

# Apollo Tyres (APTY IN)

## Raw material inflation remains a risk

### INDIA | AUTOMOBILES | Quarterly Update

05 August 2021

#### Top takeaways from Q1FY22

- ⇨ Consolidated revenue Rs 45.8bn was up 59% YoY on a low base, slightly ahead of our estimates; down 9% QoQ on due to covid second wave
- ⇨ Consolidated EBITDA at Rs 5.7bn up 139% YoY but down 30% QoQ due to higher raw material costs and operating leverage, partially offset by cost savings
- ✖ As a result, EBITDA margin was 12.4% up 410bps YoY and down 380bps QoQ, below our estimate of 14.1%
- ⇨ Standalone revenues were up 81% YoY with EBITDA margin of 10.4%
- ✓ Europe business revenue was up 25% YoY at EUR 114mn

**Key highlights:** Consolidated net debt increased to Rs 48bn vs Rs 42bn at the end of FY21. Net debt to EBITDA declined to 1.6x vs 1.5x last quarter

#### Conference call takeaways

- ✓ Company took 3-4% price increase in Q1 and has taken another hike in July
- ✓ Management is targeting mid-single digit margins for the consolidated business
- ✓ Greater thrust on exports was able to offset some of the domestic business in the quarter
- ✓ Share of UHP/UUHP tyres in Europe went up marginally to 38%
- ⇨ Expect 5% increase in RM costs in Q2; would need to take 3-4% increase in prices
- ✓ There was 6-7% increase in RM costs in Europe in Q1 which was offset by favourable mix
- ✓ Benefits of Dutch plant rationalization started flowing through in Q1
- ✓ Demand continues to remain strong across categories except Truck-OEM
- ⇨ Capex for FY22 to be Rs 20bn (18bn for India and 2bn Europe) including expansion in India and mostly maintenance in Europe
- ⇨ Europe revenues impacted by the transition and mould movement from Dutch plant
- ✖ Some fixed overheads and employee costs may go up as AP plant ramps up
- ⇨ Company is targeting exports to be around 15%+ levels
- ⇨ Exports are not as profitable as domestic business as profitability is shared between India and Europe; domestic replacement business being most profitable

#### Outlook and valuation

The demand is picking up post second wave of covid in India, while exports have remained robust. We see pressure on margins from steep rise in commodity prices to continue in the near term as both natural rubber and crude prices remain elevated. Profitability has improved in Europe (post Dutch plant specialization) and demand too is expected to pick up quicker there. That said semiconductor shortage is expected to dampen the demand to an extent on the OEM side. We remain cautious on relatively higher debt and further planned capex of Rs 20bn this year would put pressure on the balance sheet. Stock is currently trading at 12x FY23 EPS (20% above average of last 8 years) which leaves limited scope for re-rating. We temper our estimates slightly in line with Q1 performance. We continue to value the stock at 12x FY23 EPS at Rs 235 and maintain Neutral rating.

## NEUTRAL (Maintain)

CMP RS 222

TARGET RS 235 (+6%)

SEBI CATEGORY: MID CAP

#### COMPANY DATA

O/S SHARES (MN) :	635
MARKET CAP (RSBN) :	141
MARKET CAP (USDBN) :	1.9
52 - WK HI/LO (RS) :	261 / 110
LIQUIDITY 3M (USDMN) :	18
PAR VALUE (RS) :	1

#### SHARE HOLDING PATTERN, %

	Jun 21	Mar 21	Dec 20
PROMOTERS :	37.6	37.3	37.6
DII :	17.2	13.1	15.1
FII :	22.9	24.3	18.8
OTHERS :	22.3	25.3	28.5

#### KEY FINANCIALS

Rs mn	FY21	FY22E	FY23E
Net Sales	170,008	196,832	211,107
EBITDA	24,013	25,287	28,364
Net Profit	4,225	5,536	7,525
EPS, Rs	7	10	13
PER, x	30.1	23.0	16.9
EV/EBITDA, x	6.5	5.7	4.7
PBV, x	1.1	1.0	1.0
ROE, %	4.0	4.7	6.0

