

## Sharp inflation in RM costs, near term headwind...

**About the stock:** Apollo Tyres (ATL), is a leading tyre manufacturer, having operations in India & Europe. In India, ATL has substantial presence in TBR (~30% market share) and PCR space (~20% market share). India contributes ~63% of sales

- FY26 product mix: Truck/Bus- 40%; PV- 38%; OHT- 10%; Others-12%

**Q4FY26 Results:** ATL reported healthy performance in Q4'26. Revenue on consolidated basis in Q4FY26 stood at ₹ 7,336 crores, up 14% YoY. EBITDA for the quarter stood at ₹ 1,069 crore with EBITDA margins at 14.6%, down ~75 bps QoQ. Consequent consolidated PAT for Q4FY26 came in at ₹ 631 crores. On standalone basis it reported an EBITDA margin of 14.6% (up 10% QoQ).

### Investment Rationale:

- Strong Domestic growth visibility amid GST 2.0 tailwinds:** The tyre industry exhibits a robust demand structure, with approximately 70% of its revenue stemming from the replacement market and the remaining 30% from Original Equipment Manufacturers (OEMs). In Q4FY26, the India business delivered high teen volume growth across replacement & OEM, with TBR replacement volumes growing over 20%, while OEM TBR also grew 20%+. Demand continued to stay robust into April while expectations of momentum to sustain in the near term, primarily tracking GST rate cut tailwinds both for the OEM as well as replacement market.
- Raw material price inflation to pressure margins in the near term:** Rubber & crude derivatives form bulk of raw material costs at tyre companies. Consequently, domestic tyre industry has largely witnessed volatile margin profile with industry realising healthy margins during periods of benign raw material prices. Natural rubber prices remained broadly stable during the first half of FY26, averaging ₹198/kg in Q1 and Q2, before moderating to ₹185/kg in Q3 FY26. However, the trend reversed sharply in Q4, with prices increasing to ₹207/kg, due to escalating geopolitical situation and sharp increase in Crude prices from \$61 to \$118 at the end of FY26. Nevertheless, ATL witnessed an improvement of ~170 bps in gross margins on standalone basis in Q4FY26. Since then, costs have further seen a sharp increase, from around ₹200/kg in Q4 to ₹260/kg currently due to escalating geopolitical situation. To offset mid-to-high teens RM price hike, Apollo has announced cumulative price hikes of 6–8% across categories, with part implemented and balance taking effect in May.
- Debt on B/S substantially reduced, structurally well placed to withstand near term pressure:** Tyre industry is known to have bloated balance sheets owing to high capex intensity. Apollo tyre has done considerable work in this domain with net debt down from ~₹ 6,000 crore in FY20 to ~₹ 1,600 crore as of FY26, a reduction of substantial ~₹ 4,400 crore. In this timeframe its EBITDA has improved from ~₹ 1,900 crore in FY20 to ~₹ 4,100 crore in FY26 with consequent Net Debt: EBITDA now placed at 0.4x.

### Rating and Target Price

- Given the sharp and persistent rise in RM costs amid geo-political conflict and consequent pressure on gross margins in near-term, we downgrade the stock to **HOLD** & value it at **₹ 425 i.e. 6.5x on FY28E EV/EBITDA**.

### Key Financial Summary

Key Financials	FY22	FY23	FY24	FY25	FY26P	5 year CAGR (FY21-26P)	FY27E	FY28E	2 year CAGR (FY26-28E)
Net Sales	20,948	24,568	25,378	26,123	28,471	10.4	32,575	33,633	8.7
EBITDA	2,574	3,314	4,447	3,572	4,143	8.6	3,814	4,667	6.1
EBITDA Margins (%)	12.3	13.5	17.5	13.7	14.6		11.7	13.9	
Net Profit	639	1,046	1,722	1,121	1,372	31.4	1,393	1,884	17.2
EPS (₹)	10.1	16.5	27.1	17.7	21.6		21.9	29.7	
P/E	37.3	22.8	13.8	21.2	17.4		17.1	12.6	
RoNW (%)	5.4	8.3	12.4	7.6	8.2		7.8	9.8	
RoCE (%)	6.3	9.8	15.2	10.4	12.5		9.3	11.6	

Source: Company, ICICI Direct Research



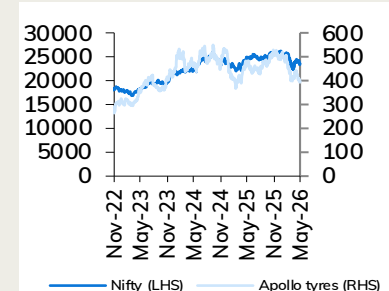
### Particulars

Particular	₹ crore
Market Capitalization	23,814
Total Debt (FY26P)	2,632
Cash & Inv. (FY26P)	1,044
EV (₹ Crore)	25,402
52 week H/L (₹)	540 / 374
Equity capital	₹ 63.5 Crore
Face value	₹ 1

