

BUY Apollo Tyres**Margins to stay 'higher for longer'; upgrade to BUY**Auto & Auto Ancillaries ▶ Result Update ▶ **November 9, 2023****TARGET PRICE (Rs) : 470**

APTY Q2 margins were up by 163bps QoQ to 18.5% (vs. Emkay: ~16.6%) amid better mix, softer RM prices and cost controls. The tyre space is still in a sweet spot, given that the industry is buoyed by structural tailwinds (restricted imports, greater export competitiveness, premiumization in the underlying OEM space, and calibrated capex-spends ensuring sustained high utilization levels), with stable demand prospects - leading us to believe that current strong profitability levels would sustain, and so also for APTY. We raise FY24E/25E/26E EPS by ~13%/~10%/~9%, building in the 'higher for longer' margin. We upgrade APTY to BUY from Hold, with revised TP of Rs470/sh at unchanged 12.5x multiple on FY26E basis (rolled over; previous TP: Rs375). Key risk: recent slight dip in revenue market share; macro challenges in Europe.

Apollo Tyres: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,09,476	2,45,681	2,57,263	2,73,993	2,90,663
EBITDA	25,741	33,137	45,833	49,256	53,156
Adj. PAT	6,445	10,821	18,435	20,873	23,689
Adj. EPS (Rs)	10.1	17.0	29.0	32.9	37.3
EBITDA margin (%)	12.3	13.5	17.8	18.0	18.3
EBITDA growth (%)	(8.0)	28.7	38.3	7.5	7.9
Adj. EPS growth (%)	82.3	73.0	66.9	13.2	13.5
RoE (%)	5.6	8.8	13.7	14.2	14.8
RoIC (%)	5.2	8.0	11.2	12.3	13.5
P/E (x)	40.4	24.1	14.1	12.5	11.0
EV/EBITDA (x)	12.3	9.5	6.7	6.0	5.4
P/B (x)	2.2	2.0	1.9	1.7	1.6
FCFF yield (%)	1.5	5.5	7.3	8.3	9.5

Source: Company, Emkay Research

Q2FY24 above estimates; margin expansion QoQ across operations

Consolidated revenue grew 5% YoY (volume-led) to Rs62.8 bn (in-line); revenue growth on YoY basis was led by APMEA (largely India; up 5%). Consolidated EBITDA grew 63% YoY to Rs11.6 bn (~9% above estimates) and EBITDA margin expanded by 163bps QoQ to 18.5% (Emkay: 16.6%). This was on the back of gross-margin expansion of ~70bps and lower 'other expenses' (down by ~100bps QoQ) amid better mix and cost controls. On sequential basis, EBIT margin in APMEA expanded by 143bps to 15%, with similar margin expansion (of 150bps QoQ) in Europe, to 5.3%. Overall, adjusted PAT stood at Rs4.9 bn, above estimates on higher-than-expected EBITDA (Emkay: Rs3.9bn).

Earnings call KTAs

1) India replacement demand expected to pick up in H2 vs. H1, driven by both - CVs and PVs, with double-digit YoY replacement volume growth seen to endure; while exports fell 40% YoY in Q2, they picked up ~7% QoQ. 2) Europe demand slump has bottomed, with sequential improvement expected from current levels; PCR inventory is at normal levels, with Agri inventory slightly elevated. 3) Capacity utilization for trucks/PCR stands at 75/80%, with overall utilization at ~73% due to capacity enhancement from de-bottlenecking; Company expects current capacities to be sufficient for catering to medium-term growth, and would stay in capex-light mode for a couple of years. 4) RM costs can increase ~2-3% QoQ in Q3; APTY would attempt to offset the rise via better product mix, cost optimization and price hikes, if needed; crude oil prices ranging at USD80-85/bbl represent comfortable levels. 5) Pricing environment for the industry is largely stable; Company recently undertook a slight price cut in the truck bias segment, in response to competition, though pricing action would differ for each segment, as also the relative competitiveness within. 6) PCR industry's product mix is evolving; 14-inch tyres form over 30% of the market now vs. similar contribution from 12-inch tyres ~15 years ago; APTY is the leader in SUV tyres. 7) APTY will continue investing in R&D (up to 3% of sales) and brand-building activities. 8) APTY maintains its strong RoCE focus (H1 annualized RoCE at ~16% vs. 12-15% target); may revise the target RoCE range later.

