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ATL/SEC/21

November 13, 2017

The Secretary, BSE Ltd. Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001.	The Secretary, National Stock Exchange of India Ltd, Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051

Sub: Transcript of Analyst/ Investor Conference call

Dear Sirs,

Pursuant to Regulation 30(6) and 46(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that a Conference Call for the analysts and investors to discuss the financial and operational performance of the Company was held on Thursday, November 2, 2017 at 10:00 AM.

Please find attached herewith the transcript of the aforesaid call. The same has also been placed on the website of the Company i.e www.apollotyres.com.

This is for your information and records.

Thanking You

Yours Sincerely
For APOLLO TYRES LTD

Seema Thapar

(SEEMA THAPAR)
Company Secretary

India, November 2, 2017

Q2 FY18 Earnings Call

Sonal Gupta: Good morning everyone. On behalf of UBS Securities, I welcome you all to the Q2 FY 2018 Earnings Call of Apollo Tyres Limited.

From the management today we have with us Mr Gaurav Kumar, Chief Financial Officer, Apollo Tyres and other members of Senior Management.

I would now like to transfer the floor to Gaurav for his opening comments, post which we will have the Q&A session

Gaurav Kumar: Good morning everyone and welcome to our quarterly earning call. We would give brief background on the results post which we would be happy to take your questions.

On a consolidated basis, the net sales for the quarter were Rs 34 billion, a growth of 11.5% on a year on year basis and a growth of 5% on sequential basis. This growth was essentially led by India Operations, which registered revenue growth of nearly 18% over the same period last year while in the Europe Operations we had a de-growth. The EBITDA excluding other income for the quarter was Rs 3.6 billion, registering a margin of 10.7%, it was a decline of about 3.5% vis-à-vis same period last year, but an improvement of 2.2% over the previous quarter. This was primarily due to raw materials price moving upwards. The raw materials were up nearly 12% compared to the same period last year however fell by 9% on a sequential basis and this has been in line what we had been communicating. The raw material scenario for the quarter ending in December, is expected to be stable. It will go up marginally during the quarter, however, the average for the quarter would be at same level as Q2 Further, we expect a slight increase in RM prices in the last quarter of current the fiscal year. The net debt on a consolidated basis was at Rs 41.4 billion an increase of about Rs 7 billion vis-à-vis last quarter, which was essentially on account of funding of capex. We have also concluded a QIP issue at the beginning of Q3, which would mean that going forward the debt increase would not happen as some of the capex would be funded through internal accruals and the equity raised.

About India Operation, the sales for the quarter were Rs 24.2 billion, a growth of 18% over the same period last year. This was on account of a nearly double digit volume growth and a price and mix growth of about 8%. On sequential basis, growth of about 6% was primarily led by the volume growth, which came in from growth across product categories except farm, which seasonally is weaker this quarter.

EBITDA excluding other income for the quarter was Rs 2.8 billion, a margin of 11.8% compared to 16% last year, however, EBITDA increased by 3.3% on a sequential basis. The net debt in the Indian Operation was at Rs 21.2 billion vis-à-vis Rs 17.7 billion as of the end of previous quarter. As mentioned earlier, the raw materials were higher by 12% over the same period last year, but a decline of 9% compared to the June quarter. We continue to see strong volume pickup in the India and our expectations for the current quarter would again be to have continued volume growth looking at the market scenario.

Moving on to Europe, our Dutch and the Hungarian Operations reported sales of €107 million for the quarter, a de-growth of 5% over the same period last year, which was primarily on account of volume decline. We did not perform in line with the market; market itself was dull, but our decline was more and that resulted in pressure on the margins given the operating leverage.

The EBITDA for the quarter was €9 million at 8.5%, which takes into account startup losses of Hungary. The German Distribution Company also had a negative revenue growth and reported EBITDA loss.

We continue to ramp up our truck radial capacity in Chennai; current capacity being in excess of 8000 tyres per day. And this capacity is coming in at the right time as we see a strong demand pickup in this segment. Similarly in Hungary, the Operations continues to ramp up. We have already crossed levels of 2000 car tyres a day and expect to be crossing level of 5000 tyres per day average for the last quarter of this fiscal year. The European Operations would continue to go through some difficult time till Hungary reaches a certain scale and we would start seeing Hungary contributing into the results from next year and the full impact of the scaled up operations coming into play in FY2020. That is all from our side. We would be happy to take your questions.

