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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 Tuesday, February 6, 2018 at 04:00 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, February 6, 2018

Q3 FY18 Earnings Call

Joseph George: Good morning everyone. On behalf of IIFL Capital, I welcome you all to the Q3 FY 2018 Earnings Call of Apollo Tyres Limited.

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

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

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

On a consolidated basis the net sales for the quarter were at Rs 40.2 billion, crossing the Rs 40 billion mark for the first time; a healthy growth of nearly 17% on a year-on-year basis and a similar growth on quarter-on-quarter basis, majorly led by Indian Operations where the revenue growth was 21%. The EBITDA (excluding other income) for the quarter was at Rs 5 billion, registering a margin of 12.3%, an increase of about 2% vis-à-vis last quarter. The sequential growth in margin was on account of decrease in RM prices. However RM consumption prices in Q3 increased by about 7% on YoY basis. We expect a slight increase in the raw material prices going forward. The Gross Debt on a consolidated basis stood at Rs 43.6 billion at the end of this quarter, a slight reduction vis-à-vis the last quarter on account of scheduled debt repayments. The Net Debt came down substantially from Rs 41.4 billion to Rs 23.4 billion primarily on account of the proceeds from QIP that we had closed in the beginning of the quarter. The Net Debt to Equity at the end of last quarter stood at 0.25.

In the current quarter we also started work on our next manufacturing facility in India. The foundation stone was laid in the state of Andhra Pradesh on January 9, 2018. The company plans to invest about Rs 2,000 Crores in the first phase. We continue our brand building activities with sponsorship of the Indian Super League. Apollo Tyres has partnered with the ongoing Indian Super League (ISL) for the current season. We have also become the principal sponsor for the ISL team, Chennaiyin FC, and the title sponsor for I-league team, Minerva Punjab FC.

Moving onto Indian Operations, there was a significant benefit on account of decline in TBR imports post the antidumping duty imposition. The sales for the quarter for the Indian Operations were Rs 26.3 billion, a growth of 21% over the same period last year and nearly 9% on a sequential basis. This was primarily led by growth in volumes, majorly in TBR segment wherein significant benefit came from imposition of anti dumping duty on imports. The volume growth was nearly 16% on a year-on-year basis and about 12% on sequential basis. EBITDA for the quarter stood at Rs 3.7 billion, a margin of 13.7% as compared to 14.6% last year, however, margins improved by about of 2% on a sequential basis.

In terms of revenue segmentation, 90% of the revenues continue to come from the domestic operations and 10% through exports. Given the strong volume growth in the truck segment, the revenue from the truck category increased to 62%, about 2% higher than our normal standards. The raw material basket came down by about 3% on a sequential basis.

Moving on to our European Operations, the sales for the quarter were at Rs 13.9 billion, a growth of 11% over the same period last year. EBITDA for the quarter was at Rs 1.2 billion at 8.3%. Our Hungary plant progress continues to be on track. The plant has currently reached a production of about 5,000 passenger car tyres per day and we expect to close the year at about 7,000 car tyres per day production. The total capex spent on the plant is now close to 450 million and balance would be incurred in the first half of next year. The revenue from our Dutch Manufacturing Operations was €121 million, a marginal growth from €118 million for the same period last year. There was a significant growth contribution from Reifen Operations, given the winter season.

The EBITDA margin for the Dutch Operations, given the seasonal impact improved from 8.5% to 12%. Hungary continues to be a loss, with the peaking of losses in the current quarter at about €3 million. Going forward the situation would improve, we would continue to target to reach a break-even situation by end of the current quarter. This is all from our side. We would be happy to take your questions now.

Nitesh Sharma (Philip Capital): What was the revenue and EBITDA number of Apollo Europe in Q3?

Gaurav Kumar: The revenue of Apollo Europe was €130 million in Q3 which would combine the production happening out of Hungary and The Netherland. Revenue for Reifen for the quarter was €66 million.

