

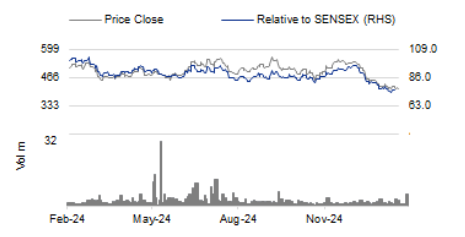
India

**REDUCE** (no change)

Consensus ratings*: Buy 18 Hold 4 Sell 4	
Current price:	Rs413
Target price:	Rs353
Previous target:	Rs408
Up/downside:	-14.5%
InCred Research / Consensus:	-30.1%
Reuters:	APLO.NS
Bloomberg:	APTY IN
Market cap:	US\$3,022m Rs262,424m
Average daily turnover:	US\$9.5m Rs829.0m
Current shares o/s:	635.1m
Free float:	63.1%
*Source: Bloomberg	

**Key changes in this note**

- FY25F EBITDA cut by 7%.
- FY25F-27F EPS cut by 1-7%.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(8.7)	(13.1)	(20.2)
Relative (%)	(8.1)	(11.2)	(24.5)

<b>Major shareholders</b>	% 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

## Europe's seasonal margin recovery is dismal

- 3QFY25 EBITDA declined 22% yoy to Rs9.5bn, sharply below our estimate (14%) and Bloomberg consensus estimate (11%).
- Capex cut & net debt easing qoq provide comfort. Management indicated early signs of Europe demand revival, which capped FY25F-27F EPS cut to 1-7%.
- Maintain our REDUCE rating on the stock as the valuation above the five-year mean level does not fully factor in the concerns over profitability.

### Sustained rise in input costs leads to big EBITDA miss in 3QFY25

Apollo Tyres or APL's 3QFY25 consolidated EBITDA fell 22% yoy but rose by 8% qoq to Rs9.5bn, sharply below our estimate (14%) and Bloomberg or BB consensus estimate (11%). Consolidated sales stood at Rs.69bn, up 5% yoy, on the back of European sales growth of 21% yoy, which was offset by India sales growth of 5%, and, overall, there was a 2% beat to our/BB consensus estimates. Standalone EBITDA margin contracted by 91bp qoq to 11.1%, a 256bp miss vs. our estimate. Consolidated EPS decline of 33% yoy to Rs5.4 was 22% below estimates. Net debt was up 13% qoq at Rs26bn.

### Management conference-call highlights

Management stated that is seeing early signs of green shoots in the European market, primarily in passenger vehicle and bus/truck radial segments. Apollo Tyres aims to drive growth in the export business led by geographic expansion, primarily in the US and the Middle East. India business witnessed flat performance led by a 5% yoy growth in the replacement market volume, which was offset by a 10% yoy decline in OEM volume. Management expects the replacement market volume to continue its growth while the OEM volume is likely to remain flat. On a consolidated basis, the company incurred a capex of Rs5bn YTD and, for the full year, it is expected to moderate below the planned capex of Rs10bn. The raw material basket, which saw a 2% sequential growth, is likely to remain rangebound in 4QFY25F.

### EBITDA cut by 1-7% for FY25F-27F

Considering the slow volume and margin recovery in India and Europe missing the lumpy winter season tyre benefit on the EBIT margin, we have cut FY25F EBITDA by 7%. Considering that India EBITDA margin is near its cyclical bottom, we have cut FY26F-27F EBITDA by just 1%. Capex cut in the short term limits the pressure on EPS. We have cut EPS by 1-7% for FY25F-27F.

### Maintain REDUCE rating with a lower target price of Rs353

The stock price correction in recent months has eased the P/BV valuation to close to the 10-year mean level, but it's still high considering the declining market share and profit margin vs. market leader MRF. We have cut our target P/E to 12.5x one-year forward EPS, from 15x earlier, to reflect the weak earnings momentum, leading to a lower target price of Rs353 (Rs408 earlier) and maintain our REDUCE rating. Key upside risk: Quick demand recovery in India and Europe helping in normalizing profitability.

