Apollo Tyres Ltd Q3 FY23 Earnings Call

Moderator: Good afternoon, everyone. On behalf of Equirus Securities, I welcome you all to this Third Quarter FY23 Conference Call of Apollo Tyres. From the management side, we have Vice Chairman and Managing Director, Mr. Neeraj Kanwar, CFO, Mr. Gaurav Kumar, and members of IR team.

Without further ado, I hand over the call to management for opening remarks, post which, we'll start Q&A. Over to you, Mr. Kanwar.

Neeraj Kanwar: Thank you, and good afternoon, and thank you for joining us today. We are pleased to provide an update on our company's performance and outlook. We have had another healthy quarter despite the difficult operating environment, driven by our continued focus on operational efficiency, profitability returns and on our cash flows. We continue to register improvement in our operating performance, and we are confident of our ability to sustain this momentum. Thank you again for your interest and support.

Before I dwell further into our company's performance, let me take this opportunity to thank the Indian Government for presenting a budget with strong focus on capital expenditure in line with government's policy to drive growth through CapEx and investments.

Furthermore, global agencies are pegging India as a shining star amid global turmoil. As per IMF, India is likely to be the fastest growing major economy in the world in 2023. With this backdrop, let me reiterate that we see huge opportunity in medium to long run across our key markets and are extremely well placed to leverage the same. The current quarter was once again impacted by macroeconomic environment and geopolitical events.

On one hand, we had subdued demand momentum in India in the replacement market, and concerns around slowdown in Europe. On the other hand, OEM segment is holding up well in India, and we have started witnessing impact of correction on our raw material prices. We had another strong quarter in North America with strong top line growth and healthy operating margins. We will continue to focus on premiumisation both in India and in Europe in terms of partnering with premium OEMs and increasing our proportion of our premium sizes.

Going forward, we expect earnings momentum to continue, helped by demand recovery in key markets, further correction in raw material prices and our relentless focus on price discipline and profitability going forward. We remain committed to reaching our intended margin range, and the same is highlighted by sequential improvement in margins over the last few quarters. We've had healthy positive free cash flow in the quarter, and the ROCE for the current quarter is approximately 12%, the lower end of our desired range.

The profitability margin was also a little below our stated mid-term target of 15%. Continuing from where I left last time, we, at Apollo Tyres, are relentlessly working on our five key pillars of our Vision '26 as we work towards an even more balanced and resilient business model. This has helped us report another quarter of strong operating margins and double-digit growth in net profit despite a challenging environment.

I will now highlight some of the work done by our teams in the quarter. Starting with R&D. We recently inaugurated Advanced Tyre Testing Center within the R&D Center in Chennai. The new facility will further augment our testing capabilities for future vehicle models. We'll be able to fine tune the performance of our products by simulating closely to the real-world conditions using this facility. This would also help us to reduce more time and money spent on tests on different tracks around the world. We are working with new and innovative raw materials to lower our rolling resistance.

Moving to digitalisation. We continue to work on new age technologies as we optimise our current processes and prepare for the future. As a part of our cloud journey, we have recently migrated our primary business software, SAP to Cloud. With most of our business processes being cloud-enabled, it sets the foundation to accelerate our digitalisation journey and our business transformation. We are using AI and machine learning extensively across plants, manufacturing processes to drive productivity and capacity gains. This would enable us to move to a CapEx light model, preserve cash flow and improve our ROCE.

We have opened Digital Innovation Hubs in Hyderabad and in London, to further accelerate this journey, including generating new innovative business ideas. We are also launching apps leveraging state-of-art technologies like artificial intelligence to track our dispatches and improve our customer engagement.

Another key area of focus is Sustainability. We've been making more headway in this respect, and I'm proud of what our Sustainability Team has achieved in a short span of time. We're the first company in the automotive sector in India to receive the prestigious ISO 20400 certification for Sustainable Procurement. We have recorded an improvement in our CDP Climate Change score to B in '22. We were D in '21.

