

Stock Update

Healthy earnings outlook

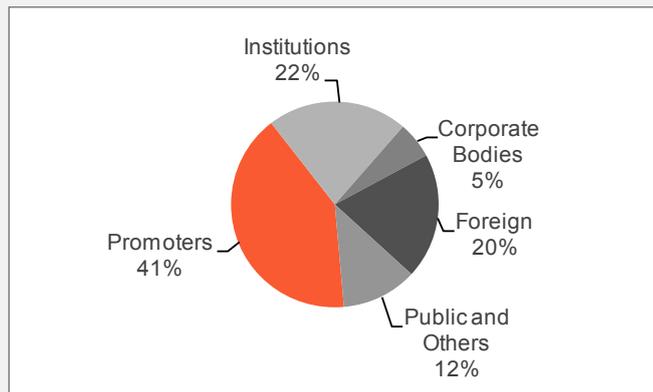
Apollo Tyres

Reco: Buy | CMP: Rs191

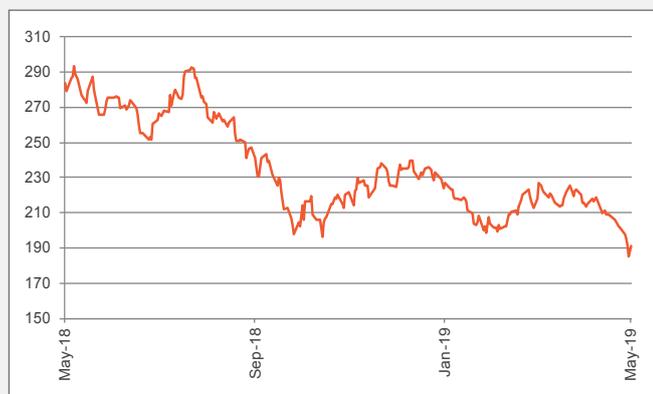
Company details

Price target:	Rs230
Market cap:	Rs10,938 cr
52-week high/low:	Rs300/182
NSE volume: (No of shares)	27.0 lakh
BSE code:	500877
NSE code:	APOLLOTYRE
Sharekhan code:	APOLLOTYRE
Free float: (No of shares)	33.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-14.2	-8.8	-16.2	-34.6
Relative to Sensex	-11.1	-11.4	-21.7	-39.3

Key points

- ◆ **Results miss estimates as European operations weaken:** For Apollo Tyres Limited (ATL), Q4FY2019 results missed estimates, as European operations that fetch ~30% of revenue, weekend considerably reporting loss at an EBIT level. Consolidated revenue grew by 6% y-o-y driven by an 8% growth in the domestic business (APMEA). Volume growth and price hikes drove growth in the domestic business. The European business recorded flat revenues for the quarter as better realisations on the back of improved mix offset a marginal decline in the volumes. Operating margins dropped by 290 bps y-o-y to 9.9%, missing estimates of 11.8%. European business margins contracted sharply 590 bps y-o-y, with an EBIT loss of 3.8%. European margins disappointed as volumes declined amid capacity expansions leading to huge operating leverage. Domestic business EBIT margins contracted by 330 bps y-o-y to 8.6% due to higher raw material costs and were marginally lower than estimates. Tracking the weak operating performance, adjusted net profit dropped 26% y-o-y to Rs. 184 crore and missed our estimates of Rs. 221 crore. During the quarter, ATL had an exceptional charge of Rs. 100 crore towards diminution in value of investments. With this provision, ATL has written-off the entire investment amount and no further write downs are expected. The reported PAT dropped by 66% y-o-y to Rs. 84 crore.
- ◆ **Healthy demand outlook at both Indian and Europe operations; expect double-digit topline growth:** ATL is witnessing strong demand in truck replacement segment which accounts for 70% of demand in Indian operations. Replacement growth is more than offsetting the slowdown in OEM demand. ATL reported healthy topline growth of 8% in Q4FY2019 despite slowdown in the OEM space. Further, ATL stated it has been gaining market share across product categories such as passenger vehicles and commercial vehicles. ATL has guided for double-digit growth in the standalone business for FY2020. The European operations are also set to report healthy double-digit growth in the next 1-2 years as ATL enters new geographies with the ramp-up in its Hungary plant's capacity. Besides the replacement segment, ATL has also penetrated the OEM segment, bagging orders from major European manufacturers. The OEM segment would be an additional growth driver with ATL targeting 20% of revenues from OEM's in the next 2-3 years. ATL aims to sell about 7.5 million tyres in Europe in FY2020 as against 6.7 million

tyres sold in FY2019. Further, ATL has also started manufacturing truck tyres, which would be an additional growth avenue. We expect ATL's consolidated topline to clock a healthy 10% CAGR during FY2019-2021.

