
India, February 12, 2014

Analyst / Investor Conference Call

Third Quarter 2013-14

Aniket Mhatre

Good evening everyone and welcome to the post results conference call of Apollo Tyres. From the management team, we have with us Mr Gaurav Kumar, Group Head, Corporate Strategy and Finance, Mr Rakesh Dewan, Head, Accounts and Ms Ritu Kumar, Head, Financial Planning and Control. I would now request Gaurav to begin with his initial comments on the results and then we can take over the question and answer session.

Gaurav Kumar

Good evening to all of you and thanks for attending the call. As usual, I would begin with some opening comments and then we would be happy to take your questions

On a consolidated basis, sales for the quarter were Rs 35 billion with a growth of 8% over the same period last year. The EBITDA margin improved substantially to above 16% i.e. Rs 5.7 billion against 12% in the same quarter last year. In terms of revenue breakup, OEM demand continued to be low and hence, replacement segment was still higher compared to previous quarters at 79%. In terms of the segmentation on a product category basis, truck and passenger car segment accounted for 83% of our revenues with the balance coming from categories like light truck, farm and others.

On a nine month basis, sales crossed Rs 100 billion, a small growth of 4% over the same period last year. EBITDA margin for the year so far, is at 14% compared to 11% plus for the last year. Net debt has continued to come down significantly and we have ended December with a net debt of Rs 12.4 billion and a net debt equity ratio of just 0.3, which is almost half of where we were earlier. The reason for the sharp decline is the fact that our European operations hit the lowest point on the working capital utilisation during this quarter due to strong collections thus, being positive on cash with zero

borrowings. Strong profits in all the operations have also helped. Further due to closure of the South Africa transaction in early December, we have nil loan in South Africa operations and the cash received from that transaction also being with us resulted in the overall net debt being significantly lower. In terms of an outlook on raw material, we expect next quarter to move marginally up but nothing significant in terms of change.

Moving on to the individual operations - starting with India: Sales for the quarter were Rs 21.5 billion, up by 5% over same period last year; 4% of this growth was due to volumes and 1% through price. EBITDA was Rs 3 billion plus at 14.3% compared to a 10% margin last year. Benefit of the raw material cost continued which was at around Rs 145 per kg on a blended basis, coming down by 3% over the same period last year. For the nine months period, the Indian operations had revenue of Rs 64 billion, marginally lower than the same period last year with no volume gains at all. The EBITDA margin for the year so far is 13% compared to 10% for the same period last year. Net debt for the Indian operations is at Rs 16.4 billion and continues to be on a declining trend. In terms of sales, while we are continuing to make good progress in replacement market and gain shares, OE volumes have declined in line with the market and hence, putting a dampener as far as top line growth is concerned. We had one significant item this year reported as non-operating income. Based on the agreement signed with the Tamil Nadu government involving a commitment of a certain level of investment and employment granted, we were eligible for incentives on sales tax and VAT refund. Since we met these criteria in the current quarter, we received Rs 842 million worth of incentives, of which Rs 100 million pertains to the current quarter and the balance pertains to previous quarters. We will receive similar levels of quarterly incentives on a recurring basis, depending on the sales generated during a quarter. We also had reasonably higher other income as compared to previous quarters. A very large part of it, Rs 280 million, was received from SRI for IT services provided so as to enable them to continue with the IT set up on day one. Another significant item in the financials was Rs 548 million of

exceptional loss relating to a portion of the Cooper transaction expenses, incurred by the standalone entity which has been written off.

Moving on to South Africa operations: Sales for the quarter were Rs 3.5 billion, declining over the same period last year. The current quarter however would not be a comparison on a like-to-like basis because for two months we had similar operations as last year, while for the last month, post the closing of the South Africa Transaction, we had only one plant. EBITDA margin for the quarter was substantially higher at above 8.5% compared to our recent range of 3.5% to 5%. One big reason for this was a benefit called APDP, provided in South Africa to the exporting entities. Till last quarter of the current year, only 75% of the total benefit was recognised, pending some clarifications from the government. On receipt of clarifications from the government, we recognised the remaining 25% of the previous quarters and 100% of the current quarter in this quarter, thus resulting in substantially higher margin in the current quarter.

