

**SELL**

TP: Rs 140 | ▼ 38%

**APOLLO TYRES**

| Auto Components

| 05 August 2021

## Dull quarter; maintain SELL

- Q1 revenue in line but EBITDA margin disappoints at 12.4% due to gross margin pressure and lower operating efficiency
- Expect sustained gross margin stress from rising commodity prices and inability to fully pass on costs
- Maintain SELL with an unchanged Mar'22 TP of Rs 140, set at 16x FY23E EPS

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**Revenue in line:** APTY's Q1FY22 consolidated revenue declined 9% QoQ to Rs 45.8bn, in line with our estimate. India revenue dipped 11% QoQ and Europe sales were flat.

**Gross margin weakens:** Gross margin slipped further by 240bps QoQ to 42.8%, reflecting the sharp increase in rubber and crude oil prices as well as the inability of tyre companies to take sufficient price hikes to negate cost inflation. EBITDA margin contracted 385bps QoQ to 12.4% (13% est.), leading to a 30% QoQ fall in EBITDA to Rs 5.7bn (Rs 6.4bn est.). Adj. PAT stood at Rs 1.3bn with EPS at Rs 2. EBIT margin was at 5.5% (-645bps QoQ) for the India business and 3.9% (-80bps QoQ) for Europe.

**Surge in commodity prices to further undermine margins:** Given the 12% QoQ cost increase in the raw material basket during both Q4FY21 and Q1FY21 (per management), together with the inability of tyre companies to fully pass on the burden, we anticipate gross margin deterioration across the sector in FY22. We bake in a further decline of ~300bps in APTY's FY22 gross margin over FY21, resulting in a weaker operating margin.

**Estimates unchanged:** We maintain our revenue and earnings estimates for FY22/FY23 and introduce forecasts for FY24, projecting a revenue/EBITDA /adj. PAT CAGR of +10%/+2%/-11% for APTY over FY21-FY24. Our FY22/FY23 EPS estimates are at Rs 7.9/Rs 9, which is 50%+ less than consensus. We diverge widely from the street as our gross margin assumptions of 43% for both years are ~200bps below consensus.

**Maintain SELL:** APTY's Q1 gross margin has weakened considerably and we do not see scope for quick recovery in the near term considering the steep increase in input cost and lag in price hikes taken by companies. We maintain our Mar'22 TP of Rs 140, set at an unchanged 16x FY23E EPS, in line with the stock's seven-year average. Reiterate SELL.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	APTY IN/Rs 225
Market cap	US\$ 1.7bn
Free float	62%
3M ADV	US\$ 16.9mn
52wk high/low	Rs 261/Rs 110
Promoter/FPI/DII	41%/23%/17%

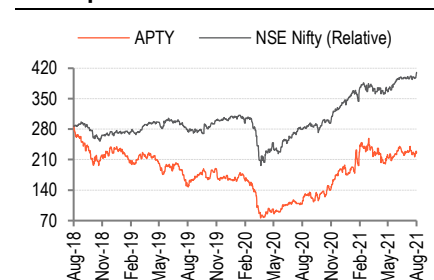
Source: NSE | Price as of 4 Aug 2021

## Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	173,970	194,362	215,347
EBITDA (Rs mn)	27,975	24,288	26,917
Adj. net profit (Rs mn)	9,579	5,031	5,708
Adj. EPS (Rs)	15.1	7.9	9.0
Consensus EPS (Rs)	15.1	14.4	18.0
Adj. ROAE (%)	8.4	3.9	4.3
Adj. P/E (x)	14.9	28.5	25.1
EV/EBITDA (x)	6.4	7.1	6.0
Adj. EPS growth (%)	81.2	(47.5)	13.4

