

# Apollo Tyres (APOTYR)

₹ 119

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from ₹ 119 to ₹ 139
EPS (FY15E) .....	Changed from ₹ 17.0 to ₹ 18.5
EPS (FY16E) .....	Introduced at ₹ 21.0
RATING .....	Unchanged

## Stellar beat!

Apollo Tyres (ATL) reported its Q3FY14 results that were a beat on both revenues, margins. Consolidated EBITDA margins came in exceptionally higher at 16% (~100 bps boost due to one-offs), which was mainly due to higher productivity in European operations, lower natural rubber (NR) costs. On a consolidated basis, the company had a net exceptional loss of ~₹ 27 crore post factoring in costs for Cooper transaction and gain from partial sale of South African assets. In terms of subsidiaries, Vredestein (VBV) reported a strong margin performance at 22% (up ~600 bps QoQ). On the outlook, the focus has now rightly moved towards looking at expansions geographically in the Central Europe/Asean region to augment growth plans. We believe ATL is moving away from the acquisition fiasco in Cooper towards normal course of business with strategic learning on ways of taking business forward. In our view, we feel business wise both in India, Europe ATL is well placed with strong brand and efficient cost controls. We, thus maintain BUY on the stock with an enhanced target price of ₹ 139 (valuing 7.5x FY15E EPS).

### Margins surprise positively! Operational and Europe driven...

Consolidated EBITDA margins rose to 16% (adjusted for one-offs at ~15%) primarily due to high operating leverage in European subsidiary, lower rubber costs. VBV witnessed strong volume growth of ~14% leading to stronger margins of ~22%. A part of SA subsidiary sale was completed this quarter. On an operational basis also it performed better (>8.5% EBITDA margins) than recent trend of ~3-5% EBITDA margin.

### Focus on greenfield expansions and cash flow!

Going forward, the management remains committed to financing all kinds of future expansions firstly via leverage, which, at present, is comfortable (~0.4x net D/E). The plans are to look at European expansion, a highly profitable market & newer markets in Asia. India business remains competitive but OEM demand revival is key upside trigger.

### Valuations alluring...

We continue to reiterate that ATL will slowly regain some of the lost investor confidence considering its pedigree in financials, business strength. We upgrade our target multiple to 7.5x from 7x on FY15E EPS. We, thus, maintain our BUY recommendation with a target price of ₹ 139.

### Exhibit 1: Financial Performance (Consolidated)

(₹ Crore)	Q3FY14	Q3FY14E	Q3FY13	Q2FY14	QoQ (Chg %)	YoY (Chg %)
Total Operating Income	3559.3	3374.9	3217.3	3433.5	3.7	10.6
EBITDA	569.0	425.7	382.2	452.1	25.9	48.9
EBITDA Margin (%)	16.0	12.6	11.9	13.2	282 bps	411 bps
Depreciation	106.3	93.1	91.9	103.8	2.4	15.6
Interest	74.2	72.5	80.6	75.6	-1.9	-8.0
Other Income	49.6	35.0	26.8	18.6	166.7	85.2
Reported PAT	338.3	279.5	180.6	219.6	54.0	87.3
EPS (₹)	6.7	5.5	3.6	4.4	54.0	87.3

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 139
Target Period	: 12-15 months
Potential Upside	: 17%

### Key Financials (Consolidated)

₹ Crore	FY13	FY14E	FY15E	FY16E
Net Sales	12,795	13,414.6	13,814.3	15,242.4
EBITDA	1,456.7	1,878.9	1,881.8	2,064.3
Net Profit	612.6	937.7	932.5	1,060.1
EPS (₹)	12.2	18.6	18.5	21.0

FY14E has witnessed sale of half of SA assets

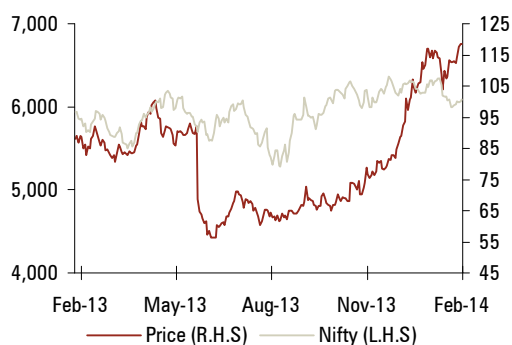
### Valuation summary(Consolidated)