Moving on to European operations: Sales for the quarter were Rs 10.7 billion, up by more than 30% over last year. A big chunk of this, which is about 20%, is also coming through exchange gains, but even otherwise volumes were up 14% compared to same period last year. This quarter seasonally for us is the best quarter and that trend continued. EBITDA margin for the European operations was about 22% compared to 20% for the same period last year. And with this quarter's result, we have regained a lot of margin lag that we suffered during the first two quarters of the year; compared to 18.5% EBITDA, for the nine months period last year, we are just short of 18% in the current year. Historically, Vredestein was known as a big specialist in winter tyres but with focus and effort, this year it has made big gains in the summer tyre segment. Even though the winter in the current year has been very mild and the European tyre industry suffered a decline of 4% in the winter tyre segment, overall the industry declined by only 1% in 2013. Vredestein on the other hand grew 11% on volumes. The capacity utilisation in our European operations is almost at peak. We are operating at 95% with very little capacity left and planning to support it with supplies from India.

Looking forward, given that the Cooper transaction has ended with the merger agreement being terminated and the transaction being called off, we are considering various growth opportunities that are there before us. We are reconsidering the two greenfield options that we had, before Cooper transaction had come up, one in Eastern Europe and the other one in Southeast Asia. We are in the process of evaluating both of them and should within the course of next one to two months take a decision as to which one is our priority. That is all from my side. We would be happy to take your questions.

Jay Kale

IDFC Securities

My question pertains to the other expenditure that has been quite high in this quarter. I just wanted to know how much of this is due to the increase in marketing expenditure and whether this is a recurring expense or is there any one off item in other expenditure?

Gaurav Kumar

As of now, given our focus on creating the brand, not just in India but also in global markets, a large part of increase in the other expenditure is due to increased marketing advertisement expenditure which will be of a recurring nature. There is also a liability relating to an excise and service tax litigation, which we have provided for in this quarter, which is a one off expense.

Jay Kale

How much amount would that be?

Gaurav Kumar

That's roughly about Rs 350 million.

Jay Kale

Regarding Vredestein tyres, what is the status of its launch in India and how has the response been?

Gaurav Kumar

The Vredestein brand was launched towards end of calendar year 2013. The volumes are small but we have received encouraging response and will continue to position it as a top end premium brand for high end passenger car use.

Pramod Kumar

IDFC Securities

What is your current revenue mix in India and how does it compare with same quarter last year, in terms of channels and industry segments?

Gaurav Kumar

For last year same quarter, the replacement segment was 63% versus 68% this year while OE has gone down from 28% to 22%. In terms of Industry segments, Truck has gone down from previous year's 66% to 64%, passenger car is up from 16% to 17% and the big gainer is farm given its strong growth from 8% to 11%.

Pramod Kumar

Any thoughts on having a fresh look at off the highway tyre segment?

Gaurav Kumar

We are looking at that segment in terms of converting a small capacity in our smaller Cochin plant to specialty tyres, which will continue as we build the market.

Pramod Kumar

Will this be only domestically focused or will you be also looking at the export markets?

Gaurav Kumar

It will cater to both European and domestic markets. We are not making any substantial investment into the large mining tyre segment.

Pramod Kumar

You talked about two greenfield plants that you are looking at post the Cooper call off. Just wanted to know if it means that acquisition or inorganic growth for the time being will be put on a backburner?

Gaurav Kumar

Acquisitions are something that one cannot predict. There is no acquisition target before us today and hence like any company we are in a state where we are constantly evaluating our growth plans. The ones that are there before us and what we can take on are the greenfield plans. If an acquisition opportunity comes up in future we will assess and analyse it to see if it makes sense. As of now, we would be going ahead with our greenfield plans.

Hardik Shah

Birla Sunlife

Insurance

What would be your gross debt levels?

Gaurav Kumar

The gross debt at consolidated level is about Rs 23 billion.

