

India

REDUCE (no change)

Consensus ratings*: Buy 19 Hold 3 Sell 5

Current price: Rs475
 Target price: ▲ Rs378
 Previous target: Rs353
 Up/downside: -20.4%
 InCred Research / Consensus: -24.0%

Reuters: APLO.NS
 Bloomberg: APTY IN
 Market cap: US\$3,540m
 Rs301,895m
 Average daily turnover: US\$8.5m
 Rs727.5m
 Current shares o/s: 635.1m
 Free float: 63.1%

*Source: Bloomberg

Key changes in this note

- FY26F-27F sales cut by 3%.
- FY26F-27F EBITDA cut by 3-6%.
- FY26F-27F EPS cut by 1-6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	11.1	15.0	0.3
Relative (%)	4.8	7.4	(10.0)

Major shareholders	% held
Kanwar Family	36.9
Emerald Sage Investment Ltd.	9.9
HDFC Mutual Fund	9.5

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Apollo Tyres Ltd

EBITDA margin slide continues

- 4Q EPS dipped 27% yoy to Rs4.8, a big miss to our/Bloomberg consensus estimates, due to weak sales growth (3% yoy) and EBITDA margin pressure.
- Netherland plant's restructuring to remain a drag on Europe sales performance in FY26F-27F, while helping to improve profitability later. Cut EPS by 1-6%.
- Stock trades at +1SD above P/BV and mean P/E levels, while weak sales momentum yet to be addressed. Maintain REDUCE rating on the stock.

Consolidated entity's sequential EBITDA margin downtrend prevails

Apollo Tyres or APL's 4QFY25 consolidated EBITDA fell 24% yoy and 12% qoq to Rs8.4bn, sharply below our estimate (15%) and Bloomberg or BB consensus estimate (11%). Consolidated sales stood at Rs.64bn, up 3% yoy, on the back of other regions' sales growth of 26% yoy, which was offset by Europe and India sales growth of 2% and 4% respectively. Overall, there was a 9% miss vs. our estimate and 4% to BB consensus. Standalone EBITDA margin improved marginally by 16bp qoq to 11.2%, a 202bp miss vs. our estimate. Consolidated EPS declined 27% yoy to Rs4.8, which was 10% below estimates. Net debt remained flat yoy at Rs25bn (Fig. 6).

Management conference-call highlights

The Netherland plant contributes less than 10% to Europe car tyre sales volume and management expects the new capacity in Hungary coming on stream by the end of CY25F to be able to substitute for the Netherland plant's closure. Management acknowledges the business underperformance vs. its peers in India and Europe, which it plans to catch up in FY26F with new OEM order wins. Capex guidance cut to Rs15bn for FY26F to reflect gradual tonnage growth. Management expects lower crude oil benefits to come with a lag in 2HFY26F.

Consolidated FY26F-27F EBITDA cut by 3-6%

Considering the slow sales momentum in India and capacity challenges in Europe, we have cut sales by around 3% for FY26F-27F. While the EBITDA margin eased sharply from its cyclical peak, it is still away from the cyclical bottom to provide comfort, especially in a volatile supply chain situation. Hence, we remain cautious in normalization of the EBITDA margin, leading to a 3-6% EBITDA cut for FY26F-27F. Lower capex intensity comforts, while the rising working capital situation in India is an area of concern (Fig. 7). Building in lower interest costs, we limit the EPS cut to 1-6% for FY26F-27F.

Valuation still rich considering the weak performance

The spike in the stock price in the last three months on the back of easing input costs is unwarranted, as its benefit will be back-ended in FY26F. With forward P/BV valuation trading at +1SD above the seven-year mean level, we maintain REDUCE rating on the stock, rolling forward our P/E-based target price to Rs378 (Rs353 earlier). Key upside risks are better domestic demand recovery for tyres and sustained lower commodity costs.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	253,777	261,234	286,380	313,140	338,883
Operating EBITDA (Rsm)	44,473	35,715	40,776	48,105	53,315
Net Profit (Rsm)	17,219	11,213	14,590	18,269	21,394
Core EPS (Rs)	27.7	20.3	23.0	28.8	33.7
Core EPS Growth	62.6%	(26.7%)	13.1%	25.2%	17.1%
FD Core P/E (x)	17.53	26.92	20.69	16.52	14.11
DPS (Rs)	6.0	5.0	7.0	9.0	11.0
Dividend Yield	1.26%	1.05%	1.47%	1.89%	2.31%
EV/EBITDA (x)	7.36	9.15	7.62	6.33	5.53
P/FCFE (x)	55.02	(150.55)	15.49	27.24	19.40
Net Gearing	18.2%	23.2%	7.5%	1.8%	(5.0%)
P/BV (x)	2.17	2.83	2.58	2.33	2.10
ROE	13.1%	10.5%	13.1%	14.8%	15.7%
% Change In Core EPS Estimates			(5.59%)	(1.27%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