Nitesh Sharma How do you see the European Operations going forward in terms of scaling up the operations and also the Reifencom business?

Gaurav Kumar: As our Hungary Operations witnessed peaking of losses in Q3, going forward the situation would improve as capacity ramps up. The target internally is to achieve EBITDA break-even by the end of this quarter and it will start contributing positively to the profitability next year onwards. This financial year has been challenging as Hungary still ramps up and there was no additional volumes coming from the Indian Operations given the strong demand in India. So going forward, from next year onwards, we would expect the European Operations to scale up and margins would start improving as the Hungary Operations break even.

Nitesh Sharma: What was the segment wise volume growth in India?

Gaurav Kumar: The overall volume growth in the truck segment was 22% with about 50% growth in TBR and a marginal growth in the TBB segment; Passenger car segment was flat vis-à-vis last year. On the two and three wheelers we continue to make good grounds with about 90% growth in the quarter; light commercial vehicles witnessed a volume growth of 10%.

Nitesh Sharma: In the TBR segment are we seeing strong demand momentum even in our premium segment products or is it the lower end products, which are helping the overall volume?

Gaurav Kumar: It is strong volume growth in the premium segment. The Apollo product in TBR is priced at a premium. As I mentioned we have seen a volume growth of 50% on that.

Nitesh Sharma: How do you see raw material pricing in the coming two quarters? As crude linked RM inches up, do you see industry taking price hike in the coming quarters to negate the same?

Gaurav Kumar: We expect slight increase in the RM basket in Q4. Some of the players in the industry have already announced price increases in few product segments, so given the strong demand situation; there is a possibility of price increases.

Nitesh Sharma: **So,** you expect the industry's pricing power remaining strong going forward because of lower Chinese and overall pricing dynamics?

Gaurav Kumar: That is correct.

Nishit Jalan (Kotak Securities): My first question is on the domestic volume growth -- when you say growth in passenger car segment is flat on YOY basis so would that be because of reduction in exports?

Gaurav Kumar: Yes, the exports have come down significantly especially to Europe. Domestic volumes have increased by about mid single digit. Also, we have been running flat out on capacity, so right now everything that is being produced is being sold in domestic market. There is also a de-bottlenecking exercise that is going on, till then there would be a capacity constraint, which is limiting the volume growth.

Nishit Jalan: Whenever you say about RM basket going up, you always mean the procurement price not the P&L price right? So I am assuming that when you say RM basket is down 3% QoQ for which you will get some benefit in Q4 as well?

Gaurav Kumar: No, this is our overall consumption price, so we expect that to go up because some of the raw materials contracted towards end of Q3 would have already been factored in, in our expectations.

Nishit Jalan: This would also build in the impact of the increase in import duty that has been imposed on all the commodities that we import right?

Gaurav Kumar: This would not have taken into account probably the cess imposed by this latest budget that may even put it up by another small amount, but overall we would still expect the raw material basket increase to be low-to-mid single digits, not any significant increase.

Nishit Jalan: On the European business when you say that the production capacity is 5,000 tyres per day that is the achievable capacity, you would not be selling those numbers yet; is it right to assume that?

Gaurav Kumar: The capacity in place would already be in excess of 10,000 tyres per day what limits the utilization of capacity is the number of SKUs that are industrialised and hence cleared for commercial production. The actual production today has already crossed 5,000 tyres per day and hence it is saleable production.

Nishit Jalan: There is also a TBR capacity in your European plant and you mentioned about entire capex being done in next two quarters, should we be assuming that the TBR production would also be up and running in next couple of quarters?

Gaurav Kumar: TBR production will start in the next couple of quarters, so there is a lag of almost one year vis-à-vis the passenger car and would follow a similar curve where you have to stabilise the equipment, go through SKU industrialisation, so the TBR capacity in FY2019 in Europe would be a very small one, and in any meaningful manner only from FY2020.

