

Apollo Tyres Ltd Q3 FY22 Earnings Call

Joseph George: IIFL Securities

Hi, good afternoon, everyone. On behalf of IIFL Securities, I welcome you all to the 3Q FY22 Results Conference Call of Apollo Tyres. From the management team, we have with us Mr Neeraj Kanwar, Vice Chairman and Managing Director; Mr Gaurav Kumar, Chief Financial Officer and the Investor Relations team.

I'll now hand over the call to Mr Kanwar, for his opening remarks, post which we will start the Q&A. Over to you Mr Kanwar.

Neeraj Kanwar: Vice Chairman & Managing Director

Well, thank you. And good afternoon everyone, and a very warm welcome to Apollo Tyres Q3 earnings call. Let me start by thanking all our stakeholders for their continued support, which has helped us report another healthy quarter, despite several headwinds. The results, during these difficult times, gives me immense confidence on the way forward.

And as I said during our last interaction, we remain extremely bullish in the long and medium term. While the pandemic situation continues to unfold, I would like to take this opportunity to thank the Indian Government for successfully managing one of the largest vaccine drives ever undertaken. As per the latest economic survey, held by various regions, including widespread vaccine coverage, Indian economy is expected to grow at 8% to 8.5% in FY23 and Apollo is very well placed to leverage this growth.

Moving to the business. The quarter was once again impacted by rising raw material costs, and a third wave of COVID that hit India. On the positive side, latest COVID wave in India did not result in any huge supply chain disruptions and our European Operations reported another very, very strong quarter. We continue to expand our product range and footprint across key markets. The pricing environment continues to remain steady, and we have been able to take price hikes in Q3 as well.

Going forward, we will keep a close eye on the markets, and we intend to take further price actions at the opportune time to reach our targeted margin range. We continue to work on key focus areas. During last 2 years the teams have worked extremely hard in a very difficult environment to lay foundations for a bright future and the results are already starting to show. Our strategic actions in Europe, along with a relentless focus on enriching our sales mix has helped Europe manufacturing and sales operations report a double-digit growth in top line, and more importantly, our EBITDA margins were in excess of 20% in the current quarter.

The share of UUHP and ultra-high-performance tyres in Europe today stands at 43% of the entire pie. And I'm extremely happy to share that the journey has been steeper than that was targeted, and has been one of the key drivers of profitable growth in Europe.

Similarly, in India, we continue to enrich our sales mix. We've recently launched our premium car tyre brand Vredestein in India. And this should help us further accelerate our journey towards premium space in the Indian passenger car segment. Similarly, we are at the

forefront of driving radialisation in segments like light truck, commercial vehicles, two-wheeler radials, and this should further help us enrich our product mix in our domestic market.

We're further growing our presence in the OHT category as we continue to drive towards a richer sales mix. The efforts on developing new markets is paying off in terms of sharp growth in developed profitable markets like North America, and would further enhance growth in profitability in future. Furthermore, after successful execution of the specialisation of the Enschede plant, we have optimised our European manufacturing footprint. The results of the same are clearly visible in the strength of our consolidated margins, despite steep raw material costs push.

In fact, Q3 has once again highlighted the underlying strengths of our business model, a diversified and a derisked business model. Our continued focus on R&D and Digitalisation, are some of the key pillars of our ever-evolving business model and ensure that we are future ready. Among other areas, specific tyres for electric vehicles has been one of the key focus areas for the R&D team.

We are cognizant of changes in the automobile and mobility space and are fully prepared to leverage the upcoming opportunity. While the EV space is at infancy and is evolving, we believe growing preference for EVs would impact tyre industry positively. Work by our R&D teams ensures that we remain very well placed to leverage this opportunity.

Another important area of work for R&D is Sustainability. Our R&D teams are helping us increase usage of recycled material and sustainable materials as we move forward. While we are still in early stages, I will come back with more qualitative and quantitative information on our work on all these areas in the due course of time.

Digitalisation has been another thrust area for us as we are preparing for the future. We are not only leveraging digitalisation to increase or improve marketing engagement through customer digitalisation, but also undertaking projects like digitalisation and integration of our supply chains. Our journey towards Industry 4.0 and centralisation and transformation of our back-office processes to drive our efficiencies.

Lastly, but not the least, we believe Sustainability is one of the basic pillars of business. And there is a lot of work happening on this front. Some of the work being undertaken under our sustainability journey are as follows: first, focus on increasing usage of recycled and sustainable raw materials; secondly, reducing usage of fossil fuel, achieving efficiency to achieve sustainable manufacturing; third, is reducing our carbon footprint in distribution and supply chain by usage of electric vehicles, improvement in supply chain efficiencies. And lastly, the work on the end-of-life of our tyres.

