

Smooth ride ahead for Apollo Tyres

Higher volumes, stabilising Hungary operations, steady raw material prices are positives

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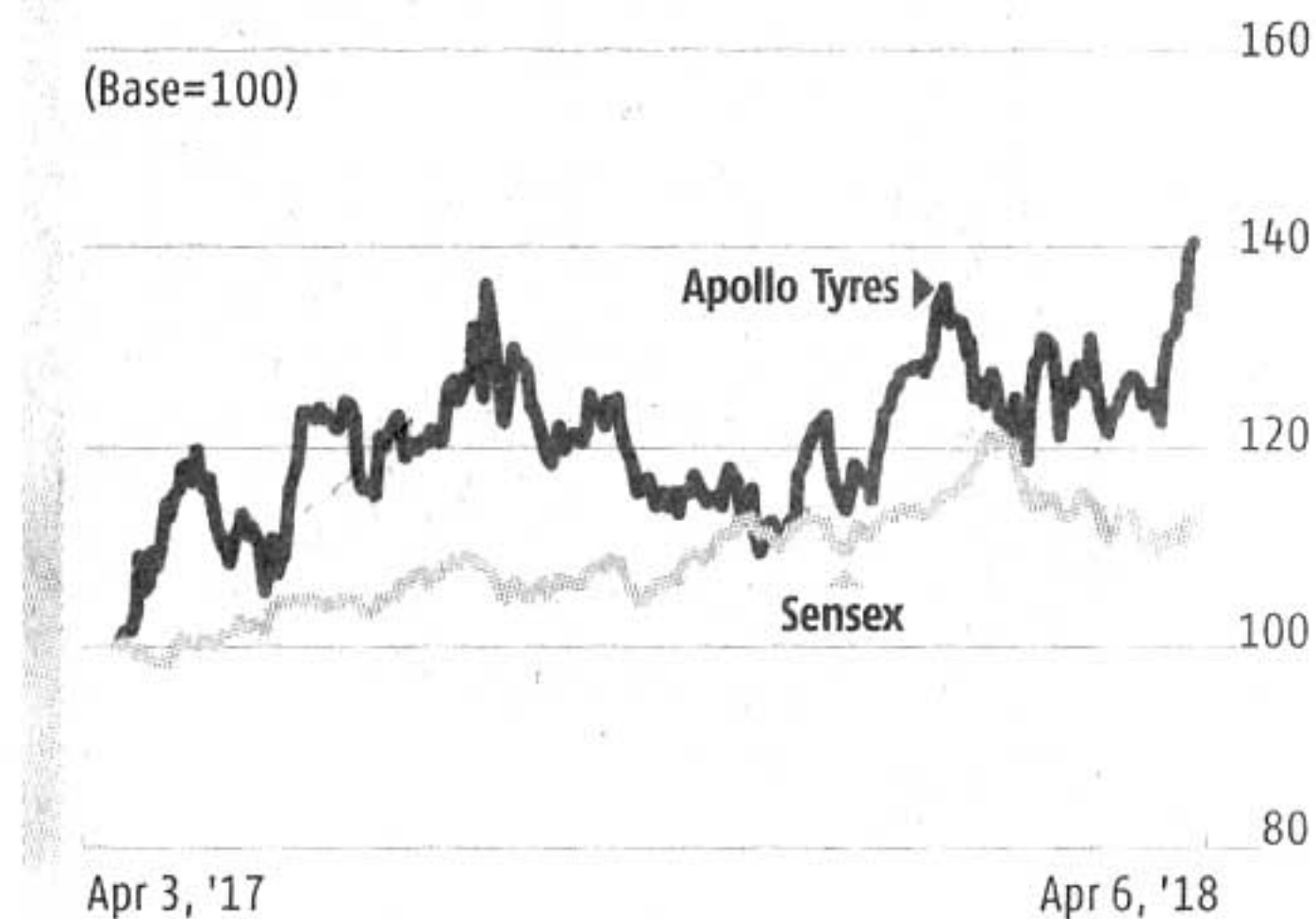
Apollo Tyres has hit fresh 52-week highs over the last week, gaining 6 per cent on expectations of improvement in profitability in the coming quarters, led by steady rubber prices, improving volume growth and anti-dumping duty on the truck and bus radial (TBR) segment tyres. Further, stabilisation in its Hungarian operations and gradual increase in contribution from the OEM (original equipment manufacturer) segment would likely to push its profitability further.

Given the strong volume growth, the Society of Indian Automobile Manufacturers (SIAM) has revised its projections for 2018-19 across segments. Passenger vehicle (PV) sales, earlier projected to grow at 7-9 per cent during the financial year, have now been expected to grow at over 9 per cent. Similarly, for commercial vehicles (CVs), growth has been revised upwards to 13 per cent, from 4-6 per cent; for two-wheelers it has been pegged at 12 per cent, from 9-11 per cent.

The Indian tyre industry is expected to grow at 8-10 per cent for FY18.

