Raj Soni 04-04-2023

Apollo Tyres

Price: 322.8 **Target: 425** **Recommendation: Buy**

Stock details:

Industry:	Tyres and rubber product
Mcap(Cr):	10191.59
Face value:	1.00
52 week hi/lo:	343/167.15
CMP:	322.8

Source: Yahoo finance

Key financials:

INR in crores	FY22	FY23E	FY24E
Revenue	20947.6	22773	24410.4
Gross margin (%)	58.78	58.68	56.72
EBITDA	2697.6	3084	3785.03
PAT	638.41	783.6	1084.2
EPS	10	12.3	17
ROE (%)	5.4	6.3	8
ROCE (%)	6.7	8.9	10.7
P/E (x)	19	25	18.5
EV/EBITDA	6.3	5.5	4.4
Debt/Asset	0.3	0.3	0.3

Source: Company

Shareholding pattern (%)

Holding	Mar22	Jun22	Sep22	Dec22
Promoters	37.34%	37.34%	37.34%	37.34%
FII	19.43%	20.71%	21.75%	22.88%
DII	20.12%	19.04%	19.45%	18.7%
Public	23.05	22.85%	21.4%	21.02%

Source: money control

Performance history

Returs (%)	1M	6M	1Y	5Y
Apollo Tyres	-1.87%	11.34%	64.66%	16.2%
Nifty	-2.12%	-0.08%	-2.39%	65.32%

Source: Google finance

Apollo Tyres is in the business of manufacturing and sale of tyres. It's headquarter is in Gurgaon, India and operations spread all across the globe. The product portfolio consists of tyres of passenger car, sports utility vehicle, multi utility vehicle, light truck, truck-bus, agriculture, industrial, speciality, bicycle and off highway tyres, retreading material and tyres, alloy wheels and two-wheeler tyres. As per the company, Apollo Tyres stands #1 in Truck & Bus and Passenger vehicle segment and enjoys good market share in various segments.

The positive outlook on the company is determined by prospective growth in the international market, especially in the Truck & Bus segment, estimated reduction in the raw material cost and strong growth in OEM segment. The Company has partnered with the Government of India in developing new Natural Rubber plantations. 30MW off site solar plant and 5MW hybrid off site power plant is being installed. 14MW on site roof top solar plant also initiated in this year. Usage of Briquette as an alternate fuel in place of coal is initiated in this year to reduce carbon emission and operational cost.

I initiate coverage on Apollo Tyres with a BUY rating with a target of Rs 425 (valued the stock at FY23(E) PE of 25 x FY24E). It is estimated that the net profit of the company will grow at the rate of 18% 3-year CAGR I believe the energy and rubber plantation will enable Apollo tyres to reduce cost in the future and it will pass on to the consumers the recent price increase in raw materials cost. Apollo has strong brand value and good market share in India, its brand Vredestein has also maintained brand image in the European market and strong growth is expected in the TBB segment and OEM market.

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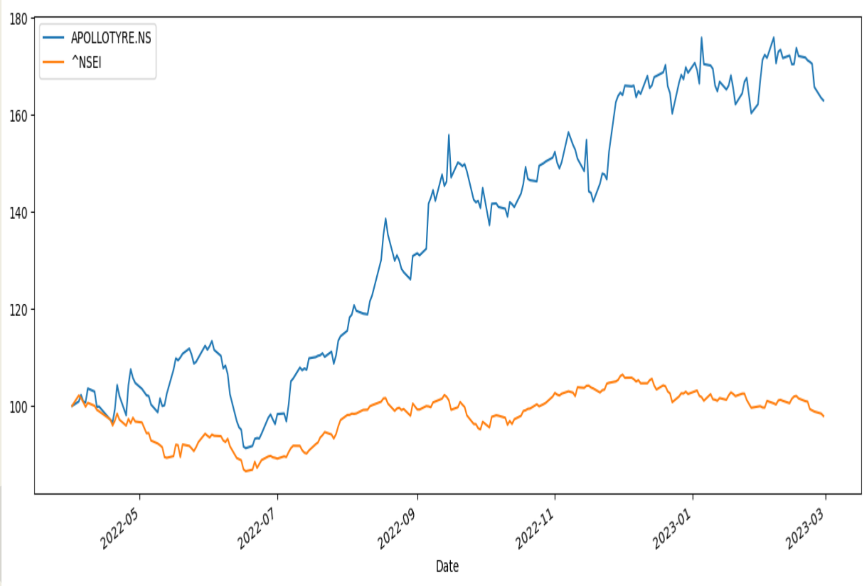
Business Background

