

## Investor Conference Call

### Third Quarter of Financial Year 2012-13

---

**Aniket Mhatre,**  
**Standard**  
**Chartered**

Good afternoon! Welcome to the post results conference call of Apollo Tyres. From the management team we have Gaurav Kumar, Group Head, Corporate Strategy & Finance; Rakesh Dewan, Head, Accounts; and Ritu Kumar, Head Financial Planning & Control. I now hand over the floor to Gaurav.

**Gaurav Kumar,**  
**Apollo Tyres**

Good afternoon and thank you for attending the call. On a consolidated basis, sales for the quarter were Rs 32.2 billion with revenue being flat over the same period last year. However, we had a significant improvement in the EBITDA margin from 10.2% for the quarter last year to 12.7% for the current quarter. One major factor contributing to this was the lower raw material cost. On year-on-year (YOY) basis the raw material cost was down by 9% and sequentially it was down by 5%. Raw material prices climbed down; especially natural and synthetic rubber, and even tyre cord fabric.

For the nine month period the revenue was Rs 97.6 billion, a growth of 9% over the same period last year. The EBITDA margins were again better than last year's 9.2%, jumping up to 11.8%. With the improvement in cash flows and lower capex this year, the net debt reduced, from Rs 29.4 billion to Rs 27.1 billion, at the end of this quarter.

In terms of an outlook, given the global scenario and the demand scenario in India, raw material prices are expected to remain stable to even going down a little further in the March 2013 quarter. Across all Apollo markets the demand remained soft and the company may have to take some production cuts; but it would continue to enjoy the benefit of lower raw material prices.

Moving on to specific operations starting with India – the sale for the quarter was Rs 20.4 billion, down by 3% over the same period last year; primarily because of decline in volume. EBITDA margin jumped from 8.1% last year to 11% this year. For nine month period the sale for the Indian operations was Rs 64.7 billion, a growth of 10%, out of which 7% was contributed through volume and the balance through price and mix. EBITDA margin for nine month period improved from 7.8% to 10.6%. The net debt for Indian operations was Rs 22 billion at the end of this quarter. The capacity utilisation for the Indian operations was around 75% during this entire period, a result of lower demand particularly from the OEMs. Specifically for truck tyres, the demand in November and December was significantly lower.



Moving on to South African operations – the economy saw slight GDP growth. Sale for the quarter was Rs 4.1 billion, with a growth of 6% over the same period last year. EBITDA improved from 2.8% to 4.4%, resulting in a small loss at net level, and thus an improvement compared to previous periods. The capacity utilisation at South African operations remained at 70%; and hence, one of the major contributors to margins, still not being at a desirable level. The company continues to work with the government on the import of undervalued tyres, which is a big issue for the industry. Lastly, labour related strikes continue to be a challenge.

Moving on to European operations – the European Union's GDP in 2012 was negative and continued to slide through the year. Car registrations were down significantly and hence, the overall market was impacted. The overall tyre market was down by almost 13% in 2012 and more particularly, the winter tyres were down by about 18% due to previous inventory at dealers and late onset of winters in Europe this year. Apollo's operations also lost volume. However, it was not as significant as the industry, so on an overall basis Apollo Vredestein actually inched up a little on the market share. The capacity utilisation for the Europe operations, for the first time since Apollo has taken over, was not at the peak – down to 80% level in this quarter, though on a YTD basis it is closer to 90%. However, aided by lower raw material prices and improved product mix, profitability was healthy. Sale for the quarter was Rs 8.2 billion flat compared to the same period last year. The EBITDA margin improved from 18.9% to 20.2%. For the nine month period sale was at 22.6 billion, a growth of 4% over the same period last year. The EBITDA margins improved from 15.6% to 18.5%.

Apollo volumes in Europe, continued grew by 80%, though of a small base. While the current scenario from a demand perspective continues to be soft, we maintain our strategic position of Europe being a key market. Looking at the overall situation we had earlier talked about not going ahead with the green field in Eastern Europe. A substitute for that is a proposal under consideration, which would be to expand the Dutch capacity by about 20% over a two year horizon. The capex would start from next year and over a two year horizon take the capacity up from 6 million to in-excess of 7 million tyres.

Lastly, over the last few months there have been questions about the QIP plan since its announcement in October. As of now, looking at the market situation and the company's share price, there is no firm decision. The company would definitely not be looking at the QIP till the announcement of its annual results. That is all from Apollo Tyres – would be happy to take your questions.

