

## Apollo Tyres Ltd Q1 FY25 Earnings Call

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**Moderator:** Good afternoon, everyone, this is Amar Kant Gaur from Axis Capital and I welcome you all to Q1 FY25 Post Results Earnings Call of Apollo Tyres Ltd.

We have with us today Mr Neeraj Kanwar, Vice Chairman and Managing Director of Apollo Tyres; Mr Gaurav Kumar, Chief Financial Officer; and the IR team. We will start the call with brief opening remarks from the management team followed by a Q&A session.

Over to you, Mr Kanwar.

**Neeraj Kanwar:** Thank you, and a good afternoon and thank you for joining us today. I welcome you all to Apollo Tyres Q1 FY25 Post Results Conference Call and as always, I would start with a broad overview of the results, followed by key initiatives and then pass on the floor to Gaurav for his commentary on our financial performance. After which, we are happy to take questions from you.

Q1 FY25 proved to be a challenging quarter and with modest topline growth and a muted operating performance, consolidated operating margin for the quarter was down about 200 basis points sequentially, mainly on account of raw material cost pressures. We are keeping a close watch and will continue to focus on profitable growth through price increases, new product launches and premiumisation of our products.

As highlighted in my earlier interactions, we remain committed to free cash flows and improvement in our return ratios. I am pleased to share that despite a challenging quarter, we were able to further reduce consolidated net debt by more than 10% in Q1 as compared to Q4, thereby helping us further strengthen our balance sheet.

Coming to our regional performance, we witnessed a double-digit volume growth in our TBR and PCR replacement segments in India, both on Y-on-Y and on Quarter-on-Quarter basis. However, overall top-line growth was once again impacted by weaker OEM volumes during the quarter.

Coming to Europe, we reported marginal growth on Y-on-Y basis. We remain focused on profitable growth and are undertaking several initiatives across our key markets. We expect the demand momentum to recover going forward. In terms of outlook, we expect the top-line growth to pick up going forward. However, given the steep increase witnessed in commodities like natural rubber, near-term operating performance is expected to remain subdued.

We believe the headwinds we face today in form of subdued top-line momentum and softer margin performance are near-term challenges, and we are extremely well-placed to leverage across our key markets in the medium to long run. We have consistently displayed our focus on profitability, cost optimisation, free cash flow generation and improvement in our return ratios, and these continue to be cornerstones of our strategy as we go ahead.

Let me now talk about key pillars of our FY26 vision, and as always highlight some of the work done by our teams in the quarter. Starting with Research and Development, I am pleased to share that we have recently started supplies to a marquee German passenger car manufacturer in India. This confirms our product capabilities, strengths, our relationships with premium automotive companies. Further, it also improves our OE mix and helps us further establish our brands in the premium segment in India.

On the Digitalisation front, we have started rolling out domain-specific generative AI models. These models would help us ascertain root causes and address issues across domains like manufacturing, customer pricing, R&D, etc. During the quarter, we further augmented our brand-building efforts across key markets. We recently signed up with Giancarlo Fisichella, a three-time Formula race winner, as ambassador for our Vredestein tyre brand.

As I've highlighted earlier also, Sustainability is a key pillar for us as we go ahead. I'm happy to share that we have recently received in FY24 a score from one of the premium agencies, EcoVadis, and we have registered a significant improvement in our ratings. We've been rated in the top 5% of all tyre and rubber goods manufacturers and top 8% of all companies across industries.

It is heartening to see that the team continues to scale new heights as we go ahead and is also being recognised by external agencies. As always, we are keeping a close watch on the markets and at our cost. We will continue to be judicious about capex and will continue to focus on profitable growth and free cash flow generation.

Thank you. I conclude my remarks and over to you, Gaurav. Thank you.

**Gaurav Kumar:** Thank you, Neeraj. And good afternoon, ladies and gentlemen. Continuing from where Neeraj left, let me share further details of our operations for the last quarter. The consolidated revenue for the quarter stood at INR 63.3 billion, slightly up compared to both, same quarter last year and the previous quarter. The consolidated EBITDA for the quarter stood at INR 9.1 billion, a margin of 14.4% compared to 16.4% in the last quarter.

