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Investor Conference Call

Third Quarter of Financial Year 2011-12

Aniket Mhatre: Welcome to the Q3 FY12 Investor Conference Call of Apollo Tyres Ltd. From the management team we have with us Gaurav Kumar, Group Head, Corporate Strategy & Finance; Rakesh Dewan, Head, Accounts; and Ritu Kumar, Head, Financial Planning & Control. I would now request Gaurav to begin with his initial comments on the results and we can then take on the questions.

Gaurav Kumar: Good Afternoon! Welcome to our Earnings Call. Let me begin with an update on the consolidated operations before moving on to each geography. Sales for the quarter were at Rs 32.3 billion, which implies a growth rate of 36% over the same period last year. Around 20% of this growth came through volumes and the rest from price and mix impact. The EBITDA for the quarter was Rs 3.3 billion at 10.1%, down in terms of the percentage margins vis-à-vis the same period last year, on account of raw material pressure. The raw material cost was up 26% for the quarter vis-à-vis the same period last year. Costs of all the major raw materials went up. Natural Rubber at Rs 223/kg, up 22% over the same period last year; Synthetic Rubber at Rs 225, up nearly 100%; Tyre Cord Fabric at Rs 250 plus, up 15% and Carbon Black at Rs 73, up 30% plus over same quarter last year. However, the good thing was that raw material prices softened for the first time after 10 quarters of continuous increase.

In terms of overall revenue segmentation, 75% of our revenues came from replacement and 25% from OEMs. The two large product segments continue to be truck and passenger car accounting for 46% and 34% of our revenues, together making up 80%. For the 9 months period, sales were at Rs 89.2 billion, a growth rate of 45% over the same period last year. About 28% of this came through volumes and the balance through price and mix. The EBIDTA for the 9 month period was Rs 8.1 billion at 9.1%; again down in margin terms vis-à-vis same period last year. The net debt as of December 2011 was Rs 29.4 billion which has come down vis-à-vis September 2011.

In terms of an outlook for this current quarter, which is the March 2012 quarter, raw material prices are expected to come down slightly, while the long term outlook for raw material is expected to be stable with only slight variation. Overall, the business environment looks better for all our geographies than what we have been seeing in the last few quarters.

Moving on to specific operations, starting with India operations, sales for the quarter was at Rs 20.9 billion with a growth of 46% over the same period, 24% of which came through volumes and the balance through price and mix. India operations crossed the Rs 20 billion or 2,000 crore mark within a quarter for the first time. The EBIDTA for India operations was Rs 1.7 billion at 8% and net profit margin at 2%. For the nine months period, India operations recorded sales of Rs 59 billion with a growth rate of 58% over the same period last year. About 35% of this came through volumes and the balance through price and mix. The EBIDTA for the 9 month period was Rs 4.5 billion at 7.7%, though significantly lower in terms of margin vis-à-vis same period last year, primarily on account of raw material pressures. The net profit for the 9 month period was Rs 1.1 billion at 1.8%. The net debt in India operations has more or less remained stable; it was at Rs 23.8 billion as of December 2011.

In terms of revenue segmentation for India operation, the OE component now comprises a much higher segment given our growing presence in truck radials. The OEM component for India operations is now 33% and the balance is about 57% domestic replacement and 10% exports.

In terms of progress, we are now reaching close to market leadership in the truck radial segment with the Chennai output going up. The business outlook for the next quarter and the coming year looks much better after many quarters of tough results.

Moving on to South Africa operations, sales for the quarter were at Rs 3.8 billion with a growth rate of 28% over the same period last year. Around 23% of the growth came through volumes and 8% through price and mix, slightly offset on account of currency fluctuation.

