APOLLO TYRES LTD
7 Institutional Area
Sector 32
Gurgaon 122001, India

T: +91 124 2383002
F: +91 124 2383021
apollotyres.com

ATL/SEC/21

November 18, 2016

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 10, 2016 at 3:00 PM.

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 10, 2016

Analyst / Investor Conference Call

Second Quarter FY 2016-17

Sonal Gupta: On behalf of UBS Securities, I welcome you all to Apollo Tyres Q2 FY17 Earnings call. We have with us today the senior management team from Apollo Tyres starting with Gaurav Kumar, Chief Financial Officer and other senior members of the finance and investor relations team. I will now pass it on to Gaurav for his opening comments and after which we will have the Q&A session.

Gaurav Kumar: Good afternoon everyone and thanks for joining. A little background on the results.

For the consolidated operations, sales for the quarter were Rs 30.7 billion registering a growth of 2.5% over the same period last year. This was mainly on account of Reifencom, the German distribution company we acquired, getting added. If we look on a like-to-like basis there was a negative growth of 2.6% which is primarily on account of decline in revenue in India. The EBITDA for the quarter was Rs 4.4 billion, a margin of 14.3% compared to a higher margin of 16.3% registered over same period last year.

The fall in margin on account of operations is about a percentage. The rest of it is a contribution of Reifencom which is a fundamentally lower margin business but is a strategic part of our European business. Hence for a couple of quarters the results are not on an apple-to-apple comparison. One of the other factors contributing to this result was the raw material cost which went up by about 5% on a sequential basis. The cost was still lower compared to last year but sequentially the raw material cost went up. In terms of revenue segmentation, the percentage remained pretty much the same in terms of replacement and OE, which is, three quarters of the revenue continues to come from replacement segment.

However, on a product category basis, given the slowdown in the truck and bus segment in India, the proportion of revenues from it fell to about 41% vis-à-vis high forties which used to exist last year and simultaneously the revenues coming in from the car and farm segment went up.

Sales for the first half were Rs 63.6 billion, a growth of 9.0% over the same period last year and the EBITDA was at 15.4% vis-à-vis 17.0% registered last year. Our debt level as mentioned earlier continues to go up, at the end of this quarter the gross debt stood at Rs 30.3 billion compared to Rs 21.8 billion at the end of last quarter and the net debt was at Rs 16.7 billion compared to Rs 6.1 billion at the end of last quarter.

Yesterday we also announced that we would be signing an MoU for purchase of land for our future growth in India. We have pretty much exhausted any significant expansion possibilities, in our current plants and hence keeping in mind the growth potential of the market and our need of keeping pace with that, we would be purchasing land for our next greenfield.

In terms of an outlook on the raw material prices we expect it to be range bound, it may go up slightly on a sequential basis in the current quarter.

Coming to the Indian operations, sales for the quarter were Rs 20.6 billion, a decline of 8.3% over the same period last year, 2% of this was contributed through a volume decline and 6% from price impact. The price impact is essentially coming from the price reductions which were taken over the course of last year and the current year.

On the volume side, while we registered growth in car, farm and other product categories, the truck and bus segment at an industry level saw a sharp fall in demand, particularly from the OEMs leading to a loss in volumes. Given the industry skew, volume gain in all other product categories still did not cover up for the loss in the truck and bus segment. Continued high volumes of Chinese imports did not help the industry further.

EBITDA for the quarter was Rs 3.3 billion at 16.1% compared to 17.8% for the same period last year. The decline being essentially caused by higher raw material prices and the price decline over last one year.

Gross debt for Indian operations was at Rs 14.0 billion, as we continued to borrow for Chennai, up from about Rs 9.7 billion in the previous quarter and the net debt was at Rs 4.9 billion. In terms of revenue segmentation, the revenues from the truck segment fell from mid-60s to high 50s and the largest gain was in the car tyre segment.

Moving on to Europe operations, which as mentioned earlier do not present an apple-to-apple comparison on account of Reifencom addition. Sales for the quarter were Rs 9.9 billion, a 30% growth over the same period last year. A large chunk of the growth is being contributed by the addition of Reifencom business which came within our fold from January 2016. EBITDA for EA (Europe & America) were Rs 0.8 billion at 8.2% compared to 10.5% for the same period last year. The Hungary plant continues to progress on track, and we expect to start commercial production in the next quarter.

