India, August 6, 2020

Q1 FY21 Earnings Call

Raghunandan NL: Good morning everyone. I would like to welcome the management of Apollo Tyres and thank them for taking time out for this call. We have with us today Gaurav Kumar, Chief Financial Officer and other senior members of the management team. I thank the management for providing us this opportunity. I would now hand over the call to management for opening remarks. Over to you Gaurav Sir!

Gaurav Kumar: Thank you Raghu. Good morning everyone. First of all, best wishes for you and your family's health and safety as we live in these extremely challenging and unprecedented times. I would also like to take this opportunity to thank all our stakeholders, employees, dealers and suppliers for their continued support which has helped us maintain business continuity during these uncertain times. While we have restarted our production facilities and they have ramped up slowly over the month, recovery in replacement demand has been significantly better than expectation, however we remain cognizant of the risk in current time and continue to prioritise safety of our employees over any other business factor. We have taken several measures to ensure safety of the team even as we ramp up our activity level. We have released health and safety guidelines, established preventive controls and are undertaking proactive testing for frontline team and employees with symptoms and any travel history. We have taken additional insurance cover and are exploring ways to facilitate even e-consultation for any emotional challenges faced by our employees.

Moving over to the financial result, the consolidated net sales for the quarter stood at Rs 28.3 billion, a decline of 34% over the same quarter last year, and a decline of 20% on a sequential basis, impacted by Covid-19. This is to be seen in light of the scenario in April, where in India, everything was at a standstill. The Indian Operations, in light of that, registered a higher decline of 43% on a year-on-year basis, whereas the decline in Europe Operations was at 28%. The consolidated EBITDA for the quarter stood at Rs 2.4 billion a margin of 8.3% compared to 11% in the same period last year, and a 13% plus in the

preceding quarter. Despite the steep decline in top line, we were able to restrict the margin drop on the back of effective cost containment and optimisation measures and reasonable input cost. In fact, some of the key learning and measures of this period will continue well beyond the current Covid-19 crisis and would help us further optimise our fixed cost. For example, we have been able to achieve significant reduction in controllable SG&A expenses through digital launches, renegotiation of contract and reduction in consultant engagements. We are focusing on rationalisation and optimisation of real estate cost across our key markets. We are doing a lot of work around digitisation and online collaboration, which would not only help us prepare for the future but also help us in bringing down costs like travel which is a significant cost component. While we acknowledge the fact that these are tough times for the employees, we are cognizant of the need to balance out the company needs and hence all increments have been deferred in the current year, and at the top level there has been salary cut. Similarly, we are also working on the supply chain side to not only optimise freight and storage cost, but to also reduce investment in working capital. There has been significant reduction in inventory levels across operations. All in all, the examples could go on but as an overall team, we are determined that we come out of this pandemic not only surviving this, but emerging stronger from this.

Coming to the balance sheet, despite subdued financial performance, we have been able to strengthen our balance sheet with cost control measures, tight control over capex and a timely equity raise. Our net debt decreased to Rs 52 billion from Rs 60 billion from the previous quarter. The net debt to EBITDA for the consolidated operation was at 3.1x. We are also very comfortable on the liquidity position given the team’s excellent effort on both sales collection, and the borrowing that we have done in recent times, including the equity raise.

Moving on to the India Operations, the sales for the quarter was Rs 17.3 billion, a decline of 43% as I mentioned earlier over the same period last year, and 27% on a sequential basis. While the topline decline was almost entirely

