



India, May 10, 2019

Q4 FY19 Earnings Call

Jay Kale: Good morning everyone. On behalf of Elara Securities, we welcome you all to the Q4 FY2019 earnings conference call of Apollo Tyres. From the management side, we have with us Gaurav Kumar, CFO, Apollo Tyres and other senior management. I would now like to hand over the call to Gaurav for his opening remarks. Over to you Sir!

Gaurav Kumar: Thanks Jay. Good morning everyone. To begin, on a consolidated basis the net sales for the quarter was at Rs 41.8 billion, a growth of 5% on a year-on-year basis; however, a decline of 10% on a sequential basis. The sequential decline was both in India and Europe Operations; Europe's seasonality factor and also on account of tough market conditions in both our markets. The EBITDA for the quarter stood at Rs 4.2 billion, a margin of just under 10%, a drop of close to 3% vis-à-vis same period last year. This large impact came through essentially on account of the sequential decline in revenue. In terms of raw materials we stood at Rs 130 per kg, they were down 4% vis-à-vis last quarter even though on a year-on-year basis they were up 8%. The gross debt continued to go up marginally compared to Rs 47 billion last quarter and was at Rs 49 billion.

Moving onto Indian Operations, the sales for the quarter was at Rs 29.6 billion, a growth of 6% over the same period last year, but a decline of 3% on a sequential basis. While the growth vis-à-vis same period last year was mostly on account of price and mix as volumes were flattish. On a sequential basis the decline was essentially on account of volumes which was largely OE driven. We had slow down in the passenger car tyres and truck bias market, which led to the revenue slow down.

The EBITDA for the quarter stood at Rs 3.5 billion, a margin of 11.5%, which was up vis-à-vis the last quarter at 11%. As we had mentioned previously as



the raw materials came down the margin trough, margins started going up. The gross debt or the net debt also went up marginally from previous quarter on account of capex that have been incurred. For the full year in Indian Operations, we registered a growth of 19%, which was driven by growth across segments of OE, Replacement and Exports. It is eighth consecutive quarter of growth on a year-on-year basis though after a long trend of also sequential growth this was a quarter where sequentially we did not grow. Based on the results announced by some of our peers in India, we have had significantly higher growth, we have had market share gains across categories including continued wins in the OE segments across product categories and several recognition by the OEM.

We also completely wrote off our investment in IL&FS, we had taken a write-off provision of Rs 100 Crores in the previous two quarters. The balance Rs 100 Crores was also written-off in this quarter. Supporting the topline expansion, we continued to go through significant network expansion both for CVs and PVs, which continued to drive our topline growth and position us very well for future gains also.

Looking ahead, the OEM slow down as of now continues; however, the replacement market is very buoyant and we are seeing good signs of growth of the topline in the current quarter. The raw material situation continues to be benign and hence even on the margin outlook the situation is stable.

Moving onto the European Operations, which is our sales and manufacturing operations with the Netherlands and Hungary, we had a tough quarter. The sales for the quarter was at €128 million, a decline of 4% plus over the same period last year, which was largely driven by volume degrowth. One of the main reasons was that as raw material declined there was pricing pressure and this time we stood firm on the pricing discipline to not fall into the easy option available of taking price cut, which we have seen that in the past while it may give you temporary volumes, has an adverse impact on margins, and in the longer term does not win you volumes. So while Q4 was stopped and below our expectations, for the full year in the European sales and



manufacturing operations, we had a 7% growth, which is above the European market, which grew by just under 1%. We have had some very recent good test results where our products have in fact been declared winners, and have been on the podium positions. The Hungary Operations have reached a fairly stable state on the passenger car category. This quarter while the operation had the capability to produce an excess of 10,000 tyres per day, the production levels were lower, which were largely constrained by sales. The Hungary Operations continue to become more cost competitive and even in the current quarter, while it is still in the early stages, we are seeing good signs of growth.

Our European distribution operations Reifen continues to grow and improve on profitability. As we have always told you, it is a 1% to 2% EBITDA margin business, we had a topline growth of 3% and the margin again improved marginally so overall for the European Operations, while the current quarter was a disappointment, both on topline and margin, then in an economy like Europe, the moment revenue goes down the margin suffers even more. With all the supporting blocks in place, we see good growth coming through at the beginning of this year and continued improvement on margins as we go ahead.

That is all from our side. We would be happy to take your questions.

