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ATL/SEC/21

November 20, 2019

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Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400001.

The Secretary,
National Stock Exchange of India Ltd,
Exchange Plaza,
Bandra-Kurla Complex,
Bandra (E),
Mumbai - 400 051

Sub: Transcript of Analyst/ Investor Conference call

Dear Sirs,


Pursuant to Regulation 30(6) and 46(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that a Conference Call for the analysts and investors to discuss the financial and operational performance of the Company was held on November 5, 2019.

Please find attached herewith the transcript of the aforesaid call. The same has also been placed on the website of the Company i.e. www.apolloyres.com.

This is for your information and records.

Thanking You

Yours Sincerely
For APOLLO TYRES LTD


(SEEMA THAPAR)
Company Secretary



“Apollo Tyres Limited
Q2 FY2020 Post Results Conference Call”

November 05, 2019



ANALYST: MR VIVEK KUMAR – JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED

MANAGEMENT: MR GAURAV KUMAR, CHIEF FINANCIAL OFFICER, APOLLO TYRES LTD

Moderator: Good day ladies and gentlemen and welcome to Q2 FY2020 post results conference call of Apollo Tyres Limited, hosted by JM Financial Institutional Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Vivek Kumar from JM Financial Institutional Securities Limited. Thank you and over to you Mr Kumar!

Vivek Kumar: Thank you Margaret. Good afternoon all. On behalf of JM Financial Institutional Securities Limited, we welcome you to Q2 FY2020 earnings call of Apollo Tyres. Today from the company we have with us Gaurav Kumar, Chief Financial Officer and members of the senior management team. I will now handover the call to Gaurav for his opening remarks and post that we will have the Q&A. Over to you Gaurav!

Gaurav Kumar: Thanks, Vivek. Good afternoon everyone. As usual we will begin with the opening remarks and then we would be happy to take your questions. On a consolidated basis the net sales for the quarter was just short of Rs 40 billion, a decline of 6.5% on year-on-year basis. The Indian Operations was primarily responsible for the decline given the market conditions. The EBITDA for the quarter stood at Rs 4.3 billion, a margin of 10.8% slightly lower than the same period last year. This was primarily driven by the decline in the operating leverage given the lower sales. The raw material for the quarter was flat vis-à-vis previous quarter and hence continues to be benign, and in fact we are looking at raw materials going down going forward and providing a tailwind to the profitability. Given our capex spend and the profitability the net debt increased to just short of Rs 59 billion and taking the leverage up.

Moving on to the Indian Operations, sales for the quarter was at Rs 27.2 billion, a decline of 10.8% over the same period last year. This was primarily driven by volume decline of 12.5% made up to a certain extent by favourable price and mix, large parts of this topline decline, was the OEM segment, which for us declined as much as 45% particularly with the CV segment being a big drag. We continued to see growth in both the other segments which is replacement and export, replacement though was marginally lower vis-à-vis previous quarter given the flood situation, but overall for this quarter or for the half-year period we have continued our growth and market share gain.

In October, we have seen some pickup on the passenger car side in the OEM segment, though the CV segment still continues to struggle. Based on our dialogues with the market players we think the bottoming out has happened, and from hereon we would see a pickup in volumes. The reduction in RM would lead to an improvement in margins going forward. The EBITDA for the Indian Operations for the quarter stood at Rs 3.3 billion, a margin of 11.7% as compared to 12%

for the same period last year, again the marginal decline being on account of operating leverage.

The OE segment has fallen considerably vis-à-vis what our normalised levels are, so vis-à-vis a normal level of about 25% plus of OE, the current levels is only 20% of revenue.

Moving on to Europe Operations, the market in Europe continues to be challenging. For the current calendar year 2019 the market has had negative growth of 3% plus with its largest market Germany showing a decline of high single digit. In spite of that we have had our PCR volumes growing nearly 5% and our overall sales is up 6% vis-à-vis same period last year at 129 million Euro driven largely by the passenger car growth. There is pressure on prices, as the industry prices have come down by about 2%-3%; however, on the truck segment where our volumes continue to grow we have announced a price increase of 5% and yet continue to have good volume growth. The Hungary plant continues to stabilise and grow, improving our cost competitiveness further.