Besides, anti-dumping duty on TBR, the goods and services

ROOM FOR UPSIDE



STRONG PROFIT GROWTH

In ₹ billion	FY18E	FY19E	FY20E
Volume (tonnes)*	501,628	571,855	629,041
% change y-o-y	7.3	14.0	10.0
Sales	146.3	172.3	196.8
% change y-o-y	11.1	17.7	14.3
Operating profit	16.1	22.4	26.7
% change y-o-y	-12.5	39.1	19.2
Net profit	7.0	10.8	13.7
% change y-o-y	-39.6	54.3	26.9

E: Estimates; *Standalone operations

Source: IIFL Research

tax (GST) and demonetisation led to a reduction in Chinese imports to less than a third. The current level of truck radial imports is slightly in excess of 50,000 tyres per month vis-à-vis a peak of about 150,000 per month.

Radialisation forms only 45 per cent of the domestic truck and bus tyre market. Apollo has around 28 per cent market share in the segment. Given the scope for higher radialisation, players such as Apollo will benefit. Currently, in the TBR segment, Apollo produces around 9,000 TBR tyres per day, which is expected to go up to 11,500 tyres by the end of 2018, said Gaurav

Kumar, chief financial officer, Apollo Tyres. This segment contributes around 35 per cent to Apollo's turnover.

To address the future demand in PVs, Apollo has decided to go for de-bottlenecking to add around 10 per cent to the current plant capacity.

Finally, good winter tyre sales in Europe is expected to improve capacity utilisation at its Hungary plant. Apollo has already started supplies to some of the leading automakers in Europe.

Sales during the third quarter of European operations were at ₹13.9 billion, a growth of 11 per cent over the same period last

year. Earnings before interest, tax, depreciation and amortisation (Ebitda) for the quarter was at ₹1.2 billion, growing 8.3 per cent.

Within Europe, the Hungary plant is a significant contributor. It now makes 7,000 tyres per day; by the end of 2018, it should start getting close to the plant capacity. While Hungary continues to be a loss-making operation (in the third quarter at about ₹3 million) at the net level, Kumar expects the situation to improve as the capacity ramps up.

"The target internally is to achieve break-even at the operating profit level by the end of

this quarter. It will start contributing to the profitability next year onwards," said Kumar.

Industry-wide operating profit margins had slipped sharply in Q1FY18 to a four-year low of 8 per cent following the sudden spike in both, domestic and global natural rubber prices and higher than normal stocking by automakers during the February-March 2017 period. But, margins improved in Q3FY18 as rubber prices fell sharply in the four months ending February 2018 and have remained range-bound at ₹125-130/kg. Global natural rubber prices continue to trade at a dis-

count, averaging at ₹117 per kg for 11 months of FY18. Over the next three months, Icria expects the domestic natural rubber prices to trade between ₹130-140 per kg. While margins for the company were up on a sequential basis for its India and European operations in Q3FY18, they were lower as compared to the year-ago period. The Apollo management expects a slight increase in the cost of raw materials. The same should be manageable, but any sharp rise could weigh on tyre makers' profitability, and remains a monitorable.



Natural Rubber Output may Fall Short of Target

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Kochi: Indian natural rubber production is likely to be 1 lakh tonnes short of the Rubber Board projected figure of 8 lakh tonnes for 2017-18 even as the consumption is set to reach a new peak.

For 11 months to February 2018, the production clocked 6.49 lakh tonnes, just 2% higher from a year earlier. At the same time the consumption for the period has already crossed 1 million tonnes at 1,003,060 tonnes.

In 2016-17 the output stood at 6.91 lakh tonnes and the consumption at 1,044,075 tonnes.

“There is not much interest in tapping with the prices remaining in the lower range. With a fall in production, the deficit has widened to almost 4 lakh tonnes which is being met through imports,” said leading rubber merchant N Radhakrishnan.

The import has been increasing in the last three years in tandem with the decline in production. The highest import at 458,374 tonnes happened in 2015-16 when the output plunged to 5.62 lakh tonnes, the lowest in the recent times.

This fiscal, till February, the imports are up by nearly 5% at 418,944 tonnes from a year ago. It is expected to reach near 4.50 lakh tonnes for the year.

“If the prices continue to remain low, then in future the dependency on import may go up to 60 or 70%,” Radhakrishnan said.

The prices have remained in the range of ₹120 to 130 per kg for most of the months. The RSS-4 variety used by the tyre industry ruled at ₹122 per kg on Saturday, ₹11 higher than the international price for the similar variety.

“Though it is lean season now, we expect the prices to remain in the ₹120-125 per kg range as the demand is quite sluggish,” said G P



NRADHAKRISHNAN
Rubber Merchant

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Goyal president of Cochin Rubber Merchants Association. The lower global price has led to more imports by the consuming industry despite an import duty of 27.5%

The lower prices, the delay in getting money under the price support scheme of Kerala government, which promises ₹150 per kg to small growers and irregular rains, have been attributed as the causes for stagnant production. The average price was better at ₹135.49 per kg in 2016-17.