

# FIRST LIGHT

25 November 2020

## RESEARCH

### Apollo Tyres | Target: Rs 160 | -8% | SELL

Positives priced in; downgrade to SELL

## SUMMARY

### Apollo Tyres

Apollo Tyres (APTY) delivered a Q2FY21 beat and has rallied 40% in the last three months due to domestic volume visibility, a better Europe performance and steady margin outlook. In our view, these positives are priced in even as rising prices of natural rubber (up ~30% over the last three months) and crude derivatives are likely to squeeze margins despite stronger volumes. We find current valuations at 17.4x Sep'22E EPS rich despite our **earnings upgrade post Q2** and cut the stock to SELL from ADD. Our Sep'21 TP stays at Rs 160.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	900
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,180
<a href="#">Tech Mahindra</a>	Buy	980

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Greenply Industries</a>	Buy	150
<a href="#">Laurus Labs</a>	Buy	410
<a href="#">Transport Corp</a>	Buy	300
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.85	3bps	1bps	(90bps)
India 10Y yield (%)	5.90	2bps	6bps	(57bps)
USD/INR	74.10	0.1	(0.7)	(3.3)
Brent Crude (US\$/bbl)	46.06	2.4	10.3	(27.6)
Dow	29,591	1.1	4.4	5.4
Shanghai	3,414	1.1	4.2	17.5
Sensex	44,077	0.4	8.3	7.8
India FII (US\$ mn)	20 Nov	MTD	CYTD	FYTD
FII-D	48.7	95.0	(14,134.7)	(4,375.2)
FII-E	525.9	6,689.5	13,235.9	19,838.9

Source: Bank of Baroda Economics Research

## BOBCAPS Research

research@bobcaps.in



**SELL**

TP: Rs 160 | ▼ 8%

**APOLLO TYRES**

| Auto Components

| 24 November 2020

## Positives priced in; downgrade to SELL

Apollo Tyres (APTY) delivered a Q2FY21 beat and has rallied 40% in the last three months due to domestic volume visibility, a better Europe performance and steady margin outlook. In our view, these positives are priced in even as rising prices of natural rubber (up ~30% over the last three months) and crude derivatives are likely to squeeze margins despite stronger volumes. We find current valuations at 17.4x Sep'22E EPS rich despite our earnings upgrade post Q2 and cut the stock to SELL from ADD. Our Sep'21 TP stays at Rs 160.

Mayur Milak | Nishant Chowhan, CFA

research@bobcaps.in

**Strong volume growth and steady margins already factored in:** We build in volume growth of 13% each in MHCV, LCV & 2W/3W tyres and 16% in PV tyres over FY21-FY23. The spike in natural rubber prices from Rs 120/kg to Rs 155/kg over the last three months is broadly in line with our expectations, though any further price increase is likely to have an adverse impact on margins. We expect India operations to clock a revenue CAGR of 16% and forecast steady overall EBITDA margins at ~13% and an earnings CAGR of 26% for APTY through to FY23.

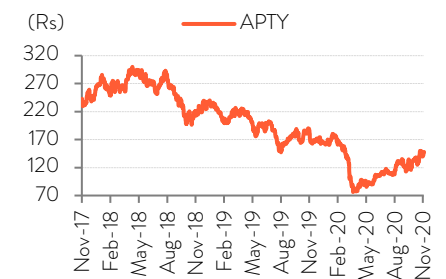
**Leverage, return ratio outlook healthy:** APTY's product profile spanning MHCV, LCV and PV tyres, strong branding and high exposure to the domestic replacement market makes for a healthy growth outlook. With lower borrowings than earlier planned, we expect net debt/equity to remain steady at 0.5x. We also pencil in 100-150bps improvement in ROE and ROCE over FY21-FY23.

**Valuations full, downgrade to SELL:** The stock has rallied 40% during the last three months and is now trading at 17.4x Sep'22E EPS. In our view, most optimism over volumes, margins and Europe sales is in the price. We maintain our TP at 16x Sep'22E EPS but downgrade the stock to SELL (from ADD) on expensive valuations.

Ticker/Price	APTY IN/Rs 174
Market cap	US\$ 1.3bn
Shares o/s	572mn
3M ADV	US\$ 14.7mn
52wk high/low	Rs 182/Rs 73
Promoter/FPI/DII	41%/23%/17%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	175,488	163,270	162,817	188,673	206,034
EBITDA (Rs mn)	17,762	19,155	21,988	24,755	27,090
Adj. net profit (Rs mn)	6,798	4,764	4,364	5,922	6,914
Adj. EPS (Rs)	15.4	8.3	7.6	9.3	10.9
Adj. EPS growth (%)	(6.1)	(29.9)	(8.4)	22.2	16.7
Adj. ROAE (%)	6.8	4.8	3.8	5.0	5.5
Adj. P/E (x)	11.3	20.9	22.8	18.7	16.0
EV/EBITDA (x)	7.6	7.4	6.8	6.3	5.6

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)

### Rating distribution

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.

### Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

#### **Other disclosures**

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.