Nishit Jalan: So once TBR plant starts will it lead to any further start up costs?

Gaurav Kumar: There would be some increase in startup costs and pre-operatives, but broadly within the numbers that we have mentioned earlier because bulk of the payments for equipments including for TBR have already been made. Now only the retention money as equipments get commissioned is pending.

Nishit Jalan: From P&L perspective like we are having in the Hungary plant right now around €3 million?

Gaurav Kumar: There would be small quantum, but not of the order that we have been witnessing in Q2 and Q3.

Amyn Pirani (Deutsche Bank): On sequential basis your India volumes have appear to have grown faster than the revenues, so is there a quarter-on-quarter decline in realisations and if that is the case then any reason for that?

Gaurav Kumar: There is no decline in the realisations; the impact is because of supplies to OEM, which is a significant component and is directly linked to the raw material pricing formula, so that is the one place where reductions have been passed on.

Amyn Pirani: So this quarter also even on the TBR side the OEM growth would have been substantially stronger than the replacement?

Gaurav Kumar: That is correct.

Amyn Pirani: What would be the growth in truck replacement segment?

Gaurav Kumar: TBB and TBR replacement segments have witnessed a double digit growth on QoQ basis.

Amyn Pirani: In Europe this quarter is a seasonally strong quarter and generally we have seen a 300 to 400 basis points improvement between Q2 and Q3 and that is the same thing that you have seen in this quarter, so in this quarter there has not been any benefit coming in from Hungary yet right, is that the correct understanding?

Gaurav Kumar: Yes that is a correct understanding

Amyn Pirani: So fourth quarter ideally should have a slightly lower decline than what we have seen in the past, given that Hungary improvement should come in?

Gaurav Kumar: True

Mayur M (India Nivesh Securities): The other expenses in India have increased to Rs 488 Crores; and increase of about 14% on sequential basis. Does it contains any one off or any specific advertisement spends?

Gaurav Kumar: The increase would be on account of significantly higher production and volume as the freight charges, power fuel, etc goes up. Moreover the brand spend has also gone up.

Mayur M: What would be your capacity utilisation on the TBR? And if you are looking at additional demand coming through because of the anti dumping duty on Chinese imports, are you really in a position to cater to that?

Gaurav Kumar: In TBR, we are in a good comfortable position because our capacity at Chennai is ramping up. The capacity utilisation for the last quarter we would be flat out. We are currently producing about close to 9,000 TBR tyres per day and we would continue to go up to a capacity of 11,500 tyres by end of 2018.

Mayur M: Alright, so then which means that you should really not lose on to any incremental demand that should come in TBR?

Gaurav Kumar: That is correct.

Basudev Banerjee (Ambit Capital): What is the EBITDA of Reifen and Europe separately?

Gaurav Kumar: EBITDA for the European Operation is € 15 million, which is 12%, Reifen EBITDA is about 5%.

Basudev Banaerjee: Since in European Operations synthetic rubber is much larger contributor compared to in India, with recent crude inflation what kind of raw material price increase in Europe has been happening and what is the pricing power scenario there?

Gaurav Kumar: Europe also would see a small increase in the next quarter on account of the factor that you have mentioned. The pricing scenario as of now in the industry remains weak, no player has announced price increases, so as of now we have not seen any change in the industry even though the growth in the industry overall in 2017 has been positive.

Basudev Banargee: So for Europe out of this 11% revenue growth how much was volume and value?

Gaurav Kumar: Volume growth was almost flat. The growth in revenue was primarily due to product mix improvement with major sales being in UHP and winter tyres.

Basudev Banerjee: Last time we had discussed that the Europe demand did not pickup much, so the Hungary volume ramp up got delayed a bit, so that kind of weakness is still persisting there?