That is all from our side, we would be happy to take your questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and Gentlemen, we will wait for a few moments to allow the question queue to assemble. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir considering slow down in the domestic market are we thinking of cutting our capex plan for the current year?

Gaurav Kumar: We have already started implementing that; so the capex particularly for the AP Greenfield would have been slowed down from our earlier plans and we would cut capex of close to Rs 600 Crores over the current year and next year and defer it out.

Ashutosh Tiwari: So roughly what would India capex in FY2020 and 2021?

Gaurav Kumar: FY2020 the capex from the earlier talks of number of about Rs 2700 Crore, should be about Rs 2300-2400 Crores, and next year the number that we have talked about was Rs 1700 crore, that would be down by another Rs 300 Crores.

Ashutosh Tiwari: But if I look at the cash flow we already spent Rs 1400 Crores in the first half in India so you mean that it would be almost like 900 Crores to 1000 Crores in the second half?

Gaurav Kumar: Broadly yes.

Ashutosh Tiwari: And Europe also gave some capex it seems from the cash flows, so there is no capex for plant over there, so it is only for the maintenance capex?

- Gaurav Kumar:** Europe capex you are right, there is no growth capex being incurred, (a) when you set up a plant and you have the capex for the plant, in our industry there is typically a retention money which is what you pay out the balance only after the equipment has stabilised and been commissioned, so that is the part which is going out and the rest of it is maintenance capex, in the Dutch plant and moulds etc.
- Ashutosh Tiwari:** Can you give some guidance on what would be your capex in Europe for this year next year including everything?
- Gaurav Kumar:** This year the number would be about 40 million Euro, and the next year the number will come down to about 25 million Euro.
- Ashutosh Tiwari:** Okay, so overall do you think that the debt equity will peak-out in the current year?
- Gaurav Kumar:** The debt level should peak-out in March 2020.
- Ashutosh Tiwari:** Secondly, in your mix say OEM which was around 25%-30% last year what would be the CV percentage, out of that 30%, obviously this quarter is 20% only last year it was 30%?
- Gaurav Kumar:** If I take for the six months period the OE component was in excess of 30% and that has declined by 10% point, that could be extent of fall in the OE segment; I do not readily have how much within that was truck OE or car OE, but obviously the fall in the truck OEM is very sharp.
- Ashutosh Tiwari:** If I can squeeze one more question, on the other income side it was quite low in current quarter was nothing other income so is this a forex loss over there?
- Gaurav Kumar:** There is no forex loss we would have been probably running at other income etc.
- Ashutosh Tiwari:** Because generally there is a line item of forex gain in the other income part.
- Gaurav Kumar:** There have been some elements. I will have to look at the details but there is no extraordinary item per se.
- Ashutosh Tiwari:** So, the other income be around similar levels or it can improve going forward?
- Gaurav Kumar:** It could improve slightly but that is a small number so you should not count on saying that that number every quarter should be 10 Crore plus or something.
- Ashutosh Tiwari:** Generally, we seen 90 Crore plus other income every year for last two three years and I think out of that 50 Crores used to be forex gain or something if you look at FY2019 annual report as well.

- Gaurav Kumar:** See we would have been taking hedges etc., as per our policy; so one quarter if it goes otherwise we will still continue to maintain a prudent policy and not change it because of one quarter fluctuation of this year.
- Ashutosh Tiwari:** Sure. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.
- Nishit Jalan:** Thank you for taking my question. Gaurav, like you highlighted replacement mix have gone up significantly because of the decline in OEs but still we have not seen any improvement in gross margin in the India business this quarter; why is that, because the costs were stable and the mix is improved significantly so we should have seen some gross margin improvement on a sequential basis right?
- Gaurav Kumar:** Marginally, overtime. Nishit our OE business is also and that has been a conscious effort to make it profitable and hence most of our OE business now is only marginally lower than the replacement. The differential which used to be very large a decade back, are now much more subdued.
- Nishit Jalan:** So, there is not much more difference between an OE business in CVs and PVs, is it?
- Gaurav Kumar:** For example, in some segments like TBB, it is absolutely nil.
- Nishit Jalan:** But what about TBR and PCR?
- Gaurav Kumar:** The replacement segment is more profitable, but the differential is not so large as used to be story long back where it could shrink the margins considerably. There will be a small improvement that you would see in gross margin but not significant.
- Nishit Jalan:** You talked about RM cost where you expect a decline going ahead. Can you just highlight the quantum that you are looking based on how the prices are behaving today in the two derivatives?
- Gaurav Kumar:** We expect the raw material to go down by 2% to 3% sequentially next quarter or in the current quarter.
- Nishit Jalan:** My third question is on Europe business, we understand that the market is tough but you have talked about some cost reduction initiatives in Europe but we still continue to incur some losses and the loss margin is only heading higher; so, just wanted to understand how do we plan to get Europe back into profitability at the EBIT level? What are the steps that we are taking and in a full year basis how are we looking at this business?