Early in December '22, we also laid down further commitments in the ESG space. All of these would help us achieve our aspiration to be carbon neutral by the year 2050. I would urge all of you to go through our Sustainability Roadmap on our website. We have also recently partnered with Tyromer, Canada-based organisation, to set up processes of devulcanising rubber in a non-chemical manner, again, supporting the use of recycled material.

Talking about the brand, we continue to invest in brands across our key geographies. To start with in India, we have launched an integrated TV plus digital media plan for the PCR category. The quarter also witnessed a visit by a few Manchester United team players resulting in an engagement with more than 4,500 fans on the ground and online engagement with more than 22 million people. Vredestein tyres also entered India Book of Records with a drift record, further showcasing product superiority.

Moving to Europe, we released Quatrac EV, the first all-season tyre designed especially for electrical vehicles. During the quarter, we also undertook advertising campaigns in our focus markets. Our association with the 20-

kilometer de Paris marathon was also well received and has helped us gain excellent visibility. We're also the new global sponsors of the Winter Ski Championships at Courchevel in France.

Finally, the last pillar of our strategy is People. We kicked off Chairman's Recognition Week in December '22. This included multiple recognitions like Apollo Pillars, Roll of Honor, Global Learning Champions. We also initiated the next batch of Apollo laureates, Leadership Development Program. This is a year-long new-age learning journey supported by Skillsoft and MIT Sloan.

As always, we are keeping a close watch on the markets and our costs. We continue to be judicious about CapEx and follow the CapEx-light growth model. We will continue to focus on profitable growth and free cash flow generation. We are in fact taking the ROCE and free cash flow targets as part of our variable pay parameters across the management teams of Apollo.

With this, I'd like to conclude and hand over to Gaurav. Thank you.

Gaurav Kumar: Thank you, Neeraj. And good afternoon, ladies and gentlemen. Continuing from where Neeraj left, let me start by thanking all our stakeholders for their support. In India, we witnessed a strong revival in the OEM demand. However, demand momentum was moderate in the replacement segment. Export markets also faced challenges.

Overall, we had a sequentially flat quarter, which was also on the back, largely, of higher price mix. More importantly, we have continued to maintain strong pricing discipline and have even backed out of a few OEM opportunities due to concerns on pricing and profitability. While this has had a limited volume impact, it has helped us improve our price positioning among our peers. Helped by this and control over costs, we reported a significant improvement in our EBITDA margins.

The Europe performance in the last quarter was impacted again by a subdued demand environment. The PCR and the TBR replacement markets declined by 14% and 10% during the quarter. We continue to outperform the market in the current year. Despite the sluggish demand environment and a challenging cost environment, we were able to maintain top line and margins on a sequential basis. More importantly, we continue to register improvement in our sales mix. The UHP, the UUHP mix in the last quarter stood at 45% against 43% in the same quarter last year.

In terms of outlook, while we expect the demand in India to remain subdued in the replacement segment in near term, the OEM demand momentum is expected to remain healthy. Similarly, in Europe, while in the near term there will be some demand challenges, we expect that in the mid-term, the demand momentum will pick up across both our markets and should result in good growth.

Moving on to financial results. The consolidated revenue for the quarter stood at INR 64 billion, a growth of 13% over the same quarter last year and 8% on a sequential basis. The consolidated EBITDA for the quarter at INR 9.1 billion, a margin of 14.2% improvement compared to 13% for the same period last year. and 12% in the previous quarter. Given this performance, we've been able to improve our leverage ratio. The net debt to EBITDA for the consolidated operations was at 1.6x.

For the India Operations, the revenue for the quarter at INR 42.5 billion was a growth of 12% over the same period last year, though flattish on a sequential basis. The EBITDA for the quarter at INR 5.5 billion was at 12.9% compared to 9.1% for the same period last year and also a big improvement over the sequential quarter at 10.3%.

