India, August 7, 2017

Q1FY 18 Earnings Call

Shyam Sundar Sriram: Good morning everyone. On behalf of JM Financial Institutional Securities Limited, I welcome you all to the Q1 FY 2018 Earnings Call of Apollo Tyres Limited.

From the management today we have with us Mr Gaurav Kumar, Chief Financial Officer, Apollo Tyres and other members of Senior Management.

I would now like to transfer the floor to Gaurav for his opening comments, post which we will have the Q&A session.

Gaurav Kumar: Good morning everyone and welcome to our quarterly earning call. We would give brief background on the results post which we would be happy to take your questions.

On a consolidated basis, the net sales for the quarter stood at Rs 32.5 billion registering a marginal de-growth of about 1% on a YoY basis and was almost flat from the previous quarter. This de-growth was essentially on account of currency, with the rupee appreciation impacting the European Operation. Otherwise both the Indian Operations and the European Operations registered growth in local currency terms.

The EBITDA excluding other income for the quarter was Rs 2.7 billion, registering a margin of 8.4% against a 16.4% for the same period last year. This was primarily on account of the sharp increase in raw material prices which we had talked about earlier. While the operations particularly in India did take some price increases, the industry scenario was not conducive for optimal price increases. In Europe, there were no price increases taken and hence, the full impact of raw material rise was felt.

The net debt at the end of the quarter continued to go up as we invested in our growth projects and was at Rs 34 billion plus, up by Rs 7 billion vis-à-vis end of last quarter.

Moving on to Indian Operations, the sales for the quarter were Rs 22.8 billion, a small growth of 1% plus over the same period last year. This was a combination of a volume decline of 4% made up by more than 5% increase on account of price increases and change in product mix.

The volumes in this quarter were impacted both on account of industry switching from BS-III to BS-IV emission norms, which severely impacted the truck OEM sales, also there was significant de-stocking by the trade in the second-half of the quarter on account of GST getting implemented which impacted the replacement volume. All of this essentially led to a decline in the truck segment. While other segments showed a volume growth. Given the large majority of our sales are from the truck segment, we had a volume decline on an overall basis

The EBITDA excluding other income for the quarter stood at Rs 1.9 billion, a margin of 8.4% compared to a much higher number of 17.5% for the same period last year. The huge decline was on account of raw material increases. Industry did not follow through the May price increases that we had announced and hence, it was not implemented, so the price increases were only what were taken from January to April.

The net debt in the standalone operations at the end of the quarter went up by Rs 5 billion to Rs 17.7 billion, up from Rs 12.7 billion at the end of March quarter

The raw material was up nearly 30% on YoY basis and up by about 10% sequentially.

We do see, in terms of outlook, that the OE demand is coming back and we expect those numbers to recover in Q2. The replacement side would still take some time as the trade on the replacement side is stocking up slowly. We would see some recovery in Q2, outlook is positive but we still need to see how that pans out. Moreover, the recommendations to levy Anti-

Dumping Duty on import of Chinese Tyres, if implemented, would provide some relief for the industry.

Moving on to the European Operations, given that Hungary Operations have also started, we have within the overall European mix three parts, Dutch Operations, Hungary Operations and Reifencom. The Dutch Operations registered a growth of about 3% primarily on account of volume gains in each product category and this was against a scenario of negative industry growth. We have also started with OE deliveries in our journey to become a player across the entire range of OE and replacement. The Hungary Operations commenced this quarter. Start up costs of the same would have a negative impact on the EBITDA for the next few quarters. Also, as mentioned to you in earlier calls, we have started truck radial sales in Europe in this quarter and they would also pull down the consolidated European EBITDA for the next couple of quarters.

For the entire European Operations for this quarter, the sales were in excess of Rs 10 billion, a de-growth of 3.6% over the same period last year. This was a result of currency impact and also Reifencom being lower than previous year.

Jay Kale (Elara Capital): What was the growth in truck and passenger vehicle segments? Also, how are you seeing the overall volume growth for the standalone operations for the full year taking into consideration all the re-stocking and the recovery in the truck OEM segment?

Gaurav Kumar: During the quarter, the truck tyre sales declined by about 10% and the passenger car tyres sales increased by around 3% on YoY basis. It is difficult to give an estimate on volume growth currently given various significant events that are happening. The GST de-stocking and now re-stocking which should happen in Q2, Anti-Dumping depending on the final duty imposed could be another significant factor. We remain hopeful that we will have a positive volume growth for the full year but as of now I would find it difficult to give you a particular number around it.