Nitesh Sharma (Phillip Capital): What was the volume growth across product categories and across OEM and Replacement segment?

Gaurav Kumar: The growth in truck replacement segment was about mid single digit. The OE pickup particularly was a big factor in the truck segment which led to about 12% overall volume growth. The truck OEMs went through a significant decline in the June quarter on account of the BS-III to BS-IV switch. On the truck radial side it was much stronger growth also as the truck cross-ply continues to decline. Almost double digit growth in PCR OE segment was negated by a decline in exports, resulting in a overall flat growth in the segment. The light commercial vehicle, etc., had a marginal volume growth. Farm grew by almost 15% vis-à-vis the same period last year.

Nitesh Sharma: And in PVs, what was the growth in the replacement segment?

Gaurav Kumar: PV replacement segment was a slight growth. Also the PV growth has to be looked in light of the fact that we are currently facing a capacity constraint, so when we mention flat overall growth, it implies we had a growth in the domestic market, but given the capacity constraints, we had to cut supplies in some instances, to our export market. So the decline was not because of the market scenario, but more because of our capacity constraints and that is why we have been talking in the recent times about the need of expanding the PCR capacity.

Nitesh Sharma: RM basket is looking flat going forward, is that understanding correct?

Gaurav Kumar: That is correct.

Nitesh Sharma: And is the industry contemplating any sort of marginal price cuts in the near term?

Gaurav Kumar: I cannot speak about the industry; as of now we are not looking at price cuts.

Moderator: We take the next question from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari (Equirus Securities): 8000 tyres per day is the production or capacity currently? capacity I think is 9000?

Gaurav Kumar: 8000 tyres per day is the current production level; capacity is ramping up and currently should be in excess of 9000 tyres per day.

Ashutosh Tiwari: How much capex has been incurred in H1 in India and Europe, and how much will be done in the second half of FY2018 and FY 2019?

Gaurav Kumar: Capex planned for FY18 across geographies is Rs 2400 Crores. This includes expansion capex, maintenance capex and capex for other projects. Chennai capex out of this would be close to Rs 1000 Crores. For FY2019 based on our current estimates, capex should be about Rs 2100 Crores, which includes completion of Hungary, some spill over of Chennai capex and primarily capex for passenger car tyre capacity in Andhra Pradesh.

Ashutosh Tiwari: What were the sales and EBITDA of Reifen this quarter?

Gaurav Kumar: Reifen sales were €27 million with negative EBITDA margin.

Ashutosh Tiwari: Some destocking at dealer's level happened in Q1, so is that the normal level or the dealers have started re-stocking now?

Gaurav Kumar: Difficult to get an exact data of that given the nature of the industry and the spread. You also need to take into account as to what is the new normal level, in a post GST scenario. With the efficiency in logistics and drop in lead time there may not be any significant upsides coming out of dealer restocking at least for our industry and as per our estimates.

Basudeb Banerjee (Antique Finance): What was the overall volume growth on standalone basis? And how much was owing to truck and PCR segment?

Gaurav Kumar: Overall volume growth across product categories on standalone basis was around 10%. Overall truck segment grew by 12% led by TBR OE which almost doubled year-on-year basis. However, the truck replacement segment grew by mid single digit. PCR replacement remained almost flat, whereas OE segment grew by about 12%, and exports saw sharp decline.

Basudeb Banerjee: And as of now what is the radial and bias mix within your truck including OEs?

Gaurav Kumar: In terms of our revenue segmentation, radial is now about 55%. The industry radialisation level would be somewhere between 45-50%.

Basudeb Banerjee: On Europe EBITDA margin, what would be the effect of the start up cost for Hungary; and what would be EBITDA margin excluding that?

Gaurav Kumar: Basudeb we would not be able to get into that kind of details because there is a need to look at the European margins as a whole, and hence to segregate a Hungarian margin and a Dutch margin, is not the right way to look at the European Operations.

Basudeb Banerjee: What is the outlook on Hungary Operations turning positive?

Gaurav Kumar: That outlook stands that the Hungarian Operations should turn positive from Q4.

Basudeb Banerjee: How much was the volume decline in Europe?

Gaurav Kumar: About 5%.

Basudeb Banerjee: What was your landed cost of raw materials for the quarter?

