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ATL/SEC/21

November 22, 2018

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 November 13, 2018.

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.apolloyres.com](http://www.apolloyres.com).

This is for your information and records.

Thanking You

Yours Sincerely  
For APOLLO TYRES LTD

A handwritten signature in blue ink that reads "Seema Thapar".

(SEEMA THAPAR)  
Company Secretary



India, Nov 13, 2018

Q2 FY19 Earnings Call

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**Joseph George:** Good afternoon everyone. On behalf of IIFL, I welcome you all to the post results conference call of Apollo Tyres. I also take this opportunity to welcome Gaurav Kumar, Chief Financial Officer of Apollo Tyres as well as other members of the management team. I request Gaurav to make his opening remarks, which will be followed by Q&A. Over to you Gaurav.

**Gaurav Kumar:** Thank you. Good afternoon everyone. As usual, we will begin with a few opening remarks and then we would be happy to take your questions.

On a consolidated basis, the net sales for the quarter stood at Rs 41.9 billion, a growth of 23% over the same period last year and a marginal decline over the previous quarter. Both our main operations of India and Europe registered very strong topline growth. The EBITDA for the quarter stood at Rs 4.7 billion, a margin of 11%, up from 10.5% for the same period last year though lower than the 12.3% in the previous quarter.

Raw material cost was up by 5% over the previous quarter and we expect this cost-push to continue in Q3 by about a similar number. The gross debt increased in the current quarter to Rs 46 billion from Rs 40 billion in the previous quarter and there was similar increase in the net debt also from about Rs 28 billion as of previous quarter end to close at Rs 38 billion.

Moving on to Indian Operations, the sales for the quarter was Rs 30.4 billion, a very strong growth of 26% over the same period last year. We had volume gains across product categories with market share gains. All of this topline growth was essentially volume led. We had especially strong growth in the truck segment, both in truck radial and truck bias.

The EBITDA excluding other income for the quarter improved to Rs 3.7 billion, a margin of 12% as compared to 11.5% for the same period last year; however, sequentially, there was a decline in margin due to the cost-push.



Price increases could only be taken towards end of the quarter. Another round of price increases had been announced in November to counter the cost-push that is coming through in Q3. Gross debt remained at more or less the similar number of Rs 19 billion at the end of last quarter to Rs 21 billion at the end of this quarter.

In terms of revenue segmentation, it remained more or less similar. Replacement contributes to about 60% of our revenue, OE 30%, and exports about 10%. RM cost-push continues to be a worry, which has been further impacted by the depreciation of the rupee, and as I mentioned we are taking price increases to counter the same. The European Operations in spite of a flat market have shown a very strong volume growth. The sales for the European manufacturing and sales operations was at €122 million, a growth of 15% over the same period last year. This was led by strong volume growth and an improvement in mix vis-à-vis market, which was more or less flat.

As our Hungary Operations stabilise, the EBITDA continues to improve. From a 6.2% EBITDA margin for the same period last year, the margin for this quarter was at 8%. We are still not at desirable level, but we continue to improve the margins and move towards a desired course. The passenger car volumes in Europe increased by nearly 17% and we continue to have market share gains along with product mix improvement.

The Hungary plant progress continues to be on track. We are now producing about 7500 car tyres per day and the truck tyre production is ramping up, currently just above 100 tyres per day. As mentioned earlier, we expect to end the year with the car tyre production close to 12000 tyres per day and we will continue to see margin improvement as the Hungary plant ramps up. That is all from our side. We would be happy to take your question.

**Ashutosh Tiwari**

**(Equirus Securities):** Firstly, at what level we are now operating the Chennai TBR plant?



**Gaurav Kumar:** TBR plant is now operating at about 10000 tyres per day and we will start touching the peak capacity in Q4. In terms of utilisation, we would be at about 85%.

