

India

REDUCE (no change)

Consensus ratings*: Buy 17 Hold 8 Sell 4

Current price:	Rs418
Target price:	Rs362
Previous target:	Rs343
Up/downside:	-13.4%
InCred Research / Consensus:	-18.0%
Reuters:	APLO.NS
Bloomberg:	APTY IN
Market cap:	US\$3,186m
	Rs265,377m
Average daily turnover:	US\$12.3m
	Rs1026.7m
Current shares o/s:	635.1m
Free float:	62.7%

*Source: Bloomberg

Key changes in this note

- Sales cut by 3-6% for FY24F-26F.
- EBITDA raised by 6-8% for FY24F-26F.
- EPS raised by 11-16% for FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.6	(4.7)	41.4
Relative (%)	14.8	(3.5)	32.2

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

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Apollo Tyres Ltd

Achieves peak cyclical profitability in 2Q

- Consol. 2Q EPS up by 19% qoq at Rs7.7, driven by EBITDA margin expansion to 18.5%, is impressive. 1H EPS formed 60% of our FY24F estimate.
- India EBITDA margin scaling its historic peak & indicative signs of price cuts in Sep 2023 amid rising rubber prices limits FY24F-26F EPS upgrade to 11-16%.
- Cyclical peak margins may not drive a valuation rerating, as P/BV valuation is already above the +1SD mean level. Retain REDUCE with a new TP of Rs362.

India business margins scale their cyclical peak in 2QFY24

2QFY24 consolidated EBITDA of Apollo Tyres rose by 63% yoy and 10% qoq to Rs11.6bn, 8% above our/Bloomberg consensus estimates. India EBITDA margin was near its historic peak of 19% (last seen in 2QFY21 and 1QFY16, see Fig. 4), aided by lower raw material costs. The European operations' EBITDA margin fell by 120bp yoy to 14.1%. The weak sales growth of 5% yoy was below our estimate and is a cause of concern. Interest costs remain flattish yoy, despite net debt reduction. PAT rose by 19% qoq and 144% yoy to Rs4.7bn, 7% above our estimate.

Management conference-call highlights

Management indicated a double-digit yoy volume growth in India while exports and Europe business are still in the decline mode. Management expects volume growth recovery going ahead. Net debt declined by 10% in 1HFY24 to Rs39bn, as improvement in FCF helped, while capex was curtailed at Rs3bn in 1H. Management reiterates its focus on profit margin rather than volume recovery and will try to sustain the current margins in India.

Raise our estimates because of short-term peak margins of industry

The tyre industry's margins over the last one year have risen to touch their historic peak levels (see Fig. 6), aided by pricing discipline and lower input costs. However, with industry growth easing, our channel check indicates that price cuts taken in Sep 2023 are not captured in 2Q margins. However, building in the 2Q beat, we raise our FY24F-26F EBITDA estimates by 6-8% for FY24F-26F, wherein we build in an EBITDA margin of around 16% vs. 17.7% in 1HFY24. The capex discipline helping debt reduction leads to our 11-16% EPS upgrade for FY24F-26F.

Profit margin at peak level may not drive valuation

Based on historical cyclicality and the entry of new players like Birla Tyres, we feel the high-teen peak EBITDA margin in India will be difficult to sustain. Considering the risk to margins, we feel the valuation rerating from the last phase of peak profitability may not yield any share price upside. We marginally raise our target price to Rs362, or 13x 1-year forward P/E, from Rs343 earlier. Being a cyclical capital-intensive business, we feel the P/BV valuation at +1SD above the mean level (see Fig. 12) is a cause of concern. We retain our REDUCE rating on the stock. Key upside risk is the demand recovery in India/Europe.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	209,475	245,681	259,733	278,345	303,623
Operating EBITDA (Rsm)	25,740	33,137	45,260	46,647	48,614
Net Profit (Rsm)	6,384	11,042	16,886	17,272	17,970
Core EPS (Rs)	10.1	17.0	26.6	27.2	28.3
Core EPS Growth	(12.2%)	67.9%	56.1%	2.3%	4.0%
FD Core P/E (x)	41.57	24.03	15.72	15.36	14.77
DPS (Rs)	5.0	4.5	7.0	8.0	9.0
Dividend Yield	1.20%	1.08%	1.68%	1.91%	2.15%
EV/EBITDA (x)	12.09	9.32	6.59	6.17	5.92
P/FCFE (x)	(68.57)	10,792.05	17.48	17.15	49.70
Net Gearing	39.0%	33.7%	23.1%	14.5%	13.7%
P/BV (x)	2.26	2.06	1.88	1.73	1.60
ROE	5.6%	8.8%	12.5%	11.7%	11.3%
% Change In Core EPS Estimates			13.84%	10.58%	16.00%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Achieves peak cyclical profitability in 2Q