Gaurav Kumar: Natural Rubber Rs 160/kg, Synthetic Rubber Rs 130/kg, Fabric Rs 260/kg, Carbon Black Rs 65/kg.

Basudeb Banerjee: And largely you expect the raw material basket to have slight upward bias in coming quarters?

Gaurav Kumar: Yes, Q4 would have an upward bias.

Basudeb Banerjee: Will it be right to assume that in case of inflationary effect on raw material basket, the industry would be in position to take price hikes because there has not been any substantial price hike for the industry since May.

Gaurav Kumar: I would not be able to comment for the industry. If the raw material basket goes up, we would look to take a price increase.

Jay Kale (Elara Capital) Post the anti-dumping duty, what are the levels of Chinese imports? Also what is the impact on your TBR sales? Now since one month post ADD implementation how are you seeing the demand trends, are the operators shifting back to bias or are they going to pricier radials or say the lower end radials, so how have you seen that shift taking place?

Gaurav Kumar: Still early days; so we will need some time to see where the market is trending, but the Chinese imports from the highs of pre-demonetisation of 1,50,000 tyres a month were already down somewhere at 80,000 to 90,000 and they are trending further down. So we expect them to settle further at a lower level, currently they are at about 70,000 that benefits us, and is being spread between domestic truck radial and a little bit to the bias. Difficult to quantify as to what would be the split between the two, but yes both the segments for the domestic industry would benefit.

Jay Kale: **W**hat would be your OEM & replacement mix for the entire portfolio say in Q1 versus Q2 and YoY?

Gaurav Kumar: On a YOY basis the mix has changed in favour of OE. For Q2 FY18, the mix was 60% Replacement and OE 31%, balance being exports for same period. Last year it was 64% Replacement, 25% OE and 11% exports. On QoQ basis also the mix has moved in favour of OE with shift of 6% in Q2.

Jay Kale: On your European Operations, you mentioned that you have lost market share in the replacement market. So wanted to understand what would be the key reasons for this and your transitional issues over there or how should one look at that?

Gaurav Kumar: Couple of reasons for that, and it is a surprising situation of having capacity on one hand and yet having capacity constraint. Primarily it emanates from the strong growth in India market, and as I mentioned, that we had to curtail supplies to export markets because of the very strong growth in domestic market, and that included curtailing supplies to the European market also. While we had the Hungary plant coming on stream, but just having the equipments, etc., is not the point where you can produce all the sizes. There is fairly long cycle of product industrialisation where each of the SKUs need to be produced, stabilised, etc., and that is the process we are going through in Hungary right now. We will able to produce each SKU in the Hungary plant in a year plus time. So we ended up in a situation where on one hand India had capacity constraints in some of the sizes, while the capacity was there in Hungary, it could not produce those sizes there, because the product industrialisation had not been completed. And that resulted in a situation of us underperforming vis-à-vis the market.

Jay Kale: But the Indian exports to the European Operations would largely be of the Apollo branded tyres: so is it that those supplies were curtailed and hence you lost share or is it even in the Vredestein brands there were some supply constraints?

Gaurav Kumar: The Indian Operation supplies both brands, though they are largely Apollo branded, but we also do supply the Vredestein brand, and the sheer volumes of supplies to Europe had to be cut significantly because of the growth in the domestic market.

Amyn Pirani (Deutsche Bank): First of all just a clarification, the overall India volume growth this quarter you mentioned is 10% or 18%?

Gaurav Kumar: The revenue growth Amyn from the same period last year is 18%. The volume growth is 10%.

Amyn Pirani: Volume growth is 10%, so the pricing increase has happened because of mix or is it because of the price increases that you had taken in bias and partly on radial in the last few quarters?

Gaurav Kumar: So the balance 8% is a result of price and mix both. There was a price increase in the first quarter, so on a year on year basis all of that reflects into the growth.

Amyn Pirani: You mentioned that you had, in the truck replacement, a mid single digit growth; so this would be a positive development because the replacement was actually quite dull for the last two years if I am not wrong?

Gaurav Kumar: That is correct. The growth in truck replacement in particular, has been flat to very low single digit for nearly two years; so yes this would after quite sometime be a quarter where we have seen growth in the truck replacement too.

Amyn Pirani: Any thought as to whether you see this as sustainable or anything that you are picking up why this has happened?