**Ashutosh Tiwari:** Okay. The new plant in AP will come in April 2020?

**Gaurav Kumar:** That is correct.

**Ashutosh Tiwari:** Secondly can you share the Reifen sales and margin numbers for the quarter?

**Gaurav Kumar:** Reifen sales for the quarter was €27 million. This quarter is traditionally a weak quarter for them. So margins were negative which was in line with the budget. In terms of revenue, it was flattish with a negative EBITDA margin.

**Ashutosh Tiwari:** Okay and you said RM cost is up roughly 5% in this quarter and will further go up by almost 5% in the third quarter as well that would require almost 6% price increase, how much has come through as of now?

**Gaurav Kumar:** We announced about 2.5% price increase end September and we have announced about 3% price increase across products categories from mid November over a week to 10 days.

**Ashutosh Tiwari:** Lastly, if I look at your inventories versus March, it has gone up by roughly Rs 500 Crores and that is mainly in the consolidated operations, standalone inventory has gone up by Rs 187 Crores, but if you look at the sales numbers for European Operations in Q2 versus Q4, it is actually lower than Q4 numbers so what is leading this sharp increase in the consolidated inventory level?

**Gaurav Kumar:** Finished goods inventory has gone up since the raw material prices have also gone up that feeds into higher inventory, but essentially in Europe there is always a buildup of inventory for the winter season that is a known seasonal impact so you would always see across years that in September the inventory buildup happens in Europe.

**Ashutosh Tiwari:** Okay, got it. Thanks a lot.

**Basudev Banerjee**



**(Ambit Capital):** Few questions Sir. One, standalone what has been the volume growth year-on-year?

**Gaurav Kumar:** The volume growth Basudev has been 26%, which is pretty much the entire topline growth.

**Basudev Banerjee:** Sure and as you every quarter share the landed commodity prices?

**Gaurav Kumar:** The natural rubber was around 140, synthetic rubber at 145, fabric at 300, carbon black at 90.

**Basudev Banerjee:** Okay, from a peak of almost Rs 86, crude is now back to Rs 70, so definitely there can be a lag effect on the costing of the input crude derivatives for you. We have hardly seen any price cuts in replacement market. So assuming if crude price and currency stabilises at this level can that be a scenario of better margins for replacement market down the line?

**Gaurav Kumar:** Basudev, as we do not give out margin guidance and also any movement on the crude front etc., at the earliest would flow through in Q4. As I mentioned in Q3 we have a further push from raw material cost going up. We would only know a little while down the line where the Q4 raw materials are coming to.

**Basudev Banerjee:** From the reported number, if I missed out, Europe Operations, EBIT was negative and you mentioned 8% EBITDA margin so maybe depreciation was sharply high or anything in that regard?

**Gaurav Kumar:** Depreciation would be high in Europe now as the Hungary plant is in operating stage. From a year-on-year perspective, the depreciation in Europe would be significantly high.

**Basudev Banerjee:** So as per your internal calculations, what will be the breakeven EBITDA margin at which PBT would be positive because at 8% you are still a bit negative, there will then be interest also, so around what level one can look at PBT neutral?



**Gaurav Kumar:** I will have to work that calculation, I do not have that readily right now Basudev.

**Basudev Banerjee:** Sure. Last question Sir, what is your outlook on domestic truck tyre replacement market in second half of the since the overall road freight demand nowadays is showing some signs of freezing off, any outlook on that?

**Gaurav Kumar:** There have been some concerns particularly around the car sales in the festive season that were not as strong as is usually the case, but we continue to see very strong topline growth and demand, so October continued to be very strong. There may be a slight dip compared to the levels in the first half also because in the same period last year that is the second half the sale had started picking up but as of now we continue to see strong demand growth in replacement particularly and even OE on the truck side does not seem to be a worry.

**Akshay Sathija:** My question here is in regard to the raw materials. Could you throw some light on how the rubber would turn up in upcoming year or two or what kind of scenario or what softening of prices or maybe what range of prices can we expect of rubber in upcoming two years?

**Gaurav Kumar:** For that I will have to connect you to a rubber expert really, I do not think I can give correct projection for the next one or two years on the rubber.

**Akshay Sathija:** How is the outlook, or maybe some demand supply kind of scenario, can we expect softening of prices in rubber?

