

# APOLLO TYRES: INVESTMENT DECISION DILEMMA

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Case Solution: Group 12

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# Indian Domestic Tyre Industry Overview

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- Estimated to be around INR 389 billion in terms of turnover
- Major players- Apollo, Ceat, Birla, JK Tyres, MRF account for more than 70% of the total market
- International players had a tiny share due to product limitations at Indian manufacturing facilities
- Market showed a great recovery after the decline in 2008
- Market dominated by CV segment in revenue and two-wheelers in volume
- Replacement Markets and OEM's 63 and 26 % of tires respectively

# Indian Domestic Tyre Industry Overview



Characterized by high raw material intensity- especially on rubber imports



Significant supply and demand gap of rubber led to high volatility in rubber prices



Volatile margins and uneven profitability for the industry

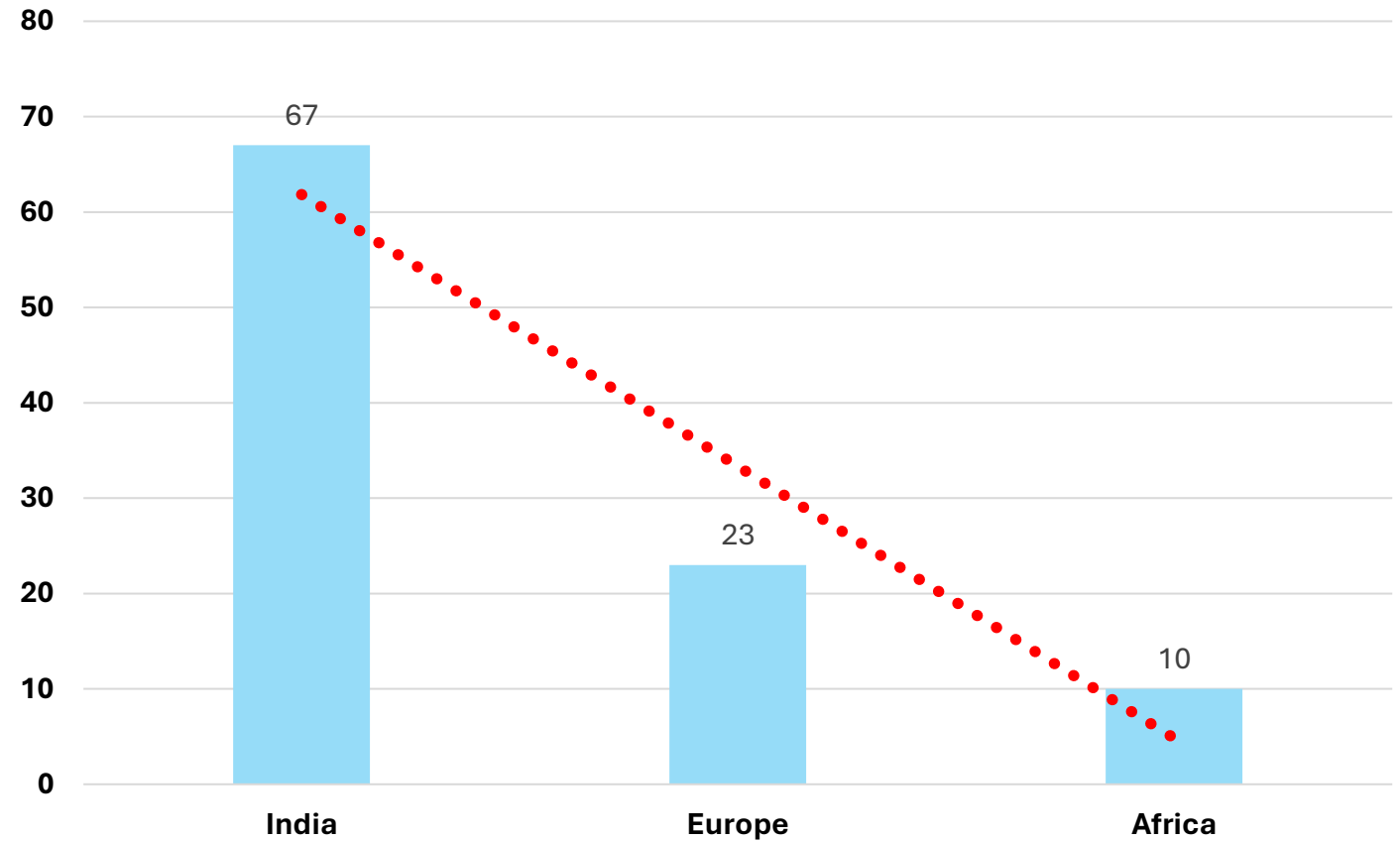


Although the market was consolidated, it was highly price sensitive

# Company Overview

- Incorporated by Raunaq Singh in 1976 in Gurgaon
- Setup its first plant at Perambra, Kerala in 1977
- Has grown at a CAGR rate of 27% over the last five years, aided by organic investment and strategic acquisitions
- Acquired Dunlop's African Unit in 2006 & Vredestein Branden B.V. based in Netherlands

