

ANAND RATHI**Apollo Tyres (Buy)**

CMP: ₹207.35

Target: ₹279

Key takeaways: a) Apollo Tyres' growth prospects for the next two years continue to be healthy in TBRs (trucks & bus radials) and PCRs (passenger car radials). With the full capacity of 12,000 tyres a day in TBR and incremental capacity of 3,000 PCRs a day available in FY20, we expect TBRs and PCRs to grow 13 per cent and 11 per cent, respectively.

b) The new plant in Andhra Pradesh for TBRs at 3,000 tyres a day and PCRs at 16,000 tyres a day is expected to commence production from Q4FY20 and scale up in FY21. As the first phase of 3,000 TBR per day would take at least 12 months to ramp-up, we do not foresee impact of capacity utilisation, in the event of OEM (original equipment manufacturer) slowdown in FY21, as we believe that this new capacity can easily get absorbed in the replacement market.

Valuation: We expect revenue to clock an 11 per cent CAGR over FY19-21 and expect earnings to grow at 13 per cent CAGR for FY19-21E ₹1,229 crore in earnings, leading to an EPS of ₹21.5.

Risk: 1) Lowering of price in the event of stable RM and lower volume growth relatively; 2) Higher raw material costs.