EBITDA margin slide continues

Management conference-call highlights ➤

- **Outlook:** Management believes it underperformed in both India and European markets due to leadership transition and capacity constraints (in Europe). Going ahead, it expects to see double-digit growth in 1QFY26F, coupled with improving profitability, driven by additional capacity this year, focus on improving the sales mix, and the ongoing cost optimization efforts.
- **India business:** The company registered growth in the replacement segment (+1%), which was offset by flat OEM volume and a double-digit decline in exports. TBR (truck and bus radial) replacement volume continued to show strong growth (+9%), whereas the OEM segment volume remained muted. CV OEM performance was impacted by an unfavourable mix, (with higher sales of buses). In the car segment, replacement volume grew in mid-single digits but offset by a double-digit decline in car OEM volume.
- **Europe business:** In 4Q, volume growth in the car tyre segment was below the overall industry growth due to capacity constraints at the Hungary plant for non-UHP sizes. In the car OEM segment, the company continued to gain fitment with German brands, supporting its premiumization strategy.
- **Financial performance:** In 4Q, the India business saw EBITDA margin decline of 435bp yoy, primarily due to steep raw material inflation (+11% yoy). The Europe business recorded EBITDA margin decline of 482bp yoy and 343bp qoq, driven by adverse operating leverage and raw material inflation (+8% yoy).
- **Market share:** The company lost marginal market share in the truck segment but maintained its position in the replacement segment. It lost significant market share in the OE segment; to address this, the company plans to launch new products for the truck segment.
- **Apollo Tyres Netherlands (subsidiary):** Management plans to discontinue tyre production at the Enschede plant in the Netherlands by mid-2026F. The plant has a capacity of 0.5m car tyres, accounting for 10% of the total Europe requirement. This capacity will be replaced by the Hungary plant (operations commencing by year-end) and partially from India.
- **Commodity prices:** During 4Q, average prices were as follows: Natural rubber: Rs200+/kg, synthetic rubber: Rs190/kg, and carbon black: Rs115/kg. This resulted in a blended commodity price average of Rs170/kg.
- **Commodity outlook:** Raw material prices are likely to remain flat in 1QFY26F. Rubber prices are expected to stay elevated as the industry enters the lean production season in the next quarter. However, this may be partially offset by the expected softening in crude oil prices.
- **Capex and rubber inventory:** In FY26F, management has planned a capex of Rs15bn for both growth and regular maintenance. The company is maintaining two weeks' rubber inventory and is actively seeking opportunities to procure it at lower prices, whenever possible.
- **Apollo Vredestein:** FY25 revenue stood at EUR 222m, with the EBITDA margin below 5%.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	4QFY25	4QFY24	yoy % chg	3QFY25	qoq % chg	FY25	FY24	yoy % chg	Comments
Revenue	64,236	62,582	2.6	69,280	(7.3)	1,96,999	1,91,196	3.0	9% below our estimate.
Raw material costs	36,344	33,024	10.1	40,521	(10.3)	1,10,602	1,03,632	6.7	
RM costs as a % of revenue	56.6	52.8	381	58.5	(191.0)	56.1	54.2	194	205bp below our estimate.
EBITDA	8,374	10,965	(23.6)	9,470	(11.6)	27,342	34,194	(20.0)	15% below our estimate.
EBITDA margin (%)	13.0	17.5	(448)	13.7	(63.3)	13.9	17.9	(401)	87bp below our estimate.
Depreciation & amortization	3,771	3,880	(2.8)	3,759	0.3	11,213	10,899	2.9	12% below our estimate.
EBIT	4,603	7,085	(35.0)	5,711	(19.4)	16,129	23,296	(30.8)	
Interest expenses	1,094	1,146	(4.6)	1,105	(1.0)	3,372	3,913	(13.8)	3% below our estimate.
Other income	275	343	(19.8)	81	242	606	793	(23.6)	
Pre-tax profit	3,785	6,282	(39.8)	4,686	(19.2)	13,362	20,175	(33.8)	
Tax	753	2,089	(64.0)	1,273	(40.9)	3,500	6,094	(42.6)	
Tax rate (%)	19.9	33.3	(1,337)	27.2	(728.2)	26.2	30.2	(401)	1337bp below our estimate.
Normalized net profit	3,032	4,193	(27.7)	3,413	(11.2)	9,862	14,082	(30.0)	45% below our estimate.
Exceptional items	(1,188)	(653)	nm	(42)	nm	(498)	(405)	nm	
Reported net profit	1,840	3,541	(48.0)	3,368	(45.4)	9,360	11,579	(19.2)	
Normalized EPS (Rs)	4.8	6.6	(27.7)	5.4	(11.2)	15.5	22.2	(30.0)	