Management conference-call highlights➤

- **Outlook:** Management expects the domestic market to grow in double digits next quarter, mainly led by commercial vehicle and passenger vehicle segments, and exports to post a recovery from the current level as they bottomed out in 2QFY24. Going ahead, management to focus on profitability rather than volume growth. It aims to sustain the current EBITDA margin and RoCE levels. The company's R&D spending to remain at 2-3% of the top line and it plans to increase the marketing expenditure for brand building.
- **Raw material costs:** Raw material prices are likely to increase from the current level and to maintain the margins at the current level, management will act on pricing, product mix and cost control. Crude oil prices are at a comfortable level and are likely to sustain the trend while the natural rubber prices remain unpredictable.
- **India market:** Domestic volume was up 40% yoy and 7% qoq, increasing the overall volume by 10% yoy, led by both original equipment manufacturer or OEM and replacement segments but it was partially impacted by the decline in export volume. The company reported an 881 bp yoy improvement in the EBITDA margin led by lower raw material costs and cost-control initiatives.
- **European market:** The volume in this market declined by 18% yoy due to geopolitical problems, but management is hopeful that it will improve from the current level on account of new product launches and expansion into new geographies. The car tyre market declined by ~7% yoy, mainly on account of high channel inventory and a mild winter season. The industry is likely to remain sluggish in the near term. The company will continue to focus on cost containment measures.
- **Passenger car or PC segment:** This segment witnessed qoq flattish growth due to unavailability of large size tyres, and management expects the 17-18-inch tyre category to drive the growth in the PC segment led by robust demand in the sports utility vehicle or SUV sub-segment. The overall PC segment's volume is likely to grow in double digits on account of the ongoing festive season.
- **Commercial vehicle or CV segment:** Truck volume was up 20% yoy led by the CV cycle making a recovery and the current growth rate is likely to sustain for the next two quarters. Pricing in the CV segment remains stable due to lower competition.
- **Off highway or OHT segment:** European and American OHT industry volumes declined by 30% each yoy. Management is planning a brand-building exercise in the in OHT segment and then gradually increase the capex as it stages a turnaround.
- **Others**
 - Channel inventory remains at the normal level in the PC segment while it is higher in the agri business segment.
 - For the next two years, the company will be operating with a capex-light model as it will focus on digitalization.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy % chg	1QFY24	qoq % chg	Comments
Revenue	62,797	59,560	5.4	62,446	0.6	6.5% below our estimate.
Raw material (RM) costs	34,121	36,406	(6.3)	34,319	(0.6)	
RM costs as a % of revenue	54.3	61.1	(679)	55.0	(62.2)	216bp below our estimate.
EBITDA	11,599	7,120	62.9	10,515	10.3	8% above our estimate.
<i>EBITDA margin (%)</i>	<i>18.5</i>	<i>12.0</i>	<i>652</i>	<i>16.8</i>	<i>163.3</i>	<i>247bp above our estimate.</i>
Depreciation & amortization	3,603	3,485	3.4	3,620	(0.5)	3% below our estimate.
EBIT	7,996	3,635	120.0	6,895	16.0	
Interest expenses	1,328	1,320	0.6	1,355	(2.0)	3% below our estimate.
Other Income	253	69	269.6	355	(29)	
Pre-tax profit	6,922	2,383	190.4	5,896	17.4	
Tax	2,058	440	367.8	1,795	14.6	
Tax rate (%)	29.7	18.5	1,127	30.4	(71.7)	473bp above our estimate.
Normalized net profit	4,864	1,944	150.3	4,101	18.6	7% above our estimate.
Exceptional items	(122)	-	nm	(132)	nm	
Reported net profit	4,740	1,942	144.0	3,968	19.5	
Normalized EPS (Rs)	7.7	3.1	150.3	6.5	18.6	

