

Apollo Tyres | BUY



Margin pressure to continue in near-term; Demand outlook healthy

During 1QFY25, Apollo Tyres reported consol. adj. EBITDAM of 14.4%, 170bps below JMFe. Domestic replacement demand continues to remain healthy. And, overall replacement segment is expected to grow by high single-digit during FY25. Demand in the International markets has also started to recover, albeit gradually. RM basket continues to inch-up. So far, pricing environment in domestic replacement market has been largely stable. However, with rising competitive intensity (in certain segments), ability to take further price increases remains a key monitorable (APTY took 1% in Jul'24 and another 4% is required). APTY indicated of maintaining a balance between price hike and market share going ahead. Focus on favourable mix and cost control efforts is also expected to support margin performance. Capex intensity is expected to be low in the medium-term. We have cut our EPS estimate for FY26 by 6% to factor-in gradual price increases. Consistent focus on driving profitable growth, deleveraging and improving ROCE is expected to support the stock performance. Maintain BUY and ascribe a 15x PE to arrive at Sept'25 TP of INR 550.

- 1QFY25 – Muted performance:** APTY reported standalone revenue of INR 45.9bn (+4% YoY, +5% QoQ), 3% above JMFe. EBITDA for the quarter stood at INR 6.3bn (-20% YoY, -8%QoQ). EBITDA margin stood at 13.8% (-400bps YoY, -180bps QoQ), 140bps below JMFe. At the consol. level, APTY reported revenue of INR 63.3bn (+1% YoY & QoQ). Consol. EBITDAM stood at 14.4% (-250bps YoY, -210bps QoQ), 170bps below JMFe due to higher than expected RM and employee costs. Adj. consol. PAT stood at INR 3.4bn (-17% YoY, -12% QoQ), c.14% below JMFe.
- India business:** Domestic volumes grew by mid-single digit YoY during 1QFY25. This was led by double-digit YoY growth in exports and mid-single digit YoY growth in replacement segment. However, its OEM volumes declined by mid-single digit YoY during 1Q. Within replacement segment, TBR and PCR segment grew by double-digit YoY. Management indicated that APTY lost some market share during 1QFY25 owing to its focus on profitability (had a 28% / 20% market share in TBR / PCR segment in FY24). Owing to this, the company now plans to maintain balance between market share and profitability. And, APTY has guided for better than industry performance going ahead. Overall, the company expects OE vols (esp. in T&B segment) to recover during 2HFY25 and expects replacement segment to grow by high single-digit during FY25.
- European business:** In 1QFY25, the company's EU operations reported revenue of EUR 146mn (+1% YoY). Company continued to outperform PCR tyre industry in EU resulting in marginal market share gains. EBITDA margin stood at 13.7% (+30bps YoY) led by favourable mix. UHP/UUHP tyres grew by 20% YoY and its share stood at 47% in 1QFY25 (vs. 39% in 1QFY24). In terms of outlook, demand momentum is expected to gradually pick up going ahead and APTY continues to focus on cost control measures and favourable mix to drive healthy performance.
- Margin outlook:** RM basket cost increased by 5% QoQ during 1Q. However, with recent increase in NR prices, the company expects RM basket cost to increase by c.5% during 2QFY25. To mitigate these cost pressures, APTY took a 1% price increase across segment during 2Q (over and above 2%/1% price hike in PCR/TBR in 1Q). Management indicated

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	550
Upside/(Downside)	7.5%
Previous Price Target	550
Change	0.0%

Key Data – APTY IN

Current Market Price	INR512
Market cap (bn)	INR324.9/US\$3.9
Free Float	59%
Shares in issue (mn)	572.1
Diluted share (mn)	635.1
3-mon avg daily val (mn)	INR2,111.0/US\$25.1
52-week range	568/365
Sensex/Nifty	78,886/24,117
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	-2.1	-5.1	16.8
Relative*	-0.3	-13.8	-2.3

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	2,45,681	2,53,777	2,74,629	2,92,281	3,10,024
Sales Growth	17.3%	3.3%	8.2%	6.4%	6.1%
EBITDA	33,137	44,473	42,405	47,656	51,338
EBITDA Margin	13.5%	17.5%	15.4%	16.3%	16.6%
Adjusted Net Profit	10,818	17,988	17,416	21,647	24,892
Diluted EPS (INR)	17.0	28.3	27.4	34.1	39.2
Diluted EPS Growth	67.9%	66.3%	-3.2%	24.3%	15.0%
ROIC	8.3%	11.5%	11.1%	13.4%	15.0%
ROE	8.8%	13.4%	11.9%	13.4%	13.8%
P/E (x)	30.1	18.1	18.7	15.0	13.1
P/B (x)	2.5	2.3	2.1	1.9	1.7
EV/EBITDA (x)	10.5	7.5	7.5	6.3	5.4
Dividend Yield	0.6%	1.2%	1.1%	1.2%	1.5%

