

# Apollo Tyres | BUY



## Profitability focus to offset near-term demand weakness

During 3QFY24, Apollo Tyres reported consol. EBITDAM of 18.3%, 50bps above JMFe. This was led by lower than expected RM costs. Operating performance was healthy across India and European (EU) operations. Domestic replacement demand is expected to be muted in the near-term. Demand in the International markets has started to recover, albeit gradually. Pricing environment in domestic replacement market is largely stable. Focus on favourable mix and tight cost control is expected to support margin performance. Capex intensity is expected to be low in the medium-term. We have increased our earnings estimate for FY25-26E by 4-5% driven by healthy margin performance. Consistent focus on driving profitable growth, deleveraging and improving ROE is expected to drive re-rating going forward. Maintain BUY and ascribe a 15x PE (14x earlier) to arrive at Mar'25 TP of INR 560.

- 3QFY24 - Strong operating performance:** APTY reported standalone revenue of INR 43.3bn (+2%YoY, -2% QoQ), broadly in-line with JMFe. EBITDA for the quarter stood at INR 7.8bn (+43% YoY, -7%QoQ), 3% above JMFe. EBITDA margin stood at 18.1% (+520bps YoY, -100bps QoQ), 30bps above JMFe. YoY margin improvement was led by lower RM costs and cost control measures. At the consol. level, APTY reported revenue of INR 65.9bn (+3%YoY, +5% QoQ) broadly in-line with JMFe. Consol. EBITDAM stood at 18.3% (+410bps YoY, -20bps QoQ), 50bps above JMFe. Adj. consol. PAT stood at INR 5.1bn (+75% YoY, +5% QoQ), c.7% above JMFe.
- India business:** Domestic volumes increased by mid-single digit YoY (flattish QoQ) during 3Q. Replacement and exports segments grew by mid-to-high single digit YoY while OEM volumes were flattish YoY. Category wise – T&B grew by 3% YoY while PCR grew by 7% YoY. APTY's market share in PCR segment remains stable. However, its TBR market share declined by few bps over last few quarters. The management indicated that domestic replacement demand is expected to be muted in the near-term. Pricing environment has been stable and the company is focused on driving profitable growth going forward. With respect to international markets, the company expects gradual recovery in exports barring for near-term volatility owing to Red-Sea crisis.
- European business:** In 3QFY24, the company's EU operations reported revenue of EUR 176mn (-2% YoY; +4% QoQ). PCR tyre industry vols were flat YoY in EU. However, all season tyres continued to outperform with double-digit YoY growth. APTY gained market share in EU across segments (PCR, TBR and Agri). EBITDA margin stood at 20.3% (+490bps YoY) led by higher operating leverage, lower RM costs & favourable mix. Share of UUHP tyres stood at 45% in 3QFY24 (vs. 40% in 2Q). In terms of outlook, recovery in PCR tyre industry is expected to be gradual and APTY continues to focus on cost control measures and market share gains to drive healthy performance.
- Margin outlook:** Gross margin improved by c.100bps QoQ owing to consumption of low cost inventory. RM basket increased by c.2% QoQ during 3Q and is expected to remain steady during 4Q. APTY expects pricing discipline in the industry to continue (barring for negligible discounts). 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.

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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	560
Upside/(Downside)	3.9%
Previous Price Target	475
Change	17.9%

### Key Data – APTY IN

Current Market Price	INR539
Market cap (bn)	INR342.2/US\$4.1
Free Float	56%
Shares in issue (mn)	572.1
Diluted share (mn)	635.1
3-mon avg daily val (mn)	INR1,551.7/US\$18.7
52-week range	560/303
Sensex/Nifty	71,428/21,718
INR/US\$	83.0

