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ATL/SEC/21

November 17, 2020

<p>The Secretary, BSE Ltd., Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400 001</p>	<p>The Secretary, National Stock Exchange of India Ltd., Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai-400 051</p>
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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 analyst and investors to discuss the financial and operational performance of the Company was held on November 5, 2020.

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.

This is for your information and records.

Thanking You,

Yours Sincerely,
For Apollo Tyres Ltd.

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

**(Seema Thapar)
Company Secretary**



Ashutosh Tiwari: Analyst, Equirus Securities

Hi, good afternoon, everyone. On behalf of Equirus Securities, I welcome you all on the Second Quarter FY21 Earnings Conference Call of Apollo Tyres. From the management side, we have Mr Neeraj Kanwar, Vice Chairman and Managing Director; Mr Gaurav Kumar, Chief Financial Officer and members of IR team. We will have a brief opening remarks from the management's side followed by a question-and-answer session.

Without further ado, I hand over the call to Mr Neeraj Kanwar for opening remarks. Over to you, sir.

Neeraj Kanwar: Vice Chairman and Managing Director

Thank you, Ashutosh. Good evening, everyone, and a very warm welcome to Apollo Tyres quarter two earnings call. First of all, best wishes for you and your family's health and safety as we live in these challenging and unprecedented times. I would also like to take this opportunity to thank our employees, our dealers, our suppliers and all our stakeholders for their continued support.

Coming now to our quarter two results. The demand recovery has continued to be extremely positive. We have reported growth in India and we're also able to maintain a flattish top line in our European Operations, despite COVID-19 challenges. We also reported significant improvement in our operating results, firstly on the back of increase in volumes in both replacement and the OE market segments, secondly on account of reduced raw material cost, and thirdly as a result of reduction in fixed costs and overall manufacturing costs.

During the last six months, we have consistently engaged with all our stakeholders, which has further helped in strengthening our relationship and our commitment. We at Apollo Tyres are committed and focused on converting the current crisis into an opportunity and emerge from



COVID-19 as a company with more efficient and resilient business models. I'll take this opportunity to highlight a few initiatives undertaken by the teams to achieve these objectives, I've just mentioned.

There is an increased focus on digitisation and on online collaboration, which would not only help us prepare for future, but also help us in bringing down costs on a long-term sustainable basis. Similarly, we are also keeping a very close tab on all the expenses with consistent efforts to bring down fixed costs across departments and regions. Supply chain costs have been reduced through network redesign, thereby reducing inventories of both raw materials and finished goods to new benchmark norms, which has resulted in optimisation of working capital and achieving positive free cash flows in both of our regions.

As a result of some of these initiatives, we have reduced our fixed costs by around 15% in H1 of FY21. While some of these costs will come back as we revamp the activity levels, we expect to retain significant part of the benefit on a steady state basis. While we are taking a close look at all the costs, we continue to focus and invest in the key fundamentals of our business i.e., research and development, brand, enhancing network distribution and enriching our product mix.

Coming to regional performance, firstly in India, we are today clearly the number one radial tyre player in India. Despite COVID-19, we have gained new customers like Kia Motors and added more than 350 dealers in the first half of FY 2021. We are focusing on expanding our distribution footprint in the rural segment and have already tripled our touch points in first six months of this year.

Helped by all these initiatives in first five months of FY21, we have gained about 500 basis points in market share in Passenger Car Radials and Agri segment and more than 350 basis points in our market share in the Truck & Bus segment, and this is as per our internal estimates.



We have reported our best ever volumes in Truck Bus Replacement and Passenger Car Radial segment in September 2020. And I'm delighted to share that even in October, we are seeing a very strong demand momentum and expect the top line growth to continue in near-to-medium term.

Finally, the recent government action to put tyres on the restricted list of imports has also been beneficial for the industry, and we believe policies and actions like these would go a long way in making automotive industry in India Atmanirbhar.

Moving to Europe, we have added more than 200 dealers in this year. We continue to focus on laying the building blocks in Europe through adding new networks across countries and introducing new products that have achieved podium position in some of the test magazines in Germany. Despite subdued sentiments, we have gained 12 basis points market share in our ultra-high performance (UHP) and UUHP passenger car segments in Europe. We've also gained 23 basis points in our market share in TBR segment and 25 basis market share in our farm products.

The work with respect to specialisation of our Dutch plant is on course and we expect to see significant gains from this exercise from FY22 onwards, in terms of cost competitiveness. I'm happy to report that despite COVID-19 crisis in the last few months, we have been able to significantly strengthen our balance sheet, both in terms of solvency and liquidity. Our net debt decreased to INR 46 billion, from INR 60 billion in March '20. The net debt to EBITDA for the consolidated operations came down from 3.2x to 2.4x. We are also very comfortable on the liquidity position, given the team's excellent efforts in sales, collection, our inventory management and the borrowings that we have done in the last few months, including the equity raised from one of the best known and marquee private equity investors.



We are towards the end of our current Capex cycle. Going forward, the focus would be on sweating the assets and de-leveraging the balance sheet. We expect the Capex intensity to come down in the next few years, which coupled with recovery in demand should help us generate positive free cash flows and further de-leverage our balance sheet. We are cognizant of the fact that Capex in the last few years has been high and that coupled with current demand softness have impacted our return ratios. We are focused on getting the return ratios back to a healthy level and expect this to happen over the next few years.

Finally, in terms of the outlook, while we have limited ability to forecast given the uncertainty around COVID-19, I want to highlight two things. Firstly, we continue to see a healthy demand momentum on the ground, and secondly, given all the investments in capacity, in R&D, in our brand building, in our distribution, specifically, in the rural market in India, we're very well-placed to leverage demand recovery as and when it happens.

With this, I will conclude my opening remarks and I'll like to hand it over to Gaurav. Please stay safe. God bless. Thank you. Gaurav, over to you.

Gaurav Kumar: Chief Financial Officer

Thank you, Neeraj, and good evening, ladies and gentlemen. While we are seeing healthy demand momentum, we remain cognizant of the risks in the current times and continue to prioritise safety of all our employees and stakeholders. We have taken all necessary measures to ensure their safety, even as we ramp up the activity levels in our plants and other locations.

Moving on to the financial results. The consolidated net sales for the quarter stood at INR 42 billion, a growth of 8% over same quarter last year, and 50% on a sequential basis. Both the operations are performing at much higher levels than what was estimated at the beginning of the year in light of the tough environment. The Indian Operations, in fact registered a healthy



growth on a year-on-year basis, which is above the pre-COVID levels. The top-line in Europe was at same level as last year in the same quarter.