Coming to the balance sheet. We have been able to further improve our leverage ratio given the focus on cash flow and profitability. We reduced our net debt by more than INR 280 crores in Q1 to a figure of INR 2,250 crores. The net debt to EBITDA for the consolidated operations stood at 0.6x at the end of June '24, almost a similar level as the March '24.

In India, we witnessed Y-on-Y volume growth of mid-single digits overall, helped by recovery in the export volumes, and continued good growth in the replacement segment. We have seen strong double-digit volume growth in our core replacement segments for TBR and PCR, and a 20% plus volume growth Y-on-Y in the export channel. The revenue for the quarter was INR 45.9 billion, a growth of 4% over the same quarter last year, and 5% over the previous quarter.

The EBITDA for the quarter stood at a margin of 13.8% compared to 15.6% in the last quarter, given the pressure from rising raw materials. We are cognisant that we have not performed in line with what some of our peers have done, and are looking into this thoroughly to ensure that our performance comes up ahead of the industry.

In terms of demand outlook, we expect the demand momentum to get better going forward, continued robust replacement demand, and strong signs from the farm tyre segment as well. On the raw material front, the pressure continues. We expect the raw material cost to go up further by mid-single digits in Q2 on a sequential basis. We have taken small price increases in the current year, and will seek to negate the raw material cost pressure through further price increases. We reduced our standalone net debt from about INR 2,200 crores to about INR 1,900 crores in June. The net debt to EBITDA for India Operations stood at 0.7x at the end of June '24.

Coming to the European Operations, the revenue for the quarter was EUR 146 million, slightly up compared to the same period last year. The EBITDA for the quarter at EUR 20 million was a margin performance of 13.7% compared to 13.4% for the same period last year. In terms of outlook and with the seasonality coming in, we expect the top line momentum now to go up and the margins to improve.

We keep evaluating options for supporting our core business through adjacencies. One such venture which was worked out with a top-notch consultant was Trumigo, a doorstep car servicing, ensuring better connect with our car tyre customers. However, the financial performance of the venture was significantly lower than expectations and hence we took the decision to shut this right off on account of this. We continue to monitor our capex outflow. There is no change in our capex guidance for the current year and we will continue to focus on profitability, free cash flow generation and improvement in the return ratios.

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

### **Question & Answer Session**

**Moderator:** Thanks, Gaurav. We will have the first question from Raghunandhan. Raghu, please go ahead.

**Raghunandhan N.L.:** Thanks, Amar. Thank you, sir for the opportunity. Exports' growth was strong at 20% plus and replacement growth was also healthy. Can you share your thoughts and expectation for FY25 growth in exports and replacement?

**Gaurav Kumar:** Raghu, the overall replacement growth should be a high single digit. As I mentioned, we have not done in line with our peers. So, the replacement demand overall should be at high single digits and we would recover some of the lost ground. Exports, though facing challenging conditions on account of freight rates, disruptions, but definitely is at a higher trajectory compared to last year, so that would see growth. Where the demand momentum suffering is on account of OEMs. It had a negative growth in the first quarter. Particularly on the truck OE side, the demand is significantly lower than what it was being projected out to be. And that probably a better part of the year would still be in the negative zone. It would recover towards the second half.

**Raghunandhan N.L.:** Got it sir. Thank you for that. Sir, Q2 RM cost increases 5% Q-o-Q, what would be your current under-recoveries and price hikes planned in Q2? Also, on your thoughts on whether you expect these unnatural rubber prices to reduce going forward?

**Gaurav Kumar:** To answer the second part of your question, Raghu, in the immediate future, there doesn't seem to be a respite. With the early monsoons, etc, the availability of natural rubber is quite constrained. So particularly the RM cost pressure is driven by natural rubber and at least in near term it will continue to be there. Maybe we will start seeing some respite from Q4 onwards.

On the first part of your question, we were still short of recovering the RM of Q1. So hence we would need at least two to three price increases to cover up fully for the raw material that's peaked in for Q2.