I want to reiterate that sustainability is a key focus area for Apollo. And I will keep on coming back with updates in this regard as we go ahead. Finally, in terms of outlook, we are optimistic about demand momentum. The cost inflation could continue to weigh on operating performance in the near term. We will continue to work on negating RM cost pressure through improvement in product and enriching our channel mix selectively and well-timed pricing actions across our key markets.

The team is highly motivated and are focused on achieving our vision of 2026. We continue to cost control and be judicious about CapEx to ensure focus on profitability and the return

on our capital. Going forward also we will focus sharply on free cash flows and on growth Capexes.

With this, I would like to conclude my opening remarks and handover the call to Gaurav. Thank you, stay safe, God bless. Gaurav, over to you.

Gaurav Kumar: Chief Financial Officer

Thank you, Neeraj. And good afternoon, ladies and gentlemen. Continuing from where Neeraj left, let me start by reiterating our commitment to the health and well-being of all our stakeholders.

Let me first address the most recent matter, which would be there in your mind. CCI's order of yesterday evening, imposing penalty on five tyre manufacturers and our association ATMA. The company does not agree with the findings of the commission and will take necessary steps under the law to appeal against the order after a more detailed examination of the full order.

Moving back to business operations. In India, the much-anticipated economic recovery in second half has been delayed. Softness in the demand environment from November onwards, coupled with continued RM inflation, impacted our operating performance in Q3 of FY22. On the positive side, in spite of a weak demand environment, the pricing environment remains stable. We've taken small price increases across categories in replacement segment, but we need to take further price increases going forward, as Neeraj mentioned, to fully pass on the RM cost inflation.

While our margins were impacted in the last few quarters given the steep cost pressures, we remain committed to achieve our mid-teens EBITDA margin target in the medium to long term. As highlighted earlier, we have witnessed over the last four quarters, the Europe Operations once again underscored its relevance as a market, along with the benefits of diversification and derisking of business model by reporting very strong operating performance in Q3. While the demand environment is in a better shape, these are still uncertain times. Given the various strategic and operational measures taken through last 2 years in both India and Europe Operations, we are far better placed to face the current situation.

Moving to the financial results. The consolidated revenue for the quarter stood at INR 57 billion, a growth of 10% over the same quarter last year, and a growth of 12% on a sequential basis. On a YTD basis, the revenue stood at INR 154 billion, a growth of 24% over the same period last year. The consolidated EBITDA for the quarter stood at INR 7.4 billion, a margin of 13% compared to 19.8% in the same period last year, but sequentially up from 12.6% in the last quarter. YTD basis, the EBITDA stood at INR 19.5 billion, a margin of 12.7%. The margin performance for this quarter and the current year have been impacted by the steep increase in RM cost, while we continued a tight lid on other costs.

Coming to the balance sheet. We've been able to maintain our leverage ratio, given the strong focus on cash flows. The net debt to EBITDA was at 1.8 times. In India Operations, the revenue for the quarter was INR 37.9 billion, a growth of 11% over the same period last year and 4% on a sequential basis. There was a very strong growth in exports, though the OE business was a slight decline sequentially.

In terms of product categories, the demand was weaker in the TBR and the Farm segment. On YTD basis, revenue stood at INR 107 billion, a growth of 32% YoY. The EBITDA for the quarter at INR 3.5 billion was a margin of 9.1% down sequentially from 10.3% in the preceding quarter. The Indian Operations while facing these headwinds continued to maintain a tight control on inventory and CapEx to tackle the situation. We see signs of demand picking up, which should flow into the results in near term.

Moving on to European Operations. The revenue for the quarter were a record EUR 167 million, up 19% compared to the same period last year and 21% sequentially. Even on a YTD basis, the revenue was up 16% compared to the same period last year. We continue to make inroads into the market and grow, and have gained market share across product categories.

The UHP mix in the PCR segment is at 43%, a significant improvement in line with our vision that we have been talking about. The EBITDA for the quarter at EUR 34 million, as mentioned by Neeraj, crossed 20% compared to a below 16% for the same period last year.

For the 9M period, we are looking to report record EBITDA numbers in the current year. We are at EUR 77 million currently a margin of 18.3% compared to 10.3% last year. This margin recovery has been on the base of the restructuring that was carried out, and supported by strong volume growth, improvement in product mix, manufacturing cost optimisation and cost containment measures.

