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

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

GST No.: 06AAACA6990Q1Z2

ATL/SEC/21 November 15, 2021

The Secretary, **BSE Ltd.,** **Phiroze Jeejeebhoy Towers,** **Dalal Street,** **Mumbai- 400 001**	**The Secretary,** **National Stock Exchange of India Ltd.,** **Exchange Plaza,** **Bandra-Kurla Complex,** **Bandra (E),** **Mumbai-400 051**

Sub: Transcript of Analyst/ Investor Conference Call

Dear Sirs,

Pursuant to Regulation 30 (6) and 46 (2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that a Conference Call for the analyst and investors to discuss the financial and operational performance of the Company was held on November 1, 2021.

Please find attached herewith the transcript of the aforesaid call. The same has also been placed on the website of the Company i.e. www.apollotyres.com.

This is for your information and records.

Thanking You,

Yours Sincerely,
For Apollo Tyres Ltd.

Seema Thapar

(Seema Thapar)
Company Secretary & Compliance Officer

Nishit Jalan: Axis Capital

Hi. Good afternoon, everyone. On behalf of Axis Capital welcome to Q2 FY'22 Result Conference Call of Apollo Tyres. From the management team we have with us Mr Neeraj Kanwar, Vice Chairman and Managing Director; Mr Gaurav Kumar, Chief Financial Officer; and the IR team.

I'll now hand over the call to Mr Kanwar for his opening remarks, post which we will start Q&A. Over to you Mr Kanwar.

Neeraj Kanwar: Vice Chairman & Managing Director

Thank you, Nishit. Good afternoon friends and a very warm welcome to the Apollo Tyres quarter two earnings call. Firstly, my good wishes to you and your families for the upcoming festival season. Since our last interaction, we continue to witness demand recovery across our key markets. While we are cognisant of the cost push and uncertainty around COVID-19 infection rates, we remain extremely bullish in the medium to long-term.

The quarter was once again impacted by rising raw material costs. On the positive side, we registered growth across all our geographies, and I'm particularly pleased with the continued strong operating performance in our European Operations. We have also recently introduced the Vredestein brand in India, as you would have seen, and this would help us make further inroads in the premium high margin PCR segment. The pricing environment remains favorable, and we've been able to take price increases in both India and in Europe.

While we still lag behind the overall raw material increase, especially in India, we are closely evaluating the market and remain ready to take appropriate measures to pass on the RM inflation and revert to our desired margin range. I would also like to take this opportunity to highlight the importance of international operations of Apollo Tyres. We started our international journey in 2006. Over the last 15 years, our exposure to international markets has helped in not only diversifying, but also derisking our businesses.

It has also been hugely instrumental in developing our capabilities, which today are our key fundamental building blocks for future. To talk about a few, exposure to international markets has helped us to maintain a focus on R&D, develop and engage with a wider supplier base, and also to retain best talent by providing avenues for personal and professional growth within the organisation.

Furthermore, after the successful execution of Enschede plant's specialisation project, we have optimised our manufacturing footprint as we continue to gain traction in markets with large profit pools across the world. The result of this is clearly visible in the strength of our consolidated margins, inspite of the steep RM cost push.

Let me also touch upon Europe Operations a little more. Helped by successful execution of the Enschede plant specialisation, we have already witnessed significant improvement in our European Operations' performance. Over the last few years the share of UHP and UUHP in the passenger car sales mix has increased, and now stands at around 39%. We expect this to further increase to well above 40% by FY 2026.

We are also focusing on developing a global approach with focus on premium partners like BMW, Daimler, etc. All of these along with consistent R&D efforts, podium positions and new product launches should help us further improve our pricing position and contribute to our FY '26 targets.

As discussed during our last interaction, we have unveiled a new brand identity and have also laid down our performance targets under the vision 2026. I'm happy to share that the team is focused on realising the same. However, I would use this opportunity to flag the fact that these are medium term targets and should not be used as benchmark to evaluate our short-term performance.

