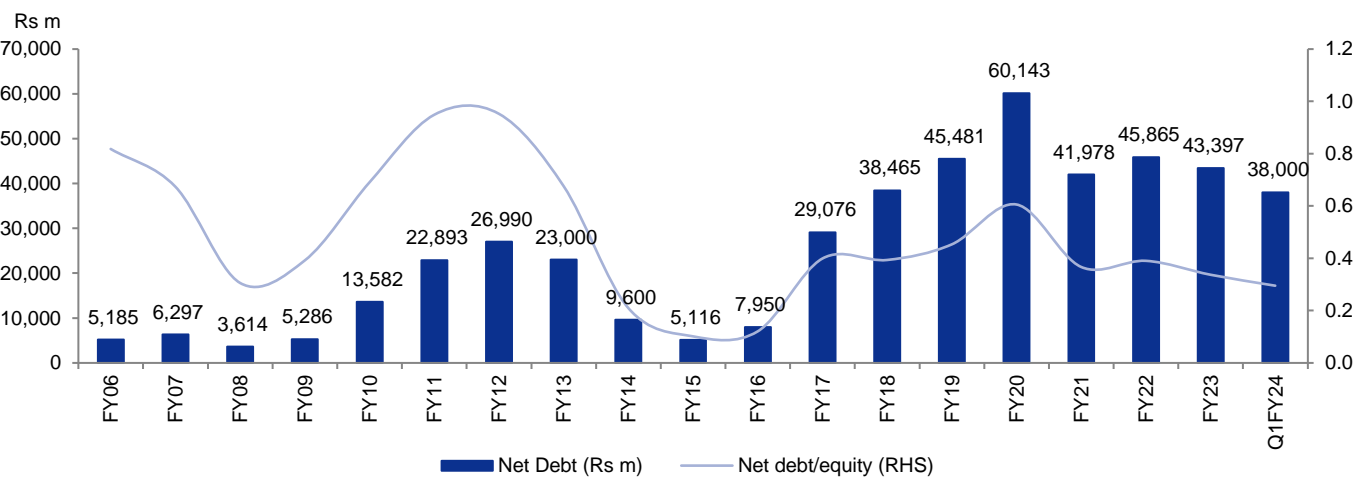
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 7: Replacement demand weakness in European consumer tyre market



NOTE: CONSUMER TYRES COMPRISE PASSENGER CAR, SUV AND LCV TYRES
SOURCE: IEUROPEAN TYRE & RUBBER MANUFACTURERS ASSOCIATION (ETRMA), INCRED RESEARCH, COMPANY REPORTS

Figure 8: Consolidated net debt eases, after being flat for the last three quarters (Rs m)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Our revised earnings estimates for the consolidated entity

Consolidated (Rs m)	FY24F		FY25F	
	Old	New	Old	New
Net Sales	2,81,291	2,66,819	3,15,323	2,96,290
Change (%)		-5.1%		-6.0%
EBITDA	35,018	42,089	40,039	44,050
Change (%)		20.2%		10.0%
EBITDA Margin	12.4%	15.8%	12.7%	14.9%
bp Change		333		217
Interest Expenses	4,988	5,502	5,123	5,350
Change (%)		10.3%		4.4%
Normalized PAT	11,214	14,833	13,970	15,620
Change (%)		32.3%		11.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Key drivers

	FY22A	FY23A	FY24F	FY25F	FY26F
India sales (mt)	8,59,236	9,19,382	9,65,351	10,42,579	11,05,134
Growth (%)	15.0%	6.0%	5.0%	8.0%	6.0%
ASP (Rs/kg)	170.5	188.2	195.3	200.8	206.5
Growth (%)	9.9%	10.4%	3.8%	2.8%	2.8%
India Sales (Rsm)	1,46,494	1,73,010	1,88,581	2,09,325	2,28,164
India EBIT margin (%)	4.8%	7.1%	10.8%	9.9%	8.4%
Europe sales (Rsm)	65,563	72,974	80,272	89,904	97,996
Europe EBIT margin (%)	6.8%	7.0%	5.7%	5.5%	6.0%
Consolidate EBIT margin (%)	5.6%	7.7%	9.7%	9.0%	8.1%