For the European Operations, the revenue for the quarter was EUR 180 million, up 7% compared to the same period last year and flattish sequentially. The top line was essentially driven by improvement in price and mix. Despite a challenging environment, we've been able to maintain our market share in the quarter in the key product segments. The EBITDA for the quarter stood at EUR 28 million with an EBITDA margin of 15.4% compared to a sequential of 15.3%, though a drop from the same period last year of 20%. The margins were impacted both by raw material costs push and energy costs.

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

Question and Answer Session

Moderator: Thank you, Neeraj, sir, and Gaurav, sir, for the detailed opening remarks. Yes. So, we have our first question from Mr Siddarth.

Siddhartha Bera: Thanks for the opportunity and congrats on a great set of numbers. Sir, my first question is on the volume. Sir, if you can just give us some more details on how the replacement growth has been on a Y-o-Y or Q-o-Q basis? And on subsegment also if you can throw some light how it has been for India?

Gaurav Kumar: Yes. So, Siddharth, the overall volume decline for the quarter was 4%. We did not have volume growth. We had a decline, and replacement volumes were down 8%.

Siddhartha Bera: Okay. So overall, the volumes declined 4% Y-o-Y and replacement was down 8% Y-o-Y?

Gaurav Kumar: That's correct.

Siddhartha Bera: And what will be the breakout sir, for the segments like truck and PV in the replacement?

Gaurav Kumar: For truck replacement, the decline was 8% and the same number for passenger car replacement.

Siddhartha Bera: Understood. So, sir, on this demand outlook, just some more clarity. I mean when you say that you expect the replacement to remain subdued in the near term, now this is the second quarter when we have seen the demand remain soft on a Y-o-Y basis. So, what is -- how should we think about the growth for the coming years for the segment?

Neeraj Kanwar: So, for the volume I think in quarter 4, you will see replacement coming back. OE is already up, both in commercial and passenger. And generally, there is a lag effect that volume will start coming up and you will see in quarter 4, January has been a little bit cold, but come February, March, I believe the volumes will be back.

Siddhartha Bera: Okay. And this does not factor in any -- I mean, is there any market share loss in this also in the truck side or the industry would have also declined in the similar lines?

Neeraj Kanwar: There is no market share loss. All players, you've seen sequential quarter-on-quarter Performances, we have been flattish whereas our competition has been negative.

Siddhartha Bera: Understood, sir. Sir, lastly, on the commodity side, if you can throw some light, how much benefit we can see further in the current quarter given where commodity prices are? And do you expect any further benefit in the coming quarters also?

Neeraj Kanwar: Gaurav, you want to?

Gaurav Kumar: Siddharth, we expect the raw material corrections to continue. We saw a decline of 6% in Q3 vis-a-vis Q2, and we would again expect a mid-digit -- mid-single-digit correction in raw material prices in Q4.

Moderator: So, we have our next question from Mr Raghunandhan.

Raghunandhan N. L.: Congratulations on strong numbers. Firstly, a clarification, so in terms of OEM and export, can you share what was the growth in OEM and what was the decline in exports? And also, if you can talk a little about how you are seeing the overhang on exports to continue in the near term? And what are the factors you think can aid for improvement in volumes there?

Neeraj Kanwar: Gaurav?

Gaurav Kumar: So, Raghu, the growth in the OEM volumes was about 30%, whereas the decline in exports in the current quarter was about 25%. As Neeraj mentioned, we are seeing bullish demand from the OEMs, and that we expect to continue. Exports, at least in the near term, we think with the macroeconomic environment, the demand would be subdued. We still had substantial growth in exports on a full-year basis. And going forward also, we expect some of it to come back. But in the near term, the export market will continue to be subdued.

Raghunandhan N. L.: Got it, sir. On the Europe replacement market, as you indicated that the industry has seen a double-digit decline both in passenger vehicles as well as on the truck side. How do you see it? How much of it is because of a mild winter on the passenger vehicles and how much because of the macro weakness? I'm trying to understand whether the muted volume performance will persist. And what are the factors you think can lead to a recovery and by when you are hoping that the recovery could take place?