**Raghunandhan N.L.:** Got it. Sir, would that be to the tune of at least 3%-4% price hike?

**Gaurav Kumar:** More than 5%, Raghu.

**Raghunandhan N.L.:** Got it. Lastly, sir, on the other expenses side, was it higher marketing spends? Apart from EPR, was there any other factor which led to higher other expenses this quarter?

**Gaurav Kumar:** As you rightly said, there was an EPR cost, which is about INR 27 crores in the current quarter, which was not there in the same quarter last year. Other than that, are a little bit of one-offs of advertisement charges, etc. Some of those will come off from next quarter onwards.

**Raghunandhan N.L.:** Got it, sir. Thank you very much. Before I fall back to the queue, please do share the Q1 commodity prices and also the Reifen numbers?

**Gaurav Kumar:** Sure. One minute, Raghu. So, the commodity prices for natural rubber were around 180, synthetic are also at 180, carbon black 120, and on the Reifen numbers, the revenue for Reifen for the quarter was EUR 50 million.

**Raghunandhan N.L.:** And margin, sir?

**Gaurav Kumar:** Margin of 4%.

**Moderator:** We'll take next question from Jay Kale. Jay, please go ahead.

**Jay:** Yeah, thanks for taking my question. So, my first question is, you know, your thoughts on this strategy, which, you know, going for profitability, and of course, to a certain extent, that is hampering some bit of your market share, whereas some of -- a section of the industry is focusing more on price increases, while one or two players are focusing more on market share. And till now, it seems that, that market share strategy seems to be working as they are, at least in the short term, reporting better than the others numbers. So, how do you plan to balance this profitability versus market share, going forward? We did see that in July, there was some bit of reaction or realization from your side that this aggressive pricing is maybe not working to your advantage. So, is there a rethink on that strategy, where incrementally, you will start focusing a little more on market share over profitability?

**Neeraj Kanwar:** Gaurav, let me take that. So Jay, you're right, there is a very tight balance between volume growth and profit growth. And as we go along, we are going on analysing to see what competition is doing. We are obviously not wanting to go down hugely amounts on market share. As you'll see, there's a recovery already happening in the PV, in PCR, where we have gone out of the 12-inch sizes, which were not profitable.

Again, like in my opening remarks, I said, OEMs is an area where we are increasing our product mix, enriching our product mix. So, all along the chain, we are looking at small increases in price given the RM cost pressure. We are also looking at what competition is doing. And yes, we will lose a little bit market share when we do this strategy. But the overall thinking is that we need to get better on our cash flows, on our ROCE and also look at our profitable margins.

**Jay:** Understood. And my second question is, you know, you've seen this natural rubber in the recent days increased substantially and that may not have been factored in when you are giving your guidance of 5% increase in RM index in Q2. So, is it fair to assume that the recent days natural rubber increase will probably flow through in Q3, even despite crude coming down to a certain extent?

**Neeraj Kanwar:** I think the 5% Gaurav mentioned does take this into account.

**Jay:** Okay, understood. And lastly, on the market share on the OEM side, you did mention that the OEM truck side, you did see a volume decline. But if we see the MHCV industry in Q1 on a low base, did see some growth. So, are we kind of prioritizing a little more profitable OEM segments and ready to go off some of the market share on the OEM side?

**Neeraj Kanwar:** So, you've seen that increase coming in the bus segment mainly, which is a very bad pay master and a very small margin business. So, we really don't play in that segment. And again, on the HCV side, we play on the highest premium segments, okay? So, we don't play on the lower sizes. So, you're looking at an overall, but if you do a micro analysis, then the HCV segment, which is a premium segment has not grown this time.

