



Ashutosh Tiwari: Equirus Securities

Good afternoon, everyone. On behalf of Equirus Securities, I welcome you all on the Third Quarter FY'21 Conference Call of Apollo Tyres. From the management side, we have Neeraj Kanwar, Vice Chairman & MD; Gaurav Kumar, CFO; Ravi Shingari, Group Head, Accounts and Taxation; and Himanshu Sharma, IR Head.

Without further ado, I hand over the call to Mr Kanwar. Over to you, sir. Thank you.

Neeraj Kanwar: Vice Chairman & Managing Director

Thank you, Ashutosh. Good afternoon, everyone, and a very warm welcome to Apollo Tyres' quarter three earnings call. First of all, my best wishes for you and your family's health and safety. I would once again like to take this opportunity to thank our employees, our dealers, suppliers and all other stakeholders for their continued support. I'm happy to inform that the demand recovery has continued to be extremely positive in India, both in the OEM segment and in the replacement market. We are seeing a sustained recovery in OEM demand.

In Europe, despite a sluggish demand environment, we continue to make inroads in the premium segment and register gains across product categories. I am extremely pleased with the quarter three operating performance and believe that post COVID-19, Apollo is today more efficient, leaner and future-ready than it has ever been.

Also, with the Government turning from fiscal consolidation mode to expansionary mode in their FY'22 budget, the focus is clearly on growth. More importantly, the reform momentum continues with government announcing various initiatives like increase in FDI spends, privatisation of PSUs and the ease of doing business with time bearing of past cases, changing limits to reduce litigation, etc. The markets also gave a thumbs up to the budget with 2,300 points increase on 1st of February 2021.

Another welcome step by the Government has been the announcement of Scrappage Policy. While we await final details, it could be a big demand driver for the tyre industry in the near to medium term. All of these steps augur well for Apollo Tyres as we have invested in building blocks like capacity, R&D and our brand building initiatives in the long run.

In terms of our outlook, while we have limited ability to forecast given the uncertainty around the second wave of COVID-19, I want to highlight a few things. We continue to see healthy demand momentum on ground in India. We are in the final leg of specialisation in our Dutch plant and would start seeing the benefits from FY'22 onwards. And given all the investments in capacity, in R&D, in the brand, in the distribution and optimising our costs, we're extremely



well placed to leverage demand recovery as and when it happens across all segments, across India and across Europe.

Also, we have made significant progress on strengthening our balance sheet in the current year. We will continue to focus on controlled capital allocation to ensure free cash flow and balance sheet leveraging at reasonable levels. This increased sweating of our existing assets and expanded capacity will ensure that we drive up our ROCE in the long term.

With this, I would like to conclude my opening remarks and hand over to Gaurav, our CFO. Thank you and stay safe.

Gaurav Kumar: Chief Financial Officer

Thank you, Neeraj, and good afternoon, ladies and gentlemen. Let me start by reiterating our commitment towards safety of all our employees and stakeholders even as we witness a significant ramp up in our activity levels. We continue to urge all our employees and stakeholders to not let their guard down against the risks posed by the pandemic.

During the last nine months at Apollo Tyres, we have focused on converting the current crisis into an opportunity. We have recently rolled out a new e-commerce portal for passenger car and two-wheeler tyres in India, where the customers can select and buy a tyre online and then get the fitment done at a dealer of their choice. Initiatives like this will not only help us to improve customer engagement but will also help us become future ready.

There is a lot of focus on digitisation and online collaboration with a twin objective of being future-ready and bringing down cost on a long-term sustainable basis. We continue to keep a very close tab on all our expenses with efforts to bring down the fixed costs across regions. Supply chain costs have been reduced. With focus, the inventories of both raw materials and finished goods have been reduced to new benchmark norms, resulting in significant optimisation of working capital and achieving positive free cash flows.

Similarly, a lot of work has happened on digital launches, helping us not only minimise cost, but also maximise reach. Even as volumes have recovered, we have continued to keep the cost in check and driving up the strong operating results that you see in the current quarter. We expect to retain significant part of these benefits even on a steady state basis.

Finally, as Neeraj mentioned, we continue to focus and invest in the fundamental pillars of our business, R&D, brand, enhancing distribution network and enriching our product mix.

Moving on to the financial results. The consolidated revenue for the quarter stood at INR 51.5 billion, a growth of 17% over same quarter last year and 20% on a sequential basis. The Indian



Operations registered a growth of 24% year-on-year basis, whereas the top-line in Europe declined marginally given the market conditions.

The consolidated EBITDA for the quarter stood at INR 9.9 billion, a margin in excess of 19% compared to a 12% plus margin in the same period last year and a 16% plus in the previous quarter. The strong margin performance has been helped by a strong top-line, reasonable raw material costs and control over other costs. We have continued to strengthen our balance sheet with continued focus on free cash flow generation through control over capex, cost reduction and the equity raise that was done earlier in the year.

Our net debt has decreased to INR 38 billion at the end of this quarter compared to INR 46 billion at end of September 2020. The net debt to EBITDA for the consolidated operations has dropped to 1.6 times.

Moving on to India Operations. The revenue for the quarter was INR 34 billion, a growth of 24% over the same period last year. This top-line includes a one-off element of SIPCOT subsidy linked to our investment in Chennai of INR 1,350 million. If we exclude this, the top-line growth would have been 19.5%.

The top-line growth for the quarter was driven by volume growth in both OEM and replacement segment. This was in spite of our Kerala plants being impacted by COVID, which adversely impacted the bias production and sales to a slight extent. That situation has recovered in the current quarter.