### Price Performance

%	1M	6M	12M
Absolute	18.5	23.0	62.2
Relative*	18.4	13.4	37.7

\* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	209,476	245,681	253,404	271,033	290,650
Sales Growth	20.4%	17.3%	3.1%	7.0%	7.2%
EBITDA	25,741	33,137	44,738	46,029	49,816
EBITDA Margin	12.3%	13.5%	17.7%	17.0%	17.1%
Adjusted Net Profit	6,444	10,818	18,324	20,573	23,737
Diluted EPS (INR)	10.1	17.0	28.9	32.4	37.4
Diluted EPS Growth	-32.7%	67.9%	69.4%	12.3%	15.4%
ROIC	5.3%	8.3%	11.8%	12.5%	14.0%
ROE	5.6%	8.8%	13.4%	13.5%	13.9%
P/E (x)	53.1	31.6	18.7	16.6	14.4
P/B (x)	2.9	2.7	2.4	2.1	1.9
EV/EBITDA (x)	14.3	11.0	7.9	7.3	6.3
Dividend Yield	0.6%	0.6%	0.8%	1.0%	1.1%

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

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Capex/debt update:** Capacity utilization currently stands at c.75% for both Indian and European operations. Capex guidance for FY24 is maintained at INR c.11bn primarily towards de-bottlenecking, digitization and maintenance. Overall, the company expects capex intensity to remain low in the medium-term. Consol. gross debt decreased by INR 5bn to INR 43bn during 3QFY24 and Net Debt / EBITDA declined to ~0.7x (~1x during 2Q). Pre-tax ROCE for 9MFY24 (annualised) stood at ~16.5% (at the higher end of its medium-term guidance of 12-15%).
- **Other Highlights:** Vredestein brand continues to gain traction in domestic luxury car segment giving strong competition to MNC peers. Vredestein branded tyres are priced at ~10% premium to APTY branded tyres and with a slight discount to the MNC brands.

**Exhibit 1. Quarterly financial results (standalone)**

Standalone (INR mn)	Q3FY24	Q3FY23	% YoY	Q2FY24	% QoQ	Q3FY24E	% A/E
<b>Sales</b>	<b>43,319</b>	<b>42,466</b>	<b>2.0</b>	<b>44,067</b>	<b>-1.7</b>	<b>42,745</b>	<b>1.3</b>
RM	25,620	28,581	-10.4	26,515	-3.4	26,374	-2.9
as a % of sales	59.1	67.3	-820bps	60.2	-100bps	61.7	-260bps
Employee Expense	2,831	2,498	13.4	2,719	4.1	2,565	10.4
as a % of sales	6.5	5.9	70bps	6.2	40bps	6.0	50bps
Other Costs	7,028	5,904	19.0	6,419	9.5	6,198	13.4
as a % of sales	16.2	13.9	230bps	14.6	170bps	14.5	170bps
Expenditure	35,479	36,983	-4.1	35,653	-0.5	35,136	1.0
<b>EBITDA</b>	<b>7,840</b>	<b>5,483</b>	<b>43.0</b>	<b>8,414</b>	<b>-6.8</b>	<b>7,609</b>	<b>3.0</b>
<b>EBITDA Margin (%)</b>	<b>18.1</b>	<b>12.9</b>	<b>520bps</b>	<b>19.1</b>	<b>-100bps</b>	<b>17.8</b>	<b>30bps</b>
Other Income	127	99	27.8	330	-61.6	350	-63.8
Interest	995	1,226	-18.8	1,057	-5.8	1,025	-2.9
Depreciation	2,279	2,269	0.4	2,279	0.0	2,290	-0.5
PBT	4,693	2,088	124.8	5,408	-13.2	4,644	1.1
Tax	1,587	712	122.8	1,858	-14.6	1,579	0.5
Tax rate (%)	33.8	34.1	-30bps	34.4	-50bps	34.0	-20bps
<b>PAT (Adjusted)</b>	<b>3,106</b>	<b>1,376</b>	<b>125.8</b>	<b>3,550</b>	<b>-12.5</b>	<b>3,065</b>	<b>1.4</b>
<b>PAT Margin (%)</b>	<b>7.2</b>	<b>3.2</b>	<b>390bps</b>	<b>8.1</b>	<b>-90bps</b>	<b>7.2</b>	<b>0bps</b>