The EBITDA margins for the quarter was just under 3%, significantly lower than the same period last year. Over and above this we had an extraordinary expense – the company settled an ongoing case with the South African Competition Commission for an agreed payout of Rand 45 million. The net present value of this amount, since it is to be paid over 3 years, has been taken as an extraordinary charge finally resulting in the net loss for the quarter being Rs 0.3 billion, significantly higher than what normal operations would have had. For the 9 month period, sales for South Africa operations were at Rs 9.7 billion with a growth rate of 16% over the same period last year. The EBITDA margins for the 9 month period stands at 3% and at the net profit level we are still in the red by a narrow margin. However, given the business environment, which has continued to improve, and a weaker Rand resulting in decline of imports, we are hopeful of achieving a breakeven in the March quarter. Simultaneously, we are examining our legal options in trying to recover the extraordinary expense on account of the Competition Commission settlement from the previous owner, since this pertains to business operations before our ownership.

Moving on to Europe operations, sales for the quarter were at Rs 8.2 billion with a growth rate of 26% over the same period last year. Around 12% of this came through price and mix, while 14% came through currency fluctuation. There was no volume gain vis-à-vis same period last year. The EBITDA margins on the other hand improved for Europe vis-à-vis same period last year. The EBITDA margin was at 18.9% given the strong winter tyre sales in the first 2 months, even though demand slowed down in December due to a milder winter. While January continued to be slow, the latest cold wave in Europe is expected to boost sales and we hope that stocks of winter tyres with our dealers are cleared up, which would again be a positive for us for the winter next year. The net profit for operations in Europe stood at 11% for the quarter. For the 9 month period, the sales of Europe operations were at Rs 21.7 billion, 35% growth over the same period last year. The EBITDA margin for the operation stands at 15.5% and net profit at 8.5%.

In terms of price increases, we have taken a marginal price hike in the passenger car segment in November in India, in the replacement market and a price hike with a couple of OEMs in December. In South Africa we took a price increase of 3% in December, while no price increases were undertaken in Europe.

One last point on our latest Greenfield plant in Chennai. The plant continues to be ramped up and current production is at 3,700 truck radials per day and 8,000 plus passenger car radials per day.

We would be happy to take questions now.

Basudeb Banerjee, Quant Broking: What was the consolidated tonnage this quarter?

Gaurav Kumar: The consolidated tonnage this quarter was 130,000 MT.

Basudeb Banerjee: Is it okay to assume that with the rupee coming back to 49 level from 53 level, the real effect of rubber correction might get reflected in coming quarters?

Gaurav Kumar: Rubber, as of now, has gone back to higher levels, so it is currently at Rs 210/ kg, which is the basic price. At such levels we are unlikely to see a significant correction in rubber prices. But overall, as a basket we expect that the March quarter would bring some raw material decline in terms of overall price vis-à-vis December quarter.

Basudeb Banerjee: The overall demand sentiment in the truck replacement market has not been that great. Where do you see that presently?

Gaurav Kumar: We have seen some pick up in this quarter. So the outlook seems to be relatively better than the situation about a quarter back. But, as of now we don't see any signs for great demand boom.

Basudeb Banerjee: And standalone tax rate was a bit on the higher side, anything specific?

Rakesh Dewan: The tax rate, last quarter, was slightly low due to certain additional claims of Research and Development expenditure, but this quarter it is about 28% which is the normal rate for us.

Chirag Shah, Emkay Global: Could you throw some light on the benefit of the Rubber prices flowing into your P&L in terms of time line?

Gaurav Kumar: That's an inventory policy, Chirag. The call is taken by the purchase team on a daily basis. Normal inventory level for Rubber in India operations is about 3 weeks. South African and Europe operations on the other hand have contracted their Rubber requirements about a quarter in advance. So different operations have a different requirement and we may choose to follow a different policy in terms of stocking.

Chirag Shah: Is it right to assume that the real benefit of Rubber prices for the Europe operations would come in the 4th quarter as they are not affected by currency fluctuations?

Gaurav Kumar: That should generally be correct. However, Europe operations have already benefitted from raw material decline even in the December quarter, which is why their profitability has jumped significantly.

Chirag Shah: If the winter is very severe in Europe, would this lead to some sales in the 4th quarter?