Jay Kale: What is your outlook in the raw material for the coming quarters? And, what was the raw material cost per kg item wise for the quarter?

Gaurav Kumar: The raw material is expected to decline somewhere in mid to high single-digits in the current quarter on a sequential basis and should stabilise thereon. Natural rubber was around Rs 170 a kg, same level for synthetic rubber. Fabric Rs 300, carbon black Rs 65**.**

Nishit Jalan (Kotak Securities): Firstly on the India business, you have launched a new range of tyres in passenger vehicle like Amazer 4G and even in truck& bus a new range of tyres has been launched. Can you highlight what has been the response from customers and any kind of market share gain or new order from OEMs you have received because of your new product launches?

Gaurav Kumar: The new products launched have been well accepted in the market. Particularly Amazer 4G Life that has been boosting the sales volumes of PV category since its launch. However, we would not have details of specific sub product wise volumes.

Nishit Jalan: In PV category your growth is because of gains with the OEMs in the last 1 - 1.5 years in different models of all companies and specially Maruti?

Gaurav Kumar: Yes, that is correct. We continue to make significant gains on the OE side in the last year and half. We are confident that even in the current year we would be there on all major models. Our success and penetration into the OEs continues to be good which would also then play out in the replacement segment in the following years.

Nishit Jalan: My second question is on Europe business. If you can give more clarity on how should we expect the ramp up of Hungary plant? You mentioned some OEM orders you have won. Can you give more clarity on that, because in European business, to increase the utilization, it has to come from market share gains and also OE will be an important contributor for that. And subsequently if you can also talk about how should we look at profitability for next few quarters given RM softening and also the outlook on Hungary ramp-up for the next 3 years perspective.

Gaurav Kumar: Sure. Without giving specific guidance Nishit which we do not, we have begun our supplies to OEMs, however, we cannot give out specific names. And going forward those numbers will increase as we are looking to get into more OEMs as part of our overall strategy. To the other part of your question, yes, with raw materials coming down, the Dutch Operations would get some relief in the coming quarters. But the start up costs of Hungary which had just started operations this quarter, would have negative impact on margins for at least two quarters which is the September and the December quarter. And only by the last quarter of this financial year would we expect the Hungary plant to stabilise though still at lower levels of capacity utilisation. The plant would reach capacity of 16,000 car tyres per day by the second-half of FY 2019. So, over the next two quarters, yes there is a certain relief on the raw material side but would get diluted from the Hungary Operations for at least a couple of quarters and the same would also hold true for truck radials where there is a sales infrastructure which has been built up but the volumes that have been started are very small.

Nishit Jalan: Okay. Sir, from a medium-term perspective, do you have any target in terms of what would you want your OEM replacement mix to be?

Gaurav Kumar: Broadly we would expect the OEM replacement mix in Europe to be about 20-80 for passenger car segment excluding the space master segment.

Nishit Jalan: And what would be the channel mix right now?

Gaurav Kumar: Till previous quarter, it was 100% replacement, and even in the current quarter or the quarter gone by the OEM numbers would still be very small.

Nishit Jalan: Just one final question on Hungary, once the production fully ramps-up the profitability of Hungary plant would be higher than the Netherlands plant, right?

Gaurav Kumar: Yes, that is correct. It needs to reach a certain scale and once they are on like-to-like scale basis the Hungary plant's profitability should be higher than the Netherlands plant.

Raghu Nandan (Emkay Global): Sir, your comments on the Anti-Dumping Duty and what is the current market share of the Chinese players? And also what are the timelines of the capacity ramp up of TBR in India?

Gaurav Kumar: Our current average capacity for the quarter on TBR was around 8,000 tyres per day. You would recall that number previous year used to be 6,000 tyres per day for truck radial. So, we are up from that to 8,000, the expectations for reaching the full capacity of 12,000 as mentioned earlier, is around September 2018 and we remain on that timeline. On the Chinese part, the number has been a bit of up and down over the last 6 or 8 months given various impacts of demonetisation and GST etc. The Chinese imports reached a peak of about 150,000 tyres per month way back in September, October, and that number dropped drastically post demonetisation to less than half, and then had started going up again in the previous quarter, the numbers were touching about 100,000 tyres per month again. Now, what will be their new normal needs to be seen in the coming quarters but you could broadly say that from their peak levels the numbers could halve.

