

ADD

TP: Rs 160 | ▲ 8%

APOLLO TYRES

| Auto Components

| 05 November 2020

Strong Q2; earnings estimates upgraded

Apollo Tyres (APTY) surprised positively on both revenue and earnings in Q2FY21, led by strong replacement demand in Indian markets, better Europe operations and above-expected operating efficiency. Revenue was up 7% YoY and operating margin expanded 540bps YoY. We upgrade FY21/FY22/FY23 earnings by 30%/9%/9% to bake in robust revenue visibility and better margins, yielding a higher Sep'21 TP of Rs 160 (vs. Rs 135). But the 28% rally over the past three months limits upsides, leading to our downgrade from BUY to ADD.

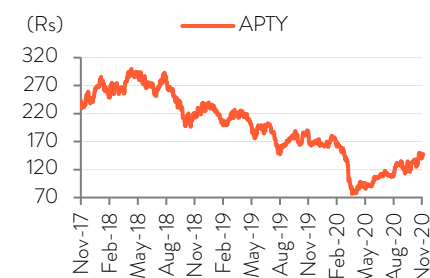
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Strong operating performance: Consolidated Q2FY21 revenue was 10% ahead of our estimate at Rs 42.8bn (+7% YoY), mainly led by better volume growth in the replacement segment and revenue from European operations. Higher operating efficiencies further augmented EBITDA margins which expanded 540bps YoY to 16.2%. Adj. PAT surged 2.4x to Rs 2bn.

Ticker/Price	APTY IN/Rs 148
Market cap	US\$ 1.1bn
Shares o/s	572mn
3M ADV	US\$ 15.2mn
52wk high/low	Rs 182/Rs 73
Promoter/FPI/DII	41%/23%/17%

Source: NSE

Maintain healthy outlook: Given APTY's product profile spanning MHCV, LCV and PV tyres, strong branding and high exposure to the domestic replacement market, we model for a brisk 8% revenue CAGR over FY20-FY23. With lower borrowings than earlier planned, we expect a healthy balance sheet position. This will not only assist return ratios (ROE to improve from 3.3% in FY21E to 5.5% by FY23E) but also augment overall earnings.

STOCK PERFORMANCE

Source: NSE

Valuations full, downgrade to ADD: We raise our earnings estimate for FY21 by 30% (on a low base) and for FY22-FY23 by ~9% each, given strong Europe revenue visibility and a better operating margin outlook (estimates raised ~50bps for FY21-FY23). Our Sep'21 TP now stands at Rs 160, set at 16x one-year fwd EPS (vs. 15x earlier). However, the recent ~28% rally in the last three months caps upside potential; we thus downgrade the stock to ADD (vs. BUY).

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	175,488	163,270	159,895	186,584	203,924
EBITDA (Rs mn)	17,762	19,155	21,270	24,610	26,977
Adj. net profit (Rs mn)	6,798	4,764	3,803	5,809	6,825
Adj. EPS (Rs)	15.4	8.3	6.6	9.1	10.7
Adj. EPS growth (%)	(6.1)	(29.9)	(20.2)	37.6	17.5
Adj. ROAE (%)	6.8	4.8	3.3	4.9	5.5
Adj. P/E (x)	9.6	17.7	22.2	16.2	13.8
EV/EBITDA (x)	6.8	6.6	6.4	5.7	5.1