Gaurav Kumar: It would not help tyre companies. The dealers would not buy winter tyres from tyre companies in February in spite of the severe winter; they know that at best winter would last for a month or a little longer. So they would clear out their stocks of winter tyres instead.

Chirag Shah: What could be the shelf life of these tyres?

Gaurav Kumar: They can last for a year.

Chirag Shah: Is there any update on in-house rubber plantation by the top 3 players?

Gaurav Kumar: We would not have details for individual players.

Chirag Shah: Can you just throw some light on CapEx for this year? What have you done till now and what is the kind of CapEx that we can expect for next year?

Gaurav Kumar: We would not be able to share what CapEx has been undertaken till December. The plan remains the same; which is completion of the Chennai CapEx. Plans for next year are now under preparation and the budgets would be presented by all 3 operations in March. As of now, there is no major growth CapEx which has been already approved for next year.

Chirag Shah: What would be your current operational tonnage capacity in Chennai?

Gaurav Kumar: It is at about 275 MT per day.

Chirag Shah: And it should exit at 350-odd MT?

Gaurav Kumar: It should exit in excess of 450 MT per day.

Chirag Shah: So by end of March quarter 450 MT per day would be your target?

Gaurav Kumar: The capacity of 450 MT+ would be reached only after September 2012.

Chirag Shah: Given the mix between OE and replacement, your top line seems to be a big positive surprise. Is there also a shift between cars and trucks, say favouring HMVs in this particular quarter?

Gaurav Kumar: The car segment particularly, has slowed down; so yes, there is some increase in the truck segment in the current quarter of about a couple of percentage points.

Chirag Shah: Only a couple of percentage points and nothing more?

Gaurav Kumar Yes.

Jaibir Sethi, CLSA: Just wanted to understand, given the kind of trouble that has been there in the industry over the last year, have you seen any improvement in price discipline within the industry? And also any deferment of CapEx plans, particularly by some of the big international players who are talking a lot about being in India?

Gaurav Kumar: Price discipline has been reasonable in terms of absence of price reductions as raw materials softened. Having said that, price discipline was not good enough for price hikes to be rolled out when raw material costs were going up. And clearly, in terms of just margin maintenance, we are still not selling at prices that would maintain our margin over last year. qualification

On your second question, the big players have announced their plans in terms of terminal capacity which are to be installed over a period of 7 years. We haven't heard anything which indicates slackness in that; but there could, of course, be a slowing down or changes in the intermediate years.

Jaibir Sethi: There have been some delays in capacity addition in the domestic market?

Gaurav Kumar: That's correct.

Vaishali Jajoo, Aegon Religare: As more contribution is coming in from OE segment, there will be a less flexibility in changing the prices going forward. So, how do you see that impacting the business in overall terms?

Gaurav Kumar: Part of it is industry-driven, so we can't do much about it. And, yes, that has an impact on profitability; but, what we see is some bit of normal correction coming in. As radialisation continues to increase, and given the fact that we would be a leader in this segment including the OEM, it would eventually translate into replacement demand. Ultimately, the mix in the truck segment should go back to a normal 20% OE and 80% replacement.

Vaishali Jajoo: As we see that there is going to be some stabilisation happening in the rubber prices in the next quarter and some benefit of the price hike will come in. So, there is a scope of further margin improvement, right?

Gaurav Kumar: I will not be able to give out margin guidance. All that can be said is that the business environment in the current quarter looks better than what we have experienced in the previous quarters.

Vaishali Jajoo: Will you be able to hike prices to certain extent or has it already been done in the last quarter?

Gaurav Kumar: There have been marginal increases. I won't say we have undertaken substantial hikes but given the current outlook of a moderate demand scenario and raw materials softening or stablising, we would not have the ability to take price increases..

Vaishali Jajoo: One clarification on the rubber pricing again. Production is expected to be somewhere around 7-8% whereas, demand is hovering at around 4-5%. So definitely there is a kind of situation which is turning in favour of lower pricing. Earlier there used to be a sharp downturn in pricing in such a situation but this is not the case this time. Is it any different globally or even in India?