Hardik Shah

You mentioned that, in South Africa, a part of the improvement in EBITDA margins was on account of the export benefit. Going forward would there be some reduction in EBITDA margins because this would not be recurring.

Gaurav Kumar

That's correct.

Hardik Shah

Would it go down to the original level or will it be still better?

Gaurav Kumar

For us, the South Africa operations have obviously undergone a significant change. A very large part of our sales currently would be to a single customer (SRI) which has bought the rest of the operations. We need a quarter or two to be able to tell you where the stable margins lie.

Hardik Shah

Going forward, are you trying to reduce this customer concentration?

Gaurav Kumar

We will assess options but the way this deal has been structured, we are mutually dependent on each other. Neither of us could make a quick move away from each other.

Hardik Shah

For the greenfield projects, how much is the identified Capex?

Gaurav Kumar

The project is yet to be detailed out. I can tell you that when we last worked on it till about end 2012 for setting up a capacity of 16,000 passenger cars a day, the cost of one plant was about \$300 to \$350 million.

Arjun Khanna

Principle Mutual

Fund

In terms of other expenses, you mentioned that Cooper expenses have been booked at a standalone level. Is that a correct understanding?

-
- Gaurav Kumar** Just to clarify, the Cooper transaction expenses get booked at two levels. One part at India standalone level and the other part at our overseas subsidiaries. The total Cooper expenses is appearing in the consolidated balance sheet after netting off the capital gains from South Africa transaction.
- Arjun Khanna** In terms of Cooper, are there any other expenses that would come in the following quarters?
- Gaurav Kumar** There is a small bit of expense that would come on account of litigation. As you would know, the Cooper management is still continuing its litigation and to defend that, we would incur small legal expenses in the current quarter. Other than that, all expenses relating to Cooper transaction are over.
- Arjun Khanna** Right sir. In terms of the gain on the transaction of sale in South Africa, could we quantify what was the gain?
- Gaurav Kumar** I am not in a position to share these details.
- Arjun Khanna** You mentioned that in other expense line item there is a one off item of Rs 350 million of contingent liabilities. Is it a correct understanding that expenses related to Cooper are not included in that?
- Gaurav Kumar** Yes. There is no expense relating to Cooper transaction in that. The expense relating to Cooper transaction is coming as an extraordinary item.
- Arjun Khanna** You also mentioned that we could see Rs 100 million coming in the future from our plant due to VAT refund amount. Is that understanding correct?
- Gaurav Kumar** That was the amount for this last quarter and could potentially continue if the sales remain at the same levels.
- Arjun Khanna** For how long and how much is the total amount of benefit we could receive in the future?
- Gaurav Kumar** It is for a period of 18 years up to 50% of our investment.

Pramod Amte

CIMB

This is with regards to the diversion of your attention from operations to Cooper transaction. How has your market shares behaved in the December quarter?

Gaurav Kumar

In terms of diversion of attention, we would like to highlight that the transaction team within Apollo is a separate team. So people who are pursuing the transaction do not have day to day responsibility except at an absolute top management level of Mr Neeraj Kanwar or Mr Sunam Sarkar. The operational people continue to focus on operations during a transaction phase and we have not had market share loss in the current quarter. We have in fact had volume gains and market share gains in the current quarter.

Pramod Amte

Your margins have been phenomenal in this quarter. Do you think these are the sustainable type of profitability and growth in the coming quarters?

Gaurav Kumar

If the various parameters on the industry remain as they are, these are sustainable margins. Except for the certain one offs that are there.

Amin Pirani

Deutsche Bank

What was the pricing in Europe in this quarter? Last quarter, you had mentioned that you were facing pressures on pricing which had actually lead to weak margins despite strong volumes. So what was the scenario in this quarter?

Gaurav Kumar

The pricing pressures continued in Europe. In the current quarter, if we look at it on a Euro basis, we still had a price/mix decline of about 5%. One big factor pushing up the margins is the additional volumes sold which increased the operating leverage. The plant utilisation levels have continued to increase as we have gone through the year.

