

Retail Equity Research

Apollo Tyres Limited

Auto Components

BSE CODE: 500877

NSE CODE: APOLLOTYRE

Bloomberg CODE: APTY:IN

SENSEX: 32,201

HOLD

12M Investment period

Rating as per Mid Cap

CMP Rs. 98

TARGET Rs. 105

RETURN 7% ↑

(Closing: 28-05-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Bumpy road ahead for Apollo

Apollo Tyres Limited manufactures tyres and tubes for cars, trucks, farm equipment, and light commercial vehicles. The company markets its products with two global brands: Apollo and Vredestein in APMEA (Asia Pacific, Middle East and Africa) and Europe regions.

- Q4FY20 revenue down 15.5% YoY, while EBITDA margin surprisingly rose higher than expected by 320bps YoY to 13.4% on the back of lower raw material costs and stringent cost controls. PAT declined 7.3% YoY to Rs. 78 cr.
- Demand to remain under pressure throughout FY2021 and will likely result in drop in sales and profits as compared to the fiscal year gone by.
- We remain cautious and retain our HOLD rating on the stock with a revised target price of Rs. 105 based on 10x FY22E adj. EPS.

Margins surprise but fall short of safeguarding bottom-line

Q4FY20 revenue declined 15.5% YoY to Rs. 3,610cr. Region-wise, APMEA revenue declined to Rs. 2,474cr (-50.5% YoY), Europe came in at Rs. 1,164cr (-4.7% YoY), while revenue for other regions was down to Rs. 491cr (-28.5% YoY). EBITDA went up 11.9% YoY to Rs. 475cr, with EBITDA margin improving 320bps YoY to 13.4%, aided by lower rubber and oil prices along with cost control measures adopted by the management. Despite this, PAT went down 7.3% YoY to Rs. 78cr, impacted by higher D&A (+35.6% YoY) and interest costs (+110.2%). Going forward, the company plans to further prune costs to improve its performance.

Key concall highlights

- Management expects tepid growth in demand from OEMs, such as those in the Passenger Vehicle (PV) segment. On the other hand, revival is expected to be better in the aftermarket vertical, especially in Light Commercial Vehicle (LCV) and Infrastructure segments.
- All plants are now operational with varying, but steadily improving levels of utilisation.
- Company saw improvement in sales in the replacement market in May, which are back to 50% of normal.
- Company to launch virtual product over the coming months, instead of in-trade fairs owing to the current COVID-19 situation.

Expansion plans put on hold temporarily

Phase I of Apollo Tyres' greenfield project in the state of Andhra Pradesh is expected to be completed during the current calendar year. Having already spent close to Rs. 2,400cr in FY20 towards this plant, the company has now put further expansion plans on hold, to be resumed later at an appropriate time. Accordingly, the FY21 capex, which was initially planned to be in the range of Rs. 1,700-1,800cr, underwent couple of revisions recently and is now expected to be in the range of Rs. 1,000-1,100cr.

Valuation

Business outlook is expected to remain challenging in the near-term for the company. We expect margins to substantially improve and earnings growth to get back on track next fiscal year, i.e., FY22E onwards. In the interim however, owing to a heavily battered auto industry, the world over demand for tyres is expected to remain subdued. The coming quarter should give us a clearer picture on the demand growth ahead for the remainder of this year. We hereby maintain our HOLD rating on the stock with a revised target price of Rs. 105 based on 10x FY22E adj. EPS.

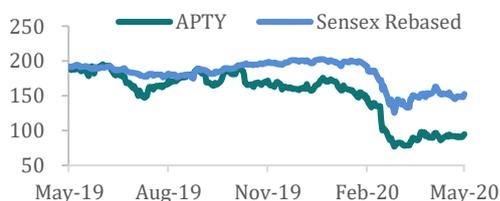
Company Data

Market Cap (cr)	Rs. 5,605
Enterprise Value (cr)	Rs. 12,150
Outstanding Shares (cr)	57.2
Free Float	61.0%
Dividend Yield	3.1%
52 week high	Rs. 206
52 week low	Rs. 74
6m average volume (lacs)	2.5
Beta	0.9
Face value	Rs. 1

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	40.9	40.9	40.9
FII's	23.9	24.9	22.9
MFs/Insti	18.9	18.4	18.8
Public	6.8	6.0	7.4
Others	9.5	9.8	10.0
Total	100.0	100.0	100.0
Promoters' pledge	15.0	15.0	16.3