Gaurav Kumar: Because of the significantly higher prices over the last few years, the ability of the rubber grower around the world, to hold on to stocks is much greater. Now even at an individual level in India, because of significantly higher prices over the last few years, the ability of an individual rubber grower to just hold on to his stocks and allow prices to firm up is that much greater. And there are always a certain number of speculative elements which can drive up prices.

Vaishali Jajoo: So, we won't see a sharp swing at least on the downward side in the rubber prices going forward?

Gaurav Kumar: At least as of now, nothing can be said about rubber prices dropping sharply.

Nishith Jalan, Nomura: How do you see the OEM and Replacement demand shaping up in India for both the Passenger Vehicles and Commercial Vehicles over the next couple of quarters and next financial year?

Gaurav Kumar: We would be able to give that indication later this month really as different OEMs firm up their budgets. Nobody is talking about a big growth or a negative demand scenario.

Nishith Jalan: This would be for OEM. Do you see Replacement cycle picking up for Passenger Vehicles?

Gaurav Kumar: As of now, one is only expecting a very normalised kind of growth. We do not expect the growth rate of, if I am correct, FY11 which was significantly high.

Jasdeep Walia, Kotak: Could you give us an update on the case regarding Harshad Mehta, the verdict for which has already come?

Gaurav Kumar: It has had no impact on the company.

Jasdeep Walia: And in the standalone business the volume growth has been 24% YoY. Is that correct?

Gaurav Kumar: Around 24% for the quarter.

Saurabh Binodia, SMIFS: Sir, I just missed the raw material prices for the quarter for Rubber and Carbon Black. Can you just repeat once more?

Gaurav Kumar: Rubber was at Rs 223 per kg and Carbon Black was at Rs 73.

Saurabh Binodia: And Tyre Cord Fabric?

Gaurav Kumar: At Rs 250+

Ajay Nandanwar, UBS: I have a question about production volumes in India in this quarter.

Gaurav Kumar: I would not be able to share the production volumes, Ajay. The only piece of information I can share is the sales number, which, as I mentioned is 130,000 MT for the quarter and it is about 375,000 MT for 9 months.

Ajay Nandanwar: That is at a consolidated level?

Gaurav Kumar: That's correct.

Ajay Nandanwar: The second thing I see is that your capital employed in Europe has increased on a year-on-year basis. What is driving it?

Gaurav Kumar It is essentially the profitability which goes into net worth, thus increasing the balance sheet size. CapEx in the current year has been more or less towards maintenance. Last year we had undertaken a bit of CapEx to increase the capacity, the benefits of which are coming this year, which should take the Europe operations revenue beyond €400 million for the year.

Ajay Nandanwar: And what's the current debt level in India and Europe?

Gaurav Kumar: India's net debt figure is Rs 23.8 billion and the consolidated net debt is at Rs 29.4 billion. So there is very little debt for Europe.

Ajay Nandanwar: So roughly Rs 5.5 billion debt in Europe?

Gaurav Kumar: Europe and South Africa combined.

Ajay Nandanwar: In South Africa, debt must be pretty low because you acquired it 3-4 years ago?

Gaurav Kumar: The term loan has been paid out completely and there has been no expansion in recent years but they do carry the debt on the working capital.

Ajay Nandanwar: What do you think will drive the revenue above €400 million in Europe in FY13?

Gaurav Kumar: We are going to achieve revenues of €400+ million, even in FY12. For the 3 quarters itself we are at €320+ million. There have been two drivers really. We took over this entity at €300 million revenue in May 2009. Since then there has been capacity expansion. And then there has been an additional volume supply from India.

Ajay Nandanwar: How much do you think you can grow volumes in Europe without hurting the image of Vredestein as a premium brand?

