Apollo Tyres Ltd Q2 FY23 Earnings Call

Moderator: Hello, everyone. Good morning. Good afternoon. On behalf of IIFL Securities, I welcome you all to the 2Q FY23 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'll start the Q&A. Over to you, sir.

Neeraj Kanwar: Good morning, good afternoon, everyone, and a very warm welcome to Apollo Tyres' quarter 2 earnings call. Let me start the call with thanking you all for your interest in the company and taking the time out for today's call. I'm proud to share that our biggest plant in India, which is in Chennai, has been awarded the Deming's Prize this year, the most important recognition in the field of quality. This, once again, highlights our absolute focus on world-class quality.

We, at Apollo, are relentlessly working on delivering superior financial performance in terms of profitability, free cash flows and return on capital employed, both in the midterm, while also preparing for the future. The business model today is far more balanced and resilient. This has helped us report double-digit Y-o-Y growth in both consolidated top line and consolidated operating profit despite a very, very challenging environment. The current quarter was once again, impacted by increase in RM prices, both in India and in Europe.

In addition, we also witnessed steep increase in energy costs, especially in Europe. Despite these challenges, the company has reported sequential improvement in operating-margin performance both in India and in Europe. We have been extremely judicious about CapEx and have curtailed the same in the first half given the challenging business environment. This has ensured that our balance sheet leveraging remains within reasonable levels.

I would now also make a brief mention of work being done on our key pillars of our Vision 2026. Starting with R&D. We are working on new-age technologies to support our premiumisation journey. We are leveraging advanced technologies like foam technology and sealants to support our electric-vehicle journey. The teams are working on further improvements in rolling resistance and noise reduction to support development of EV tyres. I'm also pleased to share that, in the quarter, we were the first company in India to get a 5-star rating for commercial vehicle tyres.

Moving to digitalisation. We are leveraging technology to transform ourselves on various fronts. We have started seeing initial efficiency gains from artificial intelligence and machine learning and have further increased our focus on data science to drive improvements on productivity and sweating of our assets. This initiative will, again, help us in improving our ROCE and reduce our growth CapEx.

Another key area of focus is Sustainability. Apollo Tyres has a commitment of becoming carbon-neutral by 2050, aligning with the European Green Deal. We are committed to a target of 25% renewable energy by 2026. This will translate to 25% reduction in Scope 2 intensity for the company in FY26. We are also committed to target 25% reduction in water-withdrawal intensity by 2026.

We continue to focus on enriching our product mix and superior-price positioning of our product across geographies. We are seeing signs of recovery in the commercial-vehicle cycle and a strong momentum on the passenger vehicle side in India. Given the recent corrections in commodities and our continued focus on price and profitable growth, we expect revenue growth and recovery in operating margins going forward.

Thank you, once again. Stay safe. Now I'll pass on to Gaurav, our CFO. Thank you. Gaurav, over to you.

Gaurav Kumar: Thank you, Neeraj, and good afternoon, ladies and gentlemen. Continuing from where Neeraj left, let me move now to the performance for the last quarter. In India, the quarter started on a weaker note with replacement demand in July and August impacted by subdued market, unfavorable rain distribution and steep price increases.

On the other hand, we saw a healthy demand momentum in the OEM segment. However, more importantly, we were able to take pricing actions during the quarter linked to our mantra of profitable growth, which helped us negate the impact of higher raw material costs and also partially impact the sequential drop in revenues. The European Operations reported another healthy quarter with significant revenue increase. We registered market share improvement across all product segments.

Operating margins in Europe improved sequentially, despite increase in RM cost and a steep inflation in energy costs. European market is beginning to show some signs of slowdown. We, however, continue to follow our strategy of premiumisation, with a focus towards increasing the UHP mix and gaining market share. In terms of outlook, as Neeraj mentioned, we expect the demand in India to pick up in the replacement segment and a growth in volumes and revenues going forward.

Moving on to the financial results. The consolidated revenue for the quarter stood at almost INR 60 billion, a growth of 17% over the same quarter last year, though flattish on a sequential basis. The consolidated EBITDA for the quarter was upwards of INR 7 billion, a margin of 12% compared to 12.6% for the same period last year, but an improvement sequentially, which was 11.6% in the last quarter.

