

# FIRST LIGHT

25 November 2020

## RESEARCH

### Apollo Tyres | Target: Rs 160 | -8% | SELL

Positives priced in; downgrade to SELL

## SUMMARY

### Apollo Tyres

Apollo Tyres (APTY) delivered a Q2FY21 beat and has rallied 40% in the last three months due to domestic volume visibility, a better Europe performance and steady margin outlook. In our view, these positives are priced in even as rising prices of natural rubber (up ~30% over the last three months) and crude derivatives are likely to squeeze margins despite stronger volumes. We find current valuations at 17.4x Sep'22E EPS rich despite our **earnings upgrade post Q2** and cut the stock to SELL from ADD. Our Sep'21 TP stays at Rs 160.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	900
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,180
<a href="#">Tech Mahindra</a>	Buy	980

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Greenply Industries</a>	Buy	150
<a href="#">Laurus Labs</a>	Buy	410
<a href="#">Transport Corp</a>	Buy	300
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.85	3bps	1bps	(90bps)
India 10Y yield (%)	5.90	2bps	6bps	(57bps)
USD/INR	74.10	0.1	(0.7)	(3.3)
Brent Crude (US\$/bbl)	46.06	2.4	10.3	(27.6)
Dow	29,591	1.1	4.4	5.4
Shanghai	3,414	1.1	4.2	17.5
Sensex	44,077	0.4	8.3	7.8
India FII (US\$ mn)	20 Nov	MTD	CYTD	FYTD
FII-D	48.7	95.0	(14,134.7)	(4,375.2)
FII-E	525.9	6,689.5	13,235.9	19,838.9

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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**SELL**

TP: Rs 160 | ▼ 8%

**APOLLO TYRES**

| Auto Components

| 24 November 2020

## Positives priced in; downgrade to SELL

Apollo Tyres (APTY) delivered a Q2FY21 beat and has rallied 40% in the last three months due to domestic volume visibility, a better Europe performance and steady margin outlook. In our view, these positives are priced in even as rising prices of natural rubber (up ~30% over the last three months) and crude derivatives are likely to squeeze margins despite stronger volumes. We find current valuations at 17.4x Sep'22E EPS rich despite our earnings upgrade post Q2 and cut the stock to SELL from ADD. Our Sep'21 TP stays at Rs 160.

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**Strong volume growth and steady margins already factored in:** We build in volume growth of 13% each in MHCV, LCV & 2W/3W tyres and 16% in PV tyres over FY21-FY23. The spike in natural rubber prices from Rs 120/kg to Rs 155/kg over the last three months is broadly in line with our expectations, though any further price increase is likely to have an adverse impact on margins. We expect India operations to clock a revenue CAGR of 16% and forecast steady overall EBITDA margins at ~13% and an earnings CAGR of 26% for APTY through to FY23.

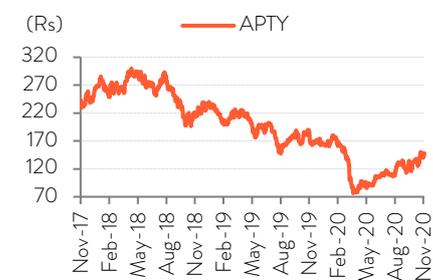
**Leverage, return ratio outlook healthy:** APTY's product profile spanning MHCV, LCV and PV tyres, strong branding and high exposure to the domestic replacement market makes for a healthy growth outlook. With lower borrowings than earlier planned, we expect net debt/equity to remain steady at 0.5x. We also pencil in 100-150bps improvement in ROE and ROCE over FY21-FY23.

**Valuations full, downgrade to SELL:** The stock has rallied 40% during the last three months and is now trading at 17.4x Sep'22E EPS. In our view, most optimism over volumes, margins and Europe sales is in the price. We maintain our TP at 16x Sep'22E EPS but downgrade the stock to SELL (from ADD) on expensive valuations.

Ticker/Price	APTY IN/Rs 174
Market cap	US\$ 1.3bn
Shares o/s	572mn
3M ADV	US\$ 14.7mn
52wk high/low	Rs 182/Rs 73
Promoter/FPI/DII	41%/23%/17%

Source: NSE

## STOCK PERFORMANCE



## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	175,488	163,270	162,817	188,673	206,034
EBITDA (Rs mn)	17,762	19,155	21,988	24,755	27,090
Adj. net profit (Rs mn)	6,798	4,764	4,364	5,922	6,914
Adj. EPS (Rs)	15.4	8.3	7.6	9.3	10.9
Adj. EPS growth (%)	(6.1)	(29.9)	(8.4)	22.2	16.7
Adj. ROAE (%)	6.8	4.8	3.8	5.0	5.5
Adj. P/E (x)	11.3	20.9	22.8	18.7	16.0
EV/EBITDA (x)	7.6	7.4	6.8	6.3	5.6

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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