<b>Financial Summary</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue (Rsm)	245,681	253,777	267,736	295,960	323,329
Operating EBITDA (Rsm)	33,137	44,473	37,980	43,288	49,347
Net Profit (Rsm)	11,042	17,219	13,324	15,453	18,505
Core EPS (Rs)	17.0	27.7	21.8	24.3	29.1
Core EPS Growth	67.9%	62.6%	(21.4%)	11.8%	19.7%
FD Core P/E (x)	23.77	15.24	19.70	16.98	14.18
DPS (Rs)	4.5	6.0	6.0	7.0	8.0
Dividend Yield	1.09%	1.45%	1.45%	1.69%	1.94%
EV/EBITDA (x)	9.23	6.47	7.26	6.26	5.40
P/FCFE (x)	10,671.95	47.82	19.29	30.85	30.61
Net Gearing	33.7%	18.2%	9.1%	5.3%	2.3%
P/BV (x)	2.04	1.89	1.77	1.64	1.52
ROE	8.8%	13.1%	9.6%	10.0%	11.1%
% Change In Core EPS Estimates			(6.66%)	(0.77%)	(0.13%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Europe's seasonal margin recovery is dismal

### Management conference-call highlights ►

- India market:** The Indian market saw marginal growth during the quarter. The replacement segment grew by 5% yoy, driven by demand from truck & bus radial (TBR), passenger car radial (PCR), and the farm segment. However, the original equipment manufacturers (OEM) segment declined by 10% yoy due to commercial vehicle OEMs' weak vehicle production and an unfavourable segment mix. Going ahead, the replacement segment is expected to maintain its growth momentum while the OEM segment is likely to remain flat.
- Market share:** The company gained market share in the PCR replacement segment and recorded a 45% yoy growth in Vredestein volume.
- Export business:** The export business remained largely flat due to weak demand, primarily due to higher logistics costs. Going ahead, management aims to drive growth by expanding into new geographies, including the US and the Middle East.
- Europe market:** Demand in Europe showed early signs of recovery, particularly in passenger car and truck/bus radial segments. The premium segment grew at a faster pace, which is expected to improve the product mix. Management remains focused on outperforming the market in the coming quarters. The ultra-high-performance (UHP) mix stood at 48% for the quarter, compared to 43% in 3QFY24.
- Capex and gross debt:** Capital expenditure (capex) in India stood at Rs3.5 bn, while total consolidated capex was Rs5 bn. For the rest of the year, capex is expected to moderate from the initially planned Rs10 bn, with higher growth likely in FY26F. Gross debt stood at Rs35bn, with net debt remaining stable compared to the previous quarter.
- Costs front:** Raw material prices increased by 15% yoy and 2% qoq and are expected to remain range-bound in 4QFY25F. Interest rates for the Indian business rose due to higher working capital borrowings but are likely to moderate in the coming quarter. During the quarter, natural rubber prices were at Rs195/kg, synthetic rubber at Rs195/kg, and carbon black at Rs185/kg.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	3QFY25	3QFY24	yoy % chg	2QFY25	qoq % chg	9MFY25	9MFY24	yoy % chg	Comments
Revenue	69,280	65,954	5.0	64,371	7.6	1,96,999	1,91,196	3.0	2% above our estimate.
Raw material costs	40,521	35,192	15.1	35,565	13.9	1,10,602	1,03,632	6.7	
RM costs as a % of revenue	58.5	53.4	513	55.2	323.9	56.1	54.2	194	269bp below our estimate.
<b>EBITDA</b>	<b>9,470</b>	<b>12,081</b>	<b>(21.6)</b>	<b>8,779</b>	<b>7.9</b>	<b>27,342</b>	<b>34,194</b>	<b>(20.0)</b>	14% below our estimate.
<i>EBITDA margin (%)</i>	<i>13.7</i>	<i>18.3</i>	<i>(465)</i>	<i>13.6</i>	<i>3.1</i>	<i>13.9</i>	<i>17.9</i>	<i>(401)</i>	253bp below our estimate.
Depreciation & amortization	3,759	3,676	2.3	3,759	0.0	11,213	10,899	2.9	5% below our estimate.
EBIT	5,711	8,405	(32.1)	5,020	13.7	16,129	23,296	(30.8)	
Interest expenses	1,105	1,230	(10.2)	1,197	(7.7)	3,372	3,913	(13.8)	16% above our estimate.
Other income	81	184	(56.2)	217	(63)	606	793	(23.6)	
Pre-tax profit	4,686	7,358	(36.3)	4,040	16.0	13,362	20,175	(33.8)	
Tax	1,273	2,242	(43.2)	1,015	25.5	3,500	6,094	(42.6)	
Tax rate (%)	27.2	30.5	(329)	25.1	205.7	26.2	30.2	(401)	483bp above our estimate.
<b>Normalized net profit</b>	<b>3,413</b>	<b>5,117</b>	<b>(33.3)</b>	<b>3,025</b>	<b>12.8</b>	<b>9,862</b>	<b>14,082</b>	<b>(30.0)</b>	22% below our estimate.
Exceptional items	(42)	(151)	nm	(52)	nm	(498)	(405)	nm	
<b>Reported net profit</b>	<b>3,368</b>	<b>4,966</b>	<b>(32.2)</b>	<b>2,972</b>	<b>13.3</b>	<b>9,360</b>	<b>11,579</b>	<b>(19.2)</b>	
Normalized EPS (Rs)	5.4	8.1	(33.3)	4.8	12.8	15.5	22.2	(30.0)	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: India business performance