Coming to the balance sheet. We've been able to maintain our leverage ratio given the focus on cash flows, curtailing of CapEx. The net debt-to-EBITDA for the consolidated operations, was under 2, in line with our vision target. In Indian Operations, the revenue for the quarter was INR 42.5 billion, a growth of 17% over the same quarter last year. This growth was largely driven by improvements in mix and the price increase taken. Sequentially, the revenue was a decline of 4%. The EBITDA for the quarter stood at INR 4.4 billion, a margin of 10.3%, which was same as what was reported for last year and an improvement from the sequential quarter, which was 9.7%.

Moving on to European Operations. The revenue for the quarter was EUR 181 million, up a significant 31% compared to the same period last year. This was a result of 10% growth in volumes and the balance coming through price-and-mix improvement. We continue to make inroads into the market and grow. The EBITDA for the quarter stood at EUR 28 million, a margin of 15.3% compared to 14.5% in the last quarter.

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

Question and Answer Session

Moderator: We will start with the first question from Ashutosh Tiwari.

Ashutosh Tiwari: So firstly, on India side, the entire growth Y-o-Y is driven by only pricing. Was there any volume growth as well? If we can break up it in OEM and Replacement as well?

Gaurav Kumar: So, the volume growth, Ashutosh, was very minimal under 1%. And hence, it was largely price and mix.

Ashutosh Tiwari: Okay. But any color on replacement and OEM breakup?

Gaurav Kumar: Just a minute. The replacement volumes, overall, though you would appreciate that across product categories, it becomes difficult. It was down mid-single digits. And the OEM and exports grew into double digits.

Ashutosh Tiwari: Even exports are growing in double digits as of now?

Gaurav Kumar: Yes, for the last quarter, yes.

Ashutosh Tiwari: Okay. And we did very well in Europe. Can you highlight like which markets or countries are doing very well for us? But 10% in this environment is pretty good in terms of volume growth?

Neeraj Kanwar: Let me take that, Gaurav. I think, overall, our focus has been in markets where we were not present at all, which is really France and Spain. They've done very fairly good for us. Again, Germany and Netherlands continue to do good for us. So overall, the focus of the company in Europe has been to go on to the higher sizes, and that's where our technology has done good in our products.

And UHP and UUHP has now become a major share of our entire pie. That is also giving expansion on our profit gain. So, more and more focus is coming on the ultra-high performance tyres, which will give us growth not only in revenue, plus it will also give us growth in EBITDA margins.

Ashutosh Tiwari: So, if I remember correctly, your market share in France and Spain was pretty low, I think less than 2% or something. So there, we are seeing improvement now?

Neeraj Kanwar: Yes, it's less than 1%. A lot of brand activities have happened in France. A whole new organisation structure has been put in place. Recently, in October, we sponsored the 20K marathon in Paris. So there's a lot of brand activity going on in France, and that is giving us some market-share gains.

Ashutosh Tiwari: And lastly, on the margin side in Europe, I think we have seen quarter-on-quarter improvement. And in fact, this is coming on a higher-selling price. So probably your profitability is not at all impacted. How should one look at it going ahead? Will -- because I think you remember that we have probably hedged our energy costs for some time. So how should one look at European profitability, say, for next year?

Neeraj Kanwar: Well, as we speak, energy prices are very high in Europe. But as you mentioned that we have hedged our energy costs, and therefore, there is a respite as far as our manufacturing cost is concerned. But there's clear focus on growth on revenue and on profitability. And so going forward, we'll continue with the same trend. We have reached last year at highest, and now we are seeing commodity prices weakening a little bit. And therefore, we will see some margin expansion happening.

Ashutosh Tiwari: Just one more question on the inventory side, we have seen inventory increasing at consol level in balance sheet, so how should -- why it happened and how should one look at, say, from, let's say, in the second half? How should one look at cash flows, especially operating cash flow and CapEx as well?

Neeraj Kanwar: Gaurav, will you comment?