For the Dutch operation (AVBV), the revenues in Euro terms grew by 6.2%. In this quarter we had a net sale of €112 million vis-à-vis €106 million last year. Even in EBITDA terms, there was an improvement from 11.2% to 11.4%. The Reifencom operations on the other hand had a seasonal impact. Sales in this quarter was much lower sequentially and stood at €28 million against the sales of €29 million for the same period last year. The sharp fall in revenue on account of seasonality lead to a negative EBIDTA at - 5.2%, which is similar to last year.

So while the numbers at an aggregate level show a significant decline, you need to keep in mind that our European manufacturing and sales operations performed better than last year and the Reifencom operations performed very much in line with expectations both in terms of top line and bottom line.

That is all from our side. We would be happy to take your questions.

Ashutosh Tiwari:

Equirus If I look at the European margin it was at 14.3% in first quarter and this quarter it is 11.4% is it because of seasonality or because of the higher raw material prices?

Gaurav Kumar: It is seasonality as I mentioned the same quarter last year was an EBITDA of 11.2%, Europe takes a shutdown of the plant for maintenance and other purposes in July-August period while we continue to incur the fixed cost and hence this is traditionally a weaker quarter.

Ashutosh Tiwari: Than because of the winter tyres, third quarter margins should improve?

Gaurav Kumar: That is correct, the December quarter is typically our best quarter.

Ashutosh Tiwari: But how do you see the winter tyre demand this year, how is the market?

Gaurav Kumar: Too early to say, as weather has been unpredictable in many parts of the world but there are early signs of snow in Germany which is usually a good sign but it needs to continue.

Ashutosh Tiwari: And secondly if you look at other income in the India operations Rs 428 millions, it seems quite high. Is there any one off in that?

Gaurav Kumar: There are one offs in that. There is a gain on foreign exchange fluctuation which is almost half of the other income and the other large chunk is interest income. You typically borrow in a certain lump sum amount, and as we borrowed for Chennai there is this interest income on unutilised funds which is feeding into this.

Ashutosh Tiwari: How would be the profitability of Hungary plant versus the current operation in Netherlands?

Gaurav Kumar: That is still some time away because the Hungary plant after starting commercial production will need time to ramp up. The Dutch plant today runs close to about 200 metrics tons per day, whereas the Hungary plant would reach that capacity only in FY19. But once we are on a like-to-like basis the Hungary plant should generate much higher profitability than the Dutch plant.

Ashutosh Tiwari: So the FY18 would have normal margins and then probably it will improve?

Gaurav Kumar: At a broad level, yes.

Ashutosh Tiwari: You mentioned that the growth in car and farm was higher, how much was the growth rate in those two segments in India?

Gaurav Kumar: In car tyres we grew by about 10% and in the farm sector we grew by about 15% in terms of volumes.

Ashutosh Tiwari: Then how much was the decline in the truck segment?

Gaurav Kumar: Truck declined by about 10%.

Ashutosh Tiwari: So how do you see the third quarter going on currently?

Gaurav Kumar: The start of this quarter has been good, we had a good October. The demand from OEMs which was the large factor in pulling down the overall volumes has clearly picked up. But this recent demonetisation announcement would have some impact because the end sale of tyres, particularly in the rural markets, happens in cash. And like for many other industries this would have a short-term impact though not specifically for the company but there would be a short-term impact.

The good part of it could be that it may impact the Chinese sales even more. We still need to see as to how this rolls out. Till now the quarter was going good but there would be some short-term impact of this recent announcement.

Pramod Amte

CIMB With regard to the trucks and bus what is your India business mix in terms of OE and replacement?

Gaurav Kumar: Broadly it is about three-fourths replacement, one-fourth OE.

Pramod Amte: So in that sense OE should not have hurt you so much in the second quarter or is it you saw a slow down even in the replacement in September quarter for trucks?

Gaurav Kumar: There is a slowdown even in the replacement segment in second quarter. Part of it is also due to a good monsoon which has its positive impact but also on any immediate basis the negative impact because of broken roads, people tend to defer their purchase of tyres on the replacement segment to the extent possible. But the decline was much higher on the OEM side.

Pramod Amte: So you feel it is more of a temporary phenomenon and should come back?

Gaurav Kumar: That is correct.