Gaurav Kumar: Still early signs, there is a thought that the scenario post GST is stabilising, goods movement should smoothen, so we continue to have a positive outlook even in the current quarter the early signs on the volume front are good. So hopefully this quarter was beginning of a cycle, which should see good demand run for some time to come.

Amyn Pirani: Lastly on Europe, so like you mentioned you have a problem of capacity constraints in the near future with capacity not ready for production, so in a scenario where the winter tyre this time is strong, do you have the capacity to take advantage of that or would you be a constraint because winter tyres did not do that well last year; so if there is a recovery this time how well are you placed to capture that?

Gaurav Kumar: We will continue to have some constraints. In some ways it is a happy problem to have that the India demand continues to be strong on the passenger side also for us; so the capacity constraint will not ease up. Efforts are being made to debottleneck capacities, but again they would be barely sufficient to serve the growing India market itself, as always the first focus of the Indian capacities would be towards the domestic market. The situation in Europe will continue to improve every month as the capacity of Hungary keeps going up including the product industrialisation issue. Depending on how the winter is or how the recovery is, we would continue to have some constraints, but that situation is constantly improving.

Amyn Pirani: Lastly on Hungary, your initial supply of production is mostly to the replacement or you have started some OE supplies as well and what is the timeline for OE supplies if not?

Gaurav Kumar: Initial supplies are to replacement and that would be the case for any new tyre plant around the world. Even if we are an approved supplier with an OE in Europe, these are plant specific approvals. So the current supplies to European OEMs have started out of the Dutch plant. The OE orders for calendar year 2018 are lined up. The earliest OE supplies from Hungary plant would be in FY2020.

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Pramod Amte (CIMB India): With regard to the TBR replacement market post the anti-dumping of Chinese, what is the competitive intensity in the market place from the domestic tyre suppliers; and secondly, you have introduced a lower price brand what is your thought there and what is the ramp up plan?

Gaurav Kumar: So the competitive intensity has not changed in any manner, the Chinese were one part of it at the lower end of the market and that is why some of the players are offering a second brand. We have introduced a second brand to a very limited extent in a couple of markets only.

Pramod Amte: Any thoughts to capture the market left out by Chinese or might be in two to three years down the line where do you see the mix between your second brand versus the earlier standardised TBR?

Gaurav Kumar: Given our brand equity for the main Apollo brand, and the demand that we see, there is pressure on the plan to ramp up the capacity quickly as we see demand coming in; so as of now the second brand would remain as a very limited offering in these couple of markets. We are not looking to grow that because we are seeing enough demand for our main brand. The situation is constantly evolving and would be evaluated by the Indian Operations team, and if a change is necessary then they would take it, but as of today, the focus continues on our main brand.

Pramod Amte: And any update on your two-wheeler ramp up in terms of what volume you have achieved in first half and how are you placed for a full year ramp up and bottomline from the same?

Gaurav Kumar: So two wheelers growth story continues -- from our run rates of the previous year, we are up nearly 50% -- but we are still a very small player in the overall segment. We continue to pursue that through the outsourcing strategy and that will continue. We are looking to supplement that with setting up of a pilot capacity on the higher end of the two wheeler segment, which is a very small niche market. So as of now we will continue to be a small player, we are growing at pace, which we are comfortable with and that does not need any in-house manufacturing capacity in near term. We will as part of our conversion of truck cross-ply, setup a small capacity of two wheeler tyres, which will serve this higher end of the market.

Nishit Jalan (Kotak Securities): On Europe, you have received certain orders from OEs right VW, Ford and SEAT and even Mercedes, so have you started supplying to those orders, basically from Netherlands plant?

Gaurav Kumar: Meaningful supplies will start only from 2018.

Nishit Jalan: So right now we are not supplying anything to the OEs from Netherlands plant?

Gaurav Kumar: Right now supplies are negligible.

Nishit Jalan: That start you are saying will happen from Netherlands plant initially and then it will happen from Hungary?

Gaurav Kumar: As I mentioned Hungary is more than a year away, the OEs will first audit the plant and the earliest we can expect any OE supplies is from FY2020.

Nishit Jalan: But then Gaurav, in the Netherlands plant, the cost structure is very high because of high employee cost; then basically, will we be making any money when we supply to OEs because OEs obviously will be asking for price cuts right?