Gaurav Kumar: So Ashutosh, if you look at 2 regions, a little bit of subdued demand in replacement in India and also the fact that we went after profitable growth, took the lead on price increases, did have some impact on replacement volumes, which have translated into inventory.

On the Europe Operations, this is a fairly seasonal impact where we build up inventory for the winter tyre season. So that's the impact of inventory that you see. Some of it will get corrected automatically as the normal season unfolds, but we are focused on the fact that there has been an inventory buildup and a correction is needed.

Similarly, on the CapEx front, we were significantly under, let's say, 50% of the overall guidance. And we will continue to monitor the situation very sharply on the overall market cash flows to make sure that we spend the CapEx judiciously.

Ashutosh Tiwari: So basically, second half, the cash flow should improve operating side essentially?

Gaurav Kumar: That's correct.

Ashutosh Tiwari: Okay. I think we are managing our cash flow as well as cost pretty well because if I look at India, also stand-alone, other expenses have fallen quarter-on-quarter. So, congrats for that.

Moderator: Next in queue, we have Siddhartha Bera.

Siddhartha Bera: Sir, first, on this replacement truck demand outlook. Q2 has been soft. We understand, especially it's a seasonally soft quarter as well, but some color on how you are looking at growth in the current quarter and going ahead? How is the growth outlook? And in case -- I mean we know that you have been slightly ahead of the curve in taking price hikes, and there has been some market share loss as well. So, if you can comment how you are looking at growth versus market share now in the coming few quarters?

Neeraj Kanwar: Sure. Okay. So, for us, the whole mantra has been profitable growth, while we will be looking at gaining market shares. But today, in India -- let me discuss India and Europe separately.

In India, what has happened is we have increased prices over time. We are clearly the price leaders in truck and in passenger car. And every segment of the market, Apollo now has established its price premium, okay? And therefore, the gap between us and competition was huge in quarter 2. And, we did lose a little bit market share in truck-bus radial, but the company continues to introduce new SKUs, new products in TBR. And therefore, our new price position has been well established with the dealer network.

Now the gap has narrowed as far as pricing is concerned. We believe the CV cycle is on the up. We see order books are full coming from OEMs. And therefore, we believe that the economy is moving in the right direction. Given that, we are all poised today as far as our marketing networks are concerned, to go and grab back that market share, at the premium pricing, and therefore, you will see margins expansion happening in India. Also as far as PCR is concerned, order books are full, and we are seeing that from the likes of Maruti, Hyundai orders are already coming in much more than what they were pre-COVID time. So, there is growth coming in the market in quarter 3 and quarter 4.

As far as Europe is concerned, with the Russia-Ukraine war, what has happened is that close to 10 million to 12 million tyres were coming in from Russia into EU. Now that itself has now stopped because of the sanctions that are coming. So that gives Apollo a chance to get into various networks where those tyres were available coming in from Russia, and that's where we have gained market share, and this will continue.

Today, our plants are running in Europe at nearly full capacity. In fact, we are also bringing in close to 1 - 1.5 million tyres from India. We are trying to service the passenger car market in Europe because we see a huge growth for specifically the Vredestein brand. And I believe that the growth is there for us, given this void that has come from Russia.

Siddhartha Bera: Got it, sir. Second question is on the Average Selling Price. So if I look at your ASP for the quarter, given the volumes you said, I think the ASPs would have increased by about 5% quarter-on-quarter. So is it a correct assessment? And if that has -- is it entirely because of price hikes? And any more price hikes did you take in the last couple of months, for October, November?

Neeraj Kanwar: Gaurav, you want to comment?

Gaurav Kumar: Yes. Siddhartha, you are correct that the -- sequentially, we took a price increase about close to 5%. There have been no further price hikes taken in the current quarter.

Siddhartha Bera: Okay. And sir, lastly, on the cost side, so we have seen some costs also coming down in the quarter 2 across both staff as well as other costs. If you can also highlight what has led to this? And should we expect some of these costs to normalize? Or these are probably the sustainable costs we should look forward to?

Neeraj Kanwar: Gaurav, do you want to answer?

