

Apollo Tyres

Near-term margin pressure, a smaller 15% potential; lowering to a Hold

Below ARE's Rs10.1bn, Apollo Tyres' Rs9.1bn Q1 EBITDA fell 14% y/y led on more-than-expected raw material and employee costs. The India outlook for export volumes and replacements is bright. We expect India/Europe revenue to grow 10%/4% over FY24-26. Ahead, we expect near-term India margins to be lower due to higher prices of natural rubber and ocean freight rates. We see margins rebounding from Q4 FY25, bolstered by prices. Considering costs, a 4-5% price hike would be required in six months. Ahead, stiff competition could delay margin recovery. Due to the above net-price challenges, we are cautious for the near term. Net debt/equity would drop further (~0.2x in FY24; net cash in FY26) on healthy cashflows (Rs20bn a year). A smaller 15% upside, however, compels us to lower our rating to a Hold at a slightly lower TP of Rs550, 15x FY26e P/E (earlier Rs560).

EBITDA miss. Consolidated revenue grew 2% y/y to Rs63.3bn, broadly in line with our estimated Rs63.7bn. EBITDA fell 14% y/y to Rs9.1bn, below ARE due to more-than-expected RM and employee costs. The EBITDA margin dropped 250bps y/y, 210bps q/q, to 14.4%. The gross margin expanded 50bps y/y to 45.5%, though q/q down 170bps. APMEA revenues grew 5% y/y to Rs47.1bn. India volumes: exports up 20%, replacements in mid-single digits, but OEM fell by mid-single digits. The EBIT margin fell 390bps y/y, 200bps q/q, to 9.6%. Europe revenue fell 2% y/y to €191m. The EBIT margin grew 50bps y/y to 4.3%.

Management outlook. Q/q, the raw material basket cost would increase by mid-single digits in Q2. Another 4-5% price hike is required to cover higher costs. Replacement volumes to grow in high single digit, Exports to continue its growth momentum and OEM to improve from H2 FY25.

Valuation. We expect 8%/13% revenue/PAT CAGRs over FY24-26. We reduce our FY25e/26e EPS ~3-16%, mainly due to the gross margin contraction. We lower our recommendation to a Hold, at a slightly lower TP of Rs550, 15x P/E on FY26e EPS, (earlier Rs560). **Key risks:** Less-than-expected volume growth, rise in commodity prices, stiff competition.

| Key financials (YE Mar) | FY22 | FY23 | FY24 | FY25e | FY26e |
|-------------------------|---------|---------|---------|---------|---------|
| Sales (Rs m) | 209,476 | 245,681 | 253,777 | 274,523 | 298,340 |
| Net profit (Rs m) | 6,445 | 10,233 | 17,992 | 16,711 | 23,112 |
| EPS (Rs) | 10.1 | 16.1 | 28.3 | 26.3 | 36.4 |
| P/E (x) | 47.8 | 30.1 | 17.1 | 18.4 | 13.3 |
| EV / EBITDA (x) | 13.8 | 10.6 | 7.5 | 7.6 | 6.3 |
| P/BV (x) | 2.6 | 2.4 | 2.2 | 2.0 | 1.8 |
| RoE (%) | 5.6 | 8.4 | 13.6 | 11.5 | 14.4 |
| RoCE (%) | 5.0 | 7.6 | 12.1 | 10.6 | 12.9 |
| Dividend yield (%) | 0.7 | 0.9 | 1.2 | 1.2 | 1.8 |
| Net debt / equity (x) | 0.4 | 0.3 | 0.2 | 0.1 | -0.0 |

