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ONLINE

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| The Secretary, BSE Ltd. PhirozeJeejeebhoy Towers, Dalal Street, Mumbai – 400001. | The Secretary, National Stock Exchange of India Ltd, Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051 |
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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 February 05, 2019.

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.apolloytyres.com](http://www.apolloytyres.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

Encl : as above



India, Feb 5, 2019

Q3 FY19 Earnings Call

Sonal Gupta: Good afternoon everyone. Thank you for joining us for this Apollo Tyres Q3 FY19 results conference call. We are delighted to have with us today the senior management team from Apollo Tyres led by Mr Gaurav Kumar, the CFO, and other senior members of the Finance and Investor Relations team. I will now pass it on to Gaurav for his opening comments post which we will have the Q&A session. Over to you Gaurav.

Gaurav Kumar: Thanks Sonal and welcome everyone, good afternoon. Just to begin with the consolidated results. The consolidated net sales for the quarter stood at Rs 46.6 billion, a growth of nearly 16% compared to the same period last year and a 11% growth on a sequential basis. This was led by growth in both the geographies. The Indian Operations recorded a growth of 16% whereas the European Operations in rupee terms was even higher than 20%. The EBITDA excluding other income for the quarter stood at Rs 5.3 billion, a margin of 11.2% as against 12.3% for the same period last year. It was a marginal improvement over previous quarter but the decline vis-à-vis same period last year is primarily due to pressure on the raw material cost front.

Raw materials were up, nearly 13% for this quarter compared to the same period last year whereas sequentially they moved up by 2%. The gross debt for the quarter stood at Rs. 47 billion at the end of this quarter, marginally up from the previous quarter. We continue to take additional provisions on account of the deposit placed with IL&FS. We took an additional provision of Rs 60 crores taking the total provision on this account to Rs 100 crores out of the Rs 200 crores deposit.

Moving onto the Indian Operations:



The sales for the quarter were Rs 30.6 billion, a growth of 16% over the same period last year but very small growth of 0.5% on a sequential basis. The growth was primarily led on a year-on-year basis from a volume perspective, though on a sequential basis it was essentially an improvement of price and mix. While we had a strong beginning to the quarter in October, we saw the growth tapering down particularly in the OEs across segments which led to the final number on a sequential basis being almost flat. Overall, the Indian Operations continue to grow at a very healthy rate, for the full year we are still growing in excess of 20%. EBITDA excluding other income for the quarter stood at Rs 3.4 billion, a margin of 11% as compared to 13.7% for the same period last year.

The economy is showing signs of recovery with the OEMs picking up but still not back to the levels that we were seeing earlier in the year. We have had inventory increases with a result of this slowdown but the expectation is that we will continue to liquidate this inventory as we go through this quarter. We also rolled back a price increase that we had taken of 2% at end of November looking at the overall industry scenario. However, the raw material scenario has since then become more moderate and we expect the margins to be having a tailwind going in Q4.

Moving onto the Europe Operations, which is the European manufacturing and sales operation, the sales were €136 million, a growth of (+12%) over the same period last year. This was entirely led by volume growth; and EBITDA for the quarter was a 10% compared to 9.5% last year. With the Hungary plant ramping up, the profitability continues to improve. The Hungary plant is on track. The current capacity stands at 8000 tyres per day for passenger cars and 250 tyres per day for the truck radials. So we are in the initial stages of truck radial and that plant continues to stabilise. Some of the manpower challenges there remain but we are increasingly seeing Hungary as it ramps up contributing positively to the European results. Also to highlight we have seen volume growth of high single-digit against a flattish market backdrop of Europe. So, we continue to gain market share in Europe. At our other European Operation that is Reifen, the distribution company, the revenue



was flat for the quarter and margin also close to 7% which is similar to the same period last year.

That's all from my side. We would be happy to take your questions.

Basudev Banerjee

(Ambit Capital): How much was the standalone volume growth year-on-year?

Gaurav Kumar: 11%.

Basudev Banerjee: And rest 6% from mix and pricing?

Gaurav Kumar: About 5%, 16% was the top line growth.