**Chirag Shah,  
Axis Capital**

Can you share the tonnage for Indian operations?

- Gaurav Kumar** As you would know from the last few quarters, the tonnage is an issue on a consolidated basis. It is more of an estimate, since in Europe we don't get the tonnage. Therefore, we are not sharing it.
- Chirag Shah** Can you help us understand in third quarter sequentially, as well as YOY, how has been the relationship between volume and pricing for the decline in revenue that we have seen in this quarter?
- Gaurav Kumar** YOY, the revenue was down by 3%. That's entirely a result of volume decline.
- Chirag Shah** Have higher discounts or higher incentives been offered to dealers in the third quarter?
- Gaurav Kumar** Nothing specific – the sales and marketing team may have run schemes for short a duration. But as such there is no discount which was given on an overall basis.
- Chirag Shah** Is there any one off impact in other expenditure because it has gone up significantly in Indian operations?
- Gaurav Kumar** That essentially is the result of the corporate campaign that you would have seen. This is been running now from October onwards and hence, is the primary contributor for increase in other expenses.
- Chirag Shah** But how big that amount could be and is it going to continue at the same level?
- Gaurav Kumar** That will continue for some time, it was not a one quarter phenomenon. Of course, the intensity was much higher when we started for it to gain a certain amount of visibility. But it will continue for some time and that's the primary contributor to the increase in other expenses on sequential basis
- Chirag Shah** What about increase in other income? Is that more to do with any forex income or gains recording?
- Gaurav Kumar** There is one large component of forex gain, which now gets recorded as other income instead of interest. And the other big chunk is an insurance receipt. Both are one off and can't be taken as repetitive.
- Chirag Shah** You have indicated that your overall utilisation in Indian operation was about 75%, but I presume that radial capacity is operating at full utilisation level?
- Gaurav Kumar** That would not be correct. Even the radial capacity was underutilised.
- Chirag Shah** What would be your average tonnage production for the Chennai plant in the third quarter?

- Gaurav Kumar** Chennai would have operated at about 300 MT/day. It has reached the capacity in excess of 400 MT/day; so utilisation would have been around the 70-75% odd mark.
- Chirag Shah** What was the reason for underutilisation of the Chennai capacity?
- Gaurav Kumar** Primarily the OEM volume; this is a very large component of truck radial and it was down in the December quarter by around 45%.
- Chirag Shah** But you were not able to divert that to the replacement market?
- Gaurav Kumar** The replacement component in truck radial, as of now, is very low. Mostly, the radialisation is being driven by OEMs and the replacement volumes are far lower.
- Chirag Shah** Just wanted to understand about the Chennai radial capacity increase. Is there any thought or re-strategy for further marginal capex that is required or it will touch 500 MT/day as scheduled?
- Gaurav Kumar** It will go as planned. The equipment ordering and everything has already been done. So all one can do is delay the industrialisation or commercialisation, that is commercial release of plant and machinery by some months; but bulk of the expenditure which is on equipment cannot be postponed to a later stage.
- Chirag Shah** So, it will put the pressure on your margins because of higher overheads for the time being?
- Gaurav Kumar** Yes, to that extent, there may be some burden of higher overheads.
- Chirag Shah** I also wanted an update on the Southeast Asian expansion plan that you have?
- Gaurav Kumar** We are working towards it. The sales and marketing operations are ongoing. We have shortlisted our top two priorities in terms of land. The legal due diligence is going on. If there are no issues in diligence and nothing comes up in negotiation of an agreement, we may move towards closing the purchase of land.
- Chirag Shah** And it would follow immediately or you need to take a call on when to start constructing the land building etc?
- Gaurav Kumar** This is a little bit sequential. This would be followed by environmental approvals and various regulatory clearances, which are quicker than Europe. It would still take a few months, so construction would not really start before second half of 2013 and then we would be looking at the first tyre rollout at the end of calendar year 2014.
- Chirag Shah** What is the capacity that you have finalised in probable project cost?