**Gaurav Kumar:** There is no data point out there which indicates either a significant softening or a very sharp increase but you need to keep in mind that, (a) the demand is impacted by what happens across the globe, particularly China and b) alongside any natural calamity etc., in one of the major growing regions could impact supply, but from what the scenario looks currently it seems a fairly even scenario. So, one does not expect any sharp upturn in natural rubber prices.



**Akshay Sathija:** Okay sir. Do you expect that the prices might stay at a low level at least for a short period?

**Gaurav Kumar:** I would not be able to comment on that.

**Amyr Pirani**

**(Deutsche Bank):** My first question was on India, you mentioned that the entire growth was driven by volume but even in March and May I think we had taken some pricing action so has that still not flown into your realisation growth?

**Gaurav Kumar:** It was coming primarily in TBR and then through last year there were some reductions also, as raw material had come down. Effectively they have neutralised each other and the entire topline growth is volume driven.

**Amyr Pirani:** In Europe, you mentioned 8% EBITDA margin versus 6.2 last year, are both these numbers including Reifen or is it excluding Reifen?

**Gaurav Kumar:** This is excluding Reifen.

**Amyr Pirani:** Okay.

**Gaurav Kumar:** This is the European sales and manufacturing operation, which is the Dutch Operation and the Hungary Operation.

**Amyr Pirani:** As a comparison, the previous sequential quarter the EBITDA margin was 9.1 this is the comparable number right?

**Gaurav Kumar:** That is right.

**Amyr Pirani:** Okay. So is the decline in margins on a sequential basis purely on account of seasonality or is there any Hungary related causes which are continuing to hurt us?

**Gaurav Kumar:** The sequential decline is because this is traditionally a weaker quarter Amyr. There is significant, (a) there are shutdowns in Europe which is the peak holiday season. You incur a whole lot of fixed cost without the plant producing



and to that extent the quarter dips and (b) there is production cost preparing for the peak December quarter for the winter season. So in Europe there is significant seasonality factor so the decline from June quarter is not an aberration which has any sort of one-off factor.

**Amyr Pirani:** Any early indication of how the winter season would be because dealers would start taking stock from you already, so any early indication of how the winter tyre season is looking like?

**Gaurav Kumar:** As of now I would say it hasn't been say a harsh winter, we are in early November and there has not been much of snow. Having said that, we continued to foresee a decent winter. We are hoping for a good winter because one of our new introductions on winter tyre which is Wintrac Pro was the test winner this time in the magazine test results. So we are expecting a strong demand pull on that if the weather aids us. As of now, we continue to look at volume growth this quarter, but till now the weather is not sort of aiding that.

**Amyr Pirani:** Okay and just lastly in your segmental reporting I think there has been some restatement because last year same quarter Europe, I think in your earlier reporting, was a positive EBIT, but this time it is negative so has there been some restatement in Europe?

**Gaurav Kumar:** Possibly yes, I will have to specifically check and get back to you.

**Pramod Amte**

**(CGS CIMB):** Two questions, one you talked about aggressive price hikes being taken up across the product lines. What is the action from the competition, are they following or you are forced to sacrifice them for a volume spike?

**Gaurav Kumar:** Pramod, on the first price hike that we took in September that the competition has followed through. In India, we have usually been the leader on taking price hikes. So we will have to see whether the competition follows through or not and that is always a call that the operations take and that is





why price increases are taken in smaller quantum. Certain amount of risk is taken which as of now we are going ahead with.

**Pramod Amte:** And the November one you said is +3%?

**Gaurav Kumar:** That is right. It will vary across product categories, specifically the actual number comes out with a calculation across the mix, but that is the broad quantum.

**Pramod Amte:** With these two price hikes, you feel a large part of the cost is factored in both on the currency and the commodity?

**Gaurav Kumar:** To fully cover for it, we would need another price hike of a smaller quantum. This would probably cover about a large portion of it, but again since this has been taken in mid to late November. We will have pressure on margins in the current quarter, but we are covering up and with what we talked about crude, currency etc, a little while earlier in the call, we would look to recover margins in Q4.