Gaurav Kumar: The industry has seen a positive growth in 2017, so weakness during the middle of the year has gone. The Hungary ramp up was not impacted by the industry scenario. Hungary ramp up got slow due to our own challenges in stabilising a Greenfield plant and that is something that you would go through in any geography, since a new geography unlike India posts a little more challenges, so that had nothing to do with the industry scenario.

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

Gaurav Kumar: Natural Rubber Rs 140/kg, Synthetic Rubber Rs 125/kg, Carbon Black Rs 65/kg and Dipped Fabric Rs265/kg.

Basudev Banargee: As you said India raw material basket inflation on the base of Q3 will be at mid single digit, but with the kind of crude inflation we are witnessing, do you see that risk percolating to beyond Q4?

Gaurav Kumar: Given where the crude is, we would expect Q1 FY19 raw material basket to go up further and hence industry would have to look at price increases and we have seen encouraging signs from players who have already begun to consider that.

Basudev Banerjee: In TBR segment as you are presently growing at 50% year-on-year and with potential pre-buying of trucks in FY2020 before BS-VI comes in, or potential scrappage policy coming in, do you see the risk of shortage of TBR capacity in India?

Gaurav Kumar: As per our estimate, potential shortage will not happen and if it occurs, it is something which I would say is a better situation to be in rather than to have a large capacity and then the demand not coming through because now for any additional TBR capacity we will have to go to a Greenfield site.

Basudev Banerjee: So Brownfield or de-bottlenecking in Chennai is not possible beyond 11,500 you mean?

Gaurav Kumar: That is correct.

Basudev Banargee: Sure and by when the PCR debottlenecking will be on stream?

Gaurav Kumar: PCR de-bottlenecking would be on stream by end of fiscal year 2018 and it will again go up in phases. We are looking to increase the capacity by 10% during this year.

Basudev Banerjee: 11,500 for TBR per day will also reach by end of fiscal 2018?

Gaurav Kumar: That is correct.

Nitij Mangal (CLSA): What is driving the improvement in replacement demand in the truck segment and where do you see this trending?

Gaurav Kumar: A couple of things can be attributed to the improvement in the truck replacement demand. Firstly, the investment in infrastructure that has been announced or across industries you hear of is leading to pickup in demand. It is a segment that directly reflects the economic activity in the country and any pickup in that immediately translates into movement of freight through trucks and reflects into the replacement demand. We have also had the benefit of government finally taking action on the antidumping duty side. The Chinese import volumes have come down substantially and that has benefited both the TBR and the TBB category.

Nitij Mangal: On the import side, where are we in terms of imports versus peak and would you still consider imports are concern for the industry or are we largely passed that phase?

Gaurav Kumar: So the current level of truck radial imports are slightly in excess of 50,000 tyres per month vis-à-vis a peak of about 1,50,000 per month. At the current level, it is a proportion, which has always been there, so we would expect them to remain at these levels. It is something that we have to always keep a watch on, so to say that it is a threat, which has gone away completely would be probably taking it too simply.

Nitij Mangal: And lastly is there scope for mix improvement in India given that you are heading high capacity utilisation in several of your segments?

Gaurav Kumar: That is always an ongoing job, but at the end of the day it is also dependent on the market demand. For example, an area where we have had a capacity constraint is passenger car. Both based on internal efforts and also market conditions we have had a significant mix improvement, our largest selling size 10 years back used to be 12 inch tyre. Today that is moved to a 14 inch tyre.

Nitij Mangal: But is there also scope or are you going to trade off let us say OEM versus replacement demand given capacity constraints?

Gaurav Kumar: Most probably no, OEM is a long term relationship that has been built up over the years, once you get approvals, there are also commitments given on volumes. Up to a certain point it may not take into account any sudden spurt in demand, but usually we have always honored our OE commitments and will continue to do so. The trade off typically happens between replacement and exports.

Nitij Mangal: Understood. Thanks for your time.

Jasdeep Walia (Infina Finance): What was the growth in TBB segment on a YoY basis?