Gaurav Kumar: At an EBIT level a large part of that is driven by high depreciation with the new full Hungary plant coming in, but even at an EBITDA level the number is slightly behind the number last year, that is the result of as I said the market being tough with the average prices having come down and are adding sales and marketing as we expand into newer product categories like TBR etc. On your question as to how this whole thing will turn around - We have now reached a stage in the Hungary plant where production is at the same level as the Dutch plant and that cost of production is far more competitive, so going forward the quantum of production in Hungary plant will continue to increase. The business there is continuing to stabilise, the scrap levels are coming down, we have visit by premium OEMs; in one to two years time, we would be supplying to atleast two out of the three premier OEs, so with all of that our cost competitiveness in the European Operation would improve significantly vis-à-vis the current level. Hungary would then be the driving plant and leading to the improvement in profitability.

Nishit Jalan: But as far as the OE business in Europe is concerned, the margins will be significantly different versus the replacement segment right; so, if the OE business grows faster we will have some negative mix coming in the Europe as, well right?

Gaurav Kumar: True. There the margin differential is substantial but the OE business is today negligible and even going forward it will not grow faster. When these premier OEs come in they would give us 100,000 to 200,000 tyres; so, today for example our level of OE business is about 200,000 tyres on a total volume just out of 7 million tyres.

Nishit Jalan: Any numbers you would want to share as to what kind of margin levels at the EBITDA or EBIT that you are targeting in the Europe business this year next year, what are your targets?

Gaurav Kumar: Next year our target would be to reach about double-digit EBITDA margin. We are talking about the sales and manufacturing part of the business.

Nishit Jalan: Correct. And what was it this quarter?

Gaurav Kumar: This quarter it was 6.7%.

Nishit Jalan: Thank you Sir. Just one clarification, you talked about net debt of Rs 55 billion, right if I heard that correctly?

Gaurav Kumar: Net debt of about Rs 59 billion.

Nishit Jalan: Okay, that is alright and what was it last quarter?

Gaurav Kumar: I will just give it to you.

Nishit Jalan: Thank you.

- Moderator:** Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.
- Ronak Sarda:** Thanks for the opportunity. Sir quickly I mean if you can highlight what is the TBB and TBR mix now in the replacement segment and OE as well for industry and Apollo Tyres especially?
- Gaurav Kumar:** Industry number is difficult; I would not have, so we may be marginally off from the industry; whichever way, for us the truck business total is just a little above 60%, 35% TBR and 25% TBB.
- Ronak Sarda:** Okay. This is on an overall basis including OEM plus replacement you are saying?
- Gaurav Kumar:** That is correct. This is OE plus replacement. It is a total Indian legal entity segment.
- Ronak Sarda:** But can you highlight what is the mix in replacement right now for Apollo?
- Gaurav Kumar:** I would not have that data readily available.
- Ronak Sarda:** Okay. Question on the financial, if I look at the employee cost there is a decline in employee cost in Europe, can you highlight if that is facing one offs sitting here or why has that fallen?
- Gaurav Kumar:** There would be a one off, etc., there has not been any significant change in Europe.
- Ronak Sarda:** So, the entire decline can we assume that is the one-off Sir?
- Gaurav Kumar:** Yes.
- Ronak Sarda:** On the capex side, we talked about deferment last quarter as well, so incrementally on Q-o-Q even more capex has been deferred when you say Rs 600 Crores has been deferred; is that incrementally from what we discussed in last call?
- Gaurav Kumar:** I would not have the exact number what I have said last call, but capex for the year when we started the year and up to a certain point we were talking about Rs 2700 Crores for FY2020, that number is now currently what we were working at is Rs 300 to 400 Crores lower.
- Ronak Sarda:** If you can just help us how does this change our overall capacities? I mean what percentage of capacity are we reducing with the capex deferment?
- Gaurav Kumar:** The ramp up of AP Plant would come up slower. It does not impact the current capacity at all. The start-up would still happen in the first quarter of 2020 but only the ramping up of that capacity would happen slower and today that does not impact us because demand is not there to that point.
- Ronak Sarda:** Thank you Sir.