The consolidated EBITDA for the quarter stood at INR 6.9 billion, a healthy margin above 16% compared to a 10.8% margin in the same period last year and almost double of the margin in the preceding quarter. This was made possible by operating leverage aided by significant recovery in top line, the subdued raw material costs and as Neeraj mentioned, control over fixed costs.

The balance sheet continues to be strengthened further with healthy profits, cost control measures and the fund raise. The net debt continues to come down, Neeraj mentioned the INR 60 billion as of March, which had already reduced to INR 52 billion as of June and further reduced to INR 46 billion as of September.

Moving on to India Operations. The sales for the quarter was INR 29 billion, a growth of 5% over the same period last year and a significant 66% growth on a sequential basis. The top line for the quarter was driven by volume growth in the replacement segment, but we also saw recovery in OEM demand towards end of the quarter. And in the month of September, the sales for this year was higher than the month of September last year. Almost all product categories posted a double-digit growth on a year-on-year basis in the replacement segment and even in OEM, as I mentioned, we saw growth in September 2020.

Our internal estimates indicate that we have had market share gains across product categories. For the Indian Operations, the EBITDA for the quarter stood at INR 5.5 billion, a margin just under 19% as compared to 11.7% for the same period last year and below 11% in the preceding quarter. The net debt even in Indian Operations continues to decrease with a net debt to EBITDA at 2.6x.



Looking ahead, we expect the demand momentum to remain strong both in replacement and the OEM segment. Given this, we are making sure that while we remain within the guidelines, our plants are able to produce enough tyres and supply chain is able to deliver the tyres across the country to serve the various customers.

Moving on to the European Operations. The sales for the quarter were EUR 129 million at similar levels as the same period last year, but a 43% growth on a sequential basis. While the business was impacted by COVID-19, we have gained market share in the key segments of the higher-end passenger car tyres, UHP and UUHP, and TBR tyres. The EBITDA for the quarter stood at EUR 12 million, a margin of 9% as compared to 6.7% for the same period last year. Margin recovery again is supported by the top-line recovery, lower raw material cost and cost containment measures.

Even in Europe, we were able to attain significant improvements in terms of collections and reduction in inventories which resulted in a very healthy liquidity situation. We've made significant progress on our intended specialisation of the Dutch Operations, broadly to end by the last quarter of this year, we would see 500 people reduction from the levels that we had at the beginning of the year.

As mentioned earlier in numerous interactions, this would go a long way in improving the cost competitiveness of the European Operations and showing a path to recovering the profitability levels. Europe is facing a second wave of COVID and hence faces a certain uncertainty. Our wallet order continues to be strong and we expect the operations to continue to post recovery to healthy levels.

Thank you. We would be happy to take your questions now.



Ashutosh Tiwari: Analyst, Equirus Securities

We'll start the Q&A now. Anybody who want to ask a question, please raise your hand. First, we have -- Raghu Nandan, please go ahead.

Raghunandhan NL: Analyst, Emkay Global Financial Services

Thank you, sir, for the opportunity. The first question was to Mr Kanwar. Sir, over FY05 to FY15, company had a very strong ROE of 20%. So this has now come down to single digits. How do you see the trajectory of ROE to recover back to those 20% levels? Would you expect it to be led by better margins or controlled Capex? Your directional thoughts will be very helpful.

Neeraj Kanwar: Vice Chairman and Managing Director

Thank you, Raghu, for your question. Yes, your point is valid that in between 2010 and 2015 the ROCE levels of the company were very healthy, they were at double-digit. Investments have been made ever since, as you know both in Hungary and recently in our Andhra plant. Now, as I mentioned, the intensity of the Capex cycle is over, now the focus of the company is to try and sweat the assets and run the plants at high utilisation. If we were to annualise quarter two for the year, India's ROE should be at around 11% to 12% and if we were to take out the new greenfield, then this would be even higher.

So there is entire focus in the company to bring down the intensity of the Capex, which we've already seen in H1, where Capex is down to only INR 600 crores and we believe going forward, in the next two to three years, we will try to get ROCE levels to double digits as soon as possible. So really the focus of the entire organisation is to see at one level that we sweat the assets and at second level we maintain our price leadership in the marketplace.

Raghunandhan NL: Analyst, Emkay Global Financial Services



Thank you, sir. That is helpful and all the best. Just my second and last question, before I fall back to the queue. Can you also speak on the near-term focus areas in terms of supply chain redesign, which you alluded to in your opening commentary and other cost reduction efforts? And what is the expectation on sustainability of these benefits?

Neeraj Kanwar: Vice Chairman and Managing Director

You mentioned fixed costs and supply chain. Okay, so the redesign of supply chain really is two-fold. Firstly, when we went into COVID, we saw digitisation becoming a priority for our organisation. Recently, we've just hired a new senior person at a chief level reporting to me in the U.K. He comes in as Chief Digital Officer. He comes with a vast experience of 20 to 25 years in Coats Group where he digitised the whole supply chain process.

In the first half, in India we have already redesigned our supply chain, i.e., looked at re-dispatch centers across India, tried to close some of the RDCs and tried to move goods directly to the dealer shops, and to our district offices and due to these measures we've seen huge cost reduction in supply chain.

Now what's going to happen next is, that this has to sit on a digital app, which will really move goods from point A to point B, and that is the innovation that supply chain currently is trying to do.

The second thing you discussed was fixed costs. In the first half we've seen that fixed costs are down by about 15%. Some of them are sustainable, but some of them, obviously when we run at 100% capacity, they will kick in. To illustrate further, rental agreements have been renegotiated and rental prices have come down, A&P spends have come down. We have renegotiated some of our contracts with various A&P suppliers, where Apollo has been advertising. Having said that there are some of the costs that are going to stay.



Obviously, travel is a big cost, which given COVID and hence the travel restrictions, has shrunk to almost zero. The other area of cost saving has been through digital launches of our new products. In India, we've had digital launches of our new products in MCR, i.e. motorcycle radials, in SUV tyres, whereby we've been able to get many more customers as against having a physical launch. In a physical launch, you could get a population of only 300 to 400 customers, whereas we've gone as high as 3,000 to 4,000 customers in digital launches. So the outreach to the customers is far more advantageous and far more beneficial to the company.

Similarly, we've done digital launches in Europe and in the U.S. In fact, just to give you an example, the U.S. budget for a launch pre-COVID was around \$700,000. With COVID coming in and by way of doing a digital launch, we only spent over \$120,000. So you can see the benefit that we've had through these digital launches in the company, and these are costs that have really been saved and are sustainable in the future, because now one has lived with digital launches and we see a lot of benefits and advantages, and therefore, I say these are there to stay in the long-term also.

Raghunandhan NL: Analyst, Emkay Global Financial Services

Yeah. Thanks so much for the insights. I'll fall back in the queue.