- Gaurav Kumar** That's still getting fine tuned, but we will begin with car tyres. Typically, one looks at a starting point of at least 16,000 car tyres, but all that is still in the stages of finalisation.
- Chirag Shah** What would be the cost advantages – let us say in procurement of raw materials, in those regions etc? How much would you save over there vis-à-vis in India?
- Gaurav Kumar** There could be some minor advantage. It's not as if India is not self-sufficient or that Thailand has every raw material available locally. In India one disadvantage that we face vis-à-vis a place like Thailand is on account of import duty on natural rubber. The Indian rubber to that extent takes this into account when it prices domestic rubber – something that will not be there in Thailand. Other than that, it is very difficult to say for the entire basket of raw material; but probably we would not benefit on the raw material front other than natural rubber.
- Chirag Shah** Can you share what was third quarter average cost for rubber, NTC, etc.?
- Gaurav Kumar** Natural Rubber 190 Rs/Kg. Synthetic Rubber was 150 Rs/Kg. Tyre Cord Fabric 235 Rs/Kg and Carbon Black 80 Rs/Kg.
- Pratik Mehta, Bajaj Allianz Life Insurance** You mentioned that Europe was impacted because of the late winter. Are we expecting some pick up in the fourth quarter? In other words, how has been the situation in the first one-and-a-half month of Q4 in Europe?
- Gaurav Kumar** This really doesn't translate into higher sales in fourth quarter. There are a whole lot of buyers, who, if there is an early snow would pick up or switch to winter tyres because they see themselves using or needing the winter tyres through the winter season. But if the snow arrives in late January, then there are lot of people who go through a decision-making process that "I may be really needing these tyres for the next one month and may be the cost is not worth it".
- Also, the dealers are sitting with a higher inventory from the previous months, so a good situation is when snow starts from November onwards and the inventory that they have picked up in July, August, and September starts moving; and the dealers continue to take winter tyres.
- In the kind of scenario that we are seeing in the current year, somewhat similar to last year, is where the dealers are cautious because they don't want to end the season sitting on a stock of winter tyres. In a way it's a bit of sales loss, that will not get translated or just entirely move forward to Q4 or the March quarter.
- Pratik Mehta** What would be our volume and realisation mix for Europe and South Africa, the way you mentioned for India?

- Gaurav Kumar** For South Africa, on YOY basis, our revenue was up 4%. This was with a decline in volume of 3% and, price and mix improvement of 7%. On a sequential basis, South African revenue was up 6%, which is 1% through volumes and 5% through price and mix.
- For Europe, on YOY basis, our revenue was down 2%, which is essentially a price and mix impact. On a sequential basis, revenue was up 1%, which is fairly a price and mix impact. Volumes were flat towards slight negative.
- Pratik Mehta** Could you help me with the revenue size of Apollo branded tyres? You mentioned that it is a small base and growing at 80% but how much is the absolute number in terms of revenues?
- Gaurav Kumar** The absolute revenues from Apollo branded tyre is still little lower than €15 million.
- Pratik Mehta** And that is routed through Apollo Vredestein only?
- Gaurav Kumar** Yes, Indian operations just bill it to the company's European operations on a transfer pricing basis. The entire risk of sales, inventory, and receivables is taken by the European operations.
- Pratik Mehta** You mentioned that you are contemplating increase in the capacity from 6 million to slightly more than 7 million tyres in your European operations. How much would we be spending and by when would we be starting the capex?
- Gaurav Kumar** This is still getting finalised. But this would not be a spend of more than €50 million and would be spent over two years starting from next financial year.
- Pratik Mehta** Can you help me with the degrowth in truck and bus OE volumes? Was there any growth in replacement market in truck and bus?
- Gaurav Kumar** As I mentioned earlier the degrowth in the OEM in this current quarter, vis-à-vis same period last year, is about 40%. On a sequential basis, the degrowth is about 35%. So whether year-on-year or on a sequential basis, the degrowth in truck OEM is 35% to 40%.
- Pratik Mehta** And on the replacement side?
- Gaurav Kumar** Replacement side is slightly positive. We are not getting industry figures for the current year because of the CCI matter, so we just have an estimate that replacement market growth was in low single digits in the current year.
- Pratik Mehta** Is there any pickup that you are seeing in the replacement volumes in January – February compared to what it has been in the last couple of quarters, or is it still early days?