Amin Pirani

You had two quarters of very strong volume growth. Do you feel that this kind of a double digit volume growth is sustainable for the next one to two

quarters? What would that mean for margins given that you are at peak utilisation already?

Gaurav Kumar Difficult to say whether we can sustain a double digit growth in volumes quarter-after-quarter, but we will continue with our attempt to grow. We would also start facing capacity constraints and may not be in a position to fulfill all the demand from India and to that extent the volume growth may come down.

Amin Pirani On the India side the Rs 350 million of litigation expense that you mentioned - is that a one off or could there be some more expenses going forward?

Gaurav Kumar It is a one off.

Ambrish Mishra

JM Financials Wanted a clarification - you said Rs 100 million of other operating income is recurring every quarter. So annually it will be approximately Rs 400 million?

Gaurav Kumar That's correct Ambrish.

Ambrish Mishra Please give some sense on the tax rate for the quarter. Is it lower just because of that one time other operating income or there is something more?

Rakesh Dewan Tax is lower basically because of South Africa transaction. The gain from South Africa is tax free and there is no capital gain tax on that. It has lowered the effective tax rate for this quarter and the year also.

Ambrish Mishra On the South Africa transaction, we talked about some fees for IT set up on sale of operations. Is that correct?

Gaurav Kumar That is correct. South African operations had been getting support from Indian operations for overall IT as it was centralised. SRI had the choice to bring in its own IT systems on day one which would have been difficult and would have possibly caused a certain amount of disruption and hence they chose to take

	IT services from us for continuity purposes and that's the result of that income.
Ambrish Mishra	So this is a one time income which we received in exchange of setting up an IT system for smooth transfer of operations. Is that correct?
Gaurav Kumar	That's correct.
Ambrish Mishra	Please throw some light on the domestic Truck & Bus radialisation and where are we today in terms of truck and bus radial market share and what is the outlook on that?
Gaurav Kumar	The radialisation level currently is about 25% and our own market share is about 28%.
Ambrish Mishra	And where do you see this in the next one to two years?
Gaurav Kumar	In about two years this should be in excess of 35%.
Ambrish Mishra	And we expect our market share to be intact over that period?
Gaurav Kumar	That's correct.
Nishit Jalan Nomura Securities	What is the total investment that we have made in the Chennai plant where we are getting the VAT refund benefit?
Gaurav Kumar	We have made an investment of Rs 21 billion.
Nishit Jalan	So, we can get up to Rs 10.5 billion benefit?
Gaurav Kumar	That's correct.
Nishit Jalan	You mentioned Rs 100 million per quarter is recurring. This is assuming what level of production? Basically if production improves then this benefit per quarter can also increase. Right?

-
- Gaurav Kumar** This benefit is based on sales within the state. So even if the overall, sales increases, this benefit may not increase proportionately.
- Nishit Jalan** Any pricing action we have taken in the domestic market over the last two - three months?
- Gaurav Kumar** Negligible. We have tinkered around with some prices on specific SKUs where we felt it needed correction but no change across the board
- Nishit Jalan** You mentioned that your capacity utilisation in Europe is around 95%. Does this mean that we will have to look to expand capacity going ahead?
- Gaurav Kumar** Yes. We had already been incurring Capex to expand capacity. So, a small expansion in capacity would be available in the next financial year where the passenger car capacity would go up from 6 million to about 6.5 million tyres per annum. For a larger scale expansion we are looking at a Greenfield project in Central Eastern Europe because there are limitations in terms of how much we can expand at Vredestein.
- Nishit Jalan** What are the Capex expectations for FY 14 and FY 15?
- Gaurav Kumar** I don't have a figure for Capex that's already been incurred in FY 14 but it would be small. For FY 15, we are still in the process of finalising the growth plans which would impact the Capex. The maintenance Capex for the full company is about Rs 2 billion. Over and above that, it would really depend on the growth project that is taken up. But any Greenfield that we take up would still have very minimal Capex in FY 15 because by the time we identify the site, get regulatory clearances etc. a large part of the year would be gone.
- Nishit Jalan** You mentioned that you have expanded capacity to 6.5 million in Europe. What is the total Capex that we have incurred there?
- Gaurav Kumar** It's about €20 million.