Gaurav Kumar: So OEs would be at lower price point and initially we would not make any money when we supply from the Dutch plant and that is the price of entry into an OE that you have to pay, because these are on specific models at a particular point of time. You do not get to choose saying that you get me an entry into this particular model, but I will begin supply two years down the line when my plant is ready. Either you confirm the capability to supply, when that supply cycle begins for a particular model, and hence for a year plus, we will have to supply out of the Dutch plant with a higher cost structure.

Nishit Jalan: And you mentioned that European volumes are down 5%; is it purely because of lower export from India or there are some other issues as well. I am asking this question from the context that right now the capacity is only in Netherlands plant and the capacity will kind of double in the next year or so. So we will need to significantly improve our volumes in the replacement market and then from that perspective, if the volumes are declining now then it is a matter of concern as to how will the ramp up volumes get absorbed once the Hungary plant is operational?

Gaurav Kumar: So large part of this is the result of mix match between the demands that we had and what we could not service. Your point is valid at the end of it whatever the reasons we have underperformed on volumes be and hence the challenge for us to ramp up the replacement volumes is now even more from what the situation was a year back. The teams are confident, but beyond that at this stage to say that no we have got order, which clearly indicate that we will be able to ramp up to a full capacity of Hungary plant is not a luxury that we have.

Nishit Jalan: Secondly on the RM basket front you mentioned natural rubber cost is Rs 160 right?

Gaurav Kumar: That is correct.

Nishit Jalan: But when we look at the index prices say imported prices or domestic natural rubber prices that are still at much lower levels and when you say the RM basket will be flat, are you expecting any cost increases in other commodities?

Gaurav Kumar: I would not have an outlook for each of these, but also the price that I mentioned are consumption prices, which include any of the duty elements, freight element. This is the cost of that material as consumed by the operations.

Nishit Jalan: No I understand that, but I think last quarter you mentioned that freight cost is somewhere around Rs 10 or something right?

Gaurav Kumar: Roughly about that.

Chirag Shah (Edelweiss): My question was on domestic truck tyre pricing. Post this antidumping duty what kind of price increase have you seen at ground level and the retail market?

Gaurav Kumar: The higher end has not seen much change Chirag, but at the lower end where the Chinese, and the lower end second brands were being offered there is a price increase of about 3% in the market.

Chirag Shah: It is only 3% because the differential was reasonably big so how the differential would be now for whatever the imports are still left because the differential earlier used to be around 20 odd percent right?

Gaurav Kumar: Differential used to be about 25%, the differential between the Chinese offering now and the top end of Indian tyres is less than 20, so that differential has narrowed, which will get played out in terms of where volumes settle and the price increases taken by various players is different, some has even taken a higher price increase.

Chirag Shah: Is there a scope of narrowing this gap where the imports have started dwindling further, the gap should be further narrowed on actually?

Gaurav Kumar: We will have to see that Chirag; it is a difficult one to say that if the gap is between 15%-20% the Chinese imports will go down to very low levels unlikely because within the Chinese imports there are also well known brands and then there are the lesser known brands, so even if we look at a longer term history the Chinese import market share at its minimum, also had been a mid single digit.

Chirag Shah: Fair point. Second was on the Europe side -- can you update on what kind of price hike that has been done because after a very long time pricing discipline has kind of broken in Europe? Are we now seeing some stabilities, some price hikes happening over there?

Gaurav Kumar: Given that the raw materials increased through few quarters and just around the time when the price increases were announced, raw material came down and now the short-term outlook is stable to minor inching up; there has not been much of pricing action.

Chirag Shah: But the last announced has been implemented.

Gaurav Kumar: In some cases, small 1% price increases have been implemented. However, the higher price increases, which were announced at the end of first quarter for winter tyres were not implemented.

S Sundar Sriram (JM Financial): On a standalone business, if you see the inventory days it has come down in H1 as compared to last year; any reasons on that?

Gaurav Kumar: Given the strong sales scenario, the inventory has come down, including our finished goods; GST implementation also led to a certain stocking up and also the cost element of excise post GST has gone out of that; and hence you see the sharp reduction in inventory in rupees million.

S Sundar Sriram: In Europe, the PCR replacement market has been slightly weak over the last three to four months, September was slight uptake, but overall the market has been weak. Any colour on that why the market is slightly weak?