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenues	45,845	28,734	59.5	50,257	(8.8)	173,356	163,270	6.2
<b>Total Income (A)</b>	<b>45,845</b>	<b>28,734</b>	<b>59.5</b>	<b>50,257</b>	<b>(8.8)</b>	<b>173,356</b>	<b>163,270</b>	<b>6.2</b>
<b>Operating Expenses:</b>								
Raw materials consumed	26,245	16,308	60.9	27,585	(4.9)	93,945	90,756	3.5
Employee Expenses	6,536	5,370	21.7	6,704	(2.5)	25,134	24,822	1.3
Other Expenses	7,396	4,684	57.9	7,821	(5.4)	26,917	28,537	(5.7)
<b>Total Expenditure (B)</b>	<b>40,177</b>	<b>26,362</b>	<b>52.4</b>	<b>42,110</b>	<b>(4.6)</b>	<b>145,995</b>	<b>144,115</b>	<b>1.3</b>
<b>EBITDA (A-B)</b>	<b>5,668</b>	<b>2,373</b>	<b>138.9</b>	<b>8,147</b>	<b>(30.4)</b>	<b>27,361</b>	<b>19,155</b>	<b>42.8</b>
Other Income	405	268	50.7	619	(34.6)	1,908	469	306.9
Depreciation	3,404	3,091	10.1	3,477	(2.1)	13,150	11,381	15.5
EBIT	2,669	(450)	NA	5,288	(49.5)	16,119	8,243	95.6
Finance Costs	1,046	1,172	(10.7)	1,042	0.4	4,429	2,808	57.7
PBT before excep items	1,623	(1,622)	NA	4,247	(61.8)	11,690	5,434	115.1
Exceptional loss/ (profit)	(10)	-	NA	13	(176.1)	127	-	NA
PBT after excep items	1,632	(1,622)	NA	4,234	(61.4)	11,562	5,434	112.8
Tax expense	336	(276)	NA	1,361	(75.3)	3,598	670	436.6
Reported PAT	1,297	(1,346)	NA	2,873	(54.9)	7,965	4,764	67.2
<b>Adjusted PAT</b>	<b>1,287</b>	<b>(1,346)</b>	<b>NA</b>	<b>2,885</b>	<b>(55.4)</b>	<b>8,092</b>	<b>4,764</b>	<b>69.9</b>
<b>Adj EPS (Rs)</b>	<b>2.0</b>	<b>(2.1)</b>	<b>NA</b>	<b>4.5</b>	<b>(54.9)</b>	<b>13.9</b>	<b>8.3</b>	<b>67.2</b>

Source: Company, BOBCAPS Research

**Fig 2 – Key parameters – Consolidated**

(%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	42.8	43.2	(49)	45.1	(236)	45.8	44.4	139
EBITDA margin	12.4	8.3	411	16.2	(385)	15.8	11.7	405
EBIT margin	5.8	(1.6)	739	10.5	(470)	9.3	5.0	425
PBT margin	3.5	(5.6)	918	8.5	(491)	6.7	3.3	341
Tax rate	20.6	17.0	353	32.2	(1159)	31.1	12.3	1,878
Adj PAT margin	2.8	(4.7)	749	5.7	(293)	4.7	2.9	175