due to disruption in economic activity due to Covid-19, we would like to highlight two significant takeaways from the quarter. One, April saw negligible sales volume, thereafter things have improved significantly and in fact we have been very positively surprised by the demand momentum especially in the replacement market. Secondly, despite the current demand environment, pricing environment has remained fairly stable. Between the segments, the OEMs started recovery from near zero levels in April, still the volumes in June was significantly below June 2019 level. However, as mentioned before, we have been very pleasantly surprised by the momentum in the replacement sector. Overall, for the quarter, the replacement volumes were down 25% compared to same period last year but we ended June with a 10% volume growth over the same period last year to give an idea of how strong the demand is. In terms of product segment, farm segment performed the best followed by truck segment. Passenger care tyre segment saw relatively subdued recovery initially but has started doing very well now. We also saw good traction in the two-wheeler tyre segment. We anticipate that we have had market share gains in the replacement segment. The tyre imports was put under a restricted list which would be a further boost for the domestic industry going forward. With this, we are looking at potential entry into the premium segment of tyres of car and two-wheelers. Our motorcycle radial tyres continue to gain traction. For India Operations, the EBITDA for the quarter stood at Rs 1.9 billion, a margin of 10.8% as compared to 11.6% for the same period last year, and 14.4% in the preceding quarter. The net debt decreased from Rs 48 billion to Rs 41 billion and despite the fall in absolute EBITDA, we maintained our overall leveraging ratio. In terms of outlook, we expect the demand momentum in replacement market to remain strong. We saw similar trends in July where the replacement segment continued to do well. In fact, in July we have registered a volume growth in almost all product segments. Given the strong recovery, we are making sure that within the guidelines, our plants are able to produce enough tyres and supply chain is able to deliver the tyres across the country to service the customers and benefit from the strong replacement demand. Also, we are seeing signs of recovery in the passenger car OE segment and expect a pickup in the activity levels going forward. So, we are seeing a significant recovery in the top line as

we go forward which would also give us the operating leverage and help in margin recovery together with tight cost control.

Moving on to the Europe Operation, sales for the quarter were Euro 90 million, a decline of 28% over the same period last year, again largely on account of Covid-19. We were able to gain market share in this environment both in the TBR and PCR segment. The EBITDA for European Operations for this quarter were at Euro 1 million, a margin of 1.1%. compared to 6% for the same period last year. This was largely attributable to the loss of operating leverage. Even in Europe our liquidity situation is healthy on the back of measures like reduction in capex, improvement in collection and efficient working capital management. We have also made significant progress on our intended specialisation of the Dutch manufacturing operations there. We reached an agreement with the Works Council in the second week of July, and AVBV management will now start the work on preparing for implementation of facility. The consequence of this would be 528 redundancies in the Dutch Operation in the last quarter of this fiscal year. This would go a long way to improving the cost competitiveness of the European Operation and showing us a path to recovery on the profitability level. We were again positively surprised by the Reifencom Operation (our German distribution operation), where we registered a top line growth of 14% on year-on-year basis for the quarter. EBITDA margin for the quarter was at nearly 5%, similar levels as last year. In terms of outlook of the European Operation, we expect the volume recovery to continue and we expect to have a volume growth sequentially. This should provide us the operating leverage. All cost continues to be looked at minutely and cut or controlled as much as possible. So, with an improvement in top line, stable RM prices and cost control measures, we should see a margin recovery even in our European Operation.

Thank you that is all from our side and we would be happy to take your questions.

Ashutosh Tiwari

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(Equirus Capital): Congrats on a decent number in this environment. You talked about this cost saving initiative taken, just want to understand what part of it can be sustained, and can you quantify this improvement in say margins for FY2022-23?

Gaurav Kumar: Ashutosh it is difficult to quantify as of now, given the fluid situation we are in. Now for example, travel cost, which are the simplest things to go, with the way digital ways of working are getting established, would come down and a lot of it would be continued going forward. Digital launches of product is something we have experienced for the first time and we are rolling it out across operations. Some of the dealer conferences etc, would be reduced, but we have still not reached a stable situation and hence to quantify it for FY2022 or FY2023, is difficult at this juncture.

Ashutosh Tiwari: Okay so you talked about travel cost, if I look at annual reports of last year and it is roughly 1% was travel cost at consol and standalone both the level so this can come down substantially going ahead?

Gaurav Kumar: This year definitely, given everything and then going forward there will be a stable level which should be lower than the levels that you have talked about. Certain amount of travel would be there, you cannot replace face to face interaction and the human touch, so we would not eliminate it completely, but it could come down substantially.

Ashutosh Tiwari: Will A&P cost also come down like you said because of these digital initiatives?

Gaurav Kumar: That is correct, especially for the product launches. The A&P related to promoting of the product etc, would come back as we reach normal levels. But clearly our experience with digital launches has been encouraging; for example, we used to participate in tyre fair etc, and that would come down. The product launch that we did for Europe, which was planned actually around the time of COVID hit us, was done at 1/5th the cost.

Ashutosh Tiwari: Okay and Sir lastly in terms of capex that you are looking to do for the next one or two years, just want to understand what part of phase 1 AP is

remaining now, and secondly post phase 1 AP gets completed what was the utilisation level say in FY2020?