Finally, in terms of outlook, we are optimistic about demand momentum, although, costs inflation could continue to weigh on operating performance in the near-term. We remain focused on medium to long term targets, and would reiterate that we are committed to use every possible opportunity to engage as a leaner and a more efficient organisation with focus on technology and digitalisation.

Secondly, we see huge opportunity in our key markets over the medium long-term and are well placed to leverage the same given our investments and capacity in R&D, in brand, in distribution, and cost optimisation. Lastly, we have made sustainability a core to our operations and are working to achieve it across the entire value chain. Our sustainability framework is modeled on the ISO 26000 standards and targets are being set in line with our global standards.

With this, I would like to conclude my opening remarks and hand over the call to Gaurav. Wishing you all the very best for the upcoming festivals. Happy Diwali and stay safe everyone. Thank you, over to you Gaurav.

Gaurav Kumar: Chief Financial Officer

Thank you, Neeraj, and good afternoon ladies and gentlemen. Let me also start by wishing all of you a very happy and prosperous festival season. In India, we are gradually moving back to normalcy after facing an unprecedented pandemic situation. We are witnessing a steady improvement in demand momentum. The truck tyres OEM demand, which was lagging, is showing promising signs of improvement. Though, the passenger car OEM demand continues to suffer due to shortage of semiconductors.

The replacement demand momentum is strong. The continued raw material inflation, along with the OEM disruptions in production, did impact our operating performance in the previous quarter. We've taken price increase across categories in the replacement segment, but we would need to take further price increases going forward to fully pass on the raw material cost inflation.

The demand momentum going forward for H2 seems to be better, and further price increases have been announced for November to counter the raw material cost push. While our margins have been impacted in the last couple of quarters in the Indian Operations, we continue to target the mid-teens EBITDA margins, in line with our vision on a medium-term basis.

As highlighted by Neeraj, Europe once again reported a strong operating performance underscoring its importance and relevance as a market. Along with the benefits he talked of diversification and derisking. The Europe Operations have now delivered these strong results for the third quarter in a row. We have gained market share across product segments and especially in the truck and the agricultural tyre segment.

The UHP mix continues to improve in line with our strategic intention. There is continued focus on cash flow in terms of a tight working capital management and CapEx. We are looking at a very good demand momentum for Q3 and continuing with the strong operating performance.

Moving on to the financial results. The consolidated revenue for the quarter stood at INR 50.7 billion, a growth of 18% over the same quarter last year, and a growth of 11% on a sequential basis. For the first half, the revenue was INR 96.6 billion, a very healthy growth of 35% over the same period last year. The consolidated EBITDA for the quarter was at INR 6.4 billion, a margin of 12.6%, a decline of about 4% compared to the same period last year, fundamentally due to the raw material cost push. However, on a first half basis, the EBITDA margin was 12.5%, a little below a 13.3% of last year.

Coming to the balance sheet, we've been able to maintain our leverage ratios given the strong focus on cash flows. The net debt to EBITDA for the consolidated operations was at 1.6 times. For the India Operations, the revenue for the quarter was INR 36.5 billion, a growth of 25% over the same period last year, and 13% on a sequential basis. The EBITDA for the quarter was at 10.3%, similar to the number in the preceding quarter, but a sharp decline from the same quarter last year.

Moving on to the European Operations, the revenue for the quarter were EUR 138 million, up 6% compared to the same period last year, and a growth of 21% sequentially. The EBITDA for the quarter was at 17.6% compared to 10% for the same quarter last year. Even for the first half, the European Operations recorded a margin of 17% compared to less than 7% last year, highlighting the very strong improvement in the European Operations. We see a healthy demand momentum going forward for both our operations and some of the other geographies.

With this I would conclude my opening comments. We would be happy to take your questions.

Q&A

Nishit Jalan: Axis Capital

Sure, thanks, Neeraj, and Gaurav. So, we will begin with Q&A. We will start with Ashutosh Tiwari.

Ashutosh Tiwari: Equirus Securities

Am I audible?

Nishit Jalan: Axis Capital

Yes, Ashutosh, go ahead.

Ashutosh Tiwari: Equirus Securities

So, firstly on the India volume growth can you provide some color on overall growth as well as segment wise growth?

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav, will you answer that.