Raghu Nandan: And how could the dynamics change post the Anti-Dumping Duty?

Gaurav Kumar: See, if the 100,000 number which currently drops to 75,000 which is half from the peak that is an additional 25,000 tyres per month for the domestic industry.

Raghu Nandan: With the increase in the debt levels, how do you see the cost of debt impacting for the current year and the next year approximately?

Gaurav Kumar: As of now given our overall balance sheet leveraging we have been able to raise debt at fairly competitive level. The funding in Europe was all tied up, so this was all factored in, there is no surprise element and similarly in India the fact that we would be going up on leveraging is a factor that was well known. The profitability decline has put on additional challenges to it and may be next year our cost of debt could go up marginally. But as of now we see the situation still under control.

Parmod Amthe (CIMB): With regard to Europe consolidated operations, the way you are indicating, it looks like for the current EBIT margins of 2 odd percent, is there a possibility that you may slip into losses considering that new plant is yet to ramp-up?

Gaurav Kumar: I would not be able to give out guidance on specific number. As mentioned earlier, we would expect one factor of margins going up on account of the raw material relief that is coming through in this quarter. The Hungary start up costs and TBR costs will be a large drag now where all these factors would end up is difficult for me to give guidance on.

Parmod Amte: And second is with regard to the Anti-Dumping Duty, are the rates specified as per your expectation, below expectation? And second, you feel this will give you more pricing power or volume headroom?

Gaurav Kumar: One does not ask for a specific duty, when you make the case, so there was no number expected. We were asking and against which I cannot comment we have got a higher or a lower, one would have still wanted a higher duty because the higher the duty on Chinese tyres, the bigger is the relief. On the second part of your question, we would expect that it would give us a more relief on the volume front than on the pricing front.

Amin Pirani (Deutsche Bank): Do you see the same raw material trajectory in Europe as in India?

Gaurav Kumar: Similar trajectory except for the fact that the European Operations are less impacted by natural rubber, given that they are predominantly passenger car. The impact of synthetic rubber is much more for them than natural rubber. Though as I mentioned the prices for both are similar and this quarter even the increase for both has been similar.

Amin Pirani: For, Synthetic rubber being a derived commodity, are you expecting a similar trajectory as natural rubber or different going forward?

Gaurav Kumar: Synthetic rubber as of now has not come down to the extent of natural rubber.

Amin Pirani: Okay, understood. So, for the existing European Operation, we understand in Hungary and Reifen would be a drag on overall margins. But what is the outlook that you are getting from other players in terms of pricing and also in terms of the growth outlook for the remainder of the year?

Gaurav Kumar: The pricing scenario continues to be weak. There were price increases earlier announced on winter tyres on account of the raw material that had shot up in the first-half. Given how raw materials have behaved, some of the players are not going through with the announced price increases and given that in Europe, we are more a price follower, so the pricing environment in Europe remains weak. In general, registration of new cars overall expectation of the industry remains at normalised growth level between 1% to 2%.

Ashutosh Tiwari (Equirus): Can you please share the European Operation revenue and margins separately for Reifen and Vredestein in Hungary plant?

Gaurav Kumar: For Hungary plant there was no revenue, it was essentially sort of stabilising and it has produced a few tyres. The European Operation which may have sold a few tyres produced by Hungary, which I would not get the break-up, is up from €107 million to €110 million and for Reifen the number is down from €42 million to €36 million. For Dutch plant, the margin was 8.5% and for Reifen it was 1.5%.

Ashutosh Tiwari: What is your Hungary plant ramp up plan?

Gaurav Kumar: The Hungary plant would be fully ramped up to 16,000 passenger car tyres per day by the second half of FY19. Whereas, the first truck tyre even as a test tyre would roll out only sometime in FY 2019 and then slowly ramp-up. We will first concentrate on getting the capacity up, running and stabilised for the passenger car tyres. Now, will it be the last quarter of FY 2019 or the third quarter, again difficult to say as of now.

Ashutosh Tiwari: Lastly, What is the current market size of TBR in India in terms of monthly volumes?

Gaurav Kumar: Broadly the truck tyre market is about 16 million, of which 45% is radial, a per annum market size of about 7.5 million.

Bharat Gianani (Sharekhan): In Europe, what is your plan in terms of pricing? Will you go ahead with any price hike in winter tyres?

