

# Apollo Tyres | BUY

## Demand recovery / Profitability focus to drive performance

During 4QFY24, Apollo Tyres reported consol. adj. EBITDAM of 17.5%, in-line with JMFe. EPR liability related cost had an impact of 110bps on consol. margins. Domestic replacement demand has started picking-up from Apr'24. And, overall replacement demand is expected to grow by high single-digit / double-digit during FY25. Demand in the International markets has also started to recover, albeit gradually. Pricing environment in domestic replacement market is largely stable. Recent price hike (3% in May'24) is expected to partially mitigate the impact of increase in RM basket and EPR liability. 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 marginally tweaked our FY25/26 estimates to adjust for higher than expected tax rate. 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 Mar'25 TP of INR 550.

- 4QFY24 – Muted performance:** APTY reported standalone revenue of INR 43.8bn (flattish YoY, +1% QoQ), broadly in-line with JMFe. EBITDA for the quarter stood at INR 6.8bn (-2% YoY, -13%QoQ). EBITDA margin stood at 15.6% (-30bps YoY, -250bps QoQ). EPR liability had an impact of 160bps on standalone margins. Adj EBITDA margin stood at 17.2% (+130bps, -90bps), 30bps below JMFe. YoY margin improvement was led by lower RM costs. At the consol. level, APTY reported revenue of INR 62.5bn (flattish YoY, -5% QoQ) 2% below JMFe. Consol. EBITDAM (ex. of EPR liability impact of 110bps) stood at 17.5% (+150bps YoY, -80bps QoQ), broadly in-line with JMFe. Adj. consol. PAT stood at INR 3.9bn (-3.5% YoY, -24% QoQ), c. 14% below JMFe due to higher tax expenses.
- India business:** Domestic volumes were flattish on YoY basis during 4Q. Replacement and exports segments grew by 4% / 30%+ on YoY basis. However, OEM volumes declined by 10% YoY. APTY's market share in PCR segment remains stable. However, its TBR market share has declined slightly over last few quarters owing to its focus on driving profitable growth. The management indicated that domestic replacement demand has bounced back with double-digit vol. growth for TBR and PCR segment in Apr'24. Farm segment has also started to recover. Overall the company expects CV / PV replacement demand to grow by high single-digit / double-digit in FY25. Pricing environment largely remained stable. With respect to international markets, the company indicated that demand has started recovering in markets like MEA, Africa and US and it expects exports segment to grow in double-digit during FY25.
- European business:** In 4QFY24, the company's EU operations reported revenue of EUR 182mn (+3% YoY & 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 19.1% (+100bps YoY) led by lower RM costs & favourable mix. Share of UUHP tyres stood at 47% in 4QFY24 (vs. 43% in 4QFY23). 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.



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we acknowledge the support services of Dev Jogani in preparation of this report

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	550
Upside/(Downside)	16.0%
Previous Price Target	560
Change	-1.8%

### Key Data – APTY IN

Current Market Price	INR474
Market cap (bn)	INR301.1/US\$3.6
Free Float	52%
Shares in issue (mn)	572.1
Diluted share (mn)	635.1
3-mon avg daily val (mn)	INR979.8/US\$11.7
52-week range	560/359
Sensex/Nifty	72,987/22,201
INR/US\$	83.5

### Price Performance

%	1M	6M	12M
Absolute	0.2	10.7	30.8
Relative*	0.1	0.1	11.0

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	2,09,476	2,45,681	2,53,777	2,75,061	2,93,614
Sales Growth	20.4%	17.3%	3.3%	8.4%	6.7%
EBITDA	25,741	33,137	44,473	46,038	49,761
EBITDA Margin	12.3%	13.5%	17.5%	16.7%	16.9%
Adjusted Net Profit	6,444	10,818	17,988	19,959	23,121
Diluted EPS (INR)	10.1	17.0	28.3	31.4	36.4
Diluted EPS Growth	-32.7%	67.9%	66.3%	11.0%	15.8%
ROIC	5.3%	8.3%	11.5%	12.6%	14.2%
ROE	5.6%	8.8%	13.4%	13.6%	14.0%
P/E (x)	46.7	27.8	16.7	15.1	13.0
P/B (x)	2.6	2.3	2.2	1.9	1.7
EV/EBITDA (x)	12.9	9.9	7.0	6.4	5.5
Dividend Yield	0.7%	0.7%	1.3%	1.2%	1.3%

Source: Company data, JM Financial. Note: Valuations as of 15/May/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.