Source: Company, Anand Rathi Research

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Rating: **Hold**

Target Price: Rs.550

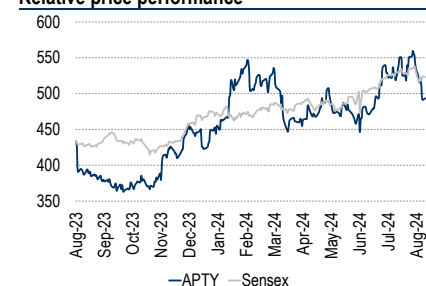
Share Price: Rs.485

| Key data | APTY IN / APLO.BO |
|--------------------|-----------------------|
| 52-week high / low | Rs.568 / 365 |
| Sensex / Nifty | 78,956 / 24,139 |
| 3-m average volume | \$26m |
| Market cap | Rs.308bn / \$3,671.2m |
| Shares outstanding | 635m |

| Shareholding pattern (%) | Jun'24 | Mar'24 | Dec'23 |
|--------------------------|--------|--------|--------|
| Promoters | 37.4 | 37.3 | 37.3 |
| - of which, Pledged | 2.1 | 1.1 | 1.1 |
| Free float | 62.6 | 62.7 | 62.7 |
| - Foreign institutions | 14.5 | 22.0 | 22.0 |
| - Domestic institutions | 25.1 | 18.0 | 18.0 |
| - Public | 23.1 | 22.7 | 22.7 |

| Estimates revision (%) | FY25e | FY26e |
|------------------------|-------|-------|
| Sales | -0.3 | 0.5 |
| EBITDA | -9.7 | -1.4 |
| EPS | -15.9 | -3.0 |

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (Consol.)

Fig 1 – Income statement (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 209,476 | 245,681 | 253,777 | 274,523 | 298,340 |
| Growth (%) | 20.4 | 17.3 | 3.3 | 8.2 | 8.7 |
| Raw material | 123,855 | 146,371 | 136,631 | 154,973 | 165,238 |
| Employee & other expenses | 59,880 | 66,174 | 72,673 | 78,064 | 84,240 |
| EBITDA | 25,741 | 33,137 | 44,473 | 41,485 | 48,861 |
| EBITDA margins (%) | 12.3 | 13.5 | 17.5 | 15.1 | 16.4 |
| - Depreciation | 13,997 | 14,191 | 14,778 | 15,555 | 16,638 |
| Other income | 1,235 | 411 | 1,536 | 1,326 | 1,493 |
| Interest expenses | 4,444 | 5,312 | 5,059 | 3,389 | 2,062 |
| PBT | 8,476 | 14,269 | 25,398 | 23,463 | 31,655 |
| Effective tax rates (%) | 25 | 27 | 32 | 30 | 27 |
| + Associates / (Minorities) | 1 | 2 | 4 | 4 | 4 |
| Adjusted income | 6,445 | 10,233 | 17,992 | 16,711 | 23,112 |
| Extraordinary items | -59 | 226 | -773 | -404 | - |
| Net income | 6,386 | 10,458 | 17,219 | 16,711 | 23,112 |
| WANS | 635 | 635 | 635 | 635 | 635 |
| FDEPS (Rs) | 10.1 | 16.1 | 28.3 | 26.3 | 36.4 |

Fig 2 – Balance sheet (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Share capital | 635 | 635 | 635 | 635 | 635 |
| Net worth | 117,521 | 125,782 | 139,022 | 152,011 | 169,487 |
| Debt (including Pref.) | 61,937 | 55,877 | 39,419 | 24,419 | 14,419 |
| Minority interest | - | - | - | - | - |
| DTL / (Assets) | 7,968 | 11,871 | 15,705 | 15,705 | 15,705 |
| Capital employed | 187,426 | 193,529 | 194,146 | 192,135 | 199,610 |
| Net tangible assets | 173,755 | 174,241 | 167,753 | 162,198 | 165,561 |
| Goodwill | 2,158 | 2,288 | 2,311 | 2,311 | 2,311 |
| CWIP (tang. & intang.) | 6,182 | 2,526 | 3,477 | 3,477 | 3,477 |
| Investments (strategic) | 307 | 341 | 382 | 382 | 382 |
| Investments (financial) | 4,506 | 4,017 | 4,935 | 4,935 | 4,935 |
| Current assets (excl. cash) | 72,698 | 80,936 | 80,670 | 86,897 | 93,990 |
| Cash | 10,807 | 8,462 | 9,221 | 10,476 | 11,934 |
| Current liabilities | 82,987 | 79,282 | 74,603 | 78,540 | 82,978 |
| Working capital | -10,289 | 1,654 | 6,066 | 8,357 | 11,012 |
| Capital deployed | 187,426 | 193,529 | 194,146 | 192,135 | 199,610 |