Neeraj Kanwar: Should I take on, Gaurav?

Gaurav Kumar: Yes.

Neeraj Kanwar: So, I think, the whole question is around Europe. Europe has had a slightly delayed winter. Also, market sentiment is very down, given that Europe is going through a recession, even the U.S. is going through a recession. Where Apollo in Europe is on a very strong foothold, the market was down minus 14%, whereas Apollo was down only 5% -- minus 5%. So, we actually gained market share. Our whole strategy in the passenger car is to become a premium company. So, our UUHP and UHP share also went up to 44% - 45% of the whole pie.

Given that we are a very niche player, I think that's where we are trying to make market share gains in new channels in new countries. So, focus countries are really Spain and France, whereas Germany and Netherlands continue to be the top 2 countries for us. U.K. is the other third focus market for us. So I believe that quarter 4 is going to be on revenue. We will have growth because we are sticking to our price. But on volume, again, it will be little bit low. So, the first six months of this year, the calendar year, are going to be a bit challenging in Europe. Then I see things panning out.

Raghunandhan N. L.: On the Europe side, the lower gas prices in Europe, are we getting the benefit of it as most of our exposure was hedged?

Neeraj Kanwar: Gaurav?

Gaurav Kumar: Yes, the energy prices are beginning to come down. We still had an escalation in energy prices, though the hedging strategy largely insulated us, and that's reflected in the fact that we were able to report quite healthy margins, though down a little bit vis-a-vis last year. But now the prices are beginning to come back to reasonable levels and should not be a factor going forward into the next year.

Moderator: We have our next question from Mr Jinesh.

Jinesh Gandhi: My question pertains to the European market. It seems the large part of impact is more on the -- because of the inventory destocking. On the retail side, are you seeing similar pressures or that's reasonably okay?

Neeraj Kanwar: Retail, the inventory at dealer level is high. So, there is a drive to bring it down in Europe'. And that was primarily because of the recession, plus the gas -- oil prices were very high. So slowly, slowly, things will ease out as we go into the next quarter.

Jinesh Gandhi: Okay. Got it. And secondly, in the European Operations, we did not see any benefit of commodity prices. In fact, you called it out as a factor by margins that corrected on Y-o-Y basis. So, can you talk about what led to the inflation on the RM side? And how do you see that shaping up?

Gaurav Kumar: European Operations usually get the impact of raw material with a lag, also a large part of the RM correction was initially led by natural rubber, which is a much smaller component for the European Operations. So, the RM correction for the European Operations will come through in Q4.

Jinesh Gandhi: Okay. So, Q-o-Q, do we expect some benefit of RM coming in fourth quarter?

Gaurav Kumar: That's correct.

Jinesh Gandhi: Got it. And that would be, again, similar mid-single-digit kind of benefit like we expect in India, given that synthetic -- I mean, the crude-based derivatives have come off quite reasonably?

Gaurav Kumar: Yes, similar quantum.

Jinesh Gandhi: Okay. And lastly, any update on the antidumping duty on TBR side in India?

Gaurav Kumar: So, the antidumping duty is no longer there. But from our perspective, the – order on truck-bus tyres being on the restricted list continues.

Jinesh Gandhi: Okay. So hence, no material increase in exports so far? Imports, sorry?

Gaurav Kumar: As of now, nothing.

Moderator: We have our next question from Mr. Amyn.

Amyn Pirani: Congratulations for hitting the 12% ROCE mark. I think it's quite heartening to see a double-digit ROCE in the company after a long time. My first question is on that, what is the CapEx for the nine months? Because I'm guessing that if the demand environment is a bit flattish, I guess, a lot of the ROCE improvement will have to come from, a, margins, it should be strong given lower commodity and, b, better asset turns. So, what is the CapEx for the nine months? And any early indications of how it could look like for next year?