Rs m	3QFY25	3QFY24	yoy (%)	2QFY25	qoq (%)	9MFY25	9MFY24	yoy (%)
Sales	45,398	43,319	4.8%	44,617	1.7%	1,35,931	1,31,519	3.4%
EBITDA	5,035	7,840	-35.8%	5,389	-6.6%	16,756	24,121	-30.5%
EBITDA margin	11.1%	18.1%	(701)	12.1%	(99)	12.3%	18.3%	(601)
PAT	1,260	3,106	-59.5%	1,689	-25.4%	5,394	9,816	-45.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consolidated EBITDA margin remains flat sequentially

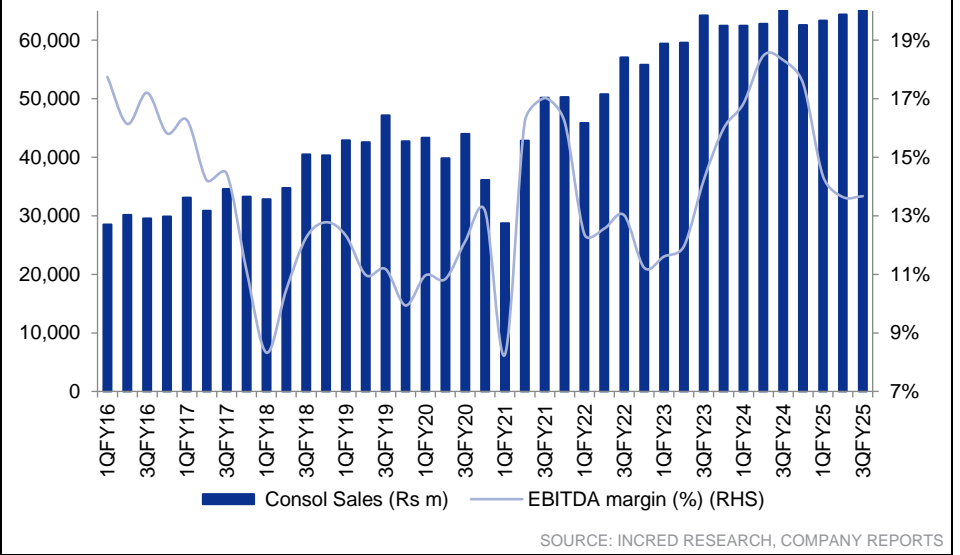


Figure 4: Standalone EBITDA margin's sustained decline (adjusted for EPR provision)