	FY13	FY14E	FY15E	FY16E
P/E(x)	9.7	6.4	6.4	5.6
Target P/E(x)	11.4	7.5	7.5	6.6
EV / EBITDA(x)	5.4	4.0	3.8	3.5
P/BV (x)	1.8	1.4	1.2	1.0
RoNW(%)	18.0	21.8	18.0	17.2
RoCE(%)	18.7	22.5	20.1	18.8

### Stock data

Market Capitalization	₹ 5967 Crore
Total Debt (FY13)	₹ 2282 Crore
Cash (FY13)	₹ 335 Crore
EV	₹ 7915 Crore
52 week H/L	117 / 56
Equity capital	₹ 50.4 Crore
Face value	₹ 1
MF Holding (%)	9.2
FII Holding (%)	29.9

### Price movement



### Analyst's name

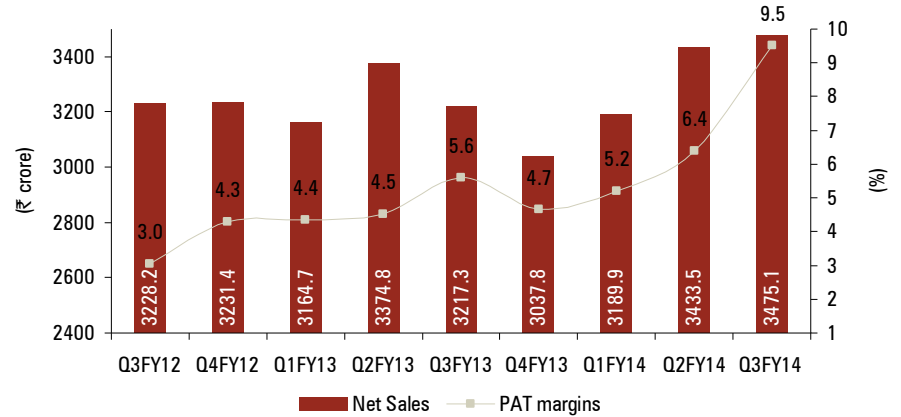
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### Exhibit 2: Assumptions

	FY13E	FY14E	FY15E	FY16E
<i>India</i>				
Total Tonnage Sold (MT)	402,371	407,726	437,258	476,682
Realization per MT (₹)	210.9	213.2	213.4	217.8
Natural Rubber price (₹/kg)	198.0	176.7	169.1	171.2
<i>South Africa</i>				
Total Tonnage Sold (MT)	51,271	44,829	27,494	29,373
Realization per MT (₹)	293.0	289.3	285.0	297.8
Raw Material cost as % of sales	41.7	42.4	41.5	41.5
<i>Europe</i>				
Total Tonnage Sold (MT)	60,328	66,935	72,068	78,219
Realization per MT ('000 €)	7.1	6.8	6.7	6.8
Raw Material cost as % of sales	49.0	49.0	49.0	49.0

Source: Company, ICICIdirect.com Research

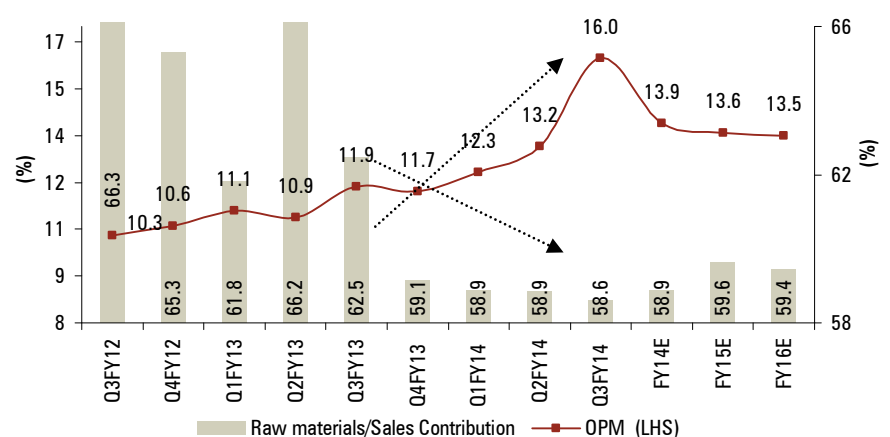
### Exhibit 3: Net sales and PAT margin trend