Basudev Banerjee: Even on a sequential basis you have reported flattish revenue whereas most of the OEM truck makers reported a significant decline over Q2 in terms of their volume figures. So, what led to this flattish revenue since not much can be attributed to price hikes, so any market share gain or major development in replacement market if at all and how much sustainable is that?

Gaurav Kumar: One part which is always favorable for us is that a much larger proportion of our business, Vasudev comes from replacement and that is what has held us in good stead. While the OE business clearly struggled and you've talked about the OEM makers being down but replacement continues to show good growth. We believe we have been growing faster than the industry and efforts to maintain that trend will continue. Even on a sequential basis while there was a decline in truck and passenger car category on the OE side; we gained volumes on the replacement side. And that with an improvement also on the price and mix front is what has allowed us to declare flat revenues in a considerably difficult quarter.

Basudev Banerjee: What has been your CV segment replacement volume growth year-on-year and within CVs, TBR mix percentage?

Gaurav Kumar: On year-on-year basis our truck volume growth would be close to 15%.



- Basudev Banerjee:** Replacement?
- Gaurav Kumar:** Replacement would be in double-digits on a year-on-year basis whereas on a sequential basis would be mid-single-digit.
- Basudev Banerjee:** And TBR mix within CVs?
- Gaurav Kumar:** TBR mix would now be getting close to I think 55% or 60%.
- Basudev Banerjee:** Could you please share the landed commodity rates?
- Gaurav Kumar:** So Rubber was at Rs 137 a kg, Carbon Black at 95, Steel Chord at 150 and Synthetic Rubber 150.
- Ashutosh Tiwari**
- (Equirus Securities):** On the carbon black cost, could you provide the current rate in the market?
- Gaurav Kumar:** Ashutosh I would not have that readily because that number purchase team would have, so I would not have the current buying rate.
- Ashutosh Tiwari:** But any color on how much RM cost softness can happen in Q4.
- Gaurav Kumar:** We think there would be a softening. I don't have the guidance as to by how much but raw material trends have been downwards for Q4.
- Ashutosh Tiwari:** You mentioned about inventory increase, is that for OEM or for yourself?
- Gaurav Kumar:** We had finished goods inventory increase. Looking at strong October that we had we were flat out at production but with the sharp slowdown there was an inventory buildup for us.
- Ashutosh Tiwari:** As in December inventory in the system and for the dealers was on higher side you mean to say?
- Gaurav Kumar:** That is for us.
- Ashutosh Tiwari:** For you and not for the dealers.



- Gaurav Kumar:** Yes.
- Ashutosh Tiwari:** And for Europe, is it that the winter tyre sales were very good this year or the growth was driven by Hungary operations gaining shares in the winter tyre sales also, is that the correct way to look at it?
- Gaurav Kumar:** We have gained share across categories. This season winter tyre sales is higher but overall whether we talk of this quarter or the nine months where our volumes are up 8% compared to market growth of 0.5%. We have gained market share across the three segments of summer, winter and all season tyres. With Hungary ramping up, we continue to expand our distribution network and gain shares so that we are running capacity of the two plants to the extent possible.
- Ashutosh Tiwari:** You mentioned Hungary is currently at 8000 tyres on the PCR side how do you expect to end the year? And also any color on the margin, by what time will Hungary reach the margin that Netherlands operations had beforehand?
- Gaurav Kumar:** By end of the year we expect to have a capacity of 12,000 tyres per day on passenger car. Production of course would be determined by sales demand but we would have the capability to produce that level. When you talk about the Netherlands margins you are presumably are talking about our European margins because now the margins are a combination of Netherlands and Hungary operations. And that will still take a few years and also I would caution due to a mix of OEM and replacement which is our current product mix even in a few years we would probably still be lower than our few years earlier margins of 16% etc. we are now looking at regaining margins to levels of 13%-14%.
- Ashutosh Tiwari:** But currently what is the mix of OEM and replacement, and how would it shape out over the next 2 years?
- Gaurav Kumar:** Currently in terms of volumes OE is still in single-digit but we are in phases gaining volumes across models and new OEMs. In the long-term the OEM proportion should be somewhere in mid-teens.