- ♦ **Outlook: Double-digit earnings growth on cards; ATL preferred pick in tyres space:** ATL is poised to grow in double-digits led by healthy demand outlook across geographies. Moreover, we expect ATL to sustain margins given its strong pricing power and market share in the PV and CV segments. ATL usually leads peers in undertaking price actions whenever raw material prices rise and has amply demonstrated ability to retain margins. ATL mentioned that it is not facing any pricing pressures as indicated by other players which further build confidence. We expect double digit earnings growth for ATL over next two years. Moreover, ATL has maintained healthy Debt:Equity of 0.3x which is a good

benchmark in capex heavy industry like tyres and insulates earnings from volatility in the raw material cost pressures. Also, capex is likely to taper off in FY2021 to Rs 1,600 cr from Rs 2,500 cr expected in FY2020 which will enhance return ratios. ATL remains our preferred pick in the tyres space.

- ♦ **Valuations: Estimates cut on weak Q4; Retain Buy with a revised PT of Rs 230; recent 15% correction provides a good entry point:** Given the weak operating performance of the European business, we have cut our FY2020 estimates by 14%. We have introduced FY2021 estimates in this note and rollover our target multiple on FY2021 earnings. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 230 (from Rs. 250 earlier). The stock has corrected by about 15% in the past two months which provides a good entry point for investors.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Revenue	4,273.7	4,033.6	6.0	4,718.4	(9.4)
Total Expenses	3,849.1	3,516.1	9.5	4,191.0	(8.2)
EBITDA	424.6	517.5	(17.9)	527.4	(19.5)
EBITDA margin (%)	9.9%	12.8%	(290) bps	11.2%	(130) bps
Other income	48.5	41.4	17.1	33.0	46.9
Depreciation	231.4	176.8	30.8	201.1	15.1
Interest	43.4	47.6	-8.8	48.5	-10.6
PBT	198.4	334.5	-40.7	310.8	-36.2
Less: Tax	14.4	84.4	-83.0	52.9	-72.8
Reported PAT	84.0	250.1	-66.4	198.0	-57.6
Exceptional (Expense) / Income	(100.0)	0.0	-	(60.0)	
Adjusted PAT	184.0	250.1	-26.4	258.0	-28.7
EPS (Rs)	3.6	4.9	-26.4	5.1	-28.7

Segmental

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Segmental Revenues					
APMEA (Asia pacific, Middle East and Africa)	3,113.7	2,885.0	7.9	3,158.8	-1.4
Europe (Europe and America)	1,209.8	1,207.6	0.2	1,628.5	-25.7
Others	686.6	795.9	-13.7	1,005.8	-31.7
Total	4,273.7	4,033.6	6.0	4,718.4	-9.4
Segmental EBIT					
APMEA (Asia pacific, Middle East and Africa)	266.5	344.1	-22.5	261.5	1.9
Europe (Europe and America)	(46.5)	25.3	-283.8	69.5	-166.9
Others	19.0	24.7	-23.2	31.3	-39.3
Total	239.0	394.1	-39.4	362.2	-34.0
EBIT Margin (%)					
APMEA (Asia pacific, Middle East and Africa)	8.6	11.9	(330) bps	8.3	30 bps
Europe (Europe and America)	(3.8)	2.1	(590) bps	4.3	(810) bps
Others	2.8	3.1	(30) bps	3.1	(30) bps
Total	4.8	8.1	(330) bps	6.3	(150) bps

Valuations (Consolidated)

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
Net sales (Rs. cr)	13,180.0	14,842.9	17,548.8	19,361.3	21,260.6
Growth (%)	11.2%	12.6%	18.2%	10.3%	9.8%
EBIDTA (Rs cr)	1,848.7	1,653.6	1,958.6	2,173.5	2,433.9
OPM (%)	14.0%	11.1%	11.2%	11.2%	11.4%
PAT (Rs cr)*	1,099.3	723.9	879.7	879.6	1,022.3
Growth (%)	2.2%	-34.2%	21.5%	0.0%	16.2%
FD EPS (Rs)	21.6	12.7	15.4	15.4	17.9
PER (x)	8.8	15.1	12.4	12.4	10.7
P/BV	1.3	1.1	1.0	1.0	0.9
EV/EBITDA	6.8	8.2	7.0	6.7	6.1
ROCE (%)	12.9	7.4	7.5	7.8	8.5
RONW (%)	15.1	7.4	8.4	7.9	8.6

*FY20 PAT flat due to lower tax rate in FY19

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