In terms of product segments, all segments posted strong growth. We continue to make rapid strides in the two-three-wheeler segment to challenge the market leaders. And as per our internal estimates, we have had market share gains across product categories.

For the Indian Operations, the EBITDA for the quarter stood at INR 7.3 billion, a margin of 21.4%, more than 800 basis points gain vis-a-vis same period last year. Even if we exclude the one-off element of SIPCOT subsidy, the EBITDA margin would have been in excess of 18%.

In terms of outlook for the Indian Operations, we expect the demand momentum in the replacement to remain strong in the near to medium-term and a sustained demand recovery in the OEM segment. 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 them across the country to service the customers. The ramping up of our latest greenfield in AP will further boost our capacity and help us capture the growth going forward.

We are witnessing an increase in raw material cost and expect the trend to continue in near-term. In response to this, we took some pricing actions in both OEM and replacement segments



towards the end of Q3 and are monitoring the environment. Further price increases would be needed to negate the cost push on account of raw materials.

Moving on to Europe. The sales for the quarter were EUR 136 million, lower than the levels in the same period last year, though a growth of 6% on a sequential basis. The business environment was impacted by the second wave of COVID, hence the market witnessed negative growth. We have, however, continued to gain share in the UHP passenger car segment and the TBR segment. Our focus on mix improvement has meant that nearly 37% of our volume of passenger car sales is UHP. The Hungary plant continues to ramp up and improve its cost competitiveness.

The EBITDA for the quarter was at EUR 18 million, a margin of 13% compared to 9.3% for the same period last year. The operations were able to deliver a substantial improvement in profitability in spite of a weak demand environment. The margin recovery was supported by the sales mix improvement and cost control measures. Europe Operations, like India, have generated positive free cash flow and we have been able to maintain a healthy liquidity situation.

As mentioned by Neeraj, we have made significant progress on our intended specialisation of the Dutch Operations. We are in the final leg of this and the process would be completed in Q4 of this year, leading to a much-improved cost competitiveness going forward. To that point, what we have talked earlier, there was a one-off exceptional item pertaining to the specialisation of the Dutch plant and the same has been accounted in Q2. Accounting standards dictated that the charge was taken in Q2 financials, even though the amount was finalised recently. The exceptional item amounts to EUR 69 million, EUR54 million on account of the payout to the employees and about EUR 15 million for impairment of old plant and machinery.

This specialisation would go a long way in improving the cost competitiveness of our European Operations and showing a path to recovering to healthy profitability levels, signs of which can be seen in the current quarter itself. In terms of outlook on the European Operations, we expect the demand environment to remain subdued given the current COVID situation. However, tyre stores are not impacted by lockdown, and hence business continues at a certain level.

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

Q&A**Nishit Jalan: Axis Capital**

My first question is on Europe business. Just wanted to understand once you complete this restructuring exercise, what could be the potential volume and revenues that we can deliver with the existing or the restructured capacity that you have in Europe? Because our capacity would also kind of come down after the restructuring, right?

Neeraj Kanwar: Vice Chairman & Managing Director

So, there won't be any capacity drop because, while we are specialising the Dutch plant, molds have already moved into Hungary and India. So, the capacity constraint is not there. Europe will actually be in the new form, with volumes coming out of Hungary and from India, and only a 500,000 tyres will come out of our Enschede plant. So, volumes will not take a beating on account of the specialisation of Dutch plant.

Nishit Jalan: Axis Capital

Okay, sure. And my second question is on India business. We have seen the imports restrictions coming on the PCR side and I think we had plans to launch Vredestein brand in India to cater to the premium car segment. Just wanted to understand where are we on that and what are our thoughts on that perspective?

Neeraj Kanwar: Vice Chairman & Managing Director

Like I mentioned last time, yes, we are launching Vredestein in the month of March of this year. Vredestein will be targeting the niche market in India, the higher segment of the market that would also mean higher profitability products. We have brought in the molds straight from Europe into India, manufacturing has already started. So, the launch is as per the plan, which is going to be taking place in March.

Nishit Jalan: Axis Capital



Okay, thank you so much. And lastly, if you can give some color on RM cost increase that we would see probably in 4Q and 1Q. If you can quantify those numbers, it will be very helpful.

Gaurav Kumar: Chief Financial Officer

So, Nishit, for 1QFY22, given the volatile situation, is still to be seen, but there will be a sharp jump of raw material of high-single digit in Q4 over Q3.

Nishit Jalan: Axis Capital

That is something which will pass to the P&L, right, because for last quarter, when we talked about a 5% increase, but if we look at RM cost per kg on a sequential basis, we have not seen an increase. So, are you talking about procurement costs or are you talking about P&L costing?

Gaurav Kumar: Chief Financial Officer

No, we are talking about P&L cost. Even in the current quarter, there has been an RM increase. It has been mitigated because of slight amount of inventory and the various product mixes. So RM has seen a cost push even in the current quarter that is Q3 and Q4 onwards it will continue and pass through the P&L.

Neeraj Kanwar: Vice Chairman & Managing Director

Just to add here, Nishit, we have already taken a 2% to 3% price increase in India in the replacement market across all product categories and therefore, you see a slight jump in profit margins. We are currently looking at what is happening in India and if there is an increase in RM, we will be increasing prices towards the end of the quarter.

Mukesh Saraf: Spark Capital Advisors

My first question is on the Indian business. Could you give some sense on the PCR and TBR replacement growth we've seen in the third quarter?