Jay Kale

(Elara Capital): My first question was on replacement demand. You mentioned truck has had mid-single digit replacement QOQ growth. Could you give some flavor on PCR as well, and also has the replacement growth also moderated in November-December?

Gaurav Kumar: Passenger car growth also has been in the similar zone for replacement which is mid-single-digit. That's been fairly stable. I don't have readily the exact numbers as to what was Q3 over Q2. But the fact that in spite of negative growth in the OEM we have maintained a flattish revenue trajectory shows that there has not been a significant change in replacement volumes which may have come down by a few percentage points.

Jay Kale: My second question is on Hungary, you mentioned that we are facing some labor issues similar to the Audi plant over there. So, how are we seeing labor issues in Hungary?

Gaurav Kumar: Let me correct, when I say manpower challenges they are not labor issues etc. that we are facing. Our challenge, given the new plant, is always attracting and retaining the trained manpower. In a new plant what tends to happen sometimes is if some of the new people who come in and by the time they get trained if they leave you, you have to go through the entire process all over again with the new man power. So our challenges lied in attracting and retaining some of this talent at the shop floor level. We are not facing labor issues of the kind I hear Audi had faced, to take some sort of a shut down.

Jay Kale: Can you just throw some light on CAPEX plans and the amount of CAPEX in this year as well as next year?

Gaurav Kumar: CAPEX continues as per plan. We have begun work on the Andhra plant. Next year would be a big CAPEX. This year has been still significantly muted. We will probably end the year with a CAPEX somewhere between Rs 1000 to



1500 crores. But next year CAPEX would be somewhere between 2500-3000 crores. Next year primarily would be the spend on AP Greenfield.

Siddhartha Bera

(Nomura):

Given that on the replacement side we have seen some moderation in the growth trend. So, will it be fair to assume that going ahead your overall growth in terms of volume might be slower than what we had even seen in Q3 because of the OE growth also remaining slow and the replacement growing in mid-single-digit?

Gaurav Kumar:

There are two impacts; one is the base impact itself. In the first half we were coming of lower base, so the growth numbers were significantly higher and also the economy was very strong. So, you are right that the growth numbers have been tapering down vis-à-vis Q1 etc. yet overall for the year we would still report very strong growth numbers. Q3 to Q4 we may again see some small growth which from a year-on-year perspective may not be a large number but one needs to take into account that as the base starts becoming a larger number, reporting a 20% to 30% growth itself would anyway become difficult.

Siddhartha Bera:

But how to look at FY20, is it possible to grow at close to 10%-11% trend or because of the higher base it can be smaller? Also I think Chennai production is ramping up for your TBR plant so will that help volumes also for us?

Gaurav Kumar:

For FY20 we would definitely be looking at double-digit growth and unless something significant happens to the economy as things stand today we would be looking at more than just a double digit growth. On the Chennai side, yes the production has continued to ramp up, so on a year-on-year basis the average capacity of Chennai would be higher than what we have this year and that would essentially be the growth engine for the India Operations next year.



Siddhartha Bera: On the CAPEX side because this year CAPEX has been much lower, so do we still continue with our target of 5500 crores CAPEX over the next three years, so maybe more CAPEX will be pushed towards 20 and 21? And when can we plan to open our AP plant, I think earlier it was planned for FY20 end, now if demand remains slow is there a possibility that the opening of the plan gets pushed to FY21?

Gaurav Kumar: No, the AP plant is expected to open in the last quarter of FY20. That plan is not changing and we would definitely want to have that capacity. How the demand plays out is something that we will see but we are working towards AP plant beginning commercial production towards the last quarter of this year. The broad CAPEX plan number that you mentioned remains the same. There may be some small CAPEX pushing out to FY21.

Siddhartha Bera: On this accounting policy for IL&FS, just wanted to understand how are we working towards it, because till now we have only provided for 100 crores, so what is the policy just to understand that?

