

**Apollo Tyres Limited**  
**Q2 FY2025 Earnings Conference Call**  
**November 14, 2024**

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**Ronak Mehta:** Good evening, everyone. This is Ronak Mehta. On behalf of JM Financial Institutional Securities, I welcome you all to 2Q FY25 Earnings Call of Apollo Tyres. We have with us today Mr Neeraj Kanwar, Managing Director and Vice Chairman of Apollo Tyres Ltd; Mr Gaurav Kumar, Chief Financial Officer and IR team. So as always, we'll start the call with a brief opening remark from the Management followed by Q&A session.

With that, over to you, Mr Kanwar. Thank you.

**Neeraj Kanwar:** Thank you. Good afternoon and thank you for joining us today. I welcome you all to The Apollo Tyres Q2 FY25 post results call. And as always I would start with a broad overview of the results followed by some of the key initiatives and then pass on the floor to Gaurav for more detailed commentary on our financial performance. And then we would be happy to take questions post Gaurav's remarks.

Q2 tends to be a seasonally weak quarter in India. Given that backdrop, Q2 FY25 was a challenging quarter marked by steep increase in RM cost. Consolidated operating margin for the quarter stood at 13.6% down about 70 basis points sequentially mainly on account of RM cost pressures. We are cognizant of the growth challenges in the marketplace and are taking initiatives to drive top line growth while maintaining strong focus on profitability, cash flow generation and return ratios. On the positive side, we are witnessing reduced steepness in RM inflation. This coupled with pricing action should help us report better operating performance going forward after a quarter.

Coming to regional performance, I'm happy to share that despite challenging environment, we outgrew industry in domestic passenger car tyres, in commercial vehicles and agri replacement segments resulting in market share gains across key product categories in the quarter. However, the growth was negated by decline in OEM segment impacted by weak industry growth and our continued focus on profitability. The only exception in OEM segment was agri where we reported strong double-digit growth in volumes. On the positive side, we initiated price increases across categories in the domestic replacement segment.

Coming to Europe, the market is rebounding, indicating start of a recovery. We once again registered improvement in PCR mix. Ultra High performance segment accounted for about 47% of PCT volumes in Quarter 2 of FY25 compared to 39% in the same quarter last year. In terms of outlook, we expect recovery in operating performance driven by growth in European Operations. Coming to India, while we foresee improvement in replacement demand momentum, OE demand is expected to remain muted in the near term. On the positive side, we have proactively taken pricing actions in the quarter and remain committed to further price increases to pass on the raw material inflation.

Let me now talk about the key pillars of our Vision '26. Starting with R&D, I'm pleased to share that both in India and Europe we've secured additional model wins from marquee German PV manufacturers, thereby revalidating our product capabilities and further supporting our premiumisation journey. I'm also happy to share that we continue to win podium positions in the European test results.

Coming to Digitalisation, we are leveraging new edge technology to further improve our process. We have recently gone live with end-to-end supply chain digitisation in India. This would help us improve our demand supply planning, product availability and further optimising our inventory.

Finally, Sustainability has always been a key pillar for us. I'm happy to share that our work is being recognised by external agencies. During my last call, I touched upon significant improvement in our sustainability ratings by one of the premier agencies, EcoVadis. Furthermore, recently BW Sustainability World ranked Apollo Tyres 14th overall among India's most sustainable companies. Apollo Tyres was also ranked the top sustainable company in the automotive component segment.

With this I'd like to conclude my opening remarks, and let me reiterate that as always, we are keeping a close watch on the markets and our costs. At Apollo Tyres, we are working to prepare for what lies ahead and I believe we are extremely well placed to leverage long-term opportunities across our key markets. Thank you for being on this call, and I hand over to 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 64.4 billion, a growth of 3% over the same quarter last year. The consolidated EBITDA for the quarter stood at INR 8.8 billion, a margin of 13.6% compared to 14.4% in the last quarter on account of the raw material cost pressure.