Moderator: Thank you. The next question is from the line of Raghunandhan from Emkay Global. Please go ahead.

Raghunandhan: Thank you Sir for the opportunity. Firstly, on the Europe tyre market, it has been negative since last three quarters; what is the expectation and how do you see the market recovery and pricing discipline; how do you expect it to pan out it? Secondly can you share the replacement growth in domestic market. And lastly, can you share the landed price of input commodities? Thank you, Sir.

Gaurav Kumar: Difficult to give out the projections; in general, the expectation of European market is a growth of one percent odd but yes, you are right that over the last three quarters it has been negative; when would that cycle turnaround, is difficult to say, currently January to September 2019 is running at minus 3%. How much has replacement market grown by again we do not have authentic data, we believe 6% overall revenue growth broken up across segments, we have grown faster than the market and we would have gained some market share marginally, but again we do not have any officially published data on that count. Coming to your landed prices, natural rubber was about Rs 145 a kg, synthetic rubber Rs 110, carbon black Rs 85 a kg.

Raghunandhan: And overall RM be Sir?

Gaurav Kumar: Overall RM was about Rs 128 per kg.

Raghunandhan: Replacement growth in the domestic market?

Gaurav Kumar: As I mentioned I do not have a number for the industry as to what that would have been. We believe that we have grown faster than the market and hence would have gained market share.

Raghunandhan: Sorry I missed the number for Apollo?

Gaurav Kumar: Apollo our replacement growth is 6%.

Raghunandhan: Thank you Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Akshay Satija from Alpha Invesco. Please go ahead.

Akshay Satija: Good evening and thank you for the opportunity. Sir my question actually pertains to the bias capacity in truck segment, so we all know that in the industry, the share of bias is coming down with radial increasing; I just wanted to understand what happens to the bias capacity of Apollo, will it shift it to radial, and what would be the cost of this capacity?

Gaurav Kumar: Bias numbers are still coming marginally down, in terms of absolute capacity; while, with the current slowdown, the capacity utilisations have come down, but till about few quarters back it was not as if the bias capacity had to be reduced. So, the growth was mostly coming in the TBR segment which is why one was seeing the mix skewing more and more towards TBR. The second part of your question, converting a bias capacity to radial, is a very costly proposition, almost close to a Greenfield because even within the building the investment is substantial in terms of air conditioning etc., because the process conditions are very different. What is more logical and optimal, is that a truck bias capacity would be converted into bias capacities of other product categories -- be it agricultural, be it OHT etc., and each player would be finding their viable means including the fact that as some of the equipment becomes old and obsolete there is no investment back in modernisation or putting that capacity back.

Akshay Satija: Got it. So, I think it would be viable, either we converted into agriculture or we used to let the capacity go, what will be the cost to convert into some OHT or agriculture or similar to Brownfield or lower than that?

Gaurav Kumar: It will be a Brownfield much lower and it depends as to which particular size, etc., there is no one thumb rule to say that so much rupees million is required.

Akshay Satija: Right, got it. Alright Sir, that is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Aryn Pirani from Yes Securities. Please go ahead.

Aryn Pirani: Gaurav, thanks for the opportunity. So, in Europe for the first half of the year do we have broadly any indication of what is the share of high performance tyres in the mix overall?

Gaurav Kumar: Our current UHP proportion Aryn is close to about 28%.

Aryn Pirani: Okay, so this has remained more or less constant in the last two years or it has gone up?

