

Rating Rationale

January 05, 2024 | Mumbai

Apollo Tyres Limited

Ratings reaffirmed at 'CRISIL AA+/Stable/CRISIL A1+'
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Rating Action

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

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|--|---------------------------------------|
| Rs.130 Crore (Reduced from 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.250 Crore (Reduced from Rs.500 Crore) Non Convertible Debentures | CRISIL AA+/Stable (Reaffirmed) |
| Rs.150 Crore (Reduced from Rs.450 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 outstanding debt instruments of Apollo Tyres Limited (Apollo). CRISIL Ratings has **withdrawn** its rating on the company's NCDs of Rs 640 crore (see 'Annexure: Details of rating withdrawn') as these are completely redeemed. This is in line with the CRISIL Ratings policy on withdrawal of rating on debt instruments.

The reaffirmation reflects the healthy growth in the company's revenue and profitability over the 18 months through the first half of fiscal 2024. Revenue grew 17% on-year in fiscal 2023 to Rs 24,538 crore, and by 5% on-year to Rs 12,524 crore in the first half of fiscal 2024. The operating margin improved to 13.5% in fiscal 2023 and to ~18% in the first-half of fiscal 2024 from 12.6% in fiscal 2022. The growth in revenue was supported by healthy realisations and volume growth in both, the replacement and original equipment manufacturer (OEM) segments, in India. Domestic revenue should grow at a healthy pace while the near-term demand outlook for European operations remains sluggish given the subdued global economic outlook. Operating margin improved significantly in the first half of fiscal 2024, driven by the India business, due to benign raw material prices and sustenance of product prices. However, the margin may moderate going forward given the intense competition in the domestic industry and a likely increase in raw material prices such as natural rubber.

Reported net debt reduced to ~Rs 3,900 crore as on September 30, 2023, from ~Rs 4,300 crore as on March 31, 2023, given healthy accrual and moderate capex. The ratio of net debt to earnings before interest, taxes, depreciation and amortisation (Ebitda) is expected below 1 time for fiscal 2024, backed by strong accrual and no significant debt-funded capital expenditure (capex). However, given the capital intensity in the sector, sustenance of the net debt to Ebitda ratio below 2 times over the medium term will remain monitorable.

The ratings continue to reflect the robust 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 susceptibility to cyclicalities in the tyre industry and to volatility in raw material prices, and exposure to intense competition leading to limited pricing power.

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 and has established its position in the light commercial vehicles, tractors and passenger car radial (PCR) divisions in India. Moreover, market share remained stable across segments in fiscal 2023. A pan-India distribution network comprising 7,000 dealerships, including exclusive outlets that operate under the Apollo brand, strengthen the market position. Despite intense competition, the company will likely sustain its market share given its established brand, healthy operating efficiency and 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 segment or geography and lend stability to cash flow. Besides its 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 2024, the APMEA (Asia Pacific, Middle East and Africa) operations accounted for around 69% of the consolidated revenue, followed by Europe (around 28%), with the remaining coming from other regions such as the US.

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In terms of channel mix, the replacement market accounted for ~78% of the consolidated revenue in the first half of fiscal 2024, thereby assuring steady revenue flow. Revenue diversification across geographies, products and channels should continue to lend stability to revenue.

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- **Strong financial risk profile and moderate capex plans**

Healthy cash accrual has led to significant improvement in financial risk profile, with the net debt to Ebitda ratio expected to improve to below 1 time as on March 31, 2024, from 1.3 times as on March 31, 2023, and 1.75 times as on March 31, 2022. Also, consolidated gearing was healthy at 0.56 time as on March 31, 2023. Interest coverage ratio was strong at over 8 times for the first half of fiscal 2024. Expected capex of Rs 1,000 crore in fiscal 2024 will be towards maintenance and upkeep of existing capacities. Given the expected healthy accrual and gearing, interest coverage should remain strong over 7 times the medium term. Any debt-funded, inorganic expansion or large capex will remain a key rating sensitivity factor.