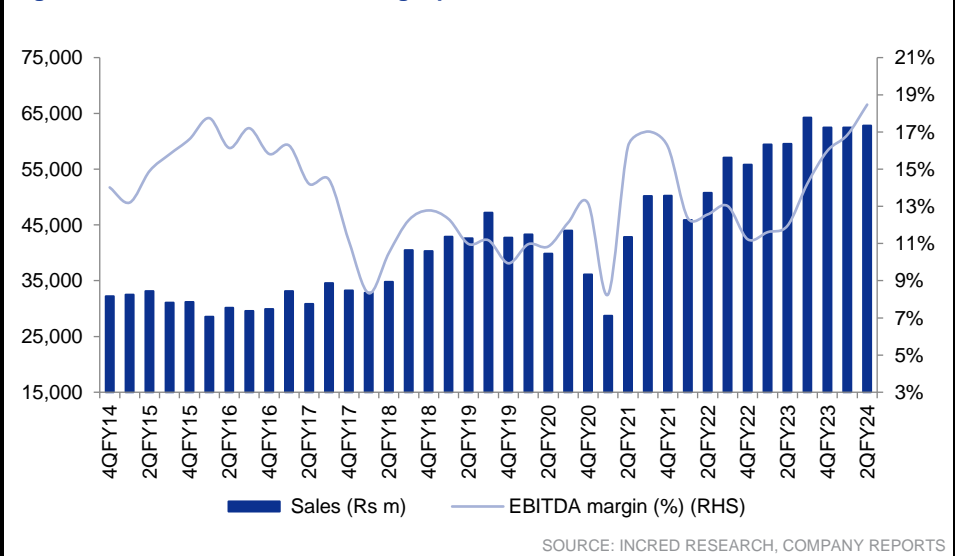
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: India business performance

(Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
Sales	44,067	42,519	3.6%	44,133	-0.1%	88,200	86,882	1.5%
EBITDA	8,414	4,374	92.4%	7,852	7.2%	16,266	8,662	87.8%
EBITDA margin	19.1%	10.3%	881	17.8%	130	18.4%	10.0%	847
PAT	3,550	808	339.3%	3,145	12.9%	6,695	1,718	289.6%

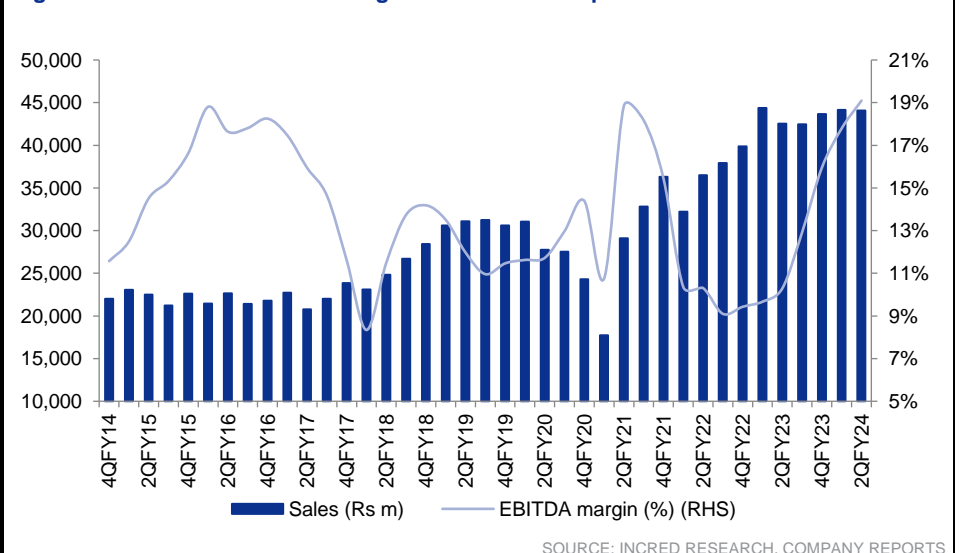
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consolidated EBITDA margin performance