**Moderator:** So, we'll take the next question from Siddharth Bera. Siddharth, please go ahead.

**Siddharth Bera:** Yeah. Thanks for the opportunity, sir. Again, first question on the growth side, like you mentioned that you would want to sort of improve the growth momentum, but if I see your TBR and PCR replacement are already growing in double digits, like you mentioned. So where is the gap, which is sort of pulling down our growth? And where do you see sort of more initiatives you will do to sort of improve the --

**Neeraj Kanwar:** See I think in the replacement, the company has done good. As you see, there has been a double-digit growth. Where we have lost out is on OEMs. And that is primarily because of we trying to go in the premium sizes, okay? So again, coming back to that balance question of profit versus volume. So, we've lost a little bit on the OEMs and on export. Export as you know, we export from here to Europe and to the U.S. We've had small gains in the U.S. not expected at the levels that we wanted.

Again, Europe is a challenging market. You've had a single digit growth in Europe. So going forward, I see both exports and OEMs picking up. So, while replacement will do what they are doing, as soon as export and OEMs pick up, our growth will be much better than our competition.

**Siddharth Bera:** Got it. And so, second question on the pricing. So, post Q1, what has been the price increase if you have taken any till now, if you can help us?

**Neeraj Kanwar:** Gaurav?

**Gaurav Kumar:** Just one minute. So, we've taken about a 1% price increase in Q2 as of now, Siddharth.

**Siddharth Bera:** Okay. So, 1% we have taken and we need to take total of 4% more to sort of cover up the prices?

**Gaurav Kumar:** That's correct.

**Siddharth Bera:** Okay. And any segments or where do we see sort of issues in taking up prices, given the demand outlook, which you are looking at?

**Gaurav Kumar:** See, all of it is a mix of demand and what competition does. In isolation, to be able to take price increases beyond a point and go out of sync with what the pricing accepted in the market is a difficult thing. So, we will have to take this call along with seeing how competition is reacting to this. We have heard about competition also considering taking price increases given the steep cost pressure. How much we will take, when we will announce that is still being discussed internally.

**Siddharth Bera:** Okay, sir, got it. So lastly, probably if I look at sequentially, our mix in the replacement has gone up, our mix in terms of passenger car, also Agri also has probably gone up a bit. So, does that sort of positively affect margins or do you think because of the commodity increase that improvement is not meaningful?

**Gaurav Kumar:** Right now, with the steep increase, it is less meaningful, but otherwise your interpretation is absolutely correct. As a result of market dynamics of OE being weaker, the mix is shifting towards replacement and also passenger car continues to grow. So, it's both moving towards a fundamentally more profitable mix.

**Siddharth Bera:** Got it. So, assuming all of these cost increases take place, so if you look at next year, would you be sort of targeting that target of more than 15% EBITDA margins, will it be fair to say that or there can be some resets along the way?

**Gaurav Kumar:** No, absolutely. And in line with our long-term vision, we will continue to target higher than 15% EBITDA margin. The current level of margins that we have reported in this quarter is not what we are happy with.

**Moderator:** We'll take the next question from Aryn Pirani. Aryn, please go ahead.

**Aryn Pirani:** Yes, hi. Thanks for the opportunity. I had a question which actually spans both your India as well as the Europe business. If we see in this quarter, based on your commentary, it looks like in India, replacement has grown much faster than OEM. So, there has been a mix improvement. Even in Europe, revenue growth was just about 1% Y-o-Y, but your UUHP volumes grew by 20%. So, notwithstanding the RM pressure, shouldn't your gross margin and EBITDA margin performance have been better than what you have reported? Because if the mix is improving so sharply, despite the challenges, the inherent margins of that business should ideally be better. So, I'm just trying to understand what has happened there, especially since you know, we have discussed a lot about competition having a certain performance and you having a certain performance. So just trying to -- or is it that the profitability of replacement and UUHP is not that much better than the underlying?

**Gaurav Kumar:** So yeah, I mean, the two geographies still act in a different way. So, Europe, you would see, in spite of the market conditions, a very low growth of just 1%. The margins are

better than what it was last year. That's a direct result of mix improvement, which in spite of the raw material pressure, no price increases, etc., has resulted in better margins. And because of the seasonality impact, Europe, it would not be appropriate to compare it vis-a-vis the last quarter, you need to see it vis-a-vis Q1 of the previous year, and we've had a margin upside.