**Pramod Amte:** Second question is more on the financials and especially the provision which you have made, can you clarify because you make investments in both mutual funds and others and if I have to look at your page no. 200 in annual report you have almost got a Rs 1000 Crores intercorporate deposit, what is the broad investment framework under which you invest your liquid cash and why did it happen and what type of action plan you are putting in place so that such incidents do not repeat going forward?

**Gaurav Kumar:** As per the earlier policy, the surplus funds were invested across banks, mutual funds, and ICDs of AAA rated companies. Obviously that hurt us badly in the current scenario with the investment in IL&FS. Following that, at a board level, the policy change has been that we will now invest the surplus only in liquid funds which is for very short term, week, a couple of weeks, etc. and any longer term funds would only be parked with few banks. We have withdrawn all the investment from ICD barring the IL&FS and with the situation on that still being not clear we have made a provision.



**Pramod Amte:** Thanks and all the best.

**Debjit Maji**

**(Stewart And Mackertich):**

Sir, we have been hearing of a particular discussion going on regarding the replacement of carbon black with highly dispersible silica, so I want to know are we planning to use highly dispersible silica to produce green tyres going forward?

**Gaurav Kumar:** I am not a technology expert, silica is increasingly being used, but today carbon black is a significant portion of the tyres and not a simple matter of replacing one material with the other till all the performance characteristics are met. Really that is a good question that our technology people can answer. Today are we completely doing away with carbon black, no.

**Bharat Gianani**

**(Sharekhan):** Sir, thank you for the opportunity. I have two questions. One is you provided EBITDA margins for the European manufacturing operations, so can you give those similar number including the Reifen numbers comparable for this quarter and the corresponding quarter?

**Gaurav Kumar:** Providing entity wise margins are different, there is no consolidated financial statement that I have including Reifen at an EBITDA level that I can quickly give you so just hold on. Entire European Operation if I include Reifen also then the EBITDA margin would be 5.3%.

**Bharat Gianani:** And a comparable number for the corresponding quarter?

**Gaurav Kumar:** That would be 4.4%

**Bharat Gianani:** Sir one question while you have taken pricing action in the domestic market but we have known that the raw material cost have really spiked up and first I would like to ask have you taken any pricing action in Europe till date or what

is the future plan because the RM prices have gone up very steeply so any comment on European pricing action if you would like to highlight.

**Gaurav Kumar:** Bharat we have not taken pricing action, also a large part of the raw material cost push was currency linked, weakening of the rupees, so the change in raw material prices in Europe was very marginal and in Europe we are a much smaller player so we are typically a price follower after the global players which did not take any pricing action. So in Europe we have not taken any pricing action and hence has had to absorb the marginal increases in raw material prices.

**Bharat Gianani:** Sir just lastly when you say very marginal increase in RM cost so on a sequential basis what was the cost increases in RM cost in Europe adjusting for the currency?

**Gaurav Kumar:** It could be less than 1% increase.

**Jasdeep Walia**

**(Infina Finance):** I just wanted to know the production run rate at your Dutch plant in terms of number of tyres per day?

**Gaurav Kumar:** The Dutch plant is at about 80% capacity utilisation, which would mean roughly about I think 14000 tyres per day.

**Jasdeep Walia:** If that is at 14000 and your Hungary plant is at around 7500 so then there should have been around 50% volume growth Y-o-Y?

**Gaurav Kumar:** There is also an inventory increase Jasdeep

**Jasdeep Walia:** And plus there will be reduction of export from India right?

**Gaurav Kumar:** That is correct.

**Jasdeep Walia:** Can you quantify?

**Gaurav Kumar:** I would not have the maths readily as of now.



**Jasdeep Walia:** But exports are still happening from India or they have completely stopped and production has shifted to Hungary.

**Gaurav Kumar:** Very negligible exports from India for few SKUs where the production runs optimisation meant that production from India should continue but you could say more or less down to nil.

