



# Apollo Tyres

## Margin scales a 13-quarter high

### Margin ahead of estimates led by lower raw materials

Apollo Tyres (APTY IN) revenue grew 7% YoY to INR 42.8bn, 5% ahead of our estimates. Europe revenue grew 12% YoY to INR 13.7bn while EBIT margin stood at -2%, vs -3.2% in Q2FY20. EBITDA grew 61% YoY at INR 6.9bn, 26% above our estimates, while EBITDA margin at 16.2% was up 540bp YoY and 790bp QoQ. Standalone revenue grew 5% YoY at INR 29.1bn, 3% ahead of our estimates, led by YoY volume growth in the replacement segment. EBITDA margin was up 710bp YoY and 800bp QoQ at 18.8%, 430bp above our estimates. The RMC-sales ratio declined 370bp QoQ at 57.8%, 320bp lower than our estimates of 61%; as in Q2, production took place using old low-priced RM inventory.

### Raw materials to inch up ~5% QoQ in Q3FY21

Total standalone capex guidance stands at INR 26.5bn over FY21-22 (FY21: INR 10.5bn and FY22: INR 16bn). Total capex includes maintenance capex of INR 5.5bn. Replacement demand remains buoyant in Q2 across all categories; the trucks replacement segment grew 18% YoY in Q2 while the PCR replacement segment grew 11% YoY; overall trucks segment grew 3% YoY in Q2 while the PCR segment grew 11% YoY. Management expects RM cost to increase ~5% QoQ in Q3; the company will look at reducing fixed cost and other cost reduction initiatives to offset higher RM cost. It managed to reduce fixed cost ~15% in H1 some of it will increase with increased economic activity.

### Valuation: reiterate Accumulate with a higher TP of INR 171

Q2FY21 margin was aided by subdued raw materials; however, margin is expected to moderate, with the recent increase in raw material prices. We expect revenue growth for APTY to accelerate, as the truck OEM segment is on the path to recovery and the replacement segment remains robust. We expect EBITDA margins for standalone to increase to ~14% over FY21-23E vs 12-13% over FY18-20. This alongwith lower capex intensity would result in positive FCF over FY21-23E. We increase our FY22-23E EPS by ~21-32% to factor in higher volume and margin. We reiterate **Accumulate** with a higher TP of INR 171 from INR 123 based on 11x (unchanged) FY23E EPS of INR 15.5, as we roll forward.

## Rating: Accumulate

Target Price: INR 171

Upside: 15%

CMP: INR 148 (as on 5 November 2020)

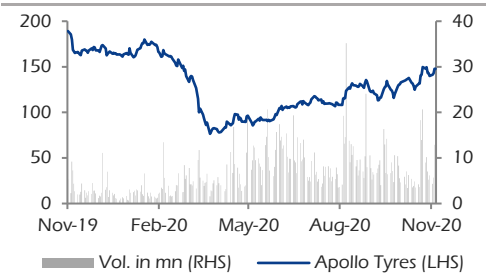
### Key data

Bloomberg /Reuters Code	APTY IN/APLO.BO
Current /Dil. Shares O/S (mn)	572/572
Mkt Cap (INR bn/USD mn)	85/1,141
Daily Vol. (3M NSE Avg.)	7,925,101
Face Value (INR)	1

1 USD = INR 74.4

Note: \*as on 5 November 2020; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Share holding (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Promoter	40.9	40.9	41.7	41.8
Institutional Investors	41.6	40.0	37.9	35.7
Other Investors	11.5	11.8	12.0	13.5
General Public	6.0	7.4	8.5	9.1

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	9.8	31.4	2.7
Apollo Tyres	27.5	72.5	(17.8)
CEAT	23.6	44.6	10.6