Gaurav Kumar: The board takes into account the developments around IL&FS. There were some hearings planned even at the end of this month which did not give a conclusive answer though some of the companies or parts of the companies where we are interested have been put up for sale. We have already taken a 50% write-off. The board will consider next quarter whether we should write-off the full amount or should we write-off over couple of quarters. But it is not going to get extended at best beyond couple of quarters or we may take a complete write-off next quarter itself.

Amin Pirani:

(Deutsche Bank): My question was slightly more long-term, correct me if I am wrong, historically we have seen that whenever raw material prices go up, tyre companies take price hikes with a lag and when the commodity's go down and even the price cutting happens with a lag. So, on an average you may end up making healthy margins. This time around it seems that the decision to roll back the price hikes have happened much sooner than



expected and I'm not even sure if in 4Q you will see the full benefit of raw materials coming down. So how should we look at this?

Gaurav Kumar: Aryn, the decision to roll back was looking at the industry scenario and volumes were getting impacted. There will be some benefit of raw material cost in Q4 itself. That's the outlook. Quantum as of now as I mentioned I don't know, so we should see some positive impact coming through in Q4 itself. The outlook as of now for the next year also is positive as things stand today though politically things continue to be volatile and that immediately flows into crude at least which then down the line impacts us. But as of now if things go as expected then the raw material scenario is looking to be fairly benign next year.

Amin Pirani: It seems that you have been very nimble this time around because obviously commodities can be quite volatile, do you think that industry as a whole and you as a company can be as nimble if things two months down the line change or is the competitive intensity getting more severe?

Gaurav Kumar: I don't think the competitive intensity is getting more severe. It's the same number of players. I guess the last round also coincided with a significant slowdown on the OE side and that I guess played into the fact that while there was a raw material cost push, it was not matched with the best of the conditions from the market side.

Amin Pirani: On your Europe business, you mentioned €136 million revenue, a 12% growth. If I just go back and think of same quarter last year you had mentioned like a €121 million of revenue from Netherlands but a 130 Mn total revenue including Hungary. So has there been a restatement in how you are accounting for it or is there some mistake at my end?

Gaurav Kumar: I would tend to think it's a mistake because Aryn the two legal entities are separate, so Hungary may have had a 9 million sales—I don't remember the figure immediately off hand—but to the external customer everything is sold through the Netherlands entity. So, Hungary really produces and sales everything to this one common entity which is selling out to the customers.



So the 121 figure that you have is exactly correct but that would have been the sale. I may have shared Hungary sales numbers separately given that we were in the starting phase of sales, but in the consolidated European set-up the sales were still at 121 million.

Amin Pirani: For TBR what is the capacity that you have already achieved?

Gaurav Kumar: 250 tyres per day.

Amin Pirani: And you have started selling this now?

Gaurav Kumar: Regularly selling this in Europe, yes.

Bharat Gianani

(Sharekhan): What was the truck replacement volume growth YOY you mentioned in this quarter?

Gaurav Kumar: Truck replacement as a whole was in double digit.

Bharat Gianani: So like 11%-12% in Quarter 3?

Gaurav Kumar: Yeah.

Bharat Gianani: Related question on this is that because of the change in the axle load norms are you seeing any impact on replacement? OEM obviously is having an impact but is that impacted also visible in the—truck replacement market?

Gaurav Kumar: Too early to say the OEM impact has been immediate but yes if the capacity increases there may be some immediate impact but it will also mean that as more load is carried, the tyre life would start reducing. So to that extent replacement demand as in general should not get impacted.

Bharat Gianani: But that's over a longer term time frame but in the immediate term there would be some moderation, right?



Gaurav Kumar: Not very long term given that the life of these tyres is a year plus. So it's not like the car tyres where if you missed out having more vehicles on the road then you have 3 to 4 years of same tyres serving you. If load goes up by 20-25% the truck tyre life would start coming down fairly quickly.

Pramod Amte

(CGS CIMB): What is the net debt for the quarter ended Q3?

Gaurav Kumar: The net debt for the quarter was 4000 crores which is marginally up compared to last quarter where it was 3800 crores.