Apollo Tyres manufactures tyres for variety of segments with a wide global presence. It has 7 manufacturing plants across Europe and India and 2 global R&D centres. It has two product brands namely Apollo Tyres and Vredestein Tyres. It's OEM partners include Audi, BMW, Ford, Tata, Bentley and many other renowned companies across the globe.

- **Huge global presence**: The business presence is across 100 countries. Its gaining footprints in Europe and North America, having one of it's two R&D centres in the Netherlands and 2 manufacturing centres in Europe.
- Network of around 7000 dealers in the European market.
- 11 European National Sales Offices with sales personnel and local distribution warehouses. It has further enhanced its presence through acquisition of Reifencom which operates across 6 countries in Europe and has 37 stores in Germany.
- **Strong market share in India**: It commands a leadership in the commercial vehicle segment in India, with a market share of approx. 30%.
- It is one of the leading players in India in the passenger vehicle segment with approx. 20% market share.
- Entered 2-wheeler segment in 2016 and consistently working towards gaining the market share. It Is working on two fronts, by focusing on premium end and outsourcing production for commuter sizes to establish market presence.

Apollo V/s Nifty 1 year performance:



Source: Yahoo finance

Key points for the business:

- **Growth drivers** – Business has gained momentum after reduced impact of Covid-19. Demand has started picking up to pre-covid levels.
- Currently approx. 81% of revenue is generated from replacement market. A strong push-back is expected in the Auto segment, which will in turn increase revenue from OEM.
- Sharp increase in raw material cost pushed the revenue downwards. It can be expected that Apollo will pass the cost to consumers, same as the competitors did.
- Market penetration is tough in the 2-wheeler segment and MRF and CEAT enjoy the leadership. However, Apollo maintains its presence through 'Apollo ACTI' series and 'Apollo Alpha'.
- **Strategy** – The company is extensively investing in Research and Development. The focus is on multiple fronts such as electric vehicle segment, premium product range and new generation tyres.
- Another area of focus is on raw material optimisation and sustainability. The company is already working on rubber plantations with major tyre companies and Rubber Board under the Ministry of Commerce.

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- Furthermore, on the digital front, company has launched a Digital Innovation Hub in the UK focusing on New age technologies and enhanced products with the help of Data Scientists, AI and Machine Learning specialists.
- **Economic Outlook** – The chip related issues and covid constraints caused poor growth of Auto industry, resulting in poor growth from OEM segment.
- Like rest of the world, Europe too faced decline in the Auto segment and industry contracted by 24%. However, this was offset by the gains made in replacement market.
- Industry gained momentum from 2^{nd} half of FY21 and PV segment grew by 46%. The Europe also saw robust growth in OEM truck segment.

SWOT analysis:

Strengths –

- Apollo has diverse market base across Asia and Europe. It also offers wide range of products and is now a full range player in the Indian market.
- Enjoys good market share and leadership position in CV and PC segments in India.
- Company has large network of distributors and OEM partners. It has further forayed into the premium OEM segment.
- Apollo tyres has a global and diversified management team. Its focus on R&D and innovative products enables it to gain market share.
- The company has a good brand value recognised in India and globally. The long heritage of the Vredestein brand in Europe has helped in establishing its presence and enjoy a reasonable premium positioning.