Gaurav Kumar: Y-o-Y basis the growth in TBB is 2%.

Jasdeep Walia: Why is that because my understanding was that Chinese tyres are primarily replacing bias tyres in India and now since the imports are reducing I thought bias tyre volumes would gain?

Gaurav Kumar: This quarter last year was hit by demonetisation and the Chinese tyre imports had come down significantly.

Jasdeep Walia: So, the base of volume was high?

Gaurav Kumar: Yes.

Jasdeep Walia: Got it and why has been the growth in car tyre flat on a Y-o-Y basis, are you including exports also in this flat Y-o-Y number?

Gaurav Kumar: That is correct. As mentioned on another question, the domestic volumes have had a low volume growth, essentially because of our capacity constraint.

Jasdeep Walia: So there is no further capacity to increase domestic volumes?

Gaurav Kumar: We are in the midst of de-bottlenecking exercise, so our capacity would go up by 10% through the year.

Jasdeep Walia: Would the scale up in TBR in Europe be slower than the scale up on the passenger car since it is the first time that you are manufacturing TBR in Europe, so industrialisation would it take more time?

Gaurav Kumar: It would take more time and also the volumes are small, so we would go about it slowly.

Jasdeep Walia: In Europe why are the volumes flat on a Y-o-Y basis because Hungary plant would have added to volumes right?

Gaurav Kumar: The Hungary plant is ramping up gradually and it is essentially only making up for the volumes, which have gone out, which were earlier supplied from India. Given the situation in India one of the big tradeoffs has been supplies to the European region from India and Hungary is now beginning to make up on that. Last quarter we had a situation where European operations actually lost some sales where Hungary had not ramped up and the Indian capacity was fully utilised. So we would start seeing volume growth only going forward once that hurdle of reaching the volumes, which were coming from India are being crossed.

Raghu Nandan (Emkay Global): What is the effective tax rate we should work with for FY2018? It has been around 30% for the first nine months of the year, so fair to assume a similar number for the full year?

Gaurav Kumar: Yes, fair to assume the same number. That would continue to be a full tax rate in terms of actual payout and deferred. About two-thirds of that is an actual payout and the balance goes to deferred tax.

Sonal Gupta (UBS Securities): In terms of the outlook for the domestic market in terms of pricing, given that there has been 5% increase in customs duty on imports, so does this cover other Asian markets as well where you have free trade agreements and what do you think given that this cost pressure is increasing, will the industry see more price increases on the radial side now?

Gaurav Kumar: At least the reaction seems to be positive and given the strong demand situation the ability to take price increases is there. In terms of outlook in the current quarter or a little ahead we continue to see a strong demand. We are pushing our plants to continue to run flat out. So price increases would be needed if margins are to be maintained and industry scenario seems to be conducive for that.

Sonal Gupta: How has been the farm sector or the tractor tyre growth for India?

Gaurav Kumar: QoQ growth was a flat because of weakness in the domestic scenario on a sequential basis, farm volumes have declined.

Sonal Gupta: Otherwise industry has been growing quite well right if you look at the OEM volume?

Gaurav Kumar: The OEM was a segment where we witnessed a marginal growth, but replacement was flat and export was negative.

Sonal Gupta: What would be the contribution of TBR & TBB to the top line now?

Gaurav Kumar: TBR currently would be about 35% and TBB would be 28%.

Sonal Gupta: Which is like earlier also it was around 30%, 32% so I mean what I am just trying to understand is as mix moves to a TBR ideally the realisation should be much higher and therefore the overall revenue growth should also be much higher, so I am just wondering where the disconnect is to that extent?

Gaurav Kumar: Definitely with the move towards TBR the average price would move up because TBR realisations are higher. As I mentioned the only area where automatic price reductions would happen along with raw material is OEMs, now that increasingly is a straight pass through both ways. We would have had lower realisation of nearly 30% of the portfolio.

