

Rating Rationale

January 06, 2023 | Mumbai

Apollo Tyres Limited

Rated amount enhanced

Rating Action

| | |
|----------------------------------|---|
| Total Bank Loan Facilities Rated | Rs.3195.4 Crore (Enhanced from Rs.3000 Crore) |
| Long Term Rating | CRISIL AA+/Stable (Reaffirmed) |

| | |
|---|--------------------------------|
| Rs.500 Crore Non Convertible Debentures | CRISIL AA+/Stable (Reaffirmed) |
| Rs.450 Crore Non Convertible Debentures | CRISIL AA+/Stable (Reaffirmed) |
| Rs.325 Crore Non Convertible Debentures | CRISIL AA+/Stable (Reaffirmed) |
| Rs.195 Crore Non Convertible Debentures | CRISIL AA+/Stable (Reaffirmed) |
| Rs.500 Crore Non Convertible Debentures | CRISIL AA+/Stable (Reaffirmed) |
| Rs.500 Crore Non Convertible Debentures | CRISIL AA+/Stable (Reaffirmed) |
| Rs.900 Crore Commercial Paper | CRISIL A1+ (Reaffirmed) |

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA+/Stable/CRISIL A1+' ratings on the bank facilities and debt instruments of Apollo Tyres Limited (Apollo). CRISIL Ratings has also withdrawn its rating on the NCDs of Rs.105 crore (see Annexure 'Details of Rating Withdrawn' for details) as these are completely redeemed. This is in line with the policy of CRISIL Ratings on withdrawal of debt instruments.

Revenue was Rs 11,898 crore while operating margin was 11.8% in the first-half of fiscal 2023, against Rs 9,662 crore and 12.5%, respectively, in the corresponding period previous fiscal. Turnover grew mainly driven by price revisions in India and some market share gains in Europe. Revenue for India operations should continue to grow at a healthy pace while slowdown is expected in volumes for the European operations given subdued global economic outlook. Margin was impacted in the first-half of fiscal 2023, especially in the Europe business, due to rise in raw material prices. However, with softening of natural rubber prices, margin should improve in the second-half of fiscal 2023.

The reported net debt increased to ~Rs 5,500 crore as on September 30, 2022, from ~Rs 4,700 crore as on March 31, 2022, as liquidity got used for incremental working capital requirement. However, net debt to Ebitda (earnings before interest, taxes, depreciation, and amortization) is expected to remain comfortable at below 2.5 times for fiscal 2023 given healthy accrual and no significant debt-funded capital expenditure (capex).

The ratings continue to reflect the strong business risk profile of Apollo, driven by its strong position in the domestic market, well-diversified revenue profile, comfortable financial risk profile and moderate capex plans. These strengths are partially offset by exposure to cyclicality in the tyre industry, volatility in raw material prices and exposure intense competition leading to limited pricing power in the industry.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Apollo and all its wholly owned subsidiaries as they are in the same business and have strong operational and financial linkages. These companies have been collectively referred to as Apollo.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Strong position in the domestic tyre industry with substantial market share in the truck and bus (T&B) segment

Apollo is the leading manufacturer of radial tyres for the domestic T&B segment (around 30% market share) and has established its position in the light commercial vehicles, tractors, and passenger car radial (PCR) divisions. Moreover, market share remained stable across segments in fiscal 2022. A pan-India distribution network comprising 7,000 dealerships, including exclusive outlets that operate under the Apollo brand, further strengthen market position. Despite intense competition, the company should sustain market share given its established brand, healthy operating efficiency and a wide distribution network.

Diversified revenue, driven by presence in different geographies and segments

Diversification in revenue streams will continue to shield the business from unfavourable conditions in any particular segment or geography and lend stability to cash flow. Besides a strong foothold in the domestic T&B segment, the company operates in the European PCR market under the Vredestein brand. In the first-half of fiscal 2023, the APMEA (Asia Pacific, Middle East and Africa) operations accounted for around 69% of the consolidated revenue, followed by Europe (around 27%), and the rest from other regions such as the USA.