Coming to the balance sheet, we saw about INR 4.6 billion increase in net debt as on September '24 when compared to beginning of the year, April '24. The increase in net debt was driven by increase in short-term borrowings which was used to finance inventories and is only a short-term phenomenon. We continue to bring down the long-term debt which has reduced by INR 7.6 billion at September end compared to the March '24 position. The net debt-to-EBITDA for the consolidated operations was a very comfortable 0.8x as of September end.

For the India Operations, we continue to grow in the core replacement segment of TBR and PCR. In both these sub-segments we are growing at a healthy volume growth rate. We also witnessed good growth in the Agri segment. Our recovery in export volume continues. However, there was negative growth in the OE segment for truck and PCR. The revenue for the quarter was INR 44.6 billion, marginal growth over the same quarter last year. The EBITDA for the quarter stood at INR 5.4 billion, a margin of 12.1% compared to 13.8% in the last quarter.

In terms of demand outlook, we expect the demand momentum to get better in H2. We expect the RM cost to slightly increase in Q3 and then start coming down from Q4 onwards. As Neeraj indicated earlier, we've taken price increases in the domestic replacement segment and we will continue to navigate the RM cost push through well-timed price increases. The net debt-to-EBITDA for India Operations stood at 1.1x as of September end.

Coming to the European Operations, the revenue for the quarter was EUR 171 million, slightly up compared to the same period last year but 17% up sequentially. The EBITDA for the quarter stood at EUR 25 million with an EBITDA margin of 14.8% compared to 14.1% for the same period last year, and 13.7% for the last quarter. We continue to grow vis-a-vis the market with a very strong mix in the PCLT segment. As Neeraj indicated, the Europe market is showing good signs of demand recovery and we expect to gain from the same. We will continue to focus on cost optimisation further driving up the margins in those operations.

There is no change in our CapEx guidance for FY25 and we will continue to focus on profitability, free cash flow generation and improvement in the return ratios as we go ahead.

With this, I will conclude my opening remarks. Thank you. We would be happy to take your questions now.

#### **Questions-and-Answers Session**

- Ronak Mehta:** Thanks, Gaurav. So we'll start with the question-and-answer session. We have the first question from Raghunandan. Your line will be unmuted now. Can you please go ahead with the question?
- Raghunandhan N.L.:** Thank you, sir, for the opportunity, and festive greetings. Sir, firstly, trying to understand better the cost impact. Can you indicate that in India Q-o-Q, what was the RM cost increase in Q2 and in Q3, further how much cost increase do you expect? And if you can also talk about what is the current under-recoveries?
- Gaurav Kumar:** So Raghu, the RM went up by about 8% sequentially. Our expectation going forward is just about a 1 percent-plus increase for Q3. And then as per current expectations the RM should start coming down.
- Raghunandhan N.L.:** And what is the kind of price hike you are planning to take? And if you can quantify the under-recovery?
- Gaurav Kumar:** So, broadly we have taken price increase ranging from 2-odd percent in the truck segment to a larger quantum in the PCR segment. The under-recovery from last year is about 6-odd percent.
- Raghunandhan N.L.:** Got it, sir. And for Q2 for India, if you can share what was the volume performance Y-o-Y and within that export, replacement and OEM, how was it?

**Gaurav Kumar:** The volume for Q2, Y-o-Y Raghu, was flattish. Within that, the replacement was mid single-digit growth, exports was a double-digit growth and OEM was a double-digit negative.

**Raghunandhan N.L.:** And within replacement, how would you see the outlook for full year for TBR and PCR, and also your thoughts on the market share?

**Gaurav Kumar:** So both for TBR and PCR full year the replacement should be around a double-digit growth. Right now, in near term, the signs of recovery from OE are not there. So in near term, it will continue to be probably in the same zone.

**Raghunandhan N.L.:** And your thoughts on the market share, sir?

**Gaurav Kumar:** Market share, in the current year we've been able to maintain or slightly up across product categories. So I would tend to think that a similar situation would continue. We would make all attempts to gain market shares.