Weakness –

- The rising raw material cost and inability to pass it on to consumers in a timely manner.
- A late entry in the two-wheeler segment in Indian market and high competition from MRF and CEAT tyres.
- High dependence on CV segment.

Opportunities –

- To gain a larger market share in the two-wheeler segment in India.
- Scale up operations in Hungary plant and establish a strong presence in the Europe.
- With the premium positioning in Europe, the company has better prospects for improving its product mix towards a more profitable premium car tyre segment.
- To cover new geographical areas where it has already established its presence, such as North America and Middle east.
- Anti-dumping measures in EU against Chinese imports will support the expansion of Apollo's truck tyre footprint.

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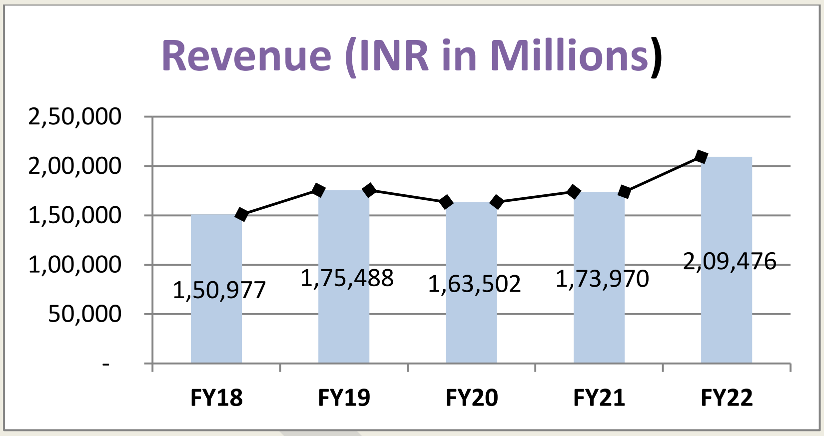
Threats-

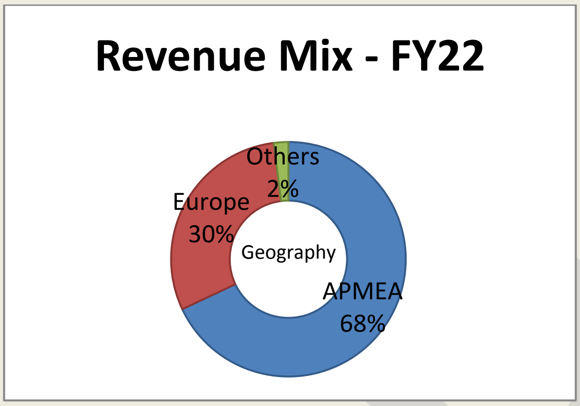
- Economic downturn and reduced demand from the OEM segment.
- Rising Covid cases negatively impacting the industry and raw material prices overall.
- Competition from established market players in the PCR and TBR segment.

Revenue growth over the years:



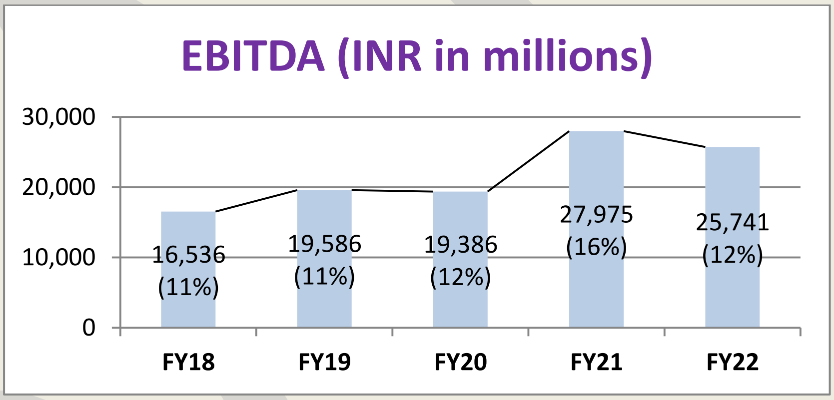
Source: Company

Revenue Mix:



Source: Company

EBITDA margins:



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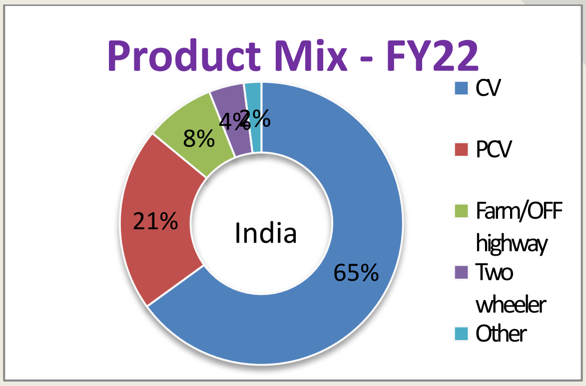

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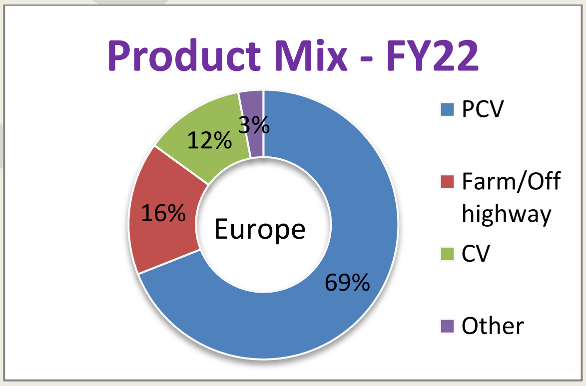

Source: Company

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Key managerial persons:

Onkar Kanwar	**Chairman**
Neeraj Kanwar	Vice Chairman % Managing Director
Satish Sharma	APMEA operations
Benoit Rivallant	European operations
Daniele Lorenzetti	Research & Technology
Gaurav Kumar	Finance & Legal
K Prabhakar	Projects
Hizmy Hassen	Digitalization & IT
Yoichi Sato	Quality, Health, Safety & Environment
Sunam Sarkar	Sustainibility, HR, Communications, Procurement & Supply chain
P K Mohamed	Technology (Advisor)
Pedro Matos	Global programme management and European OE business

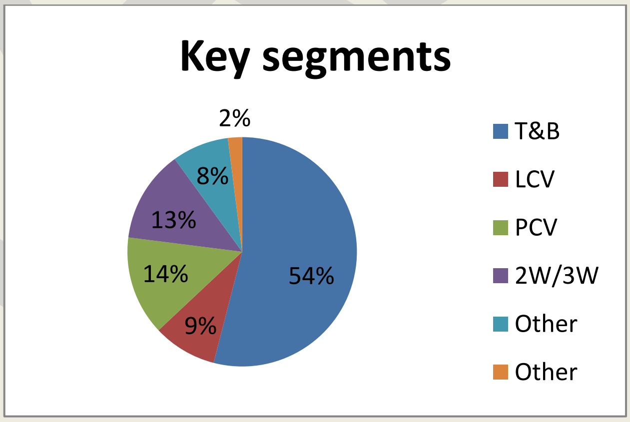
Top Marquee Shareholders as on 31st March 2022

Shareholder	% Holding
Warburg Pincus Affiliates	18%
HDFC Trustee Company Ltd	8.3%
ICICI Prudential Asset Management Co. Ltd	1.4%
HDFC Life Insurance Company Ltd	1.2%
Franklin Templeton Asset Management (India) Pvt. Ltd	1.1%

Source: Company

Industry Outlook:

- With a CAGR of just 3% between FY11- FY 21, the tyre industry has witnessed an erratic growth.
- The slow growth in Auto industry has also negatively impacted Tyre industry, as it is directly dependent on the OEM and replacement market.
- Post 2nd half of FY21, the industry saw a strong demand from commercial vehicle and passenger vehicle segment. India continued to be the biggest two-wheeler tyre market in the world.
- Though tyre supply to OEM recorded a decline in Europe, the high value OEM truck segment saw robust growth of 25% at the end of FY21.
- Despite strong growth momentum, the tyre industry had to grapple with margin pressure, as they witnessed a sharp 30% escalation in their overall raw material costs.