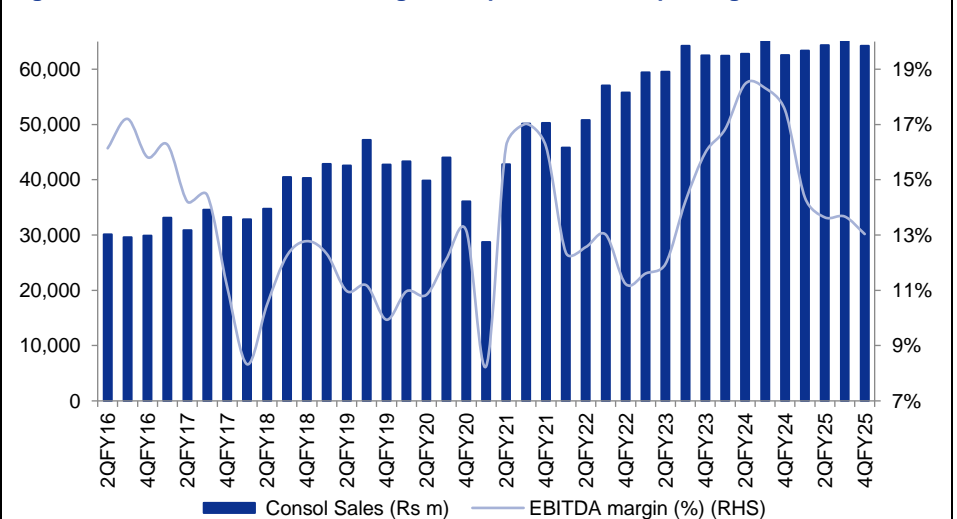
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: India business performance

Rs m	4QFY25	4QFY24	yoy (%)	3QFY25	qoq (%)	FY25	FY24	yoy (%)
Sales	45,805	43,874	4.4%	45,398	0.9%	1,81,736	1,75,393	3.6%
EBITDA	5,152	7,530	-31.6%	5,035	2.3%	21,907	30,966	-29.3%
EBITDA margin	11.2%	17.2%	(592)	11.1%	16	12.1%	17.7%	(560)
PAT	1,410	2,768	-49.1%	1,260	11.9%	6,804	11,898	-42.8%

