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**Sub: Transcript of Analyst/ Investor Conference Call**

Dear Sirs,

Pursuant to Regulation 30(6) and 46(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that a Conference Call for the analysts and investors to discuss the financial and operational performance of the Company for Q4 FY23 was held on May 10, 2023.

Please find attached herewith the transcript of the aforesaid call. The same has also been placed on the website of the Company <https://corporate.apolloyres.com/investors/ir-updates/>

This is for your information and records.

Thanking you,

Yours faithfully,  
**For Apollo Tyres Ltd.**

**(Seema Thapar)**  
**Company Secretary & Compliance Officer**





## Apollo Tyres Ltd Q4 FY23 Earnings Call

**Ronak Mehta:** Good evening, everyone. My name is Ronak Mehta. I welcome you all on behalf of JM Financial Institutional Securities to this 4Q FY23 Earnings Call of Apollo Tyres.

We have with us today, Mr Neeraj Kanwar, Managing Director and Vice-Chairman of Apollo Tyres. And we also have Mr Gaurav Kumar, Chief Financial Officer, and the IR team.

So as we always do, we will start the call with a brief opening remark from the Management team, followed by a Q&A session.

So with that, over to you Mr Kanwar. Thank you.

**Neeraj Kanwar:** Thank you. Very good morning and good afternoon to my fellow colleagues. We are very pleased to provide an update on our company's performance and our outlook. I'm happy to share that despite challenging environments, the team has delivered yet another excellent quarter. I believe we are firmly on track to achieve our medium and long-term vision goals as we continue to work on key pillars.

I will touch upon these in the remaining part of my comments. Coming to our performance, we reported a double-digit Y-on-Y growth in consolidated revenues, helped by growth in topline across other geographies.

More importantly, we reported a strong improvement in our operating performance, helped by improved sales mix and tight control over costs. I am confident that we will be able to sustain the momentum in the near term and we'll continue to have a far more efficient, balanced, and resilient business model in the medium-to-long term.

We are performing better than our peers in the respective markets. Example, in India, we are reporting higher margins than all our relevant peers on a consistent basis. In terms of outlook, we are seeing healthy demand in Indian market. In the replacement segment, we are starting to see recovery in CV segment.

Coming to Europe, we expect the demand to remain soft in the near term. Despite the adverse demand environment, we expect the US market topline performance to be healthy in the near term.



However, more importantly, I expect the momentum in operating performance to continue in the near term, driven by subdued raw-material prices and consistent focus on our costs.

Let me now talk about key pillars for our Vision '26, and as always, highlight some of the work done by the teams in the boardroom.

Starting with R&D, we continue our focus on new product development and launches. During the quarter, we launched Vredestein Pinza AT in India. In Europe, we are working on commercialisation of our electric vehicle range. In terms of tyre technology, the team is focusing on incorporating technologies like silent tyres and puncture-resistant tyres. During the quarter, the team also showcased a sustainable concept tyre made from 75% sustainable material.

Moving to Digitalisation, we continue to work on new age technologies as we optimise our current process technologies and prepare for our future. Apollo Tyres now has a single data lake, which is underpinning all of our AI and ML initiatives. The data lake, Industry 4.0 technology and the newly set up Digital Innovation Centers will play a very key role in helping deliver our ambitious project of maximising our asset utilisation and minimal capex.

For example, leveraging new-edge technologies like AI and ML, we have been able to increase our efficiencies of mixes by high-single-digits. This in turn has helped us reduce energy consumption also.

Coming to sustainability, the team continues to scale new heights as we go ahead. I'm happy to share that our work on this front is also being recognised by external agencies. The Company has recorded a significant improvement in sustainability ratings. We recently registered improvement in S&P Global ESG score with Apollo Tyres now getting in the top 18% of the companies compared to being in the top 35% companies as of last year.

Similarly, our Carbon Disclosure score has also improved from a D rating to a B rating. In case anyone of you needs more details with respect to these ratings, please get in touch with the IR team. Further, value chain extension of the business and with this commitment, the company has adopted the ISO 20400 social responsibility framework for its supply chain. As part of this framework, 79% of the total raw material by value was sourced from ISO certified suppliers globally.

Finally, reaffirming our commitment to becoming carbon-neutral, the Company has achieved a reduction of 8% in its Scope 1 emission in FY23, as compared to the previous financial year. This is mainly due to some of our manufacturing plants using non-fossil



fuels such as biomass in place of coal. Talking about the Brand, we continue to invest in brands across our key geographies.

To start with, in India, we launched a new television commercial, "Have a wonderful day." We were able to increase our reach and create high recall for the business. The team also worked on a campaign with our brand ambassador, Sachin Tendulkar, which was launched in Quarter 1 of FY '24.