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

Q&A

Joseph George: IIFL Securities

Thank you, Mr Kanwar, thank you, Gaurav for your opening remarks. So, now we will begin with the Q&A. Anyone who wishes to ask a question please use the raise hand option on Zoom. We will start with Ashutosh Tiwari. Ashutosh, you can unmute yourself and ask your question.

Ashutosh Tiwari: Equirus Securities

Yes. Am I audible?

Neeraj Kanwar: Vice Chairman & Managing Director

Yes, Ashutosh.

Ashutosh Tiwari: Equirus Securities

Yes. Hi, congrats on a strong Europe performance during the quarter. My first question is, in Europe, you already reach in this quarter 43% sales for UHP tyres. I think earlier you were talking about 35%, 36% is a target. So, how should we read it? Is it like a quarter phenomena, this high number or this can sustain going ahead?

Neeraj Kanwar: Vice Chairman & Managing Director

No. Very clearly this is not a quarter phenomena. It is a sustainable customer acquisition. Also, I want to tell you that all the products that are in the UHP and UUHP in the test results are holding podium positions. So, they're either number one or number two in the Vredestein brand. And therefore, we are gaining market share. And the pie has gone up from 36% to 43%.

Ashutosh Tiwari: Equirus Securities

And generally, historically, obviously third quarter has always seen the higher volume because of the winter tyre sales. But considering that UHP mix has gone up and probably you're seeing that can sustain also in the subsequent quarters. So, I'm not talking about Q3 margin, but generally margins will remain on the higher side in European Operations going ahead versus probably what you were guiding last year when restructuring happened?

Neeraj Kanwar: Vice Chairman & Managing Director

Yes. So, there are two or three points that you must keep in mind. These profit margins will be sustainable. I'm not saying they will be at 20% or 15%. But they will be on the higher side, given two or three actions that we've taken, one, was obviously the restructuring of the manufacturing base. As you know, tyres have moved into Hungary and into India. With this what has happened, the cost of manufacturing for Europe has come down drastically. Even Enschede plant which was restructured, the cost of manufacturing has come down. Hungary continues to come down as far as manufacturing cost is concerned. So that's one big point.

The second point is because of the enrichment of the product mix, you will have more profit margins. And lastly, OHT is playing a very important role. And as you would know, Vredestein in Europe, in the OHT segment in Agri / OHT, has a very premium price positioning. And that market is growing.

Ashutosh Tiwari: Equirus Securities

So, are we seeing good growth in the OHT segment as well like say, in the recent quarters?

Neeraj Kanwar: Vice Chairman & Managing Director

Yes, we are. And we continue to grow. As you know we are supplying from India and from our Dutch plant.

Ashutosh Tiwari: Equirus Securities

And lastly, coming to India, there is a lot of margin pressure, because of price increase – delay in taking price increases. Now, are we planning any price increase in the current quarter? That's one. And secondly, how's the demand? I think Q3 was a bit weak in replacement market. But how do you see the demand picking up now, maybe from February onwards?

Neeraj Kanwar: Vice Chairman & Managing Director

So, your first question, yes, the answer is yes, we will keep on correcting our prices and we are correcting in Q4; we have already announced price increases in various product categories. And we will continue to do so, because there is a lag effect like you said. So that's a challenge and we'll continue to take small steps in increasing our prices.

On your second point as far as demand is concerned, we are seeing a very upbeat demand in Q4. And this is coming basically on the back of a lot of infrastructure projects that are going into the country. And in the recent budget also you have seen that India will be spending on road infrastructure a lot more than what they were spending. Already we've got projections from the OEMs for the Q4 specifically in CV. They've been very bullish; it's gone at least 100% more than what it was in Q3. Even in PCR, the semiconductor issue is a bit stable. So, we are also seeing growth in PCR. The Agri industry is still at a low level. But given that the season will start in March, we are pretty optimistic that Agri will also come back.

Ashutosh Tiwari: Equirus Securities

Okay. Thank you and all the best.

Neeraj Kanwar: Vice Chairman & Managing Director

Thank you.

Joseph George: IIFL Securities

Next in line we have Raghunandhan N L. Raghu, you can go ahead.

Raghunandhan N.L.: Emkay Global Financial Services

Thank you. Thank you for the opportunity. Congrats on the strong Europe performance. Firstly, on capacity, the YTD capacity utilisation is strong in India at over 80%. Can you talk about how you look at expansion? Would you focus more on brownfield and look at staggered expansion, so, that company sustains positive free cash flow generation say in FY23, FY24? If

you can throw some light about your thought process? And also, if you can share FY22-FY23 CapEx requirement?