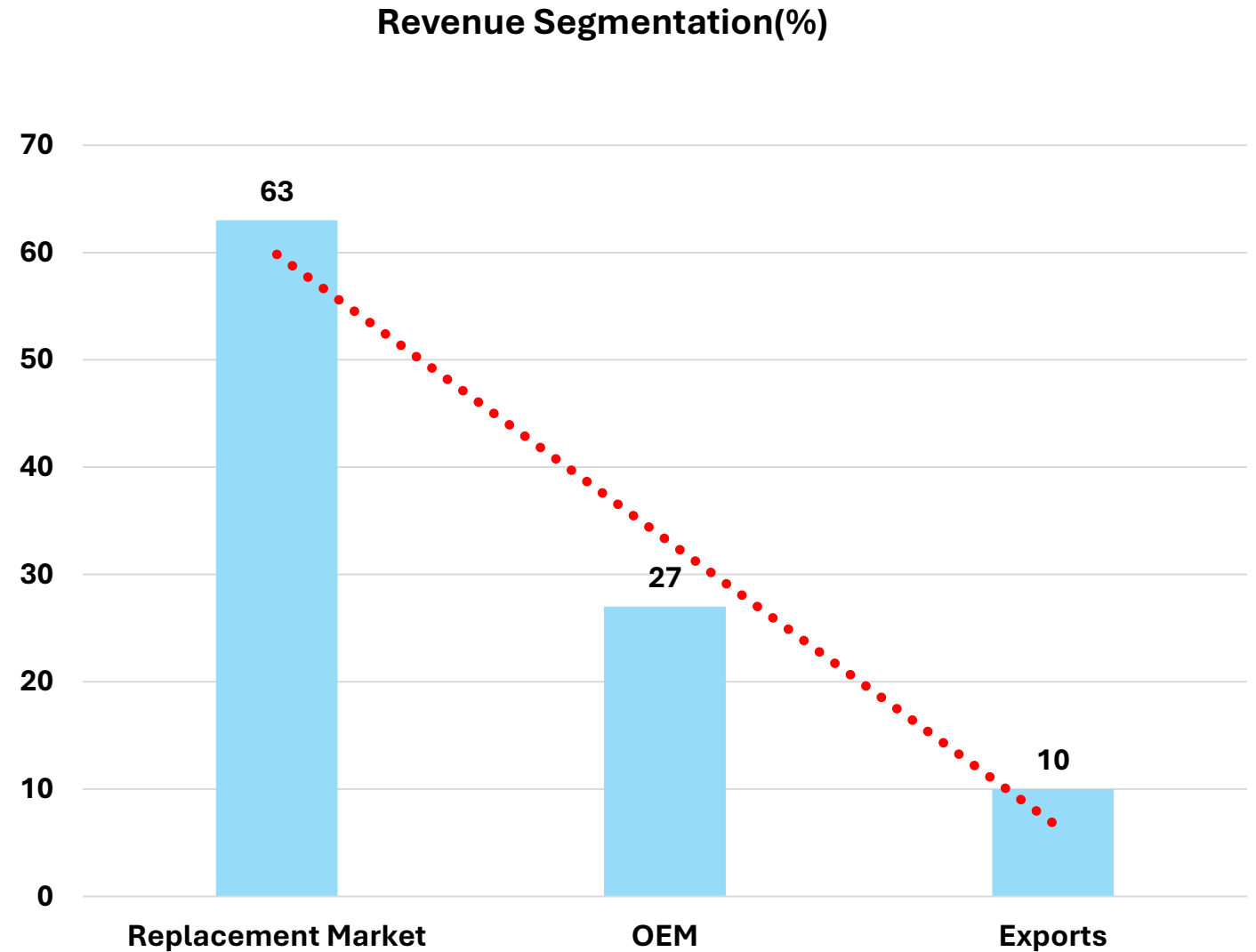
Revenue Segmentation (%)



# Company Overview

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- Over the years , the company reduced its dependence of replacement market
- Overall capacity has grown by CAGR of almost 15 percent
- Net profits showed a modest CAGR of 11% because of factors such as currency fluctuations, competition from cheaper imports, and fluctuations in rubber prices