To further strengthen our rural franchise, we closed the year with INR 42 lakh square feet of wall painting and participated in one of the biggest rural sports initiatives Qila Raipur. During the quarter, we also partnered with Telangana Government for the e-Mobility Week.

Coming to Europe, we celebrated 30 years as pioneers in the all-season tyre segment. We launched Quatrac Pro EV, the first all-season tyre designed for electrical vehicles. We also sponsored FIS World Ski Championships in France, in the month of February of 2023. This was broadcasted on national TV in our key strategic markets, reaching an audience of over 100 million viewers across Europe and the US markets.

Finally, the last pillar of our strategy is People. We have started our journey for hiring women at shopfloor as well. Our Baroda plant has pioneered this journey of hiring women workers in its two-wheeler plant this year. In March 23, we celebrated the International Women's Day across all our operations, strengthening our commitment to diversity and inclusion.

We continue to focus on employee learning and development and have partnered with IIM Bangalore, for our middle-management programme.

As always, we are keeping a close watch on the markets and our costs. We will continue to be judicious about capex, and we'll continue to focus on ROCE and free-cash flow generation.

With this, I conclude and thank you all for coming. Thank you. Over to Gaurav.

**Gaurav Kumar:**

Thank you. Neeraj, and good afternoon, ladies and gentlemen. Continuing from where Neeraj left, let me give some further details of operations for the last quarter.

In India, we continue to see healthy demand momentum in the OEM segment. The volumes in the replacement segment were flattish. More importantly, we were able to maintain the price advantage gained in the last few quarters. Robust pricing along



with tight control over costs helped us report a very healthy improvement in EBITDA margin, about 300 basis points from the sequential quarter and a 650 basis point year-on-year, and a healthy free cash flow.

There was an increase in capacity utilisation. We are now at level that is little below 80% capacity utilisation in India. In terms of outlook, while the volume growth is expected to remain muted in the near term, we are seeing signs of pickup in the replacement demand. Given our strong focus on business fundamentals, cost-control, and free-cash flow generation, we expect the operating performance to remain strong in the coming quarters.

Coming to Europe, the market was subdued with passenger car and truck industry volumes showing a negative growth for the industry. Despite this challenging environment, we registered Y-o-Y improvement in topline and a 270 basis points improvement in margins, both sequential quarter and year-on year basis.

Our UHP to UHP mix continues to remain at healthy 43%. In terms of the outlook, the industry is expected to remain sluggish in the near term. However, we expect the market pick up to start coming through in the second half. We expect the operating performance to remain healthy, helped by the benign raw material costs and focus on cost control.

Moving onto financial results, the consolidated revenue for the quarter stood at INR 62.5 billion, a growth of 12% over the same quarter last year. The consolidated EBITDA for the quarter at INR 10 billion, was a margin of 16%, compared to 11.2% in the same period last year, and 14.2% in the previous quarter.

Coming to the balance sheet, we have been able to improve our leverage ratios given the focus on cash flows and profitability. The net debt-to-EBITDA for the consolidated operations was at 1.4x.

We crossed the double-digit mark for ROCE in this fiscal year. If you look at just the fourth quarter alone and annualise the same, the ROCE is now at a very healthy level of 13.4%.

In India Operations, the revenue for the quarter was INR 43.7 billion, a growth of 9.5% over the same quarter last year and 3% on a sequential basis. The EBITDA for the quarter at INR 7 billion, was a margin of 15.9% compared to 9.4% in the same period last year, and 12.9% in the previous quarter.

Moving onto European Operations, the revenue for the quarter was a EUR 177 million, up 5% compared to the same period last year. Despite this challenging environment, we've been able to gain market shares in key product segments like passenger car



tyres. The EBITDA for the quarter for European Operations was EUR 32 million, a margin of 18.1% compared to 15.4% for the same period last year and the same number for the previous quarter.

We will continue our focus on the free-cash flow. The capex for this coming year would be a very limited, INR 11 billion, out of which INR 6.8 billion would be for India Operations. We will continue to drive improvements in ROCE and expect to start reaching our vision target parameters in this fiscal year on a full-year basis.

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

### **Question-and-Answer Session**

**Ronak Mehta:** Thanks, Gaurav. We have the first question from Binay Singh. Binay, your line must be unmuted. Please go ahead.

**Binay Singh:** Hi, team, thanks for the opportunity. Just a follow-up from the opening remarks. You made a point that replacement is flat in India. Could you give us sense about CV replacement and PV replacement because I believe both declined by around 8% in December quarters. Are both flat now?

The second point is that in our presentation, you said that mix improvement will be one of the drivers for margin in FY '24. Could you share a little bit more details?