Gurav Kumar The growth in Europe is not just being driven the Vredestein brand alone. Vredestein continues to a premium brand and a large chunk of the growth in the future years would be driven by the Apollo brand. Even in the current year the growth of Apollo branded tyres from India into Europe has more than doubled. Our idea every year is to continue to address and attack a much larger segment of the market through Vredestein at the high end and Apollo in the mid-range.

Ajay Nandanwar: And what's your mix? Out of the €400 million that you achieved this year, what would be the mix between Vredestein and Apollo?

Gaurav Kumar: Apollo currently would be less than €10 million. So, it is a very small component.

Ajay Nandanwar: And where do you see the Apollo branded revenues in Europe? Would they grow at 100% in the next couple of years till they reach a sizeable proportion, is that your expectation?

Gaurav Kumar That's correct. We expect it to become a very sizeable proportion of the mix if everything goes as per our plans in the next 2 to 3 years. We will be be introducing Apollo branded tyres now into new geographies. In 2010, they were introduced in Germany, the Netherlands, UK and Italy. In March, they will be introduced in Switzerland at the International Motor Show in Geneva. So the idea is to gradually increase the Apollo presence across the continent.

Ajay Nandanwar: When does Europe move to labelling and how would it impact your business, especially the Apollo branded tyre export into Europe?

Gaurav Kumar: Europe would move to labelling from the current year we would be compliant.

Chirag Shah, Emkay Global: Just a clarification. When you say volume growth you are talking about tonnage growth?

Gaurav Kumar: That's correct.

Chirag Shah: What is the current level of radicalisation in the truck segment in India?

Gaurav Kumar: It is currently at 20%.

Chirag Shah: So it has not really improved significantly in last maybe 3 months or the way it was earlier moving. It has stabilised to some extent. That is the right way to look at it?

Gaurav Kumar: Chirag, I do not have the monthly data. So, if it moves within a month or so from 19.5% to 20.4% that's still a substantial movement.

Chirag Shah: And how have Chinese imports been?

Gaurav Kumar: Chinese imports have reduced further, one of the reasons being the weak rupee. In the quarter they were down sequentially by nearly 15%.

Chirag Shah: So the share would have gone down significantly?

Gaurav Kumar: Share has gone down significantly.

Chirag Shah: But this would be a temporary phenomena if it is because of currency or there is something else into it. Would the increase in Chinese imports impact in some way, the pricing discipline that has been seen of late?

Gaurav Kumar: Domestic prices are not being governed by the Chinese imports. As domestic players build truck radial capacity, OEMs continue to increasingly come to us which had been the case when there was sufficient cross ply capacity. Yes, with currency corrections, there may be certain increase in Chinese imports but at best they will go back to their market share of 6-7%.

Chirag Shah: And are there signs of under utilisation of truck and bus cross ply capacity at industry level?

Gaurav Kumar: Currently, yes. There is some under utilisation and all players are examining what can be done with the cross ply capacities as they would increasingly start becoming redundant.

Chirag Shah: Earlier we were factoring the redundancy risk to start somewhere in 2014-15. It could actually happen much earlier, given the way radialisation is happening?

Gaurav Kumar It could happen a little earlier than that. But we will need to convert a small capacity. None of the players would need to convert the entire capacity at one-go.

Chirag Shah: Fair enough, but the incremental cost remains. You had indicated that 70% of CapEx would anyway be required if you want to convert cross ply capacity into radial. Is there any breakthrough or some kind of alternative arrangements so that the new CapEx cost actually goes down for conversions?

Gaurav Kumar: I do not have any fresh inputs on that from our project or technical team. It would also depend finally on what kind of plans are finalised. If this capacity could be converted into another cross ply product instead of truck radial, the cost involved would be much lower.

Chirag Shah: My last question is on plantations and their life. We have been reading that a lot of new plantations would start coming into utilisation from FY14 onwards but then there would also be some plantation reaching the end of their life. How is the net scenario panning out over next 3 years and FY14 onwards on availability of acreage?