**Raghunandhan N.L.:** Thank you, sir. One question, last question on Europe before I fall back to the queue, outlook for Europe market at least as per commentary of some of the global companies seem to be flattish. How do you see the recovery panning out? You indicated early signs of recovery. And also, there is market share gains for Apollo. So based on that, how do you see the outlook ahead, and also in terms of margins, Europe seems to be better placed in terms of margin performance. What has supported the performance, and your thoughts on how the product mix and cost saving efforts can help the margins ahead?

**Gaurav Kumar:** Raghu, Europe markets for the first half, has shown a growth of about 3% on the passenger car segment which is the key segment for us. We've also grown in line with that. The reason on the margin performance is that large part of the raw material cost push was driven by natural rubber which is a much smaller proportion for the European Operations versus the Indian Operations. And that's the nature of the industry in terms of predominance of car tyres versus the truck tyres. And that's obviously helped the European Operations. And also, for the western mature markets, raw material proportion as a cost is much lower than for markets like India. So, all that has played into margin support. And lastly the point that Neeraj mentioned, we have been able to successfully keep improving our mix with a significant improvement on the UHP proportion, which has further helped the margins despite the other pressures.

**Raghunandhan N.L.:** Thank you very much sir, Very helpful.

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

- Ronak Mehta:** Thank you. We have the next question from Siddhartha Bera. Please go ahead.
- Siddhartha Bera:** Yeah. Hi, sir, thanks for the opportunity. First question is on the market share gains which you alluded to, is it across both replacement and OE because I think last time you said that we had lost some market share in OE. So are we seeing already improvement in some of those segments where we had initially lost out?
- Gaurav Kumar:** Siddhartha, I would tend to think that our market shares in OE would be around similar levels. We've started regaining some of the market share on the replacement side.
- Siddhartha Bera:** Okay, any numbers, sir, if you have and where do we aspire to maybe go to say maybe in the next couple of years?
- Gaurav Kumar:** We do not have the industry data. These are estimates. On the truck side, our aspirations or vision would be to get back into the 30% in terms of market share which is where we used to be a couple of years back, and in passenger car given the more number of players and the more competitive intensity somewhere in the 20%, to early 20%.
- Siddhartha Bera:** Got it, sir. Sir, second question is on the cost side. So, in this quarter in the India business, we saw other cost remaining probably quite steady despite drop in the volumes. Generally we do see some improvement there in second quarter. So, anything to highlight here, why it has been so sticky and should we expect more cost increase in the coming quarters or this is probably the peak-ish where we should see some improvement going ahead?
- Gaurav Kumar:** So Siddhartha, your observation is absolutely correct. The increase in the other cost is on account of freight costs where the freight rates went up. Secondly on account of the EPR which was not there last year and thirdly on account of advertising. So the freight rate is very much dependent on how the overall macro environment is. Difficult to predict on that as to where it will go. The advertising portion is under our control, and on the EPR front, that's a constant now.
- Siddhartha Bera:** Okay, okay, got it. Sir, lastly on the working capital side; so, we have seen quite a steep increase in probably the inventory levels at the end of the quarter. So, do you think part of this normalises in the second half and any color if you have? Now on the CapEx side also you said that you maintain the INR 10 billion outlook and we have done only INR 3 billion in the first half. So where do you think the net debt settles at by the end of the year, if you have some insights there?

**Gaurav Kumar:** So the CapEx levels would remain. Difficult to give you an estimate on where it would be at the end of the year because that depends on profitability. But it is well under control. There is no major CapEx coming up. So from a cash flow perspective or a net debt, there is nothing to worry about. Inventories is a temporary phenomenon. That should get corrected. Also take into account that for our European business from a seasonal perspective, there is inventory buildup of winter tyres given the coming quarter.

**Ronak Mehta:** Okay, thanks, Siddhartha. Next question is from Amar. Amar, please go ahead.

**Amar Kant Gaur:** Yeah, hi. Thanks for taking my question. I had two questions. One was maybe a little strategic and long-term. So we have seen over the last several quarters the top line growth has kind of been weaker as compared to some of our peers whereas prior to that we were growing much ahead of the competition. So is that largely due to maybe in the OEs, our share going down or -- I mean, how do you explain that?