In terms of channel mix, the replacement market accounted for ~79% of the consolidated revenue in the first-half of fiscal 2023, thereby assuring steady revenue flow. Due to the modest ramp-up of the Hungarian operations and high production cost, profitability in Europe had been declining since fiscal 2018. Operations were restructured in 2021, after which the Netherlands plant only manufactures specialised tyres, while most of the other production has been shifted to the relatively low-cost Hungarian plant. This had improved profitability, as seen in fiscal 2022. Revenue diversification across geographies, products and channels should continue to lend stability to revenues going forward.

Strong financial risk profile and moderate capex plans

Healthy cash accrual has led to significant improvement in financial risk profile, with net debt to Ebitda (earnings before interest, tax, depreciation and amortisation) ratio falling to 2.1 times as on March 31, 2022, from 3.4 times as on March 31, 2020. Also, consolidated gearing stood at 0.7 times as on March 31, 2022. Despite pressure on profitability due to elevated raw material prices, interest coverage ratio was strong at around 6 times for the first-half of fiscal 2023. Expected capex of Rs 800-900 crore in fiscal 2023 would be towards maintenance and upkeep of existing capacities. Given the expected healthy accrual, gearing and interest coverage ratio should remain stable over the medium term. Any debt-funded, inorganic expansion or huge capex will remain a key rating sensitivity factor.

Weakness:

Exposure to cyclical in the tyre industry and vulnerability to fluctuations in raw material prices

The business remains susceptible to cyclical in the tyre industry, driven by fluctuating demand from end-user commercial vehicle players, especially in the T&B segment. Demand for tyres depends on economic growth and infrastructure development. The second and third waves of the pandemic also impacted overall demand. Furthermore, raw material cost forms over 60% of the operating cost. While the price of natural rubber depends on global demand, area under cultivation, and yield factor, the prices of carbon black and other raw materials are based on crude oil prices. Raw material prices rose by more than 20% in fiscal 2022 and impacted operating efficiency.

Exposure to intense competition and limited pricing power in the tyre industry

Apollo faces intense competition from other established domestic players such as MRF Ltd, CEAT Ltd and JK Tyre & Industries. In the European operations, Apollo is a market follower and the pricing is determined by market dynamics. This competitive intensity limits ability to fully pass on the any raw material price increases to the customers.

Liquidity: Strong

Cash equivalents stood at ~Rs 800 crore and bank limit of over Rs 1,000 crore was unutilised, as on September 30, 2022. Annual cash accrual is expected to be healthy at Rs 2,000-2,400 crore against yearly debt obligation of Rs 1,000-1,300 crore, over the medium term. This is sufficient to cover incremental working capital and moderate capex requirements.

Outlook: Stable

Apollo should maintain a healthy operating performance and steady financial risk profile over the medium term.

Rating Sensitivity Factors

Upward Factors

- Growth in revenue and profitability leading to sustenance of return on capital employed above 12-13%
- Significant deleveraging leading to steady improvement in net debt to Ebitda ratio

Downward Factors

- Weakening of net debt to Ebitda ratio to over 3 times
- Steep decline in profitability

Environment, social and governance (ESG) profile

The ESG profile of Apollo supports its already strong credit risk profile.

The tyres sector has a significant impact on the environment because of the high greenhouse gas emission of core operations as well as waste generation. The sector has a social impact because of its large workforce. The company has continuously focused on mitigating its environmental and social impact.