Source: Company, ICICIdirect.com Research

Margins have stayed at ~11-12% and more for the last five quarters on account of easing rubber prices. Going forward, natural rubber prices are expected to remain in a similar price range. Thus, we expect margins to remain around similar levels of 12% in FY14E, FY15E

### Exhibit 4: Margin and raw material to sales trend



Source: Company, ICICIdirect.com Research

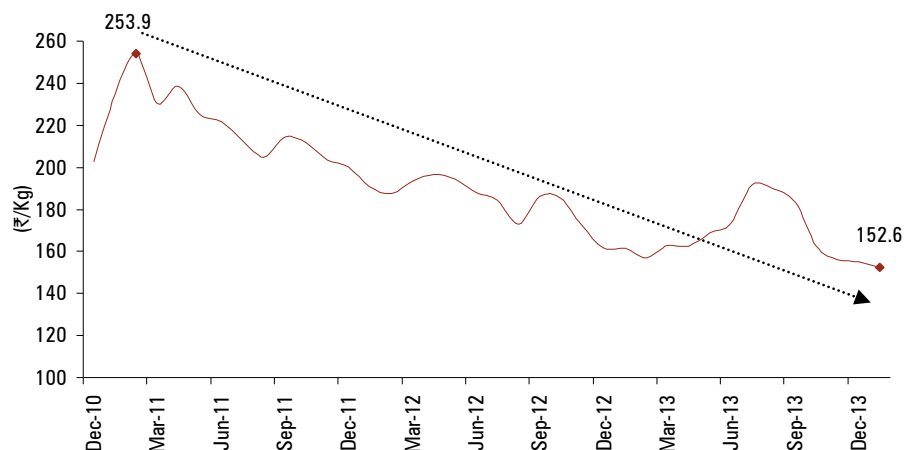
#### Exhibit 5: ATL performance matrix

(₹ crore)	Q3FY14	Q2FY14	QoQ (%)	Q3FY13	YoY (%)
<b>Revenue</b>					
India	2269.8	2122.7	6.9	2055.2	10.4
South Africa	362.6	375.2	-3.4	405.5	-10.6
Europe	1088.3	1060.9	2.6	815.9	33.4
Others	40.5	41.4	-2.2	51.1	-20.7
Less: Int.segmental revenue	152.4	148.1	2.9	94.9	60.6
Net sales	3608.8	3452.1	4.5	3232.8	11.6
<b>EBIT</b>					
India	284.3	222.9	27.5	179.3	58.6
South Africa	33.7	8.3	304.6	4.8	603.8
Europe	201.0	100.3	100.3	140.6	42.9
Others	1.3	0.0	LP	3.8	PL
PBT*	410.4	261.2	57.1	236.4	73.6
<b>Margin (%)</b>					
India	12.5	10.5	202 bps	8.7	380 bps
South Africa	9.3	2.2	707 bps	1.2	811 bps
Europe	18.5	9.5	901 bps	17.2	123 bps

Source: Company, ICICIdirect.com Research \* (net of Interest & Inter segment eliminations)

Strong demand globally and supply shortages had fuelled rubber price increases. However, rubber prices have reduced from the highs of February 2011 to ~₹ 160/kg. Going forward, with demand slowing down and supply constraints easing, we expect prices to stabilise/reduce from current levels

#### Exhibit 6: Domestic rubber prices trend



Source: RubberBoard.org

### Key management takeaways

#### Consolidated

The overall performance was strong with life-time high consolidated EBIDTA margins of 16%. The major reason for the jump in margins was high operating leverage in the European business.

The management added that during the quarter, net debt has been brought down to 0.4x and gross debt stood at close to ~₹ 2300 crore.

The quarter also some one-offs impacts –

- ATL received ~₹ 84 crore operating income from sales tax and VAT refunds of previous accumulated quarters. On a normalised basis, ATL would receive ~₹ 40 crore annual refunds
- It also had a contingent liability expense of ~₹ 35 crore, which would not be incurred, going forward
- On a net basis (expense on account of Cooper, gain on sale of SA asset) it was a loss of ~ ₹ 27 crore, which reduced the bottomline

- The sale of SA asset was also accompanied by the sale of IT services in place at the facility, which also led to ₹ 28 crore on one-off other income in standalone books

### India

For the standalone business, sales were up ~5% YoY, which saw 4% volume growth and 1% price growth. OEM demand continued to remain weak. Indian operations have operated at 65-70% capacity utilisation, which is lower than last year.