Basudeb Banerjee

(Ambit Capital): Thanks a few questions, one as of now in Q4 and for full year, what is the mix of Hungary and Netherlands for European Operations?

Gaurav Kumar: Mix is not so relevant because it is like tyres coming from two plants and hence while I can go deep in the system and get back with that detail, but I think you should stop thinking of how much is Hungary plant contributing into the revenue and how much Netherlands plant because that same question you do not ask for the Indian plants.



Basudeb Banerjee: No basically I am coming from the fact you were discussing earlier that cost competitiveness of Hungary is far more than Netherlands and you will be substituting the mix from Hungary down the line and taking down production from Netherlands; so how is that progressing and despite that if this kind of margins prevail then how should we look at European margins for the next two to four years?

Gaurav Kumar: That question is fair enough, so this year Netherlands plant would have produced about 4.5 million passenger car tyres and the Hungary plant produced 2.1 million tyres. For the current year we expect that number to be of around a little under 4 million for Netherlands, and about 3.5 million for Hungary; so to your question the mix, which is two-thirds, one-thirds Netherlands to Hungary will start becoming almost 50:50. Of course it will be governed largely from a market sales perspective, but the Netherlands plant would be under 4 million of capacity whereas the Hungary plant, based on the machinery and equipment that is put in would be at 4.5 million of passenger car tyre capacity.

Basudeb Banerjee: Sure. In India, as you said, volume remained flat year-on-year; so what was the growth in CVs, replacement and passenger vehicle replacement and in CVs within the TBR and TBB if you can segregate?

Gaurav Kumar: In Q4, the replacement growth year-on-year for truck was 6% whereas passenger car recorded de-growth of 14%.

Basudeb Banerjee: And within truck bias and radial?

Gaurav Kumar: The growth was largely driven by radial, bias was slight negative as I said in my opening comments, the revenue decline happens largely on the back of slow down in the passenger car segment and the big hit was on passenger car OEM segment and truck bias, which was down largely on the replacement side. Both in passenger car replacement and TBR replacement we had good growth.

Basudeb Banerjee: And last question Sir as you mention every quarter the raw material landed price details?



Gaurav Kumar: Natural rubber was at Rs 130 a kg, synthetic rubber at Rs 125, fabric at around Rs 300 a kg, steel cord Rs 145 a kg and carbon black at Rs 95.

Basudeb Banerjee: Fabric was a major increase, rest more or less on the lower side?

Gaurav Kumar: Increase vis-à-vis?

Basudeb Banerjee: Sequentially.

Gaurav Kumar: Fabric has not increased sequentially; all of the materials came down that is why there was a decline of 4% on the raw material basket.

Ashutosh Tiwari

(Equirus Securities): Sir in India Operations, what would be your OEM and replacement mix in PCR segment?

Gaurav Kumar: Broadly about 55% replacement, 45% OEM.

Ashutosh Tiwari: Secondly, on European side markets was weak last quarter, but if it remains bad through FY2020 as well what would be your strategy to visibly grow market share because within the operations there is cost for us, I mean the cost will be on a higher side; so, we have to get volumes to basically show decent margin over there so what is the strategy to gain market share?

Gaurav Kumar: Valid question, and one thing as I mentioned on Basudeb's question earlier, the cost competitiveness continues to increase as the proportion of Hungary volume increases in the overall mix. A - we are continuously becoming more cost competitive, B – we are taking steps in R&D which is helping us attain podium position. Similarly, recently we have won some OE business including premium OE manufacturers like Audi, etc., which would drive up the brand image even further. So we are seeing volume gains even at the beginning of the year, but yes within the context of our market, which grows at 1%, volume gains at high single digit itself is a fairly aggressive growth. Unlike India, where we have had volume gains close to 20% across some of the products category that kind of volume gain is difficult in European market. It also continues to



service some of the export geographies, so it is a mix of factors, which will drive the margin improvement in Europe.

Ashutosh Tiwari: If the production is lower at the Netherlands plant can the fixed cost and debt for operations also come down or that will remain there?

Gaurav Kumar: Just to correct, it is not as if the production is being lowered in Netherlands plant, the production is being fine tuned taking into account that there are now two plants; some of the machinery, which has become old and hence not at a level to produce the tyres for the European market got taken out, and that was not reinvested because we had modern machine deployed in the Hungary plant; so it is not as if that machinery is lying idle there, and yes the fixed cost are also being brought down in line with the capacity that would be there as per the SKU plan.