Key ESG highlights

- Apollo has deployed strategies to reduce the carbon footprint in its processes and aims to be carbon neutral by 2050. The company has been focusing on increasing usage of renewable energy for its operations.
- The company strives to improve its environmental performance by reducing pollution, including water management, waste management, usage/disposal of toxic and hazardous chemicals and other identifiable forms of pollution. Out of total water withdrawal, 38% comprised of recycled or reused water.
- Apollo is committed to ensuring safety and security of its employees. There were no fatalities during the year and the LTIFR (lost time injury frequency rate) ratio stood at 0.41.
- As part of its CSR initiatives, it has reached out to nearly 8.47 million beneficiaries till fiscal 2022, with a target of 11 million by 2026.
- governance structure is characterised by 50% of the board comprising independent directors and having extensive disclosures

About the Company

Apollo, established in 1972, manufactures automotive bias and radial tyres, and tubes. It has plants in Kochi (Kerala), Vadodara (Gujarat), Pune (Maharashtra), Chennai (Tamil Nadu) and Chittoor (Andhra Pradesh). Product profile includes prominent tyre brands in the T&B, light truck, passenger car and farm vehicle segments in India, catering to both original equipment manufacturers and the replacement market. In February 2013, the company sold its South African operations to Sumitomo Tire for USD 60 million.

In May 2009, Apollo acquired Vredestein, a subsidiary of Amtel-Vredestein NV, incorporated in the Netherlands, for EUR 40 million. Amtel-Vredestein NV, Russia's largest tyre manufacturer, was declared bankrupt by a court in the Netherlands in April 2009. However, its subsidiary, Vredestein, was excluded from the bankruptcy as it had separate financing arrangements.

Vredestein has one manufacturing unit in Enschede near Amsterdam, with capacity of 55 lakh tyre per annum. It produces premium, high-speed PCRs, collapsible passenger car tyres, and agricultural tyres. It has two brands, Vredestein and Apollo, in the premium and mid-range segments, respectively. In fiscal 2016, Apollo acquired Reifencor GmbH, a distributor that operates 37 stores in Germany, for EUR 45.6 million.

For the first-half of fiscal 2023, revenue was Rs 11,898 crore with net profit of Rs 3,850 crore; compared with Rs 9,662 crore and Rs 3,015 crore, respectively, for the corresponding period previous fiscal.

Key Financial Indicators (Consolidated; CRISIL Ratings-adjusted numbers)

| Particulars | Unit | 2022 | 2021 |
|----------------------------------|----------|--------|--------|
| Revenue | Rs crore | 20,939 | 17,413 |
| Profit After Tax (PAT) | Rs crore | 620 | 350 |
| PAT Margin | % | 2.96 | 2.01 |
| Adjusted debt/adjusted networkth | Times | 0.65 | 0.7 |
| Interest coverage | Times | 5.85 | 6.36 |