Pramod Amte: How has been the progress till now on the two-wheeler tyres front, would you like to quantify anything on top line, EBITDA level?

Gaurav Kumar: We continue to what I would say is a decent progress and in line with our expectations. Broad volumes are in the range of 100 thousand tyres per month which is what we had targeted to do. The commitment to this product segment continues and as we have recently announced, we have already started thinking ahead that at some point of time we would like to have our own manufacturing capacity for the same. So we will continue to work on this segment. The tyres that are there, which our R&D team has worked on, with the off take partners, are doing well and the feedback on that continues to be very encouraging.

Pramod Amte: Can you give more clarity in terms of the land acquisition cost and what you plan to do, when this will be used, which year CAPEX can come through?

Gaurav Kumar: None of that is firmed up as of now. As of now the investment quantum is a very small number of Rs 5 billion. Eventually the land that would be acquired will be acquired keeping in mind the future capacity requirement so that we do not run short of space at any point of time. But there is nothing approved in terms of capital expenditures at this stage.

Pramod Amte: This Rs 5 billion will be used for land you are saying?

Gaurav Kumar: No, Rs 5 billion is the investment commitment for that project. Land cost would be a very marginal cost of the overall investment.

Amyn Pirani:

Deutsche Bank On the European margins, while on YoY basis you did mention that margins are more or less flat, but last year second quarter margins in any case were not the kind of normalised margins that you make in Europe due to various reasons which impacted you last year. So what I want to understand is that in Europe are we moving towards a lower margin trajectory I mean compared to a 16% to 18%, are we moving towards a 12% to 15%?

Gaurav Kumar: In short-term, yes, and you are right that our last year's second quarter margins were not what we have been reporting on a longer term. But you need to keep in mind that the current European Operations are carrying costs which are being built up towards the much larger operation. So the R&D cost for example in the historical past beyond last year did not have any component of testing with OEMs etc now that is adding up.

So the higher R&D costs, test costs etc are all feeding into a revenue base which is still the same till Hungary operations kick in. And we continue to make I would say good progress with the OEMs and should be starting OEM business in Europe, initially from Netherlands, and then eventually from Hungary right from next financial year. So in near term of FY17 and to some extent FY18, yes, the base of the European operation moves to a lower figure.

Amyn Pirani: On this new land that you are thinking of acquiring, the question or the concern that some people could have is that you are on a high CAPEX mode of around Rs 70 billion over a three-year period and people expect that after that you will again go into a deleveraging mode. So is there a potential that you could be on a six to seven-year CAPEX mode or you do not think that it is something that could happen?

Gaurav Kumar: At the current levels of growth in India I do not think we would be on a six to seven years' negative cash flow cycle because the CAPEXs of Hungary and Chennai would be more or less complete by March 18 which is what we have been always saying. Post that for truck and car we should have ample capacities. Even if we were to begin some construction in FY18 next year on this new greenfield it would still be very small and hence would not lead to further ramping up of debt. Unless the growth trajectory of the Indian market changes substantially.

Amyn Pirani: This will be mainly two-wheelers and light trucks to begin with? I think that is what was there in the MD's interview?

Gaurav Kumar: That is the initial thinking because as of now we think we have adequate capacities for the next couple of years on the car side and other product categories. Demand on the bias side, as we grow would be taken care of by conversion of the truck bias capacities. So at this point of time we have enough on the truck radial and the car tyre capacities.

Chirag Shah:
Edelweiss Would the terminal capacity in the new Hungary plant be a same size as in Netherlands, a 200 metric tons a day?

Gaurav Kumar: It would be in excess of 200 metric tons. It is a 5.5 million car tyres and a 0.7 million truck tyres capacity in Phase I which would translate into 250 metric tons per day capacity. But that is the capacity as per current plan and should be reached in 2019.

Chirag Shah: Okay and you will start with what?

Gaurav Kumar: We will start with car tyres initially.

Chirag Shah: And in terms of capacity so all this 250 metric tons?

Gaurav Kumar: That is difficult because it is a capacity which would gradually ramp up as machines get industrialised. There is nothing like saying we will start with one tyre and then go to two, three etcetera. It moves in a certain quantum so let us say the first quarter of FY18 the average capacity maybe about 500 tyres a day.

Chirag Shah: Okay then we will build up on that?

Gaurav Kumar: Then it keeps ramping up, yes.