The management said that ~68% of revenues came from the replacement segment while the contribution of the OE segment was 22% and the balance came from exports.

On a product mix basis, the truck and bus segment contributed ~64%, The passenger car business contributed ~17% while farm equipment contributed ~11%.

The management also commented on natural rubber prices, which are expected to remain in a similar range for the rest of the year.

For the quarter, the landed cost of rubber was ~₹ 175/kg, carbon black was ~₹ 85/kg, NTCF was at ₹ 260/kg while synthetic rubber was ~₹ 120/kg.

### South Africa

For the quarter, the sales had two months of both erstwhile facilities and one month of single facility post the sale to Sumitomo Rubber. Thus, sales, which remain incomparable, were at ~₹ 362 crore. EBITDA margins of the segment came in at ~9%, which was much ahead of its regular ~3-5% levels. Though 9% may not be extrapolated, the performance seems to be improving.

### Europe

The tyre market in Europe has been challenging but seems to be recovering in both the trucks/car space. However, VBV has witnessed strong volume growth of ~14% even as the winter season has been mild. This has been as VBV has increased its presence in the summer tyre space and has gained market share in the premium space.

Capacity utilisation levels stood at ~95%, which is also being supported by shipments from the India business.

### Capex plans

The company is now looking at expansion plans via greenfield operations in either central Europe or in Asean region. The plans will be formalised in Q4 and the financing of this project would be majorly done via CFO/incremental debt considering net D/E levels are comfortable at ~0.4x.

## Valuation

We continue to reiterate that ATL will slowly regain some of the lost investor confidence considering its pedigree in financials, business strength. Optically, earnings may seem flat from FY14E/15E years but that is primarily due to South African asset sale (~₹ 600 crore of FY14E revenue). Considering the strong margins and cash flow profile, we upgrade our target multiple to 7.5x from 7x on FY15E EPS. We, thus, maintain our **BUY** rating with a target price of ₹ 139.

### Exhibit 7: Revised financials (Consolidated)

(₹ crore)	FY15E			FY16E
	Old	New	% Change	Introduced
Revenue	13,895.7	13862.3	(0.2)	15290.4
EBITDA	1,714.7	1881.8	9.7	2064.3
EBITDA Margin %	12.3	13.6	124 bps	13.5
PAT	858.1	932.5	8.7	1060.1
EPS (₹)	17.0	18.5	8.8	21.0

Source: Company, ICICIdirect.com Research

### Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY13	12794.6	9.2	12.2	-32.6	9.7	5.4	18.0	18.7
FY14E	13414.6	4.8	18.6	53.1	6.4	4.0	21.8	22.5
FY15E	13814.3	3.0	18.5	-0.6	6.4	3.8	18.0	20.1
FY16E	15242.4	10.3	21.0	13.7	5.6	3.5	17.2	18.8

Source: Company, ICICIdirect.com Research

## Financial summary

### Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY13	FY14E	FY15E	FY16E
Total operating Income	12,794.6	13,510.8	13,862.3	15,290.4
Growth (%)	5.3	5.6	2.6	10.3
Raw Material Expenses	7,996.9	7,898.9	8,237.7	9,059.7
Employee Expenses	1,471.4	1,565.3	1,524.7	1,667.6
Other Expenses	1,869.7	2,167.6	2,218.0	2,498.7
Total Operating Expenditure	11,338.0	11,631.8	11,980.5	13,226.0
EBITDA	1,456.7	1,878.9	1,881.8	2,064.3
Growth (%)	24.9	29.0	0.2	9.7
Depreciation	396.6	408.2	412.7	449.8
Interest	312.8	294.7	266.5	267.5
Other Income	94.4	106.0	148.8	177.4
PBT	858.6	1,224.3	1,351.5	1,524.5
Exceptional items	0.0	0.0	-57.7	0.0
Total Tax	244.8	286.6	419.0	464.4
PAT	612.6	937.7	932.5	1,060.1
Growth (%)	49.5	53.1	-0.6	13.7
EPS (₹)	12.2	18.6	18.5	21.0