Neeraj Kanwar: Vice Chairman & Managing Director

Yeah, sure. I'll say a few things and then Gaurav can take it on. As far as replacement is concerned, we've seen a handsome growth. We've achieved highest turnover that Apollo has ever achieved in India. This has been because of the volume growth that's not only coming in the truck & bus segment but also in passenger car tyres and in farm segments.

According to our internal estimates, we've seen a 300 basis points increase in our market share in truck & bus segment, a 400-basis points market share gain in passenger car segment and close to 500 basis points market share gain in the farm segment. This has come on the back of PCR import restrictions that have come in. We've also seen personal mobility increase in India, whereas the farming segment is growing very rapidly.

Apollo has opened number of rural distribution networks in India and that's also giving boost not only to these three segments, but also to our two-wheeler segment.

Gaurav, would you like to add some more color on this?

Gaurav Kumar: Chief Financial Officer

Sure. So, in terms of the data, Mukesh, that you asked for, our overall volume growth in this quarter on the same period last year for truck was 17%, and for passenger car was 24%.

Mukesh Saraf: Spark Capital Advisors

This is the aftermarket, isn't it, sir?

Gaurav Kumar: Chief Financial Officer

Aftermarket was also similar numbers.

Mukesh Saraf: Spark Capital Advisors

Okay.



Gaurav Kumar: Chief Financial Officer

Passenger car was lower. In Passenger car, the growth was driven more by OEM, but on the truck side, the replacement growth was similar to the overall number.

Mukesh Saraf: Spark Capital Advisors

Okay. So, on passenger cars, I remember last quarter you'd mentioned that about 15% of the industry volumes are imported, is there any shift we've already seen in filling that demand domestically?

Gaurav Kumar: Chief Financial Officer

Imports are negligible, given the current restrictions, bulk of that demand has gone to the domestic players.

Mukesh Saraf: Spark Capital Advisors

And second question is regarding the distribution network. So, we talk about dealer expansion, and we separately talk about this rural expansion where the number of outlets are probably quadrupled in the last say, nine months. What is the difference between these two outlets? I mean, are these not regular retails outlets, the multi-brand outlets?

Neeraj Kanwar: Vice Chairman & Managing Director

Well this is a new initiative that we've only taken, I would say, 18 months ago. Some of these would be tyre dealers, some would be non-tyre dealers. Company has gone into the rural markets and is promoting employment through this model of business.

So, the 350 number is more of matured retail network, whereas the 3,000 is a new network that Apollo is creating in the rural market. That also gives growth to us because these outlets are dealing with all product categories, all the way from truck to farm to passenger car, and then to two-wheeler. So, it gives product flexibility. And yes, more or less, it's more of an exclusive drive than a multi-brand drive that's happening in the rural market.



Mukesh Saraf: Spark Capital Advisors

Understood. And just the last bit, on the growth in the CV segment, how was it different in TBB and TBR because last quarter you'd mentioned that TBB growth was higher than TBR. Are we seeing some change there? Has TBR now caught up in the aftermarket?

Gaurav Kumar: Chief Financial Officer

So TBB continues to be strong, but TBR growth in Q3 was 30% and TBB was 5%.

Jay Kale: Elara Capital

Thanks for taking my question and congrats on a good set of numbers. My first question was on the restriction on imports. So how are you seeing that currently? What kind of an impact it would have had in Q3? We've had news of certain companies applying for licenses initially and then kind of getting delayed and maybe they are taking off operations temporarily from India. How are you seeing the organized players getting licenses in India? Whether it will be a long-drawn process for them and hence a sustained benefit for us over the next one year or you could see this reversing back shortly?

Neeraj Kanwar: Vice Chairman & Managing Director

Yes, the organised players, specifically the international MNCs have applied for import licenses and there is some breather given by the government for these licenses, but we at Apollo are well placed to leverage this situation to our advantage because of our stronghold in Europe, where we are competing with the best in the market. Vredestein branded tyres are competing with the Michelins, and the Bridgestones and the Goodyears of the world in Europe. So as soon as we launch this, I feel that there is a sustainable growth for Vredestein in India. Whether they get the import license or not, it doesn't matter to us, because we've already started seeding that market and the brand. The dealer network which was buying those high end UHP tyres have also started coming into the Apollo frame.

So my strategy is very clear, while this vacuum has given us the energy and the direction to go in that segment of the market, the team has done a good job by really taking onto that opportunity and launching tyres in the next one month.



Jay Kale: Elara Capital

Sure. In continuation to that, would it have helped your lower end tyres because it's a two-pronged way of import that was going on. One was on the lower-end tyres used mostly by fleet operators and also on the higher-end tyres. So, have you benefited in the lower end too or it would be more of the upper-end tyres where you would have got a better chance of catering to that market and establishing your brand?

Neeraj Kanwar: Vice Chairman & Managing Director

I think, all-in-all it has given a boost to the passenger car segment, whether it's in the lower segment or on the higher segment. Imports were really coming in the 14-inch and above segment. International players do not operate in the 12 and 13-inch segment which is the lowest segment of the market.

The 12 and 13-inch segment is also a very low margin business. So gradually, Apollo has also been reducing the sales mix as far as 12 and 13-inch is concerned, and our focus is really on the higher end of the market and where the higher profitability expansion will happen.

So if I look at the pie chart of Apollo Sales in India, 12 and 13 inch revenues have consciously been going down, and we've started increasing our fold in the 14-inch and higher sizes.