Gaurav Kumar: Chief Financial Officer

Yeah. So, Ashutosh the overall volume growth for the quarter compared to the same period last year was 13% made up of across -- for truck, it was something like 7%, passenger car was upwards of 30%, two wheeler growth was 40%.

Ashutosh Tiwari: Equirus Securities

In truck can you provide some breakup on the OEM and replacement? Were replacement also a similar growth rate or it was lower than 7%.

Gaurav Kumar: Chief Financial Officer

In the replacement you are talking of last year?

Ashutosh Tiwari: Equirus Securities

Yeah, compared to last year, truck replacement.

Gaurav Kumar: Chief Financial Officer

No, replacement there was not much growth. In fact, there was a negative growth in replacement. We had a sharp growth in OEM still compared to the same period last year when the OEMs were absolutely down and also a very strong growth in the export segment.

Ashutosh Tiwari: Equirus Securities

So this weakness in truck was across bias and radial or the bias was more under pain, and there was growth in radial.

Neeraj Kanwar: Vice Chairman & Managing Director

So, the bias -- Gaurav let me answer this, bias is taking over radial a little bit because of the price difference between bias and radial. As radial has become very expensive, so people are trying to move towards truck bias. But the good news is that in the beginning of this quarter we have seen a jump in OEs, specifically in truck bus radial. So they are coming back with bigger numbers to pre-COVID levels. So that's a good news. That will have a repeat demand in replacement segment. We've already seen in the month of October, a growth coming back even in the replacement market in truck bus radial.

Ashutosh Tiwari: Equirus Securities

Okay. And secondly, we talked about price increase from this month, what are the quantum and which segments you've taken?

Neeraj Kanwar: Vice Chairman & Managing Director

So we've taken price increases in all segments. Up until September and the total weighted average is around 9%. We are again taking price increases in this quarter varying between 3% to 5% in various segments in the months of October and in the months of November.

Ashutosh Tiwari: Equirus Securities

Okay 3% to 5% across segments. Okay, thank you, guys.

Nishit Jalan: Axis Capital

We have next question from Siddhartha Bera. Siddhartha, please unmute your line and go ahead.

Siddhartha Bera: Nomura Securities Co. Ltd.

Hi Sir. Thanks for the opportunity. Sir, first on the Europe, if I see on a Y-o-Y basis, your revenues are up about 6%. And we have also taken nearly 4% to 6% price hike in the quarter. So, first just wanted to understand on the volume side, how is the recovery there?

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav?

Gaurav Kumar: Chief Financial Officer

Siddhartha, the volume recovery is very strong in Europe, it is in double-digits coming off in a way of the base, which had declined. So, we are facing a good tailwind in our Europe Operations in the key passenger car segment; and in the truck segment, et cetera, where we were a very small player, given the product have improved itself now, we are seeing a very sharp increase in volumes and our market share.

Siddhartha Bera: Nomura Securities Co. Ltd.

Got it. So, the muted revenue growth then is it because of some mix impact which is affecting the overall revenue growth, because we have gained market share also. So, just wanted to understand why the revenue growth is much lower?

Gaurav Kumar: Chief Financial Officer

Revenue growth is more or less in line with the market. I would say a certain amount of opportunities were still let go given the freight challenges. In some cases the logistics costs alone do not make some of the businesses viable. The plants are running now in Europe at a very high capacity. We are taking advantage of the strong market and continue to make further inroads.

Siddhartha Bera: Nomura Securities Co. Ltd.

Got it. So, when we say that, we expect the growth momentum to be better in 2H, so would it be possible to indicate what type of volume growth we are expecting maybe, say, next year or in second half, whatever you can share?

Gaurav Kumar: Chief Financial Officer

We would expect, Siddhartha at a broad level, the top line growth to be high single-digits to about a double-digit, which is a very aggressive and a good number in European market conditions.

Siddhartha Bera: Nomura Securities Co. Ltd.

Got it. And on the margin side, I mean, despite such a high inflationary environment, we posted good margin. So what to think about margins over the next one, two years, if commodity cost normalizes? Like we have said in the standalone business, we will target to have mid-teen margins. If you can help us in Europe, on a sustainable basis, what are the margins we can look at and do these margins also, sort of are subdued because of the higher inflationary commodity prices?

