

15 November 2018

Apollo Tyres

Growth prospects intact; maintaining a Buy

Rating: **Buy**

Target Price: ₹299

Share Price: ₹223

Continuing robust demand in TBR, likely completion of the European capex phase in this fiscal coupled with buoyancy in demand augurs well for Apollo's growth for the next two years. We maintain our Buy call.

Strong growth in truck radials. With the company's dominant, 29%, market share in TBRs, we believe it will continue its market-share expansion. We expect 15% replacement growth in FY19, and 12% in FY20. The new passenger-car-tyre plant in Andhra Pradesh (16,000 tyres) is expected to commence production from Q4 FY20 and we expect a scale-up in FY21, full capacity available by FY21.

European business to improve further. The Hungary plant is expected to be ramped up to 12,000 tyres a day by FY19 and would be the catalyst for volume growth in FY19 and FY20. We expect an 8% EBIT margin in FY19 (2.2% in Q1 FY19)

Key takeaways from the conference call. 1) Revenue mix: 60% replacement, OEMs: 30%, exports: 10%. 2) Cost increase of 5% expected in Q3 FY19 but we expect softening in Q4 FY19. 3) India CV tyres bring 58% to revenue. 4) PCR capacity in India has increased by 3,000 tyres a day to 35,000. 4) Capex of ₹65bn for three years, starting FY19. 5) Reifen revenue at ₹27m and a negative EBITDA margin.

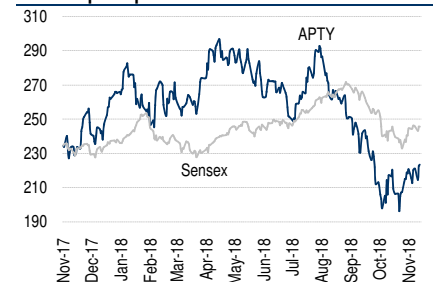
Valuation. We expect revenue to clock a 19% CAGR over FY18-20 to ₹211bn and expect a 12.5% margin in FY20. Accordingly, we expect earnings of ₹12.22bn, leading to an EPS of ₹21.2. We maintain our Buy rating, at a target price of ₹299 (14x FY20e EPS). The stock is trading at a historical mean multiple of around 10x and we believe it should quote higher given the better prospects in its India business as well as in Europe. **Risk:** Higher rubber costs.

Key data	APTY IN / APLO.BO
52-week high / low	₹307 / 192
Sensex / Nifty	35142 / 10576
3-m average volume	\$11.6m
Market cap	₹130bn / \$1808.5m
Shares outstanding	572m

Shareholding pattern (%)	Sep'18	Jun'18	Mar'18
Promoters	40.6	40.3	40.3
- of which, Pledged	11.9	12.0	17.5
Free float	59.4	59.7	59.7
- Foreign institutions	21.0	23.0	24.3
- Domestic institutions	21.8	21.4	20.0
- Public	16.6	15.4	15.4

Estimates revision (%)	FY19	FY20
Sales	0.0	0.0
EBITDA	0.0	0.0
EPS	-8.0	-6.2

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	1,18,486	1,31,800	1,48,405	1,75,758	2,11,002
Net profit (₹ m)	11,230	10,990	7,239	10,014	12,229
EPS (₹)	22.1	21.6	12.7	17.5	21.4
PE (x)	7.9	9.7	21.8	12.7	10.4
EV / EBITDA (x)	4.7	7.2	11.2	7.3	6.2
PBV (x)	1.3	1.5	1.6	1.2	1.1
RoE (%)	18.7	15.8	8.5	9.8	10.9
RoCE (%)	15.3	12.0	6.3	7.2	8.1
Dividend yield (%)	1.1	2.2	2.6	1.0	1.3
Net debt / equity (x)	0.1	0.4	0.3	0.3	0.3

Source: Company, Anand Rathi Research

Vijay Sarthy TS
Research Analyst

Anand Rathi Share and Stock Brokers Limited (hereinafter "ARSSBL") is a full-service brokerage and equities-research firm and the views expressed therein are solely of ARSSBL and not of the companies which have been covered in the Research Report. This report is intended for the sole use of the Recipient. Disclosures and analyst certifications are present in the Appendix.