- Gaurav Kumar** Still early days; typically our fourth quarter is better than the December quarter, so there would probably be a little bit of a sequential pick up. YOY basis it is still a small growth in replacement and OE continues to be negative.
- Mukesh Saraf  
Spark Capital** Just wanted to know if you could give us some sense on the percentage revenues from winter tyres in this quarter and the same quarter last year?
- Gaurav Kumar** We need to look at it but in general winter tyres contribute about 35% to 40% of the company's overall passenger car revenue in Europe.
- Mukesh Saraf** On the domestic front, could you give us some sense on the volume on OEM and replacement and how the volumes have moved?
- Gaurav Kumar** I will give you a broad indication. On the truck side, for example, compared to the same period last year the OEM volumes were down by about 35% and replacement was up significantly somewhere in high single-digits.
- Aditya Makharia,  
JP Morgan** Bridgestone has commissioned some capacity and Michelin is also coming up. How do you see the competitive intensity playing out?
- Gaurav Kumar** As of now in spite of capacity utilisations being lower, we haven't seen any desperate measures taken by any players in terms of significant undercutting. So I would say even though the raw material prices have come down, all the players have improved the margins; which was required to sustain at the kind of margins we were making last year – around 8-9% in Indian operations. To answer your specific question the competitive intensity will increase with the Bridgestone and Michelin plants coming in later in the year. But we increasingly expect that for truck radial, which is a key segment, the four players competing would be Apollo, MRF, Bridgestone and Michelin. There is JK also, which is a significant player, but financial constraints may cause it to lose ground.
- Ambrish Mishra,  
JM Financial** Post December, though it might be too early, is there any change in the OEM volume that you have seen or it remains the same or has it got worse?
- Gaurav Kumar** We have been told that there is an improvement but that's an improvement vis-à-vis December, so it is still significantly down compared to the same period last year. But volumes are picking up and December was probably the most dismal month.
- Ambrish Mishra** What about replacement, it still remains as strong?
- Gaurav Kumar** Replacement remains positive. It is not the best of the year from a demand perspective, but still the replacement demand in various product categories is positive.
- Ambrish Mishra** And in double-digit we can say?

- Gaurav Kumar** No in truck it's single digits growth and in passenger car it is, let us say, higher single digits.
- Ambrish Mishra** In other income you mentioned about forex gain and insurance received. Can you just quantify that?
- Gaurav Kumar** The insurance is Rs 80 million and the rest is forex. There are couple of other items like interest income etc. but those are very negligible.
- Ambrish Mishra** Okay and could we have the details of insurance received?
- Rakesh Dewan,**  
**Apollo Tyres** In 2005 there was a fire in one of our warehouses in Maharashtra. There was some loss due to the fire, which we had recognised in our balance sheet. We have recovered Rs 80 million this quarter, which has been recognised as other income.
- Basudeb Banerjee,**  
**Quant Capital** You mentioned about various capex plans like ASEAN plant, capacity expansion in Europe facility etc. So overall what is the combined capex figure you have planned for this year and next year?
- Gaurav Kumar** In this quarter there is nothing much. This year was really maintenance capex; completion of the Chennai capacity and some small capex going into the beginning of conversion of the Cochin plant into specialty and industrial tyres. As of now this is really the one that will continue together with the capex at our Netherlands plants to increase the capacity. The Thailand decision as I mentioned will get more crystallised in about a month and a half or two months, once the land diligence is clear, because unless the legal clearance is there we will not move ahead and that is when it will get finalised.
- Basudeb Banerjee** But broadly can you give us some idea about what can be the magnitude of fund invested there?
- Gaurav Kumar** Difficult for me to say since project Stage 1 has not been finalised and it will also depend on the speed of investment. It would depend on how the overall demand globally, and particularly for Apollo, is shaping up. If we continue to sit on surplus capacity at our India or Europe plant, we will not add a great amount of car tyre capacity at a fast speed. So that is a decision that will be taken internally, but 16,000 tyres per day PCR capacity would typically be a cost of about \$250 million.
- Basudeb Banerjee** But broadly what we are seeing is that \$250 million kind of cash flows can be generated with these kind of margins. Even with lower volumes you might be able to generate this without going through the QIP route in next couple of years' time?