Gaurav Kumar: Chief Financial Officer

So, yes, Siddhartha, I would like to say that, like usual, we do not give out specific margin guidance. But even as we had undertaken the specialisation in our Dutch plant, we had mentioned that the idea was to get back to the kind of profitability margins we used to enjoy about 5 years back. And we have demonstrated over the last three quarters now that we've reached those levels. We believe these levels are sustainable.

There is pressure on account of raw material. Europe, the increase came in with a lag. So it's been lesser than what Indian Operations faced, but they are now facing a similar cost push. But we believe that the margins that we had talked about or what we are delivering should be sustainable with the various initiatives that we are taking.

Siddhartha Bera: Nomura Securities Co. Ltd.

Got it. Sir, last question on the CapEx side, if I may. So we have done about INR 11 billion CapEx in the first half. So in the second half, if you can highlight what is the CapEx we are looking at and in terms of FCF will it be better or similar to the first half. Some thoughts there would be helpful?

Gaurav Kumar: Chief Financial Officer

Sure. So the FCF will depend on the margin, so difficult to comment on that. But CapEx is in line with the guidance that we've given and there has been no change in that. So based on both the operations, the second half CapEx also will continue at a similar level which would be completing the AP greenfield and some of the other maintenance CapEx, CapExes on digital initiatives. There has been no change from our earlier guidance.

Nishit Jalan: Axis Capital

Next question we have is from Aditya Jhawar.

Aditya Jhawar: Investec Capital Services

Thanks for the opportunity. Am I audible?

Gaurav Kumar: Chief Financial Officer

Yes, Aditya.

Aditya Jhawar: Investec Capital Services

Yeah, thank you. So, we have migrated our manufacturing operations in Europe, from Netherlands to Hungary and to India. And in that backdrop, is there a possibility of incremental monetisation of certain assets in our Netherland plant, or there is some kind of capital which can be written off or, say for example, land monetisation?

Gaurav Kumar: Chief Financial Officer

Should I go ahead?

Neeraj Kanwar: Vice Chairman & Managing Director

Yeah, Gaurav, go ahead.

Gaurav Kumar: Chief Financial Officer

So Aditya, A, we had taken a write-off of some of the assets. If I remember correctly, it was Q2 last year. So along with the restructuring costs, there was a write-off of a certain amount of fixed assets. There is very little monetisation scope possible of those assets. They were really old assets.

On your last question about the land, the Enschede plant continues to be very key strategic asset in our overall European Operations. Manufacturing of the high-end passenger car is done there and also certain product categories, which are not manufactured in any of our other plants. So right now, we are not looking at any opportunity of land monetisation.

Aditya Jhawar: Investec Capital Services

Thanks, Gaurav. Second question is on our debt repayment plan. So what is the plan for FY '22 and '23, on debt repayment?

Gaurav Kumar: Chief Financial Officer

So, they would be in line with what is the earlier repayment plans. In India, in the current year, there is about INR 500 crores of repayment, which will come up, which is largely in the second half. And in Europe, there is a EUR 14 million repayment, which will come up in the second half. And none of it is an issue that is a surprise. It is well planned and will be taken care of.

Aditya Jhawar: Investec Capital Services

Perfect, yeah. That's it for me. Thank you, all the best.

Gaurav Kumar: Chief Financial Officer

Thank you.

Nishit Jalan: Axis Capital

Our next question is from Jinesh Gandhi. Jinesh, if you can unmute yourself and go ahead.

Jinesh Gandhi: Motilal Oswal Securities

Yeah, thanks. So, my first question is for the India business. We have taken price increase in October, November in range of 3% to 5%. Post that price increase, what would be under recovery on account of cost inflation in India?

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav, you want to take that.

Gaurav Kumar: Chief Financial Officer

So, Jinesh, raw material itself is a moving target. Even in Q3 from Q2, we expect a small cost push coming on account of raw material. I would say broadly, we are running about 2 price increases behind vis-à-vis what is desirable.