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Net revenues	1,18,486	1,31,800	1,48,405	1,75,758	2,11,002
Growth (%)	-7.5	11.2	12.6	18.4	20.1
Direct costs	82,167	96,051	1,14,597	1,32,697	1,59,307
SG&A	16,344	17,262	17,296	21,091	25,320
EBITDA	19,975	18,487	16,513	21,970	26,375
EBITDA margins (%)	16.9	14.0	11.1	12.5	12.5
- Depreciation	4,268	4,618	5,926	7,951	9,368
Other income	680	1,518	1,165	1,700	1,700
Interest expenses	926	1,029	1,629	1,715	1,605
Extraordinary items	478	-	-	-	-
PBT	15,938	14,359	10,123	14,004	17,102
Effective tax rate (%)	29	23	28	28	28
+ Associates / (Minorities)					
Net income	11,230	10,990	7,239	10,014	12,229
Adjusted income	11,230	10,990	7,239	10,014	12,229
WANS	509	509	572	572	572
FDEPS (₹ / sh)	22.1	21.6	12.7	17.5	21.4

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT	16,185	13,869	10,587	14,019	17,007
+ Non-cash items	4,268	4,618	5,926	7,951	9,368
Oper. prof. before WC	15,498	15,608	13,164	17,964	21,597
- Incr. / (decr.) in WC	-632	-3,949	-5,577	-1,675	-38
Others incl. taxes	4,319	2,764	2,389	3,990	4,873
Operating cash-flow	16,766	19,672	19,701	19,654	21,541
- Capex (tang. + intang.)	19,444	38,612	36,931	25,000	23,000
Free cash-flow	-2,677	-18,939	-17,230	-5,346	-1,459
Acquisitions	2,893	-	-	-	-
- Div.(incl. buyback & taxes)	1,302	2,456	3,342	1,322	1,614
+ Equity raised			15,006	-	-
+ Debt raised	3,079	18,899	12,246	-500	-500
- Fin investments	3,908	-1,098	9,463	-9,000	-
- Misc. (CFI + CFF)	(1,910)	1,174	(5,406)	15	(95)
Net cash-flow	-4	-2,573	2,623	1,817	-3,479

Source: Company, Anand Rathi Research

Fig 5 – Price movement

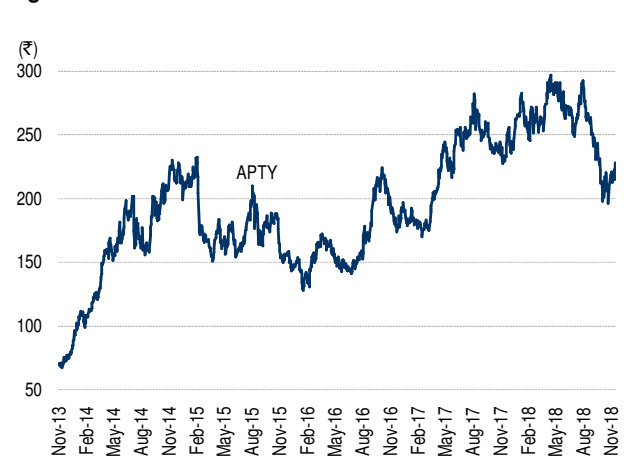


Fig 2 – Balance sheet (₹ m)

