

India

**REDUCE** (no change)

Consensus ratings\*: Buy 17 Hold 4 Sell 6

Current price: Rs474  
 Target price: ▲ Rs414  
 Previous target: Rs412  
 Up/downside: -12.7%  
 InCred Research / Consensus: -23.0%

Reuters: APLO.NS  
 Bloomberg: APTY IN  
 Market cap: US\$3,606m  
 Rs301,101m  
 Average daily turnover: US\$15.0m  
 Rs1255.0m  
 Current shares o/s: 635.1m  
 Free float: 63.1%

\*Source: Bloomberg

**Key changes in this note**

- Maintain FY25F EBITDA.
- Upgrade FY26F EBITDA by 5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.7)	(10.3)	29.7
Relative (%)	(0.8)	(11.0)	10.1

Major shareholders	% 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

## Its pricing power is on test

- 4Q consolidated & normalized EPS rose by a mere 8% to Rs6.6, in line with our estimate. The dip in India EBITDA margin was compensated by Europe.
- The plan to raise India tyre prices by a sharp 5% to pass on the regulatory and commodity cost spike is steep, in our opinion. Maintain our FY25F estimates.
- Stock price decline from recent peak eases valuation, but it's still +2SD above mean P/BV. Retain REDUCE rating, rolling forward P/E based TP to Rs414.

### Consolidated PAT growth of 8% yoy is in line with our estimate

Consolidated 4QFY24 EBITDA (adjusted for one-offs) growth eased 10% yoy and 9% qoq to Rs.10.9bn, 2% below our/Bloomberg consensus estimates. We treat the extended produce responsibility (EPR) liability of Rs685m as a one-off in 4Q but as a recurring expense in FY24 and future years, as the company plans to go for a price hike to neutralize the impact. Normalized PAT growth of 8% yoy to Rs.4.2bn (adjusted for Rs400m forex gains) was in line with our estimate but 9% below Bloomberg consensus estimate. Europe's EBIT margin of 9.8% and a 17% qoq dip in net debt to Rs25bn is impressive.

### Management conference-call highlights

Management highlighted the improvement in domestic sales in Apr 2024 and the export recovery driven by the Middle East & Africa regions. Management indicated that it has taken a 3% price hike in May 2024 to pass on the EPR impact in India while rising raw material cost inflation will hit demand following a 2% price hike likely in the coming months. Capex was lower than what was planned in FY24 at Rs7bn, as the volume recovery was weak. But the company plans to spend Rs10bn in FY25F. In Europe, management expects better industry growth in FY25F vs. a flat trend in FY24.

### Maintain FY25F estimates; low capex trend uplifts FY25F EPS

We maintain our FY25F consolidated estimates, as the high EBIT margin in Europe helps in overcoming the easing India EBIT margin. We cut India EBIT estimate by 9% for FY25F, as the price hike needed is high for the industry to sustain pricing discipline. Considering the better-than-expected industry peer pricing discipline, we raise consol. EBITDA estimate by 5%. Curtailment of capex & sustained downtick in net debt benefit on interest costs lead to a 10% upgrade in our FY26F EPS. We build in net debt easing to Rs8.6bn in FY26F.

### Maintain our target price and REDUCE rating

The stock price correction in the last three months has marginally eased forward P/BV valuation from its peak, but it is still high at +2SD above the seven-year mean. We retain our REDUCE rating, rolling forward our target price to Rs414 (Rs.412 earlier). The key upside risks are achieving net cash position earlier than expected and an improvement in the dividend payout.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	245,681	253,777	273,679	309,499	334,326
Operating EBITDA (Rsm)	33,137	44,473	46,381	47,144	52,013
Net Profit (Rsm)	11,042	17,219	18,437	17,138	20,111
Core EPS (Rs)	17.0	27.7	29.0	27.0	31.7
Core EPS Growth	67.9%	62.6%	4.8%	(7.0%)	17.3%
FD Core P/E (x)	27.27	17.49	16.33	17.57	14.97
DPS (Rs)	4.5	6.0	8.0	9.0	10.0
Dividend Yield	0.95%	1.27%	1.69%	1.90%	2.11%
EV/EBITDA (x)	10.40	7.34	6.78	6.57	5.84
P/FCFE (x)	12,244.85	54.87	19.80	32.44	26.80
Net Gearing	33.7%	18.2%	8.6%	5.2%	1.5%
P/BV (x)	2.34	2.17	1.98	1.84	1.70
ROE	8.8%	13.1%	12.7%	10.8%	11.8%
% Change In Core EPS Estimates			(0.68%)	(8.26%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Its pricing power is on test