Pramod Amte: With the AP plant coming up by next year where do you expect the net debt situation to be in terms of net debt to equity or to that extent overall debt situation?

Gaurav Kumar: Our debt will increase; we will probably have the peaking of debt in March 20 given the AP situation. We still expect to be well within our norms, so net debt to equity will probably go up to about 0.7 times.

Pramod Amte: And this is the gross one?

Gaurav Kumar: The covenants are typically on the net debt.

Pramod Amte: I mean the consol side?

Gaurav Kumar: Yeah these numbers were consol.

Pramod Amte: And just a clarification, the CAPEX numbers which you talked about they are for standalone or for consol?

Gaurav Kumar: There is not much in Europe so I had mentioned 2500 to 3000 crores. With Europe coming in it will probably be at 3000 or a little over because European CAPEX is essentially maintenance CAPEX.

Pramod Amte: Last question is with regards to the pricing in TBR. Is it more driven by the price reductions by the smaller players trying to gain market share at the



cost of your leadership or have you seen any significant market share change in last 6 to 8 months in the TBR replacement?

Gaurav Kumar: We have not seen any significant market share changes and really TBR is all large established players. Pricing actions are taken by the players individually. We don't think there have been any significant market share changes. Product quality plays a very important part in the overall thing and we have continued to gain market share in spite of also being a price leader.

Pratik Poddar

(Reliance Nippon Life): You talked about 8000 tyres per day capacity at Hungary, is this the quarter average or the exit?

Gaurav Kumar: This would be the exit. We would have produced at about 7000 tyres over the last quarter.

Pratik Poddar: And you talked about 12,000 tyres I'm assuming that is also the exit by March end?

Gaurav Kumar: Yeah and I would tend to think that if there is sufficient demand we would have the ability to produce 12,000 as an average also. But it is to be met with also volume gains to that extent.

Pratik Poddar: The second question was on the truck replacement side for the month and maybe could you just give us directionally how has Jan been for you across segments? Have you seen growth coming back or it's still subdued?

Gaurav Kumar: I would not have segment wise numbers. Overall Jan has still been subdued with some signs of recovery, so expectation is that February-March should be better. So overall for the quarter we should see some growth over last quarter but not by a significant amount.

Joseph

(IIFL): My question is in relation to the EU margin. So if I look at my notes of 3Q FY 18 the EU margins that I have in my note is 12% and if I am not mistaken



then today you mentioned 9.5% on a year-on-year basis. So just wanted to get a clarification that this 12% did not include Hungary and now it includes, can you just clarify that?

Gaurav Kumar:

So Joseph you may have in the notes and our apologies because last year around people were wanting margins saying give us just the Dutch operations itself and Hungary separately because it was absolutely of a startup stage and last year the Hungary plant would have made losses. I do not have exact figures. But on a like to like basis there is an improvement in margins by about 0.5% which is European Operations as a whole and that is what we were guiding towards last year that really looking at margins of one legal entity is not the right way. For example, in India we do not have plant wise margins.

Joeshph:

The second question that I had Gaurav was when you talk about RM being a pressure point in India because of crude linked commodities and in India you can easily look at gross margins on a Q-o-Q basis but the European business is far more seasonal and as a result very difficult to decipher RM pressures on a Q-o-Q basis. Can you just help us understand how the RM pressure in Europe was and when you talk about 4Q being better in India from RM perspective, does that comment also apply to the European Operations?

Gaurav Kumar:

So even for Europe Operations sequentially the raw material price was up 2%. The number on a year-on-year basis was lower as compared to India where currency also plays an impact so, in Europe the RM was up by about 6% year on year unlike 13% for India. And RM is expected to be down for both the operations slightly again because of currency impact also it may play out differently in different operations. Also the mix of the two geographies is very different especially in Europe the Natural Rubber proportion within the overall raw material mix is much lower than in India.

Joeshph:

That means that Europe margins are more closely linked to crude than the India margins because more of Synthetic Rubber rather than Natural Rubber?



Gaurav Kumar: With the caveat being that raw material as a percentage of sales is a lower number in Europe than in India. Therefore the extent of swing always matters more in India.