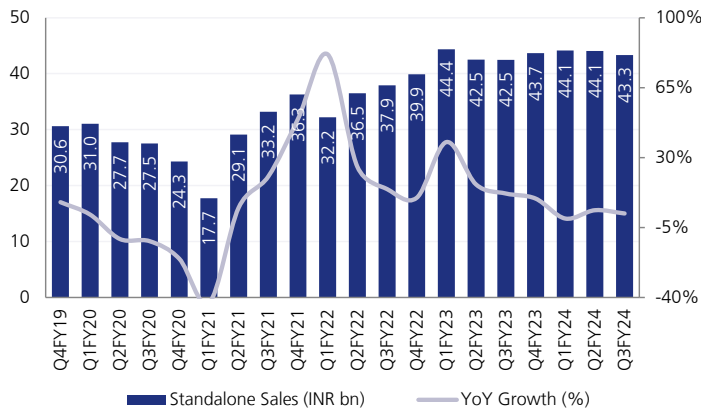
Source: Company, JM Financial

**Exhibit 2. Quarterly financial results (consolidated)**

Consolidated (INR mn)	Q3FY24	Q3FY23	% YoY	Q2FY24	% QoQ	Q3FY24E	% A/E
<b>Sales</b>	<b>65,954</b>	<b>64,228</b>	<b>2.7</b>	<b>62,796</b>	<b>5.0</b>	<b>64,845</b>	<b>1.7</b>
RM	35,192	38,754	-9.2	34,121	3.1	35,656	-1.3
as a % of sales	53.4	60.3	-700bps	54.3	-100bps	55.0	-160bps
Employee Expenses	7,669	6,724	14.1	7,394	3.7	7,648	0.3
as a % of sales	11.6	10.5	120bps	11.8	-10bps	11.8	-20bps
Other Costs	11,012	9,616	14.5	9,682	13.7	9,977	10.4
as a % of sales	16.7	15.0	170bps	15.4	130bps	15.4	130bps
Expenditure	53,873	55,094	-2.2	51,198	5.2	53,280	1.1
<b>EBITDA</b>	<b>12,081</b>	<b>9,134</b>	<b>32.3</b>	<b>11,598</b>	<b>4.2</b>	<b>11,564</b>	<b>4.5</b>
<b>EBITDA Margin (%)</b>	<b>18.3</b>	<b>14.2</b>	<b>410bps</b>	<b>18.5</b>	<b>-20bps</b>	<b>17.8</b>	<b>50bps</b>
Other Income	184	67	173.2	253	-27.4	250	-26.4
Interest	1,230	1,420	-13.3	1,328	-7.3	1,300	-5.4
Depreciation	3,676	3,544	3.7	3,603	2.0	3,665	0.3
PBT	7,358	4,237	73.7	6,921	6.3	6,849	7.4
Tax	2,242	1,316	70.3	2,058	8.9	2,055	9.1
Tax rate (%)	30.5	31.1	-60bps	29.7	70bps	30.0	50bps
<b>PAT (Adjusted)</b>	<b>5,117</b>	<b>2,921</b>	<b>75.2</b>	<b>4,863</b>	<b>5.2</b>	<b>4,795</b>	<b>6.7</b>
<b>PAT Margin (%)</b>	<b>7.8</b>	<b>4.5</b>	<b>320bps</b>	<b>7.7</b>	<b>0bps</b>	<b>7.4</b>	<b>40bps</b>