- **Margin outlook:** RM basket was largely stable during 4Q. However, NR prices have increased recently and the company expects RM basket cost to increase by 4-5% during 1QFY25. Further, EPR liability related cost had an impact of 160bps on standalone margins during 4Q. To partially mitigate these cost pressures, APTY has increased prices by c.3% in domestic market and plans to take 1-2% price hike in EU during 2Q. Management indicated that the company will need another price hike of c.2.5% 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.
- **Capex/debt update:** Capacity utilization currently stands at c.75% for both Indian and European operations. Capex for FY24 stood at INR 7bn vs. c.11bn guided earlier. Further, the company has guided for INR 10bn capex in FY25 primarily towards de-bottlenecking, digitization and maintenance. Overall, the company expects capex intensity to remain low in the medium-term. APTY's FCF for FY24 stood strong at INR 20bn (INR5bn in FY23). Its consol. gross debt decreased by INR 17bn to INR 39bn during FY24 and Net Debt / EBITDA declined to c.0.6x (c.1.4x for FY23). Pre-tax ROCE for FY24 (annualised) stood at ~16% (at the higher end of its medium-term guidance of 12-15%).
- **Other Highlights:** 1) APTY has not shifted to new tax regime (25% tax rate) owing to availability of MAT credit. 2) Vredestein brand continues to gain traction in domestic luxury car segment. APTY indicated that it will continue to incur higher marketing spends towards brand building activities for Vredestein. 3) Other income was higher owing to forex volatility, leading to INR 400mn gain during 4Q.

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

Standalone (INR mn)	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	Q4FY24E	% A/E
<b>Sales</b>	<b>43,874</b>	<b>43,662</b>	<b>0.5</b>	<b>43,319</b>	<b>1.3</b>	<b>44,387</b>	<b>-1.2</b>
RM	26,087	27,329	-4.5	25,620	1.8	26,544	-1.7
as a % of sales	59.5	62.6	-310bps	59.1	30bps	59.8	-30bps
Employee Expense	2,755	2,678	2.9	2,831	-2.7	2,885	-4.5
as a % of sales	6.3	6.1	10bps	6.5	-30bps	6.5	-20bps
Other Costs	8,187	6,692	22.3	7,028	16.5	7,191	13.9
as a % of sales	18.7	15.3	330bps	16.2	240bps	16.2	250bps
Expenditure	37,029	36,698	0.9	35,479	4.4	36,619	1.1
<b>EBITDA</b>	<b>6,845</b>	<b>6,964</b>	<b>-1.7</b>	<b>7,840</b>	<b>-12.7</b>	<b>7,768</b>	<b>-11.9</b>
<b>EBITDA Margin (%)</b>	<b>15.6</b>	<b>15.9</b>	<b>-30bps</b>	<b>18.1</b>	<b>-250bps</b>	<b>17.5</b>	<b>-190bps</b>
Other Income	616	172	258.5	127	386.6	200	207.9
Interest	884	1,183	-25.2	995	-11.1	950	-6.9
Depreciation	2,347	2,421	-3.1	2,279	3.0	2,280	2.9
PBT	4,229	3,531	19.8	4,693	-9.9	4,738	-10.7
Tax	1,746	971	79.8	1,587	10.0	1,587	10.0
Tax rate (%)	41.3	27.5	1380bps	33.8	750bps	33.5	780bps
<b>PAT (Adjusted)</b>	<b>2,483</b>	<b>2,560</b>	<b>-3.0</b>	<b>3,106</b>	<b>-20.1</b>	<b>3,151</b>	<b>-21.2</b>
<b>PAT Margin (%)</b>	<b>5.7</b>	<b>5.9</b>	<b>-20bps</b>	<b>7.2</b>	<b>-150bps</b>	<b>7.1</b>	<b>-140bps</b>