Ashutosh Tiwari : Analyst, Equirus Securities

Basudeb, please go ahead.

Basudeb Banerjee: Analyst, Ambit Capital

Congrats Sir and Gaurav, for a great set of results in this environment. A few questions to start with. In India Operations, one can see bulk of the EBITDA margin improvement being through the gross margin route. Definitely RM basket would have been favorable. So just wanted to know a couple of things.



One is, how much has been the skewness for replacement mix this quarter, as you said that OEM shot up only in September, so overall for the quarter, how much was the replacement mix shift compared to general levels? And second thing is, if you can say the typical commodity prices, as you say every quarter.

Neeraj Kanwar: Vice Chairman and Managing Director

Okay. I'll try and answer, and then I'll ask Gaurav to come in with the exact numbers. Like I mentioned in my opening remarks, quarter two has, in terms of volume in India, has been record breaking in each and every product category for Apollo. So truck & bus tyres, both bias and radial have hit higher numbers, highest ever for Apollo in the replacement market. So has passenger car radials, and according to our estimates, we gained 500 basis points in market share, clearly becoming the leader in the replacement market in passenger car radial.

We also launched motorcycle radial (MCR) in this quarter, which is again showing positive signs in the marketplace and is a highly profitable business for us. Then we also launched our light truck radial tyres in the market, again, huge demand coming for those with a category again a very healthy margin.

So the mix, according to me, is still 75% replacement and 15% approximately is OEM, and 10% exports. So the mix is continuing this way because even in passenger car, OEMs, we saw them coming back to pre-COVID numbers. CV is now slowly picking up. And I believe going in into quarter three and quarter four, we'll see a resurgence of CV in the OEMs. Gaurav, you want to add anything to that?

Gaurav Kumar: Chief Financial Officer



Sure. Thanks, Basudeb. The numbers are fairly accurate. If we look at September quarter of last year, the breakup was 67% Replacement, 20% OEM and 13% Exports. The same quarter this year it is 74% Replacement, 16% OEM and 10% Exports.

The swing on replacement, given the OE situation is 7%, so 74% replacement, 16% OEM and 10% exports. But still, there is a significant pickup on the OE side of almost 10 percentage points vis-a-vis last quarter. And to your second question, which is about the raw material prices, natural rubber was at INR 137 a kg, synthetic rubber at INR 90 a kg, carbon black at INR 58 a kg in the current quarter.

Basudeb Banerjee: Analyst, Ambit Capital

So Gaurav, market share in PCR has been sticky for many, many years and typically your share I suppose would be 18%-19%?

Neeraj Kanwar: Vice Chairman and Managing Director

Yes.

Basudeb Banerjee: Analyst, Ambit Capital

500 bps sudden swing is a huge number. If you can explain us the mechanism of this gain and how much it is sustainable and of structural nature?

Neeraj Kanwar: Vice Chairman and Managing Director

Okay. So two, three things Basudeb here. Firstly, you have to understand that all our plants now are commissioned and are running at nearly 85% to 90% capacity, now I am talking only of passenger car radial. There's been very clear focus in building our brand and building the technologies that's going behind these tyres. Some of the brand rankings that we track on a



regular basis have shown that our brand today is in fact the number 1 brand in India in various magazines.

Also, what we've been able to do is that we have enriched our product mix. Earlier 12 and 13 inch tyres were nearly, 50% to 60% of our basket, which is now slowly coming down to 40% to 45%. Also what has helped us is the import restriction that has come in from the government. And primarily this will help Apollo even in the long-term, because a lot of imports were coming in the higher end of the product mix, which is where Michelins and Bridgestones of the world and the other Asian players were bringing in high-end tyres.

Apollo is well set to take over this market because of our experience in the past 11 years of selling high-end tyres in Europe. So we did not really have to reinvent technology. We just had to get the moulds into our plants in India and reposition ourselves and start supplying those tyres into the market.

So just to give you some numbers, we used to be below 400,000 PCR units monthly average when you talk about a 16%-17% replacement market share. And currently, we are looking above 400,000 tyres, which takes us to a level, in our estimates, of 22% to 23% market share.

In India, we have also added 350 dealers to the network in India. On top of it, the rural focus has come in, so where we used to be mere 2,000 touchpoints, today we are at close to 4,000 rural network dealerships that we have created. I believe that this is sustainable going forward in the long-term.

Basudeb Banerjee: Analyst, Ambit Capital

That's great to hear and that will be positive for margin mix also on a sustainable basis. And last small question for Gaurav. The fixed cost cutting initiatives in Europe, like manpower reduction,



which initially you said will be reflected in the December quarter. So will it be right to assume that in the 9% margin for the quarter no benefit of fixed cost management initiative is built in?

Gaurav Kumar: Chief Financial Officer

Yes, Basudev. The current quarter results do not reflect any of the benefits that would come in on account of that specialisation project. It does reflect certain benefits on account of cost control measures, whether it's digital launches or looking at every small costs. But the benefits from the specialisation of the Dutch plant will only start coming in from FY22, that people reduction will happen in the January to March quarter.

Basudeb Banerjee: Analyst, Ambit Capital

Sure sir. Thanks. I'll come back again.

Ashutosh Tiwari: Analyst, Equirus Securities

Next in line we have Sonal Gupta.

Sonal Gupta: Analyst, UBS

Hi, good afternoon. Thanks for taking my question. So just continuing with this question on the Dutch plant. You've sort of indicated that, it could lead to a savings of EUR40 million to EUR50 million on an ongoing basis. I mean, given your top-line for the European Operations, that is a fairly substantial number. So should we expect that that whole EUR 40 million would sort of flow down to EBITDA level over a period of time or are there other costs, which will sort of eat away part of this benefit?

Gaurav Kumar: Chief Financial Officer



Sonal, the numbers are getting finalised as exactly individuals are identified and there's a package as per law. The cost estimates are same as we mentioned earlier in the range of EUR 40-50 million. The savings would be slightly lower than the number that you are mentioning of EUR40 million. But yes, they would be significant and we expect a large chunk of that to flow to the profitability. And that is the confidence with which we say that the payback on this entire exercise for European Operations would be less than two years. And we are very confident of recovering the European Operations back to healthy profit levels.

Sonal Gupta: Analyst, UBS

So then, European Operations should come back to at least early teen margins, right?

Gaurav Kumar: Chief Financial Officer

Yes. That's the target we are working towards.

Sonal Gupta: Analyst, UBS

Okay, great. And my second question is on India. What are the Capex plans now for this year and next year? And how is the Andhra capacity going to ramp up given that you're seeing a good demand now. So are you bringing forward some of the capacity online?