Gaurav Kumar: Over a three-year period, we would have gone up from about 20% to 28%.

Aryn Pirani: Your larger competitors would be at 40% or so like Michelin and a Continental, or how is it because that is the aspiration right that is the way to increase margins over a period of time?

Gaurav Kumar: Yes, may be the top player would be at 40%; if you take the industry average of the well-known players operating in the European market, that number would be more around 35%-odd; so, the target in our journey of premiumisation we are somewhere half way there.

Ameen Pirani: Okay. So, then it is fair to say that the market share gain whatever you have seen, the market is not growing but you are still showing positive growth, a large part of that would have happened in the UHP category because you gained mix as well there?

Gaurav Kumar: It could be across, I do not have the granularity to say it is only in the UHP segment, but in the recent times also, in Europe, we have had extremely strong product results with the Vredestein brand, across different categories, being on the podium position; and that is one of the key drivers of customer behavior in Europe along with the brand etc. So, that continues to gain us the market share in Europe.

Ameen Pirani: I guess, you know, I think while we do not have granular number for the first half for Europe I am assuming that atleast for a gross margin side things would have been improved for you, but I guess which is the other costs are still dragging your margins down so I think when Hungary started initially R&D cost was a big drag now, like you mentioned you are increasing sales and marketing for the different tyre categories so, I am just trying to understand the journey from here to double digit is it fair to assume that the volume trajectory should continue next year barring any shocks, but large part of the R&D drag and the sales and marketing drag should significantly reduce - is that the way to think about it?

Gaurav Kumar: Yes, also as the volumes keep increasing, fixed cost will start getting spread over a larger duration; I would say the same level of outperformance of the market if we had assumed that the market grew at that standard one percent or one and half percent, and our own volume growth instead of the 4%-odd, was at the 8%-9%, we would have made a significant difference. The market drag of that three or four percent impacts the operating leverage significantly.

Ameen Pirani: Understood. That is helpful. Okay, thank you for the opportunity.

Moderator: Thank you. The next question is from the line of Arvind Sharma from Citi Group. Please go ahead.

Arvind Sharma: Good evening Sir. Thanks for the opportunity. On the Indian business can you please repeat the volume growth either segment wise or tonnage wise if possible?

Gaurav Kumar: The truck volumes were down 14% and the car volumes were down 11% in this quarter. The de-growth essentially on the truck side was pretty much OEM, as I said we had positive growth both in replacement and exports; so, the OEM volumes were down close to 60% in truck and about 40% in passenger car.

Arvind Sharma: Okay. Sir second question would be on the consolidated tax rate, almost 15% kind of a number going forward what is the kind of tax rate that you will be expect in a consolidated business?

- Gaurav Kumar:** I am hardly a tax expert so I would suggest if you could take this offline with the investor relation team and they will be best placed to answer with the relevant expert.
- Arvind Sharma:** Sure. Sir just one final question on the pricing. How is the pricing environment now, especially given the benign commodity cost, has there been any pricing action in the second quarter or it is expected over the next half of the year?
- Gaurav Kumar:** We have not seen any pricing action; so it is been fairly stable also clearly the margins have come down for us marginally as per the industry in general, so as of now we have not seen any pricing action which is why we see that there should be a tailwind.
- Arvind Sharma:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.
- Joseph George:** Thank you for the opportunity. So, a few questions on the European business, earlier I mean in the past quarter, you have given us the European manufacturing revenues and EBITDA margin I think for the quarter you have already mentioned EBITDA at 6.7% could you also give us the revenue number and add to that the Reifencom revenue and margin performance please?
- Gaurav Kumar:** The European revenue number was 129 million Euro, a growth of slightly under 6%.
- Joseph George:** Yes, and Reifencom income if you can?
- Gaurav Kumar:** Reifencom the number was just short of 30 million which is a growth of almost 10% of vis-à-vis last year.
- Joseph George:** And was it profitable in the quarter, Reifencom?
- Gaurav Kumar:** It was breakeven at the EBITDA level. Reifencom has even a bigger seasonality so it makes bulk of its margins in Q3 which is the winter season.
- Joseph George:** Lastly if you could give us one number in terms of tonnage growth for the India business?
- Gaurav Kumar:** Overall?
- Joseph George:** Yes.
- Gaurav Kumar:** The overall tonnage was down as I mentioned by about 13% vis-à-vis a topline degrowth of 10.8.
- Joseph George:** Got it. The last question that I had was, you mentioned that you expect to get a double-digit EBITDA margin in the European manufacturing operations next year, there is an improvement