Gaurav Kumar: Amyn, frankly, the CapEx in light with what I've been talking has been fairly low. In India, it's just around the INR 450 crore mark. And in Europe, just EUR 20 million. So, it's largely been maintenance CapEx, CapEx into digital initiatives, et cetera. As of now, we are on the drawing board with our budget for next year, et cetera. So, a little early to give you the CapEx guidance. We are still assessing the demand/supply situation. Unlikely that we will have any major growth CapEx.

As we've been talking to all of you, we need to assess our demand capacity situation on the passenger car side and see if we do need to begin any mid-sized CapEx next year. We'll get clarity on that in about one quarter. So as of now, there is no growth CapEx, which has been sanctioned or approved.

Amyn Pirani: Okay. And just to go back to the replacement demand, which is mostly in Europe, you understand. But in India, as this truck replacement has actually been quite weak, I think, for more than two quarters now. And it seems that activity level is happening on the ground, the e-way bill data and other data points seem to be quite strong. So, what do you think is happening there? So is part of it voluntary, like part of the decline voluntary, like you let go off some market share at the margin to support pricing, or what is happening? Because it seems a bit troubling, I don't know, or maybe we are troubling -- we are worrying too much and maybe it's not so worrying.

Gaurav Kumar: See, demand on the replacement side has been subdued, you are right, for two or three quarters. If you look at the YTD figure, our volumes on the truck side are just slightly negative. Given our pursuit of a very conscious strategy of profitability, we do have to let go off maybe some bit of volumes, but not significant vis-a-vis the overall market.

The expectation, with the kind of infrastructure spends that the government is planning, we think that the demand will come back strongly. The OEM side is still holding up. So yes, we would have been happier with a better demand scenario on the replacement side, but we don't see a reason for worry mid-term. We think it's a few quarters away where the demand will pick up.

Moderator: We have our next question from Mr Basudeb.

Basudeb Banerjee: Heartening to see Kanwar Sir start with focus on FCF and ROCE in his initial remarks. A few questions, one, in the initial comments when you said overall volume is down 4%. Is that India volume or it is a consolidated volume movement?

Gaurav Kumar: India volumes, Basudeb.

Basudeb Banerjee: Okay. Second is what's the current rate of TBR utilisation?

Gaurav Kumar: TBR capacity?

Basudeb Banerjee: Yes.

Neeraj Kanwar: Gaurav?

Gaurav Kumar: The TBR capacity current utilisation is about 80% in the last quarter.

Basudeb Banerjee: So, will it be right even now to assume and combine with your controlled CapEx and focus on FCF that no incremental TBR CapEx in '24, '25, both fiscals.

Gaurav Kumar: That's right Basudeb. We don't expect that in the next 2 years we need a TBR CapEx.

Basudeb Banerjee: That's great. Third thing, as in your presentation, the debt reduction, which you mentioned, I recall in Q3, there was a spike in debt because of working capital surge because of the reasons which you mentioned both in Europe and India price hike related issue. So, is it largely related to reversal of those working capital issues, or still scope of reduction is there?

Gaurav Kumar: India, we had gone up on inventory, and there were conscious efforts to correct those inventory position. So that's been done. Europe, again, similar drive and also September, there is a seasonal increase in inventory. So a large part of that is corrected, but Europe can still improve given the low demand, inventory levels, but it is slightly higher than the norm that we would like to maintain.

Basudeb Banerjee: Sure. And as usual, Gaurav, as you mentioned the commodity-wise numbers for the quarter, if you can answer, the commodity prices.

Gaurav Kumar: Natural rubber prices for the quarter were about INR 175 per kg; synthetic rubber INR 185, Carbon Black, INR 130 and steel cord about INR 190 per kg.

Basudeb Banerjee: And for Europe business, if I missed out, what was the euro revenue and EBITDA margin?

Gaurav Kumar: Europe Operations revenue was EUR 180 million for the quarter. And the EBITDA margin was 15.4%.