Coming into India, A, fundamentally the raw material proportion is higher. So, it weighs more heavily. And B, because of a larger component of natural rubber, the pressure of raw material on the Indian operations was larger. And that in spite of the mix changing towards replacement has weighed down on the margins.

**Amyr Pirani:** Okay. So, so in Europe, you're saying that the overall volume growth was just around 1%, which means that your operating leverage despite the UUHP doing better was significantly negative? Is that a correct way to --

**Gaurav Kumar:** In the sense that there was hardly any operating leverage in Europe. There was some bit of RM pressure, lesser than India. But the mix improvement negated it to reflect a margin improvement.

**Amyr Pirani:** Okay. And the other thing is that in the India business, we have steadily been seeing, you know, other expenses rise, I mean, last year also other expenses rose more than revenue. This year, obviously, in 1Q, we have EPR. But apart from that, you've also talked about some lumpiness. So, I mean, this again brings me back to the question when we are comparing with competition, your revenue growth overall, has been a bit behind. So, in India, how should we think about operating leverage, because you are trying to focus on pricing. But ultimately, revenue growth is still, the price plus volume is not leading to better revenue growth. But your other expenses are rising because you are competing in the market. So, how should we think of operating leverage in India, because that is also going to be a challenge apart from the RM?

**Gaurav Kumar:** Fair point, Amyr, and we are conscious of this. And this quarter, the comparison vis-a-vis peers, and at least two of our peers is even more stark in terms of revenue growth. But over the last several quarters, it was slightly lower, which following the profit strategy was still playing out. We are going to go back and have a deep debate amongst ourselves, these results have just come out.

And as Neeraj said earlier, it's a fine balance to choose, it's not an easy thing to choose just one way or the other. We will reflect on it and choose our strategy going forward to make sure that the revenue growth is ahead of the curve of other expenses to keep going up, both on revenue side, but equally not forgetting the profitability or the return ratios.

**Neeraj Kanwar:** And Gaurav, also, the whole organisation is going through a new transformation. We had mentioned this last time also, and you may have heard so. During this transformation, expenses will go up. But eventually, it will start coming down. Why I say because we are rewriting SAP, for instance, people movement is taking place. Redundancies are happening, new joiners are coming in. So, there is all this cleanup happening to get ready for the new Apollo 2.0 is what we call it. And so, we will have some pain, but it's a longer-term plan, which is our vision to get to one of the top players in the world. So that's why we are taking this pain right now.

**Moderator:** We'll take the next question from Ashutosh Tiwari. Ashutosh, please go ahead.

**Ashutosh Tiwari:** Yeah. Hi. So, if I look at the margin performance of ours versus peers, this quarter particularly is a bit stark. The competition that we have seen on the gross margin is higher than peers. And despite the fact that probably we were ahead in terms of taking price increases versus peers. So, any reason that we can highlight behind that, is it like we are carrying low inventory of RM than peers? If you have some idea on that front or any reason like that, because gross margin competition is much more for us than peers.

**Gaurav Kumar:** Ashutosh, a difficult one, given some of the results have just come out, we need a deeper analysis. There's been no significant deviation from norms on the raw material front at our end. We'll have to look at some of the stuff in more detail for competition and sometimes some of these things could be a pure fortunate thing that if you were carrying a higher raw material inventory and in a rising scenario, that benefits you. But we don't have an immediate answer right now.

**Ashutosh Tiwari:** Okay. And in the Europe Operations, like obviously this quarter was 1% growth, but are we seeing a revival of growth over there, like can growth pick up from next quarter or we expect it to be low single digit growth only going ahead?

**Gaurav Kumar:** Next quarter, as of now, our expectation would be a mid to high single digit top line growth. So, much better than what it is currently. And this, we are again talking year-on-year, because as I said, from a seasonality factor, the sequential comparison in Europe has less of a meaning.

**Ashutosh Tiwari:** That would mean that the margin also should expand, like say we should compare Y-o-Y only. So, Q-on-Q, there should be good margin improvement from 2Q?