Source: Bloomberg

YE March (INR mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Q2FY21E	Var (%)
<b>Revenue</b>	<b>42,827</b>	<b>39,858</b>	<b>7.4</b>	<b>28,734</b>	<b>49.0</b>	<b>40,811</b>	<b>4.9</b>
Operating costs	35,879	35,538	1.0	26,362	36.1	35,301	1.6
<b>EBITDA</b>	<b>6,948</b>	<b>4,320</b>	<b>60.8</b>	<b>2,373</b>	<b>192.8</b>	<b>5,509</b>	<b>26.1</b>
<b>EBITDA margin (%)</b>	<b>16.2</b>	<b>10.8</b>	<b>53.8</b>	<b>8.3</b>	<b>79.6</b>	<b>13.5</b>	<b>272.3</b>
Depreciation & amortization	3,308	2,742	20.7	3,091	7.0	3,200	3.4
EBIT	3,639	1,578	130.6	(719)	(606.5)	2,309	57.6
Interest expense	1,167	640	82.4	1,172	(0.4)	1,000	16.7
Other Income	385	40	860.1	268		50	669.1
Pretax profit	2,857	979	191.9	(1,622)	(276.1)	1,359	110.1
Tax	798	148	438.9	(276)	(388.9)	272	193.5
Tax rate (%)	27.9	15.1		17.0		20.0	39.6
<b>Adjusted Net profit</b>	<b>2,059</b>	<b>831</b>	<b>147.9</b>	<b>(1,346)</b>	<b>(253.0)</b>	<b>1,088</b>	<b>89.3</b>
Exceptionals	(59)	-		-		-	
Reported Net Profit	2,000	831	140.7	(1,346)	(248.6)	1,088	83.9
EPS (INR)	3.6	1.5	147.9	(2.4)	(253.0)	1.9	89.3

### Key Financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	163,270	(7.0)	19,155	11.7	4,764	(45.9)	8.3	4.8	4.7	17.8	7.5
FY21E	151,225	(7.4)	20,771	13.7	4,532	(4.9)	7.1	4.3	5.2	20.7	6.6
FY22E	176,304	16.6	25,325	14.4	7,959	75.6	12.5	6.8	7.1	11.8	5.6
FY23E	197,168	11.8	28,570	14.5	9,852	23.8	15.5	7.9	8.0	9.5	4.7

Note: pricing as on 5 November 2020; Source: Company, Elara Securities Estimate

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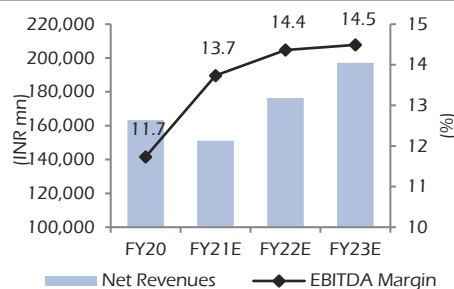
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## Consolidated Financials (YE March)