Source: Company, BOBCAPS Research

**Fig 3 – Region-wise performance – Consolidated**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues</b>								
India	32,735	18,182	80.0	36,876	(11.2)	119,187	112,555	5.9
Europe	14,090	10,903	29.2	14,044	0.3	56,138	52,505	6.9
Other segment	9,987	2,575	287.8	8,872	12.6	25,276	25,781	(2.0)
(less) Intersegment and others	(10,958)	(2,925)	274.6	(9,535)	14.9	(27,245)	(27,571)	(1.2)
<b>Total</b>	<b>45,854</b>	<b>28,734</b>	<b>59.6</b>	<b>50,257</b>	<b>(8.8)</b>	<b>173,356</b>	<b>163,270</b>	<b>6.2</b>
<b>EBIT</b>								
India	1,795	360	398.5	4,400	(24.4)	14,695	8,000	83.7
Europe	544	(902)	(160.3)	648	(45.2)	649	(571)	(213.5)
Other segment	330	91	260.8	240	(5.3)	775	814	(4.8)
(less) Interest and other expenses	(1,046)	(1,172)	(10.7)	(1,042)	(0.7)	(4,429)	(2,808)	57.7
<b>Total</b>	<b>1,623</b>	<b>(1,622)</b>	<b>(200.1)</b>	<b>4,246</b>	<b>(31.6)</b>	<b>11,689</b>	<b>5,434</b>	<b>115.1</b>
<b>EBIT Margin (%)</b>			<b>(bps)</b>			<b>(bps)</b>		
India	5.5	2.0	350	11.9	(645)	12.3	7.1	522
Europe	3.9	(8.3)	1,213	4.6	(76)	1.2	(1.1)	224
Other segment	3.3	3.5	(25)	2.7	60	3.1	3.2	(9)

Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our revenue and earnings estimates for FY22/FY23 and introduce forecasts for FY24, projecting a revenue/EBITDA /adj. PAT CAGR of +10%/+2%/-11% for APTY over FY21-FY24. Our FY22/FY23 EPS estimates are at Rs 7.9/Rs 9, which is 50%+ less than consensus. We diverge widely from the street as our gross margin assumptions of 43% for both years are ~200bps below consensus.

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**Fig 4 – Key assumptions**

(Rs mn)	FY21	FY22E	FY23E	FY24E
Indian Revenues	119,188	137,410	154,723	169,022
European Revenues	56,754	61,295	66,198	71,494
<b>Total Revenues*</b>	<b>173,970</b>	<b>194,362</b>	<b>215,347</b>	<b>234,227</b>
EBITDA	27,975	24,288	26,917	29,601
EBITDA (%)	16.1	12.5	12.5	12.6
<b>Adj. PAT</b>	<b>3,502</b>	<b>5,031</b>	<b>5,708</b>	<b>6,737</b>
EPS (Rs)	15.1	7.9	9.0	10.6

Source: Company, BOBCAPS Research | \*Includes revenues from other segment and intersegment revenues

**Fig 5 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
CEAT	CEAT IN	SELL	840	15.7	57.5	59.9	7.0	6.8	14
Apollo Tyres	APTY IN	SELL	140	11.3	7.9	9.0	4.0	4.2	16
Balkrishna Inds	BIL IN	SELL	1,550	12.4	64.8	70.3	17.9	16.8	22
MRF	MRF IN	SELL	67,000	15.9	2,769.2	3,080.1	7.7	7.9	22
TVS Srichakra	SRTY IN	SELL	1,200	15.2	78.3	85.2	6.8	7.1	14
JK Tyres	JKI IN	SELL	90	12.8	8.0	12.6	6.6	9.6	7

Source: BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- above-expected volume growth, which can improve profitability and take operating performance ahead of our estimates.
- a meaningful decline in rubber and crude oil prices, which can support operating margin and impact our profit estimates.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Tyres	APTY IN	1.7	225	140	SELL
Balkrishna Industries	BIL IN	6.5	2,496	1,550	SELL
Ceat	CEAT IN	0.7	1,345	840	SELL
Eicher Motors	EIM IN	9.7	2,642	2,200	SELL
Escorts	ESC IN	2.0	1,234	1,350	BUY
GNA Axles	GNA IN	0.1	709	540	HOLD
JK Tyre & Industries	JKI IN	0.5	157	90	SELL
Minda Corporation	MDA IN	0.4	135	140	BUY
MRF	MRF IN	4.6	80,453	67,000	SELL
Swaraj Engines	SWE IN	0.3	1,787	1,600	SELL
TVS Srichakra	SRTY IN	0.2	2,181	1,200	SELL