Nishit Jalan	And we have largely incurred most of that right?
Gaurav Kumar	That's correct.
J Radhakrishnan	
IIFL	In the opening remarks, you mentioned that raw material is likely to slightly improve this quarter whereas we are seeing that rubber prices are declining. Is that because of some inventory or other raw materials are going up?
Gaurav Kumar	There would be some inventory effect. In February, the tapping of natural rubber reduces which result in price increases. Also while rubber is the biggest component, there would be impact of the other raw materials. I don't have the outlook for each of them individually but overall as a basket it's expected to move up slightly.
J Radhakrishnan	Regarding pricing, most of the players have made some decent set of margins. Do you think that there could be some shake up in pricing in the industry, particularly that the rubber prices are slightly softening? We have seen this in FY 10 and FY 11. So, whether such kind of problem can again crop up or is that unlikely?
Gaurav Kumar	It is difficult for us to predict what other players can do and what they would be thinking of. It has been some quarters where, despite most of the players operating at low utilisation levels, prices have held up. But does it mean that this will continue, really we cannot say.
Ashutosh Tiwari	
Equirus Securities	What is the exact amount of APDP benefit in South Africa?
Gaurav Kumar	It was about 75 million rand.
Ashutosh Tiwari	How much growth are you seeing in replacement market as of now, in terms of PCR and truck and bus?

Gaurav Kumar	In the current year, the truck replacement market is growing in low single digits. Passenger cars is also in a similar zone. There is no big growth in the replacement market but we have outgrown the market to that extent.
Basudeb Banerjee	
Quant Capital	What are the expense you are incurring on Manchester United branding campaign?
Gaurav Kumar	This year we have incurred slightly in excess of \$1.65 million for the contract with Manchester United and then over and above that there would be expenses of the production of the advertisement and media expenses.
Basudeb Banerjee	What were the landed commodity prices for you this quarter?
Gaurav Kumar	The average price for rubber was at about Rs 175/kg, synthetic rubber at about Rs 120/kg, tyre cord fabric at about Rs 260/kg and carbon black at Rs 85/kg.
Chirag Shah	
Axis Capital	For AVBV, we were looking at a subdued demand environment and we were also not looking that strong on volumes, two to three quarters back. But over last two or three quarters you have delivered strong returns in terms of market share gains. So, wanted to understand what is driving it? Also have you taken pricing actions which are different than the competitors?
Gaurav Kumar	As I mentioned, strong focus was put on summer tyre segment where we were traditionally weaker. Focus was also on marketing, distribution, etc. I won't be able to isolate one single aspect which resulted in significant gains. We have taken reduction in prices in the current scenario but these price reductions or decreases are in line with what the industry has taken so we have not undercut beyond what industry has done. Had we done that, margins would not have been at the levels that we have reported this year.

-
- Chirag Shah** And how big would be summer tyres in overall scheme of things currently and how bigger can it be for you?
- Gaurav Kumar** I do not have the breakup for other tyres but for us winter tyres used to be close to 40%. It would probably be lower this year given the mild winter and the share of summer tyres would have gone up
- Chirag Shah** 40% is by sales and not volumes - right?
- Gaurav Kumar** Yes that's correct.
- Chirag Shah** You highlighted that capacity constraint would be hitting very soon over there: another 8% - 10% of volume growth. After that, is it possible to ship the winter tyres from India to the European markets?
- Gaurav Kumar** That is correct. Even today, we ship winter tyres from India into Europe. The current sales of volumes from India into Europe is at about 0.7 million tyres. We plan to grow it further and given the capacity utilisations we have in India we have that scope. And if we do take up the decision on Eastern Europe at some point of time, we would be able to substantially increase the capacity and benefit from the fact that there is already an existing demand.
- Chirag Shah** Given the capacity utilisations in India, can you easily double the export volume from India to Europe if the demand persists and your market share gain continues in Europe?
- Gaurav Kumar** From the current level it can easily be doubled.
- Chirag Shah** Are there any capacity constraints in terms of SKU alignment, etc. in India?
- Gaurav Kumar** There would be some constraints. Also, there is always a fine tuning. So, not every size that is required in Europe is manufactured in India. Also if you keep increasing the sizes in a plant to serve various markets, it leads to manufacturing inefficiencies and hence, while you gain on higher capacity utilisation you tend to lose out due to these constant size changes. So, to that extent there is always a limitation as to how much of sizes you can increase. In

long term, that is why a second plant in Europe would make sense if we want to grow volumes to a substantially larger number.