Jinesh Gandhi: Motilal Oswal Securities

Okay. And when we say 2 price increases behind would be effectively in that 3% to 5% range kind of price increases is what we are lagging?

Gaurav Kumar: Chief Financial Officer

Broadly at the 3%. So if you take it from our 10.3% operating margin, if our medium term desirable level is a 15%. That's the level we are off from.

Jinesh Gandhi: Motilal Oswal Securities

Right, right. Got it. And second question pertains to the European Operations. In first quarter, we had some impact of transition of Netherland plants to Hungary. Is 2Q a fully normalised quarter with respect to operations there, or there were still some residual impact in this quarter?

Neeraj Kanwar: Vice Chairman & Managing Director

No, are you talking about -- I didn't hear that question properly. But if you're saying that the production was shifting to India and to Hungary, all that has been done. So now it's all normalised.

Jinesh Gandhi: Motilal Oswal Securities

Okay. So second quarter, it was a normalised -- second quarter was a normalised quarter from that perspective.

Neeraj Kanwar: Vice Chairman & Managing Director

Right.

Jinesh Gandhi: Motilal Oswal Securities

Got it. And from the European Operations again, I mean, second quarter we were at about 86% utilisation. I believe there is some scope of brownfield expansion and debottlenecking as well. So how should we look at the European capacities going forward?

Neeraj Kanwar: Vice Chairman & Managing Director

Well, European capacities, we are not looking at any major CapEx in Europe. As you know, we have limited our Enschede plant to around 500,000 tyres per annum. So that will continue, that's running at around 85%, 90%. Hungary is an area where we are looking at debottlenecking, and putting in small CapExes to debottleneck. And we're looking at a capacity of nearly 16,000 tyres per day coming out of our Hungary facility. And so the remainder will be fed by our Indian plants.

Jinesh Gandhi: Motilal Oswal Securities

Got it. And lastly, Gaurav, can you share Reifencom's revenues and EBITDA margins for the quarter?

Gaurav Kumar: Chief Financial Officer

Reifencom, in the current quarter delivered EUR 36 million revenue, it was up 3% vis-à-vis same quarter last year.

Jinesh Gandhi: Motilal Oswal Securities

EBITDA margins?

Gaurav Kumar: Chief Financial Officer

EBITDA margins was just above breakeven, because seasonally this is one of their sort of low margin quarters.

Jinesh Gandhi: Motilal Oswal Securities

Got it. Great, thanks. I'll come back in queue.

Gaurav Kumar: Chief Financial Officer

Thank you.

Nishit Jalan: Axis Capital

We have next question from Ashutosh Tiwari.

Ashutosh Tiwari: Equirus Securities

Yeah, so firstly on the inventories, how do you see it going ahead? Like say, it has kind of peaked out or it can increase further going ahead, in second half?

Neeraj Kanwar: Vice Chairman & Managing Director

You mentioned in terms of finished goods?

Ashutosh Tiwari: Equirus Securities

Yeah, overall. Finished goods, raw materials, everything, if you look at balance sheet.

Neeraj Kanwar: Vice Chairman & Managing Director

We're keeping a very close watch on both raw material and on finished goods. We will be further reducing finished goods inventory specifically in India. One thing we have to keep in mind as far as RM is concerned, we cannot afford our plants to shut down. So, therefore, RM inventories will be slightly on the higher side given the shortages of containers and freight going up. So, we are trying to see that raw materials are there in sufficient quantities to run all our plants both in India and in Europe.

Ashutosh Tiwari: Equirus Securities

Okay. And even payables have gone up. So, like working capital overall will remain similar to -- in the first half September levels going ahead? Or payable can come down?

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav?

Gaurav Kumar: Chief Financial Officer

Ashutosh, some of these numbers have also gone up because the fundamental prices have gone up. So even if you're holding the same number of days or the same quantity of material, the value of that has gone up. Working capital levels, as Neeraj highlighted, should come down slightly because in India, the finished goods inventory should come down slightly, but not a drastic change on the working capital.