Target Price - 12M	Sep-24
Change in TP (%)	25.3
Current Reco.	BUY
Previous Reco.	HOLD
Upside/(Downside) (%)	14.6
CMP (08-Nov-23) (Rs)	410.3

Stock Data	Ticker
52-week High (Rs)	441
52-week Low (Rs)	270
Shares outstanding (mn)	635.1
Market-cap (Rs bn)	261
Market-cap (USD mn)	3,129
Net-debt, FY24E (Rs mn)	48,254
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	917.0
ADTV-3M (USD mn)	11.0
Free float (%)	62.7
Nifty-50	19,444
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	37.3
FPIs/MFs (%)	22.1/17.7

Price Performance

(%)	1M	3M	12M
Absolute	7.9	(6.3)	36.6
Rel. to Nifty	9.0	(5.7)	27.9

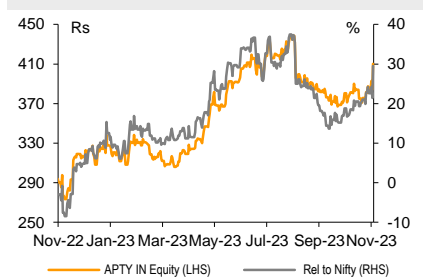
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Exhibit 1: Consolidated result snapshot – Margin up by 163bps QoQ, on gross-margin expansion and lower 'other expenses'

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	59,560	64,228	62,473	62,446	62,796	5.4	0.6
Expenditure	52,440	55,094	52,489	51,931	51,198	(2.4)	(1.4)
<i>as % of sales</i>	88.0	85.8	84.0	83.2	81.5		
Consumption of RM	36,406	38,754	35,370	34,319	34,121	(6.3)	(0.6)
<i>as % of sales</i>	61.1	60.3	56.6	55.0	54.3		
Employee Cost	6,141	6,724	6,882	7,388	7,394	20.4	0.1
<i>as % of sales</i>	10.3	10.5	11.0	11.8	11.8		
Other expenditure	9,893	9,616	10,237	10,224	9,682	(2.1)	(5.3)
<i>as % of sales</i>	16.6	15.0	16.4	16.4	15.4		
EBITDA	7,120	9,134	9,985	10,515	11,598	62.9	10.3
EBITDA margin (%)	12.0	14.2	16.0	16.8	18.5		
Depreciation	3,485	3,544	3,724	3,620	3,603	3.4	(0.5)
EBIT	3,635	5,589	6,260	6,895	7,995	120.0	16.0
Other Income	69	67	169	355	253	269.6	(28.8)
Interest	1,320	1,420	1,390	1,355	1,328	0.6	(2.0)
PBT	2,383	4,237	5,039	5,896	6,921	190.4	17.4
Minority interest	1	0	1	0	2		
Total Tax	590	1,316	1,163	1,795	2,058	248.5	14.6
Adjusted PAT after MI	1,794	2,921	3,877	4,101	4,865	171.2	18.6
Extra ordinary items Loss/(Gain)	0	0	-226	132	122		
Reported PAT	1,794	2,921	4,103	3,969	4,743	164.4	19.5
Adjusted EPS (Rs)	2.8	4.6	6.5	6.2	7.5	164.4	19.5

(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
EBITDA margin	12.0	14.2	16.0	16.8	18.5	651	163
EBIT margin	6.1	8.7	10.0	11.0	12.7	663	169
EBT margin	4.0	6.6	8.1	9.4	11.0	702	158
PAT margin	3.0	4.5	6.2	6.6	7.7	473	118
Effective Tax rate	24.8	31.1	23.1	30.4	29.7	496	(71)

Source: Company, Emkay Research

Exhibit 2: Standalone result snapshot – Higher margin, on lower RM costs and cost controls, despite flattish volumes QoQ

