

CMP: ₹ 540

Target: ₹ 635 (18%)

Target Period: 12 months

BUY

July 1, 2024

Healthy b/s, margins & RoCE profile to drive re-rating

About the stock: Apollo Tyres (ATL), is a leading tyre manufacturer, having operations in India & Europe. In India, ATL has substantial presence in TBR (~30% market share) and PCR space (~20% market share). India contributes ~67% of sales

- FY24 product mix: Truck/Bus- 42%; PV- 38%; OHT- 8%; Others-11%

Q4FY24 Results: Reported subdued performance in Q4FY24. Total operating income on consolidated basis in Q4FY24 stood at ₹ 6,258 crores, flattish YoY. EBITDA for the quarter stood at ₹ 1,028 crore with EBITDA margins at 16.4%, down 190 bps QoQ. Consequent consolidated PAT for Q4FY24 came in at ₹ 354 crores, down 29% on QoQ & 17% on YoY basis. ATL generated healthy CFO at ~₹ 3,400 crore for FY24E with consequent reduction in debt to the tune of ~₹ 1,600 crore.

Investment Rationale:

- Debt on B/S substantially reduced, Net Debt: EBITDA ahead of target:** Tyre industry is known to have bloated balance sheets owing to high capex intensity. The industry however in the recent past has grown in a calibrate manner wherein they have incurred low capex spends and at the same time worked upon margin improvement and cash flow generation. Apollo tyre has done considerable work in this domain with gross debt down from the highs of ~₹ 6,800 crore as of FY20 to ~₹ 3,900 crore as of FY24, a reduction of ~₹ 2,500 crore over the four-year period. In this timeframe its EBITDA has improved substantially from ~₹ 1,900 crore in FY20 to ~₹ 4,450 crore in FY24 with consequent Net Debt: EBITDA now placed at 0.6x as of FY24 vs. its slated target of <2x shared few years back. With healthy B/S, apollo tyre is well placed to overcome any near-term pressure on margins amidst rise in RM prices. With margins sustaining at ~16-17% levels, we see company becoming net debt free in FY26E, which we believe should drive meaningful re-rating for the stock going forward.
- Pricing discipline to ensure healthy sustainable margin profile:** Rubber and crude derivatives form bulk of raw material costs at tyre companies. Consequently, domestic tyre industry has largely witnessed volatile margin profile in the past with industry realising healthy margins during periods of benign raw material prices and lower margins during period of elevated raw material costs. Encouragingly, however, currently the industry is witnessing conscious pricing discipline. The case in point being, during Q4FY24, almost all tyre companies reported stable gross margins & guided for price hikes to offset the impact of rise in rubber prices & EPR (Extended producer responsibility) provisioning. This is structurally positive for the industry thereby ensuring healthy sustainable double-digit margins going forward. ATL with its leading market share is also seem as key beneficiary.

Rating and Target Price

- We net debt free b/s in sight, sustainable double-digit margins and RoCE matrix, we upgrade the stock to **BUY** and believe it can command better valuation multiples. **We value ATL at ₹ 635 i.e. 8x FY26 EV/EBITDA.**



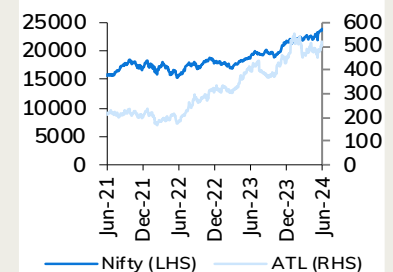
Particulars

Particular	₹ crore
Market Capitalization	34,292
Total Debt (FY24P)	3,942
Cash & Inv. (FY24P)	1,416
EV (₹ Crore)	36,819
52 week H/L (₹)	560 / 365
Equity capital	₹ 63.5 Crore
Face value	₹ 1

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	37.3	37.3	37.3	37.4
FII	23.4	22.1	18.0	18.2
DII	17.2	17.7	22.0	22.0
Other	22.0	22.8	22.7	22.5

Price Chart



Recent event & key risks

- Meets 3 out of 4 long term slated goals i.e. RoCE, margins & debt
- Key Risk: (i) slower than anticipated sales recovery in domestic replacement market (ii) pressure on gross margins amid volatile raw material prices