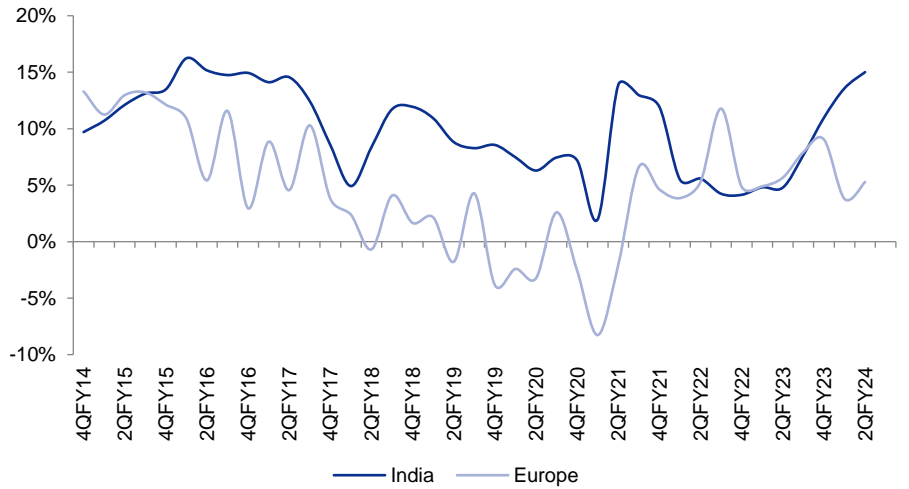
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Standalone EBITDA margin near its historic peak



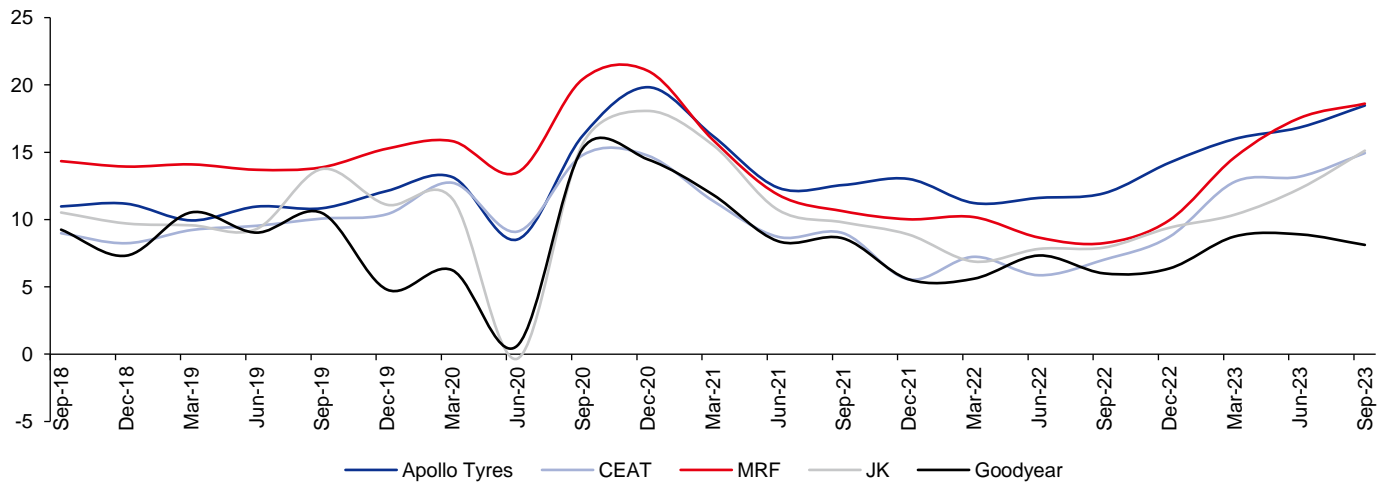
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Region-wise EBIT margin trend