Ashutosh Tiwari: And Sir, lastly you did not mention European margins for quarter also the Sales number for Reifen for Q4 and FY2019?

Gaurav Kumar: Sure, the European EBITDA margin for the Dutch and the Hungarian Operations was 6% against 10.5% for the same quarter last year and that was the part which really hurt the overall results and the European results. Sales for Reifen for the quarter was at €26 million and for this full year was just short of €160 million.

Pramod Amte

(CGS CIMB): For the year ended FY2019 what was your market share in European passenger cars and how has that changed over last one year or recent quarters?

Gaurav Kumar: The market share in the European replacement market alone, since in OE we are still very small, was flat at 3% and it did not change over FY2018. While we had market share gains for the first three quarters, they were more or less erased with the volume decline in the fourth quarter; so we have ended FY2019 with a flat market share because the volume growth was in line with the market growth for the passenger car tyres.



Pramod Amte: And if I have to read through from the volume breakout, which you gave for Netherlands and Hungary, to move from almost 6.5 million to 7.5 million looks like a steep rise in the context of last couple of months of slow down in Europe. It is almost like a 13%, 14% jump, is not it too optimistic to look at?

Gaurav Kumar: Fair question Pramod, numbers for this year are closer to 6.7 million and the number that you are looking at for the next year includes a jump in export and OE volumes; so the growth that we are looking at to target in the replacement market is high single digit; it is not that instead of 13%, 14% if it is 8%, 9% that is an easy target. It would still be a target, which is challenging in the market context, but to just put it in perspective it is not an unreasonable growth target that is being taken, and also some of the things that have been put as building blocks, whether some of the product results on the R&D side whether the Hungary plant now being at a higher level. We are positioned far better to go at those volumes.

Pramod Amte: And the last question considering this recent strategy of not to go aggressive on price cut, does it in anyway change your break even points or the time when you want to achieve a break even in that Hungary plant, does it get delayed in any sense or how do you look at it?

Gaurav Kumar: It does not get further delayed. From our original estimates and what we had talked to all of you, yes the volumes are lower. This strategy of holding firm on the pricing and hence the price positioning that we have in the European market does not delay things. It ensures that we do not go after very short-term gains on volume for a quarter, which impacts us not even long-term, but in medium term.

Sumit Mangal

(Goldman Sachs): I wanted one small clarification. MRF has reclassified its export income to other income because of which its EBITDA margins got impacted by 90 to 100 bps, have we also made some accounting adjustment, which is affecting our EBITDA margin?



Gaurav Kumar: No, nothing like that Sumit, I am not sure about MRF and I will have to ask my accounts team to look at it in detail, but we have not classified our exports as other income, etc., and I am actually a little surprised to hear that.

Raghu Nandan

(Emkay Global): Sir I wanted to understand the price correction, which was taken in the last few months and also how do you see the impact of recent increase in Crude prices?

Gaurav Kumar: Yes, Raghu in Q4, which is the last quarter we did not make any price changes, we held on to the prices and there was no factor, which was warranting a price increase, given that raw materials had come down. We stood the pressure on the price correction side, because already the margins had come down in Q3, which is what we had said that we would like to see that as a trough on the margin side. As I mentioned earlier, the raw material situation continues to be fairly stable to benign even in Q1, so there is no case for raw material driven price change. Given where crude is, we see some pricing pressure coming through the year, but in a very gradual manner. As of now there is no case for alarm on the raw material side as we see it.

Raghu Nandan: Thank you Sir and also how do you see the India revenues to pan out, last quarter you had indicated that a double digit growth is what you would be looking at also on the capex side, like last quarter you had indicated 25 to 30 billion capex for FY2020, mainly towards Andhra Plant, just wanted to understand if that plan still stays, any delays in that?

Gaurav Kumar: So on both of those points, the outlook and the plan remains the same. We would be targeting a double digit growth. Yes, while the OE side of the things does not look as promising as it was six months back, but we have seen very strong signs from the replacement market, and even on the OE front, the expectations is that situation would improve as the year progresses, so our target of growth remains in double digit and the capex plans also remains on track for the numbers that you mentioned, which is the Rs 25 to Rs 30 billion, which is largely AP.



Raghu Nandan: Any thoughts on the FY2021 capex, Sir?

Gaurav Kumar: A little far out, but based on existing plans, one would talk about Rs 16 billion capex for the consolidated Operation.