Gaurav Kumar: Given our size within the context of the European market, we will be waiting and watching the industry, we will not be able to go ahead with the price increase if some of the global majors do not go ahead with that.

Bharat Gianani: What is the capacity per day in your Netherlands plant?

Gaurav Kumar: Netherlands plant is about 18,000 to 19,000 tyres per day.

Basudev Banerjee (Antique Finance): What was the volume growth year-on-year in Europe? And, Vredestein core margin was 8.5%, does it include start-up costs of Hungary plant. What would be the margin of Vredestein business alone assuming the initial cost of Hungary not being there?

Gaurav Kumar: Volume growth in Europe was just below 3%.

Gaurav Kumar: So the Vredestein or the Apollo Europe Operations was 8.5% that is without Hungary and again, I would not be able to give out specific margin guidance operation wise for the next couple of quarters since we are moving in from one plant operations to two plants. But a whole lot of costs are common between the two operations. So, it would not even be the right way of looking at Apollo Netherlands margins and Apollo Hungary margins because there are a lot of costs which are common between the two.

Basudev Banerjee: Sure. Basically, as Hungary is in the testing phase till now production is not coming and while the costs are there for Hungary also, so, this decline in margin. How is the health of existing running business which is Vredestein without the Hungary Operations impact?

Gaurav Kumar: Yes. So, the existing operations which if you compare like-to-like basis was at 8.5% EBITDA margin compared to 14.5% last year.

Basudev Banerjee: As mentioned earlier, your landed cost of natural rubber was 170 and synthetic rubber is also 170. So, what kind of levels, one should look out for Q2 and Q3 assuming the present spot levels remain same.

Gaurav Kumar: Looking at these numbers in isolation would not be correct. There would be a certain amount of inventory that would be carried on, there is a buying pattern which is situation driven. Overall raw material basket would come down as I have mentioned earlier. I do not know what the exact prices of each of these raw materials for this quarter would be as I'm not privy to the buying pattern on a daily basis.

Basudev Banerjee: As I understand that the lag effect of high cost inventory of natural rubber impacted the margin this quarter, similarly, natural rubber fell to as low as sub-Rs 120 per kg levels also. So, there should be a lag effect of that sub optimal levels of rubber also in the coming quarter. So, the overall raw material basket will be down somewhere around 9% - 10% sequentially, am I right?

Gaurav Kumar: Yes, as I said mid-to-high single-digits. As of now seemingly, there is no pricing pressure and given where profitability has fallen for us, and some of our peers, I do not think that there is a pressure of price reduction further.

Basudev Banerjee: But overall, OEM basket which will be what around 30% of your India business that will have a pure pass-through clause?

Gaurav Kumar: True. For the OEMs where the pass-through clause is there we have also got price increases and there will be price reductions going on, based on the RM movement.

Basudev Banerjee: Okay. And how is the two-wheeler business ramping up still in that small space or TV ads are now coming up, so any thought process on that?

Gaurav Kumar: Our two-wheeler volumes are going up from previous year, so we continue to grow as per plan and we will continue to see those volumes growing. However, we will not play it on a pricing level to just gain volume.

Sonal Gupta (UBS Securities): Just to understand, on the Anti-Dumping Duty what does the notification mentions in term of levy?

Gaurav Kumar: The recommendation on the Anti-Dumping front is a certain specific $245 to $400 per metric tonne depending on various players. Broadly, it translates to somewhere in a range of 10% to 12% of Anti-Dumping Duty on those specified players. But it still needs to be implemented through a final notification and then we will have the exact details.

Sonal Gupta: Okay. And just lastly, in terms of India given like you mentioned how low the margins have fallen for the industry as a whole, do we see any scope for price increases, now that the GST transition is also over.

Gaurav Kumar: The scenario is challenging because if the raw material basket were to remain where it is then it would have been more conducive to increase the prices. But we would definitely be internally considering price increases given the sharp pressure on margin but we will have to also take into account what the competition is doing.

Sonal Gupta: In India the price and mix effect is up 5% year-on-year already so we are already bottomed out in terms of the pricing side, right?

Gaurav Kumar: Yes, on the pricing side everything that has been done is already built in because nothing has happened in this quarter effectively.

Chirag Shah (Edelweiss): How the Hungary plant is different from the Netherlands plant in terms of customer or product?