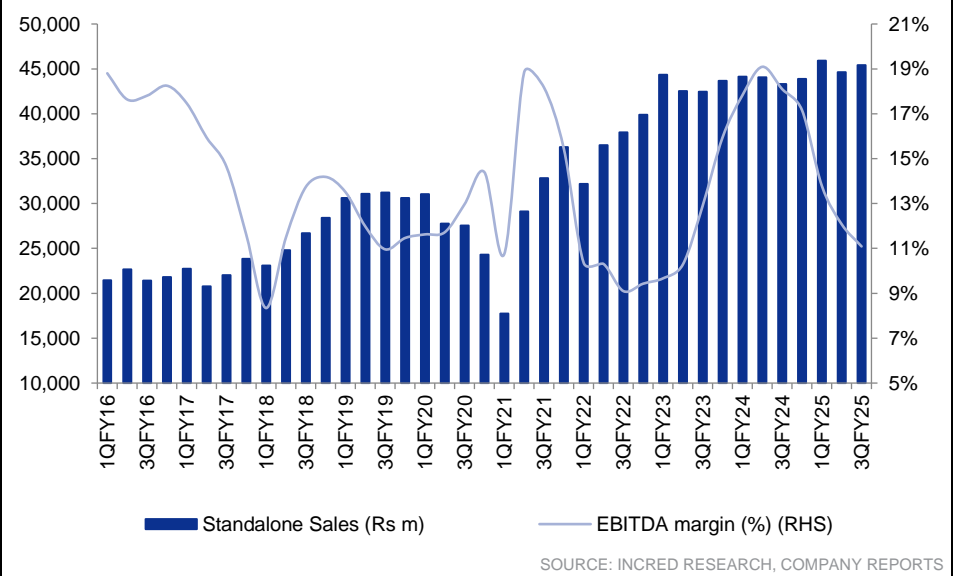


Figure 5: EBIT margin trend of various divisions

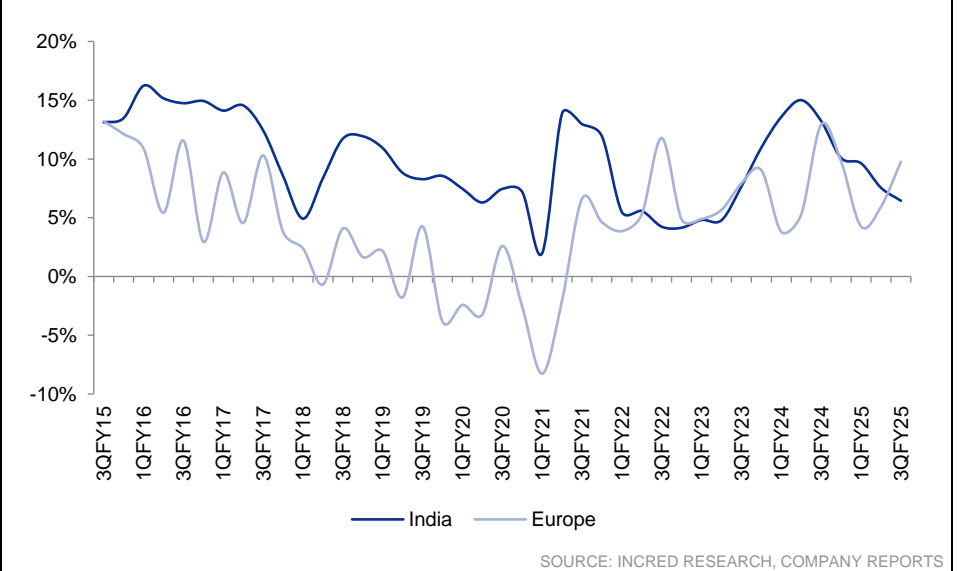
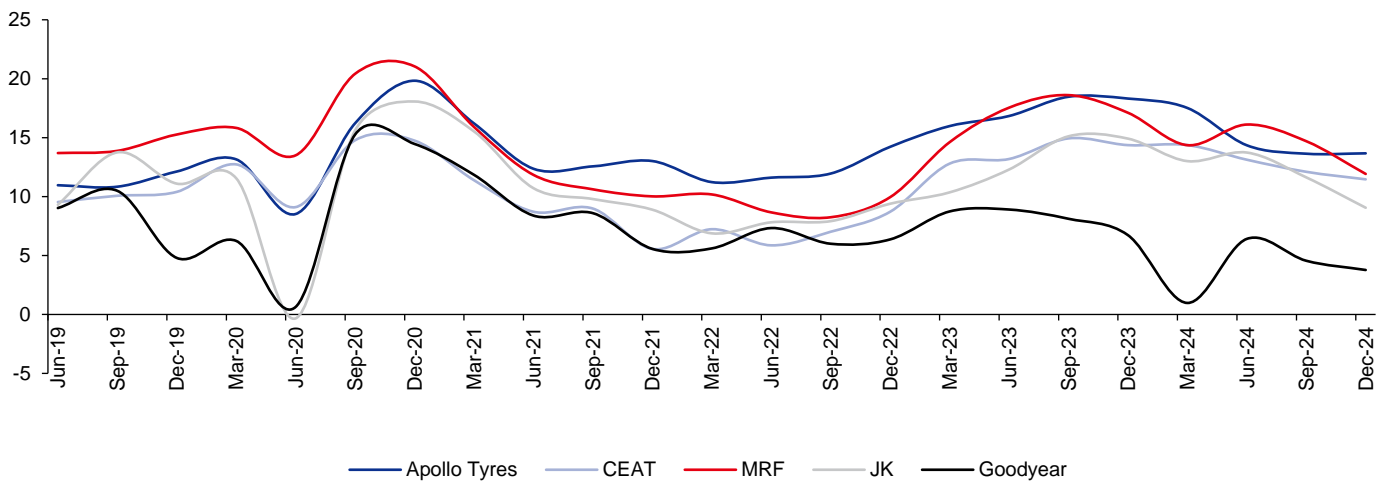
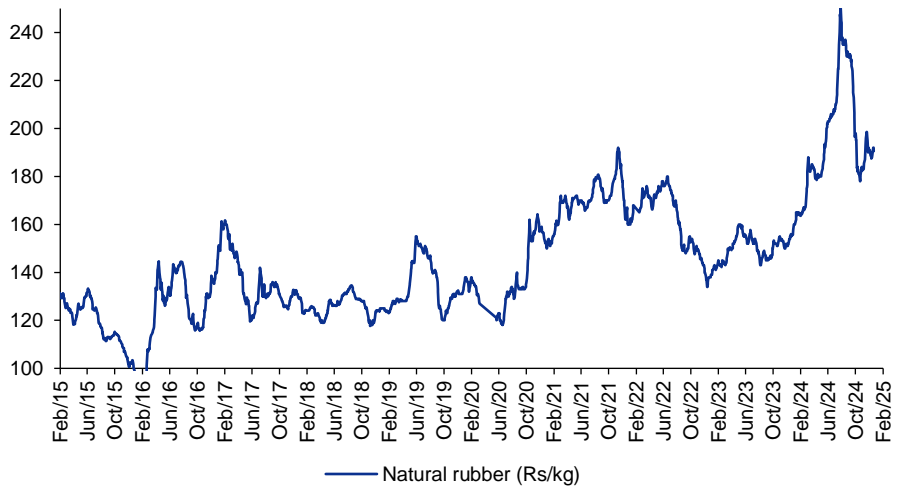