Source: MOSL

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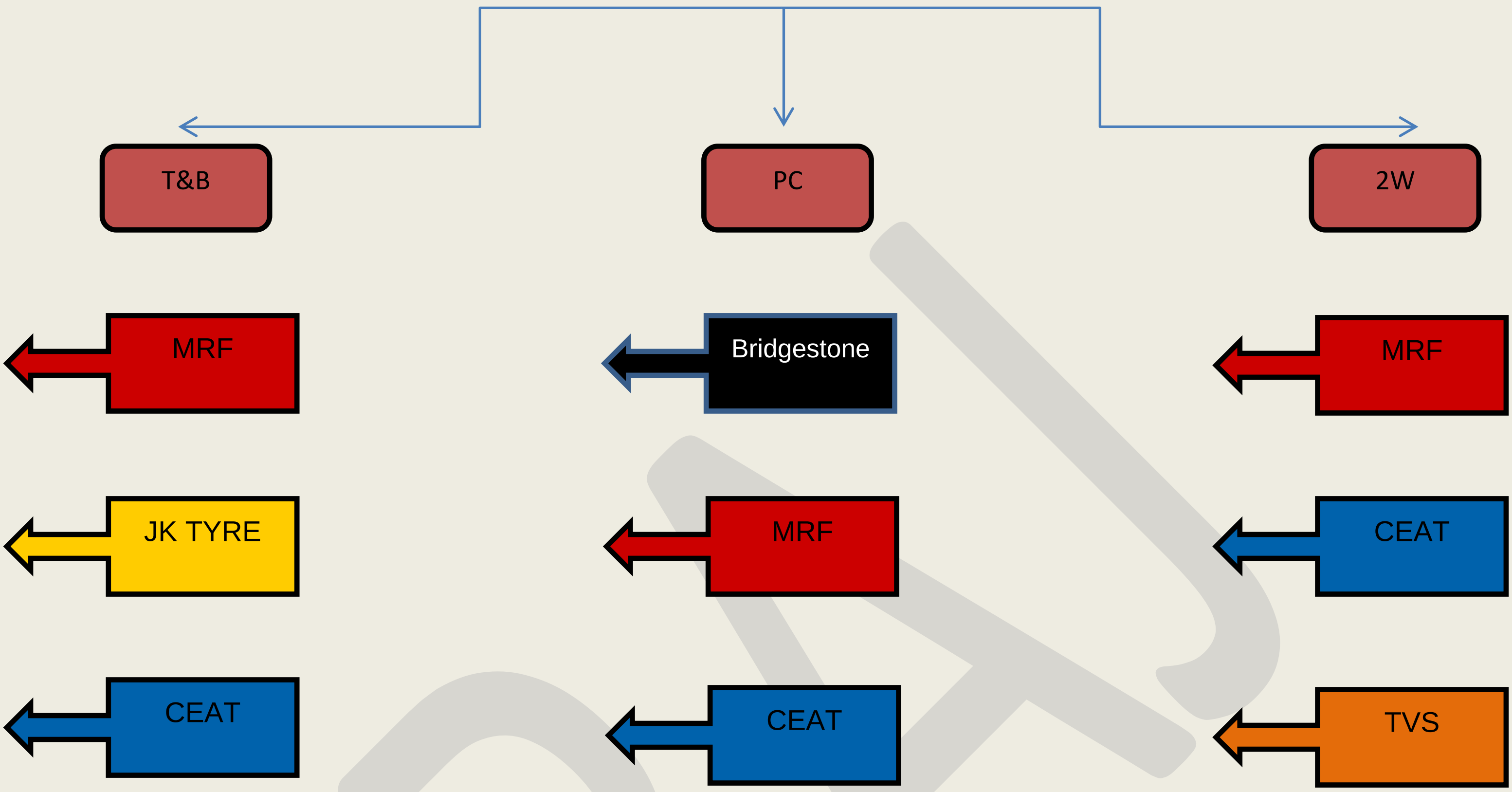
Key competitors