**Gaurav Kumar:** That's correct.

**Ashutosh Tiwari:** And any price increases in Europe?

**Gaurav Kumar:** Europe currently, the competition hasn't taken any price increases. And we will have to function within that industry. Europe also typically faces some of the raw material cost pressure with a lag. And keep in mind that the largest component of current pain in India, which is natural rubber is a much smaller proportion in Europe.

**Ashutosh Tiwari:** Okay. And can we like -- we mentioned the volume growth and replacement in TBR, PCR was in double digit. Can you share the numbers like segment wise, in other segments also, how was the growth or decline? As well as OEM segment, how much decline we saw in truck segment and all?

**Gaurav Kumar:** So, in truck, for example, we had a OEM decline of almost double digit. And passenger car was just a little negative.

**Ashutosh Tiwari:** Okay. And lastly, on the price increase side, we had taken around 2% price increase in the first quarter, blended. And 1% we have taken in this quarter, so far.

**Gaurav Kumar:** Price increase we had taken, while on the passenger car side, it was close to 2%, on the truck side, it was just about 1%.

**Ashutosh Tiwari:** In the last quarter?

**Gaurav Kumar:** That's correct.



**Ashutosh Tiwari:** And this quarter, we've taken 1% more across?

**Gaurav Kumar:** Yes. I'm not including in this the one that we took for the replacement segment on account of EPR.

**Ashutosh Tiwari:** Oh, that's separate?

**Gaurav Kumar:** That's separate, that's covering a separate cost element.

**Ashutosh Tiwari:** That's how much exactly?

**Gaurav Kumar:** That I think was around 0.7%.

**Ashutosh Tiwari:** And that was taken in 2Q only?

**Gaurav Kumar:** That was announced in May for the entire replacement segment.

**Moderator:** So, we'll take the next question from Pramod Amte. Pramod, please go ahead.

**Pramod Amte:** Yeah, hi, thanks for taking question. So, the first question is with regard to the price increases, even though you have been taking up aggressive price hikes, but if I look at your or the competition behavior, it looks like where you are leader you are taking literally a lower price hike than the required, whereas in case of PCR your price hikes are more than the TBR, where you are challenger, whereas the similarly competition is doing, the same exercise. So, is there a threat of market share further loss by the leader and hence the price hikes taken by the leaders within the subsegments are lower than the followers, and hence as a repercussion the realisation about the followers in terms of these price hikes will be lower than what is expected?

**Gaurav Kumar:** Pramod each segment we'll have to -- we take a call depending on situation, there's no simple equation. Your question is very valid, but in truck it's not as if we have a clear leadership position. MRF in fact in cases of volume is ahead of us. So, we have to take price increases taking that consciously into account. Passenger car where you've said we've rightly taken more price increases it's on account of a certain brand built over the last few years and a call was taken that we could take such a price increase, it's not that that is the formula going forward for the various segments. Each time there would be a call taken as to what's the appropriate action for each product category and within that each channel.

**Pramod Amte:** And follow up to the same, considering that these price hikes have come at the just start of the monsoon. How has been the on-ground realisation of these price hikes into the actual ASP for the company?

**Gaurav Kumar:** Still early though and we have taken only a small price increase as I mentioned about 1%, there are price increases announced by competition so we are considering another round of price increase. I don't have a date for that. This quarter, as you yourself said, is seasonally not our best quarter. So,

**Pramod Amte:** Sure. And the third question is with regard to the market share versus the organisational changes or the actions which you are taking up. Wanted to get, because this market share erosion has been initially as more as conscious thought, which you guys took, and now the reaction mode. We also see some amount of changes or churn at the marketing team level. Is it part of the action taken up to correct the market share game,

one? Second, or you feel the industry is still a capacity push type of an industry versus the action which you are taking up as a good citizen is not coming through?

**Gaurav Kumar:** Some of the churn, Pramod, is people having their own career ambitions, or in some cases, their own different goals coming up. It's not a reaction to market share. On the second part, we will continue to again strike a balance. This market share loss, and particularly this current quarter, does not make us feel good. How we will take actions, let's say you will get to know in the next one or two months.