Income Statement (INR mn)	FY20	FY21E	FY22E	FY23E
Net Revenues	163,270	151,225	176,304	197,168
<b>EBITDA</b>	<b>19,155</b>	<b>20,771</b>	<b>25,325</b>	<b>28,570</b>
Add:- Non operating Income	469	492	517	543
OPBIDTA	19,624	21,263	25,842	29,113
Less :- Depreciation & Amortization	11,381	12,141	13,041	14,191
<b>EBIT</b>	<b>8,243</b>	<b>9,122</b>	<b>12,801</b>	<b>14,922</b>
Less:- Interest Expenses	2,808	3,385	2,726	2,451
<b>PBT</b>	<b>5,434</b>	<b>5,737</b>	<b>10,075</b>	<b>12,471</b>
Less :- Taxes	670	1,205	2,116	2,619
<b>Adjusted PAT</b>	<b>4,764</b>	<b>4,532</b>	<b>7,959</b>	<b>9,852</b>
Add/Less: - Extra-ordinaries	-	-	-	-
<b>Reported PAT</b>	<b>4,764</b>	<b>4,532</b>	<b>7,959</b>	<b>9,852</b>
Balance Sheet (INR mn)	FY20	FY21E	FY22E	FY23E
Share Capital	572	635	635	635
Reserves	98,728	113,285	119,905	128,418
<b>Net worth</b>	<b>99,300</b>	<b>113,920</b>	<b>120,540</b>	<b>129,053</b>
Borrowings	65,799	50,979	51,479	51,479
Deferred Tax (Net)	7,032	6,975	6,874	6,749
Other liabilities	36,834	37,276	37,762	38,297
<b>Total Liabilities</b>	<b>208,964</b>	<b>209,149</b>	<b>216,655</b>	<b>225,578</b>
Gross Block	233,283	245,783	261,783	271,283
Less:- Accumulated Depreciation	88,326	100,467	113,508	127,699
Net Block	144,957	145,316	148,275	143,584
Add:- Capital work in progress	23,814	23,814	23,814	23,814
Goodwill	2,134	1,700	1,700	1,700
Investments	194	214	3,500	5,000
Net Working Capital	18,377	18,644	24,151	27,009
Cash and Cash Equivalents	7,495	7,469	3,222	12,478
Other Assets	11,993	11,993	11,993	11,993
<b>Total Assets</b>	<b>208,964</b>	<b>209,149</b>	<b>216,655</b>	<b>225,578</b>
Cash Flow Statement (INR mn)	FY20	FY21E	FY22E	FY23E
Cash profit adjusted for non cash items	17,178	16,616	20,899	23,918
Add/Less : Working Capital Changes	7,996	175	(2,606)	(2,037)
Operating Cash Flow	25,173	16,791	18,294	21,881
Less:- Capex	(28,055)	(12,500)	(16,000)	(9,500)
Free Cash Flow	(2,882)	4,291	2,294	12,381
Financing Cash Flow	4,725	(15,522)	(839)	(1,339)
Investing Cash Flow	(27,959)	(1,295)	(19,286)	(11,000)
<b>Net change in Cash</b>	<b>1,939</b>	<b>(26)</b>	<b>(4,247)</b>	<b>9,256</b>
Ratio Analysis	FY20	FY21E	FY22E	FY23E
Income Statement Ratios (%)				
Revenue Growth	(7.0)	(7.4)	16.6	11.8
EBITDA Growth	(2.2)	8.4	21.9	12.8
PAT Growth	(45.9)	(4.9)	75.6	23.8
EBITDA Margin	11.7	13.7	14.4	14.5
Net Margin	2.9	3.0	4.5	5.0
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.6	0.4	0.4	0.3
ROE (%)	4.8	4.3	6.8	7.9
ROCE (%)	4.7	5.2	7.1	8.0
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	8.3	7.1	12.5	15.5
EPS Growth (%)	(45.9)	(4.9)	75.6	23.8
DPS (INR/Share)	3.0	1.0	1.8	1.8
P/E Ratio (x)	17.8	20.7	11.8	9.5
EV/EBITDA (x)	7.5	6.6	5.6	4.7
EV/Sales (x)	0.9	0.9	0.8	0.7
Price/Book (x)	0.9	0.8	0.8	0.7
Dividend Yield (%)	2.0	0.7	1.2	1.2

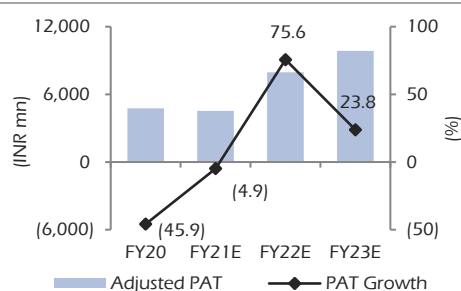
Note: pricing as on 5 November 2020; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



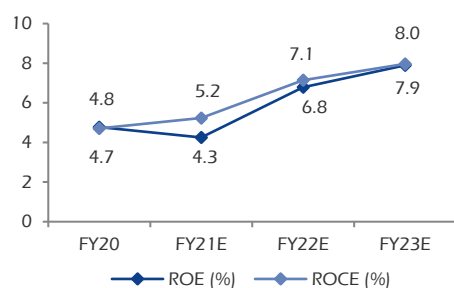
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