- Gaurav Kumar** That's something that will be evaluated. It is very difficult for me to talk of cash flows for the next two years at this point of time.
- Basudeb Banerjee** What was the reduction in net debt on QOQ basis?
- Gaurav Kumar** On consolidated basis, the net debt came down from Rs 29.5 billion to Rs 27 billion sequentially.
- Basudeb Banerjee** And how much of that one can assign to working capital?
- Gaurav Kumar** I do not have that break up readily. Even working capital did come down; but it is a result of both cash flows resulting in debt reduction and working capital also reducing, particularly in Europe. December ends with the lowest working capital because they ended with low stock that they were stocking up for winter tyres.
- Kaushik Poddar, KB Capital Market** You have spent considerable amount of money towards your advertising. Do you have any pricing power as a result of this spend?
- Gaurav Kumar** Difficult to say. It's reflected in the fact that we have been able to hold on to the prices with raw materials coming down for three quarters running. Now whether it is just Apollo's pricing power or it is a result of industry action is a difficult one to say.
- Kaushik Poddar** Was the industry discounting in general, I mean other than you and MRF probably?
- Gaurav Kumar** I do not have details of everybody. Industry has been far more disciplined and hence, to really isolate an impact of just corporate advertising is very difficult for any company. It is done keeping a long-term objective in mind.
- Kaushik Poddar** European margin is far higher than the Indian margin. Why are margins so high there compared to Indian operations?
- Gaurav Kumar** Multiple of reasons. One is that our European operations are only in the segment of car tyres; or at least 80% in the segment of car tyres and that too in the replacement market. This product segment for our Indian operations is much lower. It is true across any player in the tyre industry that the passenger car segment is more profitable – so that is the foremost reason for European operations being more profitable.
- Secondly, even within car tyres, the European mix is more towards higher end tyres, ultra high performance, winter tyres, etc. So even on a like-to-like basis, the product mix of passenger cars for the European operations is more skewed towards higher technology products than what Indian market needs. Like any other industry as you move towards more technologically advance product, customers are ready to pay a higher price.

- Kaushik Poddar** Is the competitive intensity much lower there?
- Gaurav Kumar** No, competitive intensity is far higher. There are giants like Michelin, Continental, Bridgestone, etc. operating in Europe
- Rohan Korde, Anand Rath** Now that raw material prices are going down, is there any pressure from the OEMs to lower the tyre prices?
- Gaurav Kumar** In OEMs, at least with some of them, we have a quarterly adjustment formula, which benefits us when the prices are rising and to that extent, benefits them when prices are going down. But we would rather have the quarterly adjustment formula with OEMs rather than having a negotiation each time. So yes, the OEM pressure is greater than the replacement market in terms of reducing prices.
- Rohan Korde** And we are not looking at anything from replacement perspective?
- Gaurav Kumar** Nothing as of now. It is a decision which is taken by the people upfront on a regular basis, looking at overall dynamics. So as of now there is no price reduction being contemplated, but that is not to say that it is a firm decision for an entire quarter irrespective of what happens out in the market.
- Rohan Korde** In terms of lower production. Are we going to see a sequentially lower production in the fourth quarter or will that situation not be required since typically CV is higher in this quarter?
- Gaurav Kumar** As per current indications we should have a sequential increase this quarter, but we should also keep in mind that it is only one month gone by.
- Rohan Korde** And this would be true for Europe as well, with delayed winter coming in?
- Gaurav Kumar** It may not be true for Europe. Europe typically has the best revenue and far higher profitability in the December quarter. Their March quarter typically comes down so the same equation may not hold true for European operations. They typically have much lower profitability in the March quarter compared to the December quarter.
- Ameen Pirani, Deutsche bank** You mentioned that passenger vehicle tyres for India are only 17-18%. So out of the remaining CV which is around 80% broadly, how much would be OEM and replacement?
- Gaurav Kumar** Just to clarify while we talk of truck and car tyres, as the two main categories, that on an overall basis it's still about 85%. So there is a balance 15% of light truck, farm and others but for the truck the OEM – replacement mix is about 70/30.

- Ameen Pirani** So, going forward in the next year. The fact that replacement has picked up, can you give some indication as to what kind of a volume growth can you expect in India? Could it be like in the range of say 8-10%?
- Gaurav Kumar** Others are better placed than me to answer on the vehicle makers or the overall economic growth. As of now, nobody is predicting a quick recovery. People are hopeful that the next year would be a better one than the current year, but nobody is predicting a quick recovery on either the economic front or the vehicle sale. So probably the growth would still continue to be somewhere in mid odd single digits rather than higher single digits as you mentioned.
- Ameen Pirani** Okay. So the driver point of profitability could still be lower raw material prices going in next year also?
- Gaurav Kumar**  
**Jay Kale,**  
**IDFC Securities** That's correct.  
You mentioned that your realisation in the domestic market has been flat YOY. We have seen a higher growth in the truck replacement as compared to the OEM market, so the mix is improving. What is the reason for the flat growth then?
- Gaurav Kumar** Difficult for me to answer because the price mix that I get is a combination of truck OEM and replacement, passenger car OEM and replacement, and the other two categories. So, I only get it at an aggregate level and you also need to see that within passenger cars there are at least 300 SKUs.
- Jay Kale** Could you give me the revenue break up of truck, car and other segment for this quarter? Sequentially as well as YOY.
- Gaurav Kumar** For the Indian operations, truck for the current quarter contributed about 66% and cars were at around 16%, while the balance was made up by light truck and others. For the previous quarter the numbers were similar. So there is no real change.
- Jay Kale** And the replacement, OEM and exports breakup total is still at 60:30:10?
- Gaurav Kumar** OEM is slightly down and that is given the kind of volume decline that has happened. So the 30 has come down to 28 and the 60 has moved up to 62.
- Jay Kale** Are you seeing any market share gains in the markets – both in the replacement and the OEM?
- Gaurav Kumar** We believe that we have gained market share but I cannot say that conclusively in absence of any industry data. The information given to me is that our overall market has grown at a lower rate than our volume growth; so we have gained some market share overall in both passenger cars and trucks. But unlike previous