### Management conference-call highlights ►

- **Indian market:** The overall volume was up marginally, led by +30% yoy growth in exports and mid-single growth in the replacement segment, particularly in TBR (+7%) and PCR (+10%) segments. However, it witnessed a double-digit decline in OEM volume, partially offsetting the growth in other segments.
- **Domestic demand:** Indian market is likely to witness growth after the ongoing general elections as management witnessed a double-digit growth in the passenger vehicle segment, high single-digit growth in the commercial segment and an uptick in demand in the agriculture segment in Apr 2024.
- **Financial performance and outlook:** The EBITDA margin dropped by 35bp yoy as it includes the impact of EPR liability of Rs685m. Excluding the EPR liability, standalone EBITDA margin for the quarter stood at 17.2% (+125bp YoY). Management's target is to maintain the margin in the range of 16-17% going ahead.
- **Pricing action:** The pricing environment remained stable. The company recently announced a price hike of 3% across its product range to pass on the EPR-related costs and high natural rubber prices. Management gave guidance that it may need to take a 2-2.5% price hike in 1QFY25F to cover the increased raw material costs.
- **Export business:** Exports are likely to maintain their momentum in 1QFY25F driven by the Middle East and African regions. The company has commenced its operations in the American market.
- **Europe market:** Despite the challenging demand environment, Apollo Tyres gained market share across key product segments. The EBITDA margin for the quarter grew by 103bp yoy and stood at 19.1% led by the growth in the ultra-high performance or UHP segment (+7%) yoy. The UHP mix for the quarter stood at 47% vs. 43% in 4QFY23.
- **Capex:** The company incurred a capex of Rs7bn in FY24, below its guidance, as the demand remained below expectation and capex for the next two years is likely to be on the lower side. However, management's target is to increase its production by 10-15% by implementing AI and automation at its production facilities.
- **Segment-wise performance:** Management's endeavour is to be the leader in PCR and TBR segments. It stated that the company holds a market share of ~20% in the replacement market.
- **Reifencom performance and dividend plan:** Registered a revenue of Rs2.10bn in FY24 with a 4% EBITDA margin and plans to maintain a 20-30% dividend payout.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	4QFY24	4QFY23	yoy % chg	3QFY24	qoq % chg	FY24	FY23	yoy % chg	Comments
Revenue	62,582	62,473	0.2	65,954	(5.1)	2,53,247	2,45,681	3.1	1% above our estimate.
Raw material costs	33,024	35,370	(6.6)	35,192	(6.2)	1,37,007	1,46,371	(6.4)	
RM costs as a % of revenue	52.8	56.6	(385)	53.4	(58.9)	54.1	59.6	(548)	102bp below our estimate.
<b>EBITDA</b>	<b>10,280</b>	<b>9,985</b>	<b>3.0</b>	<b>12,081</b>	<b>(14.9)</b>	<b>45,346</b>	<b>33,137</b>	<b>36.8</b>	<b>8% above our estimate.</b>
<i>EBITDA margin (%)</i>	<i>16.4</i>	<i>16.0</i>	<i>44</i>	<i>18.3</i>	<i>(189.1)</i>	<i>17.9</i>	<i>13.5</i>	<i>442</i>	<i>155bp below our estimate.</i>
Depreciation & amortization	3,880	3,724	4.2	3,676	5.5	15,085	14,191	6.3	7% below our estimate.
EBIT	6,400	6,260	2.2	8,405	(23.9)	30,261	18,945	59.7	
Interest expenses	1,146	1,390	(17.5)	1,230	(6.8)	5,154	5,312	(3.0)	8% below our estimate.
Other income	743	169	339.6	184	304	945	411	130.0	
Pre-tax profit	5,997	5,039	19.0	7,358	(18.5)	26,052	14,044	85.5	
Tax	2,089	1,163	79.7	2,242	(6.8)	7,816	3,226	142.3	
Tax rate (%)	34.8	23.1	1,177	30.5	437.5	30.0	23.0	703	555bp above our estimate.
<b>Normalized net profit</b>	<b>3,908</b>	<b>3,876</b>	<b>0.8</b>	<b>5,117</b>	<b>(23.6)</b>	<b>18,237</b>	<b>10,818</b>	<b>68.6</b>	<b>15% below our estimate.</b>
Exceptionals	(368)	226	nm	(151)	nm	-	226	nm	
<b>Reported net profit</b>	<b>3,541</b>	<b>4,103</b>	<b>(13.7)</b>	<b>4,966</b>	<b>(28.7)</b>	<b>18,237</b>	<b>8,946</b>	<b>103.8</b>	
Normalized EPS (Rs)	6.2	6.1	0.8	8.1	(23.6)	28.7	17.0	68.6	