but how do you think about the ROCE; the reason I was asking is you know when I look at the amount of capital you have invested in the Hungary plant which should be I think somewhere between 300 to 400 million Euro and the asset turn on that capex would be one or may be lower than that and if I look at subsidiary accounts for which we do a simple exercise of just deducting standalone from consolidated, I noticed that the depreciation as a percentage of revenues is, I mean this quarter it is about 10%; but even if I look at a steady state of say 8% or 9%, you would need a substantial improvement in EBITDA margin even to hit a 10% ROCE so the simple math I am working with is 300 to 400 million of investments 1x asset turn on that investment, 8% to 9% depreciation which means that even if you have to fit a 10% ROCE, you would need an EBITDA margin of 17% - 18%. So, how are you thinking about the returns on that investment and what will be the target EBITDA margin that you would need to reach that ROCE target?

Gaurav Kumar: Joseph that will take some time till Hungary not just stabilises, but has to go through another expansion for cost to be driven significantly down. If you have looked at some of our competitors in Europe, they start making EBITDA margins in high teens or into the 20, once their plant get to levels of 10 million PCR plus; so, currently one challenge is that the plant size in Hungary is still not economical with this kind of a mix you would with everything being in place and functioning smoothly we will still get to the early teens over the next few years before we can drive the growth further you can drive the ROCE.

Joseph George: Thank you, Gaurav.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Good afternoon. Thanks for taking my question. So just continuing with the question but our plan is not like from the analyst meet in London, we are not looking at really expanding further on Europe, right?

Gaurav Kumar: Currently no; currently we must execute the plan we currently have, which is full utilisation of the current Hungary capacity, making margins, getting the debt levels down before we can think of expansion in Hungary.

Sunil Gupta: Right. I mean like what we discussed; so there incrementally these lower radius tyres, sort of come from India potentially key plant so that is the still the plan right?

Gaurav Kumar: That is still the plan. That plan is still under execution, so the lower inch tyres the 13 inch etc., because that pricing has continued to come down in Europe we will supply from India.

Sunil Gupta: Right. So where are you currently in terms of where is Hungary in terms of capacity utilization right now?

- Gaurav Kumar:** Hungary in the current year would produce an excess of three million, by next year Hungary should reach a production levels of four million plus, and its capacity at current mix would be at 4.5 million.
- Sunil Gupta:** Okay. So, 4.5 is just a PCR, right?
- Gaurav Kumar:** Yes. The TBR capacity would be at about 400,000 tyres, this year Hungary would be producing 150,000 truck tyres, next year that number would go up to about 250,000.
- Sunil Gupta:** Dutch plant is running at almost full capacity?
- Gaurav Kumar:** The Dutch plant capacity again something like a bias, where we have not put in equipment modernisation investment, as some of the equipment became obsolete etc.; so, the current Dutch plant peak capacity would be short of five million and we are producing at about four million.
- Sunil Gupta:** Okay. What is the India capacity utilisation for TBR?
- Gaurav Kumar:** The current utilisation levels are around high 70s, just short of 80% given the market situation, that has come down by almost, I would say 5% to 10% points, across product categories.
- Sunil Gupta:** Just on that, I mean like it will be, like once we have the expansion coming in from probably the last quarter or this year first quarter of next year, the AP plant coming in at what level of utilisation does the plant in India really break even at EBITDA level?
- Gaurav Kumar:** In India breaking even probably would happen at around somewhere 65, the two-thirds of capacity utilisation, but again you must keep in mind that it has for any plant, not just AP, from starting of commercial production to be at full capacity being in place, even at demand scenario being very strong etc., is 12 to 18 months, and now we have stretched that out for AP even more, given the deferment of capex.
- Sunil Gupta:** Right, so basically it could, I mean that will be a two year plus?
- Gaurav Kumar:** Two year plus.
- Sunil Gupta:** Just lastly, I mean like just going to the notes of last time you commented that I mean there was a plan from August 1, to take one and half percent price increase and now you are saying that there is no price increase so we not have not seeing anything in India has also not improving?
- Gaurav Kumar:** We have taken that price increase only in the TBR category; but as I mentioned given the raw material scenario, it was not logical to take a price increase, so nobody went ahead with it.