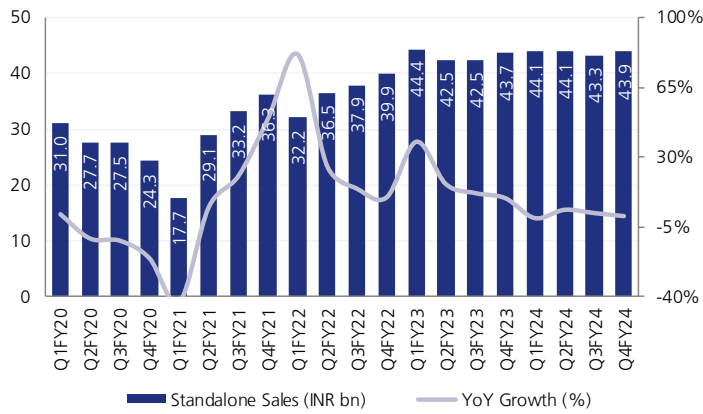
Source: Company, JM Financial

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

Consolidated (INR mn)	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	Q4FY24E	% A/E
<b>Sales</b>	<b>62,582</b>	<b>62,473</b>	<b>0.2</b>	<b>65,954</b>	<b>-5.1</b>	<b>64,139</b>	<b>-2.4</b>
RM	33,024	35,370	-6.6	35,192	-6.2	34,938	-5.5
as a % of sales	52.8	56.6	-380bps	53.4	-60bps	54.5	-170bps
Employee Expenses	7,288	6,882	5.9	7,669	-5.0	7,329	-0.6
as a % of sales	11.6	11.0	60bps	11.6	0bps	11.4	20bps
Other Costs	11,990	10,237	17.1	11,012	8.9	10,746	11.6
as a % of sales	19.2	16.4	280bps	16.7	250bps	16.8	240bps
Expenditure	52,302	52,489	-0.4	53,873	-2.9	53,013	-1.3
<b>EBITDA</b>	<b>10,280</b>	<b>9,985</b>	<b>3.0</b>	<b>12,081</b>	<b>-14.9</b>	<b>11,126</b>	<b>-7.6</b>
<b>EBITDA Margin (%)</b>	<b>16.4</b>	<b>16.0</b>	<b>40bps</b>	<b>18.3</b>	<b>-190bps</b>	<b>17.3</b>	<b>-90bps</b>
Other Income	743	169	339.6	184	304.1	225	230.3
Interest	1,146	1,390	-17.5	1,230	-6.8	1,175	-2.4
Depreciation	3,880	3,724	4.2	3,676	5.5	3,680	5.4
PBT	5,997	5,039	19.0	7,358	-18.5	6,496	-7.7
Tax	2,089	992	110.7	2,242	-6.8	1,949	7.2
Tax rate (%)	34.8	19.7	1520bps	30.5	440bps	30.0	480bps
<b>PAT (Adjusted)</b>	<b>3,908</b>	<b>4,047</b>	<b>-3.5</b>	<b>5,117</b>	<b>-23.6</b>	<b>4,547</b>	<b>-14.1</b>
<b>PAT Margin (%)</b>	<b>6.2</b>	<b>6.5</b>	<b>-20bps</b>	<b>7.8</b>	<b>-150bps</b>	<b>7.1</b>	<b>-80bps</b>