Figure 6: Margin trend of tyre players continues to decline; MRF leads the pack



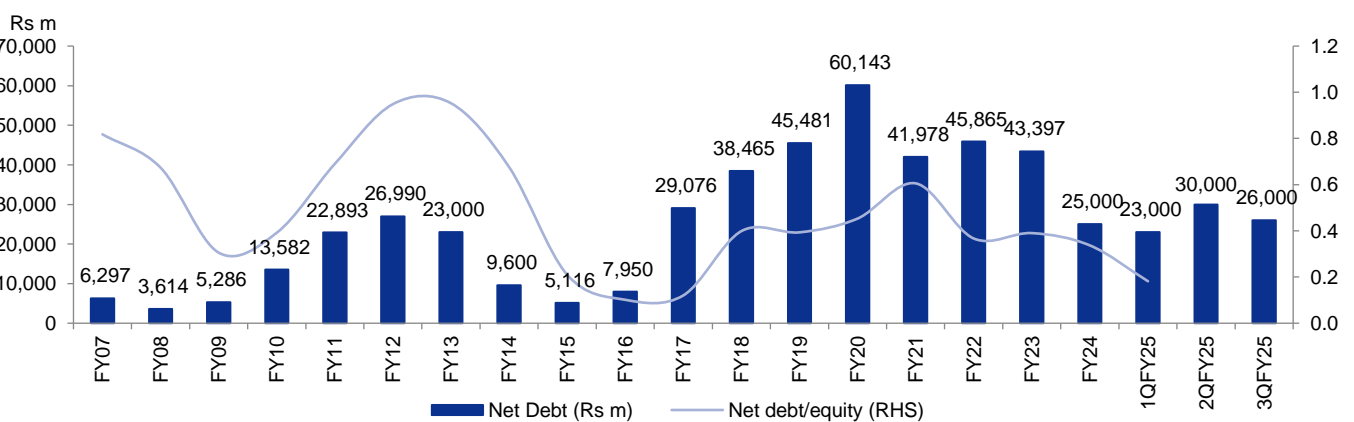
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Natural rubber prices witness a sequential uptick



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 8: The decline in net debt was primarily on account of lower short-term borrowings



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Our revised earnings estimates for the consolidated entity