Chirag Shah What is your outlook on demand for the Indian replacement market going ahead?

Gaurav Kumar As of now there are no signs to say that demand will pick up. There is hope to say that with some of the uncertainty gone post the elections, demand should start picking up. But other than that we don't have any signals to say that from this specific quarter onwards demand should pick up in either the replacement or OE segment. So as of now, one would consider a lower than usual demand growth for next year.

Chirag Shah What would be your capacity utilisation levels across various business units?

Gaurav Kumar For Indian operations we are at 75% utilisation and Europe at 95%.

Chirag Shah And that would be largely similar across segments in terms of CVs, cars?

Gaurav Kumar I would not be able to share that level of detail.

Hardik Shah

Birla Sunlife

Insurance Just a couple of more questions. What would be your debt repayment obligations for the next one year?

Gaurav Kumar I don't have that number readily available as of now.

Hardik Shah What is your forex exposure for the debt and operating expenditure?

Gaurav Kumar On the debt side, there are foreign currency loans but as a policy they are fully hedged. So we do not have any currency exposure on the foreign currency loans at all.

Hardik Shah So you hedge it up to six months, one year or the entire amount?

Gaurav Kumar	Entire amount for the entire duration of the loan is fully hedged. On the operational side, that changes from quarter-to-quarter or month-to-month and a decision on an appropriate hedging is taken but it's not a significant amount.
Hardik Shah	Mainly is it plain vanilla forwards or some derivatives also?
Gaurav Kumar	It is plain vanilla forwards.
Hardik Shah	Given the slowdown in the car segment that has recently come out, do you anticipate lower volumes from the OEMs in the next year?
Gaurav Kumar	Yes, right now the OE volumes continue to be a challenge and as of now, we don't have any great projections in terms of growth. People are talking about a demand pick up possibly in the second half of the next financial year.
Hardik Shah	For the Capex, what would be your preferred mode of funding?
Gaurav Kumar	We would always look at an appropriate capital structure. Currently, the balance sheet has enough debt capacity so, that would be the first preferred mode.
Arjun Khanna Principle Mutual Fund	Do we have a particular debt to equity ratio in mind beyond which we aren't comfortable?
Gaurav Kumar	Ideally we would want to remain within 1:1 debt-equity ratio unless we take a strategic move in which case we may stretch to 1.1. Beyond that level we would not be comfortable. Depending on where we are in a growth cycle, we would want to be below 0.7, which gives a certain amount of headroom for any future growth opportunity.
Arjun Khanna	You mentioned that the standalone EBITDA margin was around 13.3%. How do we get to that number? Would you consider Rs 840 million to be an exceptional item and Rs 100 million to be a part of recurring income?

Gaurav Kumar	The EBIDTA for the quarter was 14.3%, which includes Rs 840 million.
Jasdeep Walia	
Kotak Securities	Please confirm the net debt number for the consolidated operations?
Gaurav Kumar	The net debt is Rs 12.5 billion for consolidated operations.
Jasdeep Walia	You mentioned that you have booked Rs 283 million of income on account of IT services provided to SRI. Has this been booked in the standalone business in the other operating income?
Gaurav Kumar	This has been booked in the standalone operations in other income which is not included in the 14.3% EBITDA calculation that I mentioned just a while back.
Nishant Vass	
ICICI Securities	My question is about your plans on Western Europe and the ASEAN region - just wanted to understand why you say that it is an either/or kind of a scenario. Considering that Vredestein is nearly running full capacity, wouldn't both the capacities make more sense going forward?
Gaurav Kumar	Sure, we are considering both. When I mentioned and it sounded like an either/or, it was from a timing perspective - more from dedication of human resources. Just starting absolutely parallel on two greenfields is a challenge. So, we would probably end up with two greenfields, but over a longer period of time.
Nishant Vass	It makes intuitively more sense for the Western Europe plant to start with-right?
Gaurav Kumar	The plant is in going to be in Central Eastern Europe and not Western Europe. While yes, intuitively we have a market there today and we are facing a capacity crunch, but we want to run a detailed exercise to be sure that we are taking the right decision.