Gaurav Kumar: Chief Financial Officer

The Capex plan for this year remains more or less the same. But you're right with the strong demand coming back on PCR or overall. And within that, our own product market share gains have placed very tight demand versus capacity situation. We are looking at opportunities to accelerate the ramp-up of the Andhra Pradesh plant. It may mean a slight increase in Capex in the current year, but not significant.



So the current year Capex would remain, and that even if it's slightly accelerated would be from a FY22. With this demand situation, it's still a few months old. We don't want to rush into any quick decisions. As Neeraj mentioned, with the Andhra plant capacity, we have enough capacity for a while therefore the Capex intensity will come down. It's a continuous exercise to keep assessing the demand versus capacity, but no significant change as of now in the FY21 and FY22 Capex combined.

Sonal Gupta: Analyst, UBS

Okay. So could you repeat the absolute numbers for FY21 and FY22, if you could just remind us of that?

Gaurav Kumar: Chief Financial Officer

Sure. So the numbers that we gave for India earlier was a INR1,050 crore Capex in FY21. And if I remember correctly a INR 1,600 crore Capex in FY22.

Sonal Gupta: Analyst, UBS

And this will include maintenance Capex as well?

Gaurav Kumar: Chief Financial Officer

This includes the maintenance Capex. This may go up marginally, but no change from this as a combined two-year figure.

Sonal Gupta: Analyst, UBS

Okay. And just lastly, European Capex should be around EUR25 million to EUR30 million a year?

Gaurav Kumar: Chief Financial Officer



That's correct.

Sonal Gupta: Analyst, UBS

Okay, great. Thanks. I'll join back the queue. Thank you so much.

Ashutosh Tiwari: Analyst, Equirus Securities

Next, we have Kaushik Poddar.

Kaushik Poddar: Analyst, KB Capital Market

The Indian rubber price was somewhere around INR 130 or INR 132 in the last quarter, which has moved in the range of around INR 155 or INR 157 now. With such an increase in rubber price, do you see your margins coming under pressure?

Neeraj Kanwar: Vice Chairman and Managing Director

Yes, you're right. Rubber has gone up to INR 155 a kg currently. But when you go out in the market, it's not even available at that price. So it is just a fictitious price that has gone up. Certainly, it will affect margins, but currently we are holding rubber close to 45 to 60 days of inventory at lower cost, so that's point number one. Point number two, what we've done is that we've been proactive in taking decisions as far as raw material recipes are concerned. We quickly noticed that the commodity prices both on oil-side and on other natural rubber was going up. And therefore, technology along with manufacturing, are really looking at various alternatives to try and see what we can do to circumvent these high costs coming into the company. So we are getting geared up to see how we can reduce the contribution of natural rubber on our tyres, basically looking at synthetic rubber versus natural rubber. This is an ongoing challenge that we'll keep on looking at as we go along. But yes, there will be a challenge on margins going forward. But we will try and see how we can circumvent that like I said, through technology, also looking



at our own overhead costs and looking at a richer product mix that will improve our contribution margin on a realisation basis.

Kaushik Poddar: Analyst, KB Capital Market

Okay. Thank you. Thank you. That's a good clarification.

Ashutosh Tiwari: Analyst, Equirus Securities

Next we have Siddhartha Bera.

Siddhartha Bera: Analyst, Nomura Securities

Hi Sir. Thanks for the opportunity. Just continuing with the last question, when you indicated that domestic rubber availability is low. So does that mean that we'll look more to the import markets for procuring rubber, because, I think the jump in imported rubber prices are much higher than what we are seeing in India. So if you can also share what will be your import share of rubber going forward on the business?

Neeraj Kanwar: Vice Chairman and Managing Director

So, no, import share of rubber will be consistent, as we've been doing. When I'm saying the availability of rubber, the dealers are holding back the rubber supply, because the price is fictitious currently. So, at even a INR 155 if you go into the market, rubber is there, but they are not selling it. So it's basically trying to see where this market goes to. As far as imports are concerned, you are right, they're at very high price. We do import some natural rubber for our truck bus radials and that will continue. So the mix of import versus domestic natural rubber will still remain the same. And as I mentioned, we are still holding inventory at less prices between 45 to 60 days in India currently.

Siddhartha Bera: Analyst, Nomura Securities



Okay, sir. Got it. And secondly is if you can share how much was the replacement demand growth in the quarter? And segment wise, how it has been? And in terms of trend has it gone up further in the third quarter or not?

Gaurav Kumar: Chief Financial Officer

So for replacement the YoY truck volume growth was 18% and on passenger car 11%.

Siddhartha Bera: Analyst, Nomura Securities

Got it, sir.

Neeraj Kanwar: Vice Chairman and Managing Director

So, Siddhartha, when we are looking at quarter three, already October is over, compared to September, October has been very bullish for us. Again, we have hit record numbers in all category of tyres, including farm, motorcycle radial, passenger car and truck and bus tyres.

So all in all, I believe in India, at least during this festive season of Diwali, it will play out in the same direction of growth. The trend line is expected to remain positive at least till December. In such a dynamic situation, we can't tell where it will go in the month of January, but we are very bullish also on quarter four. Given that the network that we have created and given that the new product launches that we've had, I believe that we are on a very strong foot to garner more market share.

Currently, if I look at my factories, then we are running at between 85% and 90% utilisation. In fact, COVID has put pressure on getting manufacturing up to steam, because there are cases coming in most of our plants. We are trying to manage it. It is very difficult to stay safe at the same time produce, because there are populations of 2,000 to 3,000 people entering our plants and we have to see how we tread very carefully.



If you see our finished goods inventory in quarter two it has come down from 31 days to 21 days and that is one clear sign of sales moving very much faster than what we are producing in the current scenario.

Siddhartha Bera: Analyst, Nomura Securities

Got it, sir. If I can ask a last question on the Europe business. Now, what we are doing is that, we are scaling back that plant and ramping up in Hungary. So while I see that our gross block has nearly doubled because of the investments in the plants, our revenues are largely in that range. So just wanted to understand what will drive the ROE improvement in the Europe plant over a period, if you can just help me that will be helpful.

Neeraj Kanwar: Vice Chairman and Managing Director

Okay. So there are two or three things that we have corrected as we go along. When we were only in one plant in Enschede, we were making profits, and yes, you're right, we were sweating the asset and we had touched around EUR 450 million or EUR480 million in the year '14, '15 as a revenue. The markets dived down as far as prices are concerned and we are not the leaders as far as price is concerned in Europe. The leaders are Michelin and Conti and we have to just follow them.

This put a lot of pressure on our cost competitiveness in running our Dutch plant. And one of the reasons for setting up Hungary was to circumvent this cost impact that was coming by going to an East European country.