Chirag Shah: I was just looking at the numbers in general, your outlook on margins basically in India, what would be the packing order of the profitability in different segments? So what will be the most profitable for you and what is the least profitable for you especially in last two quarters?

Gaurav Kumar: Currently the highest margin category, and which has continued to be so, would be passenger cars. This would be followed by truck radial. The TBB, LTB and other categories would follow after that.

Chirag Shah: Would this be driven by your pricing power or the pricing premiums that you have or it is more to do with the cost structure?

Gaurav Kumar: It is a mix of both. Each of these categories have different dynamics, so passenger car is not just an India phenomenon, even globally any tyre company makes more margins on the personal vehicle tyre rather than on commercial vehicle tyres. The truck segment, the farm segment etc makes lower margin business. The farm profitability has improved in the last couple of quarters vis-à-vis earlier. So it is a function of cost structures, capacity utilization and also that segment dynamics including competitive dynamics.

Chirag Shah: On your mix of rubber generally, for your India business, what is your preference between import and domestic and what are the threshold levels you follow generally over there?

Gaurav Kumar: Yes, so for India business we import about 60% of our rubber requirement. Some part of the preference is driven from a quality perspective which is product specific. So for truck radial particularly the natural rubber is imported. For large parts of the other product categories pricing is more of a determinant, one compares the landed cost of imports and duty paid on that versus what is available domestically.

Chirag Shah: And this mix generally on an annualized basis does not really change much 60:40 ratios. It stays in that vicinity or it can change significantly?

Gaurav Kumar: In recent times, it has been in this vicinity. It cannot change dramatically overnight because for overseas you have to place at least quarterly orders.

Chirag Shah: Yes, two to three months of trade channel timing you need?

Gaurav Kumar: You also need to audit the rubber processing plants so you cannot suddenly say let me just switch completely to the overseas or the other way because of availability in the domestic market. But few years back, the proportion used to be almost completely reversed or more domestic so to say. In some ways, the radialisation and the inaction on the Chinese imports coming in has pushed the tyre industry towards more and more imported rubber.

Chirag Shah: And your utilisation levels in passenger cars and TBR? TBR everything would anyway be 100%. ?

Gaurav Kumar: TBR last quarter was not 100% as I mentioned, the demand fell so the utilisations in India fell from mid-eighties to early eighties. We did take some production cuts also as the demand fell.

Chirag Shah: But on passenger cars how it would be, would it be almost at optimum utilisation levels or there are capacities over there also for you?

Gaurav Kumar: I do not have that number readily. I would suspect that for passenger car the utilisation would be higher. TBR in the last quarter would be lower though we have been running flat out previously.

Chirag Shah: Yes, but that would be an aberration because of the demand related issue so it can get corrected. And what kind of capacities are coming in India in passenger car and TBR for you if you can just run us through?

Gaurav Kumar: Passenger cars there is no change in capacity it is at 32,000 tyres per day split equally between Baroda and Chennai. Now we are making a small expansion next year of SUV capacity given the pickup in demand in that segment.

Chirag Shah: And how much that will be?

Gaurav Kumar: 3,000 tyres per day. On the truck radial side which is the well announced expansion, we are doubling our capacity on truck radial from 6,000 to 12,000 tyres a day. That will start coming on stream now from this quarter and the ramping up should be complete by about June 2018.

Chirag Shah: So in the most profitable business you are not looking to expand aggressively? We have generally seen expansion from Apollo on the passenger car side slightly slower than it is on the truck and bus side. So how do you internally look at this?

Gaurav Kumar: The reason for expansion, on any product category has to be based on when do we need it. Just because it is the most profitable category does not merit that we expand the capacity, because what we will do with an idle capacity. The most profitable category if anything will start dipping. Also currently the Indian operations provide about a million tyres from India into Europe which from next year onwards, when Hungary plant comes up, will slowly start getting released back for the India market.

Chirag Shah: And that would be how much roughly?

Gaurav Kumar: 1 million, it is about 10% of our annual capacity. So currently we do not have a need to expand passenger car capacity and hence the reason for not expanding there.

Chirag Shah: The new greenfield that you are looking at for which you have paid Rs 5 billion to acquire land, would have both passenger car and TBR?