**Jasdeep Walia:** Also could you give the volume growth numbers in India category wise in terms of trucks, cars, and two-wheeler tyres?

**Gaurav Kumar:** Sure, just a minute. This quarter the volume growth in truck was about 35% which was led by TBR growth at 50%, passenger car volume growth was at 17%, two wheeler at 60% which of course has a low volume base effect and similarly farm tyre growth at 17%.

**Jasdeep Walia:** Two wheeler tyres is at what rate in terms of sales of tyres per month or per day?

**Gaurav Kumar:** We have now crossed 200,000 tyres per month in two wheelers.

**Jasdeep Walia:** 200,000 tyres okay per month?

**Gaurav Kumar:** Per month.

**Jasdeep Walia:** Thanks, that is all from my side.

**Bharat Bhagnani**

**(Tasha Investment Advisors):**

I just wanted to know what is the lag that you have with which the raw material cost comes to the PL this is for the standalone?

**Gaurav Kumar:** The lag would depend on also the kind of inventories, need to keep into account that rubber for example which is domestically sourced is on spot basis whereas most of the other materials the pricing is quarterly so they would follow their own lag from their base material. We would typically be



holding inventory ranging from three weeks to about four weeks before it comes into consumption, so is there one fine number that you could apply across quarters the answer would be no.

**Bharat Bhagnani:** Because in one of the earlier questions, somebody had asked and you had mentioned that, you said the benefit of falling crude prices would be seen only in Q4, hence I am asking the question. So in Q4 probably pricing for this quarter would apply, is that a good assumption to take?

**Gaurav Kumar:** Not necessarily. Our raw materials are typically third, fourth level derivatives of crude so they follow their own demand supply cycle while broadly crude prices going up or down would reflect in our raw material pricing but the correlation that should necessarily be, would be with one quarter lag is not the case. As of now what I said earlier is that the earliest we would see the impact is fourth quarter but as of now is that the case we do not know.

**Bharat Bhagnani:** And just to confirm you mentioned that exports in the standalone has come down to almost nil across all types of tyres?

**Gaurav Kumar:** No, exports as a overall segment is at 10%, the earlier question was that exports of passenger car tyres to Europe has come down to almost nil because of the Hungary facility ramping up, the demand for the European market is being sourced from the European operations itself.

**Bharat Bhagnani:** I remember in one of the previous calls you had mentioned that if you see a higher uptake in demand for TBR tyres in India, you would apply similar mechanism there as well and you would kind of take out production from the Hungarian plant if I am not wrong, TBR as well.

**Gaurav Kumar:** Broadly yes, we would always give preference to the domestic market of Indian Operations and supplies across product category and that is why over the last number of quarters the supply has been constrained to various export market because the domestic demand has been very strong. There is a small amount of TBR exports which go to Europe and other geography but



in a way that growth has been constrained because of the extremely strong demand domestically.

**Bharat Bhagnani:** Just one last question. Going ahead in the TBR market in India, do you see a situation where you will not be able to meet demand because of supplies?

**Gaurav Kumar:** As our Chennai plant has ramped up and as I mentioned earlier also we are still at 85% and we have continued to ramp up the capacity currently and it will still go up over the next quarter. Barring a much unexpected situation of more than usual demand growth, we have capacity for next year but it will continue to be a tight situation, it will only be relaxed from FY2021 as the AP plant begins production of truck tyres. Next year, FY2020 we have the capacity to drive growth, again it will continue to be constrained for the other market.

**Bharat Bhagnani:** But as you said you have already had 85% utilisation, so would it necessarily be going up to 100% or you think some capacity would always remain unutilised?

**Gaurav Kumar:** Capacity utilisation peaks out at somewhere in the early 90s, you always need a little bit, which is lost for set of time changes etc., but you need to keep in mind that from the capex that has been put in, there will be another 10% increase in capacity from current level.

**Bharat Bhagnani:** Okay, got it. Thank you.

**Ashutosh Tiwari**

**(Equirus Securities):** Sir how much is overall capex spent in the first half and how much you plan to do for the full year?

