

India

REDUCE (no change)

Consensus ratings*: Buy 18 Hold 5 Sell 6

Current price: Rs512
 Target price: ▲ Rs414
 Previous target: Rs412
 Up/downside: -19.1%
 InCred Research / Consensus: -22.9%

Reuters:
 Bloomberg: APTY IN
 Market cap: US\$4,474m
 Rs324,854m
 Average daily turnover: US\$22.0m
 Rs1595.7m
 Current shares o/s: 635.1m
 Free float: 63.1%

*Source: Bloomberg

Key changes in this note

- Consol. sales cut by ~2% for FY25F-26F.
- Consol. EBITDA cut by 3-4% for FY25F-26F.
- Consol EPS cut by 2-6% for FY25F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.1)	6.7	16.8
Relative (%)	(0.3)	(2.0)	(2.3)

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

The EPS decline phase commences

- 1QFY25 EPS decline of 17% yoy to Rs5.4, is a big miss to our estimate (33%) and Bloomberg consensus estimate (11%).
- We cut FY25F EPS by 6% to reflect weak European sales and severe Indian EBITDA margin pressure arising from a weak pricing scenario.
- Maintain REDUCE rating as the stock's valuation is rich at +2SD P/BV, while the EPS decline phase has just commenced.

The first quarter with an EPS decline in this downcycle

Apollo Tyres' 1QFY25 consolidated EBITDA fell 13% yoy and 35% qoq to Rs9bn, sharply below our estimate (21%) and Bloomberg or BB consensus estimate (10%). The weakness in European sales (-2% yoy and -17% qoq) disappoint. The sharp correction in the stand-alone EBITDA margin to 13.8% on a gross margin shrinkage of 140bp qoq disappoint. Consolidated EPS drop of 17% yoy and 27% qoq is below estimate. Net debt eased by 8% qoq to Rs23bn.

Management conference-call highlights

1QFY25 witnessed a 20% growth in exports and a high single-digit growth in the truck and car replacement segment. Management called out for 60bp provision for EPR in 1Q, impacting the EBITDA margin, which will be recurring in nature. The company took a price hike of 2% in car and 1% in truck segments due to rising rubber prices. To neutralize rubber price inflation, it may have to take multiple price hikes totaling 5%. Considering the sustained underperformance to India peers (Fig. 6) on profit margin in recent quarters, management will be reviewing and taking necessary action. Apollo 2.0 program is planned to take benefit of global-scale operations.

EPS cut by 6% for FY25F

The European slowdown impact and tough-to-implement price hikes in India led to our consolidated entity sales cut of 2% for FY25F-26F. The severe rubber cost pressure in Indian products led to a sharp 9% cut in India EBIT estimates. The last India downcycle EBITDA margin correction lasted for more than a year which, we believe, will play out this time as well (Fig.4). Consolidated EPS cut by 6% for FY25F and by 2% for FY26F.

Maintain REDUCE rating on the stock

The pricing challenges in India and demand challenges in Europe, we feel, will prolong, thereby extending the EPS correction phase in the coming quarters. The stock trades at a rich +2SD above the 7-year mean P/BV and near mean P/E levels. We maintain our REDUCE rating on the stock with a P/E-based marginally higher target price of Rs414 (Rs412 earlier), at 15x one-year forward P/E. The key upside risks are a fall in rubber prices and any improvement in pricing discipline in India's tyre industry.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	245,681	253,777	270,143	302,403	328,350
Operating EBITDA (Rsm)	33,137	44,473	44,633	45,934	50,818
Net Profit (Rsm)	11,042	17,219	16,908	16,835	19,280
Core EPS (Rs)	17.0	27.7	27.3	26.5	30.4
Core EPS Growth	67.9%	62.6%	(1.6%)	(2.8%)	14.5%
FD Core P/E (x)	29.42	18.87	19.21	19.30	16.85
DPS (Rs)	4.5	6.0	8.0	9.0	10.0
Dividend Yield	0.88%	1.17%	1.56%	1.76%	1.96%
EV/EBITDA (x)	11.11	7.87	7.59	7.27	6.47
P/FCFE (x)	13,210.80	59.20	22.80	33.43	31.64
Net Gearing	33.7%	18.2%	9.3%	5.6%	2.4%
P/BV (x)	2.52	2.34	2.15	2.01	1.86
ROE	8.8%	13.1%	11.9%	10.8%	11.4%
% Change In Core EPS Estimates			(6.10%)	(1.77%)	(4.13%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The EPS decline phase commences

