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Maintain 'buy' on Apollo Tyres with revised TP of ₹279

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CONTINUING GROWTH PROSPECTS in its India and Europe business, coupled with benign raw-material costs are favourable for Apollo Tyres. Its greenfield capacity in Andhra would enable PCR market-share gains. Growth prospects for the next two years continue to be healthy in TBRs and PCRs. 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 at 13% and 11% respectively. PCR growth is expected to be driven by higher replacement growth and expect the company to be the leader in the replacement market.

The new plant in Andhra for TBRs at 3,000 tyres a day and PCRs at 16,000 tyres a day is expected to commence production from Q4 FY20 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 slowdown in FY21, as we believe that this new capacity can easily get absorbed in the replacement market. The Hungary plant is expected to be ramped up to 12,000 tyres a day by end-FY20 (currently 7,000 tyres) and would be the catalyst for volume growth in FY19 and FY20. We expect an 8% EBIT margin in FY19 (2.2% in Q1 FY19).

From Q4 FY19, the raw material consumed is expected to be at a lower price; thus, margins would expand sequentially in Q4 FY19 and Q1 FY20. Accordingly, we expect the margin to expand to 12% in FY20 and be stable in FY21.

We maintain our buy rating, at a price of ₹279 (13x FY21e EPS), earlier ₹299. Risks: 1) Lowering of price in the event of stable RM and lower volume growth relatively; 2) Higher RM costs. We expect revenue to clock an 11% CAGR over FY19-21 and expect earnings to grow at 13% CAGR for FY19-21E ₹12.3bn in earnings, leading to an EPS of ₹21.5.