Gaurav Kumar: Regarding the staff cost lowering is on account of lower production. So some of it is linked to production. And as demand comes in and our production volumes increase, they will normalize. The fixed cost, again, is a whole system that we've put in place of keeping a tight check vis-a-vis where the overall operations are going. So yes, if the demand picks up, some of them will go back to earlier levels, but not otherwise.

Moderator: Next, we have Raghunandhan.

Raghunandhan: Sir, on the commodity side, what was the inflation impact? How much did the RM costs go up in Q2? And what is the deflation impact you're expecting in Q3?

Gaurav Kumar: So, in Q2, Raghu, the RM cost went up by about 3%. And in Q3, we are expecting around a similar reduction.

Raghunandhan: That's good to hear, sir. And can you also talk about, in terms of truck-and-bus segment, how do you see the volume improvement going ahead in replacement market? And broadly, what range of growth would you expect for the full year?

Neeraj Kanwar: We will look at a double-digit growth. We are already -- like I mentioned earlier, our order books are coming out to be full in this quarter and the coming quarter. So, we are pretty bullish about seeing a revival of the CV segment. Given all the infrastructure costs that the government is putting in, we are seeing an uptake happening in the CV segment.

Raghunandhan: Sir, can you also talk about the EV journey? So, in terms of the new-product introduction, how you're seeing adaptations in terms of making the product match that rolling resistance and better grip? And how does the content per vehicle increase for an EV tyre compared to ICE tyre on a like-to-like basis?

Neeraj Kanwar: Well, EV tyre -- and you said rolling resistance and noise level. Those are the main things. And today, even before EV tyres came out, and as you know, we have launched EV tyres in India. In the next month, we are launching EV tyres in Europe. These aspects or these contributors of rolling resistance and noise level have already been incorporated into our tyres when we are selling them to OEMs. So there is no major difference. Yes, obviously, a little bit tweaking is required. In India, EV tyres is yet to pick up. But I believe that in Europe, we'll have a good marketplace for our EV products that are going to come out, in fact, next few years.

Raghunandhan: But the content of the pricing per tyre would increase in single digits or would it be much higher?

Neeraj Kanwar: You mean the raw material costs?

Raghunandhan: No, price of tyre?

Neeraj Kanwar: Gaurav, do you have any answer on that?

Gaurav Kumar: Raghu, I won't have the details readily. We can come back to you through the IR team.

Raghunandhan: Sir, just a last question. Can you give us -- can you share the commodity cost for the various commodities, natural rubber, synthetic rubber, et cetera?

Gaurav Kumar: Sure. So natural rubber, this quarter was around INR 185 per kg, synthetic rubber at INR 210, carbon black at about INR 140 and nylon fabric at INR 385 per kg.

Raghunandhan: And the current price of rubber plus the logistic cost, that should translate into around INR 160 per kg in the coming quarters?

Gaurav Kumar: It will still depend on how the rubber price unfolds. But yes, INR 160 or maybe a little bit more, but definitely lower than what was there in the last quarter.

Moderator: Next in line, we have Amyn Pirani.

Amyn Pirani: First, a question on the India business and really a 2-part question. So, when I look at your product segmentation, like truck and bus has come down from 60% to 55% on a half-year basis. But when I look at your channel, the replacement is down only from 60% to 58%. So, would it be fair to say that your strategy of taking price hikes ahead of competition is impacting your replacement market share more on the TBR side rather than on the passenger vehicle side? Is that a correct understanding?

Neeraj Kanwar: Yes. it is the correct understanding. Our strategy is, as I mentioned to you, is on profitable growth. We are not going after dropping our prices and gaining market share. That's not my strategy. My strategy is to improve our ROCE, like I mentioned to you, get more free cash flows into the company, and obviously, have a premium product out there in the market.

Now that the price has narrowed and competition has come up with their pricing strategy, we still continue to be the price leaders in TBR. Okay, don't misunderstand what I say. Keeping that level now with a 3% to 4% price gap between us and the second competitor, we believe we'll be able to go and get better growth from quarter 2. Because we have also introduced new SKUs into the market. We have also introduced new policies into the market. So keeping EBITDA in mind, keeping profit margin in mind, we will now start increasing our volumes into the replacement market.