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav, I'll take the strategic question. And you can give the numbers. So, Raghunandhan we will not be doing any major CapEx in the next 3 to 4 years. We have, as you know, put up three very large greenfield capacities in the past 11 years, which is Chennai, and then Hungary, and then Andhra. The main thing we are doing now is to look at debottlenecking of our plants in all these two categories specially in TBR and passenger car radial. We are running at 80% but we believe that we can enhance productivity through some of the initiatives that we are taking within the company which is mainly to do around digitalisation. So, AI and machine learning will give us a lot of data which will throw up how we can reduce cycle times and increase our productions from the same equipments. There will be some small, small CapExes to try and manage the situation.

And the other thing is that we are also now looking at enriching our product mix is what I mentioned to you in my opening speech, thereby I mean that we will target higher end tyres, more profitable margin tyres and therefore, utilise that capacity in you know far better sense to look at more profitable products.

Gaurav, you want to throw some light on CapEx?

Gaurav Kumar: Chief Financial Officer

Yes, Raghu. We are in the process of finalising the budgets and as Neeraj mentioned, the current levels of utilisation will not warrant any big CapEx in India immediately. So, we will go the brownfield route and judicious CapEx. The numbers are not exactly finalised. But the India CapEx for FY23 should be in the range of INR 1000 crore to INR 1100 crore.

Raghunandhan N.L.: Emkay Global Financial Services

Thank you, Gaurav. That's very useful. My second question, considering the seasonally strong quarter in Europe margins have reached double digit at the EBIT level and even on YTD basis margins are very strong. On a sustainable basis, what would be the range of margin you would be happy for Europe operations?

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav, you want to answer that.

Gaurav Kumar: Chief Financial Officer

So, Raghu, as our practice, we will not give out margin guidance. But if we look at on a YTD basis, the kind of Europe results, yes, this is a seasonal quarter and is a high, but you can look

at our results over the last four quarters. And we would very much want to be in the kind of range where we are now over a longer period and continue to look at opportunities to improve margins further.

Raghunandhan N.L.: Emkay Global Financial Services

Understood. And lastly on the RM cost, if you can indicate what is the kind of pressure you see on a QoQ basis for Q4? And also, if you can share the commodity wise prices which you kindly share every quarter?

Gaurav Kumar: Chief Financial Officer

So, going forward, we see the RM costs going up by another about 3%. So, there is a small inflation further which need to be tackled. On your next question which is the kind of raw material prices that we've seen in the current quarter. So natural rubber was at around INR 180 a kg, synthetic rubber at INR 175 per kg, carbon black at INR 100 a kg, and steel cord at INR 175 per kg.

Raghunandhan N.L.: Emkay Global Financial Services

Thank you. That's very useful. I'll come back in the queue.

Neeraj Kanwar: Vice Chairman & Managing Director

Sure, thank you.

Joseph George: IIFL Securities

Next, we have Nishit Jalan. Nishit, please unmute yourself and go ahead.

Nishit Jalan: Axis Capital

Yes. Hi, thank you. Thank you for the opportunity. My first question is more on the India side. Just wanted to probe a little bit further on the demand side, you mentioned that we are seeing signs of recovery in demand. Was it only limited to OEMs or you have started seeing some recovery on the replacement side as well? And secondly, if you can quantify the kind of volume growth that we saw in this quarter, and the kind of price hikes we took in last quarter, and what we have already announced in 4Q?

Neeraj Kanwar: Vice Chairman & Managing Director

Gaurav, you want to take this?

Gaurav Kumar: Chief Financial Officer

Yes. Nishit, the volume for the India Operations was up 3% vis-a-vis last year. So not a big volume growth given the weak pressure. A large part of the top line growth came through pricing actions. On a sequential basis, again the volumes were up only 3%. Of course, in Europe a large part of the gain was volume led. In terms of pricing actions that has been announced or we will look, it would again be in the region of low single digits in the region of 2% to 3%.

Nishit Jalan: Axis Capital

And Gaurav, on part of demand recovery on the replacement side?

Gaurav Kumar: Chief Financial Officer

There is a stronger recovery on the replacement, Nishit, that we are seeing. Replacement is also showing signs of pickup, but the bigger signs of recovery is on the OEM side where the volume were down.

Nishit Jalan: Axis Capital

Okay. And Gaurav, you talked about a 3% RM inflation that we can see in next quarter, given the increase in crude prices, we would continue to see further price increases, sorry cost increases beyond 4Q as well, is that understanding, correct?