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Operating Metrics:

Particulars (INR in millions)	FY20	FY21	FY22	FY23(E)	FY24(E)
Standalone					
Truck & Bus	68,246	70,329	93,556	99,169	105,120
y-o-y growth		*3.05%*	*33%*	*6%*	*6%*
PCR	19,499	19,927	30,226	32,644	35,255
y-o-y growth		*2.2%*	*51.7%*	*8%*	*8%*
Farm/Off highway	11,916	16,410	14,393	17,272	18,999
y-o-y growth		*37.7%*	*-12.3%*	*20%*	*10%*
Others	8,666	8,083	5,757	6,103	6,469
y-o-y growth		*-6.7%*	*-28.8%*	*6%*	*6%*
Total standalone	**108,327**	**114,750**	**143,932**	**155,188**	**165,843**
Europe					
PCR	32,859	34,487	36,225	38,399	40,702
y-o-y growth		*5%*	*5%*	*6%*	*6%*
Farm/Off highway	6,655	6,383	8,420	9,262	10,188
y-o-y growth		*-4%*	*32%*	*10%*	*10%*
CV	3,080	3,887	3,933	4,719	5,191
y-o-y growth		*26.2%*	*1.2%*	*20%*	*10%*
Others	1,061	1,697	1,966	2,163	2,379
y-o-y growth		*60%*	*15.8%*	*10%*	*10%*
Other	11,288	12,766	15,000	18,000	19,800
Consolidated Revenue	**163,270**	**173,970**	**209,476**	**227,730**	**244,103**
y-o-y growth		*6.5%*	*20.4%*	*8.7%*	*7.2%*

Financials:

Consolidated Income statement

Particulars (INR in millions)	FY20	FY21	FY22	FY23(E)	FY24(E)
Income from operations	163,270	173,970	209,476	227,730	244,103
Other income	469	1,294	1,235	1,235	1,235
Total income	**163,739**	**175,264**	**210,711**	**228,965**	**245,338**
COGS	(90,756)	(93,945)	(123,855)	(134,361)	139,139
Gross margin	55.4%	53.6%	58.8%	58.7%	56.7%
Operating expenses	(53,359)	(52,050)	(59,880)	(63,764)	(68,349)
EBITDA	**19,624**	**29,268**	**26,976**	**30,840**	**37,850**
Depreciation	(11,381)	(13,150)	(13,997)	(15,386)	(17,693)
EBIT	**8,243**	**16,119**	**12,979**	**15,454**	**20,157**
Interest expenses	(2,808)	(4,430)	(4,445)	(3,930)	(4,213)
Extraordinary items	0	6,077	59	0	0
EBT	**5,434**	**5,612**	**8,475**	**11,524**	**15,945**
Taxes	(670)	(2,110)	(2,091)	(3,688)	(5,102)
Net income	**4,764**	**3,502**	**6,384**	**7,836**	**10,842**