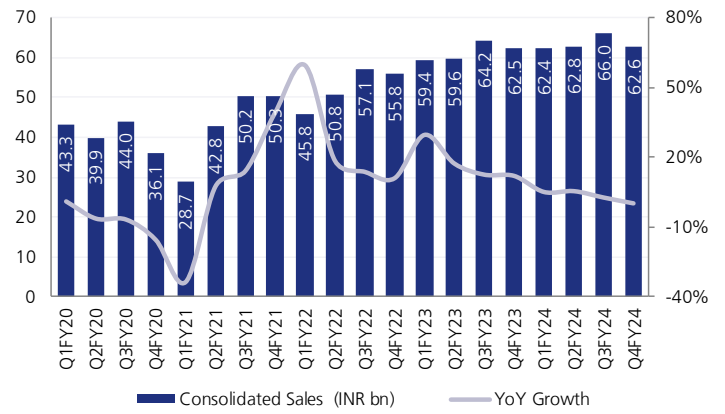
Source: Company, JM Financial

Exhibit 3. Revenue trend (standalone)



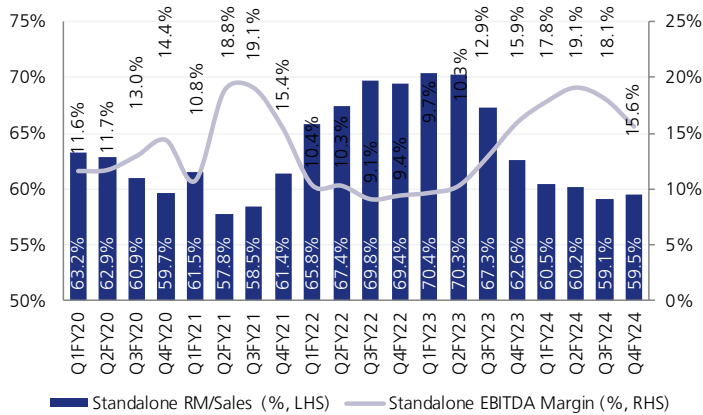
Source: Company, JM Financial

Exhibit 4. Revenue trend (consolidated)



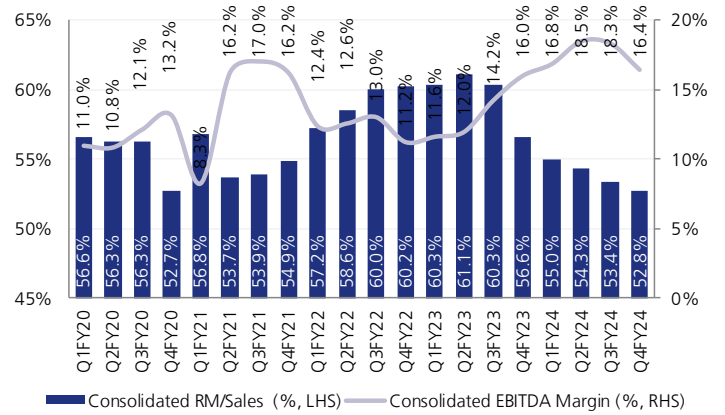
Source: Company, JM Financial

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 (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	275,061	293,614	271,033	290,650	1%	1%
EBITDA	46,038	49,761	46,029	49,816	0%	0%
EBITDA margin	16.7%	16.9%	17.0%	17.1%	-30bps	-20bps
PAT	19,959	23,121	20,573	23,737	-3.0%	-2.6%
EPS	31.4	36.4	32.4	37.4	-3.0%	-2.6%