Gaurav Kumar: AP plant is still in its infancy stage; we have started the passenger car tyre production, the truck tyres production has still not started. We expect to start commercial production of truck tyres in September. It will then continue to ramp up; so there is no further change in the capex outlook from what we gave earlier, that is reduced capex by Rs 400 Crores this year. The capex and the AP plant ramp up would be completed in FY2022. Going on from there it would of course depend on demand, but I can safely say that FY2023-FY2024 there should be only maintenance capex and we should be strongly free cash flow positive.

Ashutosh Tiwari: Okay what is your utilisation level currently at the current capacity say PCR and TBR.

Gaurav Kumar: Currently if we look at June across our four plants in India, we would be at about 2/3 capacity utilisation. If I give you the numbers for the quarter, they would be very misleading.

Subrat Dwibedy

(SBI Life): You mentioned that in the replacement market segment there has been significant improvement in June so just wanted to understand which segment is the demand coming from, is it large fleet operators, or is it the used vehicle players who are contributing to this demand?

Gaurav Kumar: The demand has been strong, as I mentioned on the truck side; the volume growth in June has been upwards of 15% so it has been fairly all across the replacement segment on the truck side.

Subrat Dwibedy: Okay, Sir in terms of natural rubber prices so how has it been for you in this quarter?

Gaurav Kumar: One thing to note is that a large part of our raw material basket, was also based on the inventory that was already there, when operations came to a

standstill; so for natural rubber the decrease was only about Rs 1 vis-à-vis last quarter, our average consumption price was Rs 139.

Subrat Dwibedy: Okay, and on capex, you mentioned it largely remain in line. You mentioned around Rs 400 Crores decrease last time, so on absolute basis will it be around Rs 1200 to Rs 1300 Crores for this year?

Gaurav Kumar: For India Operations, the figure that we gave was Rs 1050 Crores and for the European Operation the capex for the year would be a little under Rs 200 Crores; so, yes on a consol basis your number is correct.

Subrat Dwibedy: Okay sir and one last question on the debt. You mentioned the net debt levels, but if you can also give the gross debt and the cash position at a consol level?

Gaurav Kumar: The gross debt at consolidated level was Rs 75 billion and at the India Operations was Rs 58 billion.

Joseph George

(IIFL): My first question is on the redundancy that you talked about in the Netherlands Operations. Could you give us a sense of what would be the cost savings of being able to let go of 500 to 600 headcounts, just to get a sense of how to look going ahead in terms of employee cost?

Gaurav Kumar: Joseph, see the process is fairly elaborate. Now that the number has been finalised recently, just a few weeks back, we are now going through the exact legal procedure to identify the specific people. Broadly you could take it that our average cost per person, in the overall Dutch Operations, is about a little under 100,000 Euro person per annum, so saving on the manpower side, could be somewhere in the range of Euro 40-50 million. Give us more time to be able to revert with a more specific number.

Joseph George: Wow that is a big number. That is great and second question Gaurav was see you said that you are seeing improvement in truck and bus replacement, but as analyst, we struggle a bit to understand whether the demand is coming back, especially in a environment where the economy has not become fully

functional, and the freight generation and utilisation of the truck in the country is not at optimum level. Simple logic tells us that if trucks are not running at optimum level then the amount of replacement demand that is generated or the wear or the tear that is generated for tyres, should be lower than what we would like and in spite of that context we are seeing strong growth in truck and bus replacement; can you provide some insight as to how exactly this is happening, I mean it is a little counter intuitive that is reason I am asking?

Gaurav Kumar: Fair question Joseph and this has been talked around enough that is this pent-up demand, or this is sustainable demand, but as you would accept that it is still early days to come to a conclusion. We had half the quarter which was pretty much nothing and then suddenly a June situation where I told you that the volume numbers grew 16% to 20% on the truck side, 50% on farm side. July numbers again vis-à-vis last year continue to be strong. Given the level of overall economic activity yes, it is a bit surprising, but it is also together with the fact that OE levels on the truck are negligible. We can only say that nobody buys truck tyres if they are not needed so if we are selling that much and we believe we have had market share gain and are better off than our competitors.

Joseph George: Okay got it and last question Gaurav could you give us a sense of what the OE truck and bus contribution to revenues and standalone was for last full year?

Gaurav Kumar: Roughly truck overall is about 60% of our operation, and within that OE is about 25%; so 15% of our overall revenue comes from truck and bus OE at a very broad level.

Joseph George: Got it. Thank you, Gaurav.