Source: Company data, JM Financial. Note: Valuations as of 08/Aug/2024

that APTY will need another price hike of 4-5% in domestic market to fully mitigate these cost pressures. Focus on cost control measures and favourable product mix is also expected to support margin performance. The company re-iterated its continued focus on driving profitable growth and believes 16% EBITDA margin is sustainable in the medium-to-long term.

- **Capex/debt update:** Capacity utilization currently stands at c.82% / 78% for Indian and EU operations. The company maintained its capex guidance for FY25 at INR 10bn primarily towards de-bottlenecking, digitization and maintenance. Its consol. net debt decreased by INR 2.8bn to ~INR 23bn during 1QFY25. Net Debt / EBITDA remained stable QoQ at 0.6x.
- **Other Highlights:** 1) APTY exited certain non-profitable SKUs in OEM segment which is expected to support margin performance going ahead. 2) Vredestein brand continues to gain traction in domestic luxury car segment and the company recently started supplying to a German OEM in India.

Exhibit 1. Quarterly financial results (standalone)

Standalone (INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ	Q1FY25E	% A/E
Sales	45,916	44,133	4.0	43,874	4.7	44,756	2.6
RM	28,443	26,690	6.6	26,087	9.0	27,301	4.2
as a % of sales	61.9	60.5	150bps	59.5	250bps	61.0	90bps
Employee Expense	3,002	2,782	7.9	2,755	9.0	2,820	6.5
as a % of sales	6.5	6.3	20bps	6.3	30bps	6.3	20bps
Other Costs	8,139	6,794	19.8	8,187	-0.6	7,832	3.9
as a % of sales	17.7	15.4	230bps	18.7	-90bps	17.5	20bps
Expenditure	39,585	36,266	9.2	37,029	6.9	37,953	4.3
EBITDA	6,331	7,867	-19.5	6,845	-7.5	6,803	-6.9
EBITDA Margin (%)	13.8	17.8	-400bps	15.6	-180bps	15.2	-140bps
Other Income	309	286	7.9	616	-49.9	325	-5.1
Interest	874	1,099	-20.5	884	-1.2	875	-0.1
Depreciation	2,291	2,260	1.3	2,347	-2.4	2,300	-0.4
PBT	3,475	4,794	-27.5	4,229	-17.8	3,953	-12.1
Tax	1,030	1,635	-37.0	1,746	-41.0	1,324	-22.2
Tax rate (%)	29.6	34.1	-450bps	41.3	-1170bps	33.5	-390bps
PAT (Adjusted)	2,445	3,159	-22.6	2,483	-1.5	2,629	-7.0
PAT Margin (%)	5.3	7.2	-180bps	5.7	-30bps	5.9	-50bps

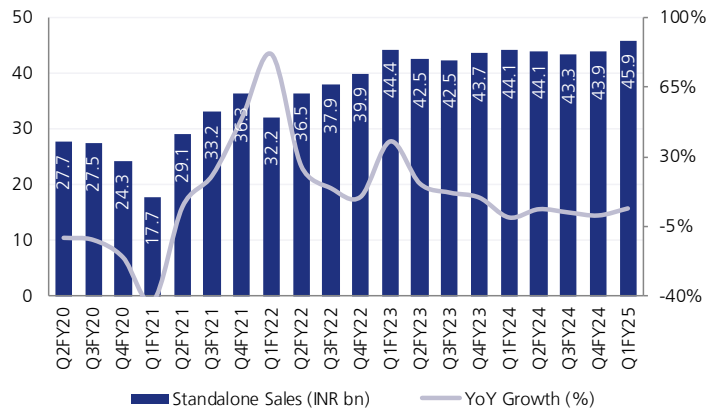
Source: Company, JM Financial

Exhibit 2. Quarterly financial results (consolidated)