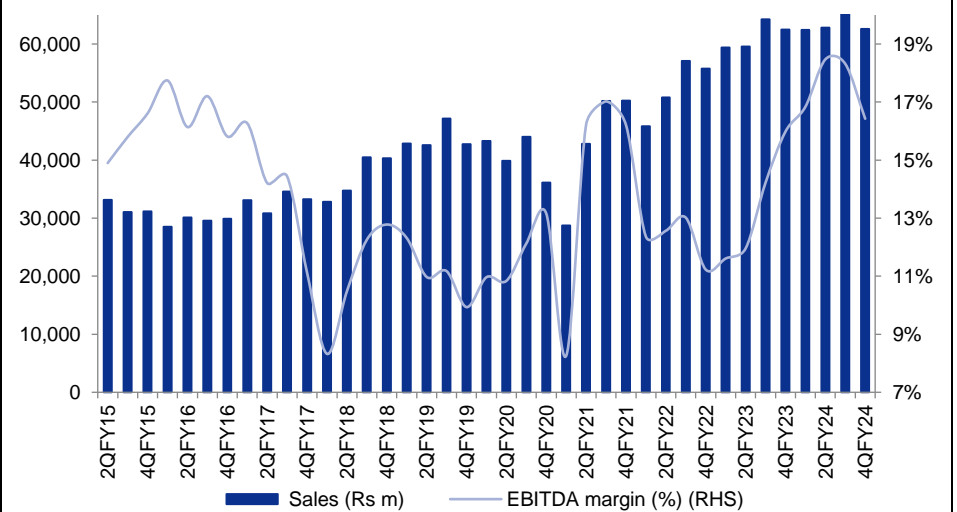
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: India business performance**

Rs m	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	FY24	FY23	yoy (%)
Sales	43,874	43,662	0.5%	43,319	1.3%	1,75,393	1,73,010	1.4%
EBITDA	6,845	6,964	-1.7%	7,840	-12.7%	30,966	21,109	46.7%
EBITDA margin	15.6%	15.9%	(35)	18.1%	(250)	17.7%	12.2%	545
PAT	2,483	2,389	3.9%	3,106	-20.1%	12,298	5,787	112.5%

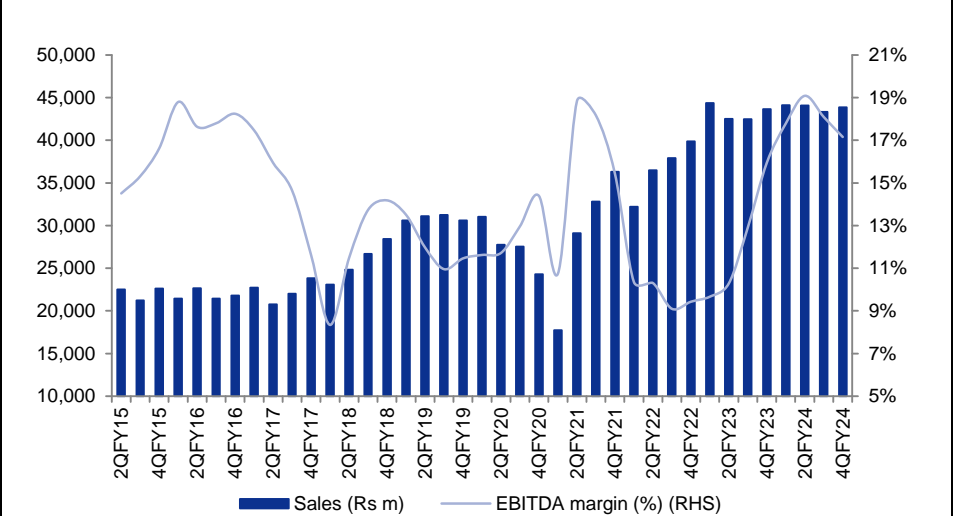
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