Management conference-call highlights➤

- **Outlook:** Growth in the replacement market should be in high single digit and the farm segment likely to remain strong led by the festive season and better monsoons while exports are likely to remain under pressure due to weak demand following high inventory and high discount scenarios.
- **Performance:** Overall volume was up in mid-single digits on yoy basis, helped by the double-digit growth in exports and mid-single growth in the replacement segment, particularly in the truck, bus and radial or TBR and passenger car radial or PCR segments, respectively (double-digit growth). The OEM segment continued to be soft with a mid-single digit decline.
- **Price action:** Undertook price hike of 2% for the PCR segment, 1% for the TBR segment and 0.7% for the replacement segment during the quarter to negate high raw material costs. The company needs to take a further price hike of 5% to cover up elevated raw material prices.
- **Financial performance:** India business EBITDA margin stood at 13.8%, down 404bp yoy. Adjusted EPR liability stood at Rs278m and the margin at 14.4%.
- **Europe business:** During the quarter, the company outperformed the PCT industry, resulting in a marginal market share gain, which led to revenue growth of ~20% yoy in the UHP/UUHP segments. The ultra-high performance or UHP mix for the quarter stood at 47%, compared to 39% in 1QFY24. The company registered EBITDA margin growth of +34bp yoy. In FY25F, management expects the topline to grow further in the mid- to high-single-digit range with an improvement in margin.
- **Commercial vehicle or CV industry:** However, the CV industry witnessed growth during the quarter. Apollo Tyres' volume declined in double digits as it did not participate in the bus segment due to its low margin and delayed payment nature.
- **Replacement and OEM segments:** The company lost its share in truck tyres due to higher discounts in the market. Management aims to increase the product mix on the OEM side.
- **Cost fronts:** Raw material prices are likely to grow further, which will result in operating profits being subdued in the near term, but they are likely to stabilize in 4QFY25F. During the quarter, natural rubber and synthetic rubber prices stood at Rs180/kg and carbon black prices at Rs120/kg.
- **Debt profile:** During the quarter, the company reduced its debt by 8% qoq. Net debt stood at Rs23bn.
- **Subsidiary Reifen's performance:** Revenue stood at €50m, with an EBITDA margin of 4%.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg	Comments
Revenue	63,349	62,446	1.4	62,582	1.2	1% below our estimate.
Raw material costs	34,517	34,319	0.6	33,024	4.5	
RM costs as a % of revenue	54.5	55.0	(47)	52.8	171.7	81bp below our estimate.
EBITDA	9,093	10,515	(13.5)	10,965	(17.1)	21% below our estimate.
<i>EBITDA margin (%)</i>	<i>14.4</i>	<i>16.8</i>	<i>(248)</i>	<i>17.5</i>	<i>(316.8)</i>	355bp below our estimate.
Depreciation & amortization	3,695	3,620	2.1	3,880	(4.8)	2% below our estimate.
EBIT	5,398	6,895	(21.7)	7,085	(23.8)	
Interest expenses	1,070	1,355	(21.0)	1,146	(6.7)	5% below our estimate.
Other income	308	355	(13.2)	343	(10)	
Pre-tax profit	4,636	5,896	(21.4)	6,282	(26.2)	
Tax	1,212	1,795	(32.5)	2,089	(42.0)	
Tax rate (%)	26.2	30.4	(429)	33.3	(710.7)	115bp above our estimate.
Normalized net profit	3,424	4,101	(16.5)	4,193	(18.3)	33% below our estimate.
Exceptional items	(404)	(132)	nm	(653)	nm	
Reported net profit	3,020	3,968	(23.9)	3,541	(14.7)	
Normalized EPS (Rs)	5.4	6.5	(16.5)	6.6	(18.3)	