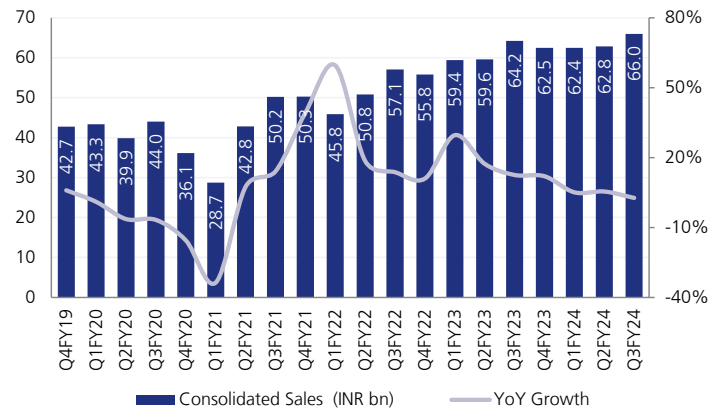
Source: Company, JM Financial

**Exhibit 3. Revenue trend (standalone)**



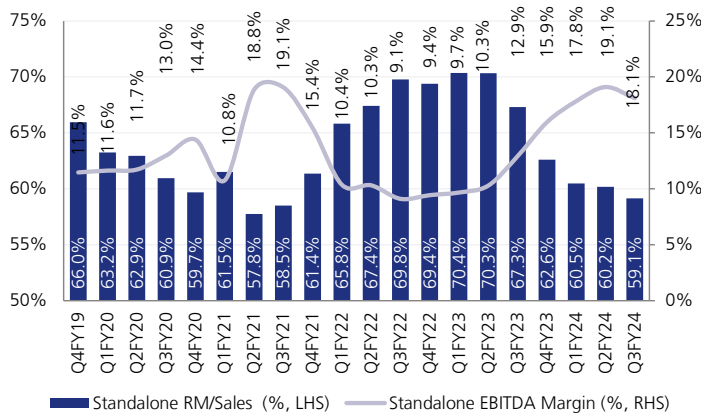
Source: Company, JM Financial

**Exhibit 4. Revenue trend (consolidated)**



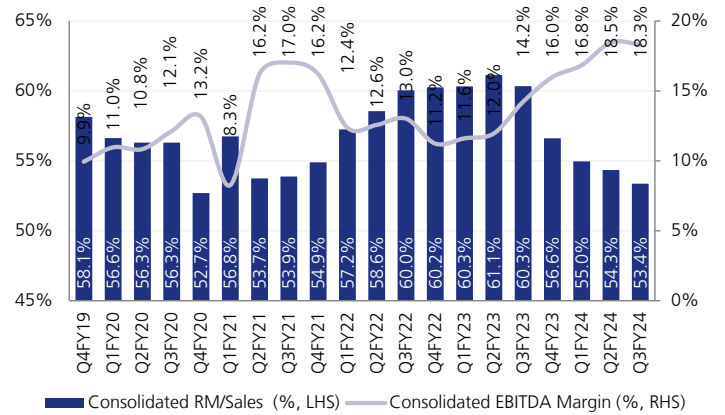
Source: Company, JM Financial

**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 (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	253,404	271,033	290,650	260,333	278,408	298,207	-3%	-3%	-3%
EBITDA	44,738	46,029	49,816	43,712	44,653	48,102	2%	3%	4%
EBITDAM %	17.7%	17.0%	17.1%	16.8%	16.0%	16.1%	90bps	100bps	100bps
PAT	18,324	20,573	23,737	18,822	19,680	22,647	-2.6%	4.5%	4.8%
EPS	28.9	32.4	37.4	29.6	31.0	35.7	-2.6%	4.5%	4.8%