Ronak Sarda

(Systematix Group): Sir first question is on your cash flow generation for this year, if you can split it out between India Operations and Europe, so what would be the OCF generation and apologies if I missed the capex number for this year?

Gaurav Kumar: Ronak I would not have the numbers readily, you could probably interact with the Investor Relations team and they can get you the number, because it is not just a simple net profit plus depreciation number, there would be other aspects as well. The capex number that I mentioned earlier would be Rs 2500 to Rs 3000 Crores for the consolidated Operations in the current year, and to the question of what is the likely number for next year, that was Rs 1600 Crores.

Ronak Sarda: What was the capex number for FY2019 India and Europe?

Gaurav Kumar: About Rs 2000 Crores for Consolidated Operation.

Ronak Sarda: The way the industry is seeing an increase in the TBR capacity, how do you see the net impact of increase in your TBR capacity versus lower utilisation of TBB capacity. Is it a net-net positive thing or do you see the competitive intensity eating into the profits in TBR as well?

Gaurav Kumar: So, again we have talked about it number of times. Ronak, from the plans, which are announced to actual capacity coming on stream can be a very different story, so yes there have been a lot of announcement for the truck radial capacity by various players, but a lot of them also have been deferring some of those plans, because suddenly the pace of growth, which was there from towards the end of FY2018 in the first half of FY2019, is a different one that is the current reality. Also the TBR product continues to be technically a far more complex product, whether it is vis-à-vis the passenger car or the

truck bias, and not everybody gets that product right. Overall to your question the pace of radialisation, while it may change from year-to-year, continues to grow; so the truck radial proportion continues to grow. If our overall truck mix within our overall Indian revenues is 65% odd, the number, which few years back was 50:50 on truck bias and truck radial, would now start getting to a 60% plus on truck radial and the balance on the truck bias, so it continues to shift towards truck radial, which on an operating profit wise, is a good thing. It does mean that you have to continue to invest in capacities, but on a pure operating margins basis it is something, which is favorable for the industry and for us.

Ronak Sarda: When you say it is favorable you take into account the negative impact of operating leverage on TBB because assuming the growth is net 6% to 8% range, your TBB would see some decline as well?

Gaurav Kumar: True, but one needs to factor into the fact that for any of these capacities, while one aspect is growth capex, there is also a significant amount of maintenance, refurbishment capex, which has to go on in plant and machinery and over years our TBB capacity has continue to come down slightly.

Chirag Shah

(Edelweiss): First question is on replacement demand, so how do you read the trends if you look at last three, four quarters, would it be a right statement that pace of growth has slowed down in the replacement side, across categories?

Gaurav Kumar: It has slowed down a little towards end of the year Chirag, clearly the first half of the year was extremely bullish, but the growth was being led by OEM. The big numbers in the first half was OE led, with replacement supporting it. In the second half, you had replacement leading the growth while OE was not even a laggard, but a drag, because it was in the negative territory and yet we have ended the year, if you look at year-on-year basis, in a growth mode for every quarter. If I see the numbers for the one odd month of this year again replacement continues to be very strong, so we are looking at a topline growth even in Q1 while OE continues to be a drag.



- Chirag Shah:** What I was trying to understand, is there a slowdown in replacement demand cycle for you? If it was growing at x-number, is it X minus something or the pace has been maintained?
- Gaurav Kumar:** The pace of growth in the replacement is still maintained.
- Chirag Shah:** And the outlook remain same going ahead also?
- Gaurav Kumar:** Yes, unless there is something dramatic in the economy. Factoring into the changeover to BS-VI norms from April 1, 2020, second half should be far more buoyant than what we are seeing currently.
- Chirag Shah:** So that would be from the OEM perspective?
- Gaurav Kumar:** That would be from the OEM perspective. Today there are no signs that replacement should slowdown.
- Chirag Shah:** And that is true even for passenger vehicle?
- Gaurav Kumar:** That is true even for passenger vehicle, as I mentioned for the full year also we had growth in passenger car replacement, which has continued to grow. Even in Q4 the growth of passenger car volumes for us in the replacement, is similar to what is there for the full year, which is why I said that we have not seen the replacement growth pace slowing down.
- Chirag Shah:** The second question was on the Europe side, what is the capacity at Hungary, you indicate 4.5 million, but without any major capex how much it can be expanded further?
- Gaurav Kumar:** With a small capex it can be expanded to somewhere around 5.2 million, beyond that it would need a significant capex, so the 4.5 can be increased by about 15% odd.
- Chirag Shah:** Given your approach towards holding on pricing, what is the key driver for that, are the product feedbacks very good which is making you take this stance, or is it that the profitability is getting affected significantly? Given that you are a relatively smaller player in the system what is the key driver for this



change because this is a big change as far as Europe business is concerned, the industry cycle is that you reduce prices?