Source: Company, ICICIdirect.com Research

### Balance Sheet

	(₹ Crore)			
(Year-end March)	FY13	FY14E	FY15E	FY16E
<b>Liabilities</b>				
Equity Capital	50.4	50.4	50.4	50.4
Reserve and Surplus	3,339.7	4,242.0	5,127.3	6,128.4
Total Shareholders funds	3,390.1	4,292.4	5,177.7	6,178.8
Total Debt	2,281.6	2,231.6	2,131.6	2,431.6
Deferred Tax Liability	493.8	503.8	503.8	503.8
Total Liabilities	6,312.9	7,167.9	7,956.7	9,257.8
<b>Assets</b>				
Gross Block	8,269.1	8,669.1	9,319.1	10,319.1
Less: Acc Depreciation	4,204.0	4,576.4	4,950.7	5,359.2
Net Block	4,169.3	4,181.1	4,438.3	5,008.5
Capital WIP	319.9	219.9	169.9	169.9
Total Fixed Assets	4,489.1	4,400.9	4,608.2	5,178.4
Investments	0.0	0.0	0.0	0.0
Goodwill on consolidation	143.6	153.4	153.4	153.4
Inventory	2,031.1	2,379.2	2,162.5	2,598.1
Debtors	990.8	1,396.6	1,476.0	1,586.9
Loans and Advances	479.4	620.6	760.9	824.3
Other current assets	2.1	16.1	24.8	20.4
Cash	334.8	673.9	964.4	1,164.8
Total Current Assets	3,838.2	5,086.3	5,388.6	6,194.5
Creditors	1,007.4	1,176.1	1,059.7	1,169.3
Provisions	479.1	524.0	440.4	474.2
Total Current Liabilities	1,486.4	1,700.1	1,500.1	1,643.5
Net Current Assets	2,351.8	3,386.3	3,888.5	4,551.1
Application of Funds	6,312.9	7,167.9	7,956.7	9,257.8

Source: Company, ICICIdirect.com Research

### Cash flow statement

	(₹ Crore)			
(Year-end March)	FY13	FY14E	FY15E	FY16E
Profit after Tax	612.6	937.7	932.5	1,060.1
Add: Depreciation	396.6	408.2	412.7	449.8
(Inc)/dec in Current Assets	207.9	-909.0	-11.7	-605.5
Inc/(dec) in CL and Provisions	-255.9	329.8	-269.3	75.1
CF from operating activities	961.1	766.7	1,064.2	979.5
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-531.3	-320.0	-620.0	-1,020.0
Others	44.5	-11.4	-6.5	0.0
CF from investing activities	-486.8	-331.4	-626.5	-1,020.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-268.3	-50.0	-100.0	300.0
Dividend paid & dividend tax	-29.5	-35.4	-47.2	-59.0
Others	-15.0	-10.8	0.0	0.0
CF from financing activities	-312.8	-96.2	-147.2	241.0
Net Cash flow	161.6	339.1	290.5	200.5
Opening Cash	173.2	334.8	673.9	964.4
Closing Cash	334.8	673.9	964.4	1,164.8

Source: Company, ICICIdirect.com Research

### Key ratios

(Year-end March)	FY13	FY14E	FY15E	FY16E
<b>Per share data (₹)</b>				
EPS	12.2	18.6	18.5	21.0
Cash EPS	20.0	26.7	26.7	30.0
BV	67.5	85.2	102.7	122.6
DPS	0.5	0.6	0.8	1.0
Cash Per Share	6.6	13.4	19.1	23.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.4	14.0	13.6	13.5
PBT / Net sales	6.7	9.1	9.8	10.0
PAT Margin	8.0	5.0	3.4	4.8
Inventory days	57.4	60.0	60.0	57.0
Debtor days	28.3	38.0	39.0	38.0
Creditor days	28.7	32.0	28.0	28.0
<b>Return Ratios (%)</b>				
RoE	18.0	21.8	18.0	17.2
RoCE	18.7	22.5	20.1	18.8
RoIC	13.0	17.8	14.8	14.1
<b>Valuation Ratios (x)</b>				
P/E	9.7	6.4	6.4	5.6
EV / EBITDA	5.4	4.0	3.8	3.5
EV / Net Sales	0.6	0.6	0.5	0.5
Market Cap / Sales	0.5	0.4	0.4	0.4
Price to Book Value	1.8	1.4	1.2	1.0
<b>Solvency Ratios</b>				
Debt/Equity	0.7	0.5	0.4	0.4
Current Ratio	1.7	2.0	2.4	2.6
Quick Ratio	1.6	1.7	1.9	2.1

Source: Company, ICICIdirect.com Research

## Company Description

Apollo Tyres (ATL) has been in the business of manufacture and sale of tyres since its inception in 1972. The company is the second largest tyre manufacturer in the country with a clear lead in the commercial vehicle segment. ATL has a manufacturing presence in Asia, Europe and Africa and exports to over 118 countries. The company offers a comprehensive product portfolio spread across passenger cars, light trucks, truck-bus, off highway and bicycle tyres, retreading material and retreaded tyres under the key brands: Apollo, Dunlop and Vredestein.