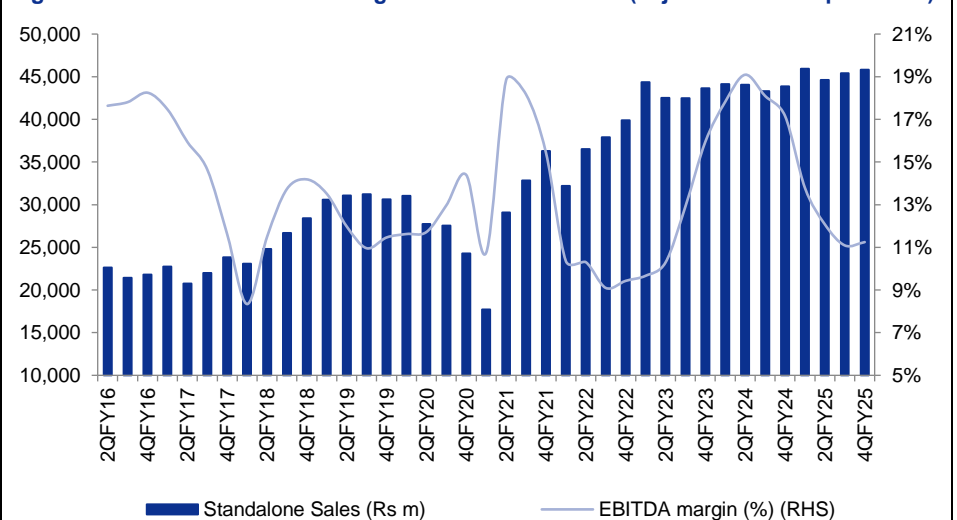
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consolidated EBITDA margin's sequential decline prolongs



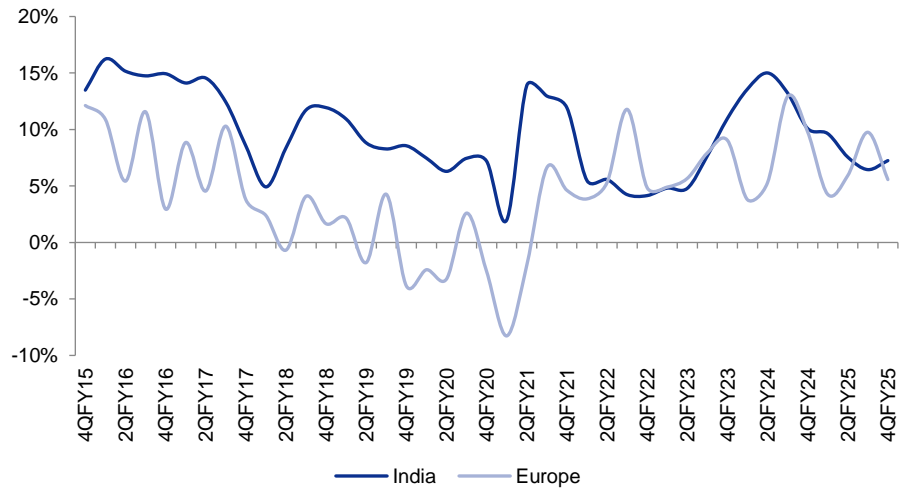
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



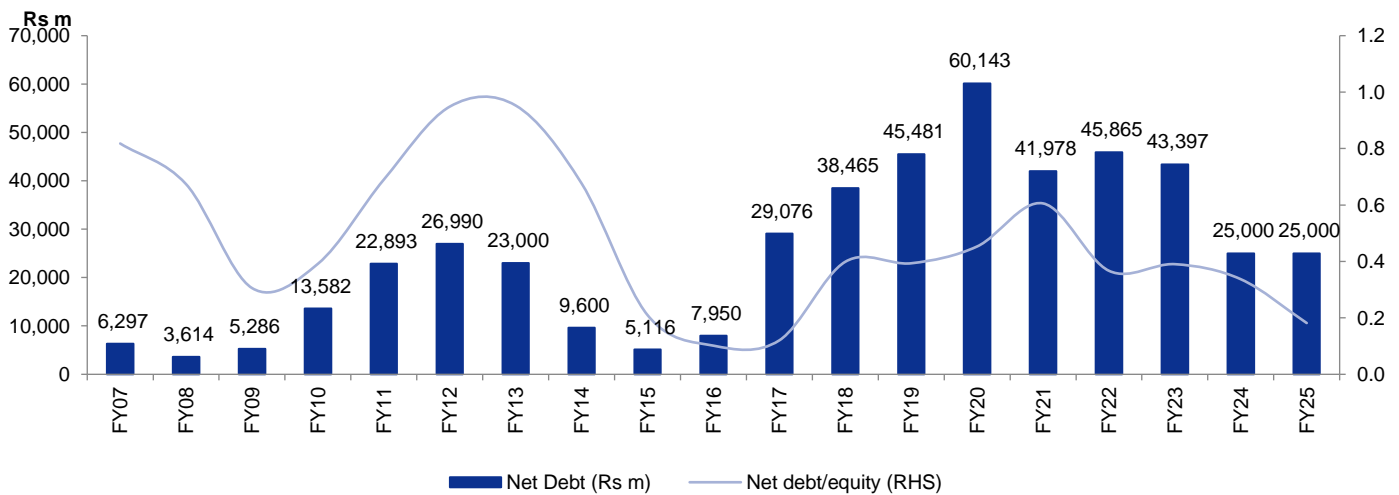
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: EBIT margin trend of various divisions at intermittent trough, but not yet at cyclical bottom