Consolidated (INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ	Q1FY25E	% A/E
Sales	63,349	62,446	1.4	62,582	1.2	63,253	0.2
RM	34,517	34,553	0.6	33,024	4.5	34,200	0.9
as a % of sales	54.5	55.0	-50bps	52.8	170bps	54.1	40bps
Employee Expenses	7,968	7,388	7.9	7,288	9.3	7,351	8.4
as a % of sales	12.6	11.8	70bps	11.6	90bps	11.6	100bps
Other Costs	11,771	10,224	15.1	11,990	-1.8	11,569	1.8
as a % of sales	18.6	16.4	220bps	19.2	-60bps	18.3	30bps
Expenditure	54,256	51,931	4.5	52,302	3.7	53,120	2.1
EBITDA	9,093	10,515	-13.5	10,280	-11.5	10,132	-10.3
EBITDA Margin (%)	14.4	16.8	-250bps	16.4	-210bps	16.0	-170bps
Other Income	308	355	-13.2	743	-58.5	400	-22.9
Interest	1,070	1,355	-21.0	1,146	-6.7	1,125	-4.9
Depreciation	3,695	3,620	2.1	3,880	-4.8	3,750	-1.5
PBT	4,636	5,896	-21.4	5,997	-22.7	5,657	-18.0
Tax	1,212	1,795	-32.5	2,089	-42.0	1,697	-28.6
Tax rate (%)	26.2	30.4	-430bps	34.8	-870bps	30.0	-380bps
PAT (Adjusted)	3,424	4,101	-16.5	3,908	-12.4	3,960	-13.5
PAT Margin (%)	5.4	6.6	-120bps	6.2	-80bps	6.3	-90bps

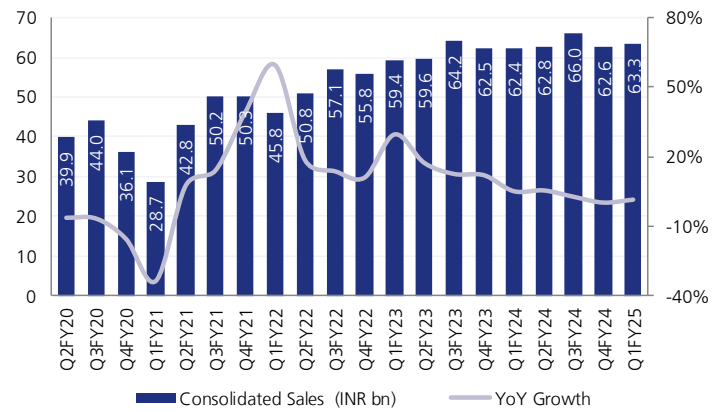
Source: Company, JM Financial

Exhibit 3. Revenue trend (standalone)



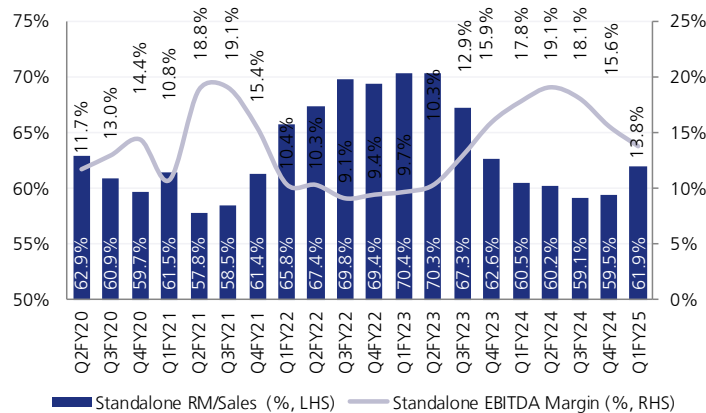
Source: Company, JM Financial

Exhibit 4. Revenue trend (consolidated)



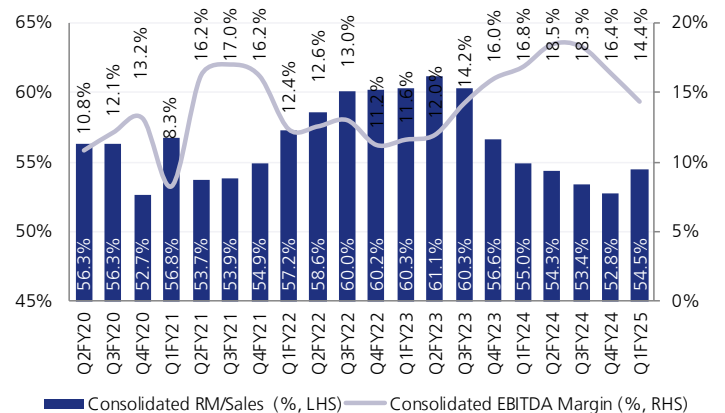
Source: Company, JM Financial

Exhibit 5. Margin trends (standalone)