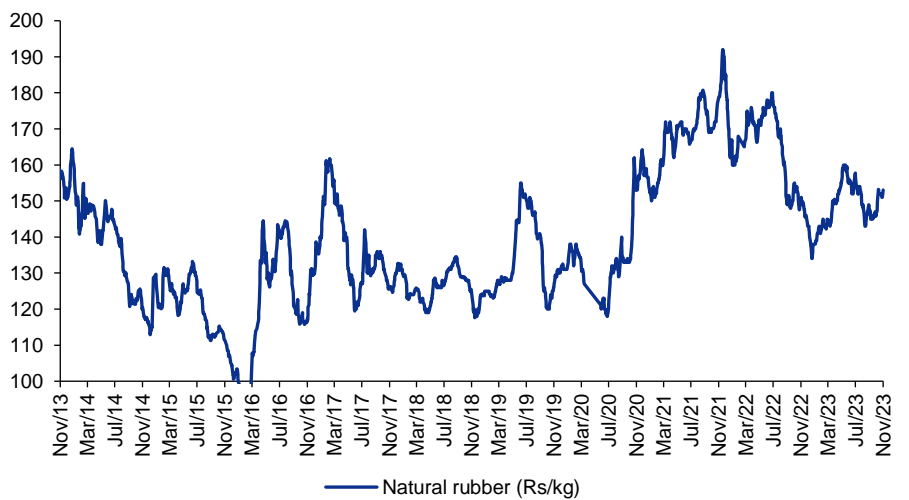
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



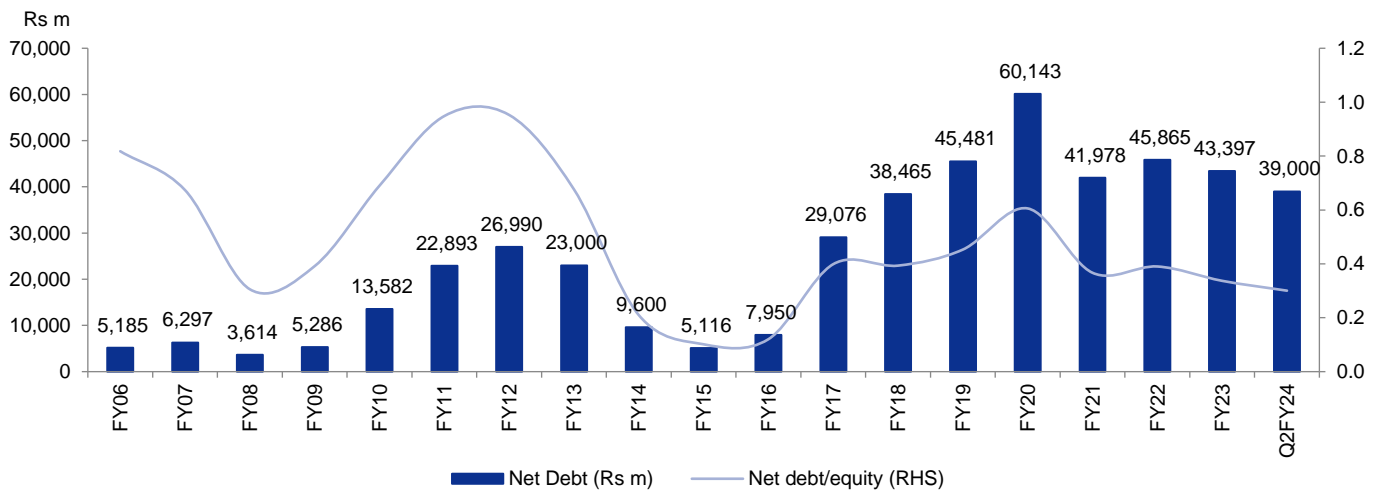
SOURCE: ACE EQUITY, INCRED RESEARCH, COMPANY REPORTS

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 the consolidated entity

Consolidated (Rs m)	FY24F		FY25F		FY26F	
	Old	New	Old	New	Old	New
Net sales	266,819	259,733	296,290	278,345	323,302	303,623
Change (%)		-2.7%		-6.1%		-6.1%
EBITDA	42,089	45,260	44,050	46,647	44,930	48,614
Change (%)		7.5%		5.9%		8.2%
EBITDA margin	15.8%	17.4%	14.9%	16.8%	13.9%	16.0%
Change (bp)		165		189		211
Interest expenses	5,502	5,502	5,350	5,350	5,070	5,070
Change (%)		0.0%		0.0%		0.0%
Normalized PAT	14,833	16,886	15,620	17,272	15,492	17,970
Change (%)		13.8%		10.6%		16.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Key drivers