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE – CONSOLIDATED

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Revenues	42,827	39,858	7.4	28,734	49.0	71,561	83,171	(14.0)
Total Income (A)	42,827	39,858	7.4	28,734	49.0	71,561	83,171	(14.0)
Operating Expenses:								
Raw materials consumed	23,014	22,442	2.5	16,308	41.1	39,321	46,967	(16.3)
Employee Expenses	6,233	5,943	4.9	5,370	16.1	11,603	12,361	(6.1)
Other Expenses	6,632	7,154	(7.3)	4,684	41.6	11,316	14,775	(23.4)
Total Expenditure (B)	35,879	35,538	1.0	26,362	36.1	62,241	74,102	(16.0)
EBITDA (A-B)	6,948	4,320	60.8	2,373	192.8	9,320	9,069	2.8
Other Income	384	40	859.9	268	43.2	653	315	107.5
Depreciation	3,308	2,742	20.7	3,091	7.0	6,400	5,415	18.2
EBIT	4,024	1,618	148.6	(450)	NA	3,574	3,969	(10.0)
Finance Costs	1,167	640	82.4	1,172	(0.4)	2,339	1,223	91.2
PBT before excep items	2,857	979	191.9	(1,622)	NA	1,235	2,746	(55.0)
Exceptional loss/ (profit)	59	-	NA	-	NA	59	-	NA
PBT after excep items	2,797	979	185.9	(1,622)	NA	1,176	2,746	(57.2)
Tax expense	798	148	438.9	(276)	NA	522	500	4.4
Reported PAT	1,999	831	140.7	(1,346)	NA	654	2,246	(70.9)
Adjusted PAT	2,059	831	147.9	(1,346)	NA	713	2,246	(68.2)
Adj EPS (Rs)	3.5	1.5	140.7	(2.4)	NA	1.1	3.9	(70.9)

Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS – CONSOLIDATED

(%)	Q2FY21	Q2FY20	YoY (bps)	Q1FY21	QoQ (bps)	H1FY21	H1FY20	YoY (bps)
Gross Margin	46.3	43.7	257	43	302	45.1	43.5	152
EBITDA Margin	16.2	10.8	538	8	796	13.0	10.9	212
EBIT Margin	9.4	4.1	534	(2)	1,096	5.0	4.8	22
PBT Margin	6.7	2.5	422	(6)	1,231	1.7	3.3	(158)
Tax Rate	28.5	15.1	1,339	NA	NA	44.4	18.2	2,619
Adj PAT Margin	4.8	2.1	272	(5)	949	1.0	2.7	(170)

Source: Company, BOBCAPS Research

FIG 3 – REGION WISE PERFORMANCE – CONSOLIDATED

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Revenues (Rs mn)								
India	29,636	28,278	4.8	18,182	63.0	47,818	59,698	(19.9)
Europe	13,722	12,223	12.3	10,903	25.9	24,624	24,611	0.1
Other Segment	5,850	8,401	(30.4)	2,575	127.2	8,425	14,899	(43.5)
(less) Intersegment and others	(6,381)	(9,043)	NA	(2,925)	NA	(9,306)	(16,038)	NA
Total	42,827	39,858	7.4	28,734	49.0	71,561	83,171	(14.0)
EBIT (Rs mn)								
India	4,113	1,780	131.1	360	1,042.2	4,473	4,126	8.4
Europe	(280)	(396)	NA	(902)	NA	(1,181)	(695)	NA
Other segment	191	241	(21.0)	91	108.4	282	502	(43.8)
(less) Interest and other expenses	(1,167)	(647)	NA	(1,172)	NA	(2,339)	(1,187)	NA
Total	2,857	979	191.9	(1,622)	NA	1,235	2,746	NA

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
EBIT Margin (%)			YoY (bps)		QoQ (bps)			YoY (bps)
India	13.9	6.3	758	2.0	1,190	9.4	6.9	244
Europe	(2.0)	(3.2)	120	(8.3)	623	(4.8)	(2.8)	(197)
Others	3.3	2.9	39	3.5	(29)	3.3	3.4	(2)

Source: Company, BOBCAPS Research

FIG 4 – QUARTERLY PERFORMANCE – STANDALONE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Revenues	29,102	27,747	4.9	17,724	64.2	46,826	58,784	(20.3)
Total Income (A)	29,102	27,747	4.9	17,724	64.2	46,826	58,784	(20.3)
Operating Expenses:								
Raw materials consumed	16,808	17,464	(3.8)	10,900	54.2	27,708	37,094	(25.3)
Employee Expenses	2,165	2,004	8.0	1,957	10.6	4,123	4,202	(1.9)
Other Expenses	4,646	5,027	(7.6)	2,961	56.9	7,607	10,629	(28.4)
Total Expenditure (B)	23,619	24,496	(3.6)	15,818	49.3	39,437	51,925	(24.0)
EBITDA (A-B)	5,483	3,252	68.6	1,906	187.7	7,389	6,860	7.7
Other Income	303	15	1927.0	153	98.7	456	230	98.5
Depreciation	1,743	1,486	17.3	1,715	1.7	3,458	2,940	17.6
EBIT	4,043	1,780	127.1	344	1075.7	4,387	4,149	5.7
Finance Costs	1,018	513	98.4	1,028	(1.0)	2,046	967	111.5
PBT before excep items	3,026	1,267	138.8	(684)	NA	2,342	3,182	(26.4)
Exceptional loss/ (profit)	48	-	NA	-	NA	48	-	NA
PBT after excep items	2,977	1,267	134.9	(684)	NA	2,293	3,182	(27.9)
Tax expense	815	270	202.1	(148)	NA	667	686	(2.8)
Reported PAT	2,162	998	116.8	(536)	NA	1,626	2,496	(34.8)
Adjusted PAT	2,211	998	121.6	(536)	NA	1,675	2,496	(32.9)
Adj EPS (Rs)	3.8	1.7	116.8	(0.9)	NA	2.8	4.4	(34.8)