And lastly, on Europe side, how are inventory levels now? You had earlier highlighted that inventory in Europe is high and needs to come down. So, if you could comment on that. Thanks.

**Gaurav Kumar:** So, Binay, on your first question on the replacement side, we have seen a pickup in TBR replacement. So, the volumes were up in double-digits compared to the same period last year. Even sequentially, TBR replacement was positive. So, we are seeing fairly good signs of pickup in TBR replacement demand.

Passenger car was negative. Passenger cars had a negative double-digit in the replacement segment in the current quarter. But it has been made-up by good growth on the OEM side.

As for your second question on mix improvement, it's a very important driver that each operation is focusing on. To give you some examples, for example, in Indian Operations, in passenger car tyres, we continue focus on sub-brands, which are more premium. We continue to move away from the lower rim sizes to

higher rim sizes. If 10 years back, our largest selling size was a 12-inch, it moved to 13-inch and now that's between 14-inch and 15-inch sizes.

Europe inventory, yes, we have continued to correct it. The only product category where the inventory is still a little bit high is the agricultural tyres, where the demand was weak, but largely on the passenger car side, the inventory has been corrected.

- Binay Singh:** Okay, great, thanks, team. I'll come back in the queue.
- Gaurav Kumar:** Thanks, Binay.
- Ronak Mehta:** Thank you. We have the next question from Ashutosh Tiwari. Ashutosh, please go ahead.
- Ashutosh Tiwari:** Yeah, hi, and congrats on a very good set of numbers. Firstly, on the demand side, you mentioned that TBR grew in double digits. What about the bias segment in truck?
- Gaurav Kumar:** Bias segment was flat, Ashuthosh.
- Ashutosh Tiwari:** Okay, that's not declining, okay. And exports, how was decline their Y-o-Y?
- Gaurav Kumar:** Exports, we had a significant decline. Overseas markets have been tough. So, overall -- just a minute. I will let you know. Overall, export volumes were down nearly 30%.
- Ashutosh Tiwari:** Okay, and OEM grew how much?
- Gaurav Kumar:** OEM grew by nearly 20%.
- Ashutosh Tiwari:** Okay, can you throw some color around that you mentioned that overall India utilisation is less than 80%. But can you provide segment-wise, the PCR, TBR, TBB and all, how much utilisation levels?
- Gaurav Kumar:** Just one minute. Currently, PCR utilisation in India is about 80%. TBR with this pick-up in demand went up to 85%.
- Ashutosh Tiwari:** Okay. So whatever capex -- like whatever capex we plan of INR 680 crores in India, what will be that towards, like say, this is maintenance plus something -- some growth capex also there?
- Gaurav Kumar:** No, there is no growth capex. It is maintenance. And as we've highlighted, we continue to invest in areas of digitalisation, sustainability, etc. So there is no-growth capex planned. Based on the correct utilisation levels, as I mentioned, which are below 80%,

we'll have sufficient headroom to cater to the growth of the market.

**Ashutosh Tiwari:** But TBR is higher so can we increase capacity through debottlenecking and all in TBR?

**Gaurav Kumar:** We are undertaking productivity improvement programmes across categories. Neeraj has time and again mentioned that we are looking at AI, ML, etc., to drive improvements in capacity. And hence we believe that, that itself will provide the cushion if the market growth is beyond a certain level. But as of now, there is no growth capex planned for this coming year.

**Ashutosh Tiwari:** Okay sure. And lastly on the RM side, how much increase will there be in Q1 or it will be flattish kind of thing?

**Gaurav Kumar:** We expect the RM situation to be flattish in Q1.

**Ashutosh Tiwari:** Okay, thanks. Thanks a lot.

**Ronak Mehta:** Thank you. We have the next question from Pramod Kumar. Pramod, please go ahead.

**Pramod Kumar:** Yeah, thanks a lot for the opportunity. My first question is on the business outlook in terms of growth, both in Europe and India because the OEM growth has been a big support for us last year in the Indian market and replacement in Europe. But both are expected to see a meaningful moderation this year.

So given this, how should one look at demand on the volume side for both the markets and in that context, how should one expect the industry to behave given the excess of the normalised margins which are back?

Is there a risk that we could see some deterioration in the pricing environment, especially in the replacement Europe side for Tier 2 brands and in India across most of the brands? That's the first question. Thank you.

**Gaurav Kumar:** Yeah. So on second part of your question, there is no growth capex planned by any of the peers that we've heard of. So to that extent, the capacity utilisations with the growth that is going to come in the current year is only going to improve. So we don't expect a capacity surplus situation to be worse than what it is today and the pricing environment has held up.