Gaurav Kumar: Chief Financial Officer

We seem to be, Nishit, seeing some tapering of the RM prices, too early to say given the uncertainty on crude. But rubber seems to be coming down. So, expectation is that we may have seen the peak of raw material prices in Q4 or maybe in Q1 of next year.

Nishit Jalan: Axis Capital

Okay. Got it. My second question is on Europe. Obviously 19% YoY growth is very, very commendable. Could you break it down between volume and price increase? I would assume there would have been a decent price increase that was taken in Europe as well, plus this mix would have also helped our ASP. So just wanted some colour on how volumes, growth and all has behaved? And how have you fared vis-a-vis industry?

Gaurav Kumar: Chief Financial Officer

So, the volumes in our Europe Operations were up 14%. As mentioned, we have grown faster than the industry. To give you one benchmark figure in this quarter, the passenger car tyre industry for Europe was up 9%.

Nishit Jalan: Axis Capital

This 14% would include higher growth that we are seeing in the off-highway and the TBR side as well. So, our PV industry growth would be slightly lower than the 14%, is that correct?

Gaurav Kumar: Chief Financial Officer

Yes.

Nishit Jalan: Axis Capital

Okay. And just one last follow up. You talked about INR 1000 crore to INR 1100 crore CapEx in FY23. FY22 numbers remained unchanged, I think it was about INR 1600 crore, if I'm not wrong?

Gaurav Kumar: Chief Financial Officer

We had changed the INR 1600 crore to INR 1800 crore when the year started, Nishit on the back of investments into digitalisation, etcetera. We would probably come in lower than what we had decided on that INR 1800 crore. So, it will be somewhere between the INR 1600 crore to INR 1800 crore.

Nishit Jalan: Axis Capital

Okay. Thank you very much.

Joseph George: IIFL Securities

Thank you. Next, we have Siddhartha Bera. Siddharth, you can unmute yourself and ask your question.

Siddhartha Bera: Nomura

Yes. Thanks for the opportunity. Sir on the CapEx query again. We were expecting after this big Andhra greenfield CapEx, in FY23 there is likely to be only the maintenance CapEx for the India business. So, can you help us understand of the CapEx we indicated, how much will be maintenance or are we looking at any brownfield expansion also?

Gaurav Kumar: Chief Financial Officer

So, Siddharth, there is no major brownfield expansion planned for next year. There will be some overflow as we slowed down the Andhra CapEx which flows into next year, given the situation over the last 2 years we had slowed down our capex spends. Most of this is maintenance CapEx plus spends on R&D and Digitalisation, the two focus areas that Neeraj talked about, there will be some very small brownfield CapExes in our existing plants, but no major growth CapEx next year.

Siddhartha Bera: Nomura

But still I mean, even if I assume INR 700 crore to INR 800 crore maintenance CapEx, will that be the right number and that probably will then continue over the period?

Gaurav Kumar: Chief Financial Officer

No, that will not continue as a maintenance CapEx. This includes CapEx into the existing plants given the capacities at which they would be run, including looking at productivity improvements. So, it's a mix of CapExes going into the existing plants, which is not just maintenance in nature, but also productivity improvements, digital etc. The true maintenance CapEx across the operations would be more in the nature of INR 300 to INR 350 crores.

Siddhartha Bera: Nomura

Okay. Got it, sir. And second is on the RM side. In this quarter, we have seen some inventory adjustment costs also coming in because of the weaker demand. So, anything to highlight here in the quarter? Was there any inventory adjustment costs as well?

Gaurav Kumar: Chief Financial Officer

We would have used some of the inventory. But no major impact there.

Siddhartha Bera: Nomura

Okay. Got it. And lastly, sir, if you can share the Reifencor revenue and margin? That will be my last question.

Gaurav Kumar: Chief Financial Officer

Sorry, I didn't get your last question, Siddharth.

Siddhartha Bera: Nomura

Reifencom revenue and margin for Europe?

Neeraj Kanwar: Vice Chairman & Managing Director

Reifen.

Gaurav Kumar: Chief Financial Officer

Just a minute. So, Reifencom revenue was EUR 68 million, and the margin was 11% EBITDA.

Siddhartha Bera: Nomura

Okay, sir. Thanks a lot.

Gaurav Kumar: Chief Financial Officer

Thank you.

Joseph George: IIFL Securities

Thank you. The next in queue is Jinesh Gandhi. Jinesh, you can unmute yourself and ask your question.

