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**TYRES**

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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 August 02, 2018.

Please find attached herewith the transcript of the aforesaid call. The same has also been placed on the website of the Company i.e. [www.apolloyres.com](http://www.apolloyres.com).

This is for your information and records.

Thanking You

Yours Sincerely  
For APOLLO TYRES LTD

  
(SEEMA THAPAR)  
Company Secretary



India, Aug 02, 2018

## Q1 FY19 Earnings Call

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**Vivek Kumar:** Good afternoon everyone. On behalf of JM Financial Institutional Securities, I welcome you all to the Q1 FY19 earnings conference call of Apollo Tyres.

From the management today, we have Gaurav Kumar, CFO, along with the senior management and IR team of the company. I would now like to hand over the floor to Gaurav for his opening comments, after which we will move on to the Q & A session. Over to you Gaurav.

**Gaurav Kumar:** Thank you for joining. Let me begin with the opening comments and then we would be happy to take your questions.

Consolidated results for this quarter stood at Rs 42.5 billion, a growth of 30% for the same quarter last year, and about 7% on a sequential basis. Both Indian Operations and European Operations registered healthy growth.

EBITDA excluding other income for the quarter stood at Rs 5.3 billion. A margin of 12.3%. A significant gain against 8.4% for the same quarter last year, though marginally lower than the previous quarter number. Growth in margin was on account of higher scale and lower RM prices. Raw material cost was up 5% over the previous quarter, and we are continuing to see a cost push. We expect the raw materials to go up by another 5% in the current quarter over the June quarter. Gross debt came down from Rs 46 plus billion at the end of March to Rs 40 billion at the end of June quarter. The net debt was almost at a similar number of Rs 27 billion compared to last quarter. We continue to be fairly conservatively leveraged.

Moving on to Indian Operations. The sales for the quarter was at Rs 30 billion plus, a growth of 32% over the same period last year and a 8% growth on sequential basis. The growth story of India continued with a very strong momentum and we had volume growth across segments. Simultaneous with that, we have continued to add network and more than 100 odd network addition was done. Even on the 2-wheeler segment, we continue to make gains.

We believe that we are nearly at 5% of the replacement market. As mentioned to you earlier, we have launched on a pilot basis, two-wheeler radial product which has received very encouraging response. So, this is a segment that we would be looking to get into and establish our position in the two-wheeler higher end segment even further. Further aiding this performance was continued decline of the Chinese imports, which are at an all-time low. And over all, capacity utilisation continued to be at very high level.

The EBITDA excluding other income for the quarter was at Rs.4.1billion a margin of 13.5% as compared to 8.3 % for the same period last year. Gross debt for the operation and the net debt continued to come down with the strong operating performance.

Moving on to Europe Operations the total sales for the entire European Operations was at Rs 12.4 billion. An upward growth of 22% over the same period last year. For our European sales and manufacturing operations particularly, we had a growth of 9% in Euro terms, with the Hungry Operations ramping up, and we are beginning to see the benefits of stabilisation. While we had good volume growth, the pricing pressure has led to margin still not being at desired levels. We have had margins improving from last year and we will continue to see those improvements, but they are not yet at levels where we want them to be and we are working on the mix etc. to continue to improve the situation. One positive development has been a recent imposition of anti-dumping duty on Chinese TBR tyres, which is timed very well with our introduction of TBR in the European market and could lead to a significant boost. We would continue to see the ramp up of our Hungry Operations. In this quarter we would start manufacturing of truck radials in the Hungry plant and more importantly by end of the year we should be reaching the peak capacity on the passenger car tyres.

That's all from my side, we would be happy to take your questions

**Ashutosh Tiwari**

**(Equirus Securities):** What was the volume growth figure for India?

**Gaurav Kumar:** The entire growth of 32% was essentially coming from volume growth.

**Ashutosh Tiwari:** And how is the TBR plant running, what is the level it is running right now, and the capacity also?

**Gaurav Kumar:** So, the TBR average for this quarter would be around 10,000 tyres per day. We would within this quarter reach the planned peak capacity of 12,000 tyres per day, so in the second half we would have the full capacity available.

**Ashutosh Tiwari:** And Sir, any pricing action in India recently?

**Gaurav Kumar:** We took a small price hike in the TBR segment in Q1 given the raw material pressures, we are considering further price increases in the current quarter, but the timing is not yet known.