Fig 3 – Cashflow statement (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|------------------------------------|---------|--------|---------|---------|---------|
| PBT | 8,477 | 14,272 | 25,402 | 23,871 | 31,659 |
| + Non-cash items | 18,038 | 19,248 | 19,490 | 18,944 | 18,699 |
| Operating profit before WC changes | 26,515 | 33,520 | 44,892 | 42,815 | 50,358 |
| - Incr. / (decr.) in WC | 1,829 | 7,845 | 5,031 | 2,290 | 2,655 |
| Others including taxes | 4,385 | 4,719 | 7,002 | 8,487 | 10,040 |
| Operating cash-flow | 20,301 | 20,956 | 32,860 | 32,039 | 37,663 |
| - Capex (tangible + intangible) | 18,164 | 7,627 | 6,739 | 10,000 | 20,000 |
| Free cash-flow | 2,137 | 13,329 | 26,121 | 22,039 | 17,663 |
| - Dividend | 2,223 | 2,064 | 2,858 | 3,721 | 5,636 |
| + Equity raised | - | - | - | - | - |
| + Debt raised | -1,875 | -7,484 | -16,114 | -15,000 | -10,000 |
| - Fin Investments | -7,677 | -3,254 | -1,168 | -1,326 | -1,493 |
| - Misc. items (CFI + CFF) | 16,367 | 9,379 | 7,557 | 3,389 | 2,062 |
| Net cash-flow | -10,651 | -2,344 | 759 | 1,254 | 1,458 |

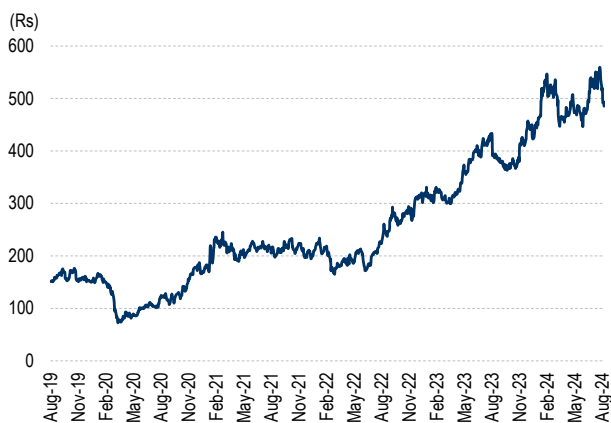
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|-----------------------|------|------|------|-------|-------|
| P/E (x) | 47.8 | 30.1 | 17.1 | 18.4 | 13.3 |
| EV / EBITDA (x) | 13.8 | 10.6 | 7.5 | 7.6 | 6.3 |
| EV / Sales (x) | 1.7 | 1.4 | 1.3 | 1.2 | 1.0 |
| P/B (x) | 2.6 | 2.4 | 2.2 | 2.0 | 1.8 |
| RoE (%) | 5.6 | 8.4 | 13.6 | 11.5 | 14.4 |
| RoCE (%) - after tax | 5.0 | 7.6 | 12.1 | 10.6 | 12.9 |
| RoIC (%) - after tax | 5.3 | 8.3 | 12.6 | 11.1 | 13.7 |
| DPS (Rs) | 3.3 | 4.5 | 6.0 | 5.9 | 8.9 |
| Dividend yield (%) | 0.7 | 0.9 | 1.2 | 1.2 | 1.8 |
| Dividend payout (%) | 32.0 | 27.9 | 21.2 | 22.3 | 24.4 |
| Net debt / equity (x) | 0.4 | 0.3 | 0.2 | 0.1 | -0.0 |
| Receivables (days) | 36 | 37 | 38 | 38 | 38 |
| Inventory (days) | 72 | 66 | 61 | 61 | 61 |
| Payables (days) | 137 | 111 | 100 | 97 | 94 |
| CFO : PAT % | 315 | 205 | 183 | 192 | 163 |