Jinesh Gandhi: Motilal Oswal Securities

Hi, thanks. Gaurav, my question pertains to the RM prices. So, any sense on what kind of under recovery still exist at the end of third quarter?

Gaurav Kumar: Chief Financial Officer

Jinesh, we've taken price increases in the replacement segment etcetera ranging between 10% to 12%. In terms of under recovery, so to say on RM side, we would be off by about at least 6% to 7%.

Jinesh Gandhi: Motilal Oswal Securities

6% to 7% including what we expect in fourth quarter or that will be over and above this?

Gaurav Kumar: Chief Financial Officer

Since fourth quarter is also seeing a further RM increase. So, you asked the question about up to Q3, I was mentioning that.

Jinesh Gandhi: Motilal Oswal Securities

Okay. Got it. 6% to 7%. And similarly in the European market, we have started seeing RM cost pressures as reflected in reduction in gross margins. So then, also, do you expect further increase happening in fourth quarter? And secondly, what kind of price increases are we taking there?

Gaurav Kumar: Chief Financial Officer

So yes, a similar cost push from the RM side would be there for European Operations also. So that will be true of any tyre player across the globe. And we have announced small price increases into our summer range to take care of those.

Jinesh Gandhi: Motilal Oswal Securities

Okay, okay. Got it. Thanks. I'll fall back in queue.

Gaurav Kumar: Chief Financial Officer

Thank you.

Joseph George: IIFL Securities

Next, we have Pramod Ambte. Pramod, you can go ahead with your question after unmuting yourself.

Pramod Ambte

Yes, hi. So, I have two questions. One is with regard to the industry tyre exports. If I had to look at the tyre association, it looks like there is a very strong uptick in exports more driven by US and Europe. Wanted to know what is the reason for the same? And what has been your participation in this strong growth? And there was a case the industry was making for PLI, any expectations there?

Neeraj Kanwar: Vice Chairman & Managing Director

I think, I can speak for ourselves. Our whole derisking strategy that we have put in place for the past 6 years is now paying out. Say in terms of exports, we have opened sales and marketing offices in Thailand and in Dubai, for the Middle East and Africa. And now a lot of focus into North America and LATAM. And all these four markets are showing us very positive

signs for the Vredestein brand in passenger car and for Apollo truck-bus radial tyres. And so, our exports have gone up, Gaurav will tell you the exact figure, but year on year, our exports are positively high. And these are going to profitable markets. So we have derisked ourselves from just being in one country and looking at other profit pools around the globe. Gaurav, can you give some highlight numbers on export?

Gaurav Kumar: Chief Financial Officer

So, Pramod our exports over this nine-month period on volume terms also has more than doubled. So, the growth is more than 100%. So, while the overall industry itself has pushed exports, into various markets, and there are focused markets that Neeraj mentioned, but again, we've done better than our peers. And our growth is more than 100% on exports.

Pramod Ambte

And Gaurav, is it more for Asian markets or the across the globe?

Gaurav Kumar: Chief Financial Officer

It is across.

Pramod Ambte

And is there an industry trend, which is more shifting towards US, Europe? And you guys want to catch it up, or you are also participating equally in those segments?

Gaurav Kumar: Chief Financial Officer

We are an equal participant and as Pramod, we've been talking and you would remember that North America is a focus market for us. The R&D team has been working on products to be specifically designed for the North American market, the South American market, those are now beginning to give results. So, this is not a quick strategy of this year alone as we saw an export opportunity. This is something we've been working on for a number of years with teams in place across this few various geographies, which is now reaping the results in this year and providing us in a way of derisking strategy from the just dependence on Indian market alone.

Pramod Ambte

Second question is with regard to the TBR, Indian TBR side. Wanted to check considering that there are new capacities which are throwing up production into the marketplace. And is the market share is a limitation which is a limitation factor for your pricing action? And how do you see this panning out in next couple of quarters?

Gaurav Kumar: Chief Financial Officer

Pramod, I believe that the pricing action has been more governed by a weaker demand. Because even the current capacity is excess based on the current demand situation. There have been not the appropriate level of utilisation of TBR capacity. And hence that demand environment led to pricing action or taking price increases in line with the raw material costs push being difficult. And to a certain extent there has been because of pressure on fuel prices and general inflation, a shift back to truck bias. So, we've seen a much stronger demand on the bias side. And there our capacity has been running into the 90s.

Pramod Ambte

Thanks, Gaurav. All the best.

Gaurav Kumar: Chief Financial Officer

Thank you.

Joseph George: IIFL Securities

Next, we have Basudeb Banerjee. Basudeb, you can unmute yourself and go ahead.