**Ashutosh Tiwari:** And Sir lastly, on your European Operations, if I look at the subsidiary EBITDA, it is flat from Q4 to Q1. So, what has happened over there, in both the Reifen and manufacturing operations?

**Gaurav Kumar:** So, in terms of the manufacturing and sales operations, which is the Dutch and the Hungarian Operations, Q4 is a strong quarter. So viz a viz that the topline and the margins come down and while Reifen has shown an improvement, the overall impact you are seeing is a bit flattish.

**Ashutosh Tiwari:** Okay, so what is the level of production the Hungary plant is running at in Q1?

**Gaurav Kumar:** Hungary plant was running at about 5500 tyres per day.

**Ashutosh Tiwari:** So, by the end of this year it will reach what level?

**Gaurav Kumar:** By end of FY19 we should be in excess of 12,000 tyres per day. We are already touching about 7,000.

**Nishit Jalan**

**(Kotak Securities):** You allude to the fact that there is an anti-dumping duty on Chinese TBR tyres in Europe, can you share some more details as to how much was Chinese imports as a percentage of the European market overall? And while volume obviously will gain, but what does this mean for pricing. Was the pricing depressed in the Europe market and how much increase do you see post this?

**Gaurav Kumar:** Nishit, I will have to get some of the data. We do know that the Chinese TBR was a significant factor in the European market. It's still too early to quantify the impact. May be around next quarter we can, give you more details. For example, in India, one year down the line from a peak level, not only due to anti-dumping duty, there were other factors also, but the level from 150,000 tyres a month has gone below 50,000 levels now. Still too early to say what the final impact in Europe will be. But yes, it would benefit both in terms of volume and ability to take price increases.

**Nishit Jalan:** But it would be roughly 20% to 30% of the market right?

**Gaurav Kumar:** Probably not 30%, we will come back to you with the data.

**Nishit Jalan:** And anything you are getting on PCR imports. Because what I understand is Chinese PCR imports would also be about 30% of the replacement market in Europe, and Chinese pricing is significantly lower as compared to any other player in the market.

**Gaurav Kumar:** I recall a figure more around a 20% mark, but we will check both the TBR and PCR import percentage and get back to you.

**Nishit Jalan:** Ok. Anything that you are hearing that regulatory bodies are evaluating putting some anti -dumping duty on the PCR side as well?

**Gaurav Kumar:** No. Not on PCR as of now, but the fact that they moved on TBR is an encouraging sign. And for us, if something was to come on the PCR side, it would be a great boost

**Nishit Jalan:** Correct. Gaurav my next question. If I look at your subsidiary annual report that you came out with, and if I look at consolidated manufacturing operations in

Europe, I saw that your RM cost to sales in 2017 to 2018 was flattish. 2018 was a year when there were significant cost pressures like we saw in India and hence about 5% gross margin dip. While we keep hearing about the pricing pressures in the European market, despite these 2 factors what was the key reason why you were able to maintain gross margin. What was the kind of improvement that you saw in the product mix, if you can through more color on this?

**Gaurav Kumar:** Sure. So, there is a significant drive Nishit to continually improve the product mix, which at a very broad sensing if I can say, is the UHP proportion, the ultra-high-performance proportion within the overall PCR basket. Broadly last year, we would have driven up the mix anywhere in the range of 6% to 9%. Few years back our UHP proportion used to be somewhere around 20%, we are now in late 20. So, it's not a 1-year improvement that I am talking about, it's a multi-year exercise, that the UHP proportion has moved from about 20 to late 20s.

**Nishit Jalan:** Sir my last question. If I look at the radialisation that we are seeing in the Indian market right now, it is more in OE than in replacement, right? So, what would be the OE replacement mix in TBR in India and how do you see that moving in the next 3 years. Because it would be an important driver for margin improvement in India right?

**Gaurav Kumar:** Sure. The current mix of OE vs Replacement would be 1:3. For TBR it would be close to 1:1 or more like 40:60.

**Nishit Jalan:** Okay. So how do you see that in the next 3 years?

**Gaurav Kumar:** We expect radialisation to pick up in the replacement segment going ahead as well. So, may be not in the next few years, but ultimately it will move to the same mix which is the stable one for Trucks. So over time, a shift which is beneficial for us is that it will continue to move towards higher proportion of replacement.

**Nishit Jalan:** Like you mentioned the UHP mix in Europe, can you talk about a similar thing in India, as to how this mix is moving in India and what does it mean for your profitability. And what I understand is that right now in PCR, your mix is

significantly skewed towards OEs. Do you see that moving ahead, because the model I which we are supplying right now, when they come to the replacement market, you should ideally gain volumes in the replacement market right?

