

Stock Update

Temporary blip, Earnings set to recover

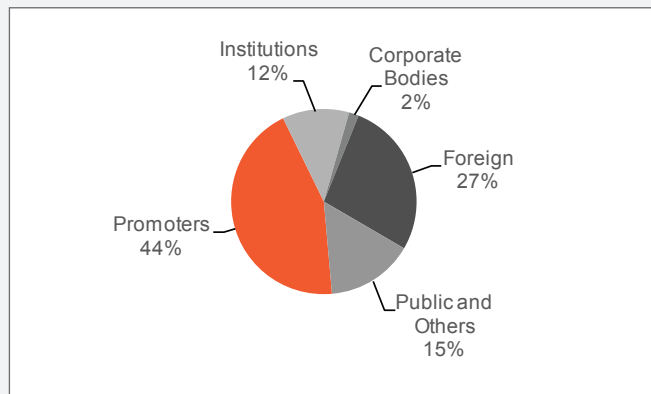
Apollo Tyres

Reco: Buy | CMP: Rs286

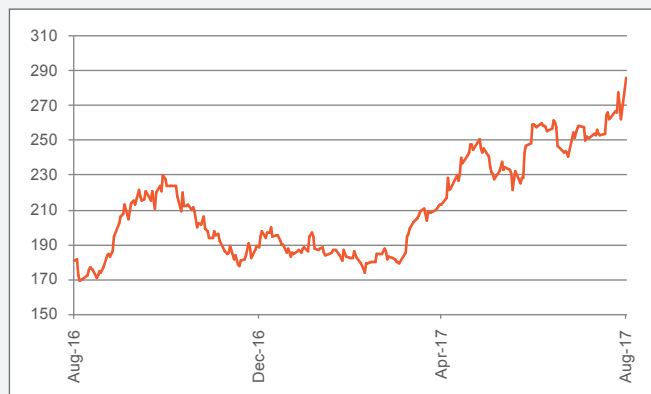
Company details

Price target:	Rs320
Market cap:	Rs14,548 cr
52-week high/low:	Rs288/162
NSE volume: (No of shares)	40.0 lakh
BSE code:	500877
NSE code:	APOLLOTYRE
Sharekhan code:	APOLLOTYRE
Free float: (No of shares)	28.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.4	9.3	44.8	64.8
Relative to Sensex	0.5	1.1	25.3	39.5

Key points

- Weak quarter:** Apollo Tyres Limited (ATL) reported poor results for Q1FY2018, with numbers coming much below ours as well as consensus estimates. ATL's consolidated topline stood flat at Rs.3,283 crore, as against our expectation of high single-digit growth. Both domestic (due to dealer destocking before GST and subdued MHCV OEM sales) and European operations (due to subdued volumes and Euro/INR depreciation) reported subdued topline during the quarter. Further, high-cost, raw-material (RM) inventory coupled with adverse product mix led to a steep 800BPS drop in operating margin to 8.3% (margin was 350BPS lower than our estimates). EBIDTA almost halved to Rs.273 crore. Tracking the weak operating performance, net profit fell by 72% YoY to Rs.88 crore, way below our estimate of Rs.211 crore.
- Earnings bottomed out, expect strong recovery ahead:** ATL's topline is expected to recover sharply (we expect a 17% CAGR over FY2017-FY2019). Domestic operations are likely to witness healthy growth, backed by dealer restocking, pick-up in MHCV OEM volumes and ATL regaining its market share from Chinese players post the likely imposition of anti-dumping duty (Department of Commerce has already recommended duty of 8-14%). In addition, given the commencement of ATL's Hungary plant, we expect ATL's European operations to gain traction. ATL is more than doubling its capacity in Europe (Hungary plant will reach full capacity of 18,000 tyres per day by FY2019-end) and has already tied up with OEMs for supply. Further, given the benign RM prices (RM prices are expected to drop by 8-9% from Q1FY2018 levels) and operating leverage due to double-digit topline growth, we expect ATL's margin to improve from 8.3% in Q1FY2018 to 11.9% in FY2018 and reach 13.3% in FY2019.
- Outlook:** Q1FY2018 was a temporary blip for ATL, as topline growth was impacted by GST-related destocking and drop in MHCV OEM sales post subdued demand after pre-buying in the previous quarter and GST-related uncertainty. Moreover, sudden surge in RM prices (rubber prices shot up by about 20% in March-April 2017) led to a steep margin drop for the company. However, ATL's earnings are expected to improve post restocking expected at dealer level, regaining of market share post levy of anti-dumping duty and commencement

of Hungary plant. Further, softening of RM prices would lead to margin expansion, resulting in a 15% earnings CAGR over FY2017-FY2019.