Nishit Jalan

(Axis Capital): Hi Gaurav Thank you for the opportunity and congratulations on decent set of numbers. I have two questions, firstly on the capex side. I think our total capex

outlay in AP was around Rs 38 billion; just wanted to understand how much have you already incurred till FY2020 and what we will be incurred in FY2021?

Gaurav Kumar: I think we had already incurred Rs 2200 Crores out of the Rs 3800 crores till 31st March 2020, and out of the Rs 1050 Crores of CAPEX this year, largest chunk is for AP. So Rs 600-700 Crores of the current year capex would go towards AP.

Nishit Jalan: You mentioned that in FY2023-FY2024 you would be incurring just about maintenance capex, can I understand what is the maintenance capex level that you have in India and Europe?

Gaurav Kumar: In India the maintenance capex is around Rs 200-300 Crores depending on if any large maintenance comes up, and in Europe the maintenance capex would be ranging between Rs 150-200 Crores.

Nishit Jalan: Okay. Thank you and my second question is on the RM cost front. We are yet to see the full benefit of declining commodity cost so just wanted to understand how should we look at RM cost basket in 2Q and 3Q?

Gaurav Kumar: We expect RM cost basket in Q2 to further come down. You are right we have not seen the full benefit. Sequentially there was a decline of 3%. We would expect another couple of percentage decline in the raw material cost in Q2. Q3 as of now, the expectation is that the levels would go up and would probably be back around the Q1 level.

Nishit Jalan: Why is that, which specific commodity has gone up?

Gaurav Kumar: Rubber etc, has gone up and even some of the other crude derivates has shown a reversing trend in July.

Nishit Jalan: Gaurav my last question is on the Dutch Operations. You talked about redundancy, when you talked about potential savings of around Euro 50 millions, but it will not come at the same revenue level right, we will need to cut down our capacity also over there; whether we will shift that capacity to India or to Hungary, how are you thinking on those lines?

Gaurav Kumar: So, production optimisation etc will happen, as the European management starts to roll it out. We do not need to setup any additional capacity, so there is no cost being incurred. The production of passenger car tyres that is shifted from Netherlands, will be shifted to Hungary and to India, depending on how optimisation should happen on the manufacturing.

Nishit Jalan: So basically what I was trying to understand is that 50 million euro is not net savings, if you transfer the capacity from Netherlands to Hungary or to India, your employee cost in these locations will go up right so essentially we are moving from a high cost location to a low cost location?

Gaurav Kumar: To some extent you are correct, because there will be manpower addition in AP, in Hungary very little so yes the full entire savings may not be like to like of the manpower cost post-reduction in Netherlands, but there would be a substantial saving and we expect the pay back on this project in about 2 years; so, we expect a fairly strong recovery of profitability margin in Europe Operations and the benefit of this should start coming in from FY2022 onwards.

Pramod

(CGS CIMB): Yes, Hi Gaurav. Good EBITDA performance. First wanted to know what is the extent of OE and replacement mix in this quarter, because both have been very diverse in growth profile?

Gaurav Kumar: Normally the OE business ranges from 20-30% in India Operations; last quarter where OE was still under decline, was at 20%, but if you look at Q1 FY2020 the OE business was about 25%, and for this current quarter it was a near 7%.

Pramod: Okay so that should get normalised as we go in second and third quarter, is that a fair assumption?

Gaurav Kumar: It will depend; very large component of that which is truck OEM is recovering far slower. We have seen a very sharp recovery in passenger car OEM, and we should get there quicker, so getting back to the normalised level of OE is not expected before Q3.

Pramod: The second question is regarding interest cost. Even though the net debt as you indicated seems to be coming under control, but on a Q-o-Q basis the interest cost spike is steep almost around 30%. What is the underlying factor for that? Is it still about working capital rates or what is going wrong and when do you expect that to come back to a sequential decline profile?

Gaurav Kumar: It has nothing to do with the rates, we in fact borrowed at competitive rates. Given where the situation was in March end, the first priority of the company was to maintain liquidity, and hence we borrowed fairly quickly to be not caught up in the crisis on the liquidity front; so through the quarter we carried a fairly high level of debt which we decided to have in our books as a safety cushion and that obviously contributed to the interest expense going up. Normally we would have borrowed at a much lower rate during the year, vis-à-vis a situation where we picked up all the debt upfront and we would not be raising any debt for the balance of the year.