Gaurav Kumar: I do not have the data on availability of acreage, but the demand/supply scenario put out by experts or the global rubber body as of now shows the supply increasing at a decent level, which is why the outlook on stability of rubber prices is predicted.

Chirag Shah: How have your exports been for truck and bus tyres?

Gaurav Kumar: There has been some increase in exports, but I can’t give you category wise export numbers.

Arjun Khanna, Principal Mutual: You did give the debt levels of close to Rs 30 billion. Could you give us some sense of how do we look at bringing this down over a period of time?

Gaurav Kumar It would essentially come down with the CapEx being reduced. It has been stable over a quarter while the sales have gone up. Next year, if we don't start a big growth CapEx, the borrowing would really come down.

Arjun Khanna: But is that the thought process for actually getting these debt levels down or we are comfortable at our current levels?

Gaurav Kumar: The current level is just above 1:1 net debt-equity level which is okay. But it is not a comfortable level since it does not leave any head room for a growth opportunity, if it comes suddenly. So we would definitely like to drop it further which would be a result of not just stopping all growth CapEx but, also improving margins and cash flows. Budgets are under preparation and that's when the call on the growth CapEx for next year, looking at the cash flows etc., would be taken.

Arjun Khanna: My second question is on distribution of the Apollo brand in Europe. Are we piggybacking on Vredestein distribution or is there a separate channel being built?

Gaurav Kumar: We are more or less utilising the distribution network of Vredestein.

Arjun Khanna: And what percentage of sales of Europe is actually from the India-based facility?

Gaurav Kumar: Very small. As I mentioned, Europe operations would cross €400 million in turnover this year. The revenues out of India supplies would be less than €10 million.

Jasdeep Walia, Kotak: For your South Africa operations you mentioned that the YoY growth in volumes has been pretty good; I believe it was some 23% odd. But still you haven't been able to improve margins. Any take on that? And what is the outlook for margins of South Africa in the next quarter?

Gaurav Kumar: To answer the first part of question, they had a choice of increasing prices with the weakening of the rand, given that imports were coming down. This, however, would have resulted in lower volumes and hence the operating leverage not coming through. The main reason for low profitability, despite volume growth, is the increase in raw material prices. Raw material just on account of currency impact, would be as much as nearly 10% adverse, which we did not attempt to really cover up with price increases to improve the utilisation rate. We have also taken some steps on cost control and our belief is that with all these attempts, if things pan out as expected, we would reach a net breakeven in Q4. I would not be able to give out a more detailed outlook.

Jasdeep Walia: I believe last year you had exported around 150,000 tyres to Europe under the Apollo brand?

Gaurav Kumar: That's correct.

Jasdeep Walia: What is the target this year?

Gaurav Kumar: Target this year was more than double of that, somewhere around 400,000 tyres.

Jaibir Sethi, CLSA: You had mentioned in previous calls that there was a bit of finished goods inventory built up in India. Has that been cleared off now?

Gaurav Kumar: That has been cleared off to some extent. If we look at our March 2011 numbers versus what it is now over 3 quarters, the finished goods inventory has come down by about 5 to 6 days. It is still at levels where we can improve it slightly, but not much.

Jaibir Sethi: So there is not any meaningful excess pipeline as such.

Gaurav Kumar: Now there is not a significant meaningful excess. It's now standing at a much higher level given that the sales are up by nearly 50% vis-à-vis last year.

Rajat Chandak, ICICI Prudential: You mentioned that volume growth in Europe operations was almost nil. Any reason for that and how do we take it going forward?

Gaurav Kumar: Our Europe operations have been running flat out year-on-year. And hence, with the strong winter season last year, we were not only selling everything that we produced but also eating into the inventory. This year while the first 2 months, which are October and November, were strong, Europe has had a significantly milder winter in December resulting in reduced sales of winter tyres YoY. This was partly offset by increased volumes from India and hence volume was flat for the quarter.

Rajat Chandak: And what would be the outlook generally?