Gaurav Kumar: The Hungary plant would be much more modern plant than the Dutch given the time difference they were built. The Dutch plant effectively has a capacity largely for passenger tyres and a small capacity for agricultural tyres. So, it is predominantly a passenger car tyre plant. The Hungary plant in Phase-I, which let us say would be reached by 2020, would be a passenger car and a truck plant and is eventually envisaged to be a much larger plant in terms of the land size that has been taken or the basic infrastructure that is built out. It can expand to triple of the capacity that is planned in Phase-I. But to start with, let us say by end 2018, they would still be very similar plants in terms of product, in terms of the fact that both would be predominantly passenger car plants and the difference would only start coming in later. So, the initial difference would only be in terms of change in technology the much more modern plant and of course, costing.

Chiraj Shah: And similarly, the end customer also, no major change in Phase-I at least because it would be winter tyre plus summer tyre combination.

Gaurav Kumar: It would be a combination of winter, summer, all season, it would be a combination of replacement and OE.

Chiraj Shah: And question on the pricing scenario, what according to you in Europe is driving people from not hiking prices. Because this is a new trend it seems in Europe. Till now Europe was considered as a very disciplined market, over last 15 - 20 years it was supposed to be reasonably well discipline market, so why this change is happening?

Gaurav Kumar: Point well-made Chirag, but difficult to say why the leaders have not taken the price increases; maybe they have greater pressure on volumes and this came in along with an industry decline scenario. The Continental results, which were out, had a similar decline in margins though from higher levels. So, I guess there is a certain amount of pressure on volumes and battle for that, is the only reason I can attribute to.

Sunil Kothari (Unique Investment): I just wanted to understand, this removal of check post and e-way bill coming in and we are normally very heavy transportation cost paying industry. So, you feel any major cost reduction in terms of inward cost of raw material?

Gaurav Kumar: See, with GST coming in, as you have rightly said, the whole material movement across states, would become smoother and faster. What that will translate to it in terms of benefits whether on pure logistics cost or even related things like warehousing cost, etc., is a programme that is being studied in detail. We definitely think that the move to GST, while causing short-term pains, is a welcome one and it will make the whole chain more efficient and smoother and it will lead to gains. But it is too early to quantify those gains right now.

Sunil Kothari: Secondly, as you are importing many raw materials and now Rupee appreciating. So, do you feel this change will help reduce some cost over a period?

Gaurav Kumar: The currency appreciation is a good one for us. But most of our raw materials are now pretty much linked to international prices and hence, it is not as if the domestic pricing is completely in sync with international prices. They take into account Dollar, Euro, the prevailing exchange rates and then priced accordingly. So, a stronger rupee is beneficial for us but it does not cause a material shift from a quarter-to-quarter in terms of a sourcing strategy.

Jatin Chawla (Credit Suisse): One clarification, on the Anti-Dumping Duty you mentioned there was a 10% to 12% increase and with that basically are you looking at only a

25% reduction on Chinese imports going from 100,000 to 75,000 or you think that can be more as well?

Gaurav Kumar: As of now, the recommended level that still needs to be notified is 10% to 12%. It is very difficult to give an estimate as to what that number will lead to the Chinese levels coming to, I can only take a guess. Post-demonetisation, that number had gone to about as low as half of the previous peak, so a little below 75,000 and that is why I picked that number. I would not be able to say that this is the number we are expecting them to go down to.

Jatin Chawla: As we do not have the European P&L separately, just kind of consol minus standalone, the increase in depreciation and interest cost we have not really seen any impact this quarter, despite the fact that the European plant has started. Now, is it fair to assume that because there were no revenues you have not really booked those costs and they will increase going forward once revenue from that plant starts?

Gaurav Kumar: Yes, because when we say that the plant has started, the visualisation that you may get is that entire Euro 475 million or the slightly reduced CAPEX which is being talked about, has been switched on, that is not the case. This is a very small part which begins with testing out commercial production, stabilises SKU by SKU and then that part goes on. So, given that we are less than a quarter into the start of commercial production that is why you hardly see any increase coming in and that number will keep going up as we move forward.

Jatin: And the last question is that on GST, what we have heard from some other industries is that the channel seems to be settling in at a slightly lower level of inventory. On tyres also, do you get the same feeling that while there will be re-stocking, we might not go back to the same level of inventory as earlier in terms of the overall inventory in the system?