Pramod: In terms of your channel inventory, what is the normal channel inventory you have in India and where is it currently against those normal inventory levels?

Gaurav Kumar: Our inventory is reduced by almost Rs 250 Crores, or about 7 days of sale. Inventory levels would go up by Rs 100-150 Crores, if we were to be at normal level. The current levels of inventory are lower and have dipped because of production constraints, where we have to operate the plants within safety guidelines; and with the demand being extremely strong, we are walking a fairly tight rope right now.

Priya Ranjan

(Antique): So couple of things, one is, how much do you attribute the current growth to say channel inventory filling, because even in April and May when the entire economy was under lockdown, the dealers might have been still supplying from their own inventory to the truck operators that were already operating due to essential services?

Gaurav Kumar: Difficult to get the statistics but I do not think that dealers were that low on inventory, and anything in the current environment, dealers would tend to keep waiting rather than have money blocked up, so it was a genuine demand; and as I mentioned, we have continued to see strong demand and growth over last year even in July; so as of now, demand continues to hold on, but it is still early days and we are watching the situation actively to say what is the normal level of demand. As of now replacement demand across product category continues to be good.

Priya Ranjan: Could you please share the volume growth as well as the key raw material cost for the Quarter?

Gaurav Kumar: So natural rubber prices as I mentioned were Rs 139 per kg, synthetic rubber at Rs 105 per kg, carbon black Rs 66, and steel cord Rs 139.

Priya Ranjan: Overall volume decline for this quarter in India as well as Europe?

Gaurav Kumar: The overall revenue decline of 43% in India is essentially coming from volume.

Priya Ranjan: Okay and lastly are you seeing any signs of consumer preference shifting from TBR to TBB tyres? how is that panning out during the current Covid times, because one of the assumption is that probably truck operators will go for low cost tyres.

Gaurav Kumar: Your point is absolutely correct, so there has been a slightly higher volume growth of TBB tyres. Hence there is a couple of percentage point shift towards bias, and that could also be a result of the reduced inflow of Chinese TBR tyres.

Priya Ranjan: And lastly on Europe, what kind of revenue run rate we can see, as things are getting normal and what will be probable bbreakeven level?

Gaurav Kumar: So, in Europe, as I mentioned we have seen a fairly normal July. We would expect to be at around 90% of normal levels in Q2 unless there is a big second wave of COVID cases.

Priya Ranjan: Okay and any thoughts on breakeven level?

Gaurav Kumar: We do not provide margin guidance so I would not like to go there.

Shyam Sundar Sriram

(Sundaram MF): Gaurav on the import restriction on tyres, what we understand is that the government has made it mandatory to obtain licenses to import. So from a segment wise perspective, we are given to understand that the PCR segment has higher import contribution currently. Earlier it was TBR, now PCR imports as a percentage of domestic demand is higher, and some of the larger and even organised players like Michelin are also importing some SKUs in to the country. Now given all this, are you seeing any gains for the domestic incumbents including you because of this import restriction that has been imposed now and on the PCR segment as well as in the TBR segment.

Gaurav Kumar: Yes, the import profile, Shyam was very different. The TBR segment import was largely from China and it used to come in at the lower price end. Whereas on the passenger car side, it was across the entire spectrum that Chinese player contributed, even on the higher end cars. One thing to note is that import as a percentage of the overall market has always been higher for passenger cars vis-à-vis other segments. For PCR it is around 15% whereas for TBR at best it was reaching a double digit at its peak and then has come down with the antidumping duty. There are signs that there would be gain for domestic players, because some of the OEMs also with this restriction have started talking to us for fitment on the cars, and hence there would be larger gains on the passenger cars segment and we are seeing some signs of that already.

Shyam Sundar Sriram: On India aftermarket side, is there any meaningful change on the PCR side that you are seeing because of this import restriction?

Gaurav Kumar: Yes, again lot of PCR imports used to get fitted on the taxi segment. As I said the pickup on the passenger car side was slower, passenger car segment was one of the segments where we did not have volume gains in the replacement

segment in the June quarter, but that itself is beginning to change as we enter the current quarter.

Shyam Sundar Sriram: Understood Gaurav. Thank you very much for that insight and just one additional question from me. Due to various levels of production disruption across the domestic players during the first quarter, and the import restrictions that have been placed, are there any market share shifts in any segment that you are seeing whether in PCR, TBR or the farm segment?