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## Indian Operations

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Focus on service and delivery

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Launched initiative such as Apollo Direct, Apollo Super Zone and Apollo Fleet of the Year Awards

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Replacement markets were the biggest growth drives in terms of revenue

## European Operations

- Entered this market through acquisition of Vredestein B.V., a niche passenger car tyre manufacturer
- Market driven mainly by demand for replacement tyres
- Niche segments such as speciality tyres witnessed fast growth
- Witnessed a sharp growth of 16% from Vredestein B.V. for 2012

## South African Operations

- Entered this market through acquisition of Dunlop Tyres Intl. Ltd. in 2006
- Operated with Dunlop brand and became a market leader with a share of 18%
- Faced competition from local manufacturers such as Bridgestone and Goodyear





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# Future Outlook

- Indian tyre industry expected to grow around 10%
- Rural India emerging as promising markets for both commercial and passenger vehicle markets
- European market expected to witness a low growth although outlook on Apollo Vredestein B.V. was largely positive.
- South African markets witnessing difficult times although the recent trends have shown some promise

# Valuation of Apollo Tyres

## DCF Analysis (2012-2017): EBITDA Multiple Method

			Total Enterprise Value					Total Equity Value		
			Terminal EBITDA Multiple					Terminal EBITDA Multiple		
			7.5x	8.0x	8.5x			7.5x	8.0x	8.5x
Discount	9.6%		₹ 10,275.65	₹ 10,799.23	₹ 11,322.81		9.6%	₹ 8,659.65	₹ 9,183.23	₹ 9,706.81
Rate	10.6%		₹ 9,773.39	₹ 10,269.19	₹ 10,764.99		10.6%	₹ 8,157.39	₹ 8,653.19	₹ 9,148.99
(WACC)	11.6%		₹ 9,300.71	₹ 9,770.44	₹ 10,240.17		11.6%	₹ 7,684.71	₹ 8,154.44	₹ 8,624.17
			Implied Perpetuity Growth Rate					Total Price Per Share		
			Terminal EBITDA Multiple					Terminal EBITDA Multiple		
			7.5x	8.0x	8.5x			7.5x	8.0x	8.5x
Discount	9.6%		4.3%	4.6%	4.9%		9.6%	₹ 173.19	₹ 183.66	₹ 194.14
Rate	10.6%		5.3%	5.6%	5.9%		10.6%	₹ 163.15	₹ 173.06	₹ 182.98
(WACC)	11.6%		6.2%	6.5%	6.8%		11.6%	₹ 153.69	₹ 163.09	₹ 172.48



# Valuation of Apollo Tyres

## DCF Analysis (2012-2017): Perpetuity Growth Method

			Total Enterprise Value					Total Equity Value		
			Terminal Perpetuity Growth Rate					Terminal Perpetuity Growth Rate		
			6.5%	7.0%	7.5%			6.5%	7.0%	7.5%
Discount	9.6%		₹ 16,142.44	₹ 20,793.88	₹ 25,233.23		9.6%	₹ 14,526.44	₹ 19,177.88	₹ 23,617.23
Rate	10.6%		₹ 13,536.38	₹ 15,109.20	₹ 17,192.67		10.6%	₹ 11,920.38	₹ 13,493.20	₹ 15,576.67
(WACC)	11.6%		₹ 10,950.27	₹ 11,902.74	₹ 13,088.66		11.6%	₹ 9,334.27	₹ 10,286.74	₹ 11,472.66
			Implied Terminal EBITDA Multiple					Total Price Per Share		
			Terminal Perpetuity Growth Rate					Terminal Perpetuity Growth Rate		
			6.5%	7.0%	7.5%			6.5%	7.0%	7.5%
Discount	9.6%		13.1x	15.7x	19.6x		9.6%	₹ 290.53	₹ 383.56	₹ 472.34
Rate	10.6%		9.9x	11.3x	13.2x		10.6%	₹ 238.41	₹ 269.86	₹ 311.53
(WACC)	11.6%		7.9x	8.9x	10.0x		11.6%	₹ 186.69	₹ 205.73	₹ 229.45

# Conclusion

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The value of Apollo stock as per EBITDA Multiple Method is INR 163.09

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On other hand, the same stock is valued at INR 205 using the Perpetuity Growth Method.

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The EBITDA multiple for both the cases is 7%

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As both these values are more than the current market price of INR 79.65, the stock is undervalued and the decision of Santanu should be to buy the stock.

**THANK YOU**