**Gaurav Kumar:** The OE journey of the PCR front is a strategic move both from establishing ourselves as a technology leader and the fact that the high proportion of OE sales lead translates into replacement sales. And clearly, we are being recognised as a technology leader on the PCR front. We believe we will continue to see those gains coming through in terms of volumes on the replacement side. Today, we have higher market shares on the OE front and we're beginning to see the benefits on the replacement side.

**Pramod Amthe**

**(CIMB):** Besides the CAPEX which you indicated today, you were talking about almost 5500 crores for India for next 3 years, which is almost like 50% higher than what you spent in last 3 years?

**Gaurav Kumar:** That's correct Pramod, but in the last 3 years, of which I think a couple of years have been the Chennai expansion. Prior to that, was very little CAPEX. Out of this Rs 5,500 crores the Rs 3,800 crores is for Andhra. We have completion of Chennai, which will happen this year. Similarly, as we have talked about earlier there are projects on PCR de-bottle necking, the small motorcycle radial capacity, high end bias capacity etc. and then the maintenance CAPEX. So yes, it's significantly higher than the previous 3 years. But given the green field plant and some of the other on-going projects this is what is needed to capitalise on the growth opportunity.

**Pramod Amthe:** In that context, is there any room to reduce debt, looking at this scenario, it looks like debt can only go up. Even though you have head room, the issue is more on the interest cost, which may hurt you again?

**Gaurav Kumar:** There is enough head room as what you mentioned from a leveraging perspective. Yes, debt would go up primarily in FY20, which is the peak CAPEX year. And it will start coming down only from FY21.

**Amyr Pirani**

**(Deutsche Bank):** You mentioned that the Europe manufacturing operations had a 9% revenue growth. This is the Euro revenue growth you are talking about, right?

**Gaurav Kumar:** Yes. This is the Euro Revenue growth.

**Amyr Pirani:** Can you share the Euro Revenue numbers if possible?

**Gaurav Kumar:** €119 million Amyr.

**Amyr Pirani:** And the EBITDA margin at this level?

**Gaurav Kumar:** EBITDA margin was 9.1% against 8.1% of the same period last year.

**Amyr Pirani:** And Sequentially also it is more or less similar right?

**Gaurav Kumar:** Sequentially the number was in excess of 10% last quarter.

**Amyr Pirani:** Okay but Q4 is seasonally strong quarter.

**Gaurav Kumar:** Yes.

**Amyr Pirani:** And on you PCR market share in India. Is there something happening on the network expansion. You mentioned that you added some hundred new networks. This was mostly on TBR, or is it a mix of TBR and PCR, and what is the current level of network?

**Gaurav Kumar:** It was a mix of TBR and PCR in fact if I could just separate those out, then the addition was more than 100 on the PCR front. And our total overall number of sale points would have gone up to about 4,500.

**Amyr Pirani:** Okay and broadly out of this, what percentage of these are exclusive, and is it a driver of replacement growth in PCR?

**Gaurav Kumar:** In some areas having an exclusive mix makes sense. It is tracked internally, but is that a greater focus than over all network addition? I would say that network



addition is a greater focus. We are getting to about close to 1/3<sup>rd</sup> of our distribution being exclusive.

**Bharat Bhagnani**

**(Tasha Invesco):** I just wanted to ask you about your TBR capacity expansion which you have mentioned. So, I think what you said was, that this quarter we will be reaching about 12000 tyres a day in India. But when do you think, the expansion would be complete and by what capacity would that increase be?

**Gaurav Kumar:** So, when we started the Chennai expansion, we were at 6,000 tyres per day, and over the last couple of years with the CAPEX this capacity is being ramped up, being stabilised. In current quarter, we were at 10,000 odd tyres per day, but the equipment etc. had been put in place and it has been commissioned and stabilised. So, by the end of this quarter we would have reached 12,000 tyres per day. So, the additional 20% is what would be there to meet the demand in next 1 year and a half. There is some bit of exports to Europe which will get taken care of by the Hungary facility, and hence available for the domestic market, and in 2020 the new green field capacity being set up in AP will kick in.

**Bharat Bhagnani:** How much would that capacity be?

**Gaurav Kumar:** The current phase that we are going in for is 3,000 truck tyres a day.

**Bharat Bhagnani:** Meaning that once the additional 20% capacity comes in, till 2020 for about 1 to 1.5 years, if the demand scenario pans out as such where there is more demand, we would not have capacity to cater to the increased demand.