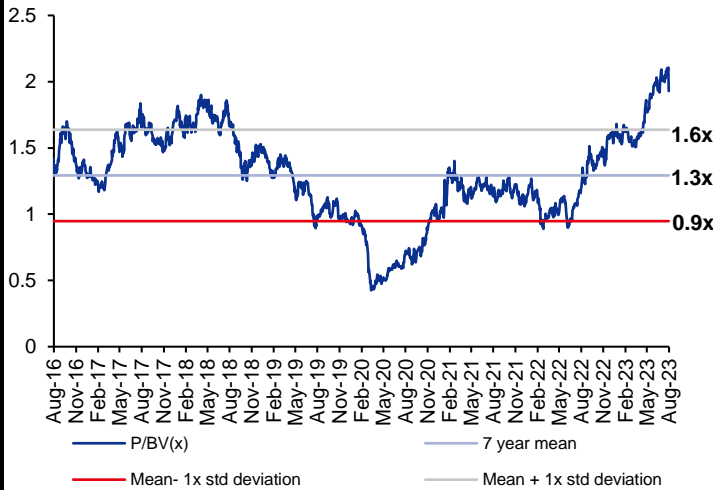
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

1-year forward EPS (Rs.)	24.5
P/E(x)	14.0
Target price (Rs.)	343

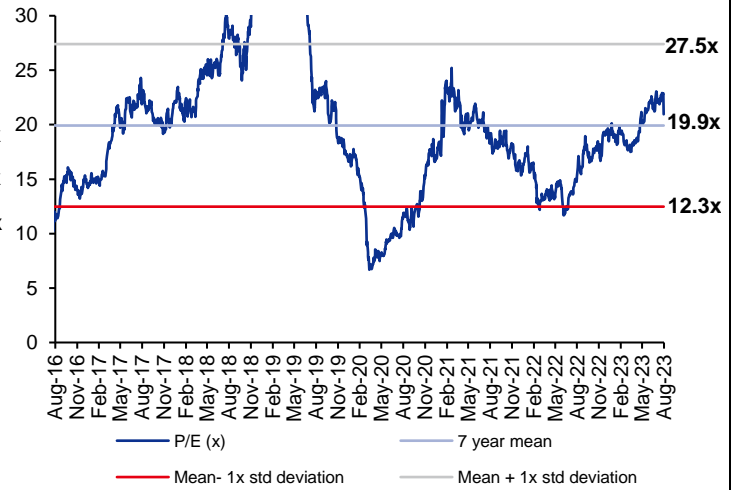
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Rich forward P/BV valuation



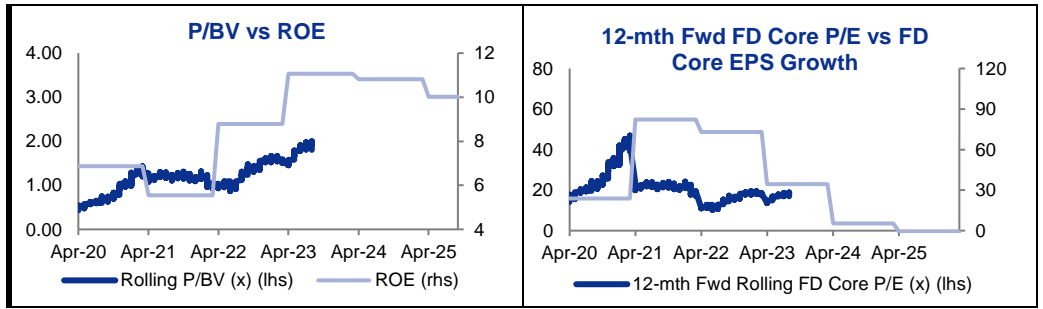
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 13: Forward P/E valuation near the seven-year mean level



SOURCE: BLOOMBERG, 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	266,820	296,290	323,302
Gross Profit	85,620	99,311	120,069	130,368	139,020
Operating EBITDA	25,740	33,137	42,089	44,050	44,930
Depreciation And Amortisation	(13,997)	(14,191)	(16,301)	(17,353)	(18,764)
Operating EBIT	11,744	18,945	25,788	26,697	26,166
Financial Income/(Expense)	(3,209)	(4,901)	(4,598)	(4,383)	(4,035)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	8,534	14,044	21,190	22,314	22,131
Exceptional Items					
Pre-tax Profit	8,534	14,044	21,190	22,314	22,131
Taxation	(2,091)	(3,226)	(6,357)	(6,694)	(6,639)
Exceptional Income - post-tax	(59)	226			
Profit After Tax	6,384	11,044	14,833	15,620	15,492
Minority Interests		(2)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,384	11,042	14,833	15,620	15,492
Recurring Net Profit	6,443	10,816	14,833	15,620	15,492
Fully Diluted Recurring Net Profit	6,443	10,816	14,833	15,620	15,492