Ashutosh Tiwari: Equirus Securities

Okay. And secondly, on this demand on the truck replacement side, I mean, obviously, the base was higher for last year, where still it's kind of flattish or even negative. So is it that the fleet operators are deferring the purchase because the prices have gone up, and probably we'll see that cycle coming through as we go ahead?

Gaurav Kumar: Chief Financial Officer

A certain amount of deferment did happen and it's impacted also by the monsoon, which was quite erratic through this quarter. And it's fairly normal that during monsoon times the fleet operators or the truck owners defer their replacement purchases. Overall, given the strong numbers that you've seen of growth, we are fairly confident of the kind of demand momentum that that is out there going forward.

Ashutosh Tiwari: Equirus Securities

And lastly, on the dealer stock levels, are they like normal levels or higher or lower? Any color on that?

Gaurav Kumar: Chief Financial Officer

As per our information, the dealer stock levels are fairly normal.

Ashutosh Tiwari: Equirus Securities

Okay. Fine, thank you.

Gaurav Kumar: Chief Financial Officer

Thank you.

Nishit Jalan: Axis Capital

Thank you. We have next question from Mayur Milak. Mayur, please unmute your line and go ahead. Mayur you're not audible. Mayur? I think there is some issue with Mayur's line.

I'll go ahead with one question, Neeraj and Gaurav. Just firstly -- both the questions are on Europe business. Firstly, on the margin side, you have delivered good, mid to high-teens kind of a margin. And generally second half is our seasonally strong quarter in terms of profitability. So do we see margins improving further from where we are currently? Or do you think that the commodity prices will hit with a lag? And that will kind of take away the benefit from seasonality perspective? That is the first question.

Second question is on our capacity. If I heard you correctly, you mentioned that your Netherlands plant, the capacity has come down to 500,000 units. Does that include the agri tyre capacity also, that you have? And if not, then basically, we have seen a substantial reduction in capacity in Netherlands and Hungary we have not seen much increase. We used to have 4,500,000 units. I think it's broadly around similar levels. Does that mean that bulk of the Netherlands capacity has been moved to India? These are the two questions from my side.

Neeraj Kanwar: Vice Chairman & Managing Director

Okay, so the first question on margins in Europe. I think you have to see quarter 3 is winter season. And that has been historically one of the best seasons for our European Operations. So you might see some margin expansion in the coming quarter. That's point number one. But with the majority of price increases in Europe, we've been able to take price increases and keep up with the raw material trend input costs going up.

We're also taking a price increase in quarter 4 of next year in Europe. So that's as far as margins are concerned. One of the purposes of doing a specialisation of the plant was to become cost competitive as far as manufacturing is concerned. And that leads to my second answer to your question. Enschede continues to produce PCR, which is restricted to 500,000. The sizes which were loss making, smaller sizes have moved out not only to Hungary, but to India also.

Hungary capacity has gone up. The initial capacity was less than 4 million, now it is touching 4.5, which will further get increased, as I said with 16,000 tyres coming in. In Enschede, in the Netherlands plant we also continue to produce agri tyres and Spacemaster. So these 2 continue as product categories because even in agri tyres, these are highly specialised tyres specifically to do with radial. So, this capacity will always be there in Enschede plant. Gaurav, you want to add anything to this?

Gaurav Kumar: Chief Financial Officer

No, nothing further.

Nishit Jalan: Axis Capital

Sure just one follow up. Like you share volume growth and price increases in India, possible to share similar numbers for Europe? Within the revenue growth, how much was volume growth and how much was because of price increases?

Gaurav Kumar: Chief Financial Officer

Just a minute, Nishit. So for Europe, roughly about 4% would be volume and 2% would be price.

Nishit Jalan: Axis Capital

Okay, thank you. So we have next question from Mitul Shah. Mitul, please unmute your line and go ahead.

Mitul Shah: Reliance Securities

Good afternoon Sir, and thank you for giving me this opportunity. Sir, my first question is if you can give ballpark number for raw material, all those items natural rubber, synthetic rubber, metal cord and carbon black for the quarter? And second question is on demand side, can you give some more light on OEM CV side for next one or two quarter as well as your view on segments on the replacement side PCR, two wheelers series? These are the two questions, I have sir.