**Neeraj Kanwar:** And Gaurav, I don't want to link this Apollo 2.0 to market share loss or gain. That's one of the main. The reason we are getting ready for Apollo 2.0 is because we see that the whole landscape of mobility is changing worldwide. We have three big operations, India, Europe, and the U.S. We were not getting global scale benefits synergies across all the three regions.

To give you an example about product rationalisation. Plants were running for their own territories. So now with this new structure, we've become one global company. And everyone is looking out for how do we get to those vision figures that we've always mentioned. So, it's a collective effort, and not just Europe doing what they want to do, and not India what they want to do. So that in itself will give a lot of synergies. And in the long term, you'll see eventually it will come to profitability, it will gain market share. It will gain podium positions. So, all of that is our target of doing this Apollo 2.0.

**Moderator:** Thanks, we will take the next question from Jinesh Gandhi. Jinesh, please go ahead.

**Jinesh Gandhi:** Yeah. Hi. Gaurav, can you talk about the quantum of cost inflation seen in first quarter?

**Gaurav Kumar:** The RM basket went up by 5%, Jinesh.

**Jinesh Gandhi:** 5% Q-o-Q?

**Gaurav Kumar:** Yes.

**Jinesh Gandhi:** And secondly, if you can also talk about our market share in the replacement side, both for PCR and TBR?

**Gaurav Kumar:** The market share data no longer is available, Jinesh, as a published figure. So, it's difficult. I would say we would have lost a little bit of ground on the truck side. Our broad figure used to be late 20s. Difficult to estimate how much we would have lost, but given some of the growth of competition, I would say...

**Jinesh Gandhi:** No, I mean, our market share till March '24 last year, not for the current quarter till last year?

**Gaurav Kumar:** Up to March '24, probably on a full year basis, we had a truck market share of about 28%-29%. We had a passenger car market share of about 20%.

**Jinesh Gandhi:** And TBR would be higher than 28%-29% or it would be around there?

**Gaurav Kumar:** It would be around there.

**Jinesh Gandhi:** Got it. And secondly, for the European business, I mean, given the consolidated nature of the market, would we be comfortable with 15%-16% kind of EBITDA margin on a sustainable basis from where we are today, there should be upward trajectory from there?

**Gaurav Kumar:** We believe, Jinesh, that the 16 odd percent margin that you mentioned on EBITDA is quite a sustainable margin within that industry structure. Pre-COVID some years, we definitely had dip, but this margin has been demonstrated for a number of years leading up to 2016, from about 2012 to 2016. And then, over the last two or three years, even without the operating leverage and market conditions being tough, we've delivered these margins. So, we definitely believe these are sustainable with the potential to go up.

**Jinesh Gandhi:** Right. And last question on the India business, I mean, where we have been willingly letting go of less profitable businesses on replacement and on the OEM side. Would that stance change once we have capacities also available, probably towards the end of the year or the next early FY27? Do you think we'll have to relook at those decisions or those are more structural in nature and not to do with the capacity constraints which we may be facing today?

**Gaurav Kumar:** A, we don't have a capacity constraint today. We are not at the best of capacity utilisations. With some of the strong growth, particularly on the passenger car side, the capacity utilisations have started going up to mid-80s. But through last year, we were in the 70s. The truck continues to be in the 70s. And yet we have chosen not to participate, as Neeraj mentioned earlier, in, for example, the bus segment, which is seeing growth. Because that's fundamentally low profitability, including question marks on payment issues. So, some of our decisions are structural. They have not been temporary one-off decisions. Some of them are constantly up for debate and will be evaluated.

And on your first point about capacity, as of now, our capacity will continue to only get tighter. There is no capacity expansion happening in India to give us that surplus capacity and hence pressure to get into unprofitable segments.

**Jinesh Gandhi:** Okay. Got it. And lastly, on the exports, given that most of your peers who compete in India are also ramping up in exports. Are you seeing any signs of pricing getting tighter in the export markets? Or it's more to do with the pricing set by the local players and are we benchmarked to them?