## Conference call highlights

- Focus on sweating assets efficiently: As per management, intensity of capex cycle is over, and the focus is on sweating the assets and running plants at 90-95% utilization. In the next 2-3 years, the company will focus to get return ratios back into the double digits
- Cost reduction efforts: The company has managed to reduce fixed cost, down by 15% in H1, with various measures, such as lower rent agreements renegotiated, savings on travel cost and also by launching products digitally
- Replacement mix in Q2: The truck & bus tyres segment reported the highest numbers in replacement for APTY. The company gained 500bp in PCR. It launched motorcycle and light truck radials in Q2. Overall mix stood at 75% replacement, 15% OEM and 10% exports. The company sees a 10% increase in OEM contribution YoY.
- RM basket: NR: 137/kg, SBR: 90/kg, CB: 58/kg
- PCR market share gain: All plants are running at 85-90% for PCR tyres. It has an enriched product mix: 12-13-inch tyre contribution declined to 40-42% from 50-55%. The company sold <400,000 PCR replacement tyres a month last year and currently it is selling >400,000 tyres a month, having ~22-23% market share in PCR.
- Dutch plant: Cost savings are estimated to be same at EUR 50mn. Savings can be slightly lower than this and they are expected to flow into profitability, and the payback of this exercise is less than two years. It targets Europe margin to revert to earlier levels
- Capex: Capex for FY21 remains unchanged, with strong demand returning in PCR. It is looking at opportunities to ramp-up the Andhra plant. The company might accelerate capex at the Andhra plant. Capex guidance for FY21 is INR 10.5bn and INR 16.0bn for FY22 for India, which includes maintenance and can go up slightly for FY21 but no change in combined capex of two years
- Segment growth rates: In Q2: Overall: Truck: +3% YoY, Passenger cars: +11% YoY. Replacement segment: Trucks: +18% YoY, Passenger cars: +11% YoY. Management remains bullish on India over Q3 and Q4 as demand momentum is strong
- Replacement demand: There has been pent-up demand in Q1 and the beginning of Q2 and pent-up demand is now in the T&B segment. It expects demand to sustain in the T&B segment, led by freight rates, which have gone up, economic activity picked up, mining sector picked up and construction sector is backed by government investments.. Passenger car demand is sustainable, led by import restrictions
- Industry pricing scenario: Pricing environment: The industry has matured on the pricing front, APTY is looking at enriching product mix with launching high-end radial tyres. Dealers' incentives structure: There aren't that many incentives, as demand remains strong. Incentives are expected to remain bare minimum. As input cost is going up, the industry will need pricing action in Q3 and Q4. Europe is steady on the pricing front.
- RM basket: Management expects the RM basket to be up by 5% in Q3. No pricing action has been taken to date. The company will continue to look at fixed cost and the cost reduction initiatives to offset higher RM cost
- PCR replacement: OEM mix: In India, it is 50:50. In developed geographies, replacement is 70% and OE is 30%. In India as well, replacement mix has been increasing
- Import restrictions: Imports had 15% market share in PCR, which have not come to domestic firms. Around 6mn tyres out of total 40mn were imported
- Radialization trend: The radialization trend continues. TBB growth has grown, and the radialization level remains 50% this year, which is the same as the past year. APTY has higher growth in the TBB segment this year. It expects the radialization trend to continue. The company has gained significant market share in the TBB segment
- Winter tyres in Europe: Winter tyres demand is slow. APTY has emphasized more on all seasons tyres
- Rural distribution network: The company has expanded distribution across categories, mostly dealers are multi-products in rural. It added 350 dealers in H1, increasing rural footprints and tripled touch points in H1 in rural
- FY21 outlook: From June, all categories have recovered. H1 has seen 20% revenue contraction YoY for APTY and target for the whole year is to have single digit positive growth, led by replacement buoyancy and OEM recovery. If the current demand momentum sustains then, APTY is expected to report low single-digit revenue growth in FY21
- Europe revenue: Reifencom revenue: In Q2, Reifencom grew 16%. EBIT was affected due to high depreciation from the Hungary plant, which will be corrected as Dutch specialization will happen in the next year