Gaurav Kumar: One correction we have not paid Rs 5 billion. As of now we have not paid anything. We are signing an MoU for purchase of land. It will go through its normal diligence process, the legal process before we sign anything. Secondly, as I mentioned the cost of the land is a fraction of the investment commitment which is a minimum Rs 5 billion. And to your question that operation can have any capacity. Yes it can have truck, it can have passenger cars, it can have any other product category for that matter.

Chirag Shah: Bus radials, is that right?

Gaurav Kumar: We will see how the market is and decide accordingly. We will not put up a truck bias capacity for sure.

Bharat Gianani:
Sharekhan Just wanted to get more sense on the European margin. Reifencom you said basically has done an EBITDA loss in this quarter. What is the annual kind of a margin range which the business trades at and so possibly just wanted to check the overall European margins basically?

Gaurav Kumar: Reifencom in the second quarter as I mentioned has done a negative EBITDA business which is its typical loss making quarter. It did a negative EBITDA business even in the same quarter last year when it was not with us. On the first half of the year it is a positive EBITDA business. It is generally 1.5% to 2% EBITDA business on a full year basis going through its seasonality.

Bharat Gianani: So the European margins in third quarter tend to be on a higher side due to pickup in the winter tyre sales and is also possibly on account of pickup in Reifencom margins as well. So basically in this quarter the European margins stood at about 8.2% as you have highlighted earlier and so given rest of the things remains the same we can possibly expect to reach 10% to 11% levels in Q3 roughly if we assume that raw material and everything else remains constant?

Gaurav Kumar: We do not give out margin guidance. I cannot talk of a specific number. But yes, Q3 in our European business is seasonally the best quarter.

Bharat Gianani: So for Reifencom and the European business typically second quarter is the worst quarter amongst the four quarters. I mean how do we read that because second quarter seems to be seasonally weak as it produces lowest margins for the Dutch operations as well for the Reifencom, is that a fair understanding?

Gaurav Kumar: Generally, yes, but every year would second quarter be the lowest cannot be said. Sometimes there is pre-sales of winter tyres with people looking at what are the predictions or based on how the winter tyre sales in the last year have been. If the winter expectations are very good what it actually does is, it exhaust all the inventory at the dealer’s levels in which case the dealers starts talking winter tyres through July-August itself and sometimes that leads to second quarter being better. But yes, in general the September quarter is the weakest quarter.

Basudeb Banerjee:

Antique From a technical perspective what is the difference between operating in the two-wheeler tyre space through our own factory and through an outsourced one like many players have been operating through the outsourced route and now starting to make in-house facilities?

Gaurav Kumar: Technically I would not be the best person to answer because I understand very little about tyre making. There are certain amounts of margins which are obviously made by the contractor which you would always have to give to a business partner for a fruitful partnership. If you could run your operations as efficiently as the business partner, having an in-house manufacturing would lead to higher margins. That needs to be thought of also in the light that the current player who is running the off take runs a much larger volume of business given that he is providing volumes to multiple players and hence may have economies of scale.

As of now our experience of manufacturing in this segment is not there. So we cannot talk about how efficient or inefficient vis-à-vis the outsourced, we would be. But the long-term ambition is to be a significant player in this segment. Towards this we have even started internal work on motorcycles radial tyre. So we do not just intent to be a small player there. We would put in our R&D might to not just be a significant player in terms of volumes but even technology.

Basudeb Banerjee: Basically I was just trying to understand like being a duopoly or at max 3 to 4 players in the industry for past several years now you and many other players are trying to come up and setting up capacities and where the industry as a whole is growing barely by 10% to 12%. So don't you see a scenario of supply rate moving higher than the demand rate in next two-three years?

Gaurav Kumar: It could be. I would say 10% to 12% is a fairly good growth rate. And we would happily take that for our passenger car and truck segment if we could be assured of that. More players are entering, definitely yes and if anything that is a cause of worry, it would be for the players who already exist, in terms of the market share or profits that they enjoy. That is not a worry for us per se because we would add capacity carefully keeping in mind the overall demand supply dynamics.

Basudeb Banerjee: You said that Hungary operations will operate at a better margin than currently is down the line. So what kind of utilisation level post which you expect it to happen and what timeline one should expect for that as your plant is getting operational very soon?

Gaurav Kumar: Again that would almost lead into margin guidance which I cannot go into.

Basudeb Banerjee: Not margin guidance, sir. What I said is margin differential guidance from existing plant?