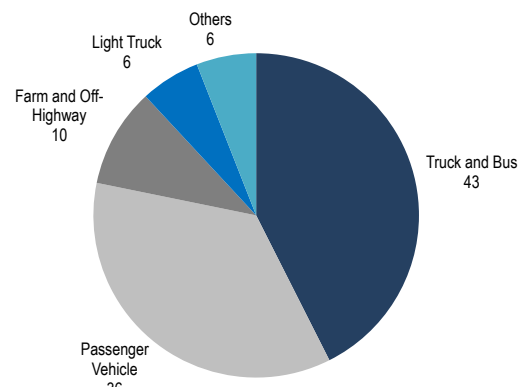
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Consolidated revenue (%), by segment (Q1 FY25)



Source: Company

Result highlights

Fig 7 – Quarterly performance - consolidated

| (Rs m) | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 | YY (%) | Q/Q (%) | FY25e | FY24 | YY (%) |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|
| Revenue | 62,446 | 62,796 | 65,954 | 62,582 | 63,349 | 1.4 | 1.2 | 2,74,523 | 2,53,777 | 8.2 |
| Expenditure | 51,931 | 51,198 | 53,873 | 52,302 | 54,256 | 4.5 | 3.7 | 2,33,038 | 2,09,304 | 11.3 |
| as % of sales | 83.2 | 81.5 | 81.7 | 83.6 | 85.6 | | | 84.9 | 82.5 | |
| Consumption of RM | 34,319 | 34,096 | 35,192 | 33,024 | 34,517 | 0.6 | 4.5 | 1,54,973 | 1,36,631 | 13.4 |
| as % of sales | 55.0 | 54.3 | 53.4 | 52.8 | 54.5 | | | 56.5 | 53.8 | |
| Employee cost | 7,388 | 7,296 | 7,669 | 7,288 | 7,968 | 7.9 | 9.3 | 31,788 | 29,640 | 7.2 |
| as % of sales | 11.8 | 11.6 | 11.6 | 11.6 | 12.6 | | | 11.6 | 11.7 | |
| Other expenditure | 10,224 | 9,806 | 11,012 | 11,990 | 11,771 | 15.1 | (1.8) | 46,276 | 43,033 | 7.5 |
| as % of sales | 16.4 | 15.6 | 16.7 | 19.2 | 18.6 | | | 16.9 | 17.0 | |
| EBITDA | 10,515 | 11,598 | 12,081 | 10,280 | 9,093 | (13.5) | (11.5) | 41,485 | 44,473 | (6.7) |
| EBITDA margin (%) | 16.8 | 18.5 | 18.3 | 16.4 | 14.4 | | | 15.1 | 17.5 | |
| Depreciation | 3,620 | 3,603 | 3,676 | 3,880 | 3,695 | 2.1 | (4.8) | 15,555 | 14,778 | 5.3 |
| EBIT | 6,895 | 7,995 | 8,405 | 6,400 | 5,398 | (21.7) | (15.7) | 25,930 | 29,695 | (12.7) |
| Other income | 355 | 253 | 184 | 743 | 308 | (13.2) | (58.5) | 1,326 | 1,536 | (13.6) |
| Interest | 1,355 | 1,328 | 1,230 | 1,146 | 1,070 | (21.0) | (6.7) | 3,389 | 5,059 | (33.0) |
| PBT | 5,896 | 6,921 | 7,358 | 5,997 | 4,636 | (21.4) | (22.7) | 23,867 | 26,171 | (8.8) |
| Total tax | 0 | 2 | 1 | 1 | 0 | | | 4 | 4 | |
| Adj. PAT | 1,795 | 2,058 | 2,242 | 2,089 | 1,212 | (32.5) | (42.0) | 7,160 | 8,183 | (12.5) |
| Extraordinary items. Loss / (gain) | 4,101 | 4,865 | 5,117 | 3,909 | 3,424 | (16.5) | (12.4) | 16,711 | 17,992 | (7.1) |
| Reported PAT | 132 | 122 | 151 | 368 | 404 | | | 404 | 773 | |
| Adj. EPS (Rs) | 3,969 | 4,743 | 4,966 | 3,541 | 3,020 | (23.9) | (14.7) | 16,307 | 17,219 | (5.3) |
| | 6.5 | 7.7 | 8.1 | 6.2 | 5.4 | (16.5) | (12.4) | 26.3 | 28.3 | (7.1) |
| Margins (%) | | | | | | (bps) | (bps) | | | (bps) |
| Gross | 45.0 | 45.7 | 46.6 | 47.2 | 45.5 | 47 | (172) | 43.5 | 46.2 | (261) |
| EBIDTA | 16.8 | 18.5 | 18.3 | 16.4 | 14.4 | (248) | (207) | 15.1 | 17.5 | (241) |
| EBIT | 11.0 | 12.7 | 12.7 | 10.2 | 8.5 | (252) | (171) | 9.4 | 11.7 | (226) |
| PAT | 6.6 | 7.7 | 7.8 | 6.2 | 5.4 | (116) | (84) | 6.1 | 7.1 | (100) |
| Effective Tax rate | 30.4 | 29.7 | 30.5 | 34.8 | 26.2 | (429) | (869) | 30.0 | 31.3 | (127) |