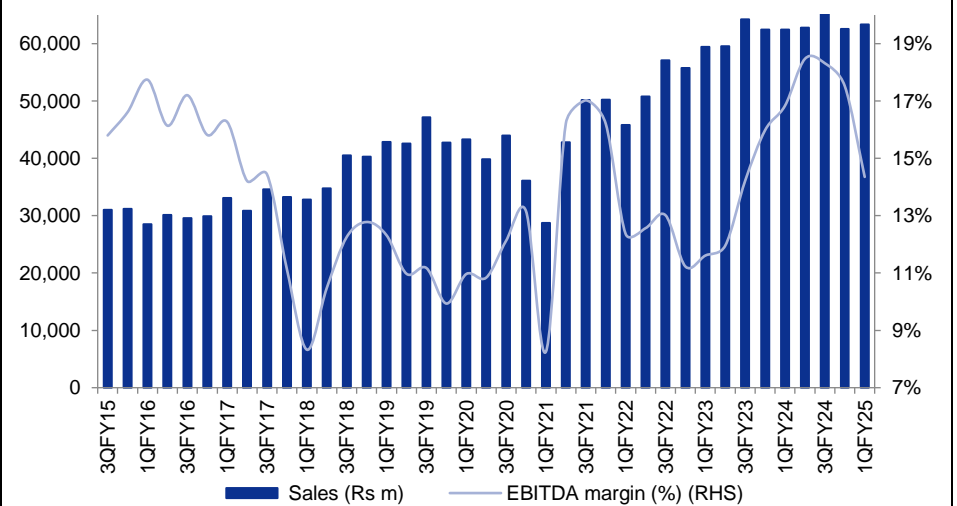
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: India business performance

Rs m	1QFY25	1QFY24	yoy (%)	4QFY24	qoq (%)
Sales	45,916	44,133	4.0%	43,874	4.7%
EBITDA	6,331	7,867	-19.5%	7,530	-15.9%
EBITDA margin	13.8%	17.8%	(404)	17.2%	(337)
PAT	2,445	3,160	-22.6%	2,768	-11.7%

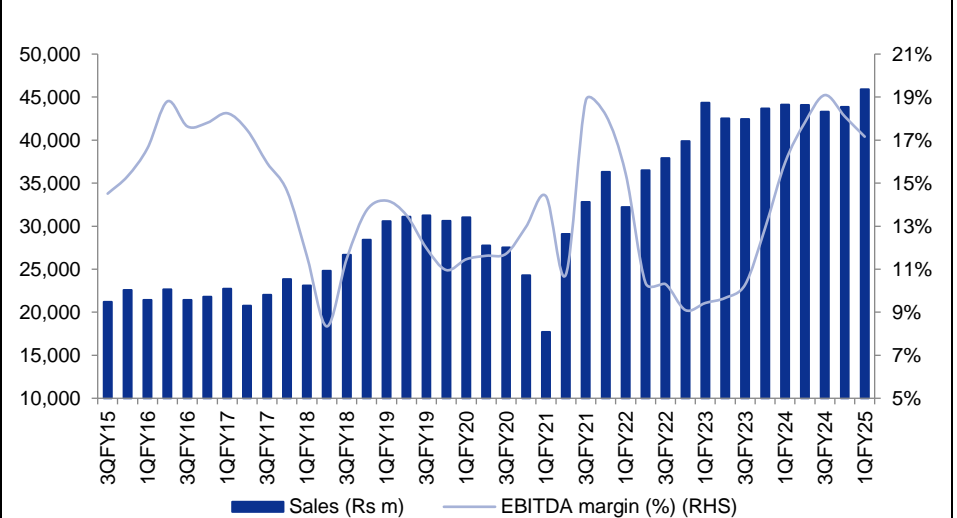
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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: Region-wise EBIT margin trend