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav?

Gaurav Kumar: Chief Financial Officer

On the first question, Mitul, the prices for raw materials that you wanted, natural rubber was around INR 175 per kg, synthetic rubber around INR 160, carbon black INR 95, and steel cord at INR 165. On your second question regarding demand, we would not be in a position to give out specific numbers. The truck OEM side is seeing fairly strong revival and we think over the next one or two quarters the demand might be good getting back to where we were towards the end of last year.

Replacement will come back also and should be at similar levels as last year. So, coming back to a very strong growth overall. Passenger car OEM in near-term the volumes will continue to suffer though the passenger car replacement demand is very strong. We, in fact, had record numbers in a month or two in the last quarter.

Mitul Shah: Reliance Securities

Thank you Sir. One last thing, you highlighted that we are planning 3% to 5% price increase between October, November. So will this cover up so far whatever is the cost escalation on raw material side or still more is required?

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav, mentioned it will not be, we are lagging behind by a quarter at least. So this will not cover up the total input price increase.

Mitul Shah: Reliance Securities

So how much further increase required after this 3% to 5% increase to cover up everything, approximately?

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav, you want to answer that?

Gaurav Kumar: Chief Financial Officer

Mitul, as of now for Q4, we still have to see where the raw material outlook would be. Broadly we need another 3% to 5% increase. But that is assuming that the raw materials then is at the current levels.

Mitul Shah: Reliance Securities

Okay. And sir, when -- just follow up on CapEx side, after this AP plant completion, and you highlighted about current year's CapEx, but for next two, three years, what should be ballpark CapEx range on a consolidated basis?

Gaurav Kumar: Chief Financial Officer

Mitul, that we are now on the drawing board, in line with our vision targets. We are conscious of the fact that our capital allocation should follow a policy of generating free cash flow. But we would be able to give out a more accurate CapEx guidance for the next couple of years by the next quarter call.

Mitul Shah: Reliance Securities

Thank you Sir.

Gaurav Kumar: Chief Financial Officer

Thank you, Mitul.

Nishit Jalan: Axis Capital

We have next question from Preethi RS. Preethi, please unmute your line and go ahead.

Preethi RS: UTI AMC Ltd

Yes, thanks, Nishit. Hi, Gaurav. So my question is on the EBITDA margins on the European Operations. So if you see the trend today, as of today, we are probably a multi-year high, close to 18% and probably close to 10 year high barring a few quarters in FY '14. So what is the secular margin profile that one can expect, because we have come up a very, very, very low base in last two to three years? And what would you attribute this to? I think some of them are obvious. One is though, the change in geography itself, and to product mix. But is there anything that we're missing, and that could basically lend support to the rational that -- rational to a sustainability of those margins.

Gaurav Kumar: Chief Financial Officer

So Preethi, the fundamental input into this is the tough decision that we took last year, and then executed the same which was specialisation of the Dutch plant to focus on certain product categories and within passenger car on SKUs, which were high-end, which could be supported with the high cost of Western European manufacturing. And it's something that our peers have also done. It's just that we needed Hungary plant to reach a certain level of stabilisation, certain scale before we could even think of something.

And yes, given the fact as to where our margins had reached in European Operations, we realize the situation we were facing was not a sustainable one and hence we had to undertake that tough decision. These margins are definitely sustainable given that we've now made our overall mix cost competitive. Within the overall passenger car mix there are SKUs which would be coming from India, SKUs which would come from Hungary, and certain ones which would come from Netherlands. So we hope to sustain these margins and have our European Operations back at the kind of levels, which used to be there in FY '14, '15, '16.

Neeraj Kanwar: Vice Chairman & Managing Director

Another point, Gaurav, you missed out is the enrichment of product mix. You might want to highlight that.

Gaurav Kumar: Chief Financial Officer

And the other big change that has been undertaken is our UHP mix, which I think a few years back used to be around mid-20s, and as Neeraj mentioned, is currently at 39%. And our target within this vision period is to take it well above the 40s. And that's a significant change within that same product category, in terms of enrichment of the product mix, also contributing to the profitability.