Gaurav Kumar: It is a mix of factors, and not just one factor Chirag. We have had few very good test results, so the product is right up there. We have had OE wins with premium OEs and with at least one of the premium OEs we expect to start business soon, so as a combination of all of that there is a certain pricing position that we have, and hence the team did not take the easy route on saying that there is pressure from the market or there is pressure on volumes, so let us just get that by dropping prices because then to get them back up again is not an easy task.

Chirag Shah: And last if can just squeeze in, anything on the pricing action we can indicate what we did in Q4 as well as Q1?

Gaurav Kumar: As of now, there has been no action taken on the pricing front Chirag.

Chirag Shah: Even in Q4 and in this New Year also right?

Gaurav Kumar: Yes. We have announced a price increase in Europe on the TBR front.

Chirag Shah: Has it been implemented?

Gaurav Kumar: It is getting implemented next month.

Chirag Shah: And it would be how much?

Gaurav Kumar: To the order of 5%.

Chirag Shah: And is this driven by cost push?

Gaurav Kumar: It is driven largely by the fact that the product is being very well received, the product performance is right up there and hence on truck we are moving up the pricing ladder to say that if the product performance is there, we would like to position it at a different level. Given that the volumes are small at this stage we can afford to get the price positioning right, so that when the volumes go up significantly we do not start fighting the pricing battle then.



Chirag Shah: And how much lower you would be with your immediate peers or your benchmark peers with 5%?

Gaurav Kumar: We would be ahead against some of the benchmark peers, the immediate peers being the likes of Hankook, etc., but on truck really the benchmark in the European tyre industry is Michelin. We would be at a level even after this price increase at 70 or early 70s and that is the kind of product strength or brand strength if I may say we have in the Indian market that from a discount of close to 30% against the same player in TBR in Europe, that number is just a couple of percentage points to sometimes being equal for the Indian market.

Prateek Poddar

(Reliance MF): Europe is a very mature market with almost 300 to 320 million tyres for the full year in replacement, and we are just at 6 million; so ideally any market volatility should not impact us at all, so why is that it has impacted us this quarter? And secondly why are we not gaining market share in Europe?

Gaurav Kumar: Both of those are related Prateek. At a broader level what you say is right, but the volume gain you are talking of is not of a millions tyres, but in terms of decimals. If this number had been up by even 100000 odd tyres, the whole story would have been that we have had growth, we are talking about missing it by 0.1 - 0.15 million tyres. In a quarter you take certain decisions on an overall basis of pricing and if it does not work out there are small misses. The volume growth was there across three quarters and fourth quarter hasn't gone as per plan. Can we confidently tell you that no for the next 12 quarters there will not be a single quarter that will go wrong that is a difficult one to say for any company, but you are not talking about a miss of a large magnitude. It is just that within the context of the market and our own size within the market that shows up more sharply.

Prateek Poddar: And if I may ask on a Y-o-Y basis is the revenue for the Hungary Operation flat or has it grown?

Gaurav Kumar: It has grown because the Hungary volumes have continued to grow.



Prateek Poddar: No, I was saying about the European manufacturing operations, which includes Hungary and Netherlands on a Y-o-Y basis, so in Q4 has your revenue grown, x of the distribution business?

Gaurav Kumar: No, as I mentioned earlier Y-on-Y our European sales manufacturing revenue was Eur 128 million, which was a decline of 4% plus compared to the same period last year, so we did have a revenue decline.

Prateek Poddar: But then we are getting the benefit of pricing also right?

Gaurav Kumar: Pricing was maintained, we did take a price increase and moment the revenue goes down there are fixed cost, which eat into the operating leverage and has an impact on the margin.

Prateek Poddar: And lastly about your guidance from 6.7 million tyres to 7.5 million, how much of this would be driven by OEs?

Gaurav Kumar: There is some growth in the replacement market as well as I mentioned and the 6.7 odd of this year also had certain quantum, so let us say a larger proportion of growth is OEM and exports I would not be at liberty to give a very specific segment.