Gaurav Kumar: I do not think I can give you even a margin differential guidance. The earliest when Hungary plant would reach a reasonable scale would be FY20.

Basudeb Banerjee: A bookkeeping question of the commodity landed cost for you this quarter, basic commodities?

Gaurav Kumar: The rubber was at about Rs 137 a kg, synthetic rubber at Rs 110, carbon blacks Rs 55, and steel cord Rs 110.

Basudeb Banerjee: So there was almost a 10% jump in your landed rubber cost QoQ?

Gaurav Kumar: Lower than that but Yes.

Basudeb Banerjee: And subsequently the lag effect of the drop-in rubber I would expect to come down in coming quarters in your numbers?

Gaurav Kumar: There would be some impact of that. Some of the other raw materials have gone up. So on an overall basket basis the raw material cost for the third quarter is expected to be slightly higher.

Sonal Gupta:

UBS Just wanted to understand what is the European volume growth this quarter?

Gaurav Kumar: On passenger car, we grew by 7%.

Sonal Gupta: You are almost doubling capacity in Europe, so to reach the optimal level of utilisation and to get that level of market share how do you see that path? Do you think that you will be able to utilize the phase 1 capacity in the next three- four years or how does it ramp up?

Gaurav Kumar: **G**oing into Hungary and setting up of capacity there is based on the belief that we can. The capacity versus what we are selling in Europe is already a difference of 1 million units which is sourced from India currently. And as I mentioned as per our overall plan very soon we will need that capacity back for India. So in a way Hungary comes in with about a 20% of its capacity already assured in terms of what is being sourced from India. Over and above that the OE business which we were not into at all for regular car tyre is something that will start from next year. And then those volumes can ramp up pretty rapidly once you meet certain norms.

So again about a fourth of this additional capacity would be earmarked for the OEMs and the balance, if we look at the growth of the market, yes there are some small market share gains that we need to achieve. But in our estimate, that is very much achievable and also the fact that this capacity is coming on stream slowly. As I mentioned the full capacity is only available in FY21. Even in FY20 it reaches a reasonable scale but not the full plant capacity.

Sonal Gupta: Just on the sort of pricing action in India if you could just tell us about any price changes that happened in the second quarter or what you have taken in the third quarter?

Gaurav Kumar: Yes, we announced a price reduction of about 2% plus in TBR in July and we have taken a 2.5% odd price reduction in the truck bias segment in October.

Sonal Gupta: There has been some price cuts in October by the competition. So that is only restricted to TBB it is not in TBR, is it?

Gaurav Kumar: Some of the competition has taken in the other products segments. We have not followed.

Sonal Gupta: And no cuts on the car side, is it?

Gaurav Kumar: No.

Ashutosh Tiwari: Equirus In the European market have we been able to pass on the increase in the RM prices?

Gaurav Kumar: As of now price increases have not happened. The increase in raw materials is only slight. The largest raw material increase as you would have noticed from the numbers was in natural rubber which is a very small component in Europe. So really as of now it did not merit a price increase in Europe and neither has the other industry players taken it.

Ashutosh Tiwari: If I look at the segments the others, EBIT profitability has improved quite a bit over last year and the last quarter as well. So what is driving that?

Gaurav Kumar: Essentially that is our operations in the ASEAN Region, Middle East, South Africa etcetera ramp up. They have started covering the fixed cost more effectively. The biggest improvement has been in South Africa where you would remember we underwent a significant restructuring. Certain basic operations were left and this change over involved a certain amount of strain which it always does in these situations. So the greatest gain in terms of topline growth in this quarter has been from the South African operations. And they are beginning to reach level of profitability.

The operations were essentially at levels like last year with some small improvements.

Ashutosh Tiwari: And lastly, you said Reifencom EBIDTA margin on a yearly basis would be 1.5% to 2% EBITDA?

Gaurav Kumar: That is correct.

Deep Shah:
SBICAP On other expenses. It seems to be little bit on a higher side. If you can elaborate why is that?

Gaurav Kumar: You are talking about India operations?

Deep Shah: Both consolidated as well as standalone.

Gaurav Kumar: India operations the other expenses on a sequential basis were in fact lower. They were higher on a year-to-year basis. The increase is contributed essentially on account of the conversion cost which is paid on the two-wheeler & three-wheeler tyre, increase in freight cost and increase in R&D cost.