Source: BOBCAPS Research, NSE | Price as of 4 Aug 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>163,270</b>	<b>173,970</b>	<b>194,362</b>	<b>215,347</b>	<b>234,227</b>
EBITDA	19,155	27,975	24,288	26,917	29,601
Depreciation	11,381	13,150	14,466	15,770	16,862
EBIT	8,243	16,119	11,222	12,247	13,739
Net interest inc./(exp.)	(2,808)	(4,430)	(3,930)	(3,975)	(3,975)
Other inc./(exp.)	469	1,294	1,400	1,100	1,000
Exceptional items	0	(6,077)	0	0	0
EBT	5,434	5,612	7,292	8,272	9,764
Income taxes	670	2,110	2,260	2,564	3,027
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>4,764</b>	<b>3,502</b>	<b>5,031</b>	<b>5,708</b>	<b>6,737</b>
Adjustments	0	6,077	0	0	0
<b>Adjusted net profit</b>	<b>4,764</b>	<b>9,579</b>	<b>5,031</b>	<b>5,708</b>	<b>6,737</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	23,090	28,067	28,804	29,459	31,874
Other current liabilities	16,980	33,324	30,722	34,607	37,699
Provisions	4,421	4,440	5,340	5,972	6,551
Debt funds	65,799	51,114	52,302	52,302	52,302
Other liabilities	15,433	20,047	20,047	20,047	20,047
Equity capital	572	635	635	635	635
Reserves & surplus	98,728	113,796	127,552	130,691	134,396
Shareholders' fund	99,300	114,431	128,187	131,326	135,031
<b>Total liab. and equities</b>	<b>225,023</b>	<b>251,424</b>	<b>265,403</b>	<b>273,714</b>	<b>283,505</b>
Cash and cash eq.	7,496	21,457	16,326	15,741	16,447
Accounts receivables	9,399	13,808	14,577	16,151	17,567
Inventories	32,069	33,185	38,872	41,993	45,674
Other current assets	8,282	7,534	9,718	9,691	10,540
Investments	194	1,096	1,096	1,096	1,096
Net fixed assets	154,484	164,196	175,729	181,959	185,097
CWIP	16,420	11,065	10,000	8,000	8,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(7,032)	(7,020)	(7,020)	(7,020)	(7,020)
Other assets	3,711	6,103	6,103	6,103	6,103
<b>Total assets</b>	<b>225,023</b>	<b>251,424</b>	<b>265,403</b>	<b>273,714</b>	<b>283,505</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>43,451</b>	<b>38,690</b>	<b>12,422</b>	<b>16,908</b>	<b>18,763</b>
Capital expenditures	(49,352)	(17,506)	(24,935)	(20,000)	(20,000)
Change in investments	(134)	(902)	0	0	0
Other investing cash flows	469	1,294	1,400	1,100	1,000
<b>Cash flow from investing</b>	<b>(49,017)</b>	<b>(17,114)</b>	<b>(23,535)</b>	<b>(18,900)</b>	<b>(19,000)</b>
Equities issued/Others	0	10,514	10,737	0	0
Debt raised/repaid	16,494	(14,684)	1,188	0	0
Interest expenses	(2,808)	(4,430)	(3,930)	(3,975)	(3,975)
Dividends paid	(4,310)	0	(2,012)	(2,568)	(3,032)
Other financing cash flows	(1,941)	985	0	0	0
<b>Cash flow from financing</b>	<b>7,435</b>	<b>(7,615)</b>	<b>5,982</b>	<b>(6,543)</b>	<b>(7,007)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,869</b>	<b>13,960</b>	<b>(5,130)</b>	<b>(8,535)</b>	<b>(7,244)</b>
<b>Closing cash &amp; cash eq.</b>	<b>7,496</b>	<b>21,457</b>	<b>16,326</b>	<b>15,741</b>	<b>16,447</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	8.3	5.5	7.9	9.0	10.6
Adjusted EPS	8.3	15.1	7.9	9.0	10.6
Dividend per share	3.0	3.5	3.2	4.0	4.8
Book value per share	173.6	180.2	201.9	206.8	212.6