- ♦ **Valuation—Maintain Buy with a revised PT of Rs.320:** Given the weak operating performance in Q1FY2018, we have lowered our FY2018 earnings estimates by 20%. However, we have raised our FY2019 earnings estimates marginally by 2%, given improved domestic topline growth

visibility due to levy of anti-dumping duty and commencement of Hungary plant. We have also raised our target multiple on ATL from 10x to 12x (higher multiple is justified as peer Ceat multiple has expanded from 12x to 14x FY2019 earnings) to maintain valuation parity. We have raised our target price (TP) for ATL to Rs.320 (earlier Rs.270). We continue to maintain our Buy rating on the stock.

Result (Consolidated)

Particulars	Rs cr				
	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ %
Revenue	3,282.5	3,311.6	-0.9	3,325.6	-1.3
Total Expenses	3,009.2	2,772.8	8.5	2,955.7	1.8
EBITDA	273.3	538.8	-49.3	369.9	-26.1
EBITDA margin (%)	8.3%	16.3%	800 bps	11.1%	(280 bps)
Other income	8.8	27.8	-68.5	50.0	-82.5
Depreciation	125.8	106.0	18.7	136.6	-7.8
Interest	34.0	26.9	26.4	24.8	37.3
PBT	122.1	433.7	-71.8	258.5	-52.8
Less: Tax	33.8	118.1	-71.4	30.3	11.6
PAT	88.3	315.5	-72.0	228.3	-61.3
EPS (Rs)	1.7	6.2		4.5	

Segmental result

Particulars	Rs cr				
	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ %
Segmental Revenues					
APMEA (Asia pacific, Middle East and Africa)	2,584.5	2,561.1	0.9	2,691.2	-4.0
Europe (Europe and America)	1,016.4	1,054.8	-3.6	988.1	2.9
Others	701.2	303.1	131.3	498.0	40.8
Total	3,537.4	3,564.5	-0.8	3,589.4	-1.5
Segmental EBIT (Rs cr)					
APMEA (Asia pacific, Middle East and Africa)	114.6	361.5	-68.3	230.0	-50.2
Europe (Europe and America)	24.3	93.3	-74.0	38.6	-37.2
Others	22.2	4.8	363.0	15.6	41.9
Total	161.1	459.6	-65.0	284.2	-43.3
EBIT Margin (%)					
APMEA (Asia pacific, Middle East and Africa)	4.4	14.1	-968BPS	8.5	-412BPS
Europe (Europe and America)	2.4	8.8	-647BPS	3.9	-153BPS
Total	3.7	11.7	-799BPS	6.8	-307BPS

Valuation (Consolidated)

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
Net sales (Rs cr)	12,815.4	11,848.6	13,180.0	15,122.9	18,012.8
Growth (%)	-4.4%	-7.5%	11.2%	14.7%	19.1%
EBIDTA (Rs cr)	1,930.6	1,997.5	1,846.4	1,798.8	2,388.7
OPM (%)	15.1%	16.9%	14.0%	11.9%	13.3%
PAT (Rs cr)	1,060.1	1,075.2	1,099.3	925.0	1,355.7
Growth (%)	0.8%	1.4%	2.2%	-15.9%	46.6%
FD EPS (Rs)	20.8	21.1	21.6	18.2	26.6
PER (x)	13.7	13.5	13.2	15.7	10.7
P/BV	2.7	2.2	2.0	1.8	1.6
EV/EBITDA	7.7	7.7	9.5	9.5	6.7
ROCE (%)	22.5	18.3	12.9	10.7	14.2
RONW (%)	19.6	16.9	15.1	11.4	14.5

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed 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, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-61150000; For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE: INB/INF011073351 / BSE-CD; NSE: INB/INF/INE231073330 ; MSEI: INB/INF261073333 / INE261073330 ; DP: NSDL-IN-DP-NSDL-233-2003 ; CDSL-IN-DP-CDSL-271-2004; PMS-INP000000662 ; Mutual Fund-ARN 20669 ; Research Analyst: INH000000370; For any complaints email at igc@sharekhan.com ; Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T & C on www.sharekhan.com ; Investment in securities market are subject to market risks, read all the related documents carefully before investing.