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	209,476	245,681	253,404	271,033	290,650	
Sales Growth	20.4%	17.3%	3.1%	7.0%	7.2%	
Total Revenue	209,476	245,681	253,404	271,033	290,650	
<b>Cost of Goods Sold/Op. Exp</b>	<b>123,855</b>	<b>146,371</b>	<b>137,071</b>	<b>148,844</b>	<b>159,207</b>	
Personnel Cost	25,742	26,199	29,608	31,531	33,749	
Other Expenses	34,137	39,975	41,987	44,629	47,879	
EBITDA	25,741	33,137	44,738	46,029	49,816	
<b>EBITDA Margin</b>	<b>12.3%</b>	<b>13.5%</b>	<b>17.7%</b>	<b>17.0%</b>	<b>17.1%</b>	
EBITDA Growth	-8.0%	28.7%	35.0%	2.9%	8.2%	
Depn. & Amort.	13,997	14,191	14,555	15,375	15,897	
EBIT	11,744	18,945	30,184	30,654	33,918	
Other Income	1,235	411	1,052	1,136	1,227	
Finance Cost	4,444	5,312	5,058	3,216	2,176	
PBT before Excep. & Forex	8,535	14,044	26,177	28,574	32,969	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	8,535	14,044	26,177	28,574	32,969	
Taxes	2,091	3,226	7,853	8,001	9,231	
Extraordinary Inc./Loss(-)	-59	226	0	0	0	
Assoc. Profit/Min. Int.(-)	-1	-2	0	0	0	
Reported Net Profit	6,386	11,046	18,324	20,573	23,737	
Adjusted Net Profit	6,444	10,818	18,324	20,573	23,737	
<b>Net Margin</b>	<b>3.1%</b>	<b>4.4%</b>	<b>7.2%</b>	<b>7.6%</b>	<b>8.2%</b>	
Diluted Share Cap. (mn)	635.1	635.1	635.1	635.1	635.1	
Diluted EPS (INR)	10.1	17.0	28.9	32.4	37.4	
<b>Diluted EPS Growth</b>	<b>-32.7%</b>	<b>67.9%</b>	<b>69.4%</b>	<b>12.3%</b>	<b>15.4%</b>	
Total Dividend + Tax	2,223	2,064	2,858	3,493	3,811	
Dividend Per Share (INR)	3.5	3.3	4.5	5.5	6.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	8,535	14,044	26,177	28,574	32,969	
Depn. & Amort.	13,997	14,191	14,555	15,375	15,897	
Net Interest Exp. / Inc. (-)	3,209	4,901	4,007	2,080	949	
Inc (-) / Dec in WCap.	-457	-11,607	-2,788	-2,273	-3,002	
Others	-58	228	0	0	0	
Taxes Paid	-2,091	-3,226	-7,853	-8,001	-9,231	
<b>Operating Cash Flow</b>	<b>23,135</b>	<b>18,533</b>	<b>34,097</b>	<b>35,755</b>	<b>37,582</b>	
Capex	-20,831	-11,151	-11,000	-11,001	-11,000	
Free Cash Flow	2,304	7,382	23,098	24,755	26,582	
Inc (-) / Dec in Investments	-3,716	455	-5,000	-2,999	-2,999	
Others	1,235	411	1,052	1,136	1,227	
<b>Investing Cash Flow</b>	<b>-23,313</b>	<b>-10,285</b>	<b>-14,948</b>	<b>-12,863</b>	<b>-12,772</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-2,223	-2,064	-2,858	-3,493	-3,811	
Inc / Dec (-) in Loans	-2,726	-6,404	-16,000	-16,000	-10,000	
Others	-5,525	-2,124	-4,325	-2,423	-1,282	
<b>Financing Cash Flow</b>	<b>-10,474</b>	<b>-10,592</b>	<b>-23,183</b>	<b>-21,916</b>	<b>-15,092</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-10,651</b>	<b>-2,344</b>	<b>-4,034</b>	<b>976</b>	<b>9,718</b>	
Opening Cash Balance	21,458	10,807	8,462	4,428	5,404	
Closing Cash Balance	10,807	8,462	4,428	5,404	15,122	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	117,521	128,778	144,244	161,324	181,251	
Share Capital	635	635	635	635	635	
Reserves & Surplus	116,886	128,143	143,609	160,689	180,615	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	70,609	64,205	48,205	32,205	22,205	
Def. Tax Liab. / Assets (-)	7,968	8,875	9,399	9,970	10,629	
<b>Total - Equity &amp; Liab.</b>	<b>196,099</b>	<b>201,858</b>	<b>201,848</b>	<b>203,499</b>	<b>214,085</b>	
Net Fixed Assets	182,096	179,055	175,500	171,126	166,229	
Gross Fixed Assets	289,805	304,483	314,859	325,751	336,642	
Intangible Assets	2,158	2,288	2,288	2,288	2,288	
Less: Depn. & Amort.	116,050	130,242	144,796	160,171	176,068	
Capital WIP	6,182	2,526	3,149	3,258	3,366	
Investments	4,813	4,358	9,358	12,357	15,356	
Current Assets	83,505	89,461	90,337	97,685	114,477	
Inventories	41,554	44,285	48,598	51,979	55,741	
Sundry Debtors	20,513	24,885	24,299	25,989	27,871	
Cash & Bank Balances	10,807	8,462	4,428	5,404	15,122	
Loans & Advances	0	0	0	0	0	
Other Current Assets	10,631	11,828	13,011	14,312	15,743	
Current Liab. & Prov.	74,314	71,015	73,347	77,668	81,976	
Current Liabilities	35,309	33,539	34,301	36,987	39,589	
Provisions & Others	39,005	37,476	39,045	40,681	42,387	
Net Current Assets	9,191	18,446	16,990	20,017	32,501	
<b>Total - Assets</b>	<b>196,099</b>	<b>201,858</b>	<b>201,848</b>	<b>203,499</b>	<b>214,085</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	3.1%	4.4%	7.2%	7.6%	8.2%	
Asset Turnover (x)	0.8	0.9	1.0	1.0	1.0	
Leverage Factor (x)	2.2	2.1	1.9	1.8	1.6	
RoE	5.6%	8.8%	13.4%	13.5%	13.9%	