Jay Kale: Elara Capital

Sure. Just one last question if I may squeeze. This is on net debt and FCF portion. You've kind of had a good control on your working capital and got FCF positive in this quarter, how should we look at FCF going forward over the next two years? While we are at the fag end of Capex cycle, but with demand being so strong as it is today, how should we think about Capex and FCF over the next two to three years?

Gaurav Kumar: Chief Financial Officer

Jay, you've rightly pointed out that demand is very strong and it's a situation that we are monitoring. We have already talked about FY'22 Capex, which is INR 1,600 odd crores. If this strong demand momentum was to continue, we will assess if any small additional Capex needs to be added to that so there should not be a big increase from that. We haven't initiated any new growth Capex for FY'23, as of now.



So we continue to be conscious of the fact that we have to be controlled in our capital allocation and free cash flow positive. We have made significant headway in deleveraging and generating free cash flow, but still too early to say about FY'23.

Siddhartha Bera: Nomura

Hi, sir. Thanks for the opportunity and congrats for a great set of numbers. Sir, my first question is on the market share. You've indicated that we have gained significantly over the past seven months. So first if you can throw some light on the segment-wise market share in this quarter?

Gaurav Kumar: Chief Financial Officer

I'll talk about market shares on a YTD basis, because for the quarter, the industry data comes to us with at least a two-month lag. So up to October, which is April to October, we believe that our overall truck market shares was around 31%. Our passenger car market share was around 22%.

Siddhartha Bera: Nomura

Understood. We know that the first few months have been bad for everybody so just wanted to understand if this market share gain occurred in Q2 or Q3 over same period last year?

Gaurav Kumar: Chief Financial Officer

No, compared to Q2, we may not have gained. In fact, you've seen results of CEAT and JK, and they have also posted strong growth in fact, marginally ahead of us. So, we may not have gained significantly or may not have gained at all over Q2. What we have the data for is April to October, the November industry data is just coming in. So, we would not be able to comment on Q3 backed by data.

Siddhartha Bera: Nomura



Understood. So, would it be fair to say that the gain has largely come from the import segment or would you have some color on who would have lost market share during this period?

Gaurav Kumar: Chief Financial Officer

See, we do not get the data for other players, but yes, we have benefited from the import restriction, but we've even gained from some of the players. For example, on the truck bias side, the Birla production went out that got spread within the domestic players. We believe we've gained a little bit from domestic players, but difficult to comment player by player as to who would have lost out.

Siddhartha Bera: Nomura

Second question is on the replacement demand side. In Q3, we have seen a very strong growth. So would you have some color about January is playing out? Is there any catch-up, which is happening, or we continue to see those strong growth trends even now?

Neeraj Kanwar: Vice Chairman & Managing Director

Q4 has started on a good note. Specifically, this January, we see a positive trend specifically for us given the distribution, and the brand and the technology that we've put in. Plus, I want to tell you that the greenfield that we have put in Andhra and the expansion in Chennai of truck bus radial is coming in handy now that growth is coming in the market. Andhra is now ramping up smoothly, currently we are producing 4,000 passenger car tyres and close to 1,200 truck bus radials.

Last quarter, we saw plants running at close to 85%. Our feeling is that in this quarter, all our plants should be above 90% utilisation.

CV volumes have grown 15%, Car has grown nearly 25% and Farm has grown 60%. Our order book for quarter four is even higher than quarter three. So, all signs as far as India is concerned are very positive, and we are pretty bullish about quarter four as far as volumes are concerned.

Siddhartha Bera: Nomura



Understood. And lastly Sir on the Europe business. So, in this quarter three, will there already be some benefit in staff costs from the restructuring we have done or it is yet to come in completely from Q4?

Neeraj Kanwar: Vice Chairman & Managing Director

Actually, you will start seeing the benefit from April. We are in the midst of specialising a plant, everything has been done, people will start leaving in the month of February and March, so the benefit of staff costs will actually start coming in FY'22.

Sonal Gupta: UBS

Good afternoon, Neeraj and Gaurav. Thanks for taking my question. Just a couple of questions. One, We have historically seen for the industry that generally, price increases tend to lag when the raw material cost increases, but this time around, we are clearly seeing a very strong demand trend as well, as you just highlighted. So, do you think the industry is in a position to take further price increases that you've indicated, that could be necessitated to pass on the full commodity cost pressure in Q4?

Neeraj Kanwar: Vice Chairman & Managing Director

Sonal, as I mentioned to you already, we have taken a price increase in replacement market to the tune of 2% to 3% in December month. Obviously, going forward, given the RM push, we are looking at a second price increase towards the end of the quarter. And given then that there is volume growth happening in India, I believe that yes, we would have that maturity and the strength to take another increase in various segments of the market.

Sonal Gupta: UBS

Right. And anyway, the OEs are indexed to the raw material cost basket.

Neeraj Kanwar: Vice Chairman & Managing Director



I am not majorly concerned about OEs because it is linked to formula. Whereas in replacement you've already seen price increases coming in in all the three segments. So even with a 3% increase in most of our product categories, I have seen a very bullish January, that's gone by.

Sonal Gupta: UBS

Right. Thanks. And just the other question, if I got you correctly, you indicated that the plants are running at almost 90%, capacity utilisation?