Prateek Poddar: Understood and just lastly Hungary, how much do we produce now, and what is the production capacity?

Gaurav Kumar: So the current year production capacity, keeping in mind the constraints of SKU wise industrialization, would be at about 4 million tyres versus, from a pure machinery perspective, a capacity of 4.5 million. So we would be just a little short because of certain amount of capacity will continue to be used by R&D to industrialize various SKUs. The capacity was a little short of 3 million last year that would go up to 4 million this year.

Prateek Poddar: So you are almost about there when it comes to Hungary Operation at least from a production point of view, can this be all utilized if you want?



Gaurav Kumar: If the market is there and we are selling yes, the plant would be there in terms of at its planned peak capacity by the end of this year.

Prateek Poddar: Just one question on the Netherlands Operation, for FY2020 you said the capacity would be a little less than 4 million tyres, is that where you would like to maintain it going forward like for the next three year, I mean last strategy was to ramp down Netherlands and shift some of it to Hungary; are we done with it or there will be further ramp down possible in Netherlands as we keep on increase capacity in Hungary?

Gaurav Kumar: There would not be further ramp down, and it is a call which the manufacturing experts takes on a regular basis. As I mentioned earlier, the ramp down is also dictated by the fact that some of the machinery had become old and the market conditions and the market requirements dictated that either one invested significantly in modernisation or built up the capacity in Hungary; so as of now what we have is a capacity which is under 4 million in Netherlands and eventually 4.5 million in Hungary.

Prateek Poddar: Understood. My understanding was 20% volumes in Europe will be to OEM, is that a correct understanding?

Gaurav Kumar: In a longer term mature state, yes; today, as we speak that number would be significantly lower, it would be in fact even for the current year I think less than 5%, so we are still a long way off because the OEs also take the time in building their confidence even after approvals, they would not immediately put you on multiple models. So you would typically start with one or two variants on cars and as they gain traction and confidence in you then the volumes ramp up significantly, so yes eventually one would like to have a mix of nearly 20%. That would be what even midsize players would have in a stable scenario.

Prateek Poddar: But next year in FY2020 as we just discussed, OEM share will go up in PCR in the European manufacturing operations?

Gaurav Kumar: It would go up, but it would go up marginally and still be under 5%.



Sandeep Menon

(Franklin Templeton): I have one question related to the European replacement operation, so could you give an idea of how the growth will come by? Will it be driven by new SKUs, new network addition, or geographic expansion? Could you give us some more details about your replacement strategy?

Gaurav Kumar: It will not entirely be on the back of new SKUs introduction, since the SKU basket is pretty full. It will be a mix of deeper penetration, so distribution reach expansion or capitalising on some of the recent test result, mix of brand and promotions, so deeper penetration in some of the key market and continuing to maintain our position in our existing markets; also some part of the growth will be driven by growth in the truck radial volumes, which is starting from a very small base and continuing to grow rapidly; so part of that growth is also driven by the truck replacement volumes.

Amyr Pirani

(Deutsche Bank): My first question was on Europe. Would you say that in Europe as far as the margins are concerned, mix has a bigger play or is it the fact that you are moving to Hungary, which is a lower cost location. The reason why I ask this is that if you ramp up in Hungary, but if the mix remains the same or deteriorates, could it still be a pressure on margins because what you are doing in Hungary is what other players are also doing by moving to lower cost destination, so that is an industry trend. So for you is the mix improvement more important or is moving to Hungary?

Gaurav Kumar: Both are equally important Amyr, I would not say one is more important than the other. Hungary ramp up is important because Netherlands is at a certain stable volume, it is critical given that there is a large investment in the ground we utilise the same; mix improvement is the journey which has already been undertaken, it is dictated both by the market and by internal strategy, so even in the last two, three years where our margins have not been something that we have been happy about or you would have been happy about, our mix has continued to improve. The UHP proportion has improved by 3%, 4% points



and going forward there is a clear-cut plan of continuing to drive the gain in UHP proportion within the overall mix, so both are being looked at in terms of driving up the gain not just at topline, but even more significantly on the margin front.

Amyr Pirani: And in Q4 would you say that apart from the fact that volume growth and revenue growth was not there, was it also a lower UHP share quarter, or was winter sales disappointing? Is there any other reason apart from the fact the volumes are lower that is what I am trying to understand.

Gaurav Kumar: Coming of the December quarter, the March quarter is always little bit down, but if I look at just year-on-year basis, mix has not changed significantly. It was largely driven by the fact that we did not get to our revenue target; and then the fixed cost start eating very heavily into the margin.