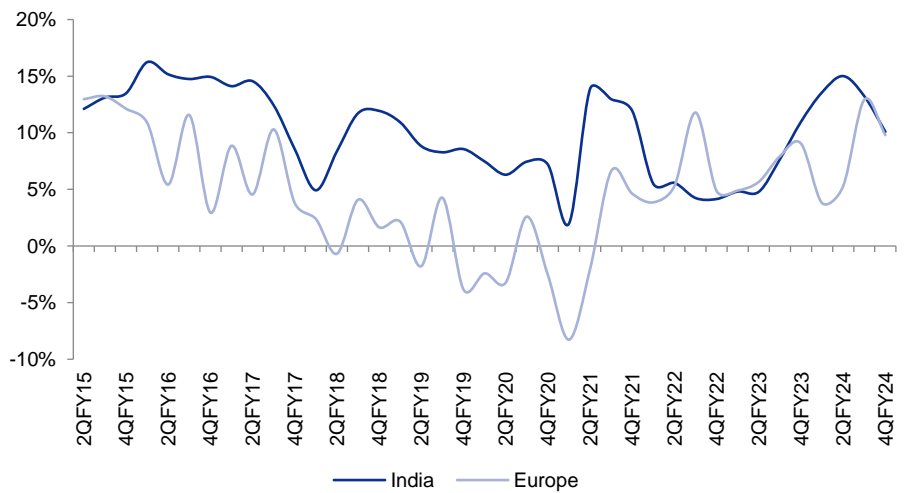
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



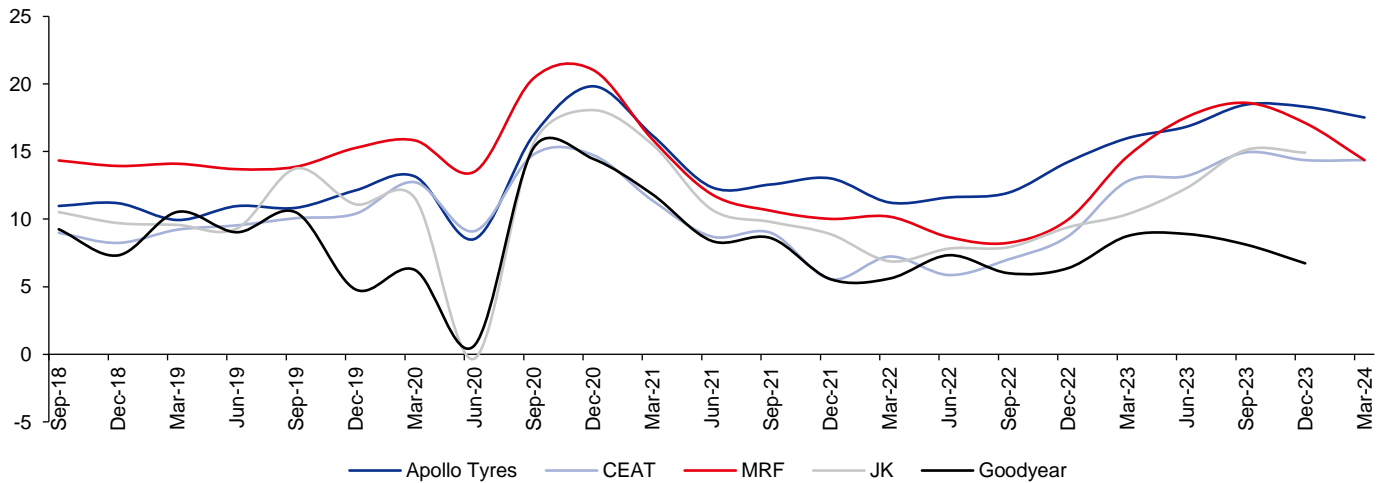
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Region-wise EBIT margin trend