Sonal Gupta

(UBS Securities): Gaurav just on the RM part, you mentioned that there is a 2% increase in RM in India Q-o-Q, so you mean like 2% increase in RM cost Q-o-Q because your gross margins have declined quite sharply in India in Q3 so Q-o-Q there is almost like a (+) 250 basis points dip.

Gaurav Kumar: It's a 2% increase, so if I index the previous quarter raw material at 100 the current quarter raw material basket was 102 sequentially. Whereas the increase on a year-on-year basis is 13%.

Sonal Gupta: But if I look at as a percentage the RM cost is up quite a bit on the Q-o-Q basis RM as a percentage of sales?

Gaurav Kumar: You will have to also look at inventory effect.

Sonal Gupta: So is that what is driving this, is it?

Gaurav Kumar: We can discuss that off-line in terms of greater details.

Sonal Gupta: Broader question again like some people have already asked on India if we look at these margins should we think about these as bottom cycle and from here things should improve because clearly you would expect that there is a meaningful recovery from the current levels even for India, so India margins are really low at this point in time.

Gaurav Kumar: And that would be the target, yes given the raw material situation we would drive to improve the margins from here.

Sonal Gupta: You mentioned that there is a competitive scenario and as a result you have to roll back the price increases, so we have not really seen the other people within the industry supporting, I mean are higher prices not sticking?



Gaurav Kumar: The last one did not stick as I said earlier. On a year-on-year the prices were up by about 5%. Not as if nothing stuck but clearly they were not enough visible raw material cost push also this round of price hike got absolutely combined with a very sudden sharp slowdown led by the OE segment and hence the last price increase did not stick. The industry scenario has remained fairly competitive but it's been that way for a long-long time.

Sonal Gupta: My second question is on the European side again, just trying to understand the volume ramp up; so you are saying that you are producing right now 7000 tyres per day, is it?

Gaurav Kumar: Average for the quarter.

Sonal Gupta: And how do you think that the production could move in next year given that if we have the OE contracts coming. So I'm just trying to understand that like on a year-on-year basis what sort of volume growth would you realistically expect in the European Operations with Hungary ramping up?

Gaurav Kumar: In the European market situation, now let's say with a 0 to 1% growth I would say we would look to repeat what we have done this quarter i.e. growth in high single-digit. There are other geographies like North America being explored which will also be serviced by the European Operations. So the entire increase in production is not to be just sold in the European markets because we do not want to have a situation where the volume gain is at the cost of profitability. We've continued to improve on profitability while reaching the volume gains of the current year and the attempt would be to maintain it. So if you look at what is a reasonable volume growth for Europe operations in itself which is sales within Europe I would say high single-digit is a fairly good number.

Sonal Gupta: Since you're talking about profitability won't the US operations related stuff hardly be profitable given high freight cost and really very small scale in US. So, is that really from a profitability standpoint a desirable thing?



Gaurav Kumar: May not be immediate but from a medium to long-term yes, because again the product mix that is being chosen is keeping the profitability aspect in mind and most of the supplies to North America/US would ultimately be from Hungary the plant which is far more cost competitive. If we were doing that entirely out of our Western European plant then we would have greater challenges.

Vijay Sarthi

(Anand Rathi): Could you give me the revenue mix in the standalone for YTD between product segments and market segments?

Gaurav Kumar: Replacement was 60%, OEM 30% and exports the balance 10%. Product category wise - Trucks 62%, Passenger car 18%, Light trucks 8% and the balance is Farm, Two-wheelers and Industrial.

Vijay Sarthi: And how has been our competitive positioning in passenger car especially in replacement? Do we have a case to repeat the TBR performance in the next one-year once the ramp-up comes in Andhra or are we going to be continuing to be the second player between OEM and replacement if you could help us understand?

Gaurav Kumar: In PCR our price positioning vis-à-vis domestic player is fairly at par. The global players like Michelin and the Bridgestone sell at higher prices and we have kept the PCR price positioning right at the top vis-à-vis domestic players. A lot of growth that you mentioned would depend on market growth and in PCR segment the OE proportion is nearly half of the market. So the market growth or our own volume growth would be much more dependent on the OE scenario than in the case of truck.