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	42,519	42,466	43,662	44,133	44,067	3.6	(0.1)
Expenditure	38,146	36,983	36,698	36,266	35,653	(6.5)	(1.7)
<i>as % of sales</i>	89.7	87.1	84.1	82.2	80.9		
Consumption of RM	29,901	28,581	27,329	26,690	26,515	(11.3)	(0.7)
<i>as % of sales</i>	70.3	67.3	62.6	60.5	60.2		
Employee Cost	2,480	2,498	2,678	2,782	2,719	9.7	(2.3)
<i>as % of sales</i>	5.8	5.9	6.1	6.3	6.2		
Other expenditure	5,765	5,904	6,692	6,794	6,419	11.4	(5.5)
<i>as % of sales</i>	13.6	13.9	15.3	15.4	14.6		
EBITDA	4,374	5,483	6,964	7,867	8,414	92.4	7.0
EBITDA margin (%)	10.3	12.9	15.9	17.8	19.1		
Depreciation	2,225	2,269	2,421	2,260	2,279	2.4	0.8
EBIT	2,149	3,215	4,543	5,607	6,135	185.5	9.4
Other Income	192	99	172	286	330	71.8	15.4
Interest	1,206	1,226	1,183	1,099	1,057	(12.4)	(3.8)
PBT	1,135	2,088	3,531	4,794	5,408	376.5	12.8
Total Tax	477	712	1,142	1,635	1,858	289.2	13.6
Adjusted PAT	657	1,376	2,389	3,159	3,550	440.0	12.4
Extra ordinary items Loss/(Gain)	0	0	0	-132	-108		
Reported PAT	657	1,376	2,389	3,291	3,658	456.4	11.2
Adjusted EPS (Rs)	1.0	2.2	3.8	4.8	5.4	423.6	13.7
(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
EBITDA margin	10.3	12.9	15.9	17.8	19.1	881	127
EBIT margin	5.1	7.6	10.4	12.7	13.9	887	122
EBT margin	2.7	4.9	8.1	10.9	12.3	960	141
PAT margin	1.5	3.2	5.5	7.2	8.1	651	90
Effective Tax rate	42.1	34.1	32.3	34.1	34.4	(771)	25

Source: Company, Emkay Research

Exhibit 3: Segmental details – APMEA (largely India) led the revenue growth QoQ; margin up across operations

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
APMEA							
Net Sales	42,821	42,921	44,327	44,999	44,730	4.5	(0.6)
EBIT	2,049	3,289	4,864	6,109	6,712	227.5	9.9
- Margins (%)	4.8	7.7	11.0	13.6	15.0	1,022 bps	143 bps
Europe							
Net Sales	17,613	20,925	18,395	17,408	18,158	3.1	4.3
EBIT	998	1,659	1,664	660	960	(3.8)	45.5
- Margins (%)	5.7	7.9	9.0	3.8	5.3	(38) bps	150 bps
Other							
Net Sales	15,132	12,129	8,554	11,689	10,196	(32.6)	(12.8)
EBIT	656	709	(99)	482	577	(12.0)	19.7
- Margins (%)	4.3	5.8	(1.2)	4.1	5.7	132 bps	154 bps

Source: Company, Emkay Research

Exhibit 4: Actual vs Estimates

(Rs mn)	Actual	Emkay Est	Var %	Consensus	Var %
Net sales	62,796	63,695	(1.4)	64,008	(1.9)
EBITDA	11,598	10,573	9.7	10,603	9.4
EBITDA margin (%)	18.5	16.6	187 bps	16.6	190 bps
Adj net income	4,865	3,865	25.8	4,213	15.5
FDEPS (Rs)	7.7	6.1	25.8	6.6	15.5

Source: Company, Emkay Research

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Exhibit 5: Revenue model – We expect 6%/~17%/~29% revenue/EBITDA/EPS CAGR over FY23-26E