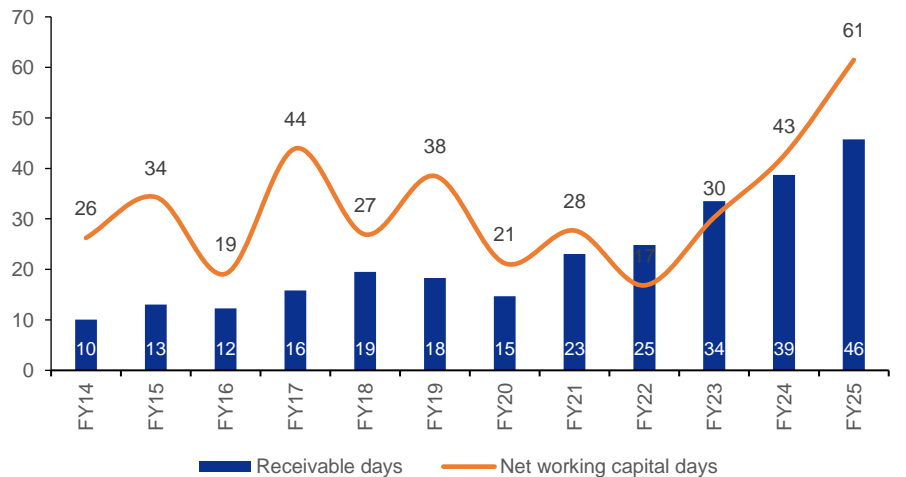
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Net debt remains flat yoy



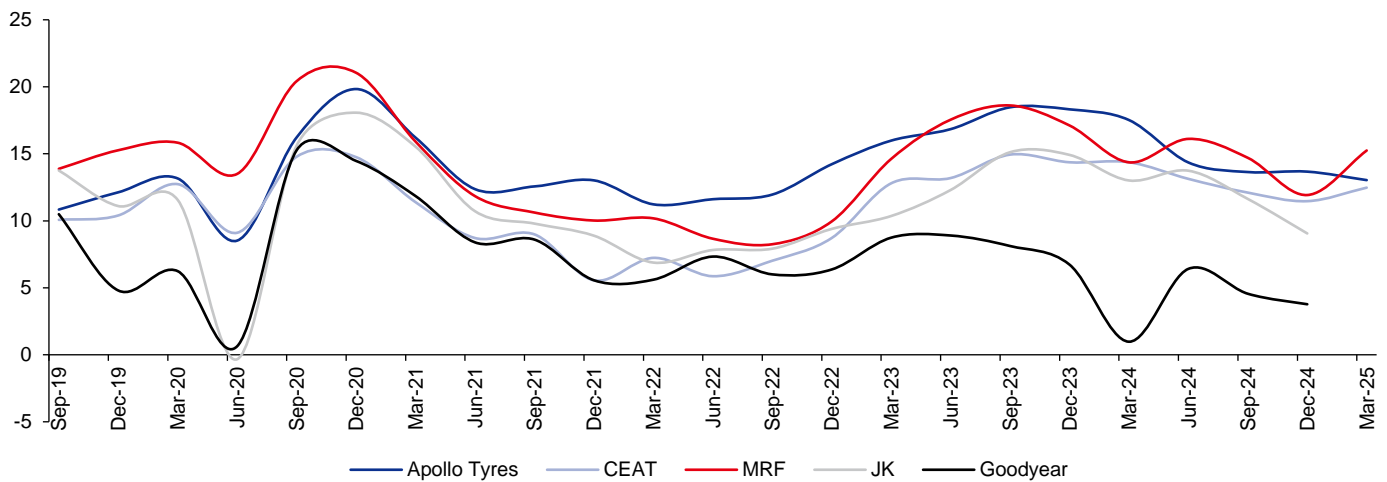
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Rising working capital situation in India is an area of concern