Vijay Sarthi: In last four years you had substantial increase in OE proportion within the PCR, so is it fair to assume that you will have good rub-off effect in the next two years and therefore you would probably be bleeding in replacement market, is that a fair assumption or it is not going to be the case?



Gaurav Kumar: Should be a fair assumption and that's the target. We have put in a lot of effort and spend both human and capital into R&D and that has paid off in the OE wins. Today we are the leading player in the OE though we still not entered the absolute top premium segment within India but which is a target and yes that should play to our benefit into the replacement segment. With our growth in distribution network which has been significant in the last couple of years. Also, on the back of having the two-wheeler portfolio, and the OE business wins in the passenger car segment, we are seeing benefits on the replacement side and should continue to see that.

Vijay Sarthi: Now that you have reduced prices on seeing poor demand in November and December, you have rolled back the prices rather. Is it fair to assume that if the raw materials remain same and we experience lower growth next year and across companies the average production capacity is moving up, therefore, does it tantamount to some kind of price war or something like that? Can that happen next year if it all?

Gaurav Kumar: Vijay, Difficult to predict what each player would take up, where the demand would be. So, we expect to have I would say reasonably good demand scenario. We don't have capacities coming on stream to an extent where we are seeing a significant excess capacity and while demand growth has slowed down, overall at the end of the day, if we see nine-months, or even this quarter year-on-year the growth is substantial. Probably a flat quarter vis-à-vis last quarter, but year-on-year, we are still talking about 16% growth which is largely volume led.

Vijay Sarthi: Did we experience YoY fall in the replacement segment in January in any of the segments?

Gaurav Kumar: I would not have the data right now.

Jatin

(Credit Suisse): Just to follow up on Sonal's question, if you look at quarter-on-quarter, you are saying the raw-mat is up only 2%, whereas if we look at the product mix



that would have been favorable because OEM has gone down whereas replacement share would have gone up, and when you say inventory has gone up at your end, typically that results in better fixed cost absorption in the quarter in which inventory is created. So, what is really driving gross margins down by 250 bps, Q-on-Q.? Was that some pricing pressure as well, this seems likely counter intuitive?

Gaurav Kumar: As I mentioned, (a) we will have to analyse that in greater detail and (b) pricing pressure was there to the extent that we took a price increase, which we rolled back, the last one of about 2%.

Jatin: Yes, but pricing wasn't down Q-o-Q in any segment.

Gaurav Kumar: No.

Vaikam Kumar

(JM Financial): Can you provide revenue mix for the quarter? Just the segments replacement, OE and exports?

Gaurav Kumar: Replacement 60%, OE 30, exports the same 10. So, similar to nine-months change for the quarter may be in decimals. Truck, 63% instead of the 62% for the nine-months and Passenger car 17% instead of 18%. So, no significant changes for the quarter from a nine-month perspective at best the percentage here or there.

Vaikam Kumar: Can you provide a capacity and production number for the Chennai plant for TBR and PCR?

Gaurav Kumar: I would not have that readily. Chennai probably last quarter should have been producing somewhere in excess of 10,000 TBR per day.

Vaikam Kumar: PCR would be?

Gaurav Kumar: PCR would be at whatever the capacity would have been because there was no expansion in Chennai on PCR, so that capacity has been what it has been for a number of years.



Vaikum Kumar: Earlier in the call, you commented about increase in finished goods inventory. Is it possible to provide a number, either in terms of weeks or in percentage terms as to how high it was compared to normal rate and how much has it come off from the peak?

Gaurav Kumar: It would have gone up by about a week. We would typically have somewhere at about four weeks finished goods inventory that would have gone up to about five weeks.

Vaikum Kumar: Now is it back to the normal level?

Gaurav Kumar: As I said I would not get all these data points at the end of each month.

Chirag Shah

(Edelweiss): Just on the European side, the strong growth that we are seeing in Europe. Is it at the cost of pricing or is it because of new customer additions or how should we understand that?