The first part of your question, we are aiming to see pickup in the replacement demand. Early days in the current year, we believe that we should be seeing decent growth numbers, not a heavy growth number, but we should be having growth of high-single-



digits to a double-digits, which would be largely volume-led in the current year.

Europe, it's still a bit of a wait-and-watch. And as mentioned in the opening commentary, probably one or two quarters away from demand coming back.

**Pramod Kumar:** Thanks, thanks, Gaurav. So, in a way if everything goes fine, commodity basket remains steady, I think we should be able to -- the industry should be able to sustain the margins what we've seen in 4Q. Is that a fair understanding, sir?

**Gaurav Kumar:** Pramod, we do not give out margin guidance. But yes, the raw-material situation is -- the outlook is stable and at least as of now, we are not looking to take any pricing action.

**Pramod Kumar:** Fair enough. And second question, Gaurav, is on the balance sheet given the kind of improvement in profitability what we're seeing, how should one look at say FY '25 balance sheet numbers for Apollo in terms of -- what is the deleveraging target you have there? If you can help us understand that.

**Gaurav Kumar:** From a long-term vision stated, Pramod, we are already well below that which was the 2x, which was set up as an upper cap. Based on the current plans, we will continue to deleverage because even in the current year, as I mentioned, there is a limited capex. We will be free-cash flow positive.

A little early to say for FY '25. We need to see at least for a couple of quarters as to how it unfolds. But the focus on being free-cash flow positive, focus on even further upping the ROCEs from current levels will continue. So we expect the balance sheet strength only to improve, including the leveraging parameter that we mentioned.

**Pramod Kumar:** Thanks a lot, Gaurav and wish you guys all the best. Thank you.

**Gaurav Kumar:** Thanks, Pramod.

**Ronak Mehta:** So next is Siddharth Behra. Siddharth. Please, go ahead. I think he left. Next is Jinesh Gandhi. Jinesh, please go ahead. Jinesh, your line is unmuted. Please go ahead. I think we can't hear him. Okay, Siddharth is back. Siddharth, your line is unmuted, please go-ahead.

**Siddharth Behra:** Yeah, sir. Can you hear me now?

**Gaurav Kumar:** Yeah, Siddharth.



- Siddharth Behra:** Yeah, thanks for the opportunity. And, sir, congrats on achieving some of the vision targets, the margins and ROCE sides. Sir, I have a question on the revenue part of that vision that we had expected to touch close to \$5 billion by FY '26. So given the current outlook now on the growth side and commodity, do you think that also remains on track or do you think there can be some changes to that?
- Neeraj Kanwar:** Yeah, so Siddharth, I don't think we are so concerned about the \$5 billion revenue target. My main focus remains on balance sheet ratios and on improving EBITDA margins. Our target is to get to \$5 billion, but I think first comes ROCE, free cash flows, my net-debt numbers what we have already mentioned in our vision statement. So that's very important for us.
- Siddharth Behra:** Understood. And sir, second on just a clarification on the capex side, you mentioned about INR 6.8 billion capex for the India business. So, close to INR 4 billion will happen then in the Europe business. Is that the right assumption because then it's much higher than what we have seen in the past?
- Gaurav Kumar:** You are right, Siddharth, the number is a little higher than what we've seen in the past, but it's also because when in the first half, the margin profile, etc., was looking tougher, we curtailed on some capex. So, Europe actually spent less. And to that extent, there is a capex rollover. And that's why the number is a marginally higher number.
- Again, in Europe, there is no growth capex happening. It's only maintenance capex, molds, and investment into digitalisation or sustainability.
- Neeraj Kanwar:** Part of this would also be R&D. So part of the INR 400 crores would also be towards R&D.
- Siddharth Behra:** Understood. That is probably the sustainable number to look at? Will that be the right assumption for Europe now?
- Gaurav Kumar:** The sustainable number should be slightly lower than this. This is also more of a rollover effect. So, I would say the numbers should be slightly lower than this number.
- Siddharth Behra:** Got it, sir. And lastly, sir, on the outlook side, you mentioned high single-digit growth for the industry. So, I mean, how do you look at the exports, because we also wanted to grow exports meaningfully and last year there was not much change on a Y-o-Y basis. So, can you just talk about the areas where you are looking to grow exports and if you have any number of growth for this year?