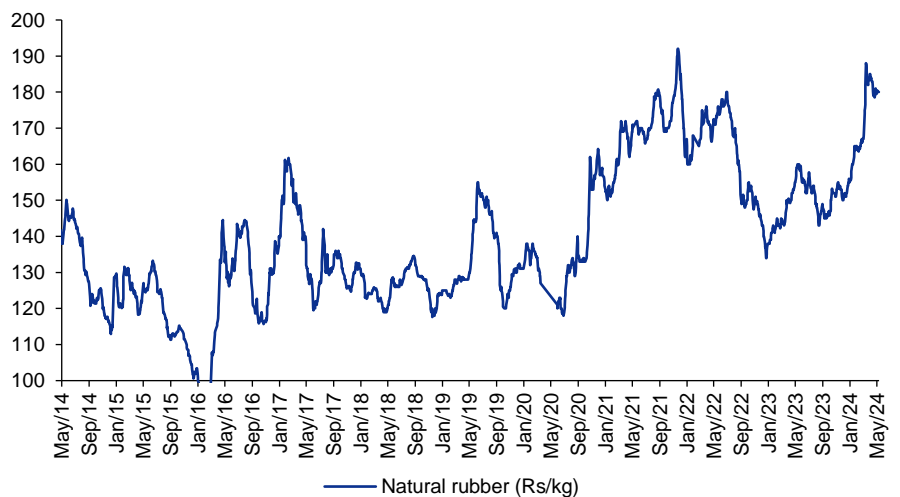
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Margin trend of tyre players indicates that it's close to cyclical peak level



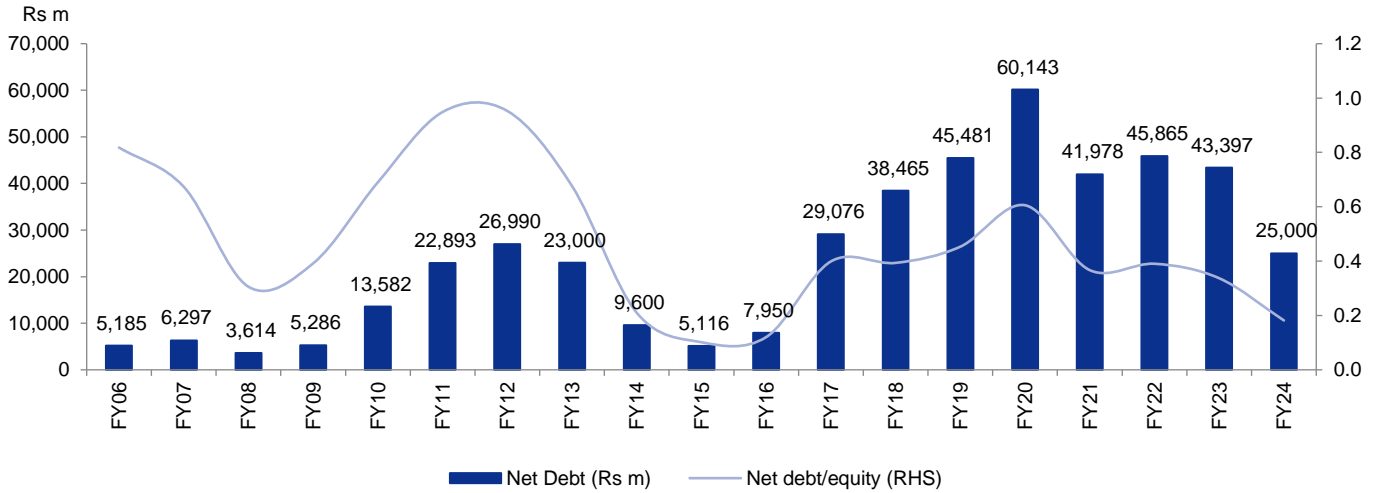
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Natural rubber prices witness a sharp uptrend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Consolidated net debt easing trend sustains



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Our revised earnings estimates for the consolidated entity