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	2,09,476	2,45,681	2,53,777	2,75,061	2,93,614	
Sales Growth	20.4%	17.3%	3.3%	8.4%	6.7%	
Total Revenue	2,09,476	2,45,681	2,53,777	2,75,061	2,93,614	
<b>Cost of Goods Sold/Op. Exp</b>	<b>1,23,855</b>	<b>1,46,371</b>	<b>1,36,631</b>	<b>1,50,937</b>	<b>1,60,772</b>	
Personnel Cost	25,742	26,199	29,640	31,592	33,642	
Other Expenses	34,137	39,975	43,033	46,494	49,438	
EBITDA	25,741	33,137	44,473	46,038	49,761	
<b>EBITDA Margin</b>	<b>12.3%</b>	<b>13.5%</b>	<b>17.5%</b>	<b>16.7%</b>	<b>16.9%</b>	
EBITDA Growth	-8.0%	28.7%	34.2%	3.5%	8.1%	
Depn. & Amort.	13,997	14,191	14,778	15,265	15,774	
EBIT	11,744	18,945	29,695	30,773	33,988	
Other Income	1,235	411	1,536	1,659	1,791	
Finance Cost	4,444	5,312	5,059	3,920	2,750	
PBT before Excep. & Forex	8,535	14,044	26,171	28,512	33,030	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	8,535	14,044	26,171	28,512	33,030	
Taxes	2,091	3,226	8,183	8,554	9,909	
Extraordinary Inc./Loss(-)	-59	226	-773	0	0	
Assoc. Profit/Min. Int.(-)	-1	-2	-4	0	0	
Reported Net Profit	6,386	11,046	17,219	19,959	23,121	
Adjusted Net Profit	6,444	10,818	17,988	19,959	23,121	
<b>Net Margin</b>	<b>3.1%</b>	<b>4.4%</b>	<b>7.1%</b>	<b>7.3%</b>	<b>7.9%</b>	
Diluted Share Cap. (mn)	635.1	635.1	635.1	635.1	635.1	
Diluted EPS (INR)	10.1	17.0	28.3	31.4	36.4	
<b>Diluted EPS Growth</b>	<b>-32.7%</b>	<b>67.9%</b>	<b>66.3%</b>	<b>11.0%</b>	<b>15.8%</b>	
Total Dividend + Tax	2,223	2,064	3,811	3,493	3,811	
Dividend Per Share (INR)	3.5	3.3	6.0	5.5	6.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	8,535	14,044	26,171	28,512	33,030	
Depn. & Amort.	13,997	14,191	14,778	15,265	15,774	
Net Interest Exp. / Inc. (-)	3,209	4,901	3,524	2,261	958	
Inc (-) / Dec in WCap.	-457	-11,607	-5,981	-1,429	-2,813	
Others	-58	228	-769	0	0	
Taxes Paid	-2,091	-3,226	-8,183	-8,554	-9,909	
<b>Operating Cash Flow</b>	<b>23,135</b>	<b>18,533</b>	<b>29,540</b>	<b>36,055</b>	<b>37,039</b>	
Capex	-20,831	-11,151	-9,265	-10,233	-10,840	
Free Cash Flow	2,304	7,382	20,275	25,823	26,200	
Inc (-) / Dec in Investments	-3,716	455	-959	-3,000	-3,000	
Others	1,235	411	1,536	1,659	1,791	
<b>Investing Cash Flow</b>	<b>-23,313</b>	<b>-10,285</b>	<b>-8,688</b>	<b>-11,574</b>	<b>-12,049</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-2,223	-2,064	-3,811	-3,493	-3,811	
Inc / Dec (-) in Loans	-2,726	-6,404	-15,154	-11,000	-15,000	
Others	-5,525	-2,124	-1,128	-2,839	-1,520	
<b>Financing Cash Flow</b>	<b>-10,474</b>	<b>-10,592</b>	<b>-20,093</b>	<b>-17,332</b>	<b>-20,330</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-10,651</b>	<b>-2,344</b>	<b>759</b>	<b>7,149</b>	<b>4,660</b>	
Opening Cash Balance	21,458	10,807	8,462	9,221	16,371	
Closing Cash Balance	10,807	8,462	9,221	16,371	21,031	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	1,17,521	1,28,778	1,39,022	1,55,487	1,74,797	
Share Capital	635	635	635	635	635	
Reserves & Surplus	1,16,886	1,28,143	1,38,387	1,54,852	1,74,162	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	70,609	64,205	49,051	38,051	23,051	
Def. Tax Liab. / Assets (-)	7,968	8,875	15,705	16,560	17,551	
<b>Total - Equity &amp; Liab.</b>	<b>1,96,099</b>	<b>2,01,858</b>	<b>2,03,778</b>	<b>2,10,099</b>	<b>2,15,400</b>	
Net Fixed Assets	1,82,096	1,79,055	1,73,541	1,68,509	1,63,575	
Gross Fixed Assets	2,89,805	3,04,483	3,12,773	3,23,250	3,33,983	
Intangible Assets	2,158	2,288	2,311	2,311	2,311	
Less: Depn. & Amort.	1,16,050	1,30,242	1,45,020	1,60,284	1,76,058	
Capital WIP	6,182	2,526	3,477	3,233	3,340	
Investments	4,813	4,358	5,317	8,317	11,317	
Current Assets	83,505	89,461	89,891	1,04,450	1,15,466	
Inventories	41,554	44,285	42,457	45,215	48,265	
Sundry Debtors	20,513	24,885	26,648	30,144	32,177	
Cash & Bank Balances	10,807	8,462	9,221	16,371	21,031	
Loans & Advances	0	0	0	0	0	
Other Current Assets	10,631	11,828	11,564	12,720	13,992	
Current Liab. & Prov.	74,314	71,015	64,971	71,177	74,958	
Current Liabilities	35,309	33,539	29,786	34,510	36,745	
Provisions & Others	39,005	37,476	35,184	36,667	38,213	
Net Current Assets	9,191	18,446	24,920	33,273	40,508	
<b>Total - Assets</b>	<b>1,96,099</b>	<b>2,01,858</b>	<b>2,03,778</b>	<b>2,10,099</b>	<b>2,15,400</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	3.1%	4.4%	7.1%	7.3%	7.9%	
Asset Turnover (x)	0.8	0.9	1.0	1.1	1.1	
Leverage Factor (x)	2.2	2.1	1.9	1.8	1.6	
RoE	5.6%	8.8%	13.4%	13.6%	14.0%	

