

Raising equity capital to bolster balance sheet...

Apollo Tyres (ATL) has unveiled plans to raise equity worth ₹ 1,080 crore (pending shareholder approval) via issue of **10.8 crore compulsorily convertible preference shares (CCPS) of ₹ 100 each**. The shares would be placed preferentially to Emerald Sage Investment, an arm of private equity firm **Warburg Pincus**. Further, these shares would be converted to **6.3 crore ordinary equity shares** within 18 months of issuance @ ₹ 171.3/share.

Our interaction with ATL suggests the action is primarily aimed at strengthening the balance sheet (FY20E total gross debt at ₹ 6,380 crore; debt to equity at 0.6x). Also, the company is not planning any inorganic acquisition or fresh greenfield capex out of the same. As per the company's internal benchmarking, net debt to EBITDA at ~3x levels was approaching the higher end of the comfort range, which necessitated this step. We believe leverage on books, while significant, was not at alarming levels. However, the step is directionally positive for the company and would curtail interest outgo (average cost of Indian debt at ~8%), going forward.

Further details and implications of yesterday's corporate action –

(i) Post conversion, ordinary equity shares would amount to 63.5 crore in number i.e. dilution of equity base by 11% (ii) Warburg Pincus' stake in ATL would expand by 9% to 18%, with promoter holding shrinking to 37% from 41% earlier (iii) Warburg Pincus to gain a seat on ATL board post CCPS conversion.

Separately, ATL also declared interim dividend of ₹ 3/share for FY20.

Currently, we do not alter our estimates or target price for ATL and continue valuing it at ₹ 165 i.e. 5.3x FY22E EV/EBITDA. As far as financials are concerned, the situation stays same on the operating matrix front i.e. sales, EBITDA and operating margins while PAT will adjust for the change in interest outgo pursuant to a decline in debt levels. On the B/S front, leverage ratios improve with nearly no change on the RoCE front, which remains muted at <10%. RoE, however, will reduce as the base gets bloated.

Exhibit 1 : ATL financials pre and post equity issuance and conversion

Particulars	Units	Before CCPS Issuance & Conversion			After CCPS Issuance & Conversion		
		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Key P&L Line Items							
Sales	₹ crore	16,785.8	17,663.9	19,455.8	16,785.8	17,663.9	19,455.8
EBITDA	₹ crore	1,911.4	2,336.7	2,637.0	1,911.4	2,336.7	2,637.0
EBITDA margins	%	11.4	13.2	13.6	11.4	13.2	13.6
PAT	₹ crore	456	582	797	456.0	516.0	769.3
PAT margins	%	2.7	3.3	4.1	2.7	2.9	4.0
EPS	₹	8.0	10.2	13.9	8.0	9.0	12.1
Key B&S Line Items							
Networth	₹ crore	10273	10655	11238	10,255	11,651	12,206
Gross Debt	₹ crore	6381	6231	5031	6,381	5,331	4,131
Net Debt	₹ crore	5781	5615	4415	5,798	4,619	3,445
Key Leverage Ratios							
Debt: Equity	x	0.6	0.6	0.4	0.6	0.5	0.3
Gross Debt: EBITDA	x	3.3	2.7	1.9	3.3	2.3	1.6
Net Debt: EBITDA	x	3.0	2.4	1.7	3.0	2.0	1.3
Key Capital Efficiency Ratios							
RoCE	%	4.7	6.4	8.0	4.7	6.3	8.0
RoE	%	4.4	5.5	7.1	4.4	4.4	6.3

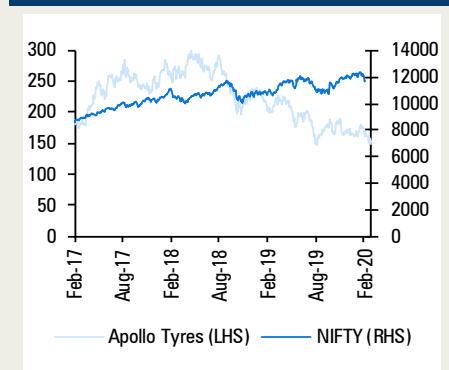
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹ 8581 Crore
Total Debt (FY19) (₹ Crore)	4,930.7
Cash & Investments (FY19) (₹ Crore)	562.5
EV (₹ Crore)	12,948.8
52 week H/L (₹)	236 / 144
Equity capital	₹ 57.2 Crore
Face value	₹ 1

Price Chart



Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

Financial Summary (Ex-CCPS issuance and conversion)