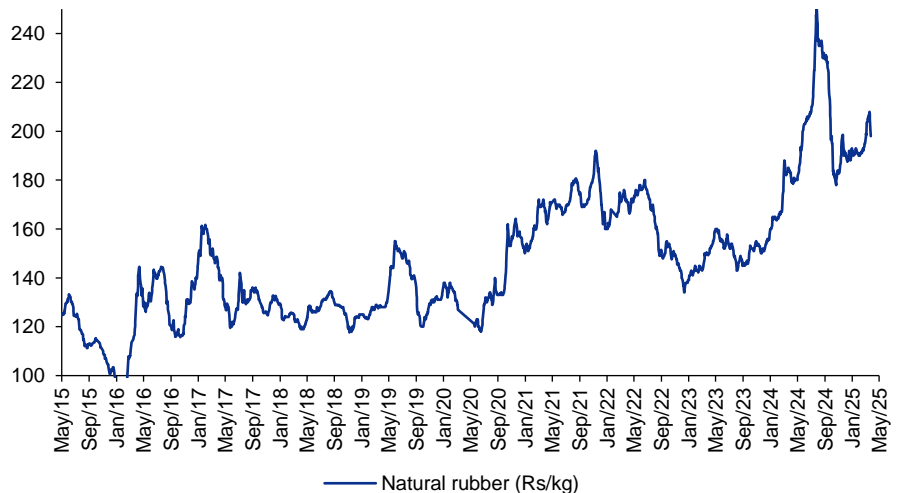
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Margin trend of tyre players continues to decline; MRF leads the pack



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Natural rubber prices witness a sequential uptick



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Our revised earnings estimates for the consolidated entity

Consolidated (Rs m)	FY26F		FY27F	
	Old	New	Old	New
Net sales	2,95,960	2,86,380	3,23,329	3,13,140
Change (%)		-3.2%		-3.2%
EBITDA	43,288	40,776	49,347	48,105
Change (%)		-5.8%		-2.5%
EBITDA margin	14.6%	14.2%	15.3%	15.4%
bp Change		(39)		10
Interest expenses	4,468	4,112	4,755	4,710
Change (%)		-8.0%		-0.9%
Normalized PAT	15,453	14,590	18,505	18,269
Change (%)		-5.6%		-1.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Key earnings drivers

	FY23A	FY24A	FY25A	FY26F	FY27F	FY28F
India sales (mt)	9,19,382	9,28,576	9,47,147	9,94,505	10,54,175	10,54,175
Growth (%)	6.0%	1.0%	2.0%	5.0%	6.0%	0.0%
ASP (Rs/kg)	188.2	188.9	191.9	195.5	202.9	219.1
Growth (%)	10.4%	0.4%	1.6%	1.9%	3.8%	8.0%
India sales (Rsm)	1,73,010	1,75,393	1,81,736	1,94,458	2,13,903	2,31,016
India EBIT margin (%)	7.1%	13.4%	7.7%	8.6%	9.9%	10.3%
Europe sales (Rsm)	72,974	76,399	79,068	83,022	89,663	98,630
Europe EBIT margin (%)	7.0%	8.0%	6.6%	7.5%	7.8%	8.0%
Consolidated EBIT margin (%)	7.7%	11.7%	7.9%	8.6%	9.8%	10.2%