Just to give you an idea, currently, Enschede, the Netherlands plant operates at around EUR 2.6 per kilo as the cost of manufacturing, whereas Hungary, recently in the month of September of this year, has already come down below EUR 1 per kilo. So that is the difference that you are seeing in cost of manufacturing.



After we do the specialisation of this plant in Netherlands, obviously the capacity to look after the sales volume in Europe is being shifted partly to Hungary and partly to India. Hungary will reach a state where 90% to 95% utilisation of Hungary plant will happen. Thereby, ROCE should start coming up. We will be also looking at expanding, like I mentioned, 250 dealers have been added. Market share has been added in not only truck, but also in passenger car. Product enrichment is happening, so richer product mix is happening from the low-end tyres going up to a UHP and UUHP, which are better, higher contribution margin tyres.

So there is a 360 degree approach being adopted on how to achieve double-digit EBITDA margins in our European Operations by way of mix of all of these things that I mentioned. And thereby eventually increasing the ROCE from where we are to a double-digit figure in the near future.

Siddhartha Bera: Analyst, Nomura Securities

Okay, sir. Thanks a lot. That is very helpful.

Ashutosh Tiwari: Analyst, Equirus Securities

Next we have Jay Kale.

Jay Kale: Elara Capital

Thanks for taking my question and congrats on a great set of results. Sir, my first question was regarding the replacement demand. You mentioned that Q2 was quite strong and trucks, I think, higher than the passenger car replacement. How do you see this going forward given that though fleet utilisation has improved, but maybe still is not at the earlier levels? And while PCR might sustain, do you think that the truck segment replacement demand could kind of soften from Q4 once the pent-up demand is kind of behind us or do you see this sustaining?

Neeraj Kanwar: Vice Chairman and Managing Director



Okay, Jay, it's a good question. As we've seen pre-COVID and for all of FY20, truck tyre demand was very subdued because there was a confusion between BSIV and BSVI. Also last year, the government came up with the axle load norms, which also caused a lot of confusion in the marketplace. But now these two big things are behind us. BSVI has come in, axle load has become part of the whole process. There has been a pent-up demand, I would say partly in quarter one and in the beginning of quarter two but now that pent-up demand is over.

What is happening now is, number one, freight rates have gone up. There is much more movement of industrial goods that is happening. As you can see, manufacturing index is up and goods are moving on the roads. And given that the freight rates gone up, there is a lot of truck movement happening, which we are seeing on the ground. The second thing is the mining industry has opened up, and that is also giving a lot of growth to the CV segment. Then the third thing is that the government is putting a lot of emphasis on road building and infrastructure building. So this has also giving a boost to the CV segment.

We are seeing an upbeat replacement demand due to these factors. Obviously, people were holding back as normally they change their tyres after every three to four years, so now the fleets are coming and changing their tyres. But now, you see vehicles being driven on the road much more than what we were seeing even pre-COVID times.

My own belief is that yes, the truck demand is here to stay. Additionally if and when the scrappage policy comes, then that will again give a boost to the CV segment in the replacement market. And we've been hearing from the government for the past two years that scrappage policy is on the anvil and I hope they will take out the scrappage policy soon.

Coming to passenger car tyres. Passenger car demand is sustainable given the import restriction that the Indian Government has done under Atmanirbhar scheme, that is really helping the passenger car industry. And already we have seen, as a result of COVID a lot of people are



moving from public transport to personal cars. And that in itself is going to give a push to PCR demand.

Now, the other bigger factor is that you've seen the buoyancy in the rural market and that is where Apollo is really focusing on. Rural market is on the upbeat and it's not only in two-wheeler, but it is also in the farm category, it is also in the passenger car segment whether they are SUVs or Jeeps. So all-in-all, I believe, that the demand revival for both product categories of truck and PCR at least for Q3 & Q4 is sustainable.

Jay Kale: Analyst, Elara Capital

Sure, thanks. Just one more question, if you can comment a little bit of on the pricing environment, I mean, we've seen the worst of demand and pricing was relatively stable in the India replacement market, would Q2 also see stable pricing? because of capacity constraints, the dealer incentive structures would have gone down and hence that would have also helped your margins, which could reverse going forward. So one is on your incentive structures to the dealers as well as the pricing environment, is it the worst behind us and now pricing environment should be stable given that in such a weak demand scenario also it has remained stable. Also if you could comment on the pricing in the European markets since you had mentioned that earlier in 2015 times, the pricing environment really collapsed, but how are you seeing it now with demand just bouncing back?

Neeraj Kanwar: Vice Chairman and Managing Director

Okay, so on India, firstly, the industry has matured as far as pricing is concerned over time. Within Apollo, we are looking at enriching our product mix, coming out with more specific high-end radial technology tyres. That's why I said in my opening comments that today Apollo is clearly the number one player as far as all radial products are concerned. So introduction of a



LTR, which is a light truck radial, introduction of a motorcycle radial is all contributing to margin expansion.

You're right, incentives were not too many in the market given the demand and supply situation. I think that holds true for majority of the Indian competition and therefore you saw EBITDA margin expansion in most of our competitive P&L. I believe that maturity is coming and I believe that even going forward, incentives in the market space should be at bare minimum.

On your point whether worst is over, I just want to put a word of caution, given the input prices going up somewhere along the line, one would have to look at correcting prices. Whether it's quarter three, quarter four, we've still not undecided because we are sitting on some RM inventory at low cost.

In Europe, we don't see prices going down, in fact, Europe is a much more matured market than India as far as competitive environment is concerned. Also, you would see that there are anti-dumping policies that have come into Europe against Chinese products. So that maturity comes in and we are then able to sustain our prices and given the input prices, in fact we are already seeing slight price increase in the U.S. market in couple of products. So already competition in U.S. has started increasing prices. So that should, in a way, come into Europe in the next phase and there may be some correction of product pricing in Europe in the near future.

Ashutosh Tiwari: Analyst, Equirus Securities

Next, we have Shyam Sudar Sriram.

Shyam Sundar Sriram: Analyst, Sundaram Mutual

Good afternoon Sir, this is Shyam Sundar Sriram from Sundaram Mutual Fund. Thanks for taking my question. My first question is, on the market share gains you mentioned in the PCR segment.



We also hear that one of the largest player faced production challenges therein, so will we see some market share loss once the production challenges of the competition are addressed and they come back to a normalised production levels? That is the first question. And secondly, in relation to the import restrictions, are you seeing more importers gaining licenses to import PCR? So will this market share gain last for long or may vanish when imports come back?

Neeraj Kanwar: Vice Chairman and Managing Director

Okay, according to me, I don't think the government is approving any import licenses.

Shyam Sundar Sriram: Analyst, Sundaram Mutual

Okay.

Neeraj Kanwar: Vice Chairman and Managing Director

Gaurav, am I correct on that fact?