Source: Company

Q1 earnings call takeaways

India

- **FY25 volume outlook.** Overall replacement growth in high-single digits. Exports to grow; OEMs to recover in H2. Farm tyres notably improving. As the company has underperformed certain peers in recent quarters, it will take steps to improve its share.
- **Q1 volumes saw** overall mid-single-digit y/y growth. Replacement rose by mid-single digits, with double-digit growth in TBR and PCR (y/y also q/q). Exports grew 20% y/y. OEM declined by mid-single digits, led by TBR (double digits decline) and PCR (a slight decline).
- The OEM market-share loss was due to lower presence in buses (less profitable) and payment issues. Further, the overall tonnage mix turned adverse. The company started supplying tyres to luxury European PV OEMs in India. Market share in the late-20% in CVs (also TBR) and 20% in PCR.
- **Margin outlook.** Price hikes, new products and premiumisation would boost the EBITDA margin. The company targets >15% margins in the medium term. Its focus is on free cashflows and return ratios. Higher natural rubber prices would keep the near-term operating performance muted. Advertising cost would drop in Q2.
- The RM basket cost rose 5% q/q in Q1 and is expected to rise in Q2 by mid-single digits q/q. Another 5% price hike would be required to cover higher the input costs. Price hikes to be in small quantum, but could lead to a slight market-share loss. Q1 cost (per kg): natural rubber Rs180, synthetic rubber Rs180, carbon black Rs120. The EPR cost was Rs278m in Q1.
- **Prices were hiked** 1% in Q2. In Q1, for PVs they were hiked 2% and for CVs, 1%. The replacement category saw an EPR-related 0.7% hike from May'24.
- Capacity utilisation for PCR at mid-80% and CVs, mid-70%.
- **Debt.** Q1 consolidated net debt shrank Rs2.8bn to Rs22.5bn; standalone, Rs3bn to Rs19bn.
- **Apollo 2.0 initiatives.** Integrating global operations, people movement, new employees and SAP upgradation drove higher opex in recent quarters. The company expects synergies to drive long-term benefits.