**Neeraj Kanwar:** Yeah, thank you, Amar. I think that's a very valid question. Two things that have gone negative for us is, one, OEs have been -- and we've been very large OE suppliers -- down and out. So obviously supplies to the OEs have gone down and there's been a degrowth as far as OE revenue is concerned. Also export markets as you know are weak all over the world given all the political crisis that -- is what we are facing.

And so export markets are also down. But if you see replacement in India where Gaurav has mentioned, we've had a double-digit growth in TBR and PCR. So we will continue to gain market share in our main products which are truck bus radial and passenger car radial. So when I look at peers, yes they have gone into the smaller segments of the OEs where Apollo has come out of. So you know my mantra has been profitable growth and therefore we are only looking at premiumisation of our PCR tyres and not going down on pricing. So we are vacating some of these OE orders on purpose given the profitability situation.

Secondly, also Apollo has taken the lead in price increases in the market. Given the RM cost push, we have been always taking the lead in RM margin in price increases and therefore the gap between us and competition sometimes weakens our volume growth. So, it's a very fine line of balance between our pricing strategy and our volume strategy. But nevertheless, there is total focus on the main channel of distribution, which is replacement which gives the maximum profit.

**Amar Kant Gaur:** Got that. But as a follow-up to that, even if you look at the kind of margins that we have been delivering, maybe last two or three quarters have been relatively weaker, I understand that RM prices have got a lot to do with that, but if you look at the kind of margins that the peers are delivering, I mean the difference between you and number three guy has come down quite a bit, right? So probably something that is not reflecting in the margins, maybe

it has something to do with higher other expenses as well which you also indicated. So if you could shed some light on that as well.

**Neeraj Kanwar:** Sure. Yes, I think that is a focus area for us also. We also believe when we looked at peer profitability we do see that the gap has narrowed. We are doing more analysis to see what has gone wrong and where other expenses have gone up. So there is a direct focus on all of this. I can only tell you going forward, you will see margin improvement over time because Quarter 3 again, RM is still very, very strong. While rubber has come down, but as you know it has a three-month lag effect. So I don't see it springing back in Quarter 3, but I'm very positive on my volume growth in Quarter 3. And that should release some margin. Going forward, if all goes well and RM still keeps coming down, there will be a margin increase in Quarter 4. But rest assured, we are looking at what you have said. We will come back to you with better results. That's all I can say.

**Amar Kant Gaur:** Thanks. That's heartening to hear. And maybe a little bit on other expenses. If you can quantify some of these high other expenses and when should we see them maybe correcting a little bit, maybe freight costs, advertising, etc?

**Neeraj Kanwar:** Gaurav, you want to come in?

**Gaurav Kumar:** Yeah. So Amar, the advertising part continues at a certain level and there are no immediate decisions of taking it up or down. The way to look at it is that as the volume growth and some of the normal market growth keeps coming in, the other expenses will not increase in those proportions. And that is what will feed into the margins.

**Amar Kant Gaur:** So would the current run rate of about INR 800 crores-odd of other expenses, should we build that -- that will be sustained in the near term. Is that the number two...

**Gaurav Kumar:** Broadly, yes.

**Amar Kant Gaur:** All right. Thanks. Thanks so much.

**Ronak Mehta:** Thank you, Amar.

**Amar Kant Gaur:** All the best.

**Ronak Mehta:** Thanks, Amar. We have the next question from Aryn. Please go ahead. Your line is unmuted.

**Amyr Pirani:** Yes. Hi.

**Ronak Mehta:** Hi, Amyr.

**Amyr Pirani:** Hi. Okay. I joined a bit late so forgive me if I ask or something repetitive questions. You mentioned that replacement growth was mid-single digits but the expectation for the full year is double-digit, is that right?

**Gaurav Kumar:** Amyr, what was mentioned is that the overall volume growth for the replacement segment was mid-single digits, as you correctly said, and the double-digit reference was specifically for TBR and PCR.