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	1.0	1.0	0.9	0.8	0.6
EV/EBITDA	8.9	6.4	7.1	6.0	4.8
Adjusted P/E	27.1	14.9	28.5	25.1	21.2
P/BV	1.3	1.3	1.1	1.1	1.1

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	87.7	62.4	69.0	69.0	69.0
Interest burden (PBT/EBIT)	65.9	34.8	65.0	67.5	71.1
EBIT margin (EBIT/Revenue)	5.0	9.3	5.8	5.7	5.9
Asset turnover (Rev./Avg TA)	96.5	95.0	100.7	106.6	114.0
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.6	1.6	1.5
<b>Adjusted ROAE</b>	<b>4.8</b>	<b>3.3</b>	<b>4.1</b>	<b>4.4</b>	<b>5.1</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(7.0)	6.6	11.7	10.8	8.8
EBITDA	7.8	46.0	(13.2)	10.8	10.0
Adjusted EPS	(29.9)	81.2	(47.5)	13.4	18.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.7	16.1	12.5	12.5	12.6
EBIT margin	5.0	9.3	5.8	5.7	5.9
Adjusted profit margin	2.9	5.5	2.6	2.7	2.9
Adjusted ROAE	4.8	8.4	3.9	4.3	5.0
ROCE	4.3	5.5	4.0	4.2	4.6
<b>Working capital days (days)</b>					
Receivables	23	24	27	26	26
Inventory	75	68	68	69	68
Payables	91	99	94	87	84
<b>Ratios (x)</b>					
Gross asset turnover	1.5	1.5	1.5	1.5	1.5
Current ratio	1.3	1.2	1.2	1.2	1.2
Net interest coverage ratio	2.9	3.6	2.9	3.1	3.5
<b>Adjusted debt/equity</b>	<b>0.7</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

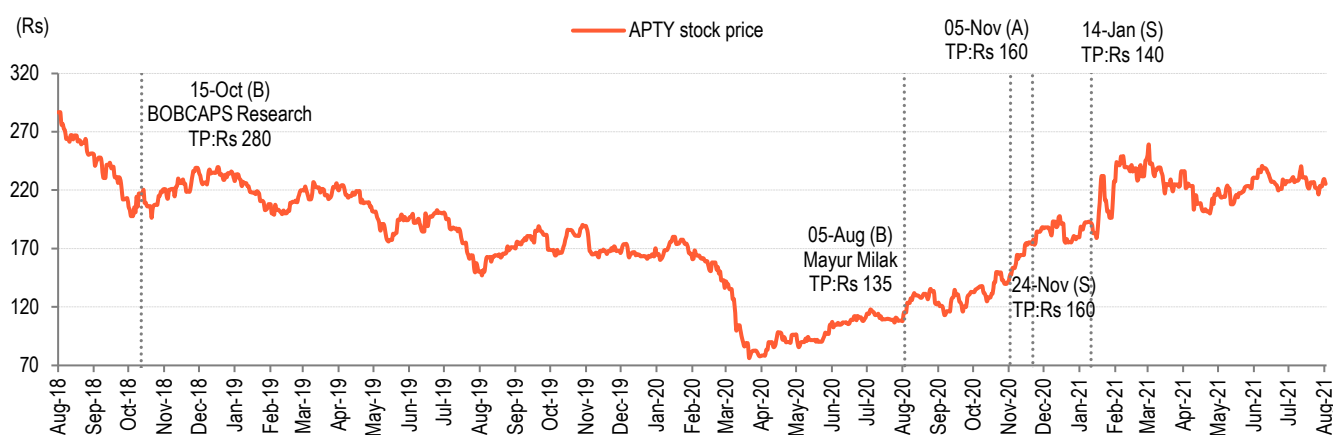
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): APOLLO TYRES (APTY IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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