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Weaknesses:

- **Susceptibility to cyclicalities in the tyre industry and to volatility in raw material prices**

The business remains susceptible to cyclicalities 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. For instance, subdued economic growth in Europe impacted volume in the first half of fiscal 2024. 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, the prices of carbon black and other raw materials are based on crude oil prices.

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- **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. The competitive intensity limits ability to fully pass on any raw material price increases to customers.

Liquidity: Strong

Cash equivalent stood ~Rs 800 crore and bank limit of over Rs 1,000 crore was unutilised, as on September 30, 2023. 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.

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Environment, social and governance (ESG) profile

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

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

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Key ESG highlights

- Apollo has deployed strategies to reduce the carbon footprint in its processes. It aims to be carbon neutral by 2050. The company has been focusing on increasing renewable energy usage for its operations.
- Apollo strives to improve its environmental performance by reducing pollution, including through water management, waste management, usage/disposal of toxic and hazardous chemicals and other identifiable forms of pollution. Of the company's total power requirement, 14% was met through renewable sources.
- Apollo is committed to ensuring safety and security of its employees. There were no fatalities during the year and the lost time injury frequency rate (LTIFR) ratio improved to 0.16 in fiscal 2023 from 0.41 in the previous fiscal.
- As part of its corporate social responsibility (CSR) initiatives, Apollo reached out to nearly 8.3 million beneficiaries under its healthcare programme till fiscal 2023 with a target of 11.6 million by 2026.
- The company's governance structure is reflected in more than 50% of its board comprising independent directors and its extensive disclosures.

Outlook: Stable

Apollo will likely its healthy operating performance and 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 15%
- Significant deleveraging resulting in steady improvement in the net debt to Ebitda ratio

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Downward factors

- Weakening of net debt to Ebitda ratio to over 2.5 times
- Steep decline in profitability

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), Chittoor (Andhra Pradesh) and Chennai. The product profile includes prominent tyre brands in the T&B, light truck, passenger car and farm vehicle segments in India, catering to both OEMs and the replacement market. In February 2013, the company sold its South African operations to Sumitomo Tire for USD 60 million.

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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.

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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 had acquired Reifencom GmbH, a distributor that operates 37 stores in Germany, for EUR 45.6 million.

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For the first half of fiscal 2024, revenue was Rs 12,524 crore with net profit of Rs 8,710 crore, compared with Rs 11,898 crore and Rs 3,566 crore, respectively, for the corresponding period of the previous fiscal.

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

| Particulars | Unit | 2023 | 2022 |
|---------------------------------|----------|--------|--------|
| Revenue | Rs crore | 24,538 | 20,939 |
| Profit after tax (PAT) | Rs crore | 1089 | 620 |
| PAT margin | % | 4.44 | 2.96 |
| Adjusted debt/adjusted networth | Times | 0.56 | 0.62 |
| Interest coverage | Times | 6.36 | 5.85 |

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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 -À Details of Instrument'À in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -À including those that are yet to be placed -À 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 | 1104 | NA | CRISIL AA+/Stable |
| NA | Proposed working capital facility | NA | NA | NA | 496 | NA | CRISIL AA+/Stable |
| INE438A07086 | Non-convertible debentures | 30-May-16 | 8.65% | 30-Apr-24 | 105.0 | Simple | CRISIL AA+/Stable |
| INE438A07094 | Non-convertible debentures | 30-May-16 | 8.65% | 30-Apr-25 | 105.0 | Simple | CRISIL AA+/Stable |
| INE438A07102 | Non-convertible debentures | 30-May-16 | 8.65% | 30-Apr-26 | 115.0 | Simple | CRISIL AA+/Stable |
| INE438A07169 | Non-convertible debentures | 31-May-17 | 7.80% | 30-Apr-24 | 150.0 | Simple | CRISIL AA+/Stable |
| INE438A07177 | Non-convertible debentures | 09-Apr-20 | 8.75% | 09-Apr-30 | 500.0 | Simple | CRISIL AA+/Stable |
| INE438A07185 | Non-convertible debentures | 18-May-20 | 7.70% | 16-May-25 | 500.0 | 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 | 900.0 | Simple | CRISIL A1+ |