Consolidated (Rs m)	FY25F		FY26F		FY27F	
	Old	New	Old	New	Old	New
Net Sales	2,66,397	2,67,736	2,94,393	2,95,960	3,20,727	3,23,329
Change (%)		0.5%		0.5%		0.8%
EBITDA	40,839	37,980	44,180	43,288	49,815	49,347
Change (%)		-7.0%		-2.0%		-0.9%
EBITDA Margin	15.3%	14.2%	15.0%	14.6%	15.5%	15.3%
bp Change		(114)		(38)		(27)
Interest Expenses	4,575	4,500	4,650	4,468	4,605	4,755
Change (%)		-1.6%		-3.9%		3.3%
Normalized PAT	14,808	13,822	15,574	15,453	18,530	18,505
Change (%)		-6.7%		-0.8%		-0.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Key earnings drivers

	FY23A	FY24A	FY25F	FY26F	FY27F
India sales (mt)	9,19,382	9,28,576	9,47,147	10,03,976	10,74,255
Growth (%)	6.0%	1.0%	2.0%	6.0%	7.0%
ASP (Rs/kg)	188.2	188.9	193.5	196.3	201.8
Growth (%)	10.4%	0.4%	2.5%	1.4%	2.8%
India Sales (Rs m)	1,73,010	1,75,393	1,83,286	1,97,032	2,16,736
India EBIT margin (%)	7.1%	13.4%	8.1%	9.2%	10.2%
Europe sales (Rs m)	72,974	76,399	82,511	91,587	1,00,746
Europe EBIT margin (%)	7.0%	8.0%	7.3%	7.5%	7.2%
Consolidate EBIT margin (%)	7.7%	11.7%	8.4%	8.8%	9.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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

One-year forward EPS (Rs.)	28.6
P/E(x)	12.5
Target price (Rs.)	353

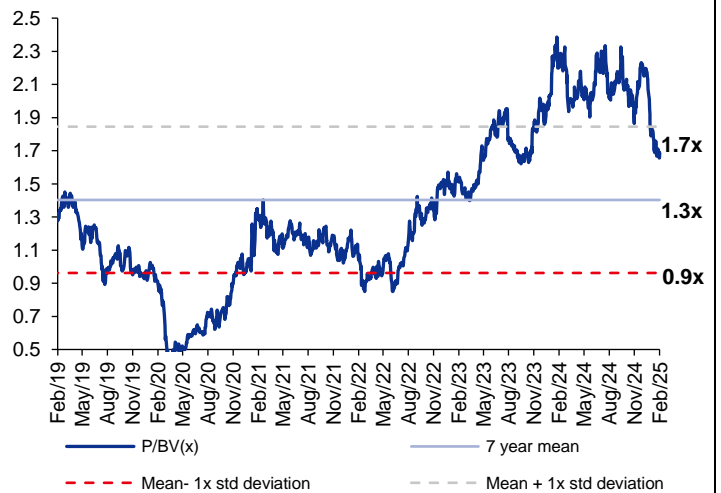
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



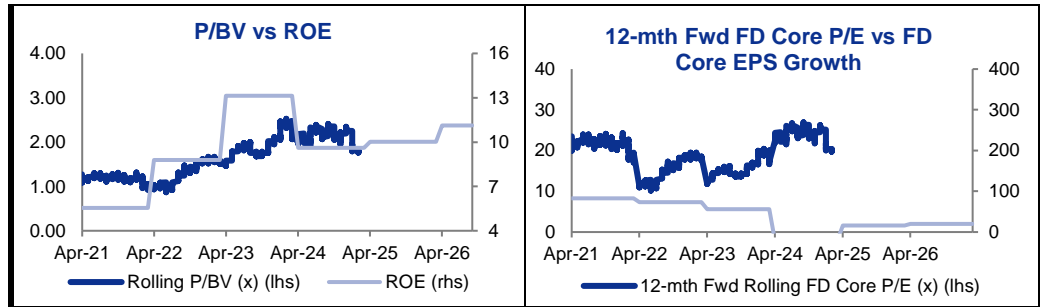
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 13: Rich forward P/BV valuation below the +1SD level