Basudeb Banerjee: Ambit Capital

Hi, Gaurav. Thanks for the opportunity.

Gaurav Kumar: Chief Financial Officer

Hi, Basudeb.

Basudeb Banerjee: Ambit Capital

Yes, so, to continue with the last question. So just wanted to know, at current juncture, what's the total TBR capacity? What is the level of utilisation? And where do we see end of FY23, in terms of capacity?

Gaurav Kumar: Chief Financial Officer

Sure. Basudeb, the TBR capacity is a little short of 15,000 tyres per day across our two plants which is Chennai and the new greenfield in AP. Our current level of utilisation is at about 75%.

Basudeb Banerjee: Ambit Capital

And the same thing in TPD terms, tonnes per day?

Gaurav Kumar: Chief Financial Officer

In terms of tonnes per day, roughly, you can take 15,000 into 65 kgs, roughly, 975 tonnes.

Basudeb Banerjee: Ambit Capital

And the same thing after FY23 when full Andhra phase getting operational?

Gaurav Kumar: Chief Financial Officer

Sure, sorry. I was talking about this as a steady state, there is only a small scale of that will happen in the AP plant on TBR, there is no further expansion plan on TBR as of now.

Basudeb Banerjee: Ambit Capital

So, ballpark one can say that FY23 and capacity will be 1000 TPD and today we are operating at 75%.

Gaurav Kumar: Chief Financial Officer

Yes.

Basudeb Banerjee: Ambit Capital

Sure. So, basically as you rightly said that orders from truck OEMs showing that Q4 demand itself is very high compared to Q3. So, the 75 can move up if there is a strong demand for next 12 to 18 months.

Gaurav Kumar: Chief Financial Officer

That is correct. The OE demand moves up quickly. But we are, given the focus on free cash flow etcetera, going to be judicious on CapEx and not going to set up any capacity ahead of time particularly on the TBR front, given that it's a fairly capital-intensive product category.

Basudeb Banerjee: Ambit Capital

So, in that way that will be one can infer that one of your competitor also deferred or cancelled their TBR expansion plan. So, broadly, one can say that if upcycle of trucks is there

to stay for a foreseeable future, and no major capacity addition in TBR. So, as you rightly said that you are under utilising the TBR capacity. So, in next 2 years if demand picks up, pricing power should improve?

Gaurav Kumar: Chief Financial Officer

Possibly, yes.

Basudeb Banerjee: Ambit Capital

Sure. Thanks.

Gaurav Kumar: Chief Financial Officer

Thank you.

Joseph George: IIFL Securities

We next have a follow up question from Ashutosh Tiwari. Ashutosh, you can unmute yourself and go ahead.

Ashutosh Tiwari: Equirus Securities

Yes, hi. So, firstly, in terms of interest costs and debt levels. Will this interest costs go up further from here in terms of quarterly level, what we've seen in third quarter or now is kind of near to peak?

Gaurav Kumar: Chief Financial Officer

The current levels, Ashutosh should be more or less stable. There may be going up on the working capital debt as the revenues grow, but there is also debt repayment that will happen. So, there should not be much increase in the interest cost.

Ashutosh Tiwari: Equirus Securities

Okay. And debt level is around 5100 crore as of now?

Gaurav Kumar: Chief Financial Officer

You are talking about India Operations or consol?

Ashutosh Tiwari: Equirus Securities

Both and also India you can provide separately.

Gaurav Kumar: Chief Financial Officer

Sure. So, India the gross debt levels are slightly under 5000 crore between 48 and 49 and on a consolidated basis they are a little short of 7000 crore, gross debt.

Ashutosh Tiwari: Equirus Securities

And cash is around then 1800 crore?

Gaurav Kumar: Chief Financial Officer

Cash is about 1900 crore. So, the net debt is about 5100 crore, on a consolidated basis.

Ashutosh Tiwari: Equirus Securities

Okay. And like you mentioned that in TBR utilisation is 75%. What is the utilisation level currently in PCR? And can you tell us the capacity right now?

Gaurav Kumar: Chief Financial Officer

PCR capacity utilisation is close to 90%. And the India capacity is with completion of Andhra Pradesh which is still in a ramp of phase so, the current capacity is a figure which is always moving. It will cross 50,000 tyres per day in India.

Ashutosh Tiwari: Equirus Securities

Okay. So, using 90% so, you're operating at 45,000 per day?

Gaurav Kumar: Chief Financial Officer

Currently, the capacity in AP hasn't reached its terminal of Phase 1.