- Sunil Gupta:** Okay, thanks a lot Gaurav.
- Moderator:** Thank you. The next question is from the line of Siddharth Bera from Nomura Securities. Please go ahead.
- Siddharth Bera:** Thanks for the opportunity. Sir on the replacement side for the India business, possible to indicate in the near term like in October in Q3 what has been the trend in the TBR replacement or any color in the overall replacement also how it has been?
- Gaurav Kumar:** Still too early but as I mentioned earlier we think the situation may have bottomed out; do we expect replacement to accelerate beyond the current levels? Unlikely, they may go back to the Q1 level; Q2 declined marginally on the replacement side, particularly August – September because of the flood situation, but replacement frankly has been decent, it has still been in the positive zone for the industry and for us even more so, more critical is the pickup on the OE side, we have seen a pickup in October on the car side, now whether that was a blip on account of a festival season or a more regular one, still to be seen. One fact to be noted which gives us the belief that it is bottoming out coming from our OE customers that on the truck side, the sales after a long time were more than the production in the month of October. So, there is inventory liquidation happening and hence there should be a pickup.
- Siddharth Bera:** Got it Sir. Basically, where I was coming from is that, if we see the freight rates, they have started inching up slowly in the last one two months; so, I was just checking if on the replacement side, has the growth rate accelerated from the 6% level which you had achieved in the Q2 or is it largely at those levels only?
- Gaurav Kumar:** In October atleast we have not seen acceleration. It continues to be more at similar levels in the replacement segment.
- Siddharth Bera:** Secondly Sir on the Europe business just wanted to check some of our peers have indicated that winter tyres season start has not been that great so just wanted to check what has been your feeling for the Q3 for the winter tyre segment in Europe?
- Gaurav Kumar:** October has not been great in terms of winter, but very good on the all-season front. So, there is shift from the normal tyres towards what may work for winter but still there is a reasonably heavy level of snow, people make do with all-season tyres and that is the segment which is booming the most.
- Siddharth Bera:** Sir for us what will be the mix of winter tyre versus all season tyres currently?
- Gaurav Kumar:** Currently, we are almost at one third each across summer winter and all season. So, it is a fairly even mix.

Siddharth Bera: Lastly Sir, like you have indicated that on the commodity side there is close to two to three percentage points benefit which may come, but on the other hand in Europe again pricing has been one challenge where you have seen some price cut so does that hold true for the Europe business as well or you may not see that much benefit from the commodity side for Europe?

Gaurav Kumar: We have not seen any pricing action immediately from the competitors, the two to three percent has been across the year, not in the last one month or so and typically price reductions are not announced in the peak winter season but it will depend on the demand. So difficult to say what competitors are thinking and particularly in Europe where we are relatively a small player and not a price setter like in India.

Siddharth Bera: Okay Sir, got it. Thanks, I will come back in the queue.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity Gaurav. First question is on this EU mix of summer-winter and all-season tyre. If I recollect few years back or two years back we had a very different mix, is the changing mix of this, is one of the reasons why profitability is lower apart from the industry pressure that you have highlighting?

Gaurav Kumar: May be slightly, I do not remember the mix exactly two years back, Chirag but when we used to earlier talk I would say five–seven years back there were essentially two product categories, which was taken which was summer and winter and that in general for the industry used to be two-third, one-third, our winter proportion used to be in excess of 40%. But all season has continued to grow, for us where it is one-third, for the industry could be somewhere in the 20. Apollo Vredestein has been one of the leaders in the all-season segment, not a significant driver of the profitability also given that the winter have been relatively mild in the last few years. If anything, if our proportion was so heavily dependent on winter tyre we would have suffered more, what has also happened, in the last few years that the challenges on the industry in terms of R&D etc, are significant, while is relatively easy for a large player who is already spending a lot, the spend on our R&D has increased considerably to keep phase with the movement in technology.