Gaurav Kumar: It is too early to say; as per our own internal estimate, we have had market share gains in Q1 in the replacement segment, but the industry data has not yet come in; so I would not be able to give you conclusive data as of now.

Prateek Poddar

(Nippon India MF): Could you just talk about the channel inventory as of now across segment PCR, TBR?

Gaurav Kumar: Our own inventory across the segment as I mentioned is low. I would not have data of how much of inventory the channels in the market are carrying. For us particularly we are sitting on very low inventory in the truck segment, particularly truck radial and farm. We were okay at the end of the quarter on the passenger cars inventory given where the demand was but that is also beginning to get tight, as we have had very strong pick up both in the OEM and the replacement segment in the July month.

Prateek Poddar: And to get an indication of what low means versus normalised levels would you be down 30, 40, 50% or how should I think about this?

Gaurav Kumar: We would be down by at least about 25% level.

Siddharth Bera

(Nomura): On demand side again, so as you have indicated that in July you have seen a very good growth so just wanted to understand the quantum.

Gaurav Kumar: July the replacement volume growth has been in all the product categories. Though the growth in July has been slightly lower than June.

Siddharth Bera: Okay secondly on the commodity side, had we not consumed the high cost inventory, would it be fair to say that our gross margin in Q1 would have been better by nearly 200-300 bps?

Gaurav Kumar: We have not run that analysis because we were sitting on inventory. We could do that exercise and come back to you, that if we had used up only the current raw material at the current prices, what could have been the margin impact, the fact is that as thing hit us there are some positives in terms of lower raw material prices, but we had to use up the inventory which was there in the system. The margin would have been more if we were not consuming the earlier inventory but quantum analysis is not readily available.

Siddharth Bera: Okay Sir got it, and lastly given the current trend I think synthetic rubber prices has come down significantly, probably 15-20% compared to last quarter so the complete benefit of that should be visible in Q2 onwards, am I correct on that?

Gaurav Kumar: That is correct.

Jinesh Gandhi

(Motilal Oswal): Hi Gaurav. Considering that there was inventory build up because of the lockdown which is distorting the reported gross margins, so if you can share what where the real gross margins for the quarter for both India and Europe that will be helpful?

Gaurav Kumar: We will have to get back to you. I would have to ask the team to do an analysis to take out the inventory effect.

Jinesh Gandhi: Sure, no problem and lastly with respect to the European Operation, did we get any benefit from the European government for any support in European Operations?

Gaurav Kumar: Yes, we got about 6 million Euro in Netherlands largely, overall it was a little under 7 million. In Netherlands, as per the government scheme depending on the revenue fall, up to 90% of your wage bill was given by the government; so we got about 6 million euro as support against the wage bill in Netherlands.

Amin Pirani

(CLSA): My question was on the passenger vehicle replacement which you partly addressed. I am not sure if you addressed the European thing also, so in Europe our business is mostly passenger vehicles replacement, so what are the trends there because I am assuming that driving has come down. How do you look forward?

Gaurav Kumar: So, the passenger car market in Europe de-grew by 32%, whereas we gained market share. In passenger car, Vredestein brand we gained 0.1% market share and we continue to make headway. Even our proportion of UHP or UUHP tyres continues to go up. So, in the overall scheme, we are focusing on Vredestein brand, enriching the product mix of the UHP proportion towards a level which is where global majors operate, and we are continuing to make headway. We are slowly taking out the Apollo brand more and more and keeping it as a limited flanker brand in Europe and putting all our energy and A&P behind the Vredestein brand.

Amin Pirani: Okay and like you said in India the replacement market for passenger vehicles was starting to come back in July, so are you seeing similar trends in Europe on the replacement market side?

Gaurav Kumar: I do not have the data for July, but based on our own expectations and initial signs, yes we are seeing signs of improvement in Europe, and we expect Q2 to be at 90% of last year; so that is a substantial recovery from nearly 30% YoY decline in the current quarter.

Ronak Sarda

(Systematix): Hi Gaurav. Thanks for the opportunity and congrats on decent set of numbers. Gaurav first question is on the India aftermarket demand. Is there any way to

do a geographical analysis of how the demand recovery has been especially on the two-wheeler and passenger vehicles side, I mean is it the top 10 or top 15 markets contributing equally to the growth or it is largely driven by semi urban and rural market and does this apply to TBR tyres, CV tyres, truck tyres as well.