Gaurav Kumar: It is not at the cost of pricing otherwise it would have played out in profitability because we have not have respite from a raw material front. It is a result of either mix improvement or distribution addition etc. so the attempt is to expand the distribution network. We were also aided by a Test Tyre winner in winter tyres podium position.

Chirag Shah: On the India front and in fact even the Europe side again on the raw material side; the sequential jump seems to be far higher given that the mix is largely constant, the pricing pressure is not that significant. So, is there some internal mix change in terms of within truck tyre, we may be selling lower tonnage truck versus a higher tonnage truck which drives the profitability or the gross margin at least differently?

Gaurav Kumar: I would have to get into detail on this, but at a very simple level raw materials are up sequentially. Synthetic rubber, carbon black, steel cord etc. are all up on a sequential basis. Rubber was the only one which was down



on a sequential basis and hence the overall basked heading to the 2% increase.

Chirag Shah: What was the year-on-year India volume growth?

Gaurav Kumar: Volume growth was 11%.

Chirag Shah: And this would be tonnage growth?

Gaurav Kumar: Yes.

Vasudev Banerjee

(Ambit Capital): In last few overall CV down cycles, how has Apollo fared in the truck tyresreplacement market?

Gaurav Kumar: I would not have the data to immediately answer your question, but the fact is that we have continued to either maintain or gain market shares. So, if you look at a truck radial category, for example, through last several years we have been the market leader, even at the peak of influx of Chinese tyre at an overall domestic segment, we were the market leaders. That's still the position though our share now is considerably higher. So we have done fairly well across cycles of whether the CV demand was up or down and capitalised in the opportunity which was presented after anti-dumping.

Vasudev Banerjee: As you said 10,000, so TBR utilisation will be now at what around 85%?

Gaurav Kumar: Chennai TBR utilisation is in fact in high 80s.

Vasudev Banerjee: So the Andhra facility, which you said will kick-start from Q4 of fiscal 20, will it start off with PCR largely or TBR will also come out with capacity in the first phase?

Gaurav Kumar: For both, TBR and PCR; it is 3000 tyres per day of TBR and 15000 tyres of PCR. So, both will start simultaneously and there will be a ramp up phase. Capacity doesn't come on stream in one go.



Vasudev Banerjee: Basically, India CVs haven't seen any downtick almost for last five years and now that CEAT is tripling its TBR capacity and you are stretching your debt to 0.7 at the fag-end of fiscal 20. So maybe fiscal 21 potentially can be a year of overall CV cycle downtick plus CEAT capacity coming in plus your debt coming at the highest point in the recent years, so that increases the business risk in 21.

Gaurav Kumar: I guess time will tell.

Joseph

(IIFL): Primarily in relation to the confusion around RM. So, what I noticed is that when I look at your 2Q transcript, you had mentioned that on a Q-o-Q basis RM was up 5% and the contraction in gross margin was then only 120 bps. And this time you have said Q-o-Q RM is up 2% but the contraction is 260 bps, so is it the case that 2Q gross margin was actually overstated and that has resulted in a big Q-o-Q dip in 3Q and the reason I ask this is because when I look at your 2Q numbers, there was the 207 crores increase in inventory which would have benefited 2Q margins and hence overstated and this time the increase in inventory is only about 120 crores. Is that the logical conclusion?

Gaurav Kumar: I would hesitate to again give you an answer till I have done detailed work.

Joseph: In relation to tax rate in the subsidiaries, I understand there is some fiscal benefits in the Hungary plant, so what would be a good tax rate to work with for the subsidiaries for FY20-21?

Gaurav Kumar: There are multiple subsidiaries. In general, the Dutch entity which is the largest entity and holding the largest chunk of profit-based tax somewhere in high teens to a 20%. Hungary tax rate is negligible because the corporate tax rate itself is 9% and currently we have an exemption of 80% of that. So, Hungary tax rate is negligible.



Sonal Gupta:

I would like to thank the Apollo Tyres Management and Gaurav for taking the time out and answering all these questions and thanks for giving us the opportunity to host this call and thanks everyone for joining.