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-30.0%	-41.5%	-48.6%
Absolute Sensex	-15.9%	-21.7%	-19.0%
Relative Return*	-14.0%	-19.8%	-29.6%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	16,327	15,904	17,890
Growth (%)	(7.0)	(2.6)	12.5
EBITDA	1,916	2,000	2,258
EBITDA Margin (%)	11.7	12.6	12.6
Adj. PAT	476	349	599
Growth (%)	(45.9)	(26.7)	71.6
Adj. EPS	8.3	6.1	10.5
Growth (%)	(45.8)	(26.7)	71.6
P/E	9.5	16.1	9.4
P/B	0.5	0.6	0.5
EV/EBITDA	5.8	6.1	5.2
ROE (%)	4.8	3.5	5.7
D/E	0.7	0.8	0.8

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Revenue	3,610	4,274	(15.5)	4,400	(18.0)	16,327	17,549	(7.0)
EBITDA	475	425	11.9	534	(11.0)	1,916	1,959	(2.2)
EBITDA margins	13.4	10.2	320bps	12.3	110bps	11.9	11.3	60bps
Depreciation	314	231	35.6	283	10.9	1,138	813	40.0
EBIT	161	193	(16.5)	251	(35.6)	777	1,146	(32.2)
Interest	91	43	110.2	67	35.6	281	181	55.1
Other Income	(2)	49	n.m.	18	n.m.	47	123	(61.9)
Exceptional Items	-	(100)	n.m.	-	-	-	(200)	n.m.
PBT	68	98	(31.0)	201	(66.3)	544	888	(38.8)
Tax	(10)	14	n.m.	27	n.m.	67	208	(67.8)
Share of profit from Associate	0	0	n.m.	(0)	n.m.	0	0	n.m.
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	78	84	(7.3)	174	(55.2)	476	680	(29.9)
Adjustments	-	100	n.m.	-	-	-	200	n.m.
Adjusted PAT	78	184	(57.7)	174	(55.2)	476	880	(45.9)
No. of shares	57.2	57.2	-	57.2	-	57.2	57.2	-
EPS (Rs.)	1.4	3.2	(57.6)	3.0	(55.2)	8.3	15.4	(45.8)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E
Revenue	16,658	18,117	15,904	17,890	(4.5)	(1.3)
EBITDA	2,202	2,381	2,000	2,258	(9.2)	(5.2)
Margins (%)	13.2	13.1	12.6	12.6	(62bps)	(48bps)
Adj. PAT	573	793	349	599	(39.1)	(24.5)
EPS	10.0	13.9	6.1	10.5	(39.0)	(24.6)



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	15,095	17,549	16,327	15,904	17,890
% change	6.5	16.3	(7.0)	(2.6)	12.5
EBITDA	1,651	1,959	1,916	2,000	2,258
% change	(10.6)	18.6	(2.2)	4.4	12.9
Depreciation	593	813	1,138	1,350	1,323
EBIT	1,059	1,146	777	650	936
Interest	163	181	281	366	393
Other Income	117	(77)	47	175	225
PBT	1,012	888	544	459	768
% change	(29.5)	(12.3)	(38.8)	(15.5)	67.2
Tax	288	208	67	110	169
Tax Rate (%)	28.5	23.5	12.3	24.0	22.0
Reported PAT	724	680	476	349	599
Adj*	-	200	-	-	-
Adj PAT	724	880	476	349	599
% change	(34.1)	21.5	(45.9)	(26.7)	71.6
No. of shares (cr)	53.9	57.2	57.2	57.2	57.2
Adj EPS (Rs.)	13.4	15.4	8.3	6.1	10.5
% change	(37.8)	14.5	(45.8)	(26.7)	71.6
DPS (Rs.)	3.0	3.3	3.0	3.0	3.0
CEPS (Rs.)	24.4	29.6	28.2	29.7	33.6