#### CHANGE IN ESTIMATES

Rsmn	Revised Est.		% Revision	
	FY22	FY23	FY22	FY23
Revenue	200,363	214,815	4.2%	5.8%
EBITDA	28,817	32,072	-0.3%	2.1%
Core PAT	9,067	11,233	-0.7%	2.3%
EPS (Rs)	15.8	19.6	-0.7%	2.3%

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Rs mn	Q1FY22	Q1FY21	% change	Q4FY21	% change	% vs est.	Comments
<b>Total revenues</b>	<b>45,845</b>	<b>28,734</b>	<b>59.5</b>	<b>50,257</b>	<b>(8.8)</b>	<b>3.3</b>	
CoGS	26,245	16,308	60.9	27,585	(4.9)	5.4	Higher RMC offset mix improvement
Staff costs	6,536	5,370	21.7	6,704	(2.5)	1.6	
Other expenses	7,396	4,684	57.9	7,821	(5.4)	8.7	
<b>EBITDA</b>	<b>5,668</b>	<b>2,373</b>	<b>138.9</b>	<b>8,147</b>	<b>(30.4)</b>	<b>(9.4)</b>	Higher overheads and operating leverage
Interest	1,046	1,172	(10.7)	1,042	0.4	5.7	
Depreciation	3,404	3,091	10.1	3,477	(2.1)	(3.1)	
Other income	405	268	50.7	619	(34.6)	(35.9)	
<b>PBT</b>	<b>1,623</b>	<b>(1,622)</b>	<b>(200.1)</b>	<b>4,246</b>	<b>(61.8)</b>	<b>(31.9)</b>	
Tax	336	(276)	(221.5)	1,361	(75.3)	(44.1)	
<b>Adjusted net profit</b>	<b>1,287</b>	<b>(1,346)</b>	<b>(195.7)</b>	<b>2,885</b>	<b>(55.4)</b>	<b>(27.8)</b>	

## Financials

### Income Statement

Y/E Mar, Rs mn	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>160,965</b>	<b>170,008</b>	<b>196,832</b>	<b>211,107</b>
Growth, %	(6.8)	5.6	15.8	7.3
Other operating income	-	-	-	-
Raw material expenses	90,756	93,945	114,088	121,247
Employee expenses	24,822	25,134	26,740	28,508
Other Operating expenses	28,537	26,917	30,717	32,989
<b>EBITDA (Core)</b>	<b>16,850</b>	<b>24,013</b>	<b>25,287</b>	<b>28,364</b>
Growth, %	0.1	42.5	5.3	12.2
Margin, %	10.5	14.1	12.8	13.4
Depreciation	11,381	13,150	13,743	14,371
<b>EBIT</b>	<b>5,469</b>	<b>10,863</b>	<b>11,544</b>	<b>13,993</b>
Growth, %	(37.2)	98.6	6.3	21.2
Margin, %	3.4	6.4	5.9	6.6
Interest paid	2,808	4,430	4,272	3,945
Other Income	469	1,499	1,474	1,547
Non-recurring Items	-	-	-	-
<b>Pre tax profit</b>	<b>3,129</b>	<b>7,933</b>	<b>8,746</b>	<b>11,596</b>
Tax provided	670	3,598	3,210	4,071
<b>Profit after tax</b>	<b>2,459</b>	<b>4,335</b>	<b>5,536</b>	<b>7,525</b>
Minorities/JV shares	-	-	-	-
<b>Net Profit</b>	<b>2,459</b>	<b>4,225</b>	<b>5,536</b>	<b>7,525</b>
Growth, %	(59.3)	76.3	27.7	35.9
<b>Net Profit (adjusted)</b>	<b>2,459</b>	<b>4,225</b>	<b>5,536</b>	<b>7,525</b>
Unadj. shares (m)	572	572	572	572
Wtd avg shares (m)	572	572	572	572