Consolidated (Rs m)	FY25F		FY26F	
	Old	New	Old	New
Net Sales	2,69,273	2,73,679	3,23,302	3,09,499
Change (%)		1.6%		-4.3%
EBITDA	47,204	46,381	44,930	47,144
Change (%)		-1.7%		4.9%
EBITDA Margin	17.5%	16.9%	13.9%	15.2%
bp Change		(58)		134
Interest Expense	4,375	4,500	5,070	4,550
Change (%)		2.9%		-10.3%
Normalized PAT	18,564	18,437	15,492	17,138
Change (%)		-0.7%		10.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Key drivers

	FY23A	FY24A	FY25F	FY26F	FY27F
India sales (mt)	9,19,382	9,28,576	9,65,719	10,23,662	10,95,319
Growth (%)	6.0%	1.0%	4.0%	6.0%	7.0%
ASP (Rs/kg)	188.2	188.9	198.0	205.4	209.3
Growth (%)	10.4%	0.4%	4.8%	3.8%	1.9%
India Sales (Rsm)	1,73,010	1,75,393	1,91,179	2,10,297	2,29,223
<b>India EBIT margin (%)</b>	<b>7.1%</b>	<b>13.4%</b>	<b>12.0%</b>	<b>10.9%</b>	<b>11.1%</b>
Europe sales (Rsm)	72,974	76,399	84,039	94,964	1,04,460
<b>Europe EBIT margin (%)</b>	<b>7.0%</b>	<b>8.0%</b>	<b>8.7%</b>	<b>6.5%</b>	<b>7.0%</b>
Consolidate EBIT margin (%)	7.7%	11.7%	11.1%	9.4%	9.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

1-year forward EPS (Rs.)	27.6
P/E(x)	15.0
<b>Target price (Rs.)</b>	<b>414</b>

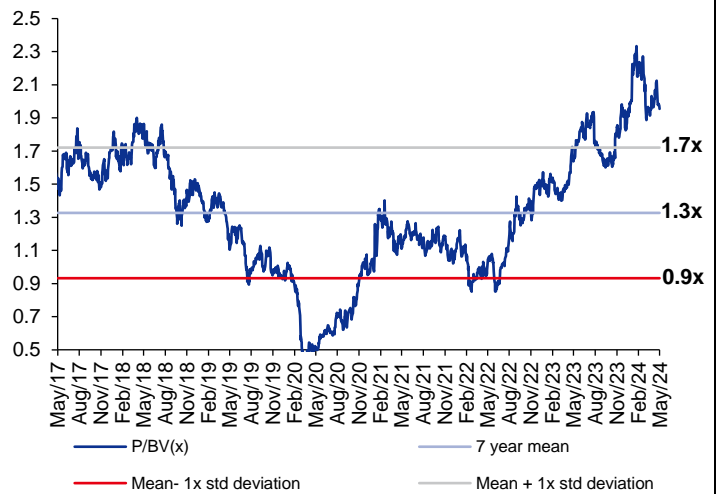
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



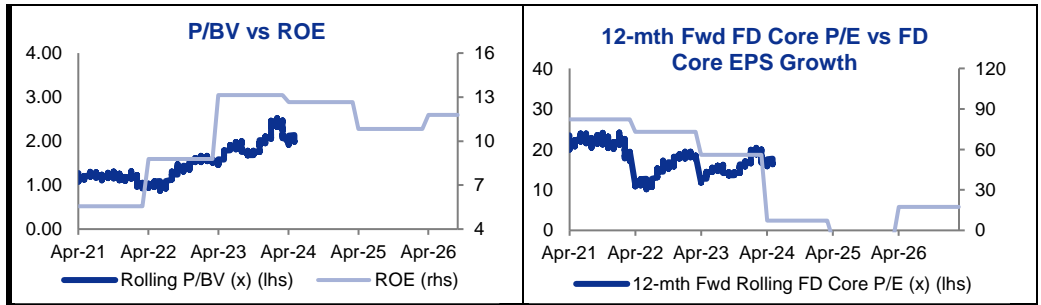
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Rich forward P/BV valuation