- Neeraj Kanwar:** So Quarter 1 is going to be a bit challenging. But as Quarter 2 comes in now, so our main markets are Europe and the US and Middle East. All of these markets in the month of April were a bit low. But we are seeing May-June pick up is happening. And so I'm pretty sure thereby in the H1, we will have covered up our last year figure. And we will be close to our budget for H1. So, only Quarter 1 remains a bit challenging, but I'm seeing all the three markets will open up as we go along.
- Siddharth Behra:** Got it. And sir, I have some housekeeping questions on the volume side. What will be the overall volume growth with the standalone business in Q4?
- Gaurav Kumar:** The overall Q4 number is flattish on volume, Siddharth.
- Siddharth Behra:** Flattish y-o-y, okay, okay. And the Reifencom income numbers, the revenue and margins if you can share.
- Neeraj Kanwar:** Just one minute. So Reifencom for this quarter reported EUR 35 million revenue. And just a small positive on the EBITDA margin. For the full-year, Reifen numbers were at EUR 208 million turnover and a 4% EBITDA margin.
- Siddharth Behra:** Got it, sir. Thanks a lot. I will come back in the queue.
- Ronak Mehta:** Next, we have Jinesh Gandhi. Jinesh, your line is unmuted. Please go ahead.
- Jinesh Gandhi:** Yeah. Am I audible now?
- Gaurav Kumar:** Yeah, Jinesh.
- Jinesh Gandhi:** Yeah, my question pertains to the replacement demand in India. We are indicating about high single-digit to low double-digit kind of a growth in FY '24. So what is giving us this confidence of this kind of a growth, especially considering that most of the segments are either sluggish or at very early stage of recovery?
- Neeraj Kanwar:** The indication, Jinesh, we have got it from the OEMs. The CV cycle is back, also the passenger car segment is coming back. So, we are seeing good numbers coming in both CV and PV. Agri is yet to pick up but season is coming in. And as you know, we've had delayed rains. And so, we do believe that Agri will be a good season.
- So given that -- thus given the infrastructure spend that is going on in India, that is going to drive the economy, that is going to drive all the segments. So, we are very optimistic about all the three segments coming into the replacement and you will see in Quarter 1, there will be volume growth, as well as revenue growth.



- Jinesh Gandhi:** Okay, okay. And secondly, can you talk about our market share trends for the fourth quarter? Have we seen increase in market share in India as well or it was largely restricted to Europe?
- Gaurav Kumar:** We would have gained some market share on the TBR side. PCR, we probably would have underperformed a little vis-a-vis our competition as we held onto the prices. So, it's a mixed bag. Even if we look at what our peers have announced, our revenue growth is probably 100 to 150 basis points behind them. So, there might be a small decrease in overall market share.
- Neeraj Kanwar:** Jinesh, you have to keep in mind that we are -- our whole focus is moving towards profitable sizes. Like Gaurav mentioned earlier, our product mix is very important. So, we are looking at what sizes we need to focus on and what sizes we need to get out from in all segments of guidance.
- And so therefore, while I do look at market share, my main focus is still remaining on profitable growth. And so only profitable products are what we are looking for. That then drives my ROCE, that drives my asset utilisation, which drives a lot of my balance sheet ratios. So the entire focus of the company like I've been saying also for the past 18 months to two years is driving growth, but profitable growth.
- Jinesh Gandhi:** That's very good to see. And last question pertains to the India Operations. We have seen a substantial increase in other expenses in the fourth quarter on a Q-o-Q basis, as well as Y-o-Y basis. So, is there any one of there or bunching up of rent related expenses. Can you clarify that?
- Gaurav Kumar:** Well, there was no one-off. There were spends on brand promotion, particularly advertisement and publicity, etc. It is to drive building up the brand. There are no one-off specifics.
- Jinesh Gandhi:** Sure, and lastly, can you quantify the RM cost savings which we saw in 4Q?
- Gaurav Kumar:** The RM basket came down by 6% year-on-year, and sequentially it came down by 8%.
- Jinesh Gandhi:** Got it, got it. And no price increases in this quarter as well, on the replacement side.
- Neeraj Kanwar:** No
- Jinesh Gandhi:** Great. Thanks, and all the best.
- Gaurav Kumar:** Thank you, Jinesh.