### Exhibit 9: Recommendation History



Source: Company, ICICIdirect.com Research

### Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
31-May-13	Quick Comment	89	112	BUY
13-Jun-13	Event Update	69	UR	UR
8-Aug-13	Q1FY14 Result Update	62	65	HOLD
7-Oct-13	Q2FY14 Preview	70	65	HOLD
12-Nov-13	Q2FY14 Result Update	70	76	HOLD
17-Dec-13	Quick Comment	87	101	BUY
30-Dec-13	Quick Comment	101	119	BUY
8-Jan-14	Q3FY14 Preview	113	119	BUY

Source: Company, ICICIdirect.com Research

### ICICIdirect.com Research coverage universe (Auto & auto ancillaries)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Amara Raja (AMARAJ)	352	380	Hold	6,007	16.8	22.3	24.6	21.0	15.8	14.3	12.0	9.6	8.4	33.6	36.2	32.4	27.1	27.8	24.7
Apollo Tyre (APOTYR)	118	139	Buy	5,926	12.2	18.6	18.5	9.7	6.3	6.4	4.0	3.8	3.5	22.5	20.1	18.8	21.8	18.0	17.2
Ashok Leyland (ASHLEY)	16	15	Hold	4,164	-1.5	0.2	0.7	-10.2	77.3	21.6	202.5	12.6	7.8	-4.0	3.2	7.5	-10.3	1.4	4.9
Bajaj Auto (BAAUTO)	1,935	2,450	Buy	56,003	105.2	115.9	139.5	18.4	16.7	13.9	14.3	14.3	11.6	43.5	43.5	41.6	38.5	35.1	34.9
Balkrishna Ind. (BALIND)	357	350	Hold	3,446	37.6	50.2	50.7	8.8	6.6	6.6	7.4	6.1	5.5	16.2	16.4	14.4	25.5	16.2	16.4
Bharat Forge (BHAFOR)	347	362	Hold	8,091	10.6	15.4	24.7	32.7	22.6	14.0	12.3	9.5	6.9	9.1	12.4	17.9	11.0	14.0	19.0
Eicher Motors (EICMOT)	4,431	5,400	Buy	11,968	148.7	227.7	305.5	29.8	19.5	14.5	19.0	9.4	6.4	19.4	23.8	26.3	19.2	23.4	24.5
Escorts (ESCORT)*	122	85	Sell	1,455	14.1	15.5	17.1	6.8	6.2	5.6	3.5	3.1	2.5	9.9	11.2	10.8	9.4	9.6	9.7
Exide Industries (EXIIND)	105	90	Sell	8,887	6.1	5.2	5.5	17.0	20.0	19.1	11.0	11.4	10.9	19.6	16.7	15.7	15.3	12.0	11.6
Hero Motocorp (HERHON)	2,000	2,100	Hold	39,935	106.1	104.7	136.1	18.9	19.1	14.7	11.0	12.1	11.0	42.8	39.7	42.9	42.3	33.9	35.2
JK Tyre & Ind (JKIND)	147	174	Buy	604	63.1	90.4	91.3	2.3	1.6	1.6	3.1	2.9	2.8	20.2	19.9	17.5	23.4	25.4	20.4
M&M (MAHMAH)	894	1,033	Buy	52,786	51.2	58.2	61.3	17.5	15.4	14.6	11.3	10.3	9.2	22.4	20.5	19.3	22.9	21.6	19.4
Maruti Suzuki (MARUTI)	1,766	1,663	Hold	51,037	79.2	91.5	117.0	21.3	18.5	14.4	10.1	8.0	6.4	11.9	14.3	15.6	12.9	13.1	14.6
Motherson (MOTSUM)	209	239	Buy	18,392	8.0	12.2	15.0	26.0	17.1	13.9	8.5	6.7	5.1	22.0	26.1	30.0	26.3	32.4	32.2
Tata Motors (TELCO)	364	475	Buy	108,417	31.0	44.7	52.7	11.7	8.2	6.9	4.7	3.5	3.4	23.2	23.8	23.5	26.3	26.5	25.8
Bosch (MICO)	9,095	9,360	Hold	28,559	319.6	350.7	437.1	27.6	25.1	20.2	17.3	15.7	12.6	15.8	15.3	16.6	16.2	15.2	16.9