Ashutosh Tiwari: Equirus Securities

So, how much we're operating right now, around in terms of per day production?

Gaurav Kumar: Chief Financial Officer

I'll have to check that number. So, we'll need a little time.

Ashutosh Tiwari: Equirus Securities

Okay. And lastly, on this Vredestein in agriculture segment, what would be our market share in European market? And any targets or thought process we have in terms of improving that over the next 2, 3 years?

Gaurav Kumar: Chief Financial Officer

Our market share in the Europe operations is about 6% plus. There are no specific targets to say I would say the bigger focus of the overall operations, putting aside market shares in a particular product category is to grow, but more importantly, grow profitably and maintain or improve the profitability levels that we've been reporting now, over the last few quarters.

Ashutosh Tiwari: Equirus Securities

The 6%, you mentioned is the market share in the OHT segment?

Gaurav Kumar: Chief Financial Officer

That's correct.

Ashutosh Tiwari: Equirus Securities

Okay. And lastly, on the CCI penalty thing, what do you think will be the course of action? Like say you go to higher courts and can I know, you first go to tribunal for that. What will be the process, if you can provide some colour?

Gaurav Kumar: Chief Financial Officer

So, the next step, once we get the order is to study the detailed order. And then there is a timeline to appeal to the appellate tribunal. And only post that process is the Supreme Court. So, it's a fairly long road ahead on the legal recourse side.

Ashutosh Tiwari: Equirus Securities

Okay. Thank you. And all the best.

Gaurav Kumar: Chief Financial Officer

Thank you, Ashutosh.

Joseph George: IIFL Securities

Next, we have a follow up from Nishit Jalan. Nishit, you can unmute yourself and go ahead.

Nishit Jalan: Axis Capital

Yes. Just one follow up question on export side. We did around 1100 crore revenues last year. So, what kind of run rates are we talking right now? Is the growth looking much higher? Because last year 1Q was a washout, in terms of exports, so just wanted to get a sense of that.

Gaurav Kumar: Chief Financial Officer

Nishit, as I mentioned over a nine-month period, we have more than doubled our exports from India.

Nishit Jalan: Axis Capital

No, you mentioned that Gaurav, but last year 1Q would have been a washout as well, right on export side? On a very low exports, I'm -- just wanted to check. So, 1100 crore export run rate, I'll be looking at 2200 crore kind of run rate for this year, is that correct?

Gaurav Kumar: Chief Financial Officer

Should be possible. I don't have the figures for this year. But even on Q3 alone, compared to Q3 last year, we are up close to 75%.

Nishit Jalan: Axis Capital

Okay. Thank you.

Gaurav Kumar: Chief Financial Officer

Thank you.

Joseph George: IIFL Securities

We have the last question for the day from Disha Sheth. Disha, you can unmute yourself and go ahead.

Disha Sheth: Anvil Shares & Stock Broking

Sir, you mentioned about the OEM demand going forward that it is picking up. Can you throw some light on replacement demand, both in TBR and PCR, and two-wheeler, all the three categories? How is the demand?

Gaurav Kumar: Chief Financial Officer

Yes. Disha, that demand is picking up but there we didn't have a decline. So, do we have a very strong pickup? No, it's better than Q3 but not the kind of swing that we are having on OEMs.

Disha Sheth: Anvil Shares & Stock Broking

Okay. So, the demand momentum of replacement has continued over Q3.

Gaurav Kumar: Chief Financial Officer

That's correct.

Disha Sheth: Anvil Shares & Stock Broking

Okay. Both for TBR and PCR?

Gaurav Kumar: Chief Financial Officer

TBR more, PCR was always fairly strong. So, it's more coming back for TBR.

Disha Sheth: Anvil Shares & Stock Broking

Okay. And compared to last year also it is better, because last year we saw a lot of pent-up demand, last Q4?

Gaurav Kumar: Chief Financial Officer

I won't have the figures that readily to be able to tell you figure wise, more a generic sense right now.

Disha Sheth: Anvil Shares & Stock Broking

Okay, okay. Yes, sir, that's it from me.

Gaurav Kumar: Chief Financial Officer

Thank you.

Joseph George: IIFL Securities

Thank you. That brings us to the end of the call, I will hand over to Neeraj or Gaurav for any concluding remarks, post which we can close up.

Neeraj Kanwar: Vice Chairman & Managing Director

I would like to thank everyone for joining our conference call and all the very best and good luck and stay safe. Thank you.

Joseph George: IIFL Securities

Thank you, everyone. I'd like to thank the management for taking out time, I also thank all the participants for joining in. Thank you.