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	25,740	33,137	42,089	44,050	44,930
Cash Flow from Invt. & Assoc.		(2)			
Change In Working Capital	(2,663)	(14,042)	(188)	(6,392)	(3,848)
(Incr)/Decr in Total Provisions	374	1,757	1,240	1,350	2,550
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,235	411	904	967	1,035
Net Interest (Paid)/Received	(4,444)	(5,312)	(5,502)	(5,350)	(5,070)
Tax Paid	(948)	(2,507)	(5,298)	(5,578)	(5,533)
Cashflow From Operations	19,294	13,441	33,246	29,047	34,064
Capex	(20,877)	(11,021)	(8,323)	(21,000)	(21,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	872	2,905	(2,154)	(1,954)	(1,147)
Cash Flow From Investing	(20,005)	(8,116)	(10,477)	(22,954)	(22,147)
Debt Raised/(repaid)	(3,160)	(5,301)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,176)	(2,858)	(4,446)	(5,081)	(5,716)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(6,335)	(8,159)	(4,446)	(5,081)	(5,716)
Total Cash Generated	(7,046)	(2,833)	18,323	1,012	6,201
Free Cashflow To Equity	(3,870)	25	22,769	6,093	11,916
Free Cashflow To Firm	3,733	10,638	28,271	11,443	16,986

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	30,802	31,815	38,015
Total Debtors	16,104	24,885	21,930	24,353	26,573
Inventories	41,554	44,285	52,633	58,446	63,775
Total Other Current Assets	10,539	11,828	14,200	16,200	16,200
Total Current Assets	83,510	93,477	119,565	130,814	144,562
Fixed Assets	179,938	172,589	168,788	172,435	174,671
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	171,451	175,136	177,413
Short-term Debt	17,093	17,978	17,978	17,978	17,978
Current Portion of Long-Term Debt					
Total Creditors	36,069	33,539	38,744	40,588	44,288
Other Current Liabilities	38,610	42,313	44,113	45,913	47,713
Total Current Liabilities	91,772	93,830	100,835	104,479	109,979
Total Long-term Debt	44,085	37,898	37,898	37,898	37,898
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	44,085	37,898	37,898	37,898	37,898
Total Provisions	12,627	12,367	13,118	13,867	14,618
Total Liabilities	148,483	144,095	151,851	156,245	162,496
Shareholders Equity	117,521	128,778	139,165	149,704	159,480
Minority Interests					
Total Equity	117,521	128,778	139,165	149,704	159,480

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	21.8%	17.3%	8.6%	11.0%	9.1%
Operating EBITDA Growth	(1.0%)	28.7%	27.0%	4.7%	2.0%
Operating EBITDA Margin	12.3%	13.5%	15.8%	14.9%	13.9%
Net Cash Per Share (Rs)	(72.22)	(68.33)	(39.48)	(37.89)	(28.12)
BVPS (Rs)	185.04	202.77	219.12	235.72	251.11
Gross Interest Cover	2.64	3.57	4.69	4.99	5.16
Effective Tax Rate	24.5%	23.0%	30.0%	30.0%	30.0%
Net Dividend Payout Ratio	49.3%	26.4%	30.0%	32.5%	36.9%
Accounts Receivables Days	26.06	30.45	32.02	28.51	28.75
Inventory Days	110.13	107.03	120.53	122.18	121.04
Accounts Payables Days	94.50	86.79	89.89	87.26	84.05
ROIC (%)	4.6%	7.1%	9.5%	10.0%	9.2%
ROCE (%)	6.3%	10.0%	13.0%	12.8%	11.9%
Return On Average Assets	3.3%	5.3%	6.4%	6.2%	5.8%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	9.9%	10.4%	3.8%	2.8%	2.8%
Unit sales grth (%, main prod./serv.)	15.0%	6.0%	5.0%	8.0%	6.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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