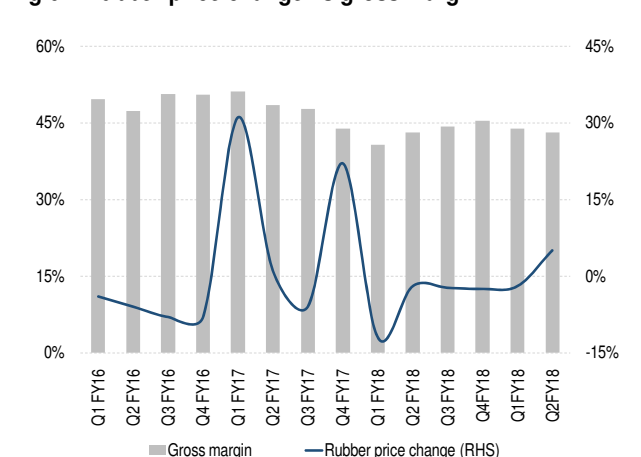
Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	509	509	572	572	572
Net worth	66,046	72,900	97,767	1,06,459	1,17,073
Debt	15,467	34,366	46,611	46,111	45,611
Minority interest	-	-	-	-	-
DTL / (Asset)	6,410	7,032	7,433	7,433	7,433
Capital employed	87,923	1,14,297	1,51,811	1,60,003	1,70,118
Net tangible assets	45,559	60,382	95,287	1,20,336	1,40,968
Net intangible assets	4,594	4,760	6,683	7,042	7,042
Goodwill	1,982	1,774	2,061	2,061	2,061
CWIP (tang. & intang.)	9,936	29,151	23,041	14,682	7,682
Investments (strategic)					
Investments (financial)	5,059	3,962	13,425	4,425	4,425
Current assets (ex cash)	42,862	48,978	54,088	58,601	67,403
Cash	5,942	3,369	5,992	7,809	4,331
Current liabilities	28,014	38,079	48,766	54,953	63,793
Working capital	14,849	10,900	5,323	3,648	3,610
Capital deployed	87,923	1,14,297	1,51,811	1,60,003	1,70,118

Fig 4 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	7.9	9.7	21.8	12.7	10.4
EV / EBITDA (x)	4.7	7.2	11.2	7.3	6.2
EV / sales (x)	0.8	1.0	1.2	0.9	0.8
P/B (x)	1.3	1.5	1.6	1.2	1.1
RoE (%)	18.7	15.8	8.5	9.8	10.9
RoCE (%) - after tax	15.3	12.0	6.3	7.2	8.1
RoIC (%) - after tax	16.6	12.6	6.6	7.5	8.4
DPS (₹ / sh)	3	5	6	2	3
Dividend yield (%)	1.1	2.2	2.6	1.0	1.3
Dividend payout (%) - incl. DDT	11.6	22.3	46.2	13.2	13.2
Net debt / equity (x)	0.1	0.4	0.3	0.3	0.3
Receivables (days)	33	31	35	34	33
Inventory (days)	119	140	128	124	123
Payables (days)	85	78	89	89	89
CFO : PAT %	149.3	179.0	272.1	196.3	176.1

Source: Company, Anand Rathi Research

Fig 6 – Rubber-price change vs gross margin



Result highlights

Fig 7 – Quarterly performance

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Net sales / Income from operations	24,808	26,692	28,413	30,598	31,091
Y/Y (%)	0.20	0.21	0.19	32.5	25.3
Q/Q (%)	0.07	0.08	0.06	7.7	1.6
(Incr.) / Decr. in stock and WIP	638	108.72	199.11	(1,238)	(2,073)
Consumption of R.M & components	15,337	16337.14	17272.13	20,603	22,137
% of sales	64.4	61.6	61.5	63.3	64.5
Y/Y (%)	35.6	28.5	15.7	24.4	25.6
Q/Q (%)	2.7	2.9	6.2	10.8	3.6
Gross margin (%)	35.6	38.4	38.5	36.7	35.5
Staff cost	1,719	1,698	1,916	1,860	1,899
% of sales	6.9	6.4	6.7	6.1	6.1
Y/Y (%)	15.6	17.0	36.3	22.4	10.4
Q/Q (%)	13.1	(1.2)	12.9	(2.9)	2.1
Other expenditure	4,263	4,881	4,995	5,240	5,405
% of sales	17.2	18.3	17.6	17.1	17.4
Y/Y (%)	2.1	7.7	9.4	28.6	26.8
Q/Q (%)	4.6	14.5	2.3	4.9	3.2
Total expenditure	21,957	23,025	24,382	26,464	27,367
Operating Profit	2,850	3,667	4,031	4,134	3,724
Y/Y (%)	(13.9)	13.7	45.6	114.6	30.7
Q/Q (%)	48.0	28.7	9.9	2.6	(9.9)
OPM (%)	11.5	13.7	14.2	13.5	12.0
Other income	187	420	447	285	10
Interest	353	344	380	370	334
Depreciation	868	890	1,045	1,012	1,070
PBT before exceptional items	1,815	2,852	3,053	3,037	2,426
PBT	1,815	2,852	3,053	3,037	2,026
Less: Provision for taxation	539	812	816	868	558
Tax rate	29.7	28.5	26.7	28.6	27.5
PAT	1,276	2,040	2,237	2,169	1,468
Y/Y (%)	(37.5)	10.0	26.9	223.1	15.1
Q/Q (%)	90.1	59.9	9.7	(3.0)	(32.3)
Adj. EPS	2.5	3.6	3.9	4.3	2.9