Source: Company, JM Financial

Exhibit 6. Margin trends (consolidated)



Source: Company, JM Financial

Exhibit 7. APTY – Change in assumptions (consolidated)

Consolidated	New Assumptions			Old assumptions			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	274,629	292,281	310,024	275,061	293,614	NA	0%	0%	NA
EBITDA	42,405	47,656	51,338	46,038	49,761	NA	-8%	-4%	NA
EBITDAM (%)	15.4%	16.3%	16.6%	16.7%	16.9%	NA	-130bps	-60bps	NA
PAT	17,416	21,647	24,892	19,959	23,121	NA	-12.7%	-6.4%	NA
EPS	27.4	34.1	39.2	31.4	36.4	NA	-12.7%	-6.4%	NA

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	2,45,681	2,53,777	2,74,629	2,92,281	3,10,024	
Sales Growth	17.3%	3.3%	8.2%	6.4%	6.1%	
Total Revenue	2,45,681	2,53,777	2,74,629	2,92,281	3,10,024	
Cost of Goods Sold/Op. Exp	1,46,371	1,36,631	1,53,160	1,60,904	1,69,708	
Personnel Cost	26,199	29,640	31,426	33,109	34,791	
Other Expenses	39,975	43,033	47,638	50,612	54,187	
EBITDA	33,137	44,473	42,405	47,656	51,338	
EBITDA Margin	13.5%	17.5%	15.4%	16.3%	16.6%	
EBITDA Growth	28.7%	34.2%	-4.7%	12.4%	7.7%	
Depn. & Amort.	14,191	14,778	15,265	15,774	16,291	
EBIT	18,945	29,695	27,140	31,883	35,047	
Other Income	411	1,536	1,659	1,791	1,935	
Finance Cost	5,312	5,059	3,920	2,750	1,422	
PBT before Excep. & Forex	14,044	26,171	24,879	30,924	35,559	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	14,044	26,171	24,879	30,924	35,559	
Taxes	3,226	8,183	7,464	9,277	10,668	
Extraordinary Inc./Loss(-)	226	-773	0	0	0	
Assoc. Profit/Min. Int.(-)	-2	-4	0	0	0	
Reported Net Profit	11,046	17,219	17,416	21,647	24,892	
Adjusted Net Profit	10,818	17,988	17,416	21,647	24,892	
Net Margin	4.4%	7.1%	6.3%	7.4%	8.0%	
Diluted Share Cap. (mn)	635.1	635.1	635.1	635.1	635.1	
Diluted EPS (INR)	17.0	28.3	27.4	34.1	39.2	
Diluted EPS Growth	67.9%	66.3%	-3.2%	24.3%	15.0%	
Total Dividend + Tax	2,064	3,811	3,493	3,811	4,763	
Dividend Per Share (INR)	3.3	6.0	5.5	6.0	7.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	14,044	26,171	24,879	30,924	35,559	
Depn. & Amort.	14,191	14,778	15,265	15,774	16,291	
Net Interest Exp. / Inc. (-)	4,901	3,524	2,261	958	-512	
Inc (-) / Dec in WCAP.	-11,607	-5,981	-828	-2,932	-2,782	
Others	228	-769	0	0	0	
Taxes Paid	-3,226	-8,183	-7,464	-9,277	-10,668	
Operating Cash Flow	18,533	29,540	34,113	35,447	37,888	
Capex	-11,151	-9,265	-10,233	-10,840	-10,948	
Free Cash Flow	7,382	20,275	23,880	24,607	26,940	
Inc (-) / Dec in Investments	455	-959	-3,000	-3,000	-3,000	
Others	411	1,536	1,659	1,791	1,935	
Investing Cash Flow	-10,285	-8,688	-11,574	-12,049	-12,014	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-2,064	-3,811	-3,493	-3,811	-4,763	
Inc / Dec (-) in Loans	-6,404	-15,154	-11,000	-15,000	-14,500	
Others	-2,124	-1,128	-2,948	-1,583	-102	
Financing Cash Flow	-10,592	-20,093	-17,441	-20,394	-19,365	
Inc / Dec (-) in Cash	-2,344	759	5,098	3,005	6,510	
Opening Cash Balance	10,807	8,462	9,221	14,319	17,324	
Closing Cash Balance	8,462	9,221	14,319	17,324	23,834	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	1,28,778	1,39,022	1,52,944	1,70,781	1,90,909	
Share Capital	635	635	635	635	635	
Reserves & Surplus	1,28,143	1,38,387	1,52,309	1,70,146	1,90,274	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	64,205	49,051	38,051	23,051	8,551	
Def. Tax Liab. / Assets (-)	8,875	15,705	16,451	17,379	18,446	
Total - Equity & Liab.	2,01,858	2,03,778	2,07,447	2,11,211	2,17,906	
Net Fixed Assets	1,79,055	1,73,541	1,68,509	1,63,575	1,58,232	
Gross Fixed Assets	3,04,483	3,12,773	3,23,250	3,33,983	3,44,823	
Intangible Assets	2,288	2,311	2,311	2,311	2,311	
Less: Depn. & Amort.	1,30,242	1,45,020	1,60,284	1,76,058	1,92,349	
Capital WIP	2,526	3,477	3,233	3,340	3,448	
Investments	4,358	5,317	8,317	11,317	14,317	
Current Assets	89,461	89,891	1,02,281	1,11,394	1,24,164	
Inventories	44,285	42,457	45,145	48,046	50,963	
Sundry Debtors	24,885	26,648	30,096	32,031	33,975	
Cash & Bank Balances	8,462	9,221	14,319	17,324	23,834	
Loans & Advances	0	0	0	0	0	
Other Current Assets	11,828	11,564	12,720	13,992	15,392	
Current Liab. & Prov.	71,015	64,971	71,660	75,074	78,806	
Current Liabilities	33,539	29,786	34,993	36,861	38,980	
Provisions & Others	37,476	35,184	36,667	38,213	39,826	
Net Current Assets	18,446	24,920	30,621	36,319	45,357	
Total - Assets	2,01,858	2,03,778	2,07,447	2,11,211	2,17,906	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
Net Margin	4.4%	7.1%	6.3%	7.4%	8.0%	
Asset Turnover (x)	0.9	1.0	1.1	1.1	1.1	
Leverage Factor (x)	2.1	1.9	1.8	1.6	1.5	
RoE	8.8%	13.4%	11.9%	13.4%	13.8%	