Sonal Gupta: In terms of the European pricing outlook, do we expect the situation to continue for now or are we seeing any sort of improvement in terms of margins at a general level for the industry?

Gaurav Kumar: As of now we have not seen any pricing action and the European industry continues to do well, so it did pass on some price reduction, but given the current raw material basket if we do not look at quarter-to-quarter movements, but take a step back and look at it in the context where they were. Margins of European players have been fairly good. There is no real pressure in a big way on profitability on the European players.

Sonal Gupta: Okay understood. Thank you so much.

Bharat Gianani (BNP Sharekhan): What is the production ramp up plan at the Hungary plant?

Gaurav Kumar: The Hungary plant would be producing 7,000 tyres per day by the end of current fiscal year; by end of calendar year 2018 it should start getting close to the plant capacity. If the plant capacity is 16,000 tyres per day we should start getting close to producing about 14,000 odd tyres per day and that is the plant capacity in phase I, so going beyond that is based on demand. The Hungary plant starting from mid next year would start ramping up on the truck capacity. As of now there has been no discussion, no thought process, on a phase two of Hungary we first need to get this capacity up and running in a fully stable state before we think ahead.

Bharat Gianani: Regarding TBR what is the plan likely in phase I what is the kind of capacity that you are planning per day?

Gaurav Kumar: Phase I of TBR is close to 2,000 tyres per day and that would be reached somewhere around second-half of calendar year 2019.

Chirag Khasgiwala (GMO): In this quarter the margins have declined on Y-on-Y basis, which is mainly because of the unfavourable product mix; going forward how do you see this product mix shaping out and also in the next few quarters you will be witnessing input cost inflation also so how confident you are in terms of taking price hikes both in India and Europe?

Gaurav Kumar: On a sequential basis the margins are up in both the operations. If you are looking on Y-on-Y basis, the margins are down because one big factor is that raw material is still up 7% vis-à-vis last.

Chirag Khasgiwala: So going forward are you confident enough to take the price hike for India and Europe to cover the input cost inflation?

Gaurav Kumar: That depends on industry scenario; it is very difficult to say whether we can do it.

Shyam Sunder Shriram (JM Financial): You are mentioning TBB volume increased by 2% during the quarter; how would the same have been for the industry because generally over the last few years bias has been continuously declining and with the antidumping duty and the hike in customs duty on imported Chinese radials what is your outlook for bias for industry may be over the next one or two years and is it because of specific end user segment that are witnessing this demand front?

Gaurav Kumar: This year has been an aberration where given the antidumping coming in there has been no decline probably and in fact sequentially we have seen a strong growth in bias volumes, however, in the mid-term and longer term it will continue to decline. OE has now entirely shifted to radials with some of the segments like tipper segment and mining segment also moving to radials, but it is moving at a certain pace, one would be too hasty if one was to completely abandon bias capacity because there is a certain proportion which would remain bias and we continue to see decent volumes as of now.

Shyam Sunder Shriram: In Europe any colour on new passenger vehicle order range from the OEMs?

Gaurav Kumar: We will begin supplies actively from 2018 onwards to the few OEMs. In 2018, the audit of the Hungary plant is already lined up with few other OEMs and our target would be of getting the Hungary plant approved by the OEMs in

2018 itself so that in FY2020 onwards we can do OE supplies in Europe from our Hungary plant.

Shyam Sunder Shriram: Does Hungary plant produce only Vredestein branded tyres or it will produce Apollo brand as well?

Gaurav Kumar: Hungary plant produces a mix of Vredestein and Apollo brand. Principally our overall mix would remain somewhere in the region of 80% to 85% of volume would be the Vredestein brand, and the balance would be Apollo brand.

Amyn Pirani (Deutsche Bank): The interest cost has not really come down in this quarter, is it just because of the debt repayment timing?

Gaurav Kumar: Yes, it would be because of debt repayment timing. Also, the other income, has gone up, actually it is the treasury income on account of QIP money, bulk of the debt continues.