**Gaurav Kumar:** We would not have incremental capacity, (a) we think this capacity is sufficient because 20% is not a small quantum jump (b) we would have levers as I mentioned that there is a certain quantity which goes to Europe and since Hungary capacity is coming up, it can take care of not only the exports to Europe but some of the neighboring markets, and the Indian Capacity would continue to be dedicated to the Indian Market, if demand so requires.

**Sonal Gupta**

**(UBS):** Hi Gaurav, on the number side, what is the Reifen revenues for this quarter?

**Gaurav Kumar:** Reifen was €40 million.

**Sonal Gupta:** Would there be an EBITDA margin?

**Gaurav Kumar:** EBITDA margin was slightly in excess of 3%.

**Sonal Gupta:** You have taken some price increase in this quarter in the Indian Market on the TBR side, was there a TBB increase as well?

**Gaurav Kumar:** TBB was previous quarter Sonal.

**Sonal Gupta:** What's the quantum of TBR increase?

**Gaurav Kumar:** 2%

**Sonal Gupta:** Moving to the Hungary side again, the 5.5 thousand that we are doing currently, how much of that is just a shifting of production from India to Hungary. We were exporting a million tyres, so roughly that should be about 3000 tyres, so basically is that transferred?

**Gaurav Kumar:** Yes, that's about 3000. It is still not all substitution. So, while we are talking at aggregate level when the shift has to happen. It has to happen SKU wise, that particular SKU has to be industrialised, and the mould has to be available. So, a significant quantity was still going from India, which will continue to come down. And we may end up with a scenario where we say that for some SKUs it's not the best thing to produce small production runs in Hungary. Just continue them from India. So that's something that the supply chain team in India constantly evaluates.

**Sonal Gupta:** I am basically trying to understand from a volume growth stand point. So, what was the volume growth for Europe this quarter on the Vredestein Operations?

**Gaurav Kumar:** The Volume growth on the passenger car side was 2% y-o-y.

**Sonal Gupta:** Revenue growth was something like 8% to 9% right.

**Gaurav Kumar:** Right. That was driven by the mix. As I said there is constant work being done on mix improvement, so the balance that you see and in fact the volume growth was lower because though on passenger car it was 2% on some of the other products categories it was lower. So large part of the growth is driven essentially by the mix improvement.

**Sonal Gupta:** So, that's what I am trying to understand that while the plant has ramped up to say 5.5 thousand and as we discussed today, it will eventually go to 13.5k. We have not really seen much of a translation into volume growth and when we are talking about, by the end of this year, the plant would be running at full capacity, then suddenly, is there going to be enough demand in the market to, because right now we have not really gained in terms of net market share growth or net volume growth from the market, it's just an internal transfer. But and suddenly we are talking about by the end of Q4 we should be running at full capacity which seems a very tuff task really tuff ask, and that suddenly your volumes will go up by 30% to 40%.

**Gaurav Kumar:** So, some part of those volumes are beginning to go for exports. But that's not the majority chunk. Hungary is serving the North American market also. For Europe we are beginning to see some volume traction. And yes, if you see last year, that doesn't reflect in any significant volume gains. But we are beginning to see some of those volume gains in the current year. And with OE demand also kicking in, we are confident that as we enter Q4 with that capacity ramped up, we will have demand there.

**Sonal Gupta:** When we did the Analyst day in Hungary, you had said that the Netherlands plant was being scaled back from 18,000 tyres to 16,000 and that it would eventually go to 14,000. So, what is the expectation from a volume stand point, eventually on the European PCR what sort of next final growth could be seen at the market level?

**Gaurav Kumar:** Sure. So, from the earlier level of the 18,000 tyres per day, we expect that our overall capacity in Europe between the 2 plants should be about 28,000 tyres per day.

**Harsh Patil**

**(BNP Sharekhan):** Just wanted to understand that the 28,000 per day would be final capacity for the previous question. That would be at the end of FY19 right?

**Gaurav Kumar:** That's right.

**Harsh Patil:** So just continuing on that, you said the European Operations will have truck capacity addition also, so what would be the truck capacity that you are planning to add and plant ramp in that space?

**Gaurav Kumar:** So, the truck capacity would be about 1,200 tyres per day. That is just starting commercial production in this quarter. The ramp up will continue and we will probably achieved the terminal capacity by end of 2019.