### Shareholding pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	37.0	37.0	36.9	36.9
FII	12.3	11.9	12.3	12.2
DII	27.5	27.9	27.9	27.6
Other	23.2	23.2	22.9	23.4

### Price Chart



### Recent event & key risks

- Guides for steep inflation in RM basket, will take partial price hikes to offset its impact.
- Key Risk: (i) more than expected recovery in domestic demand (ii) elongated pressure on margins amid high RM prices

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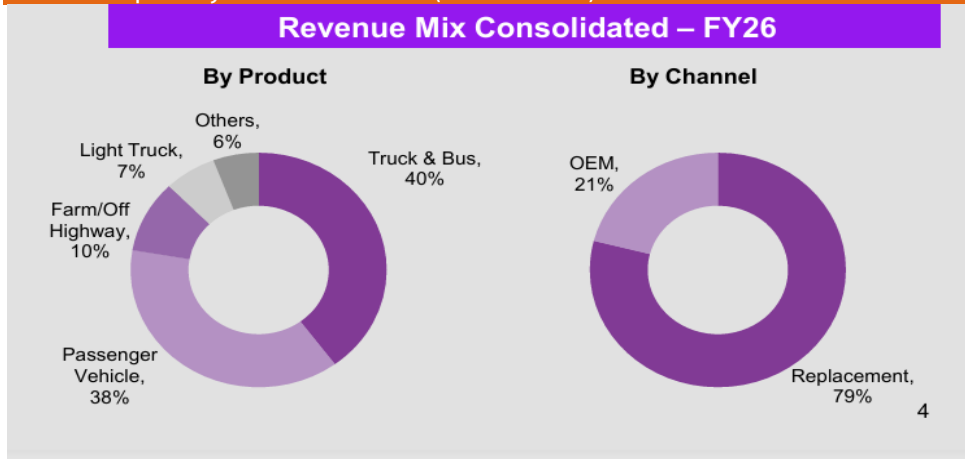
## Key Highlights for the Quarter

Exhibit 1: Apollo Tyres – Quarterly Results (Consolidated)

	Q4FY26	Q4FY25	YoY (%)	Q3FY26	QoQ (%)
Total Operating Income	7,336	6,424	14.2	7,743	(5.3)
Raw Material Expenses	3,890	3,634	7.0	4,260	(8.7)
Employee Expenses	885	766	15.5	909	(2.6)
Other expenses	1,492	1,186	25.9	1,388	7.5
EBITDA	1,069	837	27.6	1,186	(9.9)
EBITDA Margin (%)	14.6	13.0	153bps	15.3	-75bps
Depreciation	397	377	5.2	385	3.0
Interest	90	109	(17.9)	100	(10.3)
Other income	35	28	27.9	50	(28.9)
Tax	(469)	75	(723.4)	253	(285.8)
PAT	631	185	241.8	471	34.1
EPS (₹)	9.9	2.9	241.7	7.4	34.1
<b>Key Metrics</b>					
Revenue (₹ crore)					
APMEA	5,346	4,649	15.0	5,208	2.7
Europe	2,180	1,891	15.3	2,637	(17.3)
EBIT Margin (%)					
APMEA	11.4	7.2	419 bps	10.6	85 bps
Europe	6.6	5.6	100 bps	10.1	-353 bps

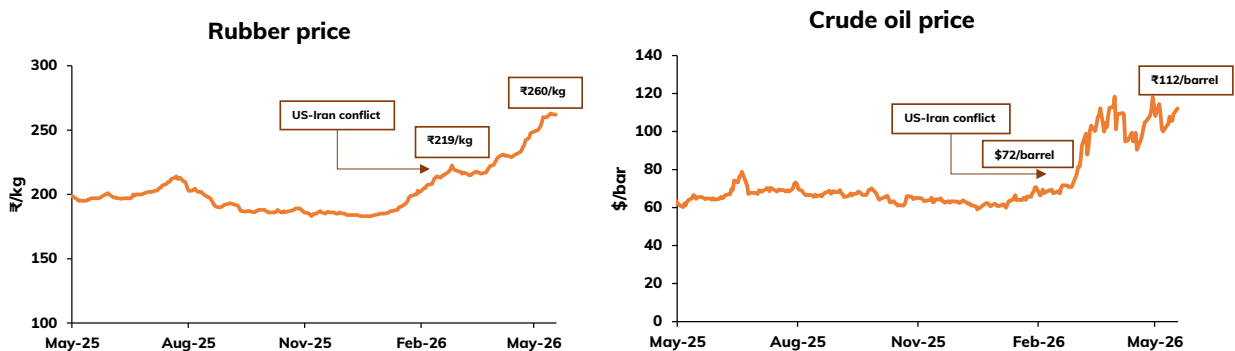
Source: Company, ICICI Direct Research

Exhibit 2: Apollo Tyres – Revenue mix (Consolidated)