SOURCE: BLOOMBERG, 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	267,736	295,960	323,329
<b>Gross Profit</b>	99,311	117,146	116,465	127,263	139,032
<b>Operating EBITDA</b>	33,137	44,473	37,980	43,288	49,347
Depreciation And Amortisation	(14,191)	(14,778)	(15,476)	(17,347)	(18,694)
<b>Operating EBIT</b>	18,945	29,695	22,504	25,941	30,653
Financial Income/(Expense)	(4,901)	(3,924)	(3,308)	(3,215)	(3,440)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	14,044	25,771	19,197	22,726	27,213
Exceptional Items					
<b>Pre-tax Profit</b>	14,044	25,771	19,197	22,726	27,213
Taxation	(3,226)	(8,183)	(5,375)	(7,272)	(8,708)
Exceptional Income - post-tax	226	(373)	(498)		
<b>Profit After Tax</b>	11,044	17,215	13,324	15,453	18,505
Minority Interests	(2)	4			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	11,042	17,219	13,324	15,453	18,505
Recurring Net Profit	10,816	17,592	13,822	15,453	18,505
<b>Fully Diluted Recurring Net Profit</b>	10,816	17,592	13,822	15,453	18,505

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	33,137	44,473	37,980	43,288	49,347
Cash Flow from Invt. & Assoc.	(2)	4			
Change In Working Capital	(14,042)	(3,688)	(10,560)	(8,502)	(9,828)
(Incr)/Decr in Total Provisions	1,757	691	1	250	250
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	411	1,136	1,193	1,252	1,315
Net Interest (Paid)/Received	(5,312)	(5,059)	(4,500)	(4,468)	(4,755)
Tax Paid	(2,507)	(4,209)	(4,223)	(5,681)	(6,803)
<b>Cashflow From Operations</b>	13,441	33,348	19,890	26,139	29,526
Capex	(11,021)	(9,242)	(1,532)	(14,000)	(17,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	2,905	(2,161)	(2,751)	(2,632)	(2,953)
<b>Cash Flow From Investing</b>	(8,116)	(11,403)	(4,283)	(16,632)	(19,953)
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)	(3,811)	(4,446)	(5,081)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	(8,159)	(20,268)	(5,811)	(5,446)	(6,081)
Total Cash Generated	(2,833)	1,677	9,797	4,061	3,492
<b>Free Cashflow To Equity</b>	25	5,487	13,607	8,507	8,573
<b>Free Cashflow To Firm</b>	10,638	27,005	20,107	13,975	14,328

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Cash And Equivalents	12,479	14,156	23,952	28,014	31,506
Total Debtors	24,885	26,648	29,341	33,245	37,205
Inventories	44,285	42,457	51,347	58,381	66,438
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>119,640</b>	<b>136,640</b>	<b>154,148</b>
Fixed Assets	172,589	165,763	157,287	153,940	152,246
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>160,018</b>	<b>156,713</b>	<b>155,065</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	30,808	33,245	35,433
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>87,000</b>	<b>90,436</b>	<b>93,425</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>131,123</b>	<b>133,810</b>	<b>136,247</b>
Shareholders Equity	128,778	139,022	148,535	159,543	172,967
Minority Interests					
<b>Total Equity</b>	<b>128,778</b>	<b>139,022</b>	<b>148,535</b>	<b>159,543</b>	<b>172,967</b>

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue Growth	17.3%	3.3%	5.5%	10.5%	9.2%
Operating EBITDA Growth	28.7%	34.2%	(14.6%)	14.0%	14.0%
Operating EBITDA Margin	13.5%	17.5%	14.2%	14.6%	15.3%
Net Cash Per Share (Rs)	(68.33)	(39.78)	(21.20)	(13.23)	(6.16)
BVPS (Rs)	202.77	218.90	233.88	251.21	272.35
Gross Interest Cover	3.57	5.87	5.00	5.81	6.45
Effective Tax Rate	23.0%	31.8%	28.0%	32.0%	32.0%
Net Dividend Payout Ratio	26.4%	21.7%	27.6%	28.8%	27.5%
Accounts Receivables Days	30.45	37.06	38.16	38.59	39.76
Inventory Days	107.03	115.86	113.17	118.71	123.60
Accounts Payables Days	86.79	84.58	73.10	69.29	68.01
ROIC (%)	7.1%	10.9%	8.4%	9.5%	10.8%
ROCE (%)	10.0%	15.3%	11.4%	12.6%	14.1%
Return On Average Assets	5.3%	7.6%	5.9%	6.1%	6.9%

<b>Key Drivers</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
ASP (% chg, main prod./serv.)	10.4%	0.4%	2.5%	1.4%	2.8%
Unit sales grth (% , main prod./serv.)	6.0%	1.0%	2.0%	6.0%	7.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.