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Consolidated Balance sheet

Particulars (INR in millions)	FY20	FY21	FY22	FY23(E)	FY24(E)
Shareholder's equity	99,300	114,431	117,521	125,358	136,200
Long term Financial liabilities	51,479	47,895	44,085	47,926	51,372
Lease liabilities	10,236	9,279	8,673	9,396	9,396
Provisions	4,421	4,440	4,658	4,507	4,507
Trade payables	23,090	28,067	36,069	37,818	39,163
Other liabilities	18,037	27,840	28,614	30,903	33,125
Other Financial liabilities	25,936	28,400	27,430	29,820	31,964
Total liabilities & Equities	**232,500**	**260,353**	**267,050**	**285,728**	**305,727**
PP&E	134,734	145,242	158,071	164,816	170,197
Intangible assets	9,728	9,848	9,531	9,531	9,531
Right of use assets	10,223	9,105	8,311	9,213	8,877
Capital work-in-progress	16,219	11,065	6,182	3,091	1,546
Financial assets	3,061	8,127	10,534	7,241	7,241
Inventory	32,069	33,185	41,554	46,673	48,332
Trade receivables	9,399	13,808	16,104	16,231	17,398
Other assets	9,571	8,513	5,956	10,323	9,984
Cash and equivalents	7,496	21,458	10,807	18,610	32,623
Total assets	**232,500**	**260,353**	**267,050**	**285,728**	**305,727**

Consolidated Cash Flow statement

Particulars (INR in millions)	FY20	FY21	FY22	FY23(E)	FY24(E)
Net profit before tax	5,434	5,612	8,475	11,524	15,945
Add: Depreciation	11,381	13,150	13,997	15,386	17,693
Change in working capital	9,168	(423)	(2,746)	(3,496)	(1,482)
Changes in other assets	(631)	(3,817)	1,379	1,115	2,222
Changes in other liabilities	(585)	8,855	390	5,251	4,366
Others	(1,476)	(1,303)	(2,330)	(1,235)	(1,235)
Finance cost	2,808	4,430	4,445	3,930	4,213
Less: Tax	(925)	(2,035)	(1,222)	(3,688)	(5,102)
Cash flow from operations	**25,174**	**24,469**	**22,388**	**28,787**	**36,620**
Purchase of PP&E	(28,361)	(11,902)	(18,462)	(22,130)	(23,074)
Investments	172	(12,208)	6,165	0	0
Interest income	230	667	482	400	400
Cash flow from Investing activities	**(27,959)**	**(23,443)**	**(11,815)**	**(21,730)**	**(22,674)**
Issue of shares	0	10,800	0	0	0
Net changes in debt	13,683	(3,222)	(2,815)	3,842	3,446
Lease liabilities	(6,941)	(2,626)	(2,694)	(2,600)	(2,600)
Interest	(2,232)	(3,407)	(4,022)	(3,930)	(4,213)
Dividend	0	0	(2,222)	0	0
Cash flow from Financing activities	**4,510**	**1,545**	**(11,753)**	**(2,688)**	**(3,367)**
Opening cash balance	**4,622**	**6,347**	**8,918**	**7,738**	**12,107**
Closing cash balance	**6,347**	**8,918**	**7,738**	**12,107**	**22,686**

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Ratios

Particulars (INR in millions)	FY20	FY21	FY22	FY23(E)	FY24(E)
EPS	7.5	5.5	10	12.3	17
P/E	10	42	19	25	18.5
EV/EBITDA	5.2	5.8	6.3	5.5	4.4
ROE	4.8%	3.1%	5.4%	6.3%	8%
ROCE	4.7%	8.3%	6.7%	8.9%	10.7%
ROA	2%	1.3%	2.4%	2.7%	3.5%
Fixed asset turnover	1	1	1.1	1.2	1.2
Inventory (days)	127	127	121	125	125
Debtor (days)	21	29	28	26	26
Creditor (days)	92	108	105	101	101
Current ratio	1.4	1.4	1.2	1.3	1.5
Debt/Equity	0.8	0.7	0.6	0.6	0.6
Gross profit margin (%)	55.4%	53.6%	58.8%	58.7%	56.7%
Operating profit margin (%)	5%	9.3%	6.2%	6.8%	8.3%
Net Profit margin (%)	2.9%	2%	3%	3.4%	4.4%

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