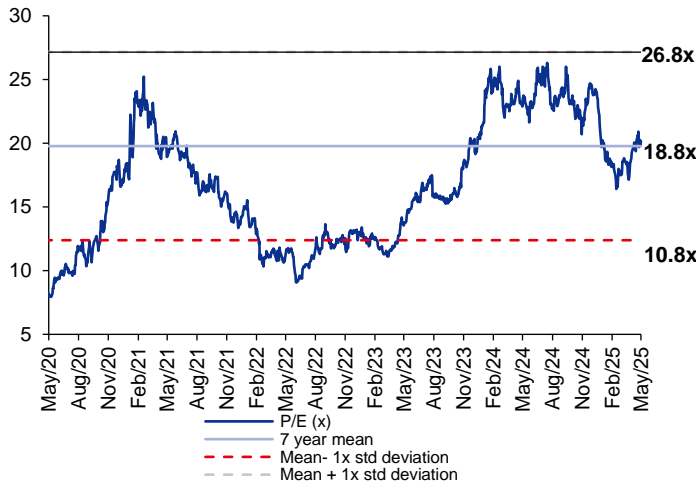
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: One-year forward P/E-based target price

One-year forward EPS (Rs.)	29.4
P/E(x)	13.0
Target price (Rs.)	378

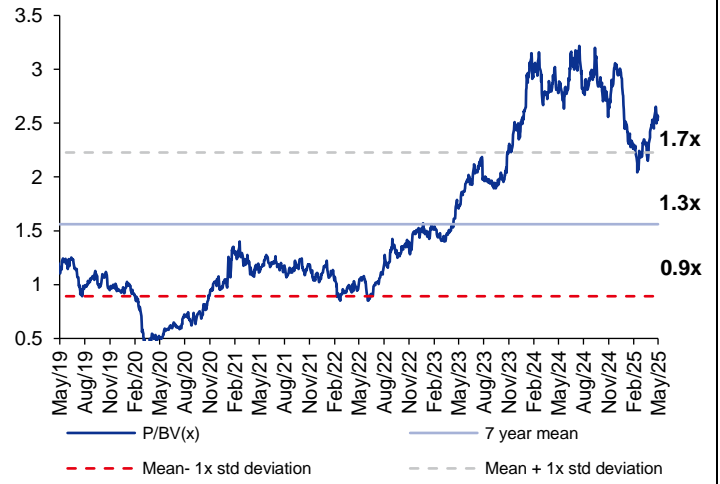
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



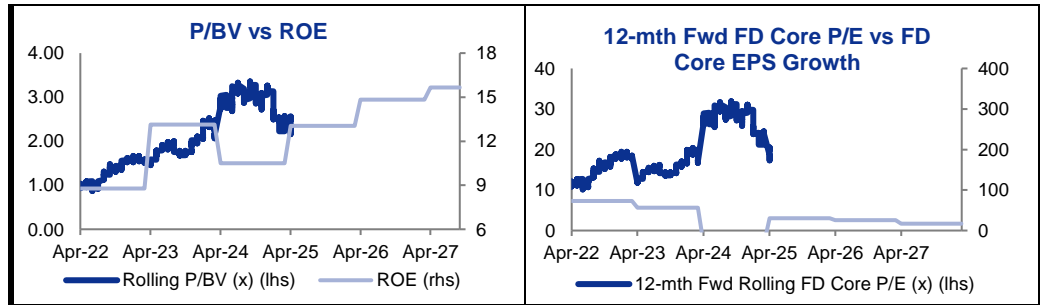
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 14: Rich forward P/BV valuation near the +1SD level



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Net Revenues	253,777	261,234	286,380	313,140	338,883
Gross Profit	117,146	114,289	126,007	139,348	149,108
Operating EBITDA	44,473	35,715	40,776	48,105	53,315
Depreciation And Amortisation	(14,778)	(14,984)	(16,178)	(17,546)	(18,835)
Operating EBIT	29,695	20,732	24,598	30,559	34,481
Financial Income/(Expense)	(3,924)	(3,585)	(3,143)	(3,692)	(3,019)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	25,771	17,147	21,455	26,867	31,462
Exceptional Items					
Pre-tax Profit	25,771	17,147	21,455	26,867	31,462
Taxation	(8,183)	(4,253)	(6,866)	(8,597)	(10,068)
Exceptional Income - post-tax	(373)	(1,687)			
Profit After Tax	17,215	11,207	14,590	18,269	21,394
Minority Interests	4	7			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	17,219	11,213	14,590	18,269	21,394
Recurring Net Profit	17,592	12,900	14,590	18,269	21,394
Fully Diluted Recurring Net Profit	17,592	12,900	14,590	18,269	21,394

Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
EBITDA	44,473	35,715	40,776	48,105	53,315
Cash Flow from Invt. & Assoc.	4	7			
Change In Working Capital	(3,688)	(13,869)	(5,657)	(8,930)	(8,357)
(Incr)/Decr in Total Provisions	691	39,010	329	250	750
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,136	881	969	1,018	1,068
Net Interest (Paid)/Received	(5,059)	(4,466)	(4,112)	(4,710)	(4,088)
Tax Paid	(4,209)	(2,717)	(5,364)	(6,717)	(7,865)
Cashflow From Operations	33,348	54,560	26,941	29,015	34,824
Capex	(9,242)	(9,844)	(3,566)	(14,000)	(15,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,161)	(41,075)	(2,889)	(2,932)	(3,260)
Cash Flow From Investing	(11,403)	(50,918)	(6,454)	(16,932)	(18,260)
Debt Raised/(repaid)	(16,458)	(5,648)	(1,000)	(1,000)	(1,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,811)	(3,176)	(4,446)	(5,716)	(6,986)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(20,268)	(8,823)	(5,446)	(6,716)	(7,986)
Total Cash Generated	1,677	(5,181)	15,041	5,367	8,578
Free Cashflow To Equity	5,487	(2,005)	19,487	11,083	15,564
Free Cashflow To Firm	27,005	8,109	24,598	16,793	20,652

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	14,156	8,975	24,016	29,383	37,962
Total Debtors	26,648	30,621	32,953	36,891	41,780
Inventories	42,457	51,312	56,491	63,486	69,633
Total Other Current Assets	12,389	13,236	15,500	17,500	19,000
Total Current Assets	95,650	104,144	128,961	147,260	168,375
Fixed Assets	165,763	158,656	153,478	149,933	146,098
Total Investments	382	452	497	546	601
Intangible Assets	2,311	2,374	2,374	2,374	2,374
Total Other Non-Current Assets					
Total Non-current Assets	168,455	161,482	156,349	152,853	149,073
Short-term Debt	12,691	15,479	15,479	15,479	15,479
Current Portion of Long-Term Debt					
Total Creditors	29,786	28,744	30,600	32,601	35,281
Other Current Liabilities	42,500	81,997	82,997	83,797	84,597
Total Current Liabilities	84,978	126,220	129,075	131,877	135,357
Total Long-term Debt	26,727	18,292	17,292	16,292	15,292
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	26,727	18,292	17,292	16,292	15,292
Total Provisions	18,846	21,828	22,078	22,527	22,974
Total Liabilities	130,552	166,340	168,445	170,695	173,622
Shareholders Equity	139,022	106,721	116,865	129,418	143,826
Minority Interests					
Total Equity	139,022	106,721	116,865	129,418	143,826

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	3.3%	2.9%	9.6%	9.3%	8.2%
Operating EBITDA Growth	34.2%	(19.7%)	14.2%	18.0%	10.8%
Operating EBITDA Margin	17.5%	13.7%	14.2%	15.4%	15.7%
Net Cash Per Share (Rs)	(39.78)	(39.04)	(13.79)	(3.76)	11.32
BVPS (Rs)	218.90	168.04	184.01	203.78	226.46
Gross Interest Cover	5.87	4.64	5.98	6.49	8.44
Effective Tax Rate	31.8%	24.8%	32.0%	32.0%	32.0%
Net Dividend Payout Ratio	21.7%	24.6%	30.5%	31.3%	32.7%
Accounts Receivables Days	37.06	40.01	40.51	40.71	42.37
Inventory Days	115.86	116.46	122.68	125.99	128.02
Accounts Payables Days	84.58	72.69	67.53	66.37	65.28
ROIC (%)	10.9%	7.7%	11.2%	13.7%	14.8%
ROCE (%)	15.3%	11.8%	15.1%	17.7%	18.6%
Return On Average Assets	7.6%	5.8%	6.1%	7.1%	7.6%

Key Drivers

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
ASP (% chg, main prod./serv.)	0.4%	1.6%	1.9%	3.8%	8.0%
Unit sales grth (% , main prod./serv.)	1.0%	2.0%	5.0%	6.0%	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

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.