Source: Company, ICICI Direct Research

Exhibit 3: Trend of key raw material prices



Source: Bloomberg, ICICI Direct Research

Exhibit 4: Trend in Average Natural rubber price (₹/kg) - domestic

Q1FY26	Q2FY26	Q3FY26	Q4FY26	Till date Q1FY27
198.5	198.4	185.4	207.2	244.2

Source: Bloomberg, ICICI Direct Research

## Q4FY26 con-call highlights

### Indian Operation

- Industry:** Management highlighted that the domestic demand environment remained exceptionally strong through Q4 FY26, supported by healthy freight movement, resilient replacement demand, and robust OEM offtake. Growth was broad-based across replacement and OEM channels, with April continuing to show equally strong momentum.
- Performance:** Company delivered one of its strongest quarters ever in India. Revenue grew 14.3% YoY to ₹5,240 crore and was up 2% sequentially despite Q3 already being a record quarter. EBITDA stood at ₹760 crore, translating to a margin of 14.6% versus 11.2% in Q4 FY25. Volume growth in both OEM and replacement channels was in the high teens. TBR replacement volumes grew over 20%, OEM TBR also grew 20%+, while passenger car replacement recorded healthy growth. Management believes the company gained market share in TBR replacement, TBR overall, and passenger car replacement during FY26.
- Capex:** Apollo is undertaking significant capacity expansion to meet sustained demand. Of the ₹3,500 crore capex planned for FY27, approximately ₹3,000 crore will be invested in India, primarily toward expanding truck and passenger car tyre capacities. Management stated that capacity utilization was already around 90% in Q4 and that the company struggled to meet demand during April, reinforcing the strategic importance of these expansions.
- Balance Sheet & Returns:** Strong operating cash flows have materially strengthened the balance sheet. India net debt-to-EBITDA improved to 0.7x from 1.1x a year ago, while consolidated leverage declined to 0.4x. Consolidated ROCE improved by 240 bps to 13.4%. In addition, Apollo will shift to the concessional tax regime from FY27, reducing the effective tax rate from 34% to 25%, which should provide a structural boost to net earnings and free cash flow.

### European Operation

- Performance:** European operations reported revenue of €170 million, down 3% YoY, although underlying volumes grew modestly. EBITDA stood at €25 million, with margins improving to 14.6% from 14.3% last year. Apollo continued to outperform the market in passenger car tyres, while truck tyre sales were impacted by supply constraints from India. Management indicated that April was positive across all segments and expects improved momentum in Q1FY27.
- Margin & product mix:** European margins remain below the company's historical normalized range of 16%+ due to sluggish market conditions, elevated energy prices, and unusually high salary inflation in Western Europe. Premiumization remains a key focus, and management reiterated confidence that margins can return to and potentially exceed 16% once restructuring benefits materialize and market conditions normalize.
- Plant Closure & restructuring:** The closure of the Enschede plant in the Netherlands remains on track, with production ending on June 30, 2026. Apollo recognized a €43 million non-cash impairment on fixed assets in Q4. Additionally, cash outflows of approximately €55 million, including a €50 million employee social plan, are fully provided for and will be paid in FY27. Management expects the restructuring to materially improve cost competitiveness, with benefits beginning to reflect from H2 FY27 onward.

**Commodity Inflation and Price Hike:** Raw material costs have risen sharply, particularly natural rubber, which increased from around ₹200/kg in Q4 to ₹250/kg currently. Management expects the overall raw material basket to rise by mid- to high-teens sequentially in Q1 FY27. To offset this, Apollo has announced cumulative price hikes of 6-8% across product categories, with part already implemented and the balance taking effect in May. However, these hikes will cover only about half of the cost increase, and at least two additional rounds of price increases may be required if current commodity prices persist. Consequently, near-term margins are expected to remain under pressure.

**Capacity and product roadmap:** The Hungary plant continues to ramp up and remains central to Apollo's European manufacturing strategy. Incremental capacity in Hungary and India will replace production from the Enschede facility, improving the company's overall cost structure. Only a small portion of agricultural tyre business may be lost due to product-specific manufacturing constraints, but most production will be seamlessly transferred to other plants.

**Management Guidance:** Management remains constructive on Europe despite a subdued macro backdrop. The company expects improved top-line momentum in FY27 and meaningful margin expansion from H2 FY27 as restructuring benefits flow through. In a normalized environment, management believes European EBITDA margins can return to 16% and potentially surpass prior peak levels.

## Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY25	FY26P	FY27E	FY28E
Total operating Income	26,123	28,471	32,575	33,633
Growth (%)	2.9	9.0	14.4	3.2
Raw Material Expenses	14,695	15,554	19,039	19,034
Employee Expenses	3,130	3,542	3,631	3,754
Other Expenses	4,728	5,232	6,091	6,179
Total Operating Expenditure	22,552	24,327	28,761	28,967
EBITDA	3,572	4,143	3,814	4,667
Growth (%)	-19.7	16.0	-7.9	22.4
Depreciation	1,498	1,543	1,629	1,766
Interest	447	391	446	508
Other Income	88	133	92	83
PBT	1,546	1,309	1,831	2,476
Exceptional items	168.7	1,033.5	0.0	0.0
Total Tax	425	-63	440	594
Reported PAT	1,121	1,372	1,393	1,884
Growth (%)	-34.9	22.4	1.5	35.2
EPS (₹)	17.7	21.6	21.9	29.7

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY25	FY26P	FY27E	FY28E
Profit after Tax	1,121	1,372	1,393	1,884
Add: Depreciation & Interest	1,945	1,935	2,075	2,274
(Inc)/dec in Current Assets	-1,306	-736	-1,320	-357
Inc/(dec) in CL and Provisions	38	1,141	245	234
CF from operating activities	1,798	3,712	2,393	4,035
(Inc)/dec in Investments	493	-	-	-
(Inc)/dec in Fixed Assets	(1,082)	(2,156)	(3,500)	(3,000)
Others	(63)	(785)	50	(17)
CF from investing activities	(652)	(2,941)	(3,450)	(3,017)
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(565)	(745)	1,600	-
Dividend & interst outgo	(764)	(773)	(764)	(952)
Others	158	893	(20)	(20)
CF from financing activities	(1,171)	(625)	816	(972)
Net Cash flow	(25)	147	(241)	45
Opening Cash	922	898	1,044	803
Closing Cash	898	1,044	803	849

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹crore			
(Year-end March)	FY25	FY26P	FY27E	FY28E
<b>Liabilities</b>				
Equity Capital	63.5	63.5	63.5	63.5
Reserve and Surplus	14,702	16,652	17,728	19,167
Total Shareholders funds	14,766	16,715	17,791	19,231
Total Debt	3,377	2,632	4,232	4,232
Deferred Tax Liability	1,799	1,455	1,455	1,455
Total Liabilities	21,494	22,286	25,124	26,582
<b>Assets</b>				
Gross Block	30,724	32,238	33,815	35,315
Less: Acc Depreciation	15,173	16,716	18,345	20,110
Net Block	15,551	15,522	15,470	15,205
Capital WIP	435	1,077	3,000	4,500
Total Fixed Assets	15,987	16,599	18,470	19,705
Investments	45	62	72	82
Goodwill on consolidation	237	277	277	277
Inventory	5,131	5,452	6,247	6,450
Debtors	3,062	3,191	3,570	3,686
Loans and Advances	0	0	0	0
Other current assets	725	1,011	1,157	1,195
Cash	898	1,044	803	849
Total Current Assets	9,815	10,698	11,777	12,179
Creditors	2,874	3,224	3,570	3,686
Provisions	289	854	339	350
Total Current Liabilities	3,164	4,079	3,909	4,036
Net Current Assets	6,652	6,620	7,869	8,143
Application of Funds	21,494	22,286	25,124	26,582

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY25	FY26P	FY27E	FY28E
<b>Per share data (₹)</b>				
EPS	17.7	21.6	21.9	29.7
Cash EPS	41.3	45.9	47.6	57.5
BV	232.5	263.2	280.2	302.8
DPS	5.0	6.0	5.0	7.0
Cash Per Share	14.1	16.4	12.7	13.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.7	14.6	11.7	13.9
PBT / Net sales	7.9	9.1	6.7	8.6
PAT Margin	4.3	4.8	4.3	5.6
Inventory days	71.7	69.9	70.0	70.0
Debtor days	42.8	40.9	40.0	40.0
Creditor days	40.2	41.3	40.0	40.0
<b>Return Ratios (%)</b>				
RoE	7.6	8.2	7.8	9.8
RoCE	10.4	12.5	9.3	11.6
RoIC	11.1	13.9	11.1	14.8
<b>Valuation Ratios (x)</b>				
P/E	19.1	9.7	17.1	12.6
EV / EBITDA	7.4	6.1	7.1	5.8
EV / Net Sales	1.0	0.9	0.8	0.8
Market Cap / Sales	0.9	0.8	0.7	0.7
Price to Book Value	1.6	1.4	1.3	1.2
<b>Solvency Ratios</b>				
Debt/Equity	0.2	0.2	0.2	0.2
Current Ratio	2.8	2.4	2.8	2.8
Quick Ratio	1.2	1.0	1.2	1.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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