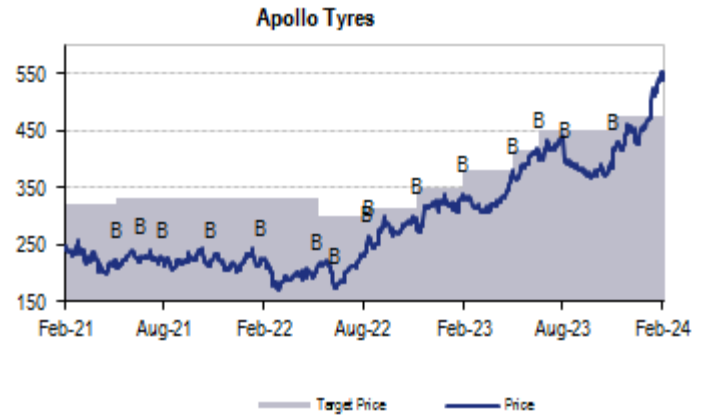
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	185.0	202.8	227.1	254.0	285.4	
ROIC	5.3%	8.3%	11.8%	12.5%	14.0%	
ROE	5.6%	8.8%	13.4%	13.5%	13.9%	
Net Debt/Equity (x)	0.5	0.4	0.3	0.2	0.0	
P/E (x)	53.1	31.6	18.7	16.6	14.4	
P/B (x)	2.9	2.7	2.4	2.1	1.9	
EV/EBITDA (x)	14.3	11.0	7.9	7.3	6.3	
EV/Sales (x)	1.8	1.5	1.4	1.2	1.1	
Debtor days	36	37	35	35	35	
Inventory days	72	66	70	70	70	
Creditor days	70	58	60	60	60	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
6-Aug-20	Buy	145	
11-Sep-20	Buy	165	13.8
5-Nov-20	Buy	175	6.1
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

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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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