	FY22A	FY23A	FY24F	FY25F	FY26F
India sales (mt)	859,236	919,382	965,351	1,042,579	1,105,134
Growth (%)	15.0%	6.0%	5.0%	8.0%	6.0%
ASP (Rs/kg)	170.5	188.2	190.0	195.2	200.8
Growth (%)	9.9%	10.4%	1.0%	2.8%	2.8%
India Sales (Rsm)	146,494	173,010	183,391	203,564	221,884
India EBIT margin (%)	4.8%	7.1%	12.4%	11.6%	10.6%
Europe sales (Rsm)	65,563	72,974	78,812	88,270	96,214
Europe EBIT margin (%)	6.8%	7.0%	6.5%	5.5%	6.0%
Consolidated EBIT margin (%)	5.6%	7.7%	11.3%	10.7%	10.0%

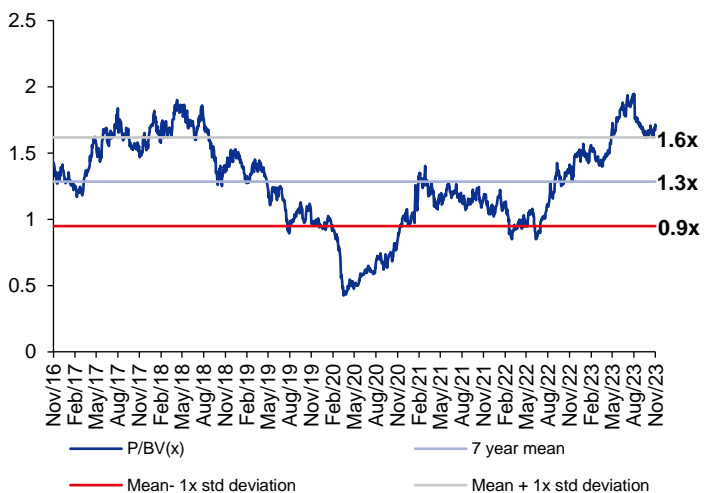
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

1-year forward EPS (Rs)	27.9
P/E(x)	13.0
Target Price (Rs)	362

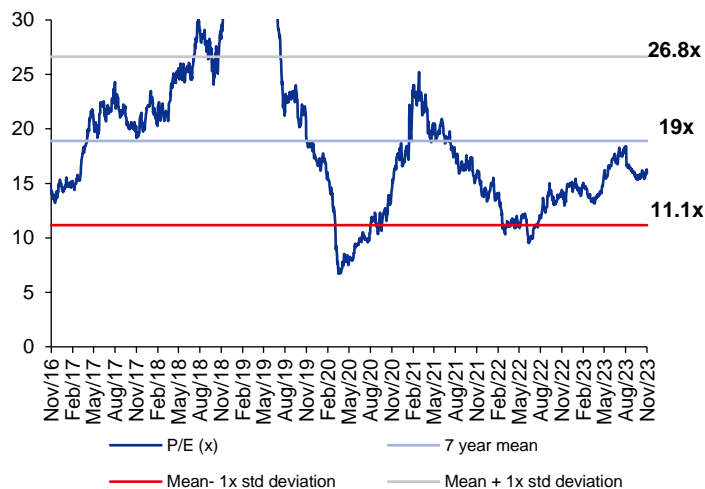
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Rich forward P/BV valuation