**Gaurav Kumar:** Largely benchmarked to the local players. And also, there are different markets. For example, Europe, which is our largest export market, followed by the U.S., we are largely playing there under the Vredestein brand. So, it is definitely not priced in accordance with the domestic peers in India, but more with the global players who are operating there.

In the Middle East or in the ASEAN region, etc, we would have to sort of compete with both the Indian players and a mix of local players where there is greater pricing pressure.

**Jinesh Gandhi:** Okay. And you're not seeing the Chinese players coming back and disrupting the pricing in any of the export markets?

**Gaurav Kumar:** They are there in a certain quantum, but again, our pricing has never been benchmarked to the Chinese and we don't cater to that customer or that sub-segment where the Chinese play.

**Moderator:** We'll maybe take one more question from the line of Basudeb Banerjee. Basudeb, please go ahead.

**Basudeb Banerjee:** Yeah. Hi, thanks. Couple of questions. One, if I missed out, if you can just clarify the EPR expense this quarter, which you said is in the other expense line item, which enhanced the number. So, but isn't that recurring in nature down the line or it had some retrospective element?

**Gaurav Kumar:** No, Basudeb, the INR 27 crores of EPR expense is a regular item, that's not a one-off.

**Basudeb Banerjee:** Yeah. So, then this other expense increasing because of EPR, that is a recurring thing. And the sequential gross margin decline had nothing to do with EPR as such?

**Gaurav Kumar:** That's correct, the sequential had nothing to do with EPR. And it's a regular, what I was saying is that it's a deviation from the same quarter last year.

**Basudeb Banerjee:** Sure. And mathematically speaking, if one looks at residual 4% price hike required, and already we are through almost mid of August in Q2 and 1% price hike. So further gross margin deterioration is possible, at least in Q2?

**Gaurav Kumar:** That's correct.

**Basudeb Banerjee:** Yeah, so that clarifies my doubt. Second question, if I look from more from an industry holistic perspective from a long-term angle, if I look at raw material basket cost, say two, three years back, where it was around INR 160 or INR 165 a kg, which is the current level approximately. But if I look at EBITDA per kg or gross profit per kg that time, and today there is heaven and hell difference where gross profit per kg is almost 50% higher. And at today's results, there is an element of negativity that result is on a downward curve. End of the day, maybe two quarters later, if natural rubber price falls back from INR 230 a kg to INR 160, and there won't be any price cuts in replacement, and everybody will be happy to see margin go back to 18%. But as a consumer, so the same say a swift car tyre price is inflationary in nature, and hardly it is deflationary even in a raw mat deflation environment. So, where is the end of that? You understood what I'm trying to ask, where will it end? Because it's a matter of demand supply, it can't go on and on.

**Gaurav Kumar:** Interesting point, Basudeb. And fundamentally, there is an inflationary environment, things go up, whether it's our regular consumption items of day to day, or white goods or tyre/cars. You made the interesting point that when the raw material basket was around INR 160, a couple of years back, margins were at a certain level. It came down to the levels of INR 150-ish margins went up. And one would want to say that that is where the margin should always be. We had been cautioning that the highs of last year was also not a normalised situation. We are currently in an environment where raw materials have gone up very rapidly. We will cover up for these cost pushes. And yes, fundamentally, a few quarters, a year down the line, the raw material basket will fall again. But the cost of your car or the cost of the tyres would have gone up. They would not come down to the extent there is. And if you look at a longer-term cycle, we are talking of a swing of raw material during the peak COVID quarter from INR 110 to up to INR 180, back to INR 150, and then INR 160. So, it's some of the swings of the industry that we go through. But if you step back and take a longer-term view, the pricing of per kg or EBITDA per kg, etc, is fundamentally going up.

**Moderator:** We don't have any further questions now, so I'll hand over the call back to the management for any closing remarks.

**Neeraj Kanwar:** Thank you to everyone and hope to see you next quarter with a better performance from Apollo. Thank you.

**Gaurav Kumar:** Thank you.