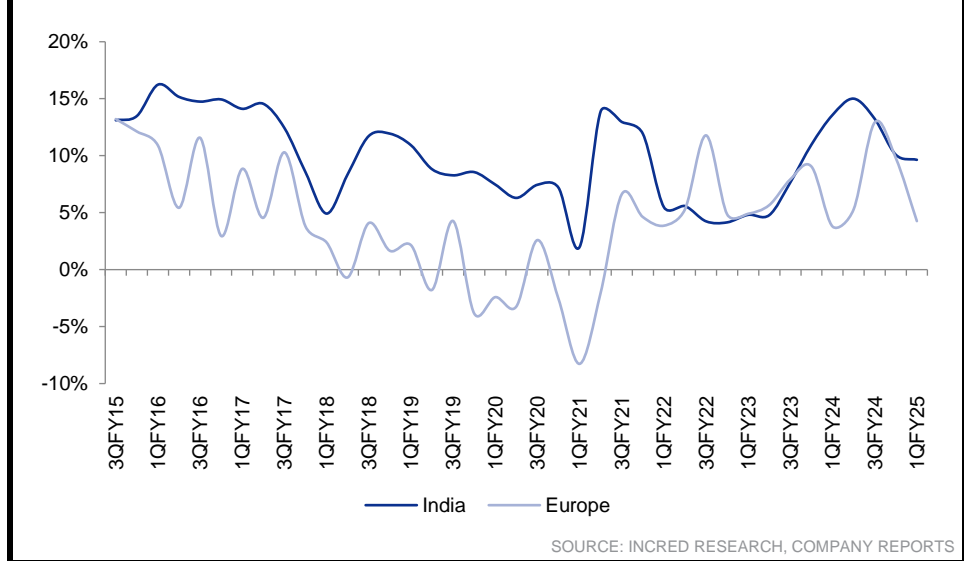


Figure 6: Margin trend of tyre players indicates that it's close to the cyclical peak level