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Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24P)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	16,327	17,344	20,948	24,568	25,378	7.7	26,948	28,616	6.2
EBITDA	1,916	2,744	2,574	3,314	4,447	17.8	4,469	4,800	3.9
EBITDA Margins (%)	11.7	15.8	12.3	13.5	17.5		16.6	16.8	
Net Profit	476	350	639	1,046	1,722	20.4	1,978	2,312	15.9
EPS (₹)	8.3	5.5	10.1	16.5	27.1		31.2	36.4	
P/E	64.8	97.9	53.7	32.8	19.9		17.3	14.8	
RoNW (%)	4.8	3.1	5.4	8.3	12.4		12.8	13.4	
RoCE (%)	4.5	7.6	6.3	9.8	15.2		15.0	16.1	

Q4FY24 Earnings Conference Call highlights

Indian Operation

- **Industry:** ATL expects a demand recovery in the domestic market post general election. It witnesses a double-digit growth in the Passenger Vehicle and Commercial Vehicle segments in April'24. It's also witnessing a demand recovery in the Agri-Tyres segment.
- **Performance:** Overall volume growth in Indian operation for the quarter stood at 4% YoY. Within this, the OEM segment reported a decline of 10% YoY while the export and replacement segment reported double digit and mid-single growth, respectively. On full year basis, OEM volume growth was flat, with the passenger car segment showing strong growth while truck and bus was flat to negative growth. The truck segment reported a decline, which was offset by growth in bus segment.
- **Commodity Inflation and Price Hike:** ATL witnessed flat growth QoQ in raw material cost. Natural Rubber price stood at ₹163/kg, synthetic rubber at ₹155/kg and Carbon black at ₹120/kg. It expects raw material costs to increase by 4-5% QoQ in Q1FY25. In the interim to offset part of RM price rise and EPR provisioning it has undertaken a price hike of ~3% in May. To offset the RM inflation in total, it requires another price hike of ~2-2.5%.
- **Capex:** Overall capex spend for FY24 was below the guidance of ~₹ 1,000 crore set by ATL. Capex guidance for FY25 is in the range of ₹1000 crores. ATL will consider a small capacity expansion in passenger car segment to meet the demand requirement in FY27. It has ascertained that capacity is sufficient to meet demand requirement in FY25 and FY26. It will continue to focus on improving productivity through AI and Machine Learning.
- **Capacity Utilization:** In FY24, Capacity Utilization of Indian and European operation stood at 75% and 76%, respectively. Current capacity utilization for TBR segment was at ~70% whereas 80% utilization level in PCR space.
- **Guidance:** ATL anticipates high single digit growth in TBR and double-digit growth in PCR space in FY25. It expects the export market to remain robust in FY25 and aims for increasing the product mix more towards higher premium (margin accretive) segment.
- **EPR Liability:** As per regulation, Extended Producer Responsibility (EPR) is currently linked to the production of a prior year and is broadly pegged at ~1% of domestic sales. ATL is in the process of purchasing certificates to comply with the EPR requirement.

European Operation

- **Performance:** During the quarter, ATL growth in Passenger Car Tyres (PCT) segment have outperformed the industry growth in volume terms. Notably, it has witnessed growth of more than 7% YoY in the Ultra High-Performance tyres (UHP) segment. UHP mix for Q4FY24 stood at 47% as compared to 43% in Q4FY23.
- **Management Guidance:** ATL expects its European operations to perform better in FY25 due to demand rebound in this market. Operating performance is expected to remain robust with constant focus on sales mix improvement and cost optimization. It targets EBITDA margins to be in the range of 16% to 17% for FY25.
- **Others:** ATL is witnessing an increase in raw material prices and is considering increasing prices by 1% to 2% in Q2FY25.