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs.Crore) | Complexity Level | Rating assigned with outlook |
|--------------|-----------------------------------|-------------------|-----------------|---------------|-----------------------|------------------|------------------------------|
| NA | Term Loan | NA | NA | 30-Mar-30 | 900 | NA | CRISIL AA+/Stable |
| NA | Term Loan | NA | NA | 31-Jan-30 | 500 | NA | CRISIL AA+/Stable |
| NA | External Commercial Borrowing | NA | NA | 27-Sep-24 | 87.06 | NA | CRISIL AA+/Stable |
| NA | External Commercial Borrowing | NA | NA | 27-Sep-24 | 108.34 | NA | CRISIL AA+/Stable |
| NA | Working Capital Facility | NA | NA | NA | 1506 | NA | CRISIL AA+/Stable |
| NA | Proposed Working Capital Facility | NA | NA | NA | 94 | NA | CRISIL AA+/Stable |
| INE438A07086 | Non-convertible debentures | 30-May-16 | 8.65% | 30-Apr-24 | 105 | Simple | CRISIL AA+/Stable |
| INE438A07094 | Non-convertible debentures | 30-May-16 | 8.65% | 30-Apr-25 | 105 | Simple | CRISIL AA+/Stable |
| INE438A07102 | Non-convertible debentures | 30-May-16 | 8.65% | 30-Apr-26 | 115 | Simple | CRISIL AA+/Stable |
| INE438A07136 | Non-convertible debentures | 21-Oct-16 | 7.50% | 20-Oct-23 | 90 | Simple | CRISIL AA+/Stable |
| INE438A07151 | Non-convertible debentures | 31-May-17 | 7.80% | 28-Apr-23 | 150 | Simple | CRISIL AA+/Stable |
| INE438A07169 | Non-convertible debentures | 31-May-17 | 7.80% | 30-Apr-24 | 150 | Simple | CRISIL AA+/Stable |
| INE438A07177 | Non-convertible debentures | 09-Apr-20 | 8.75% | 09-Apr-30 | 500 | Simple | CRISIL AA+/Stable |
| INE438A07185 | Non-convertible debentures | 18-May-20 | 7.70% | 16-May-25 | 500 | Simple | CRISIL AA+/Stable |
| INE438A07201 | Non-convertible debentures | 13-Sep-22 | 6.93% | 13-Dec-23 | 250 | Simple | CRISIL AA+/Stable |
| INE438A07193 | Non-convertible debentures | 13-Sep-22 | 7.53% | 13-Sep-27 | 250 | Simple | CRISIL AA+/Stable |
| NA | Commercial paper | NA | NA | 7-365 days | 900 | Simple | CRISIL A1+ |

Annexure - Details of Rating Withdrawn

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs.Crore) | Complexity Level |
|--------------|----------------------------|-------------------|-----------------|---------------|-----------------------|------------------|
| INE438A07128 | Non-convertible debentures | 21-Oct-16 | 7.50% | 21-Oct-22 | 105 | Simple |

Annexure - List of Entities Consolidated

| Name of entities | Extent of consolidation | Rationale for consolidation |
|--|--------------------------------|---|
| Apollo Tyres (Greenfield) B.V. | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres Cooperatief U.A. | Full | Strong managerial, operational and financial linkages |
| Apollo (South Africa) Holdings (Pty) Ltd | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres Africa (Pty) Ltd. | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Thailand) Limited | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Middle East) FZE | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres Holdings (Singapore) Pte Ltd | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Malaysia) SDN BHD | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (UK) Holdings Ltd | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (London) Pvt Ltd | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres Global R&D B.V. | Full | Strong managerial, operational and financial linkages |
| APOLLO TYRES (R&D) GmbH | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres AG | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres Do (Brasil) Ltda | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Hungary) Sales Kft. | Full | Strong managerial, operational and financial linkages |
| APOLLO TYRES (NL) B.V. | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Germany) GmbH | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Nordic) AB | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (UK) Sales Ltd. | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (France) SAS | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Belux) SA | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Austria) Gesellschaft m.b.H. | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Schweiz) AG | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres Iberica S.A. | Full | Strong managerial, operational and financial linkages |
| Apollo Tires (US) Inc. | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Hungary) Sales Kft. | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Polska) Sp. Z O.O. | Full | Strong managerial, operational and financial linkages |
| Vredestein Consulting B.V. | Full | Strong managerial, operational and financial linkages |
| Finlo B.V. | Full | Strong managerial, operational and financial linkages |
| Reifencom GmbH, Hannover | Full | Strong managerial, operational and financial linkages |
| Reifencom Tyre (Qingdao) Co., Ltd . | Full | Strong managerial, operational and financial linkages |
| Saturn F1 Pvt Ltd | Full | Strong managerial, operational and financial linkages |
| KT Telematic Solutions Pvt Ltd | Partial | Joint venture/associate - proportionate consolidation |
| Apollo Tyres Centre of Excellence Limited | Full | Strong managerial, operational and financial linkages |