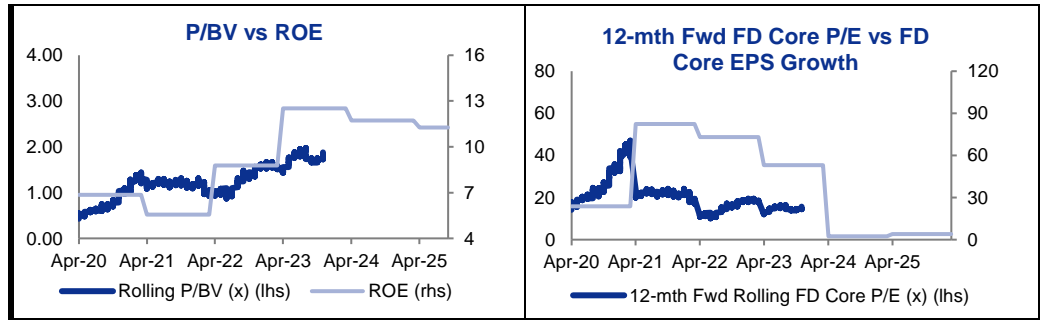
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 13: Forward P/E valuation below 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	259,733	278,345	303,623
Gross Profit	85,620	99,311	116,880	122,472	130,558
Operating EBITDA	25,740	33,137	45,260	46,647	48,614
Depreciation And Amortisation	(13,997)	(14,191)	(15,953)	(16,996)	(18,294)
Operating EBIT	11,744	18,945	29,307	29,651	30,320
Financial Income/(Expense)	(3,209)	(4,901)	(4,475)	(4,251)	(3,894)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	8,534	14,044	24,833	25,400	26,426
Exceptional Items					
Pre-tax Profit	8,534	14,044	24,833	25,400	26,426
Taxation	(2,091)	(3,226)	(7,946)	(8,128)	(8,456)
Exceptional Income - post-tax	(59)	226			
Profit After Tax	6,384	11,044	16,886	17,272	17,970
Minority Interests		(2)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,384	11,042	16,886	17,272	17,970
Recurring Net Profit	6,443	10,816	16,886	17,272	17,970
Fully Diluted Recurring Net Profit	6,443	10,816	16,886	17,272	17,970

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	25,740	33,137	45,260	46,647	48,614
Cash Flow from Invt. & Assoc.		(2)			
Change In Working Capital	(2,663)	(14,042)	(14,180)	(2,807)	(11,433)
(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	1,027	1,099	1,176
Net Interest (Paid)/Received	(4,444)	(5,312)	(5,502)	(5,350)	(5,070)
Tax Paid	(948)	(2,507)	(6,208)	(6,350)	(6,607)
Cashflow From Operations	19,294	13,441	22,137	34,789	28,730
Capex	(20,877)	(11,021)	(4,323)	(17,000)	(21,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	872	2,905	(2,633)	(2,316)	(2,390)
Cash Flow From Investing	(20,005)	(8,116)	(6,956)	(19,316)	(23,390)
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)	10,735	10,392	(376)
Free Cashflow To Equity	(3,870)	25	15,181	15,473	5,340
Free Cashflow To Firm	3,733	10,638	20,683	20,823	10,410

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	23,215	33,607	33,231
Total Debtors	16,104	24,885	28,464	30,504	34,937
Inventories	41,554	44,285	53,370	54,906	62,388
Total Other Current Assets	10,539	11,828	13,500	15,000	16,000
Total Current Assets	83,510	93,477	118,548	134,017	146,557
Fixed Assets	179,938	172,589	165,137	165,141	167,847
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	167,800	167,841	170,588
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	32,022	32,791	33,274
Other Current Liabilities	38,610	42,313	44,113	45,913	47,713
Total Current Liabilities	91,772	93,830	94,113	96,683	98,965
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	145,130	148,449	151,482
Shareholders Equity	117,521	128,778	141,218	153,409	165,663
Minority Interests					
Total Equity	117,521	128,778	141,218	153,409	165,663

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	21.8%	17.3%	5.7%	7.2%	9.1%
Operating EBITDA Growth	(1.0%)	28.7%	36.6%	3.1%	4.2%
Operating EBITDA Margin	12.3%	13.5%	17.4%	16.8%	16.0%
Net Cash Per Share (Rs)	(72.22)	(68.33)	(51.43)	(35.06)	(35.66)
BVPS (Rs)	185.04	202.77	222.36	241.55	260.85
Gross Interest Cover	2.64	3.57	5.33	5.54	5.98
Effective Tax Rate	24.5%	23.0%	32.0%	32.0%	32.0%
Net Dividend Payout Ratio	49.3%	26.4%	26.3%	29.4%	31.8%
Accounts Receivables Days	26.06	30.45	37.49	38.66	39.33
Inventory Days	110.13	107.03	124.76	126.77	123.69
Accounts Payables Days	94.50	86.79	83.76	75.88	69.67
ROIC (%)	4.6%	7.1%	10.8%	10.5%	10.6%
ROCE (%)	6.3%	10.0%	14.7%	14.0%	13.5%
Return On Average Assets	3.3%	5.3%	7.2%	6.8%	6.6%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	9.9%	10.4%	1.0%	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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