**Gaurav Kumar:** Capex in the first half in India is about Rs 500 Crores. As equipment orders are being placed for AP, I would not have a firm figure. Overall, the number that we have been talking about for capex is in the region of Rs 6500 odd Crores over three years which is FY2019, FY2020, FY2021 that should broadly remain the same.



- Ashutosh Tiwari:** And how much of this capex was in the European Operation in the first half?
- Gaurav Kumar:** Small number, overall European capex is essentially completion of the Hungary Plant. So there is no fresh new capex which has been initiated, so it would be of the order of €25 million to €30 million.
- Ashutosh Tiwari:** Okay and if I look at standalone balance sheet there is one item called as noncurrent assets, which has gone up from Rs 128 Crores to Rs 400 Crores in March to September, so what is that exactly?
- Gaurav Kumar:** I will need to get back to you on that.
- Ashutosh Tiwari:** Okay and lastly on the European margin, if I look at the European sales in Euro terms in Q1 it was €119 million and this quarter it is €122, but despite that we have seen a margin drop, so is that led by gross margin only or is something else over here.
- Gaurav Kumar:** It would be led by the gross margin as I said Q2 is always a weaker quarter. There are plant shutdowns etc., so you are incurring the fixed cost while nothing is being produced.
- Ashutosh Tiwari:** And what is the update on the India PCR expansion and the Q2 debottlenecking, how much is current capacity?
- Gaurav Kumar:** That continues on track. We are at about a capacity of close to 35000 tyres per day, a year plus back we used to be at around 32,000, so there has been a debottlenecking of 10% and work is on for a further debottlenecking of 10% by next year.
- Gaurav Kumar:** In the earlier question also, sharp increase on other noncurrent assets is largely due to capital advances which is related to the AP plant.
- Ashutosh Tiwari:** Okay, and second question on this 10% debottlenecking increase in the capacity, would this be on 35000 base of the current capacity.
- Gaurav Kumar:** That is right.



**Vaikam Kumar:** Just needed some clarity on the capex, so we will be having Rs 500 Crores capex for FY2019, is my understanding right?

**Gaurav Kumar:** No. Rs 500 Crores is the capex already incurred in the first half of FY2019.

**Vaikam Kumar:** Okay and what is the expectation for the second half?

**Gaurav Kumar:** I do not have that exact number because that is based on machinery orders, which is sort of a moving figure, that is where I said that the three-year capex number which a bulk of it is the AP plant that guidance remains.

**Jasdeep Walia**

**(Infina Finance:** In reply to my earlier question you said that the volumes in the two wheeler tyre segment have crossed 2 lakh tyres per month, volume number was the same in Q4 FY2018 as well, which means that the sales run rate has not increased in the two wheeler tyres, what are the reasons behind the same?

**Gaurav Kumar:** I will need to check. I think the sales number has continued to increase, Jasdeep.

**Jasdeep Walia:** I am not saying on a Y-o-Y basis, you gave this volume data in Q4 FY2018 call, in which you mentioned that the two-wheeler tyre sales are two lakh tyres a month and the rate is the same right now also?

**Gaurav Kumar:** The number is about 233k in Q2, I do not have the Q4 number immediately before me however the growth is close to 10%. We continue to see growth, when I am saying about 2 lakhs I am not getting into the specific exact number.

**Jasdeep Walia:** Okay got it. And what are your expectations for two wheeler tyre sales for next year?

**Gaurav Kumar:** That is best answered by the operational people since the budgeting exercise is on, we will continue to see growth but again we are not just chasing after volume, it is a key strategic element within the overall product portfolio, which apart from its own segment growth has also benefited significantly in





terms of distribution expansion. We will continue to see healthy growth, but we will continue to be a small player within the context of the overall market; however, we have taken the lead in terms of being the technology leaders. We have introduced India's first All-Steel motorcycle radial, you might have seen some of the ads recently. The level of radialisation today in motorcycle segment is very small 1% or 2% which was the case in truck about 15 to 20 years back, but as high-end bikes start coming more and more we would apart from this presence which keeps going on in the mass market, continue to position ourselves as a technology leader across product categories. We already have that position in truck. We are making significant headway in car tyres and similar would be the attempt on the motorcycle tyres.