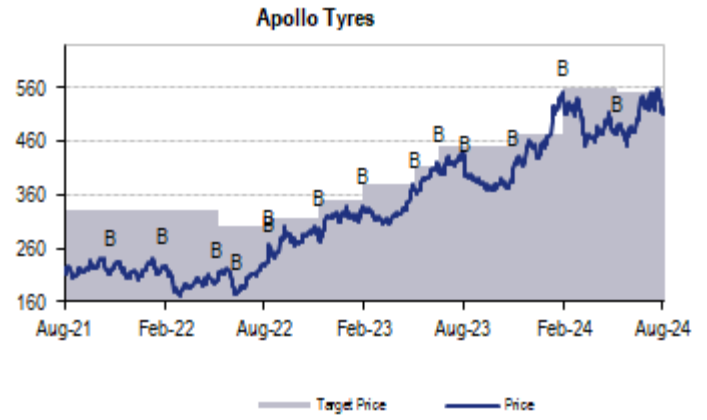
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
BV/Share (INR)	202.8	218.9	240.8	268.9	300.6	
ROIC	8.3%	11.5%	11.1%	13.4%	15.0%	
ROE	8.8%	13.4%	11.9%	13.4%	13.8%	
Net Debt/Equity (x)	0.4	0.3	0.2	0.0	-0.1	
P/E (x)	30.1	18.1	18.7	15.0	13.1	
P/B (x)	2.5	2.3	2.1	1.9	1.7	
EV/EBITDA (x)	10.5	7.5	7.5	6.3	5.4	
EV/Sales (x)	1.4	1.3	1.2	1.0	0.9	
Debtor days	37	38	40	40	40	
Inventory days	66	61	60	60	60	
Creditor days	58	52	55	55	55	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Nov-20	Buy	175	
10-Dec-20	Buy	225	28.6
4-Feb-21	Buy	320	42.2
13-May-21	Buy	330	3.1
28-Jun-21	Buy	330	0.0
5-Aug-21	Buy	330	0.0
1-Nov-21	Buy	330	0.0
3-Feb-22	Buy	330	0.0
15-May-22	Buy	300	-9.1
19-Jun-22	Buy	300	0.0
16-Aug-22	Buy	315	5.0
17-Aug-22	Buy	315	0.0
15-Nov-22	Buy	350	11.1
6-Feb-23	Buy	380	8.6
10-May-23	Buy	415	9.2
25-Jun-23	Buy	450	8.4
13-Aug-23	Buy	450	0.0
8-Nov-23	Buy	475	5.6
8-Feb-24	Buy	560	17.9
15-May-24	Buy	550	-1.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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