- Ronak Mehta:** Next is Aryn Pirani. Aryn, please go ahead.
- Aryn Pirani:** Hi, can you hear me?
- Gaurav Kumar:** We can hear you.
- Aryn Pirani:** Yeah, my first is actually a small accounting question. In the Others segment in the segmental reporting, we've seen EBIT actually turning significantly negative from positive, which is actually reducing the strength of the consol. So is there something happening there? Is it a one-off? If you can just help us with that.
- Gaurav Kumar:** So Aryn, this is largely related to some of the overseas markets. In US, as the market slowed down, we were trying to make sure that we liquidate some of the inventory and don't build up the inventory. So the US Operations had a significant reduction as we wanted to make sure that there is not just pushing up of sales and that had a certain scale effect.
- Also, as we focused on inventory, the other big region is Singapore, which is a purchasing entity. That also had a fixed scale effect in terms of reduction in revenue sides and that is what has caused this thing. It's a one-off for this quarter and it will normalise going forward.
- Aryn Pirani:** Okay, that's helpful. The second question is on the ROCE. So as you mentioned, this quarter you have already sort of hit the midpoint of your vision '26 range of 12% to 15%. So, my question is given whatever we have discussed till now regarding next year and the kind of free-cash flow you're expecting, do you think that there is a potential that the 15% upper-end can be beaten or do you think that there are potential risks which can keep you within this range?
- Gaurav Kumar:** Well, I mean, the attempt would be the kind of progress that we've made over the last two years from a number which was mid-single digits to now, getting into us our vision target range. The attempt would be to get to the higher end of that range or even breach it. The intention is not to be satisfied because we said the 12% to 15% range to be there.
- It will depend on market conditions. But as highlighted by Neeraj, the operations are all now focused on the key financial parameters like ROCE, free-cash flow, etc. And yes, if the market conditions remain favorable and given our spend on capex, etc., we could reach even the upper end of our target.
- Aryn Pirani:** Thanks. Thanks. Actually, the performance is actually quite great because when the 12% to 15% target was given, actually, it

seemed very difficult to achieve. And we've already hit the midpoint.

But if I could just extend the argument now, obviously this year capex was below INR 800 crores. Next year, you're saying INR 1,100 crores, which remains significantly below the INR 15 billion to INR 20 billion rupees that we had seen in the previous three to five years. Now, I'm guessing that at some point in time you will have to come with some growth capex because as the utilisation picks.

So, I'm not asking for a guidance, but how should we think about what can be the quantum of that capex whenever it comes and how should we think about beyond -- assuming that demand environment remains stable, there are no big positive or negative surprises, like how big can that be and how should we think about the timelines?

**Neeraj Kanwar:** So, I want to tell you one thing, Aryn, that right now I will not even think about that. As I mentioned in my opening remarks, we are going for the next at least two years on a capex light model, which would be mainly maintenance capex and IT digitalisation related and sustainability related. So, you will see the range of what Gaurav has already mentioned, in that range going forward.

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When I need growth, all the capex that we're putting in now in digitalisation, AI, machine learning is going towards enhancement of productivity. And that's why we are looking at a capex light model to try and see how we can free up more capacity in both PCR and in Truck Bus Radial and that's how the growth is going to come. When I need -- I'm not even going into looking at a brownfield expansion right now because the entire focus is on enhancing productivity and debottlenecking some of our plants.

**Aryn Pirani:** That's quite helpful, sir. I am hoping to see the 15% number soon. Thank you.

**Neeraj Kanwar:** 15% would be -- like you said, in all likelihood we should reach the 15%.

**Aryn Pirani:** All the best, sir. Thank you. Thanks a lot.

**Neeraj Kanwar:** Thank you, Aryn.

**Ronak Mehta:** Thank you. Next is Basudeb Banerjee. Basudeb, please go ahead.

**Basudeb Banerjee:** Yeah, thanks, congrats for the great set of numbers. Few questions, starting one for Gaurav. If I look at your consolidated balance sheet numbers, your receivable numbers look quite elevated Y-o-Y. If it was normal, your FCF would have been much higher. Is that a right observation, Gaurav?



- Gaurav Kumar:** Ravi, do you want to comment?
- Ravi Shingari:** So that is basically in -- under the accounting norms, it's more of an accounting entry. There is nothing which is hiding onto the receivable balance. So under some guidelines, we have to reclassify certain adjustments and that is reflected in the accounting balance.
- Basudeb Banerjee:** So just to understand that the receivable days now on this new normal, such accounting is a one-time treatment or that is going to remain at this receivable re-enables?
- Gaurav Kumar:** So, there is -- this amount will definitely come down because it was one time to also take care of past balance. Going forward, this number is going to be much lower.
- Basudeb Banerjee:** Understood, sure. Second, Gaurav, as you said, on a sequential basis, RM basket is down to 8%. So, as you mentioned, for this quarter, if you can give your rates for key commodities?
- Gaurav Kumar:** Sure. Basudeb, natural rubber was around INR 160 a kg. Synthetic rubber around at around INR 170. Carbon Black INR 115, and steel cord INR 185.
- Basudeb Banerjee:** Okay. Next is the typically, if you see that post winter quarter, December, where Europe margin is highest for the year followed by your EBIT margins into subsequent quarters. So if I missed out on anything earlier, this quarter seems margin is far better than the December quarter. So if you can highlight anything one-off in that or it's directionally you're benefiting from lower power cost and lower commodity costs only.
- Gaurav Kumar:** You're absolutely right, Basudeb. This is a deviation from the normal seasonality. A, as it is the last quarter, the winter was quite a mild one. So we didn't have that much of an upside in the December quarter. The current quarter's profitability is higher than the previous quarter on account of raw material and energy cost benefits.
- Basudeb Banerjee:** So even at this scale, such 17%, 18% margin can sustain?
- Gaurav Kumar:** That's correct, yes.
- Basudeb Banerjee:** That's great. And last question if I can ask, what's the current utilisation of Hungary plant and how much it can further produce from these levels. And what is your strategy on that? That's flat at current structure.



