

Pick of the Week



Apollo Tyres Ltd

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
223	310	39.2%	307 / 192	127424

Key Highlights:

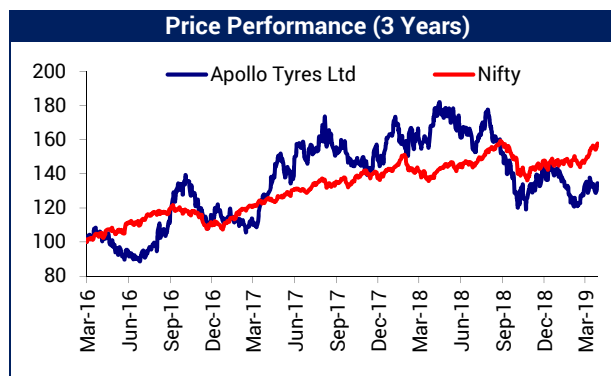
- We expect Apollo's outperformance in the India business (compared to peers) to sustain over the next few years and expect the company to deliver (1) 15% revenue CAGR over FY2018-21E led by market share gains in the truck bus radial and PV segments and (2) 13.5-14% EBITDA margin.
- The company continues to gain market share in India business; profitability will improve over the next two quarters aided by benefit of recent decline in crude prices.
- We expect Vredestein's revenues to grow at 19% CAGR over FY2018-21E led by ramp-up of Hungary plant and EBITDA margin will likely improve to 11.6%/13.4% in FY2020/21E (10% in 3QFY19).
- Hungary plant is ramping up quite well and exports from India have come down significantly.
- RM cost per kg increased by 8% qoq in 3QFY19 and the company expects it to soften in 4QFY19 and in 1QFY2020 due to the benefit of recent decline in crude prices (will lead to lower crude, synthetic rubber and rubber chemical prices).
- The company plans to incur capex of Rs65 over the next three years – (1) Rs55 bn in India, which will be towards greenfield plant in Andhra (Rs38 bn), de-bottlenecking of passenger vehicle capacity from current capacity of 35,000 tires per day (10% capacity addition), conversion of truck bias tire capacity to OHT tires, setting up of a small two-wheeler radial tire capacity and maintenance capex and (2) Rs10 bn in Europe towards completion of capex in Hungary plant and maintenance capex in the Netherlands plant.
- Consolidated gross debt and net debt stood at Rs47 bn and Rs40 bn respectively, as on December 31, 2018
- Revenue and product mix in standalone business: Revenue mix in 3QFY19 is – (1) Replacement market: 60%, (2) OEMs: 30% and (3) Exports: 10%. Product mix in 3QFY19 is – Trucks: 63%, PVs: 17%, LCVs: 8% and others (two-wheelers, farm equipment): 12%.

Financials (Rs mn)*	FY18	FY19E	FY20E
Sales	148,405	180,350	207,331
Growth (%)	12.6	21.5	15.0
EBITDA	16,513	21,114	26,936
EBITDA margin (%)	11.1	11.7	13.0
PBT	10,123	12,492	16,738
Adjusted PAT	7,239	9,194	12,219
Adjusted EPS (Rs)	13.4	16.1	21.4
Growth (%)	(38.0)	20.1	32.9
P/E (x)	16.6	13.8	10.4
BV (Rs/share)	181	182	200
Free cash flow	(14,798)	(5,642)	(13,604)
ROAE (%)	8.5	9.1	11.2
ROACE (%)	6.4	7.4	8.5
Net debt/equity (X)	0.33	0.37	0.47

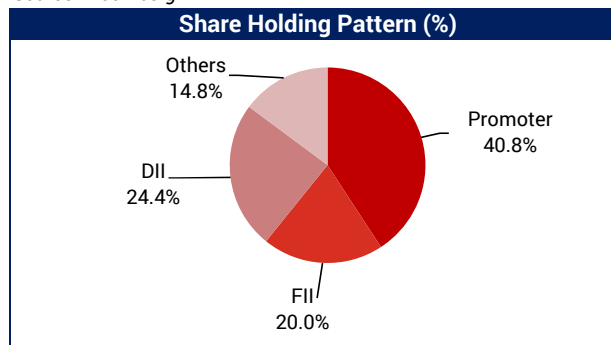
Source: Kotak Institutional Equities * Consolidated

Financials (Rs mn)*	9M-FY18	9M-FY19	% Chg
Revenues	108,092	132,637	22.7
EBITDA	11,361	15,226	34.0
EBITDA Margin (%)	10.5	11.5	
Adj PAT	4,738	6,658	40.5
Adj PAT Margin (%)	4.4	5.0	
Adj EPS (Rs)	9.3	11.6	25.0

Source: Kotak Institutional Equities; *Consolidated



Source: Bloomberg



Source: Bloomberg

This one pager on the company is extracted from last KIE update dated February 6, 2019 and it does not contain events beyond that date. We take no obligation to update the KIE recommendations. While source of all other information is taken from Kotak Institutional Equities, the price performance and shareholding pattern chart is inputted by Kotak PCG research team (with source as Bloomberg). It is advisable to read the full KIE report before taking any investment decision on the above company recommendation.

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Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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