Source: Company

Valuations

We expect revenue to clock a 19% CAGR over FY18-20 to ₹211bn, with a 12.5% margin in FY20. Accordingly, we expect earnings of ₹12.22bn, leading to an EPS of ₹21.2. We maintain our Buy rating, at a target price of ₹299 (14x FY20e EPS). The stock is trading at a historical mean multiple of around 10x and we believe it stock quote trade higher, given the better prospects in its India business as well as in Europe.

Fig 9 – PE Band



Source: Bloomberg, Anand Rathi Research

Risk

- Higher rubber costs.

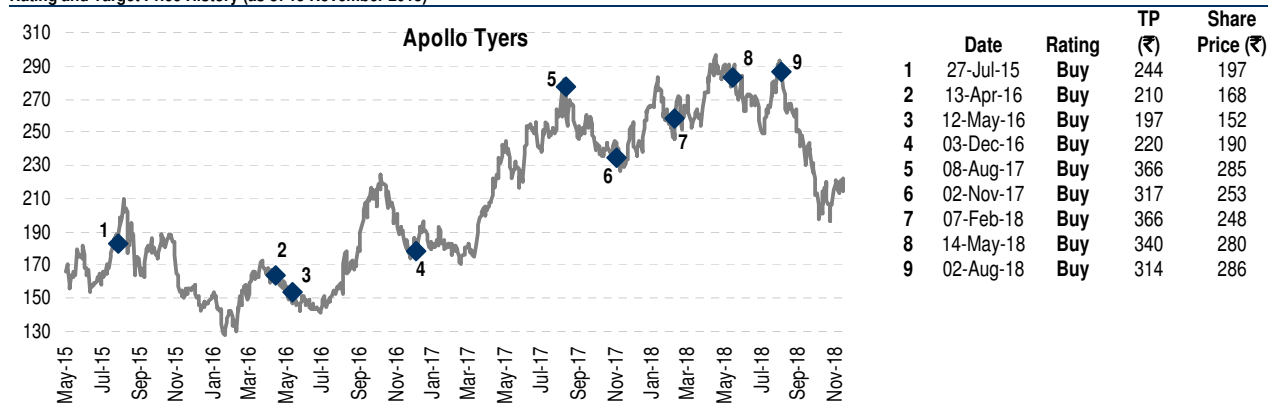
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 15 November 2018)



Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity) is a subsidiary of Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged in the business of Stock Broking, Depository Participant and Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment/trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report 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. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No

Other Disclosures pertaining to distribution of research in the United States of America

This research report is a product of ARSSBL, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by ARSSBL only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, ARSSBL has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.
2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.
5. As of the publication of this report, ARSSBL does not make a market in the subject securities.
6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

© 2018. This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to ARSSBL. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of ARSSBL. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of ARSSBL or its affiliates, unless specifically mentioned otherwise.

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: 4th Floor, Silver Metropolis, Jaicoach Compound, Opposite Bimbisar Nagar, Goregaon (East), Mumbai - 400 063.
Tel No: +91 22 4001 3700 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.