|                                                          |                                                                                                                                                                                                                                                                         |
|----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                          | years we do not have the officially published industry data to be able to state that conclusively.                                                                                                                                                                      |
| <b>Nishant Vass,<br/>ICICI Securities</b>                | Could you give us the revenue number for the European business in Euro terms, for the quarter?                                                                                                                                                                          |
| <b>Gaurav Kumar</b>                                      | In Euro terms it is €116 million.                                                                                                                                                                                                                                       |
| <b>Nishant Vass</b>                                      | On the replacement side you are expecting the demand to be in lower single digit. Also, the penetration has increased in the last two years – will you not see any uptick from that coming through in the TBR segment?                                                  |
| <b>Gaurav Kumar</b>                                      | It typically comes through. But at the end of the day replacement demand is a clear function of overall economic growth and activity. If that is not happening, the trucks won't be running even if they were sold two years earlier.                                   |
| <b>Nishant Vass</b>                                      | Any update on the fundraising exercise from the company's perspective?                                                                                                                                                                                                  |
| <b>Gaurav Kumar</b>                                      | As I mentioned earlier in the call, we definitely are not looking at any fund raising exercise till the announcement of our annual results. Post that we will take a call as to what is the best course of action. The approval is in place till November of this year. |
| <b>Nishant Vass</b>                                      | I am just coming from the point that Mr Kanwar mentioned on the television interview that the market is not conducive – so is it a demand issue or is it the pricing issue that the company is withholding it?                                                          |
| <b>Gaurav Kumar<br/>Siddharth Bera,<br/>Emkay Global</b> | It is a more pricing issue.<br><br>Just wanted to understand that capital employed in European business has gone up by around 18% in this quarter. Any specific reason for that?                                                                                        |
| <b>Gaurav Kumar</b>                                      | I will have to look into that specifically. It primarily should be because it has been making profit so the balance sheet size keeps on increasing. We have not added any fixed assets.                                                                                 |
| <b>Siddharth Bera</b>                                    | How much will be your Apollo branded revenues as a share of the domestic revenues in Europe?                                                                                                                                                                            |
| <b>Gaurav Kumar</b>                                      | The European subsidiary is currently at about €325 million over nine months, the Apollo branded sales would be lower than €15 million. So it is still insignificant.                                                                                                    |
| <b>Sandeep Pandya,<br/>Goldman Sachs</b>                 | Mr Kanwar on TV said that you hope to ramp up your R&D expenses to 3% of revenue. If you could throw some light on that? And secondly, the capacity in Europe which was planned to increase by 20% – what's the timeline on that?                                       |

**Gaurav Kumar**

We have looked at some of our peers. As we go global and venture into new markets, we need to spend on R&D because the product requirements or the market requirements for various geographies are different. This is really the reason for increasing the R&D spend. The 3% that Mr Kanwar mentioned is kind of an international benchmark, if you look at various companies.

We will of course go through an exercise and any increase will reflect as to what result it is delivering. It is not as if next year we will spend 3% irrespective of what is needed by the market, etc.

Your second question about the European expansion – that will be done over two years' timeframe. So the entire capacity, which would be a little in excess of 7 million, would be in place by March 2015 if we go as planned.

**Aniket Mhatre**

On behalf of Standard Chartered Securities, I would like to thank the management team of Apollo Tyres for sharing the third quarter results with the participants.

**Gaurav Kumar**

Thank you everybody for being on call with Apollo Tyres.

(Ends)