Source: Company, BOBCAPS Research

FIG 5 – KEY PARAMETERS – STANDALONE

(%)	Q2FY21	Q2FY20	YoY (bps)	Q1FY21	QoQ (bps)	H1FY21	H1FY20	YoY (bps)
Gross Margin	42.2	37.1	519	39	374	40.8	36.9	393
EBITDA Margin	18.8	11.7	712	11	809	15.8	11.7	411
EBIT Margin	13.9	6.4	748	2	1,195	9.4	7.1	231
PBT Margin	10.4	4.6	583	(4)	1,426	5.0	5.4	(41)
Tax Rate	27.4	21.3	608	22	576	29.1	21.6	753
Adj PAT Margin	7.6	3.6	400	(3)	1,062	3.6	4.2	(67)

Source: Company, BOBCAPS Research

Earnings call highlights

- As per management, APTY had healthy market share gains of 500bps in passenger car radials (PCR) and 350bps in the truck and bus segment, partly supported by the Indian government's recent ban on tyre imports.
- Volume growth in the Truck-bus segment was at 3% YoY in Q2 while PCR grew 11% YoY.
- APTY have managed to reduced ~15% of fixed costs but expects some costs to reappear as operations expand.
- Management sounded a note of caution on the rising natural rubber prices (at ~Rs 155/kg now), but does not expect this to impact Q3 as the company is holding lower cost inventory.
- APTY added ~350 dealers in India in H1FY21 and a further 200 dealers in Europe.
- Revenue mix in Q2 was as follows – 74% replacement, 16% OEM and 10% exports.
- The company is nearing the peak of its capex cycle with ~Rs 10bn earmarked for FY21 and a further Rs 16bn for FY22 in India operations. For Europe, it expects to incur EUR 25mn/year mainly towards maintenance. Capex incurred in H1FY21 totalled Rs 6bn.

Valuation methodology

We increase our earnings estimate for FY21 by 30% (on a low base) and for FY22-FY23 by ~9% each, given strong Europe revenue visibility and a better operating margin outlook. We expect APTY’s India revenue to register a 10% CAGR over FY20-FY23 and its European subsidiary to grow at 6%. Overall, we project a revenue/EBITDA/PAT CAGR of 8%/12%/13% for the company over FY20-FY23, with operating margins sustaining at ~13% levels.

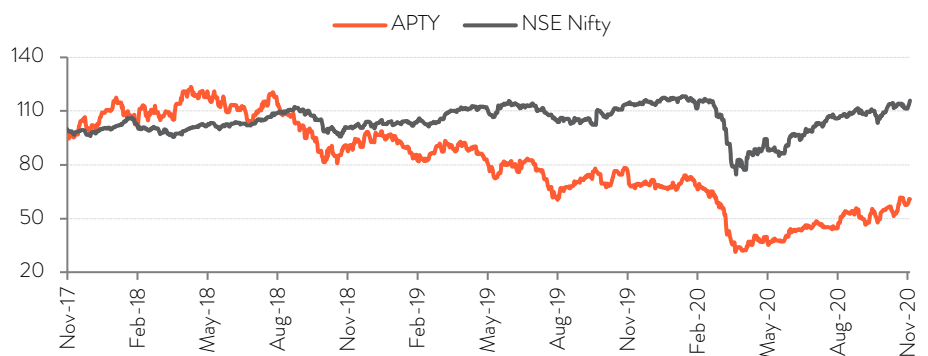
Our revised Sep’21 target price stands at Rs 160 (Rs 135 earlier), set at 16x one-year forward EPS (15x earlier). However, the recent ~28% rally in the last three months caps upside potential; we thus downgrade the stock to ADD (from BUY).