On consolidated basis these expenses would flow through. There may be other small increases in advertisement and promotion but not much plus there would be some increases on account of Reifencom also.

Deep Shah: On the market share. You just mentioned that you have lost volume in TBR. That is an industry phenomenon but what will be the market share? Is it somewhere like 25%, 26% or is it lower?

Gaurav Kumar: We do not know at this stage because the industry data comes with a lag. But as per our estimates we do not think we have lost market share.

Deeep Shah: So it should be at 26% to 27% kind of?

Gaurav Kumar: It should be in that range.

Amyn Pirani:
Deutsche Going forward given that raw materials have started to rise and stabilising. In India is there a potential for price hikes happening in the next few months or it is too early to say that?

Gaurav Kumar: Too early to say that, we have not seen such action from anybody. But clearly in this quarter there have been margin declines for all the players. In some cases, more than what we have seen for ourselves. So we believe we will soon see a point where we will reach the decision point on pricing action. But still a little early to say.

Amyn Pirani: On the Chinese dumping, it is still at the same stage or any further developments that you heard from the government?

Gaurav Kumar: It is still at the same stage. I believe there was a certain change in the investigating officer, which as per the government mandates that the entire data to be relooked at.

Srinath Krishnan:
Sundaram You mentioned that your European capacity is at around 6 million and you would be moving to 12 million by sometime around 2021. And 25% of that

incremental addition is towards OEM. So you would be moving to something close to about 10.5 million by 2021. From 2017 to 2021 you would be using that capacity. It is something like a 15% replacement CAGR growth. Is it not on the higher side? I understand you are a smaller player in Europe but still what are the white spaces that you are seeing to gain market share in Europe?

Gaurav Kumar: So the capacity currently is 6.5 million from where we are going to 12 million. We are already selling in excess of 7 million. As I mentioned there is a 1 million already sold in the replacement market from India. The 7 million needs to move to 10 million, 10 million plus over a four to five-year time space which I think would be lower than 15% CAGR.

Srinath Krishnan: It is now around 11% in Europe then?

Gaurav Kumar: Yes, against a market growth of about 2% to 3%. I cannot get into detail on the marketing strategy. There is a plan in place based on which we went into this. Only time will tell us, how successful we are. So we recognise that we have to gain market share and there is a plan behind that.

Disha Sheth:
Anvil Shares Can I get the CAPEX remaining for the current year and the carry forward to next year?

Gaurav Kumar: For Hungary, for the balance second half we should have a CAPEX of about €100 million and for Chennai about Rs 6 billion.

Disha Sheth: And what would be the CAPEX for next year?

Gaurav Kumar: For Hungary for the next year would be somewhere in the range of €125 million which will then take it to almost a final stage. And for Chennai it is about Rs 8 billion.

Disha Sheth: I just missed on the Hungary capacity which you have mentioned, if you can repeat please?

Gaurav Kumar: At the end of phase 1 it would have 5.5 million car tyres and 0.7 million truck tyres capacity.

Disha Sheth: And Chennai would be 12,000 TBR a day, is it?

Gaurav Kumar: That is correct. That is about 4 million tyres.

Disha Sheth: How do you see volume growth in terms of car and trucks from now on because many other tyre companies have given double digit volume growth? So what is your view?

Gaurav Kumar: Historically on a longer-term basis the volume growth on car side has been double digit, the truck side is a 6% to 7%. So there may be periods in which the growth is double digit. But on a longer term basis we would say a 6% to 7% growth may be a more reasonable one to assume.

Disha Sheth: And are you seeing more demand from OEs?

Gaurav Kumar: This year the balance has been fairly stable. In the previous few years the truck side was more led by the OEs. In the current year the OE growth over the first half has been fairly flat given the impact of first and second quarter. So it is not skewing more towards OEs.

Disha Sheth: On margins, is the raw material impact done like the high priced raw material or do we have the inventory of rubber?

Gaurav Kumar: We carry a small inventory. We would typically have a three-week inventory that really does not make a big difference.

Disha Sheth: So our margin should continue and stay stable from this level?

Gaurav Kumar: We don't give any margin guidance

Sonal Gupta: On behalf of UBS Securities, I would like to thank the senior management team from Apollo Tyres for taking the time out to answer all these questions. Thanks everyone and have a good day.