**Jasdeep Walia:** I got it and one last question, what was the growth in truck bias volumes in India in 2Q?

**Gaurav Kumar:** Year-on-year the growth was close to 20%.

**Jasdeep Walia:** In truck bias as well?

**Gaurav Kumar:** That is correct.

**Ankit**

**(Mirae Asset):** Sir just wanted to know what has been the growth in truck replacement tyre side?

**Gaurav Kumar:** In Q2, on the replacement side, our truck volumes have grown nearly 25%.

**Ankit:** Okay and has this accelerated or decelerated in the last few quarters?

**Gaurav Kumar:** This has accelerated. We are actually seeing very strong replacement demand pickup.

**Gaurav:** Thank you Sir. Thanks a lot.

**Amyr Pirani**



**(Deutsche Bank):** My question was actually on the truck bias only, but given the growth that we have seen in truck bias, what is the capacity utilisation now there?

**Gaurav Kumar:** On truck bias, Amyn close to 95%, so pretty much peak capacity utilisation.

**Amyr Pirani:** Is there a way to debottleneck there, because these are older facilities right so I mean for next year say this replacement growth continues, is there are risk to grow?

**Gaurav Kumar:** It is a good problem to have, is it a risk to growth probably no, because radialisation has stagnated this year. What it has meant is that our plant changes, which we keep talking about truck bias to other products categories. We have put a stop on that temporarily. We are looking to expand agri car tyre capacity because that also has seen strong demand growth in some of the other plants because in truck bias, clearly there is not an immediate case to change to other product categories but do we expect the shortage at the current capacity levels, unlikely.

**Amyr Pirani:** Okay and is the price increase in truck bias and truck radial similar since the beginning of the year or there has been a difference?

**Gaurav Kumar:** Slightly higher in radial.

**Amyr Pirani:** Just lastly I mean given the high utilisation level in bias also, is the gap in profitability still there, does it matter which part grows now or now they are converging?

**Gaurav Kumar:** No radial profitability is still higher Amyn.

**Amyr Pirani:** Okay. Thanks for the opportunity.

**Basudev Banerjee**

**(Ambit Capital):** Was just going by the standalone numbers over the last six quarters, just trying to understand how much of your other expenses are variable in nature?

**Gaurav Kumar:** I would not have that analysis readily, Basudev.



**Basudev Banerjee:** Because if I see Sir volumes now are more than 1.5 lakhs up almost 32% in absolute terms over the last six quarters, but quantum of other expense and other expense to sales none of them are showing any signs of benefit in terms of operating leverage, so despite adverse gross margin, your overall EBITDA margin still not inching up, when volumes are at such high levels?

**Gaurav Kumar:** Two factors I can point while as I mentioned I do not have detailed analysis immediately. There have been increases in diesel rates, power rates etc., so some part of that has seen a cost push which we had no choice on and also there has been a significant increase in advertising and promotion expenditures that you would have seen. There is a conscious effort on brand building; similarly R&D has seen increases, which have paid rich dividend across products categories particularly in car tyres with the OEM wins. So some of these actions, which you are rightly saying we have not seen the operating leverage, are also towards longer-term benefits.

**Basudev Banerjee:** Is it quantifiable? What percent of sales is now the ad marketing promotion expense?

**Gaurav Kumar:** I would not have that data immediately across six quarters, but for example the recent ad campaign on motorcycle radials, in terms of revenue that is contributing nothing today, but the ad spend is coming into the P&L, which is not just for that one product category but also for the overall brand.

**Basudev Banerjee:** I understood and second thing Sir, if I missed out overall in standalone revenue how much was from trucks overall including percentage wise, including OEM replacement and how much of truck revenue was bias and TBR, percentage terms?