Financial Summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Total operating Income	24,568	25,378	26,948	28,616	
Growth (%)	17.3	3.3	6.2	6.2	
Raw Material Expenses	14,637	13,663	14,761	15,631	
Employee Expenses	2,620	2,964	3,258	3,436	
Other Expenses	3,998	4,303	4,460	4,749	
Total Operating Expenditure	21,254	20,930	22,479	23,816	
EBITDA	3,314	4,447	4,469	4,800	
Growth (%)	28.7	34.2	0.5	7.4	
Depreciation	1,419	1,478	1,536	1,602	
Interest	531	506	311	156	
Other Income	41	154	86	123	
PBT	1,427	2,540	2,708	3,164	
Exceptional items	0.0	0.0	0.0	0.0	
Total Tax	381	818	731	854	
Reported PAT	1,046	1,722	1,978	2,312	
Growth (%)	63.8	64.7	14.9	16.9	
EPS (₹)	16.5	27.1	31.2	36.4	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Liabilities					
Equity Capital	63.5	63.5	63.5	63.5	
Reserve and Surplus	12,515	13,839	15,372	17,176	
Total Shareholders funds	12,578	13,902	15,436	17,240	
Total Debt	5,588	3,942	2,442	942	
Deferred Tax Liability	1,259	1,653	1,653	1,653	
Total Liabilities	21,147	21,183	21,312	21,718	
Assets					
Gross Block	28,882	29,729	30,579	31,079	
Less: Acc Depreciation	12,197	13,675	15,211	16,813	
Net Block	17,087	16,548	16,212	15,860	
Capital WIP	253	348	498	998	
Total Fixed Assets	17,340	16,896	16,710	16,858	
Investments	436	532	892	1,652	
Goodwill on consolidation	229	231	231	231	
Inventory	4,428	4,246	4,578	4,861	
Debtors	2,489	2,665	2,806	2,979	
Loans and Advances	50	50	53	56	
Other current assets	633	652	692	735	
Cash	846	922	1,193	1,278	
Total Current Assets	8,446	8,534	9,321	9,910	
Creditors	3,396	2,979	3,322	3,528	
Provisions	214	239	266	283	
Total Current Liabilities	3,610	3,217	3,589	3,811	
Net Current Assets	4,836	5,317	5,733	6,099	
Application of Funds	21,147	21,183	21,312	21,718	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax	1,046	1,722	1,978	2,312	
Add: Depreciation & Interest	1,950	1,984	1,847	1,759	
(Inc)/dec in Current Assets	-1,281	-12	-516	-503	
Inc/(dec) in CL and Provisions	462	-432	530	390	
CF from operating activities	2,177	3,262	3,839	3,958	
(Inc)/dec in Investments	49	(92)	(350)	(750)	
(Inc)/dec in Fixed Assets	(1,101)	(943)	(1,000)	(1,000)	
Others	(77)	380	58	62	
CF from investing activities	(1,128)	(654)	(1,292)	(1,688)	
Issue/(Buy back) of Equity	-	-	-	-	
Inc/(dec) in loan funds	(530)	(1,646)	(1,500)	(1,500)	
Dividend & interest outgo	(817)	(887)	(756)	(665)	
Others	65	1	(20)	(20)	
CF from financing activities	(1,282)	(2,531)	(2,276)	(2,185)	
Net Cash flow	(234)	76	271	85	
Opening Cash	1,081	846	922	1,193	
Closing Cash	846	922	1,193	1,278	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Per share data (₹)					
EPS	16.5	27.1	31.2	36.4	
Cash EPS	38.8	50.4	55.3	61.6	
BV	198.1	218.9	243.1	271.5	
DPS	4.5	6.0	7.0	8.0	
Cash Per Share	13.3	14.5	18.8	20.1	
Operating Ratios (%)					
EBITDA Margin	13.5	17.5	16.6	16.8	
PBT / Net sales	7.7	11.7	10.9	11.2	
PAT Margin	4.2	7.0	7.3%	7.6%	
Inventory days	65.8	61.1	62.0	62.0	
Debtor days	37.0	38.3	38.0	38.0	
Creditor days	50.4	42.8	45.0	45.0	
Return Ratios (%)					
RoE	8.3	12.4	12.8	13.4	
RoCE	9.8	15.2	15.0	16.1	
RoIC	10.6	16.7	17.3	20.0	
Valuation Ratios (x)					
P/E	33.3	19.3	17.3	14.8	
EV / EBITDA	11.7	8.3	7.8	6.7	
EV / Net Sales	1.6	1.5	1.3	1.1	
Market Cap / Sales	1.4	1.4	1.3	1.2	
Price to Book Value	2.7	2.5	2.2	2.0	
Solvency Ratios					
Debt/Equity	0.4	0.3	0.2	0.1	
Current Ratio	2.1	2.4	2.3	2.3	
Quick Ratio	0.9	1.0	1.0	1.0	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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