Gaurav Kumar: Again, too early to say, we have not seen re-stocking to the earlier levels in July and if that does not continue to pick-up, then the statement you made is correct that the re-stocking levels would be lower than the previous levels. But I would say, by the time we talk to you next time, we would have a clearer picture if the fact that the new norms are lower than the previous norms because of smoother movement of goods is a reality.

Shyam Sundar Sriram (JM Financial): On the proposed Anti-Dumping Duty on Chinese TBR, in some sense the cheaper radials also led to some price sensitive customer to radialise given the radial benefits. Now a Chinese TBR getting more expensive, we expect the pace of radialisation in the replacement market to slow down compared to the last two years? I mean, there will be a margin shift back to bias tyres and what does it imply for the domestic truck tyre industry, from a 2 year to 3-year perspective?

Gaurav Kumar: Very valid point, Shyam at this point, again, difficult to say. There was in the last few quarters, a certain amount of under-utilisation on the cross ply side, and the immediate impact Chinese had been more on truck cross ply than on our truck radial. So, yes, it could mean for us that some of the volumes on truck cross ply will come back. Over a 2 - 3 years scenario this impacting the pace of radialisation may be a few percentage points. Fundamentally, even without the Chinese the radialisation levels were going up every year. The influx of Chinese imports may have accelerated it and with Anti-Dumping Duty they may slow down a little. But fundamentally in 5 years' time radialisation being at around 70%-odd level we do not think we are changing our expectations from that.

Shyam Sundar Sriram: Just continuing on the previous question on the post-GST scenario, according to you, when do you expect the situation to broadly normalise in the replacement market post the sharp de-stocking that we saw in Q1?

Gaurav Kumar: Our expectation is that whatever is the normal level should be there within this quarter.

Ashish Kacholia (Lucky Investment): My question pertains to the pricing of the OEM tyres in Europe versus the replacement market, there is a big differential in India, is there a similar situation in Europe?

Gaurav Kumar: Yes, that is true and probably in Europe, it would be even more given that we are a new entrant.

Ashish Kacholia: Okay. So, 2018 shift in favor of OE from 0 right now would mean a slightly lower structural margin in the first place out there?

Gaurav Kumar: Yes. And you could expect that for at least I would say till we start extending our range of OE tyres and also start seeing the benefit on the replacement side.

Ashish Kacholia: What is the kind of growth that we are seeing in Reifen business on a medium-term basis?

Gaurav Kumar: Last year we had a low single-digit growth on the Reifen business I think about a couple of percentage points. In the first quarter of this year as I mentioned, we have actually seen a decline, primarily on account of the European winter coming in late and then being more extended. So, the plan which Reifen had for summer tyre sales which is typically in this entire quarter got very severely impacted in April.

Ashish Kacholia: Okay. So, what is the longer-term logic for acquiring Reifen and what is the business case?

Gaurav Kumar: The longer-term logic as we talked about last year when we went through with that transaction was that Germany which is where Reifen is present is a key market in Europe, it is the single largest market both for the industry and for us. Having a presence in distribution takes us close to the customer both in terms of physical stores and in terms of an online presence, it provides us with significant vital contact customer data, etc., and helps to protect that market for us.

Ashish Kacholia: So, of the incremental capacity we will be able to push some quantities through this channel?

Gaurav Kumar: It was not bought with the purpose of being the dumping ground for either the Apollo branded, or the Vredestein branded tyres. So, we keep a check also that they have to buy as they buy from anybody else at arm's length prices and also that there is a check both on minimum and maximum in terms of share of account, this is not meant to be a channel where we say that at least the first level of sales we have done because we own the company.

Ashish Kacholia: And my last question, what is the situation in the Indian passenger car tyre market, we have some 18% - 19% market share where do you think this market share can move over the next few years?

Gaurav Kumar: In all our product categories, our vision is to be a leader. On passenger car tyre side we alternate between number #2 - number #3 and in last few years of our journey on the OEM side, is with the vision of working towards the leadership position. Currently, the leader would be a few percentage points ahead of us and that is the broad target. Next couple of years we would at least want to inch up to about a 20% market share on an overall basis.

Ashish Kacholia: Okay. In Europe, are there other tyre majors also putting up capacity?

Gaurav Kumar: The only new plant that we know of, is Nexen, which is a Korean company which had announced a tyre plant pretty much around the same time that we did in 2014. They should be starting commercial production soon which they have set up in Czech Republic. Other than that, to the best of our knowledge, nobody has announced a new plant. There were small expansions, re-organisations from Western Europe to Central Eastern Europe but no new capacities per se.