Neeraj Kanwar: Vice Chairman & Managing Director

So here I just want to correct that. Our Kerala plants were running at around 65% last quarter because of COVID. And as we all know, Kerala was affected with COVID in a big way, so even our plants were down from 300 tonnes per day to nearly 230 tonnes per day, in the month of November and December. In fact, I will say an estimate of INR 80 to 100 crores of sale was lost in quarter three, because of the issues of COVID in Kerala. But I'm happy to say that in January, we've already reached a level of 80% to 85% in Kerala plants. Our Baroda plant was running at as high as 90% to 95%. And given the greenfield that's coming up in Andhra and the new expansions that we've done in Chennai, we believe that all this production is going to come into the market in quarter four of this year.

Sonal Gupta: UBS

Okay. Could you just touch upon the Chennai capacity now, it was 12,000 TBR tyres per day, right?

Neeraj Kanwar: Vice Chairman & Managing Director

Yes. But the product mix has changed now, so it's around 11,300 tyres per day and we've added a capacity of light truck radials, we are the pioneers in India in light truck radials, which is doing very good and has a capacity of 1,700 tyres per day. So, if you add both of them together, it's around 13,000 truck bus radials plus light truck radials.

Sonal Gupta: UBS



Sure. I just wanted to get some sense on AP plant. I mean, what is the current investment that we've made and till what level of capacity can you go with that?

Gaurav Kumar: Chief Financial Officer

So, Sonal, for the current investment of about INR 4,000 crores the capacity would go up to 15,000 car tyres a day and 3,000 truck tyres a day.

Sonal Gupta: UBS

Okay, and that will happen by end of FY'22?

Gaurav Kumar: Chief Financial Officer

Yes. That would happen by end of FY'22.

Jatin Nayak: ICICI Prudential Mutual Fund

Hi. Just one question, your investor presentation highlights the replacement mix on a YTD basis in India and on Consolidated level of 75% and 84% respectively. Just wanted to know, what was this replacement mix at the same time last year on a YTD basis?

Gaurav Kumar: Chief Financial Officer

So, FY'20 Q3 in India was 70% replacement, 17% OE and the balance was exports. And at a consol level, the replacement number would be close to a 75-77% and balance would be OE.

Raghunandhan N.L.: Emkay Global Financial Services



Good afternoon. Congratulations on stellar numbers. Company has done extremely well on return ratios this quarter and has posted strong numbers. Would you aspire for sustaining double-digit ROE, ROCE in FY'22?

Just wanted your take on your efforts on sweating the assets better, improving margins and sustaining these double-digit numbers.

Neeraj Kanwar: Vice Chairman & Managing Director

Okay, so, Raghu, I'll say a few things and Gaurav you come in with the numbers. But from a strategic point of view a very clear focus. I had mentioned to you in our quarter two earnings call that our focus is around deleveraging our balance sheet, since heavy capital allocation has already happened in the past three to four years.

Now the strategy going forward is really to sweat our assets, get our utilisation levels up. I have already mentioned in this call that utilisation has to reach 90-95% in all our plants. And you will start seeing ROCE coming up. We've already seen our Net Debt to EBITDA coming down to 1.6 times in quarter three, which is very handsome. A steep decline from 3.2 times when we started in April of 2020.

So there is a clear focus on cash management. On capital allocation, currently we are only looking at maintaining the plants and whatever Gaurav has already mentioned about Andhra, which is going on as we speak. So, given that we've already created a new distribution, there is a lot of emphasis on driving the brand, through R&D and technology.

We believe that right now we are well now poised to take over from here. From our quarter three you will only see a positive trend line in most of our ratios in the balance sheet. Gaurav, you want to give some more inputs here.

Gaurav Kumar: Chief Financial Officer

Sure. Yes, the efforts on improving the ROCE and ROE where we were below our own expectations and markets benchmarks will continue even as this significant growth momentum comes to somewhat good levels given the base effect. We will continue to improve our return



ratios as we sweat our assets and capital allocation will continue to be based on very strong analysis of where and how much we should invest.

Raghunandhan N.L.: Emkay Global Financial Services

Thanks for that. Can you indicate the RM cost details for various commodities, which you share every quarter?

Gaurav Kumar: Chief Financial Officer

Sure. So natural rubber in the current quarter was at INR 140 a kg, synthetic rubber at INR 115, steel cord at INR 150 and carbon black at INR 65 a kg.

Raghunandhan N.L.: Emkay Global Financial Services

And blended number would be?

Gaurav Kumar: Chief Financial Officer

Blended number was around INR 120 a kg.

Raghunandhan N.L.: Emkay Global Financial Services

Just a last question. The rural outlets you spoke about, which is going on well from the last 18 months, how would it help in expanding volumes and market share? How meaningful is it now or how do you see it going forward in terms of contribution?

Gaurav Kumar: Chief Financial Officer



So rural share would continue to grow, Raghu. I don't immediately have a percentage vis-a-vis our overall India business. We can get back to you.

Raghunandhan N.L.: Emkay Global Financial Services

I meant to say the rural outlets, which has been expanding in the last 18 months. So that multiproduct dealers through whom you are selling tyres, so how would that business shape up over the medium term? I mean, do you think that, that business can meaningfully contribute to volumes?

Gaurav Kumar: Chief Financial Officer

It will. It will continue to grow at a very rapid pace, and it will contribute significantly to the growth even going forward.

Prateek Poddar: Nexus Venture Partners

Just one question. You have mentioned in your PPT cutting of costs. How sustainable are these in your view and is this something, which is the new normal for Apollo Tyres?

Neeraj Kanwar: Vice Chairman & Managing Director

So, during COVID very clear focus has been to take out all bad costs. In fact, what we have done in the organisation is also looking at our fixed costs becoming variable whereby making flexibility one of the key components of our plants.