Gaurav Kumar: Outlook on Europe would be low volume growth, which would basically be from India supplies. Europe operations itself would not have any further capacity, unless we put in significant CapEx. And that's why over a longer term, we are planning to keep building up volumes from India to a level where a dedicated new plant for Europe operations becomes justified.

Rajat Chandak: And from India, whatever we export, are any of the tyres sold branded as Vredestein or all are Apollo branded?

Gaurav Kumar: Almost all are Apollo branded. Few specific sizes may be Vredestein branded.

Anurag Randev, PUG Securities: How much time you think it will take for truck and bus replacement market to establish?

Gaurav Kumar Currently, the OEM radialisation level is 50% and the replacement is much lower. Radial tyres if used properly, would last much longer as compared to one year of cross ply tyres. So let's take a life of somewhere between a year and year-and-a-half. That is when the replacement cycle would kick in. The guy who started using the radial tyre on OEM fitment would ideally go in for a radial tyre in the replacement phase also.

Anurag Randev: My second question is on the Rubber side. Is it safe to assume that because the truck and bus radial use a better grade of rubber, the average rubber prices will go up?

Gaurav Kumar: Your statement is correct. The truck radials currently use a higher grade of rubber. So as stated, the average rubber price would be higher as the truck radial mix increases.

Basudeb Banerjee, Quant Broking: If I see on a consolidated level, the cost of debt is coming around 10%+ including low cost debt of Rs 5-6 billion at foreign subsidiaries. So that means majority of the cost of debt is 10%+?

Gaurav Kumar: 80% of the debt is at India level. And again, the 2nd largest debt component would be for South Africa, where the cost is at the same level as India. Given the profitability of the Europe operations, the debt there is the smallest component, also the debt is cheap only in Europe.

Basudeb Banerjee: What is the margin of the product you are selling under Apollo brand, through Vredestein?

Gaurav Kumar: I would not be able to share specific margins, but they are sold at fairly attractive margins. These, however, do not benefit India as such. Under transfer pricing rules, India operations is just the manufacturer which has to supply at cost plus a certain mark up and hence, even though the tyres may be making good margins the same gets reflected in the Europe operations books because they take the entire risk of inventory, receivables, etc. So, while we do not see the benefit of Europe sales in the India margins, the group benefits as a whole.

Basudeb Banerjee: You said that Chennai capacity is around 275 tons per day. What is the utilisation level on that presently?

Gaurav Kumar: Difficult to say, since the capacity is constantly changing, but it should be somewhere between 80-90%.

Nilesh Surana, Mirae Asset: This is regarding the Chennai plant. What is the final CapEx and how much of it has been capitalised till December?

Gaurav Kumar: We would not be able to share what is capitalised till December. The overall CapEx for the plant, is Rs 23 billion and all of that would be incurred by March 2012.

Nilesh Surana: And my 2nd question is on the South Africa business. You did mention that given the current situation it could be positive on bottom line in the March quarter. Am I right on that?

Gaurav Kumar: I specifically said breakeven. The target is to first reach breakeven so that we stop bleeding.

Nilesh Surana: Breakeven at net level?

Gaurav Kumar: Yes.

Nilesh Surana: And a longer term trend, in terms of what level the margins should settle in South Africa?

Gaurav Kumar: Very difficult for us to comment. First attempt as of now is to reach breakeven. To improve margins further would also mean a small investment unless there is a dramatic improvement in the business climate. In the market scenario, if you want margin improvement it would also mean CapEx, which is now stopped completely for the last year or so essentially because of the philosophy that each operation should be able to sustain its own growth.

Chirag Shah, Emkay Global: I had a question on hedging policy at Europe operations. How would you look at hedging your topline?

Gaurav Kumar: Total exports are just about 2-3% which would be dollar-linked. Rest is all Euro currency. So, there is no hedging. There is only a translation gain or loss.

Aniket Mhatre: On behalf of Standard Chartered Securities, I would like to thank the management team of Apollo Tyres and the participants for taking their time out for the call. Thank you!

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