**Harsh Patil:** So, what would be the capacity end of 2019?

**Gaurav Kumar:** 1,200 tyres per day.

**Harsh Patil:** And sir just one more question from my side. Given that you have raised your India Operations CAPEX for the next 3 years, if we have to get an overall sense of CAPEX for the next 2 to 3 years, considering all the factors like maintenance CAPEX and stuffs like that, what would be your broad CAPEX guidance for the next 2 to 3 years, may be if you can give some guidance on an overall over all basis?

**Gaurav Kumar:** Overall operations, India and Europe, the number for next 3 years, which is the current year and next 2 years is Rs 6,500 crores of which as I mentioned the Indian Operations would be Rs 5,500 crores.

**Siddhartha Bera**

**(Nomura Securities):** Sir my first question is on the pricing strategies. I just wanted to understand, say for an India, we are the market leader in the truck and bus segment. Our pricing is around 5% to 6% ahead of the peers. But in terms of pricing action, we have seen that the raw material basket is up 5% on Q-o-Q basis and for the next quarter again it is expected to be up 5% Q-o-Q. So, to understand why the price hike has been sort of slightly delayed or not taken in the quarter?

**Gaurav Kumar:** Sure. That's a function of industry dynamics and not something that we could do because we are a volume leader or a price leader. There is a certain premium which is established, which the customer is ready to pay. A disturbance of that price ladder or equilibrium could potentially lead to volumes being impacted. So, while we still typically take the lead on price increases, the quantum and when, is something which is decided by the operations team looking at various factors, market conditions, etc. It is very difficult to say as to why a 2% was taken and not a 3%.

**Siddhartha Bera:** Understood. In the passenger car segment also will we follow the same strategy, or will it be something different, given that we are the second player and we looking to be the market leader in the next few years?

**Gaurav Kumar:** We will look to take price increases, but again the story would be similar, we would look at industry dynamics, and then time and quantum would be chosen accordingly, given the raw material price pressure, we are definitely looking to take price increase across segments but as of now when and quantum is not something that is decided.

**Siddhartha Bera:** But how much will be the quantum required to offset the complete cost increase assuming that the raw material basket is up by 5% for the next quarter also?

**Gaurav Kumar:** From this quarter to next quarter, broadly about a (+3%) price increase would be needed if everything else is equal.

**Siddhartha Bera:** Okay. Second question is on the capacity size. So, can you just broadly indicate, for a certain tyres per day of production capacity, say for truck and bus, and

passenger cars, what will be the broad amount of CAPEX that would be required? And how has this probably changed over the last few years?

**Gaurav Kumar:** For the current AP Plant which is the reality that we are going ahead with, there is a 15,000 tyres per day of passenger car tyres and 3,000 tyres per day of truck tyres, which is costing us Rs 3,800 crores. The numbers on account of inflationary pressures, construction costs etc., have changed significantly since 2008. So, about a decade back when made the first investment in Chennai which was 16,000 car tyres and 6,000 truck tyres, that costed all of Rs 2,500 crores.

**Siddhartha Bera:** Sir in this can we get a broad breakup of cars and trucks, will it be in the ratio of the numbers or will it be slightly higher towards the trucks, how will be the mix for the CAPEX of the Rs 3,800 crores number?

**Gaurav Kumar:** It will never be in the ratio of numbers, because for the simple reason that a truck tyre is more than 6 to 7x the weight of a car tyre. So, the proportion would be much more skewed towards truck tyres if you were seeing per tyres of capacity. On a metric ton basis also, car tyre capacity is typically slightly higher than trucks but I would not have the breakup as of now.

**Siddhartha Bera:** Sir about the commodity cost, if you can indicate what would have been your natural rubber and synthetic rubber costs for the quarter?

**Gaurav Kumar:** Sure. The natural rubber was around Rs 135 a Kg, synthetic rubber Rs 130 per Kg, steel cord Rs 133, carbon black Rs 83.

**Nitesh Sharma**

**(PhillipCapital):** Hi Gaurav good evening. Wanted your thoughts on European antidumping duty, given that US have already imposed it. Could that mean that the Chinese players might become aggressive in India to keep their plants running, similar to what we saw when US had implemented duties 4 to 5 years back? Do you see such kind of scenario panning out this time around again?

**Gaurav Kumar:** That is always a possibility. The fact is that the antidumping duties have been now in place on the Chinese imports for more than a year here in India. If anything, we have continued to see those levels coming down, and within the total imports the Chinese share has come down even further. So, if we are talking at an overall level of a decline to 1/3<sup>rd</sup> levels, the share of pure Chinese imports would be much more reduced than even 1/3<sup>rd</sup>.