We've had digital launches of our new products in the U.S., in India and in Europe. And we've seen much more dealer points coming into a virtual launch as compared to when you do a physical launch. We used to take 200, 300 people to a destination and do a physical launch. But with a virtual launch it's gone to 3,000, 4,000 dealers coming and participating.



So these practices are sustainable. And the team and I have seen that this has been much more productive than having a physical product launch. Digital conferences have been a very productive way of doing conferences. So, these are all sustainable going forward. Obviously, part of other costs will come in like travel, which once the world opens up, travel will come in.

We've also taken conscious decisions on shutting some of our stocking points. Some of our godowns, not only in India but also in Europe. We've looked at offices, we've looked at godowns and seen which are more productive, which we can do away with, which were more luxury and those are now going to be sustainable because given COVID it has taught us a lot on how to manage our costs.

The other big costs that we've also seen is reduction of inventory. And inventory has come down in India to a norm of nearly 20 days. And in Europe also our inventories of finished goods have come down dramatically. So, these are sustainable, and the company is only looking at investing more and more in digitising the entire process of supply chain. So, we are able to really be much more efficient as far as inventory management is concerned. And I believe that going forward, this will be sustained.

Prateek Poddar: Nexus Venture Partners

Fantastic. And one small strategic question. When do you really think about the next level of growth for Apollo Tyres? At what capacity utilisations would you really start thinking and not deploying, but just think about or go on the drawing board thinking at least we'll have to plan some growth or Capex?

Neeraj Kanwar: Vice Chairman & Managing Director

Okay, so, Prateek, I said this before. This is a time for Apollo to really consolidate all the internal Capexes that we've already put in. So, like I mentioned, the heavy Capex cycle is over for now, at least for the next two to three years that we see. I'm happy that the strategic decision of Andhra was taken at the right time because if you remember in 2009 we took that decision to set up Chennai plant when the world had come down because of Lehman Brothers but the Board really gave us that energy and the power to go and put up a new plant. That is why



today, clearly, we are the truck bus radial leaders. That gave us a nearly 18 months to two years head start from competition.

Today, we would be sitting at a market share of nearly 32% to 33% in truck bus radial. So similarly, when we took the decision of Andhra, we knew that infrastructure spends are going to come. Obviously, no one knew about COVID but now that COVID is hopefully on a downward trend, the markets are improving.

Replacement markets, like we have said, is improving. So, the volume ramp up of Andhra is going to be there. It's going to go into the market. And we are going to be looking at really utilising all our plants, getting the best product mix, bringing our cost structures down of all our plants in the next two to three years and really getting more free cash flows into the organisation. And then, we will think, and we will see how the markets are behaving. And then we will take a call on our next opportunity of a Capex cycle.

Hitesh Goel: Kotak Institutional Equities

Thanks for taking my question. So, in the truck business, what is the share of OEM and replacement segment?

Gaurav Kumar: Chief Financial Officer

Roughly, Hitesh, it works on a 75% replacement, 25% OEM. Can vary plus minus 5% depending on where the OE cycle is. So, we've seen it swinging from 20% to 30%. Right now, we would be at that 75%, 25% mix.

Hitesh Goel: Kotak Institutional Equities

And what would be the replacement overall growth in India on a nine-month basis?

Gaurav Kumar: Chief Financial Officer



For us, truck replacement overall is a small positive of 4%.

Hitesh Goel: Kotak Institutional Equities

And for passenger car?

Gaurav Kumar: Chief Financial Officer

Passenger car is still negative on a YTD basis.

Divyash: ICICI Securities

Thank you for the opportunity. Could you throw some light on the Dutch plant restructuring? What was the initial investment before restructuring and the rationale behind it?

Gaurav Kumar: Chief Financial Officer

So, Divyash, the Dutch plant or the Dutch company was an acquisition. So, we did not go and build that plant.

Divyash: ICICI Securities

Okay.

Gaurav Kumar: Chief Financial Officer

Fundamentally, over the last few years, the European market as it went through its swings, the growth has slowed down, the market became more and more competitive. With the result that a number of players started finding that the Western European capacities were not cost competitive.



The global majors against whom we compete, all had plants in Central, Eastern Europe. They expanded those capacities. And while they continued to maintain their single mother plant in the Western Europe, bulk of the output was coming from Central Eastern Europe.

We were having a capacity mix where a large part of the production was still coming out of the Dutch plant and Hungary was still ramping up, which is what together with the market conditions put our profitability under tremendous pressure. And that's reflected in the last few years where profitability number came down.

It forced us into a situation to have a hard look and come to the tough conclusion that we had to specialise the Dutch plant on to product categories and volumes at the high end, so that it could still be sustainable and profitable in spite of the high costs and bulk of the mid-end and low-end products have moved to the plants in Hungary and India as Neeraj alluded earlier.

Divyash: ICICI Securities

Okay.

Gaurav Kumar: Chief Financial Officer

The cost that we incur in this, as I mentioned earlier, is twofold. One is a non-cash cost of impairment of old plant and machinery. There's no cash outlay attached to that. The other one is the social plan cost or what you have pay to the redundant employees as per the law. And that is what we would be paying out in Q4. The accounting of that has been done in Q2 because the letters et cetera was all given out at beginning October.

Divyash: ICICI Securities

Okay. So, the investment is for making it more cost efficient. That is the rationale, right? So, can you throw some light as to what was the acquisition amount and what kind of sales were, we getting from that plant before this restructuring?