FIG 6 – REVISED ESTIMATES

Change (%)	FY21E	FY22E	FY23E
Revenues	5.1	2.0	2.0
EBITDA	9.6	6.0	5.9
OPM (bps)	55	49	49
Adj. PAT	30.2	8.9	8.7
EPS	30.4	8.9	8.5

Source: Company, BOBCAPS Research

FIG 7 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Below-expected volume growth can hamper profitability and squeeze operating performance.
- A meaningful increase in rubber and crude oil prices can dent operating margins and adversely impact profitability

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	175,488	163,270	159,895	186,584	203,924
EBITDA	17,762	19,155	21,270	24,610	26,977
Depreciation	8,127	11,381	13,177	14,321	15,465
EBIT	10,868	8,243	9,292	11,638	13,012
Net interest income/(expenses)	(1,986)	(2,808)	(4,416)	(4,191)	(4,261)
Other income/(expenses)	1,232	469	1,200	1,350	1,500
Exceptional items	2,000	0	0	0	0
EBT	10,881	5,434	4,876	7,447	8,751
Income taxes	2,083	670	1,073	1,638	1,925
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	8,798	4,764	3,803	5,809	6,825
Adjustments	(2,000)	0	0	0	0
Adjusted net profit	6,798	4,764	3,803	5,809	6,825

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	22,102	23,090	22,657	28,734	26,918
Other current liabilities	8,960	16,980	13,385	19,858	17,319
Provisions	3,466	4,421	4,918	5,586	5,790
Debt funds	49,304	65,799	60,373	59,373	62,373
Other liabilities	7,975	15,433	15,433	15,433	15,433
Equity capital	572	572	572	635	635
Reserves & surplus	99,826	98,728	113,103	118,094	124,032
Shareholders' fund	100,398	99,300	113,676	118,729	124,667
Total liabilities and equities	192,206	225,023	230,442	247,713	252,500
Cash and cash eq.	5,627	7,496	6,296	6,148	4,430
Accounts receivables	11,547	9,399	11,992	13,061	13,255
Inventories	34,841	32,069	31,979	37,317	38,746
Other current assets	5,275	8,282	7,995	9,329	9,177
Investments	60	194	194	194	194
Net fixed assets	117,540	154,484	161,307	170,985	175,520
CWIP	15,393	16,420	14,000	14,000	14,500
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(7,707)	(7,032)	(7,032)	(7,032)	(7,032)
Other assets	9,630	3,711	3,711	3,711	3,711
Total assets	192,205	225,023	230,442	247,713	252,500

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	16,925	16,145	16,981	20,130	22,291
Interest expenses	1,986	2,808	4,416	4,191	(4,261)
Non-cash adjustments	(1,232)	(469)	(1,200)	(1,350)	(1,500)
Changes in working capital	(13,466)	25,253	(5,747)	5,477	(5,622)
Other operating cash flows	(1,929)	(286)	0	0	0
Cash flow from operations	2,284	43,451	14,450	28,448	10,908
Capital expenditures	(13,988)	(49,352)	(17,580)	(24,000)	(20,500)
Change in investments	13,365	(134)	0	0	0
Other investing cash flows	1,232	469	1,200	1,350	1,500
Cash flow from investing	609	(49,017)	(16,380)	(22,650)	(19,000)
Equities issued/Others	0	0	10,800	0	0
Debt raised/repaid	2,693	16,494	(5,426)	(1,000)	3,000
Interest expenses	(1,986)	(2,808)	(4,416)	(4,191)	(4,261)
Dividends paid	(2,069)	(4,310)	(228)	(755)	(887)
Other financing cash flows	(1,896)	(1,941)	0	0	0
Cash flow from financing	(3,258)	7,435	730	(5,946)	(2,148)
Changes in cash and cash eq.	(365)	1,869	(1,200)	(148)	(10,241)
Closing cash and cash eq.	5,627	7,496	6,296	6,148	4,430