Chirag Shah: And would it be right to make a statement that the phase of investment in R&D while we are doing the catch up we are largely behind for us or there is still some catching up to be done and investments on R&D could be slightly higher for another one-two years, for Europe I am talking about?

Gaurav Kumar: Our level now in terms of, and as I said our recent products etc., are at podium positions, we are already getting approved by the likes of the premier German automakers so we are where we want to be. The investment levels will continue to be at similar levels will not now go up.

- Chirag Shah:** Is it possible to indicate how much would be the general spend as a percentage of sales in Europe on R&D perspective?
- Gaurav Kumar:** Today we are spending about 5% of sales.
- Chirag Shah:** It can change that range?
- Gaurav Kumar:** It will start coming down as the operations grow. The attempt is to keep the Euro million at that same number and hence as a proportion of sales it will keep coming down.
- Chirag Shah:** One last question on India Operations: if I look at your profitability on per ton basis, there is a reasonable improvement if I look at it, is it more to do with the mix because even the replacement share has slightly has gone up and hence it is or there is an underlying improvement in profitability in general?
- Gaurav Kumar:** There will be a mix of both, as I said the volume decline was close to 13% whereas the topline decline is slightly under 11% so there is clearly an improvement of price and mix.
- Chirag Shah:** Okay. This is helpful and all the best.
- Moderator:** Thank you. The next question is from the line of Aryn Pirani from Yes Securities. Please go ahead.
- Aryn Pirani:** Hi, my question was also on the winter tyres, so that is been answered, thank you.
- Moderator:** Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.
- Abhishek Jain:** Thanks for taking my question. Just wanted to know the revenue mix in first half, in terms of the commercial vehicle, passenger carrier into two-wheeler and tractor?
- Gaurav Kumar:** In the current quarter, the truck contributed as I said earlier 60% plus, passenger car was at 20%, light truck at 8% and farm and other categories at 12%.
- Abhishek Jain:** So, this is for this quarter only. Just wanted to know about the first half?
- Gaurav Kumar:** First half truck would be 62%, passenger car 18% and the other two remain the same.
- Abhishek Jain:** And a revenue mix for the replacement versus OE in first half?
- Gaurav Kumar:** Replacement was 67%, OE 22% and balance is exports.
- Abhishek Jain:** And what was the revenue growth in the replacement side in the first half?

- Gaurav Kumar:** 6% as I mentioned earlier.
- Abhishek Jain:** Okay and OE side?
- Gaurav Kumar:** OE side was a decline of 45%.
- Abhishek Jain:** My last question is related with the European business, despite the price hike in last quarter there was a contraction in the gross margin, so can you throw some light on that?
- Gaurav Kumar:** Price hike has been taken only in one segment which is a truck radial, so gross margin you are seeing is a combination of various product segments so, the two are not sort of directly related.
- Abhishek Jain:** Okay Sir, thanks that is all from my side.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** In the TBR replacement what kind of growth you saw in the current quarter and TBB as well?
- Gaurav Kumar:** Current quarter there is a decrease so there is no growth.
- Ashutosh Tiwari:** I am talking about replacement only?
- Gaurav Kumar:** TBB, there is small negative and in TBR we have grown by 5%.
- Ashutosh Tiwari:** Okay. And in case of Reifencom I think after a long time we saw a double-digit growth so is there anything changing over there in terms of our expansion of Reifencom or is it just one quarter phenomenon?
- Gaurav Kumar:** There is no expansion capex or anything.
- Ashutosh Tiwari:** No in terms of the reach and all.
- Gaurav Kumar:** Nothing in terms of reach. They continue to be operating in Germany with the same number of stores; so, just running the business well and double-digit growth as such is not a normal phenomenon in Europe, you should assume Reifencom year-on-year at a two three percent growth.
- Ashutosh Tiwari:** Okay, sure. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for closing comments.



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Gaurav Kumar: Thanks everyone and for any of the details that we have missed out please reach out to the IR team and we would be happy to provide you the answer.

Moderator: Thank you. On behalf of JM Financial Institutional Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.