Annexure - Rating History for last 3 Years

| | Current | | | 2023 (History) | | 2022 | | 2021 | | 2020 | | Start of 2020 |
|-----------------------------------|---------|--------------------|-------------------|----------------|--------|----------|-------------------|----------|-------------------|----------|-------------------|-------------------|
| Instrument | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | 3195.4 | CRISIL AA+/Stable | | -- | 05-08-22 | CRISIL AA+/Stable | 28-05-21 | CRISIL AA+/Stable | 13-05-20 | CRISIL AA+/Stable | CRISIL AA+/Stable |
| | | | -- | | -- | 25-04-22 | CRISIL AA+/Stable | | -- | 24-04-20 | CRISIL AA+/Stable | -- |
| | | | -- | | -- | | -- | | -- | 31-03-20 | CRISIL AA+/Stable | -- |
| Non-Fund Based Facilities | ST | | -- | | -- | | -- | 28-05-21 | CRISIL A1+ | 13-05-20 | CRISIL A1+ | CRISIL A1+ |
| | | | -- | | -- | | -- | | -- | 24-04-20 | CRISIL A1+ | -- |
| | | | -- | | -- | | -- | | -- | 31-03-20 | CRISIL A1+ | -- |
| Commercial Paper | ST | 900.0 | CRISIL A1+ | | -- | 05-08-22 | CRISIL A1+ | 28-05-21 | CRISIL A1+ | 13-05-20 | CRISIL A1+ | CRISIL A1+ |
| | | | -- | | -- | 25-04-22 | CRISIL A1+ | | -- | 24-04-20 | CRISIL A1+ | -- |
| | | | -- | | -- | | -- | | -- | 31-03-20 | CRISIL A1+ | -- |
| Non Convertible Debentures | LT | 2470.0 | CRISIL AA+/Stable | | -- | 05-08-22 | CRISIL AA+/Stable | 28-05-21 | CRISIL AA+/Stable | 13-05-20 | CRISIL AA+/Stable | CRISIL AA+/Stable |
| | | | -- | | -- | 25-04-22 | CRISIL AA+/Stable | | -- | 24-04-20 | CRISIL AA+/Stable | -- |
| | | | -- | | -- | | -- | | -- | 31-03-20 | CRISIL AA+/Stable | -- |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|--|-------------------|--|--------------------------|
| External Commercial Borrowings | 87.06 | State Bank of India | CRISIL AA+/Stable |
| External Commercial Borrowings | 108.34 | Bank of India | CRISIL AA+/Stable |
| Proposed Working Capital Facility | 94 | Not Applicable | CRISIL AA+/Stable |
| Term Loan | 900 | Bank of India | CRISIL AA+/Stable |
| Term Loan | 500 | Axis Bank Limited | CRISIL AA+/Stable |
| Working Capital Facility | 202 | BNP Paribas Bank | CRISIL AA+/Stable |
| Working Capital Facility | 229 | Kotak Mahindra Bank Limited | CRISIL AA+/Stable |
| Working Capital Facility | 28 | IDBI Bank Limited | CRISIL AA+/Stable |
| Working Capital Facility | 200 | Union Bank of India | CRISIL AA+/Stable |
| Working Capital Facility | 179 | State Bank of India | CRISIL AA+/Stable |
| Working Capital Facility | 259 | Axis Bank Limited | CRISIL AA+/Stable |
| Working Capital Facility | 303 | ICICI Bank Limited | CRISIL AA+/Stable |
| Working Capital Facility | 106 | Standard Chartered Bank Limited | CRISIL AA+/Stable |

This Annexure has been updated on 06-Jan-23 in line with the lender-wise facility details as on 17-Aug-21 received from the rated entity.

Criteria Details

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|--|
| Links to related criteria |
| CRISILs Approach to Financial Ratios |
| Rating criteria for manufacturing and service sector companies |
| CRISILs Bank Loan Ratings - process, scale and default recognition |
| Rating Criteria for Auto Component Suppliers |
| CRISILs Criteria for rating short term debt |
| CRISILs Criteria for Consolidation |

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