Basudeb Banerjee: And as initially, you highlighted that this being a winter third quarter and for what else, various reasons, the typical winter quarter margin, where Q-o-Q improvement was not realised. And this weakness in margin next quarter where it is no longer a winter quarter stuff. So, the margin typically reverses back. So, from that angle, this 15.4% coming back to somewhere around 12 odd percent, is that possible?

Gaurav Kumar: Basudeb, we will not give out margin guidance. And yes, Q3 margins are typically best and clearly, we did not see the sequential improvement in margins. Some of the cost push, as I mentioned, for the European Operations in terms of raw material and also energy will start going up. Where it would end up in terms of margin, we would not like to point through a specific theory.

Moderator: We have our next question from Ms Disha.

Disha Sheth: Sir, wanted to check when you said volume degrowth of 4%, so -- and we have a sales growth of 12%. So, it is because of a price hike or the product mix?

Gaurav Kumar: It's largely price hikes and also a little bit of input of product mix, Disha.

Disha Sheth: Okay. So going forward Q4 onwards, we will not have any price hikes since we've not taken it of late and the volume growth is also very muted. So, the revenue should be flat. Is my assumption correct?

Gaurav Kumar: So, the numbers and what you are talking about is year-on-year. But you are right, there would not be any price changes on a sequential basis. Whatever will come through on a sequential basis, would only be volume-led.

Disha Sheth: Okay. And for year-on-year also, there won't be any price increase or still differs?

Gaurav Kumar: No, we did take some price increases in the early part of the year, which would flow through vis-a-vis fourth quarter last year.

Disha Sheth: Okay. And sir, over the last two years, we have controlled a lot of costs, as we can see the other expenses are also coming down. So that way, how much more operating leverage is left in terms of -- because our margins have also expanded substantially?

Gaurav Kumar: Currently, Disha, our utilisations are still in mid-70s to 80% on an overall basis. So, with demand increasing, there is definitely scope of operating leverage. We can definitely take the utilisations up as the demand increases.

Disha Sheth: Okay. Sir, and this antidumping duty is -- sorry, if the question is repeated, has not impacted us as of now. What is your view on the same? Because we are a major player for TBR.

Gaurav Kumar: So, the order, which is the tyre imports being in the restricted category, continues. So as of now, we've not seen any jump in imports. We are watching the situation. But as of now, things are okay.

Disha Sheth: And any idea on the pricing demand if the imports starts coming in, how much would be the difference between Apollo Tyres and a Chinese tyre?

Gaurav Kumar: We'll have to see where the new differential is because they have had the antidumping duty on them. Earlier, the differential used to be at 20% to 30%.

Disha Sheth: Okay. And sir, last question, sorry. Going forward, Q4 onwards, since raw material is coming down, when you said 4% mid-single-digit increase in raw material -- I mean, decrease in raw material basket, or increase in margins, just?

Gaurav Kumar: Decrease in raw material basket.

Moderator: We have our next question from Mr Nishit.

Nishit Jalan: So, two questions. Firstly, Gaurav, can you give the net debt numbers for both India and consol entity? And the second question is in Europe, whatever concerns you have talked about is largely industry-driven, right? We continue to gain the market share that still holds. And related to that, are you seeing Chinese imports coming down in Europe, and that is also helping us gain market share? Can you talk a little bit more about -- we are focusing on some markets, what is the driving the market share gain and which tyre company is losing out in that sense and we are getting at the expense of which companies?

Neeraj Kanwar: Gaurav give the net debt figure.

Gaurav Kumar: Nishit, the net debt in India was INR 4,000 crore and consolidated INR 4,800 crore.

Neeraj Kanwar: So, on Europe, gaining market share, primarily it is, one, because of our technical know-how and our technical product is very good. Secondly, given the Russia-Ukraine war, 8 million to 10 million passenger car tyres have been banned from coming from Russia into Western Europe. That was banned from June - July, and that has opened up a huge market for us.