Gaurav Kumar: Fair question. I would not have that level of analysis immediately; that would be available with our sales and marketing team. Broadly what I have understood is, that the demand revival has been more strongly lead by rural areas, but if you want a little bit of more color and details in terms of which state, which part of the country, we will have to go back to the sales and marketing people, and the IR team can come back to you with the data.

Ronak Sarda: Sure, and does this kind of analysis work for TBR and TBB tyres as well?

Gaurav Kumar: No, we would have it product wise.

Ronak Sarda: Okay perfect. I will speak with the IR team later. My second question is on Europe. What would be the product mix during the quarter and how different is that on a year-on-year basis because all the global OEMs have commented that the OEM segment has picked up ahead of the mass market segment so any color on the European segments?

Gaurav Kumar: Not a big difference in Europe. The passenger car segment vis-à-vis the same quarter last year went down by about 3%; a big drop was in the Spacemaster, which is an OE product, that fell by 4%, and we gained about 5% plus in the agricultural side, so not the kind of dramatic shift that I talked about in the Indian OE business scenario where it fell from about 25% to 7%.

Ronak Sarda: Okay and final question was on Q2 revenues being forecasted to be around almost 90% to 95% of last year Q2 in Europe, this is again driven more by OE demand or there is some pickup in the aftermarkets there as well?

Gaurav Kumar: As I said we expect to be at 90% of last year in Q2, and this is largely replacement driven, because we are still negligible in OE in Europe. In the passenger cars side, we do have OE presence, which is through Spacemaster

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and in Agri segment, but much larger proportion of our business in Europe is replacement i.e.more than 80%, so recovery shall come from there.

Abhishek Jain

(Dolat Capital): Thanks for taking my question. Out of total gross debt of Rs 75 billion, foreign currency loans stands at around Rs 32 billion; so just wanted to know that how much forex loss or M to M losses have you incurred in this quarter and has that been added in interest cost? How big a hit you are expecting in bottom line because of the rupee depreciation? and please throw some light on the hedging policy.

Gaurav Kumar: So, all our foreign currency borrowing is completely hedged on day 1; even the interest rate that we use, to take a decision, is on a fully hedged basis, so we do not have any hit on the borrowing side. Our policy also is that all foreign currency borrowings for Indian Operations would be completely hedged. On the operational side of thing, we hedged up at least a 50% of our operational exposure and that is the call, which is taken on a regular basis, so there is no large scare for us on that ground. In general we are a net importer so weak rupee is not favorable for us as our raw material cost goes up and to that extent the raw material drop impact that I talked about of 3% is after taking into account of rupee depreciation otherwise it could have been more.

Abhishek Jain: So how much forex losses or M to M losses you have incurred in this quarter, and is it added in the interest cost?

Gaurav Kumar: I will have to ask my accounts people to answer that. Ravi if you have an idea of the forex loss which is there in the interest cost?

Ravi: So, forex loss is not part of interest cost. We normally book it as separate line item. I will confirm the exact amount, but nothing clubbed in the interest cost.

Abhishek Jain: So, is it showing in the profit and loss account?

Ravi: Yes, it is appearing in the profit and loss account.

Abhishek Jain: Okay. My next question is related with the employee cost. Right now Apollo has around 18,000 permanent and contract employee worldwide, so just wanted to know what is the proportion for the manpower in India versus in Europe as the employee cost for Europe is around 30% of the sales whereas it is 8% for the India business, so what is your plan to reduce employee expenses in medium to long-term?

Gaurav Kumar: So, the European total manpower would be I think close to 2500. We have already talked about a significant reduction of manpower in our Dutch Operation, so that number will come down. In India there is significant manpower across plant, which is also a function of different plants operating with different product categories and different technologies. There are plants setup in the 1970s, the 1990s, 2000 and now the latest one; and as the technology keeps changing and becoming more modern, our latest plant could have significantly less manpower than the earlier plants. A certain amount of modernisation as we go through maintenance capex or incremental capex is done, but it would not be prudent to try and modernise some of the bias plants so you could keep seeing manpower reduction in India Operations or in the case of AP, the growth in manpower would not be as much as you see on capacity addition, but there is no target that I have as of now to say that the India manpower will come down from X to Y in next two year.

Gaurav Kumar: Nothing further from our side. Thank you all, stay safe and if there are follow-up questions feel free to reach out to us. I am conscious that there were few people in the queue whose questions were not taken up. Please do reach out to us and we will address your questions. Thanks again.