

FINANCIAL EXPRESS N.D 23/6/18



Company data & valuation summary

Stock data

52-week range (₹) (high, low) 307-228

Market cap. (₹ bn) 153.6

Shareholding pattern (%)

Promoters 40.3

FII's 24.3

MFs 18.8

Price performance (%)

Absolute (6.1) 2.0 2.6

Rel. to BSE-30 (7.3) (4.6) (9.0)

Forecasts/Valuations

	2018	2019E	2020E
EPS (₹)	13.4	19.9	24.8
EPS growth (%)	(38.0)	48.6	24.7
P/E (X)	20.0	13.5	10.8
Sales (₹ bn)	148.4	176.2	202.5
Net profits (₹ bn)	7.2	11.4	14.2
Ebitda (₹ bn)	16.5	23.9	28.9
EV/Ebitda (X)	10.9	7.8	6.5
RoE (%)	8.5	11.1	12.5
Div. Yield (%)	1.2	1.1	1.1

Source: Company, Kotak Institutional Equities estimates

● APOLLO TYRES RATING: BUY

Outlook is positive

Production ramp-up at the Hungary plant to boost its profitability; EPS CAGR of 29% expected over FY18-21e

THERE ARE three takeaways from our Hungary plant visit: (i) the plant is operating at 30% utilisation, which will ramp up to 60-70% by end-FY2019, (ii) profitability will improve significantly due to oper-

ating leverage benefits (lower employee cost) and higher efficiency and (iii) supplies to OEMs such as Volkswagen and Ford will commence over next few months post receiving final approvals. In India, Apollo

gained around 4% share in the truck bus radial segment in FY2018 and given strong prospects, it has decided to set up a new greenfield capacity in Andhra Pradesh. We maintain our positive stance on the stock and expect the company to deliver 29% EPS CAGR over FY2018-21e.

Hungary plant visit takeaways

Production ramp-up: From average production of 5,000 passenger vehicle tires per day in May 2018 (capacity is 16,000 tires per day), the company expects production and sales volumes to increase to 10,000-12,000 tires per day by end-FY2019. With higher capacity,

Apollo will target Central Eastern European countries along with Russia where it does not have enough presence currently and will also target market share gains in Western Europe. Exports to North America will also start in 2HFY19.

Profitability will improve significantly with increase in utilisation: The Hungary plant is highly automated and much more efficient than the Netherlands plant. As per the management, the cost of production in Hungary would be lower than that of the Netherlands plant in 2HFY19 itself (the plant will achieve Ebitda break-even by end Q1FY19).

Capacity expansion plans in India

The demand in MHCV segment continues to remain strong leading to strong double-digit volumes for the company. In FY2018, Apollo gained 4% market share in the truck bus radial segment and has around 30% share currently. Given strong industry growth prospects and market share gain potential, the company has decided to set up a truck bus radial tire capacity in Andhra Pradesh along with passenger vehicle tires. We have increased our capex assumptions to factor in the capex for new truck bus radial tire plants which leads to around 1-2% cut in our FY2020-21e EPS.