Europe

- Q1 revenues were €146m (up 1% y/y), EBITDA €20m (the margin, 13.7% vs. 13.4% a year ago). Q2 topline growth expected at mid-to-high single digits.
- Reifen's Q1 revenue was €50m; the EBITDA margin 4%.
- The Europe EBITDA margin rose y/y due to a better UHP/UUHP mix (up 20% y/y) despite higher input costs. Prices were not hiked as peers did not raise prices. In Europe, the proportion of natural rubber is lower, hence the impact.

Valuations

Healthy volume momentum. Replacement demand started to improve, growing at over mid-single digits in Q1. The OEM growth momentum would be flattish but would improve in H2. Europe volumes are expected to turn positive. We expect an 8% revenue CAGR over FY24-26.

De-levering to continue. We expect the post-tax RoCE to rise from 12.1% in FY24 to 12.9% in FY26, driven by greater utilisation. The EBITDA margin would be over 15% because of pricing discipline. We have factored in Rs15bn annual capex over FY24-26 and expect FCF of >Rs20bn a year. Net debt/equity would drop from 0.2x in FY24 to net cash in FY26.

Valuation. We expect 8%/13% revenue/PAT CAGRs over FY24-26. We recommend a Hold at a TP of Rs550 (15x P/E on FY26e).

Fig 8 – Change in estimates

| (Rs m) | Old | | Revised | | Change (%) | |
|--------------|---------|---------|---------|---------|------------|------|
| | FY25e | FY26e | FY25e | FY26e | FY25 | FY26 |
| Revenue | 275,449 | 296,960 | 274,523 | 298,340 | -0.3 | 0.5 |
| EBITDA | 45,925 | 49,576 | 41,485 | 48,861 | -9.7 | -1.4 |
| % of revenue | 16.7 | 16.7 | 15.1 | 16.4 | | |
| Adj. PAT | 19,876 | 23,819 | 16,711 | 23,112 | -15.9 | -3.0 |
| EPS (Rs) | 31.3 | 37.5 | 26.3 | 36.4 | -15.9 | -3.0 |