**Nitesh Sharma:** So currently most of the imports are happening from Thailand. Is that understanding correct?

**Gaurav Kumar:** Yes correct.

**Nitesh Sharma:** Okay. And also, is the industry seeing some fatigue as far as pricing discipline goes? Because last year, despite a very sharp surge in raw material prices, the pricing action was softer. So, is there kind of a fatigue as far as pricing discipline and taking price hike within all the categories go?

**Gaurav Kumar:** Difficult to say because, if you look at margins of the current quarter, all the players have enjoyed the scale benefits, there have been some declines on a sequential basis, for us not so significant, for some of the others slightly more. But overall the scale benefits have negated some part of the raw material push, really, this quarter needs to be seen as we would have had 2 quarters of successive raw material pressure and the cumulative impact starts becoming significant. So difficult to say at this stage whether there is that fatigue or resistance to take price increase or it will go through.

**Nitesh Sharma:** Okay and my last question would be, given that most of the players are adding capacity now and by FY21-22 almost every player will have increased capacities, by 20% to 50%. So, post that do you see a scenario where all the players will be disciplined because everyone has additional capacity and there will be cash flows pressures, or do you see a chase for market share?

**Gaurav Kumar:** Again, depends on the growth scenario. So, if you take a sector which is growing at double digits over 3 years, that means roughly 1/3<sup>rd</sup> of the capacity needs to be added to just maintain market share. In our case for example if you look at

capacity additions, whether on the car side or on the truck side the numbers and the CAPEX sound significant but if you look at it in the context of overall capacity, the truck addition is 25% of the existing capacity and passenger car with the de-bottlenecking, etc., that we are doing to take care of demands from about 36,000 to 37,000 tyres per day, you will add another 15,000. Which is slightly higher than 1/3<sup>rd</sup>. So, as an individual player it's not as if huge capacities are being added. If the demand grows or the overall economic growth continues in the manner that it is currently then it is highly unlikely that we run into a scenario of excess supply. If something unexpected was to happen and happen at a stage when everybody has gone far ahead, those are risks that you always have to take.

**Ashutosh Tiwari**

**(Equrius Securities):** Hi Sir, you mentioned about 5,500 tyres per day, what would have been the Netherlands capacity in the quarter?

**Gaurav Kumar:** I will have to get back, I don't have that number readily.

**Ashutosh Tiwari:** Just to understand that at the peak you said the utilisation would go to 28,000 tyres per day, what would roughly be the trading level currently?

**Gaurav Kumar:** In Netherlands?

**Ashutosh Tiwari:** Over all Europe. You said that, after Hungary plant ramps up to full, you will have 28,000 tyres per day capacity. So, just wanted to see what the current production levels is broadly, not exactly.

**Gaurav Kumar:** I don't have readily the Europe production levels. Broadly it should be around 14,000 tyres in the Dutch plant.

**Ashutosh Tiwari:** So around 19,000 to 20,000 levels currently in total?

**Gaurav Kumar:** Yes.



**Ashutosh Tiwari:** And sir, generally in terms of weight, TBR is around 6 or 7x of the PCR tyres, in terms of pricing how the difference would be, broadly? Just to understand how much revenue can come from this 1,200 tyres per day TBR plant.

**Gaurav Kumar:** It is difficult to give you an average number for pricing in Europe, because it's a mix of various markets and while we talk of Europe as a whole, the pricing in different countries could be very different. In general, on a Euro per kg or a Rupee per kg, even for the Indian market, the PCR pricing is higher than TBR.

**Ashutosh Tiwari:** Yeah, that's why I am saying that roughly 5x is what you can make on a TBR tyre.

**Gaurav Kumar:** I won't be able to put a number to it whether its 5x or what. But yes, PCR gets priced higher on a per kg basis.

**Ashutosh Tiwari:** and lastly, in this AP plant what would be the CAPEX on this TBR plant only?

**Gaurav Kumar:** That mix is difficult to give because a large part of the CAPEX is common building, utility, etc.

**Ashutosh Tiwari:** Okay. And any color on the price increases in the European market. Like India obviously the pricing has been going up. Have any price increases been taken in Europe right now?

**Gaurav Kumar:** Europe, we have not taken any price increase. Europe on its raw material did not face cost pressure. The chunk of pressure also came in Indian Operations due to currency devaluation and in Europe, the raw material hits with a lag. So, in Europe in the last quarter there was no raw material pressure.