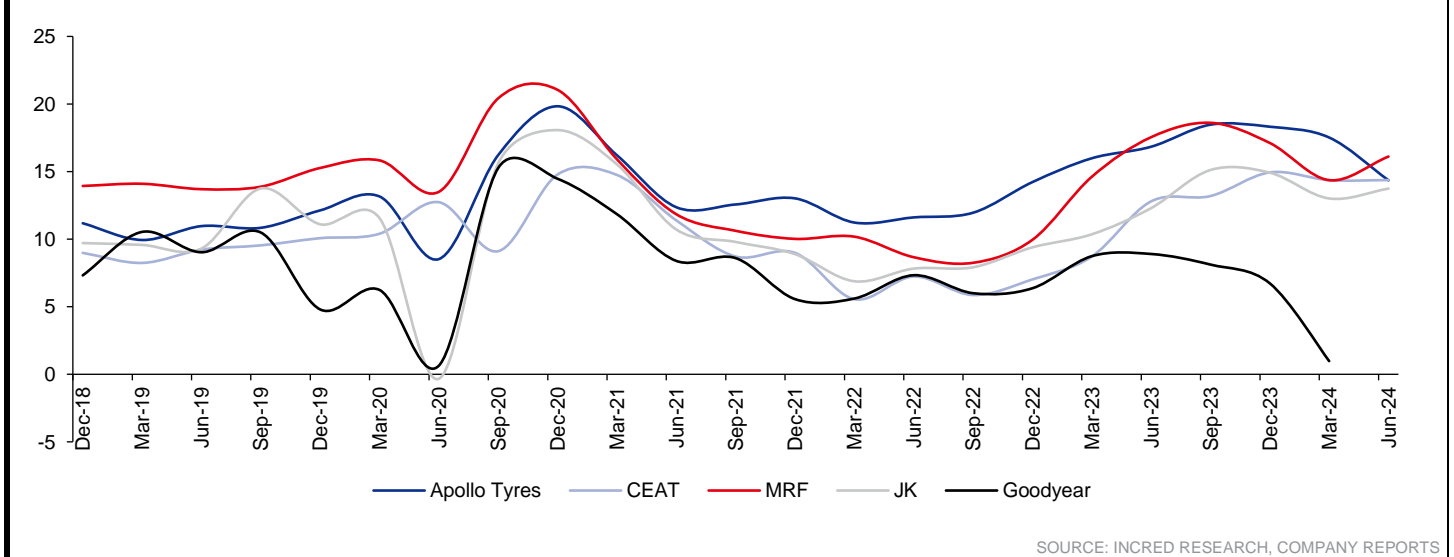


Figure 7: Natural rubber prices witness a sharp uptrend

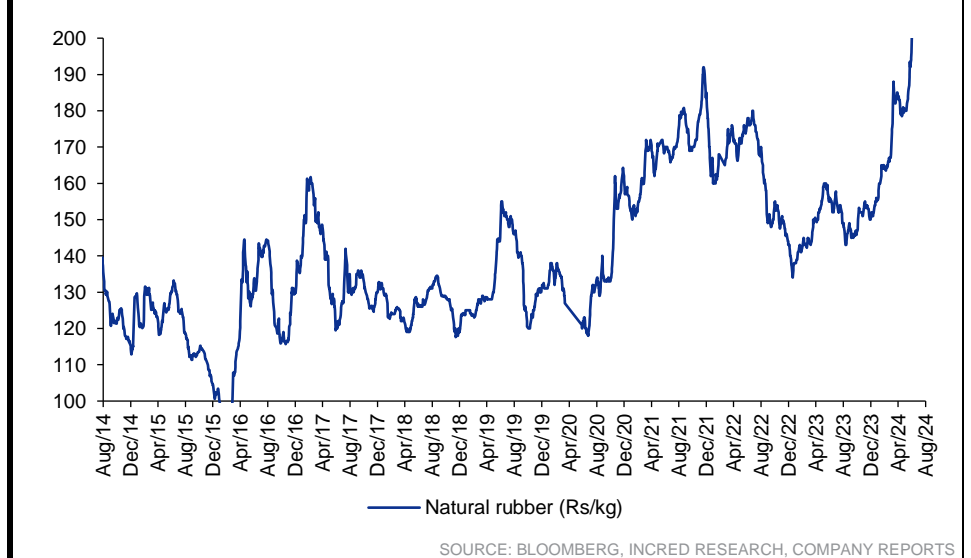
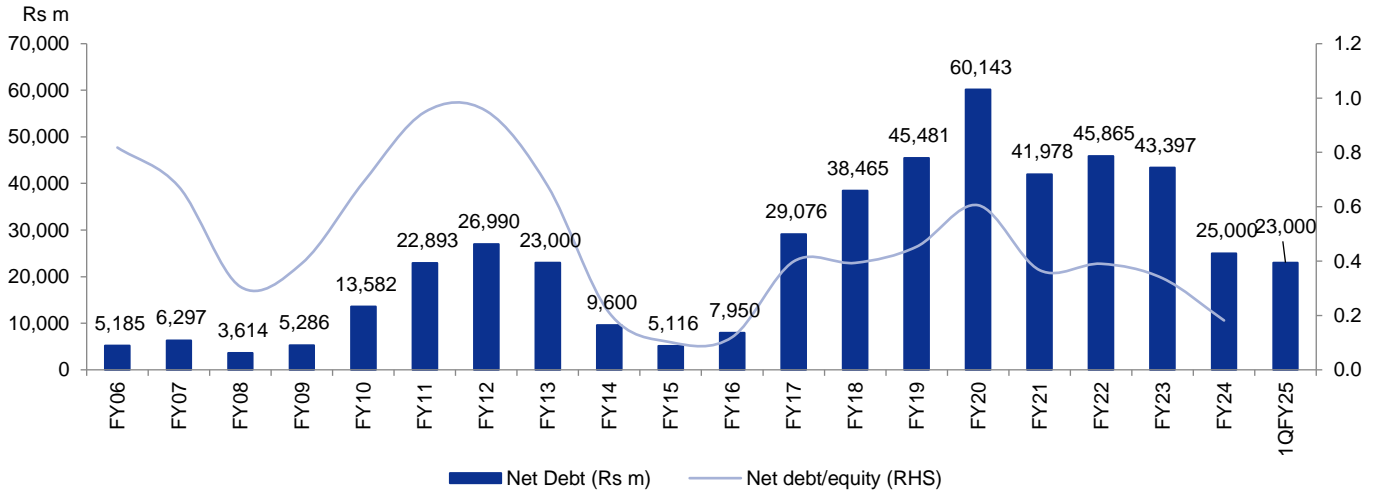