Preethi RS: UTI AMC Ltd

Thanks for that elaborate answer. So the change in product mix towards UHP, would that mean anything different on the growth prospects, one. And two, will that also bring in any seasonality? This is asking on the winter tyres composition in the overall mix.

Gaurav Kumar: Chief Financial Officer

So the UHP extends across the three ranges of summer, all season and winter. So there is no seasonality associated with that. And in fact, in the European market, the UHP part is growing faster than the overall PCR segment. So if anything, this move is also aiding us to focus on the segment of the market, which is growing fast.

Preethi RS: UTI AMC Ltd

So currently what's the mix between all season tyres and winter tyres?

Gaurav Kumar: Chief Financial Officer

Currently, we are almost at a one third, one third, one third from a five, six year back scenario, when winter used to be a much larger proportion and all season was small. The all season segment, where again, between the three segments our market share in the all season is the highest. And that's the segment, which is the fastest growing.

Preethi RS: UTI AMC Ltd

Sure. I just have one request, the European business, we are one of the specialised type players there. If you could share more data on disclosures, be it the market, market share, I would believe the data is organised in the European markets. I think that would be great to understand how we are performing.

Gaurav Kumar: Chief Financial Officer

Sure, we will take it into account that.

Preethi RS: UTI AMC Ltd

Thank you, and congratulations on the European turnaround to you and the team, Mr Kanwar. Thank you.

Neeraj Kanwar: Vice Chairman & Managing Director

Thank you.

Gaurav Kumar: Chief Financial Officer

Thank you, Preethi.

Nishit Jalan: Axis Capital

We have next question from Mayur Milak. Mayur, we are still not able to hear you. Okay, it looks like there is some issue with Mayur's line still. So we will move to Mitul Shah. Mitul, please unmute your line and go ahead.

Mitul Shah: Reliance Securities

Thanks, again, for giving opportunity. Sir, I have a question on your cost of debt. So what is the average cost of debt over the last one or two quarter and how it should be going forward considering the combination of India debt, as well as ECB's?

Gaurav Kumar: Chief Financial Officer

So whatever debt, Mitul, we have in Indian Operations, it's fully hedged. Even if it's ECB, borrowing in foreign currency, it's fully hedged, we don't take risk on currency. So, our India debt is -- the cost is roughly about 8%. We would expect to retain around that level going forward also.

Mitul Shah: Reliance Securities

Because as working capital debt must have gone up and current rates are relatively lower, so that benefit is not visible in numbers.

Gaurav Kumar: Chief Financial Officer

There is very little working capital borrowing. We had a fair bit of surplus cash. So it did not make sense to borrow and have a negative carrying it. But you are right that the working capital rates are much lower. So if we borrow on that account, short-term, the overall cost will come down. I was talking more about the longer term.

Mitul Shah: Reliance Securities

So on a steady state basis, next one or two year, probably it should be around 8% kind of average rate, right?

Gaurav Kumar: Chief Financial Officer

That's correct.

Mitul Shah: Reliance Securities

And sir, anything on the capitalisation side. Once the AP plant is commissioned, sir what kind of capitalised rates and its interest will start coming on P&L?

Gaurav Kumar: Chief Financial Officer

I would not have those figures readily, Mitul, right now. The team can check on the details and get back to you.

Mitul Shah: Reliance Securities

Understood sir. Thanks.

Gaurav Kumar: Chief Financial Officer

Thank you.

Nishit Jalan: Axis Capital

Since we have no more questions from the participants, I think that concludes the call. I'll hand to Neeraj or Gaurav for any concluding remarks, post which we can end the call.

Neeraj Kanwar: Vice Chairman & Managing Director

Well, no, just like to thank everyone for taking the time off and coming hear our quarter two results. Just all the very best. Happy Diwali to everyone. And stay safe. Thank you.

Gaurav Kumar: Chief Financial Officer

Thank you.

Nishit Jalan: Axis Capital

Thank you. Thank you, everyone. I thank management for the time and all the participants. You may all disconnect now. Thank you so much.

(ends)