**Gaurav Kumar:** Overall truck revenue was 58% of which 26% is truck bias and 32% is truck radial.

**Pratik Rangnekar**



**(Credit Suisse):** A couple of questions, one this truck replacement growth of 25% seems very, very high, that segment is not as volatile in growth as OEM. So what really is driving such a high growths on the replacement segment?

**Gaurav Kumar:** A) There have obviously been strong growth inputs in the economy, particularly on the infrastructure side. You also need to see this in the light that around the GST time last year, the June quarter was a weak one, but also following on at least for a month or so, the demand outlook was fairly stagnant. So there may be some base effect, but overall there has been a significant pickup in the economy, which obviously has been benefiting all the tyre players, and I would say within the overall industry, we have gained more than our peers, so we have had market share gain.

**Pratik Rangnekar:** What would be your broad market shares in the TBR segment right now, I know that we do not have exact numbers given the industry is not sharing, but broadly your sense?

**Gaurav Kumar:** We should be high 20s, somewhere at 28 to 29% maybe.

**Pratik Rangnekar:** And on bias side that would be?

**Gaurav Kumar:** Bias side we should be somewhere in the mid 20s.

**Pratik Rangnekar:** And in this quarter what was the truck OEM growth?

**Gaurav Kumar:** The OEM growth in this quarter was nearly 50%.

**Pratik Rangnekar:** So because you have seen truck OEM numbers slow down from 1Q. In your case we have not seen that so again is that driven market share gains?

**Gaurav Kumar:** Must be. That number in terms of overall OEM production is the more exact number. We have not seen a decline in volume vis-à-vis Q1 or year-on-year, so there must be market share gain.

**Pratik Rangnekar:** I think that is broadly that was the question I had.

**Ronak Sarda**



**(Systematix Shares & Stock):**

A couple of questions, one was on the off-highway segment. Can you just highlight what is the capacity today and what is the kind of capex we are incurring in this segment?

**Gaurav Kumar:** That capacity is difficult to give a number of tyres because the SKU range is very, very big and ranges from very small tyres to big tyres. We have a dedicated capacity of 40 tons in the smaller Kerala plant, which we are taking up close to 70 tons, and similarly there is a small capacity in the Baroda plant. Eventually the plan is that the entire smaller Kerala plant of over 100 tons would be in this off-highway category. The timeframe varies a little because that is dependent on the overall bias demand and as we earlier discussed if truck bias continues to be strong then we would go slow on the conversion.

**Ronak Sarda:** So other than the Kerala plant, we are not putting up any other capacity in the off-highway segment?

**Gaurav Kumar:** Nothing as of now. That is a call that can get evaluated and a decision taken as per the current plan, there is nothing there.

**Ronak Sarda:** Sir second question was on the movement of raw material prices, both natural rubber and crude price given last couple of months of volatility, how do you think this would play out for Apollo Tyres. Will we see sharp shoot up in cost in Q3 and then Q4 it would normalise or we will be able to sail through without much volatility?

**Gaurav Kumar:** Q3 as I mentioned earlier we have a cost-push from the raw material front. We are already in the mid of the quarter and both on account of crude prices and the rupee devaluation that cost-push is coming through. Q4 I do not have an outlook because the earlier expectations were that there would be a further cost push, with some of the recent changes we still need to see where the Q4 would come in.



**Ronak Sarda:** Okay so in this regard, given there was some pricing action, by most of the players in domestic market, are we seeing any reversal in that or the implementation has been stocked as such?

**Gaurav Kumar:** No there has been no reversal till now and as I mentioned there is further cost push at least definitely in Q3 and all the players have had margin declines of various quantum, so there is no case for a reversal on, on the pricing.

**Ronak Sarda:** So the price hikes have been implemented fairly throughout through to these segments?

**Gaurav Kumar:** That is correct.

**Joseph George:** Thank you all. On behalf of IIFL, I thank the management of Apollo Tyres for taking out time for this call. I also thank everyone for dialing in. Gaurav do you have any closing remarks please?

**Gaurav Kumar:** Nothing Joseph. Thanks everybody for joining.