



IDEA2ACT : Apollo Tyres	
Reco Price	12-months Target Price
BUY @ ₹ 112-117	₹ 138

Apollo Tyres is the largest CV tyre manufacturer in India, with ~25% market share in the Truck and Bus segment. In the Passenger car radial (PCR) segment, Apollo has ~15% market share.

At the cusp of a multi-year up-cycle

Apollo's consolidated EPS is down 90% over FY17-21ii, due to the i) down-cycle in the auto sector, ii) margin deterioration in Europe, iii) high capex phase and resultant increase in depreciation/interest cost. We expect all three factors to reverse over the next few years. We expect auto industry to see strong growth over the next 2-3 years, after two years of steep down-cycle. A normalization of the economy is already driving growth in replacement demand. Apollo's plan to cut EU headcount by ~25% will lower employee costs substantially and push up EU margins to mid-teens (from 8- 9% currently). Finally, Apollo's high capex phase is largely done. Over the next few years, these assets would sweat to generate higher revenue/profits.

Possible re-rating candidate: Apollo has generated negative FCFF in each of the past four years, resulting in substantial rise in debt. We estimate standalone and consolidated capacity utilization in FY21 to be around 60%, which leaves substantial room for revenue growth before the next leg of capex. We expect Apollo to be FCFF-positive over FY21ii to FY24ii; this should bring down debt/interest costs and drive a re-rating.

Apollo trading at significant discount to peers: We estimate Apollo to generate the highest EPS growth over FY20- 23ii among all tyre companies. In spite of this, Apollo trades at a significant discount to peers. Currently the stock is trading at a price to earnings multiple of just ~11.8x FY22ii vs ~17.8x FY22ii (Ceat), ~21.75x FY22ii (Balkrishna Industries) & ~23.5x FY22ii (MRF).

Technically, the stock has completed its bearish wave cycle and is currently trading at its multi-week support zone around its 89DEMA. The recent recovery in the stock has been backed by a formation of bullish candlestick pattern along with an uptick in volume, indicating a build-up of long positions. **We recommend a buy on Apollo Tyres with a target price of Rs138.**

**Previous Recommendations:**

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	-3%	Open (Dividend Rs10.15 exdate 6th Jul 2020)
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharma	750	867	7%	Open
13-Aug-20	UPL	480	555	4%	Open
18-Aug-20	Crompton Consumer	256	299	-1%	Open
28-Aug-20	Sudarshan Chemical	474	557	-9%	Open

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