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	245,681	253,777	273,679	309,499	334,326
<b>Gross Profit</b>	99,311	117,146	120,419	133,084	143,760
<b>Operating EBITDA</b>	33,137	44,473	46,381	47,144	52,013
Depreciation And Amortisation	(14,191)	(14,778)	(16,073)	(17,999)	(19,401)
<b>Operating EBIT</b>	18,945	29,695	30,307	29,146	32,613
Financial Income/(Expense)	(4,901)	(3,924)	(3,194)	(3,179)	(3,038)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	14,044	25,771	27,113	25,967	29,575
Exceptional Items					
<b>Pre-tax Profit</b>	14,044	25,771	27,113	25,967	29,575
Taxation	(3,226)	(8,183)	(8,676)	(8,829)	(9,464)
Exceptional Income - post-tax	226	(373)			
<b>Profit After Tax</b>	11,044	17,215	18,437	17,138	20,111
Minority Interests	(2)	4			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	11,042	17,219	18,437	17,138	20,111
Recurring Net Profit	10,816	17,592	18,437	17,138	20,111
<b>Fully Diluted Recurring Net Profit</b>	10,816	17,592	18,437	17,138	20,111

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	33,137	44,473	46,381	47,144	52,013
Cash Flow from Invt. & Assoc.	(2)	4			
Change In Working Capital	(14,042)	(3,688)	(11,667)	(10,065)	(9,477)
(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	1,467
Net Interest (Paid)/Received	(5,312)	(5,059)	(4,500)	(4,550)	(4,505)
Tax Paid	(2,507)	(4,209)	(6,778)	(6,492)	(7,394)
<b>Cashflow From Operations</b>	13,441	33,348	24,742	27,659	32,355
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)	(2,999)	(3,378)	(3,118)
<b>Cash Flow From Investing</b>	(8,116)	(11,403)	(7,531)	(17,378)	(20,118)
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)	(5,081)	(5,716)	(6,351)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	(8,159)	(20,268)	(7,081)	(6,716)	(7,351)
Total Cash Generated	(2,833)	1,677	10,130	3,565	4,885
<b>Free Cashflow To Equity</b>	25	5,487	15,211	9,280	11,236
<b>Free Cashflow To Firm</b>	10,638	27,005	21,711	14,830	16,741

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

**Balance Sheet**

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	12,479	14,156	24,286	27,850	32,736
Total Debtors	24,885	26,648	29,992	34,766	38,470
Inventories	44,285	42,457	52,486	61,052	68,697
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>121,764</b>	<b>140,668</b>	<b>158,903</b>
Fixed Assets	172,589	165,763	159,689	155,691	153,290
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>162,420</b>	<b>158,464</b>	<b>156,109</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	31,492	34,766	36,638
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>87,683</b>	<b>91,957</b>	<b>94,630</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>131,807</b>	<b>135,331</b>	<b>137,452</b>
Shareholders Equity	128,778	139,022	152,378	163,801	177,561
Minority Interests					
<b>Total Equity</b>	<b>128,778</b>	<b>139,022</b>	<b>152,378</b>	<b>163,801</b>	<b>177,561</b>

**Key Ratios**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	17.3%	3.3%	7.8%	13.1%	8.0%
Operating EBITDA Growth	28.7%	34.2%	4.3%	1.6%	10.3%
Operating EBITDA Margin	13.5%	17.5%	16.9%	15.2%	15.6%
Net Cash Per Share (Rs)	(68.33)	(39.78)	(20.68)	(13.49)	(4.22)
BVPS (Rs)	202.77	218.90	239.93	257.91	279.58
Gross Interest Cover	3.57	5.87	6.73	6.41	7.24
Effective Tax Rate	23.0%	31.8%	32.0%	34.0%	32.0%
Net Dividend Payout Ratio	26.4%	21.7%	27.6%	33.4%	31.6%
Accounts Receivables Days	30.45	37.06	37.77	38.19	39.98
Inventory Days	107.03	115.86	113.06	117.45	124.26
Accounts Payables Days	86.79	84.58	72.97	68.54	68.38
ROIC (%)	7.1%	10.9%	11.3%	10.4%	11.3%
ROCE (%)	10.0%	15.3%	15.2%	13.9%	14.7%
Return On Average Assets	5.3%	7.6%	7.5%	6.6%	7.2%

**Key Drivers**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	10.4%	0.4%	4.8%	3.8%	1.9%
Unit sales grth (% , main prod./serv.)	6.0%	1.0%	4.0%	6.0%	7.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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