Amyr Pirani: My second question is on India, for Q4 you mentioned that replacement growth both on PCR and on TBR was 7% to 8%, so basically the OEM despite being a lower revenue contributor, was so much in the negative that it completely took away all the gains of volume growth, going forward at least in Q1 it seems that OEM is going to continue to be as weak if not more, so how should we look at this because even if replacement were to remain strong, if OE is declining in double digits, can revenue growth remain muted because of this?

Gaurav Kumar: The OE numbers in Q1 seem to be slightly better than Q4, but yes, not at levels where we were in the previous years and for replacement while we are just one month into the quarter, it is looking even stronger than before. So yes, in Q1 we are looking at both year-on-year and sequential growth, but yes, not at a heavy level to achieve our target of double digit growth, there is a certain amount of reliance on the second half pickup that I talked about.

Amyr Pirani: Okay and just lastly you mentioned that the raw material is benign and you do not need any price hikes and of course if raw material remains this way then price hike would not happen, but the thing is that industry margins not just for you but even for the others are already down compared to wherever a year

ago, for some it is down more, for some it is down less, so which means that even if raw material remain here for the industry to make better return on capital they still need to increase prices, so how do you see that journey to pan out during the year if the second half recovery does happen as we expect, will there be scope for the industry and for you to raise prices even if raw materials remain flat?

Gaurav Kumar: There would be a certain amount of operating leverage which would kick in, but yes, if volumes pickup in this raw material situation, only then we could take price increases, how the industry would play out will have to be seen, but your point is right that yes, ideally we need to move up slightly on the margins in the Indian context, we are not way off, but we are slightly off.

Nishit Jalan

(Kotak Securities): My question is on Europe business. First of all you mentioned that full year revenue growth was 7% in the manufacturing operation right?

Gaurav Kumar: Yes.

Nishit Jalan: But then you said that there was no market share gain, so was there a mix impact in that revenue growth?

Gaurav Kumar: There was significant mix impact for the passenger car tyres, there was also volume gains on the truck side, so when I said very little volume gains which is under 1% and in line with the industry that is for the passenger car.

Nishit Jalan: On a full year basis, what was our EBITDA margin in the manufacturing operations?

Gaurav Kumar: 8% EBITDA.

Nishit Jalan: If we are seeing such a strong mix because obviously your ASP is going up 3%, 4% just because of mix, wouldn't that suggest a higher profitability in this segment? Raw material also is not that big a problem for Europe market unlike in India, so then why are we not seeing the improvement on margin front?



Gaurav Kumar: Fundamentally Nishit, because we still continue to have a plant, which was not optimally utilised, so if you go up on the margins, which would mean that the plant is fully utilized, or at least at higher utilisation levels, that is when the margin kicker comes in; so there is margin contribution from the mix improvement as you are rightly said, which is getting negated by the fact that you have plants which have still not reached to the reasonably good capacity utilisation levels, which is why we need to get Hungary to volumes upto 4 million odd against a capacity of 4.5 million that is when you will get the full operating leverage.

Nishit Jalan: When you are guiding for 7.5 million volumes next year which is about 12%, 13% kind of growth is that only for PCR?, and given that the mix is improving, then essentially you are talking about mid to high teens kind of a revenue growth?

Gaurav Kumar: Yes, we would target close to double digit growth. Though some of these volumes shall come through OE and exports which will then be pulling down the overall mix, but yes overall we would look to target a double digit growth in Europe.

Nishit Jalan: My next question is on the India business, you mentioned that RM cost per kg came down by 4%, when you talk about RM cost coming down by 4%, has it played down in the P&L or it is only the procurement cost, because when I look at your quarter-on-quarter gross margins, the improvement is only about 100 bps and ideally if RM goes down by 4% without much of a pricing change, your gross margin should have gone up by almost 240 to 250 bps?

Gaurav Kumar: Some of it would also be as a result of inventory consumption because some of the higher cost raw material which was there in the inventory would have been consumed in the current quarter.

Nishit Jalan: So which means your gross margin should improve further in Q1 assuming your RM cost stays flat and even if you do not take price increase, is it correct to assume that?



Gaurav Kumar: If everything happens as you are saying.

Gaurav Kumar: Thanks everyone and we look forward to continuing to interact with you. If there are any followup questions, please send them to the Investor Relations team.