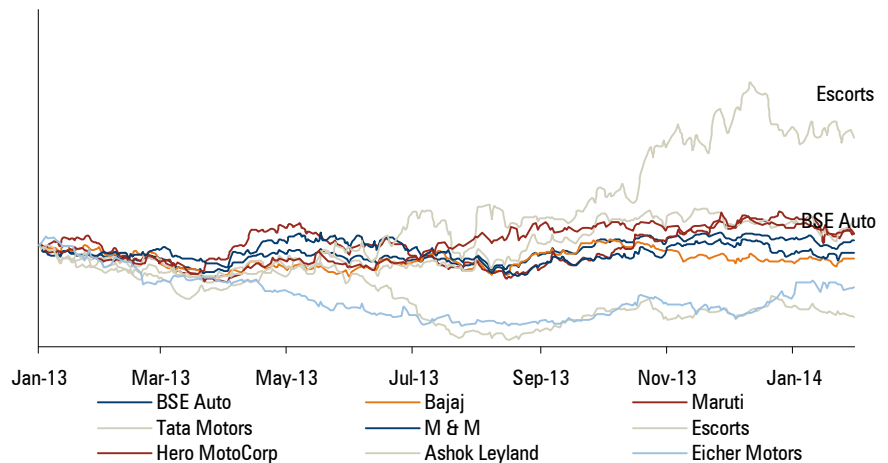
Source: Company, ICICIdirect.com Research SY~ September Year end

The chart compares the movement of OEM stocks in the ICICIdirect.com Universe with the BSE Auto index, thereby reflecting the degree of mimicking of the index

Since March 2012, Bajaj Auto and Maruti Suzuki have outperformed while Hero MotoCorp and Escorts have underperformed in comparison to the index by being divergent on the upside and downside, respectively

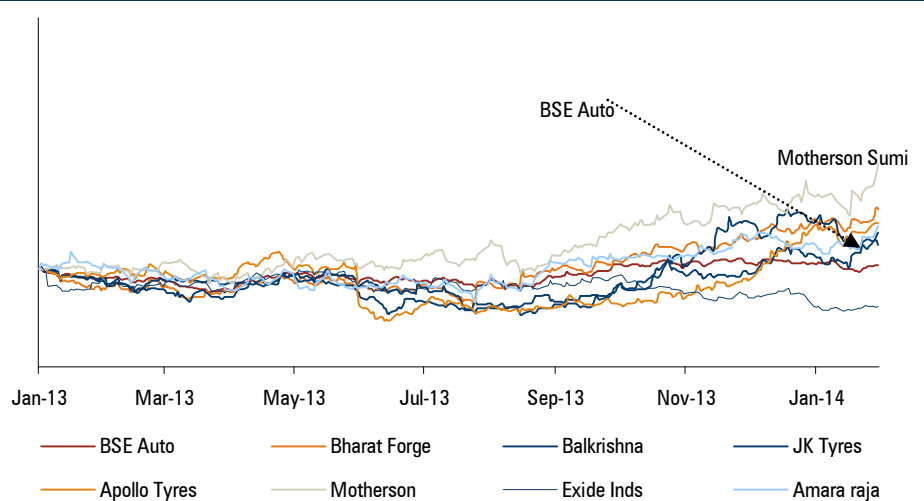
#### ICICIdirect.com Universe price movement vis-à-vis BSE Auto index

##### Exhibit 11: OEM comparison with BSE Auto



Source: Company, ICICIdirect.com Research

##### Exhibit 12: Ancillaries comparison with BSE Auto



Source: Company, ICICIdirect.com Research

The chart compares the movement of auto ancillary stocks in the ICICIdirect.com universe with the BSE Auto index

The volatile nature of smaller ancillary companies is reflected. These have met with numerous fluctuations with the exception of Motherson Sumi and Amara Raja batteries, which mimic the index greatly. Tyre companies like JK Tyre and Apollo Tyres have performed well due to the weakening of rubber prices



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 Hold: Up to +/-10%;  
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