Gaurav Kumar: Chief Financial Officer

Yes. There may be few licenses for higher-end tyres, but it's negligible.

Neeraj Kanwar: Vice Chairman and Managing Director

Okay. So generally, import licenses are not being allowed and the government is very rigid on this. Secondly, I'm not even aware which of the competition plants had a shutdown, and I am not even going in that direction, we are looking at building our own foundation in the Indian PCR market and that's why whatever numbers we are selling today, we are confident of sustaining those numbers.

I mean the justification for the growth is the dealer network that we have created in H1 on passenger car radials, to the tune of 200-300 dealers, plus there is the concept of Apollo Zones which are exclusive zones for Apollo passenger car dealers. So I totally believe that going



forward, these numbers are sustainable, like I mentioned, not only sustainable, we will also see market share gains from here and growth coming in in quarter three and quarter four.

Shyam Sundar Sriram: Analyst, Sundaram Mutual

Sure, sir. That was very helpful. Just one other question on pricing. This was already asked, but just some clarification there. Gaurav, so generally, looking into Q4, how much increase in RM basket are you seeing approximately if you can give some guesstimates there. And secondly, given the strong demand that we see in the replacement market, we seem to be in a very sweet spot to take up prices per se. So from that perspective, are you seeing some initial signs of market prices going upwards?

Gaurav Kumar: Chief Financial Officer

Shyam, as per our estimates, the RM basket is looking to be up by about 5% in Q3. Given the current uncertain environment, Q4 is a little away, we would not want to take a call on that because while there are indications of material prices going up, we are also seeing a resurgence of COVID cases in certain geographies and these are big consumption geographies as far as tyre market is concerned and there is a certain softness coming in, for example, in crude. So Q4, where the raw material crisis could head vis-a-vis Q3, is a little uncertain.

As of now, no pricing action has been taken even as we look at some cost pressures. There would be an attempt to absorb them through even greater operating leverage because we are seeing demand even stronger than the previous quarter. We will continue to look at fixed cost and R&D efforts to counter this. Price increases, if needed, would be then considered as we go along, nothing that is being considered by us internally today.

Shyam Sundar Sriram: Analyst, Sundaram Mutual

Thank you, Gaurav. Thank you, sir. Thank you very much.



Ashutosh Tiwari: Analyst, Equirus Securities

Next, Laxminarayan. Please go ahead.

Laxminarayan

Sir, two questions. First, what is the mix of OE to replacement in PCR for you in terms of number of units?

Gaurav Kumar: Chief Financial Officer

Just one minute. Should be roughly 50-50. We can get back to you with exact data, but for us in India, it would be roughly 50-50.

Laxminarayan

Okay. Because I think for the industry, it's 67-33, right, or am I off the mark?

Gaurav Kumar: Chief Financial Officer

In India, it would be not be 67. In developed geographies, typically replacement volumes are about 70% and OE 30%. In India, in fact, traditionally, OE volumes used to be more. And now with market maturing, replacement could have moved slightly ahead of OE volumes.

Laxminarayan

Correct. Because my understanding is that PCR total number of tyres sold is around 41 million tyres. You mentioned that you sell almost 4.8 million replacement PCR tyres, am I right?

Gaurav Kumar: Chief Financial Officer

Currently that would be the case, last year our average that Neeraj had mentioned was below 400,000 tyres a month for replacement.

Laxminarayan



Got it. What is the rough proportion of replacement market that is being vacated by these import restrictions?

Gaurav Kumar: Chief Financial Officer

Traditionally over the last few years, imports have had about a 15% market share in the passenger car tyre segment. So that's the quantum that is broadly coming to the domestic players.

Laxminarayan

Say around 41 million tyres sold in domestic market, out of which 15%, around 6 million tyres would be imported, so is that a way to interpret it?

Gaurav Kumar: Chief Financial Officer

That's correct.

Ashutosh Tiwari: Analyst, Equirus Securities

Next we have Bhaskar.

Bhaskar Bukrediwala: Analyst, ASK Investment Managers Private Limited

Thanks for taking my question. One question on the industry trends between TBR and TBB. So the understanding was that TBR was continuously growing and this number had reached close to 55% versus TBB of 45%. So just wanted to understand is the trend towards radialisation in truck tyre still very strong, what is the current number and how do you see the market? Because as I understand that you are fairly strong in the TBR market compared to the competitors, and therefore this trend really helps you more than anyone else.

Gaurav Kumar: Chief Financial Officer



Bhaskar, yes, the radialisation trend is continuing, but in this year, it's sort of come to a little bit of a halt. TBB growth has been very good. So the radialisation level has remained stable at about the 50% mark or slightly more than 50%, because the growth in TBB segment has also been very sharp. And even for Apollo vis-a-vis last year, we actually had a higher growth in the TBB segment. The radialisation trend will continue and we stand to benefit tremendously from that given our brand equity and the product strength in the TBR section, but we've also made substantial gains in our market share on TBB.

Bhaskar Bukrediwala: Analyst, ASK Investment Managers Private Limited

Okay, so this year, like you said, TBB has done well, would you be able to give some understanding as to why that has happened? And second on similar lines, just wanted to understand, is it that the large fleet operators will typically use TBR versus TBB and the smaller ones or the single truck guys would typically use TBB because they are more cost conscious?

Neeraj Kanwar: Vice Chairman and Managing Director

TBB has gone up primarily because it's a very price sensitive market. And given COVID, people's wallet size has gone down during COVID times, and therefore, going for a cheaper product makes sense. Fleets will large trucks, the 18 toners, will not go back to TBB once they started using radials, because of the benefits in fuel savings and in mileage.

Bhaskar Bukrediwala: Analyst, ASK Investment Managers Private Limited

Okay, Got it.

Ashutosh Tiwari : Analyst, Equirus Securities

Next we have Aryn Pirani.

Aryn Pirani: Analyst, CLSA Ltd.



Thanks for the opportunity and congratulations on a good quarter, also wanted to appreciate the fact that you've put out a detailed presentation on the quarterly performance which is quite informative. Most of my questions have been answered, but just one point on Europe, what's the initial trends on the winter tyre demand in Europe?

Neeraj Kanwar: Vice Chairman and Managing Director

Very good question. So winter has been slow and we are seeing a very slow demand picking up in winter tyres. Also, given the lockdowns that are going on in Europe, i.e., in Italy, France, Spain, Germany and Netherlands, there is a slow demand as far as winter tyres is concerned. But weak winters has been a problem for a while, I would say since 2015, 2016 types. We have been emphasizing more on all-season tyres and today Vredestein is clearly the number 1 player in all-season tyres in Europe. So when the shift does not happen and there is hardly any winter, then people do tend to go with all-season tyres, and that's where we are ready to take on the market if the winter was not that great. This year we are already seeing a delay in Winters, but it's a bit early to say how this pans out in the next few months to come.