Figure 8: Consolidated net debt easing trend sustains



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	2,73,679	2,70,143	3,09,499	3,02,403
Change (%)		-1.3%		-2.3%
EBITDA	46,381	44,633	47,144	45,934
Change (%)		-3.8%		-2.6%
EBITDA margin	16.9%	16.5%	15.2%	15.2%
Change (bp)		(43)		(4)
Interest expenses	4,500	4,500	4,550	4,550
Change (%)		0.0%		0.0%
Normalized PAT	18,437	17,312	17,138	16,835
Change (%)		-6.1%		-1.8%

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	195.2	200.8	206.4
Growth (%)	10.4%	0.4%	3.4%	2.8%	2.8%
India sales (Rsm)	1,73,010	1,75,393	1,88,548	2,05,517	2,26,069
India EBIT margin (%)	7.1%	13.4%	11.1%	10.3%	10.8%
European sales (Rsm)	72,974	76,399	82,511	91,587	1,00,746
Europe EBIT margin (%)	7.0%	8.0%	8.7%	7.5%	7.0%
Consolidated EBIT margin (%)	7.7%	11.7%	10.6%	9.2%	9.6%

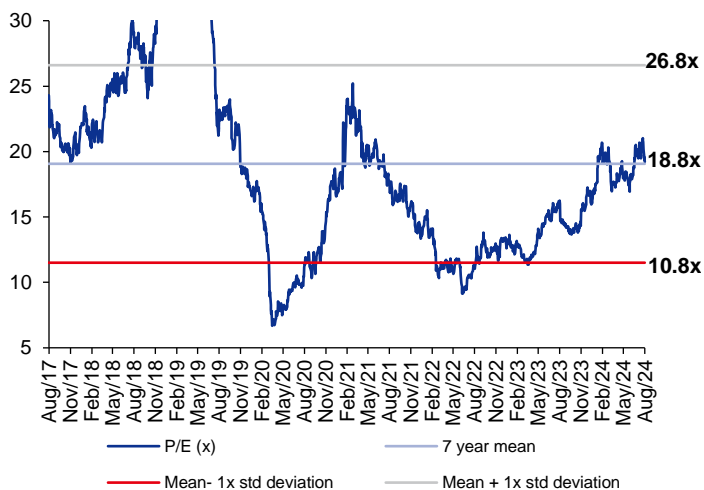
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

1-year forward EPS (Rs.)	27.9
P/E(x)	15.0
Target price (Rs.)	414

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



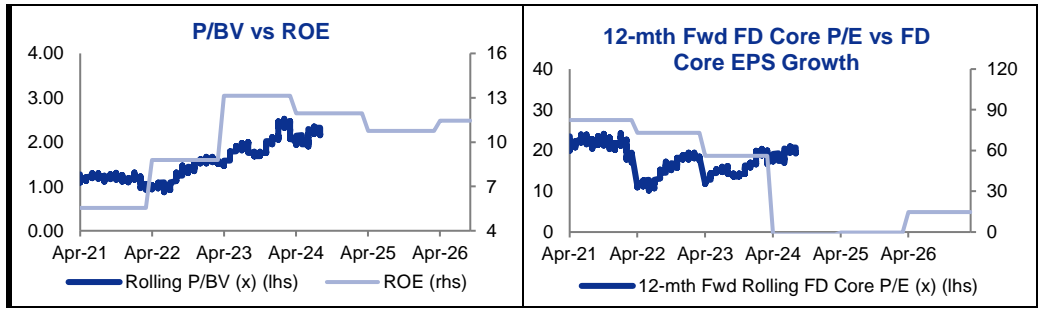
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Rich forward P/BV valuation at +2SD level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	245,681	253,777	270,143	302,403	328,350
Gross Profit	99,311	117,146	118,863	130,033	141,191
Operating EBITDA	33,137	44,473	44,633	45,934	50,818
Depreciation And Amortisation	(14,191)	(14,778)	(15,980)	(17,999)	(19,401)
Operating EBIT	18,945	29,695	28,653	27,935	31,417
Financial Income/(Expense)	(4,901)	(3,924)	(3,194)	(3,179)	(3,065)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	14,044	25,771	25,459	24,757	28,352
Exceptional Items					
Pre-tax Profit	14,044	25,771	25,459	24,757	28,352
Taxation	(3,226)	(8,183)	(8,147)	(7,922)	(9,073)
Exceptional Income - post-tax	226	(373)	(404)		
Profit After Tax	11,044	17,215	16,908	16,835	19,280
Minority Interests	(2)	4			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,042	17,219	16,908	16,835	19,280
Recurring Net Profit	10,816	17,592	17,312	16,835	19,280
Fully Diluted Recurring Net Profit	10,816	17,592	17,312	16,835	19,280