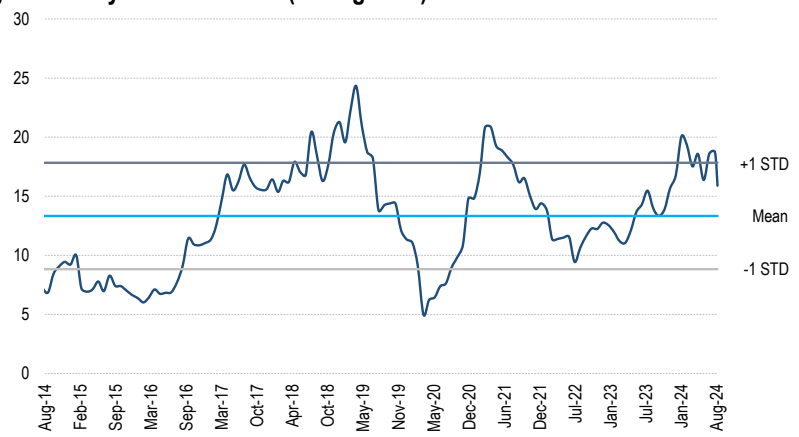
Source: Company, Anand Rath Research

Fig 9 – Key assumptions

| (Rs m) | FY21 | FY22 | FY23 | FY24 | FY25e | FY26e | CAGR % (FY24-26e) |
|----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| Revenues | | | | | | | |
| APMEA | 119,187 | 148,265 | 174,669 | 178,546 | 195,304 | 216,714 | 10 |
| YY change, % | 5.9 | 24.4 | 17.8 | 2.2 | 9.4 | 11.0 | |
| Europe | 56,754 | 65,543 | 72,974 | 76,399 | 80,219 | 82,626 | 4 |
| YY change, % | 7.6 | 15.5 | 11.3 | 4.7 | 5.0 | 3.0 | |
| Others | 25,443 | 40,972 | 48,783 | 41,197 | 43,669 | 46,289 | 6 |
| YY change, % | (1.3) | 61.0 | 19.1 | (15.6) | 6.0 | 6.0 | |
| Inter-segment | (27,415) | (45,305) | (50,745) | (42,365) | (44,669) | (47,289) | |
| Total | 173,970 | 209,476 | 245,681 | 253,777 | 274,523 | 298,340 | 8 |
| YY change, % | 6.4 | 20.4 | 17.3 | 3.3 | 8.2 | 8.7 | |
| EBIT | | | | | | | |
| APMEA | 14,695 | 7,151 | 12,347 | 23,855 | 19,500 | 25,275 | 3 |
| Margins, % | 12.3 | 4.8 | 7.1 | 13.4 | 10.0 | 11.7 | |
| Europe | 649 | 4,481 | 5,108 | 6,113 | 6,418 | 7,023 | 7 |
| Margins, % | 1.1 | 6.8 | 7.0 | 8.0 | 8.0 | 8.5 | |
| Others | 775 | 1,347 | 1,901 | 1,263 | 1,339 | 1,419 | 6 |
| Margins, % | 3.0 | 3.3 | 3.9 | 3.1 | 3.1 | 3.1 | |
| Other un-allocatable | - | - | - | - | - | - | |
| Total | 16,135 | 12,994 | 19,374 | 31,255 | 27,278 | 33,740 | 4 |
| Margins, % | 9.3 | 6.2 | 7.9 | 12.3 | 9.9 | 11.3 | |

Source: Company, Anand Rath Research

Fig 10 – One-year-forward P/E (average 13x)



Source: Company, Anand Rathi Research

Risks

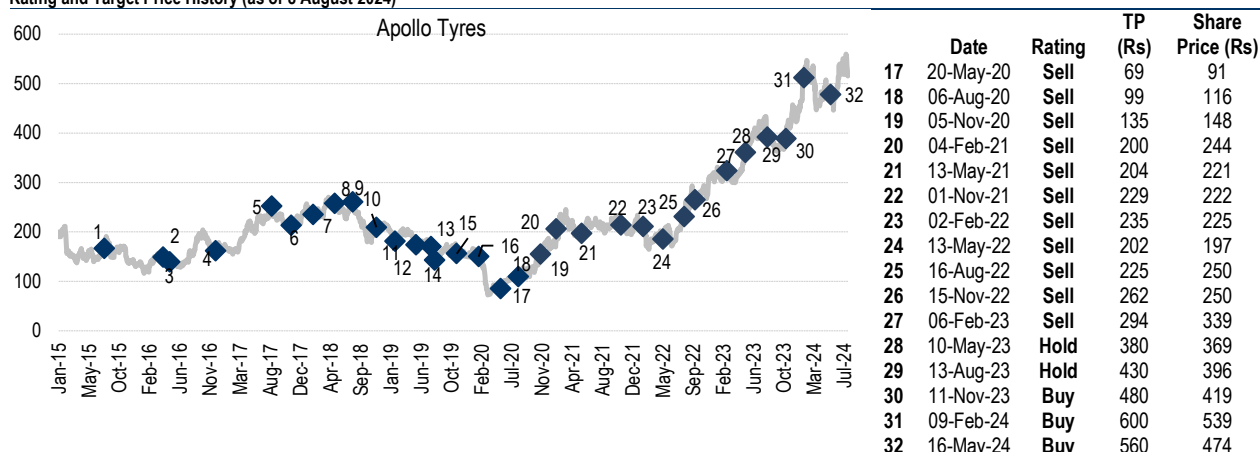
- Less-than-expected volume growth.
- Increase in commodity prices.
- Keener competition.

Appendix

Analyst Certification

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| | Buy | Hold | Sell |
|------------------------------------|------|-------|------|
| Large Caps (Top 100 companies) | >15% | 0-15% | <0% |
| Mid Caps (101st-250th company) | >20% | 0-20% | <0% |
| Small Caps (251st company onwards) | >25% | 0-25% | <0% |

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