**Gaurav Kumar:** For Hungary plant, for the passenger car category, the utilisation levels are just above 85%. Apart from the headroom that is available, that is one of the focus areas as we grow in Europe for our productivity improvements programmes. And we think that we should be able to up the capacity with those programmes as we need the capacity.

For the Dutch plant, they will continue producing the specialised sizes, which they have been doing in the last year. On the passenger car, their utilisation was almost close to 100%. And they will continue to produce high-end specialised sizes and high-end agricultural tyres. So it would be a continuation of that strategy.

**Basudeb Banerjee:** Okay, thanks. That's all from my side.

**Gaurav Kumar:** Thank you, Basudeb.

**Ronak Mehta:** Well, we have the next question from Jai Kale. Jai, your line is unmuted, please go-ahead.

**Jai Kale:** Yeah, good evening. Thanks for taking my question and congrats on a good set of numbers. My first question is regarding your outlook on the demand environment, given your capex plans for the next couple of years. We've seen that historically, if you see -- last-time the CV cycle peaked in FY '19 and probably before that, most of the tyre players started an aggressive growth capex, assuming that there will be a continued upcycle.

This time, probably we are reaching the CV cycle peak, probably this year or max next year. So have you all taken a conscious call since out of your TBR, probably around 50% goes to the OEMs. This time to be a little more vigilant on the CV cycle and hence be a little more cautious on your growth capex or you believe that probably 5% to 7% growth rate is something that you are budgeting for with some bit of debottlenecking in the replacement market.

**Neeraj Kanwar:** Okay, so firstly, we only supply 22% to 25% of our Truck Bus Radial to OEMs, point number 1. Point number 2 is that, yes, we will -- we are again doing productivity increases through digitalisation on TBR. And so, we will have excess -- we will have new productivity improvements and their funding capacity. And also we have to bear in mind that our TBR utilisation was around 80%.

So there is capacity available, if we were to grow. Also keep one thing in mind that we are in the replacement market around 30% to 31% market share leaders. And therefore, with this capacity, we can only go up if the market starts growing.





Yes, we will look at India as first, India we have to look at. And if more capacity is required for India, then I would change my efforts to India. Okay, so we will not let go off our capacity of our market-share in India.

**Jai Kale:** Understood, second question is regarding your exports. Just one clarification, you mentioned the 30% drop. Your exports also include some part to your European entity, right? How much of your exports would be to the European entity and would that be seeing a bigger drop? If you can just share the mix of European versus end-market?

**Neeraj Kanwa:** So as you know, Europe is going through a challenging time. For us, yes, there has been a drop and we do supply of over 1 million passenger car units to the European market, but now we are seeing a gradual pickup happening. And so, we will be back to our last year's numbers in the coming quarters.

**Jai Kale:** Okay, understood. Thanks and all the best.

**Neeraj Kanwar:** Thank you.

**Ronak Mehta:** Thank you. We have the next question from Jyothi Singh. Jyothi, your line is unmuted, please go ahead.

**Jyothi Singh:** Yeah, thank you for the opportunity and congratulations on the good set of numbers. So my question is on the margin front. So overall, we saw the raw material price correction and now expecting it to stabilise and also we stopped taking price increase because of the stabilisation in the raw material prices. And apart from that, we are doing cost control to support our margin. So my main question is what will be the strategy going forward to maintain our margin at this level as if raw material prices will be stable?

**Neeraj Kanwar:** Yeah, the strategy is very clear. The margins will only expand from here because now a lot of cost controls, like you said, have gone in. We see again the stabilisation of raw material happening. So margins, due to all these things that I've been talking about, productivity enhancement, energy consumption in all the brands, we are looking at a normal improvement in our plants and our supply chain. And supply chain was a challenge during COVID and through a lot of AI and machine learning, we have learned a lot on supply chain. So I see costs coming down overall. And therefore, I'm pretty optimistic about saying that one is to sustain these margins, and it can only go up from here.

**Jyothi Singh:** Okay and second thing that overall industry is saying that we will see better traction from H2 FY '24 onwards. So it is because we have concerns about macroeconomic situation or apart from

that, we are doing anything else in the company that because of that we are seeing good traction.