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	1,316	1,493	1,615	1,699	1,922
Non-cash adj.	176	78	(14)	(52)	568
Changes in W.C	228	(499)	917	9	(277)
C.F. Operation	1,720	1,071	2,517	1,656	2,213
Capital exp.	(3,067)	(2,274)	(2,806)	(1,007)	(1,230)
Change in inv.	(931)	1,137	(13)	(2)	(3)
Other invest.CF	136	141	23	-	-
C.F - Investment	(3,863)	(996)	(2,796)	(1,009)	(1,233)
Issue of equity	1,476	-	-	-	-
Issue/repay debt	1,161	327	1,127	471	447
Dividends paid	(184)	(207)	(431)	(172)	(172)
Other finance.CF	(132)	(182)	(223)	(366)	(393)
C.F - Finance	2,321	(62)	472	(67)	(117)
Chg. in cash	461	(18)	173	581	863
Closing cash	599	563	750	1,330	2,193

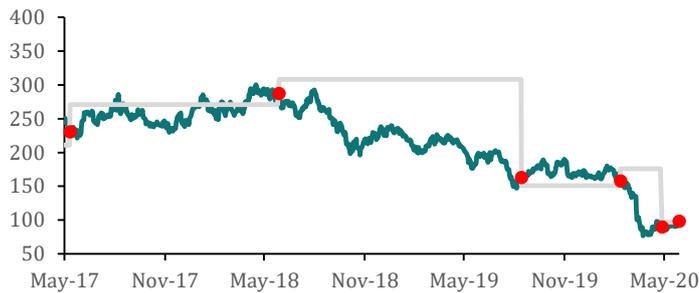
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	599	563	750	1,330	2,193
Accounts Receivable	1,435	1,155	940	898	1,054
Inventories	2,945	3,484	3,207	2,929	3,424
Other Cur. Assets	1,919	527	585	588	594
Investments	3	6	19	24	30
Gross Fixed Assets	16,018	17,800	20,606	21,612	22,842
Net Fixed Assets	9,529	10,884	14,750	14,551	14,581
CWIP	2,268	1,520	1,368	1,231	1,108
Intangible Assets	910	889	973	965	965
Def. Tax (Net)	96	53	45	73	112
Other Assets	448	963	614	633	652
Total Assets	20,153	20,044	23,250	23,221	24,714
Current Liabilities	4,217	3,843	4,281	3,962	4,368
Provisions	76	147	168	173	178
Debt Funds	4,515	4,542	7,405	7,876	8,323
Other Liabilities	1,569	1,472	1,466	1,104	1,310
Equity Capital	57	57	57	57	57
Reserves & Surplus	9,719	9,983	9,873	10,050	10,478
Shareholder's Fund	9,777	10,040	9,930	10,107	10,535
Minority Interest	-	-	-	-	-
Total Liabilities	20,153	20,044	23,250	23,221	24,714
BVPS (Rs.)	181	176	174	177	184

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	10.9	11.2	11.7	12.6	12.6
EBIT margin (%)	7.0	6.5	4.8	4.1	5.2
Net profit mgn.(%)	4.8	3.9	2.9	2.2	3.3
ROE (%)	7.4	6.8	4.8	3.5	5.7
ROCE (%)	7.4	7.9	4.5	3.6	5.0
W.C & Liquidity					
Receivables (days)	34.7	24.0	21.0	20.6	21.5
Inventory (days)	124.3	125.6	129.0	124.1	124.8
Payables (days)	103.3	81.0	92.9	84.6	86.5
Current ratio (x)	1.4	1.4	1.0	1.1	1.3
Quick ratio (x)	0.7	0.4	0.3	0.4	0.6
Turnover & Leverage					
Gross asset T.O (x)	1.1	1.0	0.9	0.8	0.8
Total asset T.O (x)	0.9	0.9	0.8	0.7	0.7
Int. coverage ratio (x)	6.5	6.3	2.8	1.8	2.4
Adj. debt/equity (x)	0.5	0.5	0.7	0.8	0.8
Valuation					
EV/Sales (x)	1.2	0.9	0.7	0.8	0.7
EV/EBITDA (x)	10.8	8.2	5.8	6.1	5.2
P/E (x)	19.3	13.6	9.5	16.1	9.4
P/BV (x)	1.4	1.2	0.5	0.6	0.5

Recommendation Summary



Dates	Rating	Target
18-Jan-17	ACCUMULATE	211
11-May-17	BUY	271
28-May-18	BUY	308
14-Aug-19	REDUCE	151
11-Feb-20	HOLD	176
27-Apr-20	HOLD	97
29-May-20	HOLD	105

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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