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Standalone revenues	1,17,334	1,46,494	1,73,010	1,85,121	1,98,009	2,12,189
Europe revenue	56,754	65,543	72,974	74,434	78,155	80,500
Consolidated Revenue	1,73,970	2,09,476	2,45,681	2,57,263	2,73,993	2,90,663
Growth YoY (%)	6.4	20.4	17.3	4.7	6.5	6.1
EBITDA	27,975	25,741	33,137	45,833	49,256	53,156
EBITDA margin (%)	16.1	12.3	13.5	17.8	18.0	18.3
Standalone EBIT	14,425	7,338	12,790	25,876	28,450	31,213
Europe EBIT	649	4,481	5,108	3,722	4,455	4,991
India EBIT margin (%)	12.3	5.0	7.4	14.0	14.4	14.7
Europe EBIT margin (%)	1.1	6.8	7.0	5.0	5.7	6.2
EBIT	16,119	12,979	19,356	31,695	34,645	38,073
EBIT margin (%)	9.3	6.2	7.9	12.3	12.6	13.1
PAT	3,502	6,386	11,046	18,435	20,873	23,689
EPS (Rs)	15	10	17	29	33	37
Capex	17,252	15,561	3,391	11,000	10,000	10,000
% of sales	(9.9)	(7.4)	(1.4)	(4.3)	(3.6)	(3.4)
Net debt	64,135	64,309	63,958	56,999	46,315	33,517
Net D/E (x)	0.5	0.5	0.4	0.3	0.2	0.1
Post tax average ROCE (%)	6.5	4.9	7.2	11.4	12.1	12.9

Source: Company, Emkay Research

Exhibit 6: We raise FY24E/FY25E/FY26E EPS by ~13%/~10%/~9%, on EBITDA margin upgrade

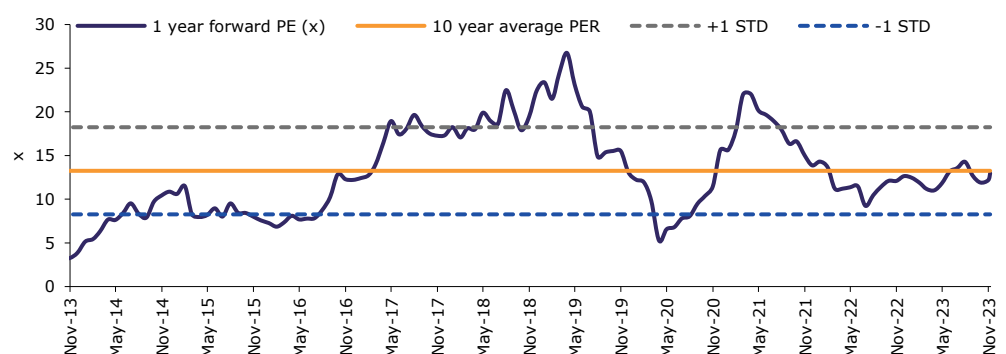
(Rs mn)	FY24E				FY25E				FY26E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Revenue	2,57,263	2,57,263	0.0	4.7	2,73,993	2,73,993	0.0	6.5	2,90,663	2,90,663	0.0	6.1
EBITDA	42,539	45,833	7.7	38.3	46,239	49,256	6.5	7.5	49,875	53,156	6.6	7.9
Margin (%)	16.5	17.8	128 bps	433 bps	16.9	18.0	110 bps	16 bps	17.2	18.3	113 bps	31 bps
APAT	16,318	18,435	13.0	70.4	19,050	20,873	9.6	13.2	21,811	23,689	8.6	13.5
EPS (Rs)	25.7	29.0	12.9	70.4	30.0	32.9	9.6	13.2	34.3	37.3	8.6	13.5

Source: Emkay Research

Exhibit 7: Emkay vs Consensus

Apollo Tyres/(Rs mn)	Emkay			Bloomberg			Difference (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net revenue	2,57,263	2,73,993	2,90,663	2,58,561	2,79,285	2,95,230	-0.5%	-1.9%	-1.5%
EBITDA	45,833	49,256	53,156	41,706	44,106	46,187	9.9%	11.7%	15.1%
EBITDA margin (%)	17.8	18.0	18.3	16.1	15.8	15.6	10.5%	13.8%	16.9%
EPS (Rs)	29.03	32.87	37.30	26.32	29.67	32.34	10.3%	10.8%	15.3%