Amyn Pirani: And how is the underlying replacement market for TBR doing? I mean, obviously, we've heard these comments that OEM has been doing well from you and from other sources also that, but the replacement was a bit soft. But has that picked up materially? And what are the drivers of that?

Neeraj Kanwar: Like I mentioned to you earlier that basically the drivers are the government spending going into infrastructure and road transportation is really helping the CV cycle coming back. And that is going to make the CV cycle come, and TBR is now the main product category that is going to be taken by the truckers. OEMs today are already at 75% of radialization, 75% to 80%. So, this is where Apollo is standing tall as a radial leader in the Indian tyre market. So, all our products in radial, whether in truck or in passenger car or in light trucks, even in farm category, are at premium-price positions with highest volumes that are going into the market.

Amyn Pirani: And one question on Europe. It seems that the winter is likely to be less severe or not really a very cold winter. Now how should we think about -- because I mean, 3Q is generally a very strong quarter for you because of your winter tyres. And you'll -- like you said that you have built up inventory for the same. So what is the initial sense? Is there an impact on the winter tyre demand because of a milder winter? And what's the outlook like for the -- I guess, you only have like a few more weeks to do that kind of a sale, right?

Neeraj Kanwar: Gaurav, do you want to answer?

Gaurav Kumar: Yes, Amyn, you're right. So, there are signs of slowdown in Europe, given the overall environment and until now, winter has been mild. We are still growing, though halfway into the quarter, I would say the growth is at a slower pace compared to what we have seen in the first half. But the growth story will continue. We are gaining market share and will continue to do that as we push into strategic markets, into strategic geographies where we were not present or weaker. But yes, the pace of growth would probably come down.

Neeraj Kanwar: On this, I also believe that the winter months have shifted. So, this is my own belief, I think that the months have shifted to Jan, Feb, March. But the buying will continue because we are seeing now winter coming in, in Austria, parts of Switzerland, parts of French Alps. The snow has come in. So it's a late start. And these times, it goes into March, April also. So really the skiing season is going into March, April. That's where the winter tyres are also required. So, I believe that quarter 4 will also have some winter tyre sale happening.

Amyn Pirani: Okay. So, you're saying the seasonality itself, the way we see it might change, and hence, we shouldn't just focus on 3Q? Fair enough.

Neeraj Kanwar: Yes. And it's -- I guess, got to do with global warming. And the signs are that, in the month of October, we saw U.K. London record a very high degree of temperature, which is totally different than what it used to be. So, things are now -- I think there are changing seasons.

Moderator: Next, we have Disha Sheth.

Disha Sheth: So, wanted to check as since we are not increasing our prices anymore because raw material is coming down and the volume growth in this quarter was only 1%. So, going forward, how is the volume going to come? Because we do not have price growth and volume, you said it is more from the OEM level, right now, replacement is not that -- growing that fast. So how will be the volume growth? And in terms of realization and margins, because if we have more growth from OEM, the margins will get impacted. So, if you can share your views on the same.

Gaurav Kumar: So, Disha, the price increases that we have taken continue with the rollover effect vis-a-vis last year, while sequentially the growth in Q3, would be only volume-driven. But on a year-on-year basis, the price impact of the price increases taken over the last 12 months will still come into play.

On your second point, we are seeing signs of pickup in replacement, and that's specifically the CV segment. On the passenger car segment, et cetera, that market was already strong, and we are a leader there. So, we believe that the operating margins will only improve going forward if the current market situation remains.

Disha Sheth: Okay. And OEM will not impact our margins? Just again asking the same question, but because the growth is more towards OEM. So that is how...

Neeraj Kanwar: No -- sorry, I didn't mean it is only OEM, I said OEM is a driver for replacement market. OEM currently was at a very low level. And now the order books are full. So, you will see a growth in the replacement market, definitely.

Disha Sheth: Sure. And last question, sir, if you can say, our debt levels and current debt -- net debt levels are at?

Neeraj Kanwar: Gaurav?