**Amyr Pirani**

**(Deutsche Bank):** My question was on this 'others' in your segmental reporting, which is reaching a revenue base of around Rs 1,000 crores a quarter now. So, just want to understand, that out of the profit that you show in this most of the profit gets recorded in India and hence the profit margin is low or is it just a scale issue?

**Gaurav Kumar:** Aryn, the large part of 'others' other than the small sales and marketing operations, is primarily Singapore, which is the raw material sourcing hub. And that marks up the sale to both the operations. So large part of this operations get eliminated in the inter company.

**Aryn Pirani:** Okay.

**Joseph George**

**(IIFL):** My question is in relation to the numbers that you quoted for the Hungary operations. You mentioned that currently it is at 5,500 tyres per day. Q2 it will be 7000 and towards the end of FY19 it will be 12K. What I wanted to understand was, is this the available capacity or is this your targeted production. The two are completely different concepts, right?

**Gaurav Kumar:** Yes. So, this is available capacity, and we would target to work as close to that because also at these capacities, already by second half the Hungary cost of production should start becoming cheaper than the Netherlands cost of production.

**Joseph George:** So does it mean that, towards the end of FY19 and hence may be early FY20 when you have the full 13k production availability in Hungary, there would be some run down of production in Netherlands and scale up in Hungary?

**Gaurav Kumar:** If there is not enough demand over all in the system from both Europe and the exports market, then yes. Again, the supply chain team will take that call and while I am talking at a macro level, there would be elements of SKU wise considerations, yes if there is slag demand then the cost of production would dictate that you produce at Hungary rather than in Netherlands.

**Joseph George:** The next thing I wanted to understand was, when we look at the incremental production in Hungary. I do understand that some part of it is essentially replacement of the exports that were happening from India. But if you look at the net of that and when you think about the incremental production in Europe as a whole, what would be the broad breakup of replacement sales to Mainland Europe, replacement sales to Eastern Europe and OE. Because as I understand

before the Hungary plant came online or if I look at FY17 or early FY18, most of the sales from the Dutch Operations would have been replacement to mainland Europe. So, in the new or incremental business, how is the mix going to be and how does that compare with how it was in FY17?

**Gaurav Kumar:** Sure. So, we are still to reach the stable state. So, let me talk of a targeted end game kind of a thing. You are right that the earlier mix would be predominantly all Europe replacement. They have some small quantity of exports, a few percentage points. On a final basis about 20% of the overall capacity should be towards OEM in Europe, depending on the demand scenario, another 10% to 20% towards exports to other geographies, non-Europe and balance to replacement Europe. However, if the replacement Europe demand is stronger, that would be our first priority.

**Jayesh Chandragupta**

**(JM financial):** My question is regarding the 17-inch tyres in the PCR segment. Recently Goodyear quoted that 17-inch tyres are doing much better than the lower than 17-inch tyres in PCR. So, what is our mix in the PCR segment in terms of Rim diameter?

**Gaurav Kumar:** Sure. 17-inch market in India would be very small so a little surprising unless they were quoting on a global basis. For the Indian market a decade back, the largest selling size used to be 12" that moves slowly up to a 13", and for the overall market, the largest selling size would be a 13" today. For us, we have continued to work on the mix even in India and the largest selling size today for us is a 14-inch tyres.

**Jayesh Chandragupta:** Sir in case of Europe?

**Gaurav Kumar:** In Europe our largest selling size would be a 16-inch tyres.

**Sonal Gupta**

**(UBS):** Gaurav I just wanted to understand the level of radialisation on the replacement side on the truck and bus tyres segment, because the OE is almost 80% to 85% TBR right?

**Gaurav Kumar:** The current level and the replacement would be 40% to 45%.

**Sonal Gupta:** and this is sort of steadily moving up right?

**Gaurav Kumar:** Yes, this has been steadily moving up.

**Sonal Gupta:** So, also on the LCV side, because that is treated as a separate segment rather than TBR. So, what is the level of radialisation in LCVs and how is that really progressing and what is the plan there?

**Gaurav Kumar:** That's also at a level of 50%. But that's not sort of continuing to radialise very quickly.

**Sonal Gupta:** Okay, so it is 50% already? In the replacement, is it?

**Gaurav Kumar:** It is 50%, overall. I have to check replacement and OE separately.

**Sonal Gupta:** And when we are talking about the shift towards using TBB capacities for Agri and OHT, is Agri primarily, and will it continue to be bias, or do we see that eventually there also there will be more shift to radial?