Source: Bloomberg, Emkay Research

Exhibit 8: APTY trades in line with its LTA PER

Source: Bloomberg, Emkay Research

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Apollo Tyres: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,09,476	2,45,681	2,57,263	2,73,993	2,90,663
Revenue growth (%)	20.4	17.3	4.7	6.5	6.1
EBITDA	25,741	33,137	45,833	49,256	53,156
EBITDA growth (%)	(8.0)	28.7	38.3	7.5	7.9
Depreciation & Amortization	13,997	14,191	15,311	15,857	16,377
EBIT	11,744	18,945	30,523	33,400	36,779
EBIT growth (%)	(20.8)	61.3	61.1	9.4	10.1
Other operating income	0	0	0	0	0
Other income	1,235	411	1,172	1,246	1,295
Financial expense	4,444	5,312	5,359	4,826	4,232
PBT	8,535	14,044	26,336	29,819	33,842
Extraordinary items	0	0	0	0	0
Taxes	2,091	3,226	7,901	8,946	10,152
Minority interest	0	0	0	0	0
Income from JV/Associates	1	2	0	0	0
Reported PAT	6,386	11,046	18,435	20,873	23,689
PAT growth (%)	82.3	73.0	66.9	13.2	13.5
Adjusted PAT	6,445	10,821	18,435	20,873	23,689
Diluted EPS (Rs)	10.1	17.0	29.0	32.9	37.3
Diluted EPS growth (%)	82.3	73.0	66.9	13.2	13.5
DPS (Rs)	3.3	4.5	11.0	12.4	14.0
Dividend payout (%)	32.3	25.9	37.9	37.8	37.6
EBITDA margin (%)	12.3	13.5	17.8	18.0	18.3
EBIT margin (%)	5.6	7.7	11.9	12.2	12.7
Effective tax rate (%)	24.5	23.0	30.0	30.0	30.0
NOPLAT (pre-IndAS)	8,867	14,594	21,366	23,380	25,745
Shares outstanding (mn)	635.1	635.1	635.1	635.1	635.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	8,535	14,044	26,336	29,819	33,842
Others (non-cash items)	10,781	24,371	19,498	19,438	19,314
Taxes paid	(2,091)	(3,226)	(7,901)	(8,946)	(10,152)
Change in NWC	3,075	(14,256)	(4,366)	(5,719)	(5,905)
Operating cash flow	20,300	20,933	33,566	34,592	37,099
Capital expenditure	(15,515)	(3,521)	(11,000)	(10,000)	(10,000)
Acquisition of business	(111)	(34)	(4,017)	(2,000)	(2,000)
Interest & dividend income	482	331	0	0	0
Investing cash flow	(11,722)	(4,761)	(9,828)	(10,754)	(10,705)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(6,265)	(2,840)	(5,500)	(7,500)	(7,000)
Payment of lease liabilities	(2,694)	(2,577)	(2,577)	(2,577)	(2,577)
Interest paid	(4,444)	(5,312)	(5,359)	(4,826)	(4,232)
Dividend paid (incl tax)	(2,064)	(2,858)	(6,987)	(7,889)	(8,904)
Others	(6,457)	(7,506)	0	0	0
Financing cash flow	(19,230)	(18,516)	(17,846)	(20,216)	(20,136)
Net chg in Cash	(10,651)	(2,345)	5,892	3,621	6,257
OCF	20,300	20,933	33,566	34,592	37,099
Adj. OCF (w/o NWC chg.)	17,225	35,189	37,933	40,311	43,003
FCFF	4,785	17,412	22,566	24,592	27,099
FCFE	822	12,431	17,207	19,765	22,867
OCF/EBITDA (%)	78.9	63.2	73.2	70.2	69.8
FCFE/PAT (%)	12.9	112.5	93.3	94.7	96.5