**Neeraj Kanwar:** No, it's a mixture of both. You can't see one thing at a time. It is a mixer of -- after all India's GDP is going to be 6%, 6.5%. There is a lot of infrastructure spends that are going into the country. And with our new products that we're launching, specifically in the CV and in the PV range, we will gain more market share, and that's why we are optimistic about the numbers.

**Jyothi Singh:** And also we are seeing better traction in CV side and decline on the PV side. So how much margin contribution we have from CV side as compared to -- I mean, which one is higher?

**Gaurav Kumar:** So, at an absolute number, CV would still be higher, Jyothi, because it's close to 60% of our revenues versus PCR at 20%. The profitability in terms of margin is much higher for PCR. But in terms of an absolute contribution since the CV proportion is 3 times, it contributes in.

And also just to clarify, the PCR numbers being negative for the fourth quarter, if you look at the full year. The number on PCR is in the double-digit growth on volumes. It's only a fourth quarter phenomenon.

**Jyothi Singh:** Okay, okay, great, sir. And on India utilisation, if you can comment, which is at 76%. So going forward, we are expecting a higher level or similar level, we will see.

**Gaurav Kumar:** No, we expect given that this year the entire topline growth would be volume-driven, we would see upping of the utilisation levels in the current year.

**Jyothi Singh:** Okay, thank you sir.

**Gaurav Kumar:** Thank you.

**Ronak Mehta:** Yeah, next question is again from Ashutosh Tiwari. Ashutosh, your line is unmuted, please go ahead.

**Ashutosh Tiwari:** Yeah, thanks. So if we look at inventory levels, in standalone, it has come down on a y-o-y basis. So is it normal inventory or we -- there is some bit lower than the normal that we have today because what my understanding is working capital can increase in terms of number of days next year, like in FY '24?

**Gaurav Kumar:** No, the inventory levels are fairly normal, Ashutosh. And as we see over the extended period of the last 8, 10 quarters, the number may be one day lower than what we have even had in the past. So, no significant change would be explicit.

- Ashutosh Tiwari:** So that could mean that because the capex is like say lingering around INR 1,100 crores in this year, there'll be a decent amount of deleveraging that will happen in '24?
- Gaurav Kumar:** That's correct.
- Ashutosh Tiwari:** And on this PCR side, you mentioned that the growth in Q4 is a bit lower, like say decline was there. So is it like say, we have taken price increases and competition has not, is that the reason or the reason is -- had been mentioned that in certain SKUs, where our margins are lower, intentionally, we are doing less volumes.
- Gaurav Kumar:** No, it is -- and we did take a price increase in the current quarter. But there was a price gap vis-a-vis the competition and that impacted volumes more than normal. So, we did lose a little bit. But there, as Neeraj has continuously highlighted, the operations are clearly focused on profitability as a key parameter. And hence to that extent, if sometimes a little bit of growth is sacrificed, we are okay with it.
- Ashutosh Tiwari:** So, I wanted to understand whether this decline in market share in this quarter particularly was mainly in the 12, 3-inches or it is higher sizes as well?
- Gaurav Kumar:** We will have to get back to you, Ashutosh. We will need to get from the operations more details. I don't have those details ready.
- Ashutosh Tiwari:** Okay, okay, that's all from my side. Thank you.
- Ronak Mehta:** Thanks. Yeah, we have the last question from Raghunandan. Raghu, your line is unmuted. Please go ahead.
- Raghunandan:** Thank you, sir, for the opportunity. Congratulations on stellar numbers. Two questions. Firstly, how much capacity addition is expected due to debottlenecking and productivity improvement measures in India and Europe.
- Secondly, margins are strong, but replacement growth is moderate. Do you expect pricing cuts in industry ahead or an increase in marketing efforts going forward?
- Gaurav Kumar:** Raghu, one of the second part, we are not looking at pricing cuts. What competition does is difficult to predict. But we've gone through now a couple of quarters of RM coming back to somewhat normalised levels and the industry has held firm. So, we don't expect that.
- It would be difficult to give you a quantum on how much we would gain out of productivity or focus on AI/ML, but a broad



number, a safe number would be mid-to-high single-digits is what we would target to have improvements of capacity.

**Raghunandan:** Got it, sir. Thank you very much. All the best.

**Gaurav Kumar:** Thank you.

**Ronak Mehta:** Yeah, thank you. So, I think that was the last question. So, I would like to thank all the participants and the Management of Apollo for giving us this opportunity. And wish you all a great evening. Thanks a lot, Take care.

**Neeraj Kanwar:** Thank you.

**Gaurav Kumar:** Thank you.