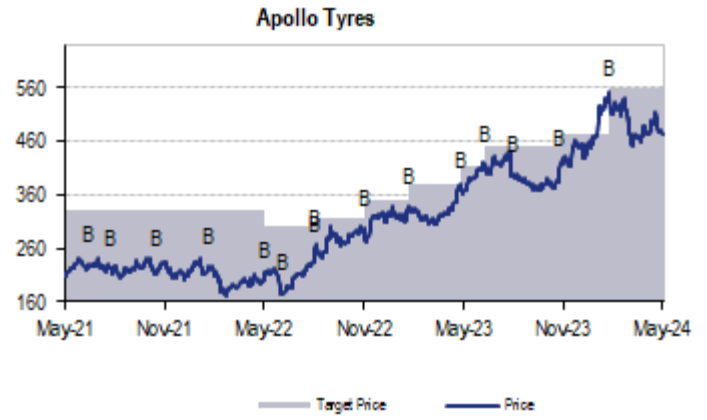
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	185.0	202.8	218.9	244.8	275.2	
ROIC	5.3%	8.3%	11.5%	12.6%	14.2%	
ROE	5.6%	8.8%	13.4%	13.6%	14.0%	
Net Debt/Equity (x)	0.5	0.4	0.3	0.1	0.0	
P/E (x)	46.7	27.8	16.7	15.1	13.0	
P/B (x)	2.6	2.3	2.2	1.9	1.7	
EV/EBITDA (x)	12.9	9.9	7.0	6.4	5.5	
EV/Sales (x)	1.6	1.3	1.2	1.1	0.9	
Debtor days	36	37	38	40	40	
Inventory days	72	66	61	60	60	
Creditor days	70	58	52	55	55	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
11-Sep-20	Buy	165	
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
8-Feb-24	Buy	560	17.9

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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Rating	Meaning
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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.
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