FCFF/NOPLAT (%)	54.0	119.3	105.6	105.2	105.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	635	635	635	635	635
Reserves & Surplus	1,16,886	1,28,143	1,39,591	1,52,574	1,67,360
Net worth	1,17,521	1,28,778	1,40,226	1,53,210	1,67,995
Minority interests	0	0	0	0	0
Deferred tax liability (net)	7,968	8,875	8,875	8,875	8,875
Total debt	70,949	68,109	62,609	55,109	48,109
Total liabilities & equity	1,96,439	2,05,761	2,11,709	2,17,193	2,24,978
Net tangible fixed assets	1,57,903	1,58,856	1,54,545	1,48,688	1,42,312
Net intangible assets	7,373	7,387	7,387	7,387	7,387
Net ROU assets	8,479	7,998	7,998	7,998	7,998
Capital WIP	6,182	2,526	2,526	2,526	2,526
Goodwill	2,158	2,288	2,288	2,288	2,288
Investments [JV/Associates]	307	341	4,358	6,358	8,358
Cash & equivalents	15,313	12,479	14,355	17,976	24,233
Current assets (ex-cash)	72,698	80,998	86,427	94,112	1,02,086
Current Liab. & Prov.	73,971	67,109	68,171	70,137	72,207
NWC (ex-cash)	(1,273)	13,889	18,256	23,975	29,880
Total assets	1,96,439	2,05,761	2,11,709	2,17,193	2,24,978
Net debt	55,636	55,629	48,254	37,132	23,875
Capital employed	1,96,439	2,05,761	2,11,709	2,17,193	2,24,978
Invested capital	1,74,640	1,90,419	1,90,474	1,90,337	1,89,865
BVPS (Rs)	185.0	202.8	220.8	241.2	264.5
Net Debt/Equity (x)	0.5	0.4	0.3	0.2	0.1
Net Debt/EBITDA (x)	2.2	1.7	1.1	0.8	0.4
Interest coverage (x)	0.3	0.3	0.2	0.1	0.1
RoCE (%)	4.9	7.2	11.4	12.1	12.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	40.4	24.1	14.1	12.5	11.0
P/CE(x)	12.7	10.4	7.7	7.1	6.5
P/B (x)	2.2	2.0	1.9	1.7	1.6
EV/Sales (x)	1.5	1.3	1.2	1.1	1.0
EV/EBITDA (x)	12.3	9.5	6.7	6.0	5.4
EV/EBIT(x)	26.9	16.7	10.1	8.9	7.7
EV/IC (x)	1.8	1.7	1.6	1.6	1.5
FCFF yield (%)	1.5	5.5	7.3	8.3	9.5
FCFE yield (%)	0.3	4.8	6.6	7.6	8.8
Dividend yield (%)	0.8	1.1	2.7	3.0	3.4
DuPont-RoE split					
Net profit margin (%)	3.1	4.4	7.2	7.6	8.1
Total asset turnover (x)	1.1	1.2	1.2	1.3	1.3
Assets/Equity (x)	1.7	1.6	1.6	1.5	1.4
RoE (%)	5.6	8.8	13.7	14.2	14.8
DuPont-RoIC					
NOPLAT margin (%)	4.2	5.9	8.3	8.5	8.9
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	5.2	8.0	11.2	12.3	13.5
Operating metrics					
Core NWC days	(2.2)	20.6	25.9	31.9	37.5
Total NWC days	(2.2)	20.6	25.9	31.9	37.5
Fixed asset turnover	0.8	0.9	0.9	0.9	0.9
Opex-to-revenue (%)	28.6	26.9	27.3	27.3	27.3

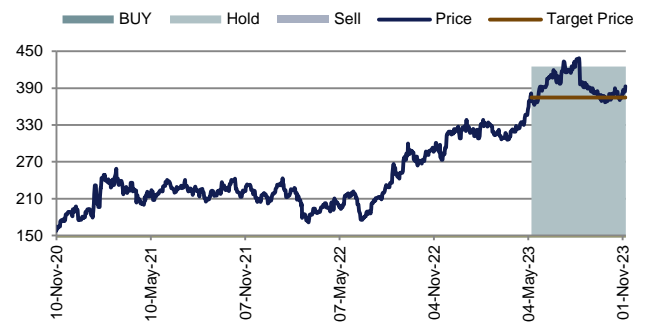
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
12-Aug-23	396	375	Hold	Chirag Jain
26-Jun-23	404	375	Hold	Chirag Jain
10-May-23	369	375	Hold	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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