Nishant Vass	How would you raise the finances? Are we looking at the QIP route again like we did in 2012 when, we were looking at ASEAN expansion?
Gaurav Kumar	When we looked at the QIP in 2012, the whole balance sheet condition was very different than what it is now. Our leveraging of the balance sheet was at a much higher level. One could have not projected the margins that have come in over the last three or four quarters, resulting in strong cash flows. At that point of time the inflow that has come from South Africa transaction was also not known and hence the decision for QIP in 2012. Things have changed now and a QIP may not be required.
Disha Sheth	
Anvil Shares and Stock	I just wanted to ask that when you see the segmental revenue in your published results, the Indian operations revenue is reported as Rs 22.69 billion and while the standalone revenue is reported as Rs 21.43 billion. What is the reason for this difference?
Gaurav Kumar	You need to add Rs 842 million of the other operating income and Rs 421 million of the other income.
Disha Sheth	Just to clarify on one-off items, Rs 840 million is for incentive, Rs 283 million for IT services and Rs 548 million as exceptional items. Are there any other one-offs?
Gaurav Kumar	There are small other incomes but they typically tend to come in on a repeated basis like, interest income royalty income, and gain on forex, etc.
Disha Sheth	And they are recurring?
Gaurav Kumar	Yes, small amounts.

Abhijeet Vora

IFCI Financial

Services

Can you please share the EBITDA margin of the European business once again?

Gaurav Kumar

For the quarter the European business had an EBITDA margin slightly above 22% and for the nine-month period it's slightly under 18%.

Abhijeet Vora

And what were the margins for the same periods last year?

Gaurav Kumar

For the same period in the last year for the quarter it was above 20% and for the nine-month period it was 18.5%.

Amin Pirani

Deutsche Bank

You mentioned that there could be some more litigation costs because of the Cooper case. Just wanted to clarify if Cooper has filed for the breakup fee of \$112 million?

Gaurav Kumar

Cooper has not quantified its demand. There was a further judgment in January in our favor. Right now, lawyers of both the parties are talking to each other to schedule the submissions before the judge to lead this to a closure. As of now, there is no quantification from Cooper as to what it is seeking and we continue to believe based on the advice received that we are on strong grounds.

Amin Pirani

And is it possible for you to give a sense of the quantum of litigation cost. Would it be a substantial number or would it be a small number?

Gaurav Kumar

Legal expenses tend to be larger if there is an active trial going on. There would be one such spurt but I do not have an estimate as of now of what the expenses could be. However I don't think it would be significant.

Amin Pirani

You mentioned that a large part of the benefit on debt reduction was because of working capital reduction in Europe. So in the next quarter we could expect

sequentially an increase in debt because working capital could be adverse in Europe in the next quarter?

Gaurav Kumar

That's correct. December seasonally for them is the point when receivables come down very sharply on account of the winter tyre sales in the preceding six months. From January, it starts moving up to normal levels. So we would have working capital going up again.

Mukesh Saraf

Spark Capital

There are some news articles mentioning that CCI is hearing a case regarding the pricing of tyres in India, which I think is sometime next week. So, could you give us some information on this?

Gaurav Kumar

We have seen one case in the past which went through the routine and was declared in our favor. I have nothing more to comment on it, it's an old case and nothing else from our side.

Mukesh Saraf

But based on your experience do you see pricing being maintained despite the rubber prices coming down? What would be different this time vis-à-vis the earlier years