Ashish Kacholia: So, if the tyre market there expands by 2 percentage points to 3 percentage points every year we should be able to sell our capacity over the next 3 years?

Gaurav Kumar: That is correct.

Jay Kale (Elara Capital): Sir, just wanted to get a sense on the market share of passenger car OEM and replacement segment, you alluded to 18% to 19% does that include OEM market share, similar in OEM and replacement as well?

Gaurav Kumar: That is, on a consolidated basis, a combination of OE and replacement, I do not have separate market share but should not be significantly different, we will be slightly higher in OEM.

Jay Kale: Okay. And how would that have moved in the last 2 years - 3 years, OEM market share would have substantially increased?

Gaurav Kumar: Yes, we would have increased our share in the OEM market.

Jay Kale: Okay. And similar line in terms of truck OEM and truck replacement, if you can just give us a broader truck OEM market share?

Gaurav Kumar: In truck, we would be at similar levels on both OE and replacement in terms of market share, and there I do not think in the last couple of years there has been a movement.

Achala Kanitkar (Birla Sunlife Mutual Fund): You mentioned that TBR declined in India by 10% this quarter whereas the overall volume decline was around only around 4%. So, just wanted to get a sense as to what would be the growth in the PCR category and at the agri because you said PCR was just marginal positive. But when we are looking at an increasing market share, would not that be a bit higher?

Gaurav Kumar: Yes, we do not yet have the market numbers because the association or the industry data comes with a lag, so these are for us, truck volumes decline by

10% as I mentioned and passenger cars is a small number up. We gained a significant amount in farm and the other categories and all of that led to the combination of 4% volume decline.

Achala Kanitkar: Okay. And my second question was on two-wheeler tyre because the main concern here I have is the inability to price the tyre. So, just wanted to understand, how do you see the overall profitability as the share of the two-wheeler tyres goes up in our overall product portfolio?

Gaurav Kumar: Currently, this quarter given the margin fall, all product segments were under pressure. On the two-wheeler side also, we price fairly close to the leader even though our volumes are significantly smaller, but as I have repeatedly mentioned we have not attempted to gain volumes on account of price under cutting and trying to buildup volumes faster, and that will continue to be the broad strategy. So, the profitability of two wheelers will continue to remain decent but will really be a point to comment on, once we reach a certain scale. We ended last year at a level of close to 1 lakh tyres per month that is going up and we would attempt to nearly double it this year. The volumes still need to become somewhat substantial before we start saying, what the profitability level is. In terms of pricing and some of the other related cost associated with it, it will still be a profitable segment. The only part which the current scale would not support is the brand building cost.

Sonal Gupta (UBS Securities): The significant drop other expenses in this quarter is because of cost control measures undertaken or is there some one-off cost control item?

Gaurav Kumar: This is essentially cost control Sonal, keeping into account some of the other pressure that were coming through on account of RM and which is nothing you can do about.

Sonal Gupta: But I mean is this something that we can sustain it will vary. Will it be in that ball park or do you think there was some massive cuts on say things like advertising and promotion and which will come back and therefore, this is not really a sustainable level?

Gaurav Kumar: We could have probably taken some larger cuts given where we were trending and with volume increases some of those could go up disproportionately, so I would not out rightly, without more knowledge, say that this is a sustainable level. As this is more in the domain of the operational team.

Sonal Gupta: On interest cost and depreciation, is this the full depreciation impact or do we see depreciation going up as the Chennai plant ramps-up? And again, on the interest cost could you comment that are we seeing the full impact after the commercialisation or there is some interest cost which is getting capitalised also?

Gaurav Kumar: This depreciation would go up since the Chennai plant is not yet fully commercialised. As I said, we were just at 8,000 tyres capacity odd for this quarter and the eventually goal is to take it up to 12,000 and similarly, on interest this is not the full impact.

Sonal Gupta: Lastly, what is the interest cost in Europe and in India?

Gaurav Kumar: In Europe it would be close to 2% and in India around 8%

Moderator: Thank you Ladies and Gentlemen on behalf of JM Financial. That concludes this conference call for today. I now hand the conference over to the Management for their closing comments.

Gaurav Kumar: Thank you all and if there are any further questions, you can write to the IR Team. Thank you all for joining us.