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Annexure - Details of Rating withdrawn

| ISIN | Name of instrument | Date of allotment | Coupon rate (%) | Maturity date | Issue size (Rs crore) | Complexity level | Rating assigned with outlook |
|--------------|----------------------------|-------------------|-----------------|---------------|-----------------------|------------------|------------------------------|
| INE438A07144 | Non-convertible debentures | 31-May-17 | 7.80% | 29-Apr-22 | 150 | Simple | Withdrawn |
| INE438A07136 | Non-convertible debentures | 21-Oct-16 | 7.50% | 21-Oct-23 | 90.0 | Simple | Withdrawn |
| INE438A07151 | Non-convertible debentures | 31-May-17 | 7.80% | 28-Apr-23 | 150.0 | Simple | Withdrawn |
| INE438A07201 | Non-convertible debentures | 13-Sep-22 | 6.93% | 13-Dec-23 | 250 | Simple | Withdrawn |

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Annexure à€“ List of entities consolidated

| Name of entities | Extent of consolidation | Rationale for consolidation |
|------------------------------|-------------------------|---|
| Apollo Tyres (Greenfield) BV | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres Cooperatief UA | 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) Ltd | 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 BV | 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) BV | 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 mbH | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres (Schweiz) AG | Full | Strong managerial, operational and financial linkages |
| Apollo Tyres Iberica SA | 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 ZOO | Full | Strong managerial, operational and financial linkages |
| Vredestein Consulting BV | 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 Ltd | Full | Strong managerial, operational and financial linkages |

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Annexure - Rating History for last 3 Years

| À | Current | | | 2024 (History) | | 2023À | | 2022À | | 2021À | | Start of 2021 |
|----------------------------------|------------|--------|--------------------|----------------|------|----------|-------------------|----------|-------------------|----------|-------------------|-------------------|
| | Instrument | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Fund Based Facilities | LT | 3195.4 | CRISIL AA+/Stable | À | -- | 06-01-23 | CRISIL AA+/Stable | 05-08-22 | CRISIL AA+/Stable | 28-05-21 | CRISIL AA+/Stable | CRISIL AA+/Stable |
| À | À | À | -- | À | -- | À | -- | 25-04-22 | CRISIL AA+/Stable | À | -- | -- |
| Non-Fund Based Facilities | ST | À | -- | À | -- | À | -- | À | -- | 28-05-21 | CRISIL A1+ | CRISIL A1+ |
| Commercial Paper | ST | 900.0 | CRISIL A1+ | À | -- | 06-01-23 | CRISIL A1+ | 05-08-22 | CRISIL A1+ | 28-05-21 | CRISIL A1+ | CRISIL A1+ |
| À | À | À | -- | À | -- | À | -- | 25-04-22 | CRISIL A1+ | À | -- | -- |

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|----------------------------|----|--------|-------------------|---|----|----------|-------------------|----------|-------------------|----------|-------------------|-------------------|
| Non Convertible Debentures | LT | 1725.0 | CRISIL AA+/Stable | Â | -- | 06-01-23 | CRISIL AA+/Stable | 05-08-22 | CRISIL AA+/Stable | 28-05-21 | CRISIL AA+/Stable | CRISIL AA+/Stable |
| Â | Â | Â | -- | Â | -- | Â | -- | 25-04-22 | CRISIL AA+/Stable | Â | -- | -- |

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 | 496 | 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 | 259 | Axis Bank Limited | 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 | 179 | State Bank of India | CRISIL AA+/Stable |
| Working Capital Facility | 303 | ICICI Bank Limited | CRISIL AA+/Stable |
| Working Capital Facility | 106 | Standard Chartered Bank Limited | CRISIL AA+/Stable |

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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