

# Apollo Tyres

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## Reducing leverage in tough times by issuing convertible preference shares

**CMP: Rs 149**

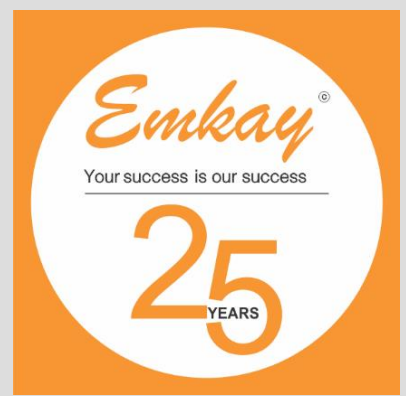
as of (February 26, 2020)

**TP: Rs 175 (₹)**

12 months

**Rating: HOLD (₹)**
**Upside: 17.3 %**

- APTY plans to issue Compulsorily Convertible Preference Shares (CCPS) worth Rs10.8bn to Emerald Sage Investment Ltd, an affiliate of Warburg Pincus, and use the proceeds for the repayment of high-cost borrowings. An Extraordinary General Meeting to obtain shareholder approval for the issuance is planned in Mar'20.
- APTY's net debt stood at Rs59bn as of Sep'19, which represents a Net Debt/Equity ratio of 0.6x, and Net Debt/EBITDA (TTM) of 3.2x. The company's objective of raising the funds is to reduce leverage and interest cost burden during the current scenario of high capex spends and challenging business environment.
- CCPS will be converted into 63mn equity shares at a price of Rs171.29/share, within a maximum period of 18 months, resulting in an equity dilution of 11%. The conversion may take place earlier, either at the option of the investor or if the 21-day VWAP stock price reaches the conversion price. CCPS carries a dividend of 6.34% per annum.
- Warburg Pincus - through its affiliates - currently holds a 9% equity stake in APTY, which will increase to 18% after the conversion of CCPS into equity shares.
- The issuance of CCPS and assuming conversion to equity shares, our FY21E EPS forecast could reduce marginally by ~2% as the negative impact of equity dilution will be mostly offset by the reduction in interest cost. We have a Hold rating on the stock with a TP of Rs175.**

 Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries](#)


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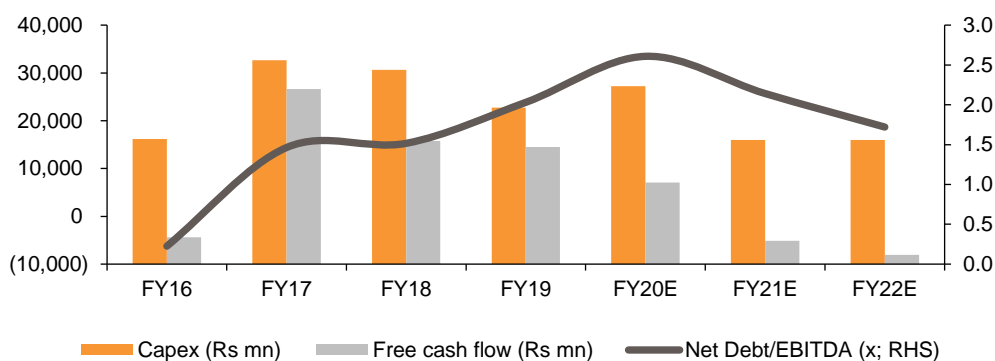
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**Exhibit 1: Net Debt/EBITDA has been high due to large capex and weak business environment**


Source: Company, Emkay Research

**Financial Snapshot (Consolidated)**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	1,48,429	1,75,488	1,67,919	1,84,030	2,05,550
EBITDA	16,536	19,586	19,476	23,313	26,871
EBITDA Margin (%)	11.1	11.2	11.6	12.7	13.1
APAT	7,239	8,197	5,418	7,490	9,995
EPS (Rs)	12.7	14.3	9.5	13.1	17.5
EPS (% chg)	-41.4	13.2	-33.9	38.2	33.4
ROE (%)	8.5	8.3	5.3	7	8.9
P/E (x)	11.8	10.4	15.7	11.4	8.5
EV/EBITDA (x)	6.7	6.4	7	5.8	4.9
P/BV (x)	0.9	0.8	0.8	0.8	0.7

Source: Company, Emkay Research

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 26 Feb 2020 22:30:35 (SGT)

Dissemination Date: 26 Feb 2020 22:31:35 (SGT)

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