So typically, Nokian is a company which was bringing in 8 million tyres into Western Europe, we have gained market share. We've gone to dealers because of the similar brand value and winter tyres. That's another area where Nokian was very strong. So, we've gained a lot of market share on account of Nokian.

Nishit Jalan: And there used to be a problem of Chinese imports in the PCR market in Europe, that still stays or there has been some action taken for that like they have taken in India?

Neeraj Kanwar: Gaurav, you want to answer?

Gaurav Kumar: No, Nishit, there's no action taken on Chinese tyres. So that continues at a certain level at the lower end of the market. There are talks of action being taken. And if that happens, then there is a further boost for the domestic players.

Moderator: Yes. So, the next question is from Mr Siddharth.

Siddhartha Bera: Sir, can you share the ReifenCom numbers for the quarter revenue and margins?

Gaurav Kumar: Yes, Siddharth. So Reifen for the quarter reported a revenue of EUR 78 million and an EBITDA just short of 8%.

Siddhartha Bera: Okay. So that is quite a big improvement even in a seasonally strong quarter. How do you see, generally on an annual basis, this business margins?

Gaurav Kumar: So typically, Reifen has been growing at about somewhere in the high single digits. In the current year, also aided by pricing the top line growth for the 9-month period is 14%. And usually in a fairly steady-state EBITDA margin of about 5%. So, it's a consistently growing steady margin business for us. It would cross the turnover of EUR 200 million in the current year.

Siddhartha Bera: So, on top of that, do you think growth should normalize? Or how do you think of the business?

Gaurav Kumar: No, the team there is always looking at means to deliver within the European context of growth, which is again higher than the market like usual manufacturing and sales marketing operations. So, they also take the target of typically delivering a top line growth of high single digits or a double digit.

Siddhartha Bera: Understood. And sir, on the CapEx numbers, you had initially guided for this year, about 9 million CapEx for the India and about some more for the Europe. So, given the current spend, which is only, I think, closer to half of it in nine months, what will be the revised estimate for this year?

Gaurav Kumar: We'll probably end up, Siddharth, at about 75%. And the reason why we spent less is given that the margins were lower than our desired benchmarks to begin the year in the first two quarters, we cut back on some of the CapEx. And that's the discipline of control on cost, cash flows, et cetera, that we do now regularly focus on that, that if margins are not at the desired level, then what cuts can be taken. And we'll probably end up with both geographies of CapEx figures at about maybe 75% vis-a-vis our yearly targets that we had announced earlier.

Siddhartha Bera: Got it, sir. So even next year, if we are not expecting any growth CapEx, we should expect some of these numbers for this year to continue. I know it's early, but just as a direction, will it be a right assumption?

Gaurav Kumar: Broadly, yes. We may go back to the kind of figures that we had announced at the beginning of the year because we've held back some of the CapEx. So, the number may be -- the maintenance CapEx may be around the numbers that we had mentioned for this year. And then as I mentioned, we have to do our assessment on the passenger car tyres demand and capacity.

Moderator: So the next question is from Mr Ashutosh.

Ashutosh Tiwari: Yes, sir. So what is the utilisation level of PCR capacity in India and Europe right now, like, for last quarter?

Gaurav Kumar: Just one minute, Ashutosh. So currently, for PCR for last quarter was just above 80% and this was India.

Ashutosh Tiwari: Europe?

Gaurav Kumar: And Europe was closer to 90%.

Ashutosh Tiwari: Okay. So we still have room in India. Europe probably is close to capacity, but demand is a little weak right now. Also -- we announced that you've taken a 3% price increase in PCR. When was this taken and did the competition forgo over here?

Gaurav Kumar: This was taken only in the PCR category. We are broadly one price increase ahead of the competition. And we've continued to do that following the strategy of profitable growth, and that's also reflected in the kind of margin differential that you see vis-a-vis our Indian peers.