Gaurav Kumar: Chief Financial Officer

Our European Operations or this Dutch company was doing a turnover of EUR 300 million. That turnover last year was EUR 520 million. So, in 10 years, roughly the EUR 300 million operations has become a EUR 500 million plus operations.

Divyash: ICICI Securities

Okay. And what was our investment in that acquisition, can you please throw some light?

Gaurav Kumar: Chief Financial Officer

Sure. We paid an enterprise value of EUR 145 million, which comprised roughly of EUR 110 million of debt, which existed on the company at that point of time and about EUR 35 million of equity.

Chirag Shah: Edelweiss Securities Ltd.

Thanks for the opportunity. So, one question on the domestic PCR. You alluded that you are moving away from 12, 13 and focusing more on the higher inch tyres, so amidst this import restrictions who is serving that category?

Second, I understand most of the domestic players are actually trying to exit 12, 13 inch and moving up to 14, 15 and even higher inch based on their capability. In that case in two-three years, do we a surge in competitive intensity just inching up in 14, 15-inch category, which is extremely profitable today?

Neeraj Kanwar: Vice Chairman & Managing Director

Chirag, I am not saying we're moving out of 12- and 13-inch category, but we have reduced our volumes, as percentage of total PCR going into the replacement market. We are consciously going



down on 12 and 13 inches. Our Indian competition, I would not like to name them, are going in that 12- and 13-inch segment.

To really play in the 14 and above segment you need world-class technology. And today Apollo has put in a lot of investments in R&D and in our brand building whereby our tyres are being tested in European markets, in test tracks in Germany and in India, and are coming out as number one, number two positions in those markets.

The customer is very conscious of the tyres in these cars that we are talking about. And so, it is not easy to enter into this market. You need a good brand; you need a good technology behind it and you need good service levels to try and service these customers. And that's why I believe that Apollo would be ready to do that.

Chirag Shah: Edelweiss Securities Ltd.

My second question is on the Capex that you mentioned of INR 1,600 crore for this year. So basically, what is the kind of capacity addition either in tonnage or in revenue terms, should we look at? Can it add 10% of capacity because most of your plants would be reaching 95% utilisation levels. So, you need to add capacities.

Gaurav Kumar: Chief Financial Officer

Broadly, yes, Chirag. Why we don't have a precise number is because the AP investment is a multi-year investment, which will get completed in a FY'22. What the investment does at an overall level, we still have the exit number to be finalised. But on the truck radial side it is adding 25% capacity.

Chirag Shah: Edelweiss Securities Ltd.

And a related question, how much of the existing plant capacity can be increased without a major greenfield?



Gaurav Kumar: Chief Financial Officer

Sure. And just to complete that on the car side, the capacity addition was again about 15%-20%. To your next question, the AP plant can be expanded from the current capacity to at least another 3 times before we need a greenfield.

Chirag Shah: Edelweiss Securities Ltd.

And have the other plants largely achieved their scale?

Gaurav Kumar: Chief Financial Officer

At the other plants we cannot do any significant capacity expansion vis-a-vis the laws of the land and the land availability. We are pretty much at full.

Disha Kothari: Credit Suisse

I just wanted to ask when we say that RM cost has increased by 10% and we have taken 2-3% hike, so we need another 7% to compensation the hike, so that our margins remain stable quarter-on-quarter? Is my understanding, right?

Gaurav Kumar: Chief Financial Officer

Broadly you are right. If we want to maintain margins that then we need to take about a 6% price hike for a 10% hike in RM price.

Disha Kothari: Credit Suisse

Plus, we will have cost savings for the quarter, so we can't say that the margins will go down by exactly 6% because we'll have other cost savings for the quarter, right?



Gaurav Kumar: Chief Financial Officer

We do not give out margin guidance. So, we would not be able to engage in specifics as to what quantum of margins can we do. The RM cost push we have indicated, and we would be taking all efforts possible, whether it's on price increases or cost control side to see how we can counter the cost push.

Disha Kothari: Credit Suisse

Sure. And one last question from my side. When the AP plant Capex is over, at full utilisation, what revenue can we expect from the around INR 4,000 crore which we have invested in AP plant?

Gaurav Kumar: Chief Financial Officer

Yeah. So, the investment in AP plant is about INR 4,000 crores and yes, once fully utilised the turnover generation would be of that magnitude. The earliest that can happen is in FY'23.

Jinesh Gandhi: Motilal Oswal Securities

My question pertains to the SIPCOT subsidy, which you indicated that is INR 135 crore in number, is that correct?

Gaurav Kumar: Chief Financial Officer

INR 135 crores, yes.

Jinesh Gandhi: Motilal Oswal Securities

Ok, and this would one-off and would not be recurring in coming quarters?



Gaurav Kumar: Chief Financial Officer

The quantum is one-off. There would be a recurring item, but that would be of a much smaller magnitude. This was a catch-up because of the change from VAT regime to GST, the government was still finalising the norms and hence this amount pertains to almost a three-year backlog.

Jinesh Gandhi: Motilal Oswal Securities

Okay, so annualised would be INR 40 crores to INR 50 crores depending on our turnover?

Gaurav Kumar: Chief Financial Officer

Annualised would depend on turnover and sales. We expect it to be about INR 75 crores.

Jinesh Gandhi: Motilal Oswal Securities

For the European Operations when we indicated savings of EUR 30 million due to a reduction in number of people, any further savings beyond this due to the benefits of specialisation, which you can indicate and how should we look at the margin trajectory for our European Operations?