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	15.4	8.3	6.6	9.1	10.7
Adjusted EPS	15.4	8.3	6.6	9.1	10.7
Dividend per share	3.0	3.0	0.4	1.2	1.4
Book value per share	175.5	173.6	198.7	186.9	196.3

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.7	0.8	0.8	0.8	0.7
EV/EBITDA	6.8	6.6	6.4	5.7	5.1
Adjusted P/E	9.6	17.7	22.2	16.2	13.8
P/BV	0.8	0.9	0.7	0.8	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	80.9	87.7	78.0	78.0	78.0
Interest burden (PBT/EBIT)	100.1	65.9	52.5	64.0	67.3
EBIT margin (EBIT/Revenue)	6.2	5.0	5.8	6.2	6.4
Asset turnover (Revenue/Avg TA)	112.9	96.5	86.4	97.4	103.0
Leverage (Avg TA/Avg Equity)	1.6	1.7	1.7	1.6	1.6
Adjusted ROAE	8.9	4.8	3.6	5.0	5.6

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	18.2	(7.0)	(2.1)	16.7	9.3
EBITDA	6.5	7.8	11.0	15.7	9.6
Adjusted EPS	(6.1)	(29.9)	(20.2)	37.6	17.5
Profitability & Return ratios (%)					
EBITDA margin	10.1	11.7	13.3	13.2	13.2
EBIT margin	6.2	5.0	5.8	6.2	6.4
Adjusted profit margin	3.9	2.9	2.4	3.1	3.3
Adjusted ROAE	6.8	4.8	3.3	4.9	5.5
ROCE	5.7	4.3	3.9	4.7	5.1
Working capital days (days)					
Receivables	27	23	24	25	24
Inventory	67	75	73	68	68
Payables	85	91	96	91	91
Ratios (x)					
Gross asset turnover	1.1	1.5	1.6	1.5	1.5
Current ratio	1.7	1.3	1.4	1.2	1.3
Net interest coverage ratio	5.5	2.9	2.1	2.8	3.1
Adjusted debt/equity	0.5	0.7	0.5	0.5	0.5

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

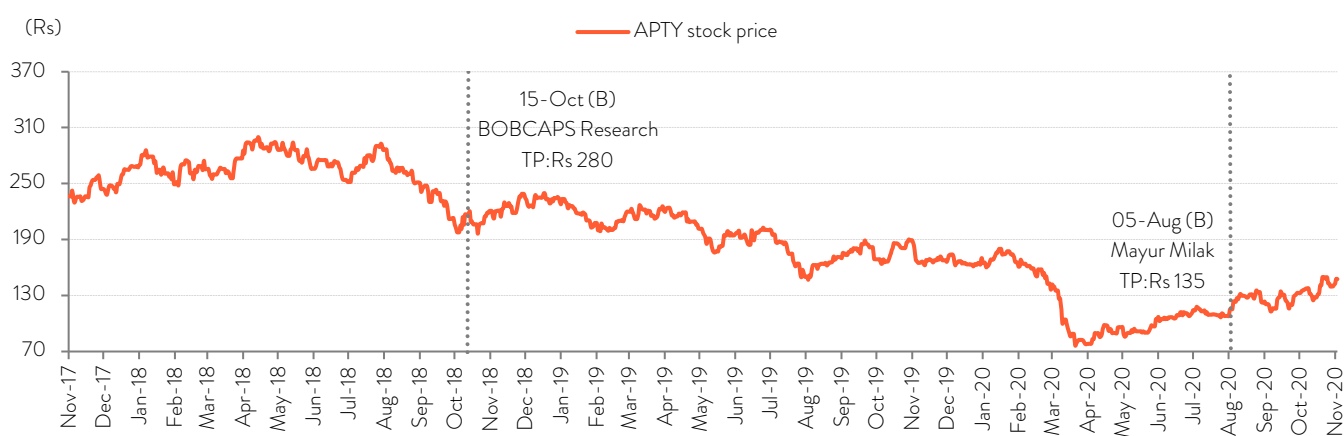
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): APOLLO TYRES (APTY IN)



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

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As of 31 October 2020, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 42 have BUY ratings, 14 have ADD ratings, 10 are rated REDUCE and 22 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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