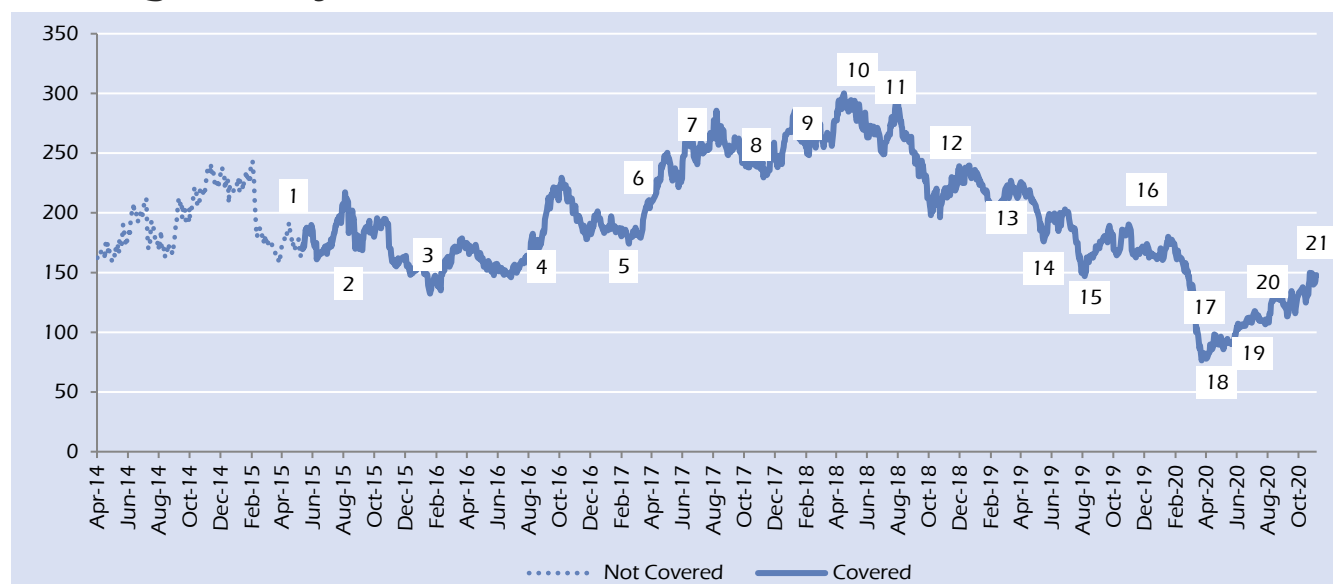
- India maintenance capex at INR 2.5-3.0bn (out of INR 26.5bn total capex, expect INR 5.5bn as maintenance capex and the rest as normal capex). Andhra capex post FY20 left is INR 16bn. INR 38-39bn was total capex for the Andhra plant and usual payback period for the new plant is seven years
- Net debt: Net debt fell to INR 46bn from INR 60bn in March. The debt-EBIDTA ratio declined to 2.4x from 3.2x
- Sales in Europe: Revenue stood at EUR 129mn. It gained market share in UHP passenger tyres and TBR. EBIDTA stood at EUR 12mn and a margin of 9.0% vs 6.7% last year.
- Market share gains: The company gained a 12bp market share in Europe in UHP tyres. It gained a market share of 23bp in TBR and 25bp in farm products

## Exhibit 1: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Sales	137,112	162,862	183,157	151,225	176,304	197,168	10.3	8.3	7.6
EBITDA	16,978	22,816	26,285	20,771	25,325	28,570	22.3	11.0	8.7
EBITDA margin (%)	12.4	14.0	14.4	13.7	14.4	14.5	135.3	35.5	13.9
PAT	1,636	6,041	8,132	4,532	7,959	9,852	177.0	31.8	21.1
<b>Target price (INR)</b>	<b>123</b>			<b>171</b>			<b>39.0</b>		

Source: Elara Securities Estimate

## Coverage History



	Date	Rating	Target Price	Closing Price
5	2-Feb-2017	Buy	INR 219	INR 184
6	5-May-2017	Buy	INR 294	INR 246
7	4-Aug-2017	Buy	INR 336	INR 262
8	2-Nov-2017	Buy	INR 329	INR 237
9	7-Feb-2018	Buy	INR 355	INR 261
10	11-May-2018	Buy	INR 336	INR 279
11	2-Aug-2018	Accumulate	INR 336	INR 286
12	13-Nov-2018	Buy	INR 280	INR 223
13	5-Feb-2019	Buy	INR 274	INR 203
14	10-May-2019	Buy	INR 232	INR 190
15	1-Aug-2019	Accumulate	INR 183	INR 154
16	7-Nov-2019	Accumulate	INR 191	INR 167
17	5-Feb-2020	Accumulate	INR 182	INR 168
18	7-May-2020	Accumulate	INR 103	INR 90
19	20-May-2020	Accumulate	INR 105	INR 92
20	6-Aug-2020	Accumulate	INR 123	INR 116
21	5-Nov-2020	Accumulate	INR 171	INR 148

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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