Gaurav Kumar: Chief Financial Officer

So, Jinesh, again, we would not engage in a specific margin guidance but broadly our cost of manufacturing as an overall European Operation will keep coming down as the product mix shifts to Hungary and India. For the mid-end and lower end tyres, our cost of manufacturing keeps coming down and that will drive up the profitability very strongly from FY'22 onwards.

Jinesh Gandhi: Motilal Oswal Securities

Got it. Just on the SIPCOT subsidy of the INR 135 crore, how much is pertaining to the prior period?



Gaurav Kumar: Chief Financial Officer

Most of it will be pertaining to prior period. As I mentioned, INR 75 crores per annum. So roughly you can say a little short of INR 20 crores per quarter. So that would be the maximum amount that would pertain to Q3.

Sanjeev Pandiya: Old Bridge Capital Management Pvt. Ltd

Just drawing your attention to say the big picture, if I try to slice your results in two parallel trends, one would be, let's say, the sectoral element. So there I would say some part of the change in your trajectory is coming from, the pandemic pullback, that would be normal and that would be something that we can see across sectors.

The second element would be that you're on the verge of completing a Capex cycle, and you've been fortunate to see very high capacity utilisations coming off this cycle. Normally one would expect a kind of an industry-wide downturn post the CapEx cycle, the tyre industry has been fortunate because of various sector-wide factors.

Third would be, like Mr Kanwar you mentioned, the digitalisation cost and the raw material tailwind. That too I would take it to be, let's say, a sectoral factor and you can probably see it across the industry. Fourth would be working capital compression that follows from the high capacity utilisation and the deleveraging that is evident. So, these four would be sectoral.

Now if I look at Apollo-specific factors from watching the company over a long-ish period, three factors. One, the fact that you are international, and you have European exposure and probably exposure to markets that demand higher price performance, so you get exposed to a tougher environment. So that would be an Apollo specific factor.

The second factor would be the famous R&D capability of customising products as per the local price performance equations in the replacement market. That I think is a unique Apollo differentiator where Apollo really stands out from the rest of the sector. Third would be TBR leadership and TBR conversion from TBB. So that is a macro sectoral trend where Apollo is pulling ahead of the others. So could we get your opinion on which of these horses are going to draw your future in next five-year trajectory, how much of it is going to be sectoral trends and how



much of it is going to be Apollo and off these three horses, which of them do you think is going to drive Apollo forward?

Neeraj Kanwar: Vice Chairman & Managing Director

I'll answer that. You've called us the three horses; I think I'm the biggest horse here and I'm going to drive Apollo to the next level. To simply answer to you, you have very nicely divided it into sectoral and Apollo factors. The story has just begun, and we have a long way to go. Like I had mentioned, I'm a very optimistic guy and you've seen quarter three, you wait for quarter four results.

Whatever way we have put it, whether it's Apollo or sectoral, whatever seeds we have planted, whether in India, Europe or other parts of world, these seeds are just starting to grow. Whether it's the specialisation of a plant in Holland, whether it's the Andhra greenfield that's coming on stream also, you've seen R&D spends going up, in fact, if COVID had not come then April onwards you would have had a fantastic year but because COVID came we had a lull of two to three months.

We gained market share throughout this year, why? Because we went hard hitting on the road as soon as the markets opened up, we were the first guys over there. So, I can only assure you that you will see all our horses, including me at the lead taking this company to a different level. Very clear focus on balance sheet de-leveraging and sweating the assets. I hope I've answered your question.

Sanjeev Pandiya: Old Bridge Capital Management Pvt. Ltd

Mr. Kanwar, I have a problem. I need to track these horses, so I can't track you.

Neeraj Kanwar: Vice Chairman & Managing Director

You raised a very valid point on TBR, where we are clear leaders in this market. You have seen, we have gained close to 200 to 300 basis points in market share in India and this is despite of



having a price leadership in the market. So, if I'm 100, my next competition is a 96. Another top guy is at 94.

But still I'm making headway into the market share why, because of the service levels that we have put into place, the technology that's going into our tyres, the cost per kilometer that the fleet is enjoying by saving on his wallet. So, these are some of the things that we've put in as far as truck is concerned.

I would also say one more horse that you have not picked up is our passenger car story. Our passenger car tyre story has gone up from being a third position leader to a first position leader. In the month of December, according to our estimates, we have very clear replacement market leadership. We have opened up high-end OEMs in India, the Toyotas of the world. We are supplying to the higher end of the cars.

Our SUV story is going very well. We are gaining market share in this segment. So, passenger car is a segment where the entire company's focus is. Then comes the third pillar, which is our light truck radial in which we have invested recently in Chennai, which is another success story that we are seeing in the market.

So, Apollo is really taking on the radialisation story in India and becoming leader in all radial products in India. That added to the new distribution network that we are creating in the market, i.e., rural or semi-urban. Even in urban areas, I would say in the metros, Apollo used to be weak in passenger car tyre distribution however recently we have made huge headway during COVID by adding distribution networks in the metros. And that is where the higher end of the tyres keep coming in. So, I hope now I have answered your question.

Sanjeev Pandiya: Old Bridge Capital Management Pvt. Ltd

Yes, I've got a good sense that at least I have a list of things to follow. Thank you, Mr Kanwar.

Neeraj Kanwar: Vice Chairman & Managing Director

Thank you, Sanjeev.



Q3 FY 2021 Earnings Call

February 4, 2021

Ashutosh Tiwari: Equirus Securities

Thank you, and that concludes the call for today. I thank management for their time and all the participants.