Amyr Pirani: Analyst, CLSA Ltd.

Great. Thank you. And second question was on the rural distribution that you've expanded quite significantly in the first six months of this year. So is it for specific segments or is it across segments? Like is it only for two wheelers or is it for trucks, passenger vehicles, everything?

Neeraj Kanwar: Vice Chairman and Managing Director

So, basically it's for everything. Like I mentioned earlier, it is not only two-wheeler, there are cars, there are farm and even light truck and truck. So it's in entire product category. Mostly all the dealers are multi-product dealers in these rural markets. So what has helped us with the introduction of two-wheelers, that we did two or three years ago, we've been able to get into these networks, we've been able to create new entrepreneurs in these markets, in these



villages where we've started businesses for them and they are selling the entire range of products from the Apollo basket.

Amyr Pirani: Analyst, CLSA Ltd.

Great, great. Thank you. I'll come back in the queue.

Ashutosh Tiwari : Analyst, Equirus Securities

Next we have Hitesh Goel.

Hitesh Goel: Analyst, Kotak Institutional Equities

Thank you for taking my question and I want to congratulate the management for a good quarter. Just wanted to check on your market share assumptions for this quarter, actually CEAT has reported a 30% kind of volume gain on the replacement market and you guys, as per my calculation would have had around 14% kind of growth in replacement volumes. So, then are you suggesting that the replacement industry in this quarter has grown in low single-digits because other players would have lost substantial market share, right? I mean, just wanted to get a sense here.

And how do we see the trend of this replacement growth playing out going forward, because first quarter was a very steep decline in replacement segment and the catch-up should happen, right? Ideally, people don't wait too much in terms of replacing their tyres. So if you can give some direction for 2H on replacement?

Neeraj Kanwar: Vice Chairman and Managing Director

Hitesh. Apollo has made huge headways in all product categories in quarter two. Starting after the lull that came in April-May, starting from June onwards, the trend line of all products has been going up and that's on a very strong distribution network that one has created. We have seen a lot of deposit base come into Apollo from new dealers and from existing dealers also.



So in my view, the first half has seen a minus, I think, minus 20% revenue drop Y-on-Y and our target for the whole year is to try and see how we can negate this minus and come out for the year in a single positive digit as far as revenue growth is concerned.

And the way we're going to do it obviously is by going more after replacement market. We believe the OEM segment has also started moving in the positive direction. So given these two things, we believe that we'll be able to end the year with a single-digit positive growth.

Hitesh Goel: Analyst, Kotak Institutional Equities

Great. That is quite encouraging. It means that replacement segment will remain quite strong in the 2H as well, right, I mean, double-digit growth that you're talking about?

Neeraj Kanwar: Vice Chairman and Managing Director

Yes. Unless COVID comes back in a big way. If second wave comes in India and there is a lockdown, obviously, I can't say about that. But currently, the way things are, we are pretty bullish.

Hitesh Goel: Analyst, Kotak Institutional Equities

Okay. And my second question is on the European Operations. I understand Indian market is quite price sensitive to the raw material cost increases, but how does the European market behave in that situation? because, generally, I think pricing discipline is good in European market, if you can allude to that factor a bit.

Neeraj Kanwar: Vice Chairman and Managing Director

Hitesh, I just mentioned that in U.S., we've already seen some upwards price correction because of the RM prices going up. So generally, Europe follows U.S. trend. So we're just waiting and watching because we are not the leaders as far as price is concerned in Europe. We have to follow



the leads which are really Michelin and Conti. As soon as those prices get corrected, obviously, Vredestein will get corrected too.

Hitesh Goel: Analyst, Kotak Institutional Equities

Great. Thanks and all the best.

Ashutosh Tiwari: Analyst, Equirus Securities

Next, Mr Arvind Sharma.

Arvind Sharma: Analyst, Citigroup

Great. Good evening Sir, and thanks a lot for taking my question. First off on European Operations, you shared the manufacturing revenues, will it possible to share total revenues including Reifen? My reason was that the reported EBIT is still negative including Reifen I believe. So A, the revenues in Reifen and B, what's the company doing to have a positive EBIT including Reifen, because European Operations include both manufacturing and Reifen?

Gaurav Kumar: Chief Financial Officer

Arvind, Reifen Operations also are doing very well. In the current quarter, Reifen Operations have grown 16%. The reason that you see negative impact on EBIT that you mentioned is because of the heavy depreciation charge that is still coming from the Hungary plant. So while the operations are now significantly positive on the cash profit or free cash flow generation, the heavy depreciation charge pulls down the EBIT. That situation will get corrected on account of the significant profitability improvement as we go through the Dutch specialisation as I mentioned. Next year onwards, EBIT would also turn positive.

Arvind Sharma: Analyst, Citigroup



Thank you so much, Gaurav. Just one more question on the cost reduction front, you said 15% reduction in fixed cost has been achieved and some of it will come back?

Gaurav Kumar: Chief Financial Officer

That's correct.

Arvind Sharma: Analyst, Citigroup

Given that raw material cost pressures are rising, and historically third quarter has been good for the European Operations. So on a consolidated basis, do you see a bigger impact which is negative on the margins or do you believe that cost reduction initiative would be able to offset on a consolidated basis the total raw material expansion?

Gaurav Kumar: Chief Financial Officer

Arvind, as you know, we would not give out specific margin guidance. However, you are right that Q3 seasonally is a good quarter for European Operations and it's dependent a little bit on the winter tyres, but it would still be a better revenue and a better profitability quarter which it has seasonally been. Overall, with the impact of better operating leverage and tighter control over cost we will try to mitigate the impact of higher RM prices.

Arvind Sharma: Analyst, Citigroup

But the cost reduction would be a more sticky thing, so that should ideally stay in the long run?

Gaurav Kumar: Chief Financial Officer

That's correct, Some of those cost reductions will continue.

Arvind Sharma: Analyst, Citigroup

Sure. Thank you so much.



Ashutosh Tiwari: Analyst, Equirus Securities

Yeah. Next we have Pramod Amthe.

Pramod Amthe: Analyst, CGS CIMB Securities

Hi. Congrats on good set of numbers and it's amazing to see the execution on the India PV business. This question is specific to Neeraj. Considering that such supply disruptions are rare to overcome in the business cycles and you have executed well in the short-term, how do you see to make it sticky considering that these are coming from premium brands which were earlier imported? So do you see a need to launch some premium brands at your end or do you want to incur more branding expenses so that this leadership can be sustained in the PV business?