Gaurav Kumar: Difficult to say because the Europe situation in terms of broad economics has not changed, but the overall passenger car tyre market had been growing at a healthy pace for the last couple of years. This year our decline has to be seen in light of the overall European market which itself has had negative growth. Though our volumes have been a little bit more lower. We really do not have a reason as to why the market has de- grown, but longer term it still ends up at around that 1.5%-2% volume growth for the European market.

Jasdeep Walia (Infina Finance): You mentioned that your capacity utilisation levels are pretty high in the passenger car radial business so does that mean that if the market grows by 15% next year you will be losing market share?

Gaurav Kumar: If the market grows by 15% next year, yes we will not be able to keep pace with that.

Jasdeep Walia: What kind of spare capacity you have as of now, what kind of growth you can cater to?

Gaurav Kumar: Currently, we do not have any spare capacity as I mentioned. We are looking at de-bottlenecking options which will increase capacity by about 10%.

Jasdeep Walia: And by when will that capacity expansion come online?

Gaurav Kumar: We should be able to start work on our new Greenfield land that we are taking, but then you are talking of at least 15-18 months before the first tyre comes out. But, the de-bottlenecking efforts should yield results in a couple of quarters.

Jasdeep Walia: That would be a huge loss if your capacity will come only by FY2020?

Gaurav Kumar: There is no easy solution to that. If we were to build up a huge plant one year earlier, and the growth did not come, we would be equally a culprit of having put in Rs 1500 Crores into the ground and then being asked why did you not wait for the market to grow. However in the interim, we would have the option to start serving some of the export markets, which today India serves particularly Middle East, Africa, North America itself from the Hungarian Operation.

Jasdeep Walia: If you assume that you would not have to service exports from India then what is the spare capacity in India for PCR?

Gaurav Kumar: About another 10% capacity would be available, which today goes for the exports.

Jasdeep Walia: In all the manufacturing industries we get to hear that the cost in China are going up and hence pricing of those goods in India also has been going up, so what have you seen in the tyre industry particularly on the TBR side because I think China has some 40%-50% of the world's TBR capacity?

Gaurav Kumar: Yes even for us, the Chinese prices have gone up and that's the reason why we are not sure where the new level is, post anti-dumping, because the Chinese prices had gone up even earlier with the raw material increase, far more than what any domestic player had taken. The price differential had narrowed, which had started bringing down the volumes of Chinese imports. So in spite of having significantly surplus capacity they have taken price increases even in the case of truck radials.

Jasdeep Walia: Got it and what is happening in the Chinese industry in the sense is the industry consolidating fast or the same fragmented nature prevails?

Gaurav Kumar: Given the number of players out there, and neither is the news of that particular market widely available, and given our own negligible interest, we do not track it very actively. We have not heard of any big consolidation in the Chinese industry. We have heard of closures though.

Jasdeep Walia: What are the capacity utilisation levels in the truck bias capacity as of now?

Gaurav Kumar: Early 70s.

Amyn Pirani) (Deutsche Bank): On Europe there was a mention that you may have to start doing OEM supplies from Netherlands. Now even if you take into account whatever OEM supplies you will do will it be a very significant proportion of the capacity firstly and secondly given that the Netherlands facility is significantly high utilised can it really have a major impact on margins taking into account the OEM having a lower margin?

Gaurav Kumar: It is not material because the OE volumes, to begin with, would be small. We are on a particular model across two or three OEMs, so our volumes would be minuscule and hence the impact, though not favourable, would not be material in the context of overall operations.

Amyn Pirani: On PCR capacities in India, you mentioned that de-bottlenecking can get you 10%, but the debottlenecking can only happen by FY2020; is that what you mentioned?

Gaurav Kumar: No that should happen in a couple of quarters and that is where teams are working.

Amyn Pirani: But you are saying that the new Greenfield can start rolling out tyres in FY2020 itself?

Gaurav Kumar: Given that we are sitting today beginning of November, so let us say the earliest one can start work is December beginning. You take 15-18 months so it is somewhere in FY2020.

Ashutosh Tiwari (Equirus Securities.): Sir is that reclassification of your numbers if you look at consolidated employee cost it was reported at Rs 431 Crores last quarter, now it is at Rs 451 Crores for the same period?

Gaurav Kumar: Yes in Europe, there was an accounting reclassification between R&D and employee cost.

