

# Result Update

Q2 FY24

**Apollo Tyres Ltd.**

Institutional  
Research

## Superior operational performance led by proactive price management

Apollo Tyres Ltd. (ATL) posted robust operating performance in Q2FY24, primarily driven by double-digit growth in both OEM and replacement segments YoY, a softer raw material basket, and a slight recovery in exports sequentially. Revenue grew 5.4% YoY / up 0.6% QoQ to Rs. 6,279.7 crores. Gross margin expanded 680bps YoY/ 70bps QoQ to 45.7%. Consolidated EBITDA came at Rs. 1,156 crores, with a margin expansion of 650bps YoY/ 170bps QoQ to 18.5% owing to 2% lower RM costs, stringent cost control, and price retention across key segments. Aided by higher other income, PAT surged 2.7x YoY/ up 18.9% QoQ to Rs. 482.6 crores. Standalone business (India) EBITDA was up 130bps QoQ to 19.1%, driven by scale efficiencies and cost control, with gross margin being up 30bps QoQ. Exports, which typically account for ~15% of standalone revenue, saw a volume decline of ~40% YoY, although up 7% QoQ. Operations in Europe posted a revenue decline of 6.3% YoY mainly on account of high channel inventory and mild winter. EU EBITDA, however, improved ~100bps QoQ to ~14%. Within segments, all-season and OHT markets grew in single digits whereas PCLT registered a ~7% YoY decline in Europe.

## Sector Outlook

Positive

## Stock

CMP (Rs.)	419
BSE code	500877
NSE Symbol	APOLLOTYRE
Bloomberg	APTY IN
Reuters	APLO.BO

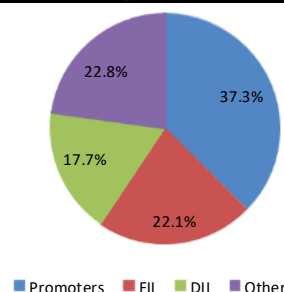
## Key Data

Nifty	19,425
52 Week H/L (Rs.)	441 / 270
O/s Shares (Mn)	63.5
Market Cap (Rs.)	266
Face Value (Rs.)	1

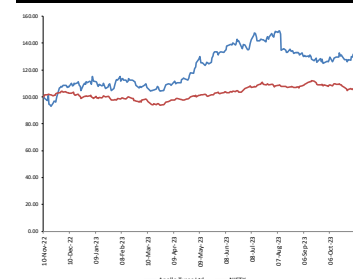
## Average Volume

3 months	2,363,280
6 months	2,511,540
1 year	2,832,260

## Share Holding (%)



## Relative Price Chart



## Key Highlights

Particulars (Rs. mn)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Net Sales	59,560	62,446	62,796	5.4%	0.6%
Gross profit	23,154	28,127	28,675	23.8%	1.9%
Gross margin (%)	38.9%	45.0%	45.7%	680bps	70bps
EBITDA	7,189	10,870	11,851	64.9%	9.0%
OPM (%)	12.1%	17.4%	18.9%	680bps	150bps
Adj. PAT	1,794	3,969	4,743	164.4%	19.5%
EPS (Rs.)	2.8	6.3	7.5	164.9%	19.5%

Source: Company, BP Equities Research

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## Valuation and Outlook

Apollo Tyres has demonstrated resilience in its recent financial performance, reporting a 5% YoY volume growth in India, driven by robust growth in both OEMs and replacement segments. Despite a challenging export scenario, the company has managed to stabilize and recover, with a 7% QoQ growth. Within replacement, the PCR segment remained flat YoY, while the T&B segment exhibited a substantial 20% YoY growth. ATL remains confident in achieving a 10%+ volume growth in the coming quarters, attributing this optimism to the normalization of exports, the seasonally stronger performance of OEMs, and the gradual recovery of PCR replacement. In terms of pricing, the company experienced a minor cut in the T&B segment, and it anticipates addressing potential cost inflation through cost efficiencies rather than immediate price hikes. The EU business witnessed a 5% YoY volume growth, with a focus on a richer product mix (higher share of UUHP & UHP). Despite challenges like high inflation, ATL aims to maintain a balanced approach, prioritizing margins and RoCE over market share. The EBITDA improvement in both India and EU businesses is indicative of the company's effective cost management strategy. Looking ahead, ATL's key driver for sustaining growth will hinge on RM basket cost dynamics, recognizing the role it played in the recent margin increase, and the CV upcycle which will peak out in FY25. The company's strategic stance of limiting consolidated capex in FY24 and FY25 to under Rs 1,200 crores annually aligns with market conditions, and ATL aims to sustain a pre-tax RoCE of over 15%. Overall, ATL's outlook appears positive, underpinned by its proactive measures and confidence in navigating market challenges.

*"Management has reiterated that it does not need to add capacity for the next couple of years and it would continue to pare down debt in the near term."*

## Key Concall Highlights

- In India, both replacement and OEM volumes grew in double digits but were offset by a decline in exports, leading to 5% overall volume growth.
- Demand outlook (a) India: CV replacement continues to see strong growth. PV replacement is also picking up in the festive season. Both PV and CV OEMs continue to post good growth and the outlook remains positive. (b) Europe: Demand seems to have bottomed out and it expects it to pick up in coming quarters.
- RM cost basket is likely to rise 2-3% in Q3FY24.
- Apart from the price cut in the TBB segment taken by one of its peers and followed by Apollo, pricing has been largely stable in other key segments so far.
- Consolidated net debt to EBITDA has declined to 1x from 1.4x by March-end and annualized H1FY24 RoCE stands at 16%+.
- Management has reiterated that it does not need to add capacity for the next couple of years and it would continue to pare down debt in the near term.
- In line with its focus on premiumization, its UUHP mix in Europe stands at 40% from 35% a couple of years back and in India, the mix from 16-inch tyres stands at 5% vs nil earlier.
- Capacity utilization (India) stands at 75% in TBR and 80% in PCR.
- Given the sharp improvement in profitability, the H1FY24 tax rate has sharply increased to 30% average and is likely to sustain at current levels.

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Key Financials					
YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	1,69,546	2,05,808	2,41,223	2,57,160	2,77,590
Growth %	5.3%	21.4%	17.2%	6.6%	7.9%
EBIDTA	28,000	25,741	33,137	42,860	44,899
Growth%	46.0%	-8.1%	28.7%	29.3%	4.8%
Net Profit	2,462	10,776	9,930	12,506	16,372
Growth %	-39.3%	337.7%	-7.9%	25.9%	30.9%
Diluted EPS	5.3	23.2	21.3	29.1	35.6
Profitability & Valuation					
EBIDTA (%)	16.5%	12.5%	13.7%	16.7%	16.2%
NPM (%)	1.5%	5.2%	4.1%	4.9%	5.9%
ROE (%)	3.3%	5.5%	9.0%	12.8%	12.9%
ROA (%)	1.4%	2.4%	4.1%	6.7%	7.2%
P/E (x)	79.1	18.1	19.6	14.4	11.8
EV/EBITDA (x)	6.9	6.9	7.7	7.3	7.0
Net Debt/EBITDA (x)	1.8	2.2	1.6	0.8	0.4

Source: Company, BP Equities Research



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