**Gaurav Kumar:** In India we think it will continue to be bias for quite some time.

**Sonal Gupta:** And what would be our Agri share of our revenues in India?

**Gaurav Kumar:** 7%.

**Sonal Gupta:** And after the tremendous growth this year. Where are we in terms of TBR and TBB as a percentage of revenues?

**Gaurav Kumar:** Over all truck revenue is about 60%. Now 35% is TBR and 25% is TBB.

**Sonal Gupta:** Okay. We are seeing that the other segments are also growing equally fast. Not just the CVs right?

**Gaurav Kumar:** As I mentioned, we have had extremely good volume growth across segments. So, it's not one product segment led growth. Even on passenger car we have grown by 20%.

**Sonal Gupta:** Passenger car would be roughly about 20% of revenue, right?

**Gaurav Kumar:** Slightly under 20%.

**Shyam Sundar**

**(Sundaram MF):** Gaurav, in Europe what is the percentage of revenues currently from Agri tyres vis-à-vis passenger car tyres.

**Gaurav Kumar:** Agri tyres is about 15% of revenue in Europe.

**Shyam Sundar:** And this would be largely on the replacement side, or how do we look at it?

**Gaurav Kumar:** A fair mix of replacement and OEM. And OEM is a sizable portion in Agri in Europe.

**Nishit Jalan**

**(Kotak securities):** If you can talk more about how is the OE and replacement mix in this quarter in terms of numbers and how has it moved? I just wanted to check if OE mix continues to increase for the overall business?

**Gaurav Kumar:** For Indian Operations, the OE component was 30%, in FY18 itself it was 30%, so it's not as if it has gone up. Would have gone up by a few decimal points but if you look at a longer-term history it has gone up by 25% to 30%.

**Nishit Jalan:** And sequentially also it has been largely flattish right?

**Gaurav Kumar:** In fact, sequentially it has come down.

**Nishit Jalan:** Gaurav just one more thing. You mentioned that Rs 3,800 crores is the AP CAPEX. Now obviously, whenever you set up a Greenfield plant, there will be lot of CAPEX which will go into may be levelling or basically for you to prepare the plant for a much bigger size, that's why, what my understanding is, initially

the CAPEX is always higher than what it would be subsequently. Is that that correct understanding?

**Gaurav Kumar:** That's correct Nishit but where sometimes you may not reflect upon is depending on when we are doing the CAPEX, there are inflationary pressures. So, 3 to 4 years down when you do the CAPEX, you may see a similar number and say, that there were no economies which kicked in, but they are actually there.

**Nishit Jalan:** That I understand.

**Gaurav Kumar:** Your point as such is valid. There is a lot of common infrastructure, leveling, utilities which is being created which will not be re incurred.

**Nishit Jalan:** Any broad number, I know it's not possible to get into very details and all. But any broad numbers as to what percentage would be towards that. I do understand that based on the line the inflation would change and all, but just how much is in the common infrastructure?

**Gaurav Kumar:** I will have to get that from the projects team. We can get back to you on that.

**Bharat Gianani**

**(Sharekhan):** Just one question. What's the impact of the axle over load norms that, you foresee. On OEM obviously, there would be some but, what is your sense on its impact on replacement and hence an overall basis if this norm actually goes through. If I am not wrong, currently the norms are applicable to existing fleet as well. So, what bearing will it have on the TBR replacement demand?

**Gaurav Kumar:** This is still being discussed. So, a little early to say what exactly the norm would be and that it will dictate. All the tyre players would need some time if it means that a different tyre has to be put because while an overall capacity is there, capacities are also created SKU wise. Technology wise it is not a challenge since we are already manufacturing such tyres. Overall, for us there should not be an impact on the replacement side, because we have the capability to produce

those tyres, if the trucks carry higher load, they will also wear out the tyres faster.

**Bharat Gianani:** Our assumption was that since it will have an impact on the new truck demand, so probably 1 or 2 years down the line if fewer trucks are sold so probably that could have an impact on the replacement side of it. So, do you think that is possible or, that will not be there at all?

**Gaurav Kumar:** Difficult to say because the impact on the replacement market size is not just a function of the number of trucks, it is most fundamentally driven by the overall demand and the freight movement in the country.

**Gaurav Kumar:** Thank you everybody. Look forward to meeting you again in the next quarter.