Amyn Pirani: On overloading guidelines, which has been happening in at least Uttar Pradesh and Rajasthan, which obviously is helpful from the point of view of higher OEM truck demand, but how should we think about this when we are looking at replacement demand. Will it have any impact either positive or negative if overloading is clamped down?

Gaurav Kumar: Overall it will also lead to the change in mix, the proportion of heavy overloaded tyres, which is a specific sub segment in truck tyres is coming down so the tyre company would start concentrating on tyres, which were for normal load mileage, etc. Also as the payload on the trucks is expanding for each new truck sold the number of tyres are much more. So there would also be a multiplier effect on the tyres vis-à-vis the vehicle growth.

Amyn Pirani: Understood. Thank you.

Bharat Gianani (BNP Sharekhan):What is the mix of supplies from Hungary in terms of OEM and replacement?

Gaurav Kumar: Currently supplies from Hungary are entirely to replacement. As I mentioned you need one to two years for approval by OEMs for any new plant even though you are approved by those OEMs, but this specific plant is not approved.

Bharat Gianani: So this 14,000 per day capacity that you would reach by end of CY2018 would be for supplies to the replacement market right?

Gaurav Kumar: Initially yes because there are supplies to OEMs going from the Netherland plant or in some cases as of now even from the Indian plants for the European Operations. And once we have Hungary plant approved from OEM's, supplies to them will happen from there.

Bharat Gianani: What is your current market share in Europe in the replacement segment and with Hungary capacity coming in assuming that it gets entirely utilised what is your targeted market share for the European replacement market PCR?

Gaurav Kumar: For the PCR replacement our market share would still be very small, it is little under 3% and based on our assumed mix we need to improve it by a few decimal points for the entire capacity.

Bharat Gianani: So even if this Hungary capacity comes out it would be only say 3.5% or 4%?

Gaurav Kumar: Not even 4%, it is not even 1% improvement. Europe market is too large for this.

Bharat Gianani: Okay. Thanks that was really helpful.

Joseph George (IIFL): My question is in relation to the European Operations. If I go back in time and look at say FY2014-15 your EBITDA margins from the European Operations used to be mid to high teens and that is come off substantially over the last two or three years. I assume that there is some element of the startup cost, etc but in addition to that do you think there is anything structural that is happening in the European Operation really in the form of mix or any other reason because of which structurally those margins have come down?

Gaurav Kumar: Yes, so one of the large factors is the startup costs, which leads to reduction in margins by about 2% or 2.5%. Additionally as we have gone into this phase of new plant add up additional cost to prepare for that. The second factor for us, which is a big change from the time you mentioned is looking at OEM business and even while that business as of now is too small, the R&D cost associated with development for products for OEM's is substantial and they have led to a certain amount of structural change and thirdly with the increase in RM in the current year, which is of the order of high single digit, the European industry has not taken any price increases, so I would say three factors; the startup cost of Hungary, the increase in RM not really followed up by the industry in terms of price increases and our own change of a much higher cost structure looking at OEM business., which still has not materialised in enough volumes to be setting of the kind of development cost we have been doing.

Joseph George: Ok, so when you think about it going into say FY2020, do you think the cost saving from Hungary would be good enough to offset the structural factors that you mentioned like R&D etc?

Gaurav Kumar: Difficult to guess so far out, but probably we would need another year for the Hungary plant to ramp up completely on even TBR capacity because on passenger car alone it would be a sub economic size plant at about 120 tonnes a day only when TBR ramps up fully it will get to about 250 tonnes and full advantages to be getting back to earlier margins would be possible.

Joseph George: What is the TBR capacity utilisation for India as a whole for the industry?

Gaurav Kumar: It should be fairly close to peak given the spurt in volumes and we have seen healthy growth by all the peers we think we would have outpaced the industry, but in general all the players would have benefited, so TBR utilisation would be fairly high.

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

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