### Balance Sheet

Y/E Mar, Rs mn	FY20	FY21	FY22E	FY23E
Cash & bank	7,496	22,359	28,771	34,168
Marketable securities at cost	-	-	-	-
Debtors	9,399	13,808	11,534	12,366
Inventory	32,069	33,185	40,314	42,843
Loans & advances	-	-	-	-
Other current assets	5,851	7,534	7,534	7,534
Total current assets	54,815	76,886	88,153	96,911
Investments	194	195	195	195
Gross fixed assets	241,278	264,070	276,070	288,070
<b>Less: Depreciation</b>	<b>(88,928)</b>	<b>(102,078)</b>	<b>(115,821)</b>	<b>(130,191)</b>
Add: Capital WIP	16,420	11,065	11,065	11,065
Net fixed assets	170,904	175,261	173,518	171,147
Non - current assets	6,142	6,103	6,103	6,103
<b>Total assets</b>	<b>232,500</b>	<b>260,634</b>	<b>270,158</b>	<b>276,546</b>
Trade Payables	23,090	28,067	34,383	36,540
Provisions	2,744	2,882	4,026	4,312
Total current liabilities	42,814	64,273	71,733	74,176
Non - current liabilities	108,613	115,388	117,848	115,292
Total liabilities	189,686	196,361	198,425	202,370
Paid - up capital	572	635	635	635
Reserves & surplus	98,728	113,796	120,861	129,805
Minorities	-	-	-	-
Shareholders' equity	99,300	114,431	121,496	130,440
<b>Total equity &amp; liabilities</b>	<b>232,500</b>	<b>260,634</b>	<b>270,158</b>	<b>276,546</b>

### Cash Flow

Y/E Mar, Rs mn	FY20	FY21	FY22E	FY23E
Pre-tax profit	5,434	5,612	12,277	15,303
Depreciation	11,381	13,150	13,743	14,371
Chg in working capital	7,996	4,616	1,461	(1,204)
Total tax paid	(925)	(2,035)	(3,210)	(4,071)
<b>Cash flow from operating activities</b>	<b>25,174</b>	<b>24,469</b>	<b>28,543</b>	<b>28,344</b>
Capital expenditure	(28,361)	(11,902)	(12,000)	(12,000)
Chg in investments	-	-	-	-
Chg in marketable securities	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(27,959)</b>	<b>(23,443)</b>	<b>(12,000)</b>	<b>(12,000)</b>
Free cash flow	(578)	3,446	19,247	18,904
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	-	-	-	-
<b>Cash flow from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net chg in cash	(2,785)	1,026	16,543	16,344

### Valuation Ratios

	FY20	FY21	FY22E	FY23E
<b>Per Share data</b>				
EPS (INR)	4.3	7.4	9.7	13.2
Growth, %	(39.2)	71.8	31.0	35.9
Book NAV/share (INR)	173.6	200.0	212.4	228.0
FDEPS (INR)	4.3	7.4	9.7	13.2
CEPS (INR)	24.2	30.4	33.7	38.3
CFPS (INR)	44.0	42.8	49.9	49.5
DPS (INR)	-	-	-	-

### Return ratios

Return on assets (%)	1.1	1.7	2.1	2.8
Return on equity (%)	2.5	4.0	4.7	6.0
Return on capital employed (%)	2.5	3.4	4.2	5.0
ROIC (%)	2.4	3.4	4.3	5.4

### Turnover ratios

Asset turnover (x)	1.0	1.0	1.1	1.2
Sales/Net FA (x)	0.9	1.0	1.1	1.2
Working capital/Sales (x)	13.4	13.5	12.0	9.3
Receivable days	23.7	24.9	23.5	20.7
Inventory days	134.5	126.8	117.6	125.2
Payable days	91.6	99.4	99.9	106.8
Working capital days	27.2	27.1	30.4	39.3