Ashutosh Tiwari: Secondly we talked about this low brand tyre that we have launched; do you think it can potentially cannibalise your main brand because customers would perceive it as same being from Apollo?

Gaurav Kumar: It has that potential looking at the experience of other players; that is why we have done the launch in a very limited manner in a market where we perceive there being value to that, and as I mentioned earlier, as of now the thinking is not to extend across different markets both from the risk perspective that you mentioned, and also from a perspective of the demand that we see for our main brand.

Ashutosh Tiwari: Is it Northern India?

Gaurav Kumar: Yes, it Northern India.

Ashutosh Tiwari: If you look at pricing in tyre industry, I think the largest player is acting very defensively throughout this year when everybody took a price increase they were lethargic and in some segment they have not taken any hike. Is that bearing some pressure in the market, that I mean despite the fact that your margins have come down and you are talking about raw material remaining same at these levels, they still not use the word pricing action or price increases?

Gaurav Kumar: Ashutosh I am in no position to comment about the thinking of another player, as to why they have chosen their pricing action, so that is a call or question you will have to put to them.

Ashutosh Tiwari: Are we in a position to take price increase to because margins have to improve?

Gaurav Kumar: We will have to evaluate as the pricing action has to be followed throughout the industry.

Sunil Kothari (Unique Investments): Pricing is dependent on competitors action also; so where you see scope to improve your margin by focusing on your supplies; natural rubber is not under your control, but other raw materials like carbon black, rubber chemicals how you see there your bargaining power?

Gaurav Kumar: All these prices are fairly standardised across operations; you may have the opportunity to develop another supplier or a particular grade, which is lower cost and that is a work R&D is constantly doing on. Mix of materials that will deliver the required performance, but could come at a lower cost. So that is a work that purchase and R&D work together very closely to see how material cost could be lower. Similarly, what is under our control is tracking the other cost elements the manufacturing costs or the selling general and administrative costs. Pricing is a factor where we do have some say, but we have to function within the overall market dynamic.

Sunil Kothari: The margins of rubber chemical or carbon black suppliers have improved substantially, so do you have any scope to bargain with them?

Gaurav Kumar: There may be scope, etc., but I would say it is not as if the purchase team has been very relaxed and that is why the prices went up this quarter, this is a function of their own demand supply and if their margins have substantially improved it is not as if in one quarter the bargaining power will hammer that down.

Romil Jain (JM Financial): You mentioned that CV utilisation is about 70% what would be your PV utilisation?

Gaurav Kumar: The early 70s is for truck bias. The truck radial is much higher -- in the 80's, for passenger car it is 85% plus.

Romil Jain: So that is where we are seeing some capacity constraints. On the CV side is it possible to increase utilisation from year on?

Gaurav Kumar: It is possible to increase utilisation, also take into account that our capacity itself will keep going up. So both the utilisations can be improved and the capacity itself will go up.

Romil Jain: I think we were planning for a doubling of capacity in our Chennai plant if I am not wrong right?

Gaurav Kumar: That is correct.

Romil Jain: So when is that entire capacity expected to come?

Gaurav Kumar: We should have that full capacity on in the second half of FY2019.

Romil Jain: Secondly because PV segment will see some capacity constraint and hence some growth can be limited, but if our industry truck segment does well, so would we expect a similar trajectory going forward on the truck side also considering that our capacity is also constantly increasing?

Gaurav Kumar: It is a function of market growth. This quarter growth has to be seen in context of a market, which also rebounded sharply. We continued to see very healthy signs from the market, so we think the revenue outlook even for the current quarter is very strong.

Romil Jain: At full utilisation of your Hungary plant, for the total European Operations put together, what would be the mix on the passenger vehicle versus truck, and replacement versus OEMs?

Gaurav Kumar: So within passenger car after few years, not in the next two to three years, the OEM volume would be somewhere 15%-20%. Truck will continue to be very small within the overall European Operations for the next several years. In truck, we are not even looking at the OEMs as of now. Within PV 80% plus would still be replacement even in a stable state.

Moderator: Thank you Ladies and Gentlemen on behalf of UBS Securities. That concludes this conference call for today. I now hand the conference over to the Management for their closing comments.

Gaurav Kumar: Thank you all and if there are any further questions, you can write to the IR Team. Thank you all for joining us.