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	33,137	44,473	44,633	45,934	50,818
Cash Flow from Invt. & Assoc.	(2)	4			
Change In Working Capital	(14,042)	(3,688)	(11,009)	(9,324)	(9,616)
(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)	(4,500)	(4,550)	(4,505)
Tax Paid	(2,507)	(4,209)	(6,365)	(6,189)	(7,088)
Cashflow From Operations	13,441	33,348	24,067	27,492	31,298
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)	(3,287)	(2,774)	(3,033)
Cash Flow From Investing	(8,116)	(11,403)	(7,819)	(16,774)	(20,033)
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					
Cash Flow From Financing	(8,159)	(20,268)	(7,081)	(6,716)	(7,351)
Total Cash Generated	(2,833)	1,677	9,167	4,002	3,915
Free Cashflow To Equity	25	5,487	14,248	9,718	10,266
Free Cashflow To Firm	10,638	27,005	20,748	15,268	15,771

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	23,323	27,325	31,239
Total Debtors	24,885	26,648	29,605	33,969	37,783
Inventories	44,285	42,457	51,808	59,652	67,469
Total Other Current Assets	11,828	12,389	15,000	17,000	19,000
Total Current Assets	93,477	95,650	119,736	137,945	155,491
Fixed Assets	172,589	165,763	159,783	155,784	153,383
Total Investments	341	382	420	462	508
Intangible Assets	2,288	2,311	2,311	2,311	2,311
Total Other Non-Current Assets					
Total Non-current Assets	175,218	168,455	162,513	158,557	156,202
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	31,085	33,969	35,984
Other Current Liabilities	42,313	42,500	43,500	44,500	45,300
Total Current Liabilities	93,830	84,978	87,277	91,160	93,975
Total Long-term Debt	37,898	26,727	24,727	23,727	22,727
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	37,898	26,727	24,727	23,727	22,727
Total Provisions	12,367	18,846	19,396	19,646	20,095
Total Liabilities	144,095	130,552	131,400	134,534	136,797
Shareholders Equity	128,778	139,022	150,849	161,968	174,897
Minority Interests					
Total Equity	128,778	139,022	150,849	161,968	174,897

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	17.3%	3.3%	6.4%	11.9%	8.6%
Operating EBITDA Growth	28.7%	34.2%	0.4%	2.9%	10.6%
Operating EBITDA Margin	13.5%	17.5%	16.5%	15.2%	15.5%
Net Cash Per Share (Rs)	(68.33)	(39.78)	(22.19)	(14.32)	(6.58)
BVPS (Rs)	202.77	218.90	237.52	255.03	275.38
Gross Interest Cover	3.57	5.87	6.37	6.14	6.97
Effective Tax Rate	23.0%	31.8%	32.0%	32.0%	32.0%
Net Dividend Payout Ratio	26.4%	21.7%	29.3%	34.0%	32.9%
Accounts Receivables Days	30.45	37.06	38.00	38.37	39.88
Inventory Days	107.03	115.86	113.72	118.01	123.96
Accounts Payables Days	86.79	84.58	73.43	68.88	68.21
ROIC (%)	7.1%	10.9%	10.7%	10.0%	10.9%
ROCE (%)	10.0%	15.3%	14.4%	13.4%	14.3%
Return On Average Assets	5.3%	7.6%	7.1%	6.5%	7.0%

Key Drivers					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	10.4%	0.4%	3.4%	2.8%	2.8%
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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