### Liquidity ratios

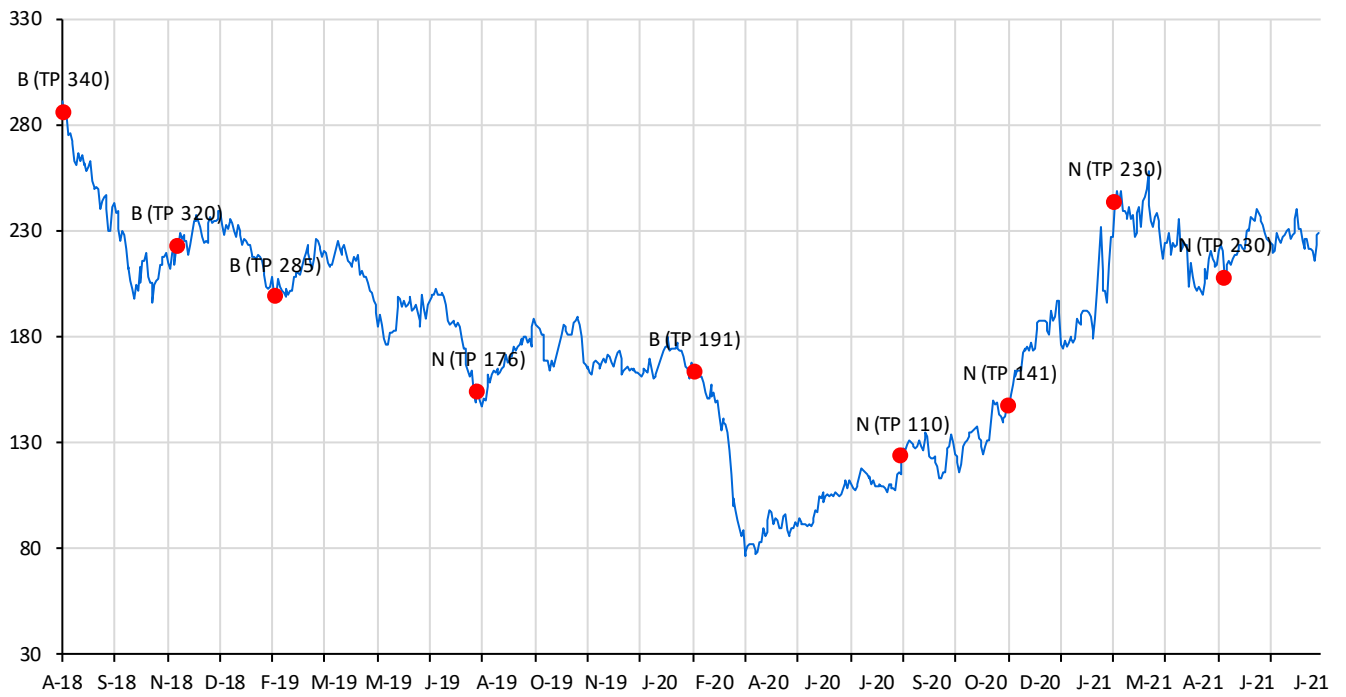
Current ratio (x)	1.3	1.2	1.2	1.3
Quick ratio (x)	0.1	0.2	0.2	0.3
Interest cover (x)	1.9	2.5	2.7	3.5
Total debt/Equity (x)	66.3	44.7	38.0	31.5
Net debt/Equity (x)	58.7	25.1	14.3	5.3

### Valuation

PER (x)	51.7	30.1	23.0	16.9
PEG (x) yoy growth	(1.3)	0.4	0.7	0.5
Price/Book (x)	1.3	1.1	1.0	1.0
EV/Net sales (x)	1.2	0.9	0.7	0.6
EV/EBITDA (x)	11.0	6.5	5.7	4.7
EV/EBIT (x)	33.9	14.4	12.5	9.6

Source: Company, PhillipCapital India Research

### Stock Price, Price Target and Rating History



Source: PhillipCapital India Research

## Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

### Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$(10\% > \text{to} < +10\%)$	Target price is less than +10% but more than (10%
SELL	$\leq (10\%)$	Target price is less than or equal to (10%.

### Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$(15\% > \text{to} < +15\%)$	Target price is less than +15% but more than (15%
SELL	$\leq (15\%)$	Target price is less than or equal to (15%.

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