

Date: 24/05/2019

Reco. Price: 185-190 • Target: 220-230 • Stop loss: 168.30

Time Frame: 3 months

APOLLO TYRE LTD. Monthly Chart



APOLLOTYRE Monthly Chart

- On monthly charts, the stock has taken trend line support and bounced back.
- The stock has the tendency of respecting 100 Monthly EMA
- The stock has formed a hammer type formation in the demand zone.
- RSI is trading at support levels.
- Based on the above set-up, one can adopt the Buy on Dips strategy in the range of 185-190 with a stop loss of 168.30 for a target of 220-230.

Key Data

Date Price	24/05/2019
Sector	Auto Tyres & Rubber Products
Reco _Price	185-190
Target Price	220-230
BSE Code	500877
NSE Code	APOLLOTYRE
Face Value (Rs)	1/-
Mkt Cap (Rs Cr)	11129
52 Week High	300
52 Week Low	174

Source: BSE,NSE

APOLLO TYRES LTD

Company background

Incorporated in 1972, headquartered in Gurgaon, Apollo Tyres is in the business of manufacturing and sale of automotive tyres. It has been one of the trusted names in the tyre industry both locally and globally.

The company markets its products under their two global brands - Apollo and Vredestein. These products are available in countries across the globe through a vast network of branded, exclusive, and multi-product outlets. Apollo Tyres has multiple manufacturing units in India, the Netherlands, and Hungary.

At the end of FY19, the company clocked a turnover of US\$ 2.50bn, backed by a global workforce of more than 16,000 employees.

Investment Rationale

- According to ICRA, domestic tyre industry is expected to grow between 7-9% over next five years on back of revival in demand outlook, rising capacities, and strong credit profile.
- Moreover, recent softness in auto OEMs demand would have less impact on overall tyre industry as majority of tyre demand emerge from replacement market i.e. approximately 60-65% whereas OEMs demand contributes 35-40% of total demand. According to industry management, replacement demand is growing well at high single digits.
- Further, imposition of anti-dumping duty on truck and bus radial (TBR) tyres from China starting 2017 is also acting as key catalyzed for the growth of tyre demand in replacement market. Data suggest that the import of Chinese tyre has been cut short by almost half since then. This has also resulted in improvement in market share for domestic tyre industry in replacement market.
- During FY19, company's consolidated revenue grew 18.2% to Rs. 17549cr whereas profit de-grew by 6.1% to Rs. 680cr, as the company had written-off the entire amount worth Rs. 200cr deposited with IL&FS Financial services Ltd. On adjusted basis, company profit grew 21.5% on YoY basis. During the year, company's operating margin remains steady around 11%.
- For FY20, the company expects to ramp up its cost competitive Hungary plant and expects an overall 12-13% jump in production target under European operations.
- For domestic operations, the company targets a double-digit growth followed by good demand in replacement market. Moreover, the company is set to commission its seventh facility located at Andhra Pradesh by the year end. Overall, the company would incur capex of Rs. 1800cr in the first phase of the project at Andhra Pradesh.
- With recent softening of raw material scenario, strong brand recall, improving capacity utilization along with deeper penetration into European market, we believe Apollo Tyre will perform well in the coming quarters. At the recommended price of Rs 187.5/-, the company's stock trades at 15.78x its FY19 EPS of Rs 11.88/-. Hence, we recommend to BUY the stock with a target price of Rs 225/-.

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