Neeraj Kanwar: Vice Chairman and Managing Director

Thank you, Pramod. I think that's a very good question. Like I said in my opening remarks, Apollo is in the forefront today because of a 11 years experience that we've had in Europe with selling high-end passenger car tyres. Our tyre, not only in the Indian made ones, but also the European made ones, are being tested on German test tracks for now 11 years. We've been having podium positions in these test results. We already have equipment in India to manufacture the high-end tyres. When I say high-end tyres, I'm talking about 17-inch up to 24-inch, which is what the Michelin's and the Bridgestone's were importing from their plants in France or Japan.

Now, in order for them to service the demand for such tyres, they need to put in Capex because the equipment that they have here are of older generation. So I believe and it will take them time to bring it in. Secondly, we have also seen the opportunity of launching our Vredestein brand in India. We did try it four, five years ago and we basically made our own mistakes over there. So in the month of January is when the Indian marketing team is looking at launching Vredestein into the Indian replacement market, because that higher segment of the market also has a mentality of having a foreign branded tyre on their car. So whether it's a Honda Accord or a Mercedes or a



BMW, they want imported brand put in their car. So through Vredestein made in India we will try to cater to that market.

As far as Apollo branding is concerned, as you know, we have invested in Sachin Tendulkar, now for the past two or three years. We've also invested in Man United, which we're continuing to do. Like I mentioned earlier, the Vredestein launch is going to be digital. So the brand spend will be much less than what we would do in a normal environment.

Pramod Amthe: Analyst, CGS CIMB Securities

Sure. Thanks and all the best.

Ashutosh Tiwari: Analyst, Equirus Securities

Next question is from Nishit Jalan.

Nishit Jalan: Analyst, Axis Capital Limited

My first question is on working capital. We have seen almost INR 1,000 crores cashflow because of reduction in working capital in the first half of this year and a large part of it has come through inventory reduction. Just wanted to understand if this is temporary in nature because with the demand ramp up we might be running short, do you think you can sustain these kinds of inventory levels?

Gaurav Kumar: Chief Financial Officer

Nishit, as the demand goes up, some of it will reverse. As Neeraj mentioned earlier, the current inventory levels are a big challenge for the business and hence production has to always catch up. But we also believe that this tough environment has shown us a way that we can operate at much lower inventory levels. And hence, when we return to normal levels of inventory it should not be back to what we used to earlier consider as normal levels. A large part of these working capital gains is what we are looking to sustain.



Nishit Jalan: Analyst, Axis Capital Limited

Okay, that's good. Thank you. Secondly, on Capex side you have talked about INR 1,050 crores Capex in India in FY21 and the INR 1,600 crores in FY22. If I remember correctly, last quarter you mentioned that your maintenance Capex in India annually is about INR 250 crores to INR 300 crores. And the Capex, which is left to be done in Andhra is about INR 2,000 crores, what am I missing here?

Gaurav Kumar: Chief Financial Officer

India regular Capex is of the order of INR 250 crores to INR 300 crores. So out of this INR 2,650 crores let's take INR 550 crores is the regular maintenance Capex. That leaves about INR 2,100 crores. Andhra number maybe slightly off based on what had already been done by March '20. Apart from Andhra, there are other small growth Capex, but I missed some of the part of your question in middle.

Nishit Jalan: Analyst, Axis Capital Limited

Well that was the question, Andhra Capex left is about INR 1,500 crores or it's higher after FY20?

Gaurav Kumar: Chief Financial Officer

I'll have to check the exact numbers but should be about INR 1,600 odd crores.

Nishit Jalan: Analyst, Axis Capital Limited

Okay, thank you. Just last one small clarification. You mentioned that your PCR replacement volumes grew by 11% this quarter, and you have gained about a 500 bps market share. Does that mean that PCR replacement industry volumes was down on a Y-O-Y basis?

Gaurav Kumar: Chief Financial Officer



Just to clarify, when we are mentioning the market share gain figure it is based on April to August period for which we have the industry data. We need the industry data for Q2 to comment any further which is not available currently.

Nishit Jalan: Analyst, Axis Capital Limited

Okay, thank you. That's all from my side.

Ashutosh Tiwari: Analyst, Equirus Securities

Next and last question is from the line of Shashank Kanodia.

Shashank Kanodia: Analyst, ICICI Securities

Coming to the same Capex part. You talked in the initial remarks that the Capex intensity will reduce, but for FY22 again, you have earmarked INR 1,600 crores of Capex. What part of this would we be on account of Andhra Pradesh plant and others, if you can specify?

Gaurav Kumar: Chief Financial Officer

The INR 1,600 crores figure was already announced. The numbers, if we go back in time, were closer to INR 1,500 crores in FY 21 and lower in FY 22. We switched it around because of the COVID situation. We wanted the current year to be tighter on cash since things were looking quite bleak as we began the year. And hence, you could see in some of our earlier interactions with the market that we pulled back on Capex by about INR 400-plus crores in the current year. And that Capex got shifted to FY 22.

Shashank Kanodia: Analyst, ICICI Securities

Ok. Sir, for Andhra Pradesh plant, what is the total intended Capex that we're supposed to spend?

Gaurav Kumar: Chief Financial Officer



INR 3,900 crores, that figure remains unchanged.

Shashank Kanodia: Analyst, ICICI Securities

Okay, and what will be the payback period for this?

Gaurav Kumar: Chief Financial Officer

Our typical payback periods are about seven years.

Shashank Kanodia: Analyst, ICICI Securities

One last question to Mr Kanwar. Sir, in initial remarks you talked about being ROCE conscious and returning to healthy double-digit ROCE. Can you put some number to it? Say, by FY 23 what kind of a ROCE trajectory we will be in?

Neeraj Kanwar: Vice Chairman and Managing Director

Shashank, our endeavor is to try and see how quickly we can reach to a double-digit figure of ROCE. I also mentioned, if we were to annualize quarter two of this year, we would be looking at close to an 11% ROCE with Andhra in that. I don't like to put a number there or a date, but the focus are for me and for my top team today is to see that we are able to generate healthy ROCEs and try to reach to the levels that we did in 2015. Also, see that we do generate free cash flows for the organization. Our net debt EBITDA remains at figures, which we've been always used to. So these are two or three things that the management is now focusing on.

Shashank Kanodia: Analyst, ICICI Securities

Alright, Sir. Thank you so much and Best of luck.

Neeraj Kanwar: Vice Chairman and Managing Director

Thank you.



Q2 FY 2021 Earnings Call

November 5, 2020

Ashutosh Tiwari: Analyst, Equirus Securities

Thank you, everyone, for joining the call and thanks to the management for giving us the opportunity to host the call. We will now call off the call.

Neeraj Kanwar: Vice Chairman and Managing Director

Thank you, Ashutosh. Thank you, everyone, for listening to us patiently and all the very best.