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total operating Income	17,548.8	16,785.8	17,663.9	19,455.8
Growth (%)	18.2	-4.3	5.2	10.1
Raw Material Expenses	10,126.2	9,412.1	9,658.2	10,697.1
Employee Expenses	2,456.2	2,514.4	2,602.3	2,779.7
Other Expenses	3,007.5	2,947.9	3,066.7	3,341.9
Total Operating Expenditure	15,589.9	14,874.4	15,327.3	16,818.8
EBITDA	1,958.9	1,911.4	2,336.7	2,637.0
Growth (%)	18.6	-2.4	22.2	12.9
Depreciation	812.7	1,141.4	1,271.8	1,323.0
Interest	181.1	274.5	346.8	309.7
Other Income	123.1	57.8	60.2	61.0
PBT	888.2	553.4	778.3	1065.3
Exceptional items	200.0	0.0	0.0	0.0
Total Tax	208.3	96.7	196.1	268.5
Reported PAT	680.0	456.7	582.2	796.9
Growth (%)	-6.1	-32.8	27.5	36.9
EPS (₹)	11.9	8.0	10.2	13.9

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	680.0	456.7	582.2	796.9
Add: Depreciation	812.7	1,141.4	1,271.8	1,323.0
(Inc)/dec in Current Assets	-205.6	246.8	-257.4	-525.1
Inc/(dec) in CL and Provisions	-548.5	-137.9	173.4	353.8
CF from operating activities	738.6	1707.0	1770.0	1948.6
(Inc)/dec in Investments	1,339.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-1,419.7	-2,712.0	-1,597.5	-780.0
Others	-561.3	-190.1	193.4	246.7
CF from investing activities	-642.0	-2902.1	-1404.1	-533.3
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	269.5	1,450.0	-150.0	-1,200.0
Dividend paid & dividend tax	-237.6	-223.1	-200.2	-214.5
Others	-164.8	0.0	0.0	0.0
CF from financing activities	-132.9	1226.9	-350.2	-1414.5
Net Cash flow	-36.3	31.8	15.7	0.7
Opening Cash	598.8	562.5	594.3	610.0
Closing Cash	562.5	594.3	610.0	610.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	57.2	57.2	57.2	57.2
Reserve and Surplus	9,982.6	10,216.1	10,598.1	11,180.4
Total Shareholders funds	10,039.8	10,273.3	10,655.3	11,237.6
Total Debt	4,930.7	6,380.7	6,230.7	5,030.7
Deferred Tax Liability	823.1	787.3	828.5	912.5
Total Liabilities	16,591.0	18,210.5	18,516.2	18,049.0
Assets				
Gross Block	17,808.7	20,790.8	22,638.3	23,418.3
Less: Acc Depreciation	6,924.9	8,066.3	9,338.1	10,661.1
Net Block	10,883.9	12,724.5	13,300.2	12,757.2
Capital WIP	1,520.1	1,250.0	1,000.0	1,000.0
Total Fixed Assets	12,404.0	13,974.5	14,300.2	13,757.2
Investments	6.0	6.0	6.0	6.0
Goodwill on consolidation	199.3	199.3	199.3	199.3
Inventory	3,484.1	3,311.2	3,484.4	3,837.8
Debtors	1,154.7	1,103.7	1,161.5	1,279.3
Loans and Advances	42.8	40.9	43.0	47.4
Other current assets	484.7	463.7	487.9	537.4
Cash	562.5	594.3	610.0	610.8
Total Current Assets	5,728.8	5,513.8	5,786.8	6,312.7
Creditors	2,248.3	2,161.5	2,274.5	2,505.3
Provisions	251.7	242.0	254.7	280.5
Total Current Liabilities	2,500.0	2,403.5	2,529.2	2,785.8
Net Current Assets	3,228.8	3,110.3	3,257.7	3,527.0
Application of Funds	16,591.0	18,210.5	18,516.2	18,049.0

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	11.9	8.0	10.2	13.9
Cash EPS	26.1	27.9	32.4	37.1
BV	175.5	179.6	186.3	196.4
DPS	3.3	3.3	3.5	3.8
Cash Per Share	9.8	10.4	10.7	10.7
Operating Ratios (%)				
EBITDA Margin	11.2	11.4	13.2	13.6
PBT / Net sales	6.5	4.6	6.0	6.8
PAT Margin	4.7	2.7	3.3	4.1
Inventory days	72.5	72.0	72.0	72.0
Debtor days	24.0	24.0	24.0	24.0
Creditor days	46.8	47.0	47.0	47.0
Return Ratios (%)				
RoE	8.3	4.4	5.5	7.1
RoCE	8.0	4.7	6.4	8.0
RoIC	8.0	4.8	6.4	8.0
Valuation Ratios (x)				
P/E	11.7	21.3	16.7	12.2
EV / EBITDA	7.2	8.1	6.6	5.4
EV / Net Sales	0.8	0.9	0.9	0.7
Market Cap / Sales	0.6	0.6	0.6	0.5
Price to Book Value	1.0	0.9	0.9	0.9
Solvency Ratios				
Debt/Equity	0.5	0.6	0.6	0.4
Current Ratio	2.1	2.0	2.0	2.0
Quick Ratio	0.7	0.7	0.7	0.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), and Jaimin Desai, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000009990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.