**Amyr Pirani:** Okay. But I'm guessing that would still mean that you are expecting an acceleration of the growth as the year goes by.

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

**Amyr Pirani:** Okay. And just in Europe, since we are already in the middle of November, any initial sense that you have got of winter tyre demand for this year?

**Gaurav Kumar:** As of now it seems to be a decent quarter. We are growing over last year. Still don't have the figures of the market, but the current sensing is we feel good about the quarter

**Amyr Pirani:** Okay, thank you. And lastly, in Europe, it seems like energy costs have again started to become a bit of a problem. So how are we seeing those things? And I know that you used to hedge. So the impact for you was lesser and with a lag. So how are you seeing those costs pan out in Europe?

**Gaurav Kumar:** So, Amyr, we've continued with our hedging strategy to a certain extent, and given how the last few years have panned out, in fact, regularly take expert advice and take hedging based on that. So, I would say over the next one year, our energy cost would be hedged about to the extent of 60% to 70%.

**Amyr Pirani:** Okay. That's good to know. Thank you.

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

**Ronak Mehta:** Thank you. We have the next question from Joseph George. Please go ahead.



**Joseph George:** Thank you. Just one question. Gaurav, you mentioned that in truck and bus, we've taken a 2% price increase and the hikes that you've taken in PCR is much higher. I want to understand how much of this is reflected in the 2Q results and how much of it is yet to come, which means that it will come in the third quarter assuming you don't take any further price increases?

**Gaurav Kumar:** So Joseph line was slightly unclear, but I understood that how much of the price increase is already reflected. On the truck side, we've taken about half of the price increase of the 2% in the current quarter which will flow through, and on the passenger car side, a larger chunk, about 3% has been taken in the current quarter which would only have reflected partially in the current quarter.

**Joseph George:** Sorry. So the 3% in PCR will largely reflect in 3Q and not in 2Q? Is that what you mean?

**Gaurav Kumar:** Half and half. I think we took it somewhere in the middle.

**Gaurav Kumar:** Understood. Okay. That's all I had. Thank you.

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

**Ronak Mehta:** Next is the follow up from Siddhartha. Siddhartha, your line is unmuted. Please go ahead.

**Siddhartha Bera:** Thanks for the follow up. Just a housekeeping question on the Reifencom numbers, If you can share?

**Gaurav Kumar:** Siddhartha, Reifencom?

**Siddhartha Bera:** Yeah, yeah, Reifencom. Sorry.

**Gaurav Kumar:** So Reifencom for this quarter did INR 45 million in revenues, had a fairly healthy growth, double-digit growth over the same period last year. And margins continue to be broadly in the same range, which at an overall level, which they have been historically.

**Siddhartha Bera:** This quarter usually is flattish, right? Breakeven type of margin. So that is the case or...

**Gaurav Kumar:** Yes, that is the case.

**Siddhartha Bera:** Okay. Okay. Thanks a lot, sir.

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

**Ronak Mehta:** Next is a followup from Ragunandan. Please go ahead.

**Raghunandhan N.L.:** Thanks, sir, for the opportunity again. Gaurav, can you share the commodity prices?

**Gaurav Kumar:** Sure, Raghu. So natural rubber was in the region of INR 210 a kg, Synthetic rubber, INR 190 a kg. Carbon black, INR 125 a kg.

**Raghunandhan N.L.:** Thanks for this. And what would be the plans of the next price hike, and any quantum you're planning?

**Gaurav Kumar:** That's a difficult one to say, Raghu. The sales and marketing people look at the overall environment, demand, competitive action. So I would not have a timing and a figure on that.

**Raghunandhan N.L.:** Got it, gaurav. Thank you very much.

**Gaurav Kumar:** Thank you.

**Ronak Mehta:** I guess we are at it. Since there are no further questions, would now like to hand it over back to Neeraj for closing comments.

**Neeraj Kanwar:** We thank you all for joining us. All the best for the holiday season and hope to see you in February. Thank you.

**Gaurav Kumar:** Thank you.