Gaurav Kumar: Just a minute, Disha. So the net debt for the India Operations is about INR 4,200 crore. And for consol, the net debt is about a little under INR 5,500 crore.

Disha Sheth: Okay. And CapEx for FY23 and '24?

Gaurav Kumar: '24, we haven't yet firmed up. We want to see where the markets are going. The CapEx in the first half of the year is under INR 400 crore on a consolidated basis.

Disha Sheth: And sir, going forward, do you expect volume in mid-single digit or double digit, considering OEM replacement and exports?

Gaurav Kumar: Overall, for the year, Disha, we would expect the volumes to be in mid-single digits, and then they will start picking up and then the volume growth will accelerate going into next year.

Moderator: Next, we have Nishit Jalan.

Nishit Jalan: Congrats on good set of numbers. My first question is on the replacement side, I just wanted to understand from an industry perspective, tyre quality is consistently improving across segments. So just wanted to hear your thoughts. Are you seeing some signs that replacement cycle is getting longer, which is having some impact on demand? So just wanted to understand what was the replacement growth in FY22 and first half FY23? And is it a reason why a replacement demand is a little bit subdued because tyre quality is increasing and the life of the tyre will probably would be going up? Your thoughts on this, please.

Neeraj Kanwar: I don't think life of the tyre is increasing. I think the infrastructure growth is actually taking the CV cycle up. The numbers, Gaurav, you can give him. But please understand, there is a recession all over the world. India is least affected today, when you compare economies, when you compare Europe or the U.S. or even for that matter, China. And India is the least affected because of the infrastructure spends that are going into the country. When infrastructure is going into the country, the first thing that is going to pick up is the CV, and that is what exactly what we are saying. Whether it is in the replacement or in the OE, both segments where you will see bullish numbers going forward.

Nishit Jalan: Okay. Gaurav, if you have a replacement segment growth overall for FY22 and 1H FY23?

Gaurav Kumar: So, in the current year, Nishit, for the first half, the overall replacement growth is -- volume growth is just about 1%.

Nishit Jalan: And second question is on Europe. Right now, I think what you mentioned in the last call is that we have hedged the energy cost, and that is valid for even 4Q also, right?

Gaurav Kumar: That is correct.

Nishit Jalan: Now when we look over and move over to FY23, how should we look at that? Because obviously, energy cost has gone up quite substantially. So will it be a meaningful impact on our other expenses or our power energy cost? Or do you think something that is manageable and will not have an impact on profitability?

Gaurav Kumar: Nishit, we've taken hedges of different percentages for future years. So obviously, we've benefited from a much larger proportion of energy hedged for the current year, which is FY23. But a reasonable proportion of energy cost is hedged for FY24 also. And given the way the prices have swung, it is something that is reviewed by a committee at corporate and regional level every fortnight in terms of looking at the spot price and the future price to take a decision if we should hedge more.

So, it is something under active review, and we are conscious that we'll try and manage that as much as possible. Difficult to say as of now as to where in FY24, which is even the start of that is 6 months out, as to finally where we will end. But it's something to be watched very carefully, but we have reasonable proportion even in FY24 hedged. So, we are not completely subject to the mercy of spot prices.

Moderator: The next in the queue is Jinesh Gandhi.

Jinesh Gandhi: Yes. So continuing on the energy-cost question for the European Operations. So can you give some context of what has been our average cost for energy in, say, for FY23 and where we are in terms of energy cost currently? And what proportion of our energy requirement would have been hedged for FY24?

Gaurav Kumar: So Jinesh, I would not have those details readily in terms of specific figures. And I don't think we can share them that readily. Broadly, we had hedged about close to 80% of our energy costs for FY23. As I said, FY24 is under constant review. So, there's not a fixed figure that I have as of now.

Jinesh Gandhi: Okay. Got it. And secondly, continuing on the European Operations, we are almost at 100% capacity currently. Can you throw light on what is our current capacity in Europe? And how do we see that going up in terms of ramp up in the next 12 months?

Gaurav Kumar: So, the current capacity in Hungary is now getting close to 16,000 tyres per day based on various debottlenecking. Currently, we are operating somewhere around the 14,000 - 14,500. So, there is a scope as to go up and operate at the peak capacity which will give about let's say, high single digits to about 10%, in terms of volume.