Ashutosh Tiwari: And this was taken in the third quarter, I mean, October, November or after that?

Gaurav Kumar: Third quarter.

Ashutosh Tiwari: Okay. So, my question is on this PCR side because as we have been spending higher on R&D over the last 10 years, and also now last two years, we were taking lead in the price increases, do we think that we are in a position to command some premium in PCR like we do in TBR segment right now versus the peers?

Neeraj Kanwar: Yes. So as far as Apollo is concerned in India, we are a premium segment tyre when compared to the Indian players, okay? And so if I am INR 100 then next, it would be MRF at INR 94, INR 95. But then when you look at the MNCs who are selling in India, Bridgestone would be at INR 108, INR 110. So for that tyre -- that specific SKUs we have introduced the Vredestein brand. So, Vredestein brand will start targeting the MNC brands, the international brands that are in India and Apollo is fighting the Indian brands.

Ashutosh Tiwari: Okay. So, PCR also, you have leadership in pricing right now?

Neeraj Kanwar: Yes.

Ashutosh Tiwari: Okay. And you mentioned that exports declined by 25%, is it in terms of volume or value?

Neeraj Kanwar: Volume.

Ashutosh Tiwari: And this is largely driven by Europe only or other markets also are weak?

Neeraj Kanwar: All markets have seen softening. In my opening comments, I also said while we made hefty growth in North America, but currently, North America dealer inventory is high. So, we are -- anyway is a very small base, we're coming from a very small base. So, you will see heavy growth in North America. But currently, all markets, including Middle East, Asian, Europe and U.S. are currently down.

Ashutosh Tiwari: And we may -- also mentioned in PPT that we have gained some 400-basis point market share in OHT tires in Europe. So, is it like say -- is it like one-off or we are doing something differently? And how is OHT market overall in Europe?

Neeraj Kanwar: So OHT market, in fact, is very down in Europe, whereas Apollo, I mean, Vredestein enjoys a very premium positioning. We have come out with some new -- the latest new generation products in Europe. And so here, we have a very, very premium pricing of INR 91, INR 92 to a Michelin of INR 100. So Vredestein is gaining market share. But in the last quarter, the market has been down.

Ashutosh Tiwari: And these products are made in Netherland only?

Neeraj Kanwar: Some -- the high-end ones are made in Netherlands, and then some come from Kerala.

Ashutosh Tiwari: Okay. And are we thinking about ramping up Kerala for OHT?

Neeraj Kanwar: Right now, we are not thinking of any ramping up, no.

Ashutosh Tiwari: Okay. And lastly, on working capital, we have seen the debt declining from INR 5,500 to INR 4,800 in this quarter on a quarter-on-quarter basis. So how is the working capital coming down? And can we see further reduction going ahead?

Neeraj Kanwar: Yes. Gaurav.

Gaurav Kumar: Ashutosh, working capital has largely reduced. There is some bit of, as I said, a higher inventory than the norm in Europe, but large parts of the correction on the working capital side were put through in this quarter.

Ashutosh Tiwari: Okay. That was all from my side. Just one question on this CapEx side next year, when we take up this PCR CapEx still on drawing board, will it be a CapEx spread over '24, '25? Or this will be one year, only '24?

Gaurav Kumar: As and when we decide to take it up and still early days, so it's not a sure shot that we will take it up. We are reassessing the current situation, the demand. But it would be -- whenever we start, it would be spread over two years.

Ashutosh Tiwari: Okay. That's all from my side and thank you and all the best. We can have some opening -- closing remarks on cover and then we get closed.

Neeraj Kanwar: So, no more questions. That's what you're saying?

Ashutosh Tiwari: Yes. No questions.

Neeraj Kanwar: Okay. So once again, thank you, everyone, for joining us. Hope to see you after quarter 4 results. I can only tell you the company is on a very strong footing now. The foundations are very strong, just waiting for the markets to open up, and you will see better results. Thank you. All the best.

Gaurav Kumar: Thank you.