Jinesh Gandhi: Right. And 16,000 would be the peak? I mean there will not be any further scope of debottlenecking there?

Gaurav Kumar: No.

Jinesh Gandhi: Okay. And there will be scope for brownfield expansion if we decide to do in terms of the infrastructure is there?

Gaurav Kumar: That's correct.

Jinesh Gandhi: Got it. And second question on the price hikes taken in Europe, if you can talk about that? I mean a 10% volume growth and 21% average ASP increase, how much of that would be through price hikes?

Gaurav Kumar: A large part of it would be price hikes. You could take low to mid-single digits as mix improvement. There is a constant improvement in our UHP proportion. To give you a sense, about 4 - 5 years back, our UHP proportion used to be in early 20s in the overall passenger car segment. That, currently, now is in 40s. So while quarter-to-quarter, there's not a significant movement, but the operations over the span of 4 to 5 years have almost doubled their proportion of UHP in passenger car segment.

Jinesh Gandhi: Okay. And last question on exports. So many of your peers, both in tyres and other segments of auto components have talked about exports seeing moderation. So, are you also seeing similar trends in terms of the export growth getting moderated and pressures coming in second half?

Gaurav Kumar: That's correct, Jinesh. We are seeing subdued demand coming from exports going forward as economies around the world demand falls. So yes, exports growth may taper down.

Moderator: Next, we have Arvind Sharma.

Arvind Sharma: It's on the pricing. As you said that there has been some market share loss because of pricing. Now that commodity cost pressures are expected to come down, could there be a scenario where you either trim prices or maybe launch better tyres at the current price? So, could pricing action reverse over the coming months, given the commodity cost pressures are easing? That will be the first question. And second question, if I may just ask with this. Your numbers on reifencom revenue and EBITDA in euro terms. Those are my 2 questions.

Neeraj Kanwar: Pricing as far as India is concerned in the replacement market, I said, is well established. So, we don't see any reductions as far as replacement is concerned. But as far as OEs are concerned, we have a pricing formula with them. So, we do get a price increase when commodity prices go up, and then we do get a decrease when they come down. So that's based on a pricing formula. As far as Reifen is concerned, Gaurav, can you give him the number?

Gaurav Kumar: Yes. So, the Reifen revenues for the quarter were EUR 46 million.

Arvind Sharma: And Gaurav, the EBITDA, if possible to share?

Gaurav Kumar: EBITDA was breakeven in this quarter.

Moderator: Next in queue, we have Devang Shah.

Devang Shah: Congratulations on great set of numbers. So, some of the questions I have had been answered. Could you share your guidance for Q3 and Q4 on revenues and EBITDA margins as you see them, if you could? And also, there was a mention that there's a 3% saving on raw materials expected in Q3. That means 3% on raw material or 3% overall? This will feed into the EBITDA as well, so either way you could answer it.

Gaurav Kumar: So, Devang, we don't give out specific margin guidance. So, we would not be able to share that. We expect the raw material basket to come down by 3%. Based on the demand uptick that we see and easing up of the commodity/ the raw material basket, we expect the margins to improve going forward. In terms of revenue, overall, we would expect India Operations to still end up with about a 20% growth on the top line.

Devang Shah: This is Y-o-Y or for Q3?

Gaurav Kumar: No, this is full year FY23 over '22.

Devang Shah: Okay. And in terms of your possibility of exports to Europe, is there a plan -- does that also work given that Europe is operating at nearly full capacity and India is at around 80% capacity, so is that a possibility?

Gaurav Kumar: So as Neeraj mentioned, Devang, we already export significant quantity of passenger car tyres from India to Europe, and that will continue. That's a decision that, along with the regions, the global supply chain takes. Even on the truck side, there is exports from India to Europe. So that possibility is definitely there.

Moderator: That brings us to the end of the call. I'd like to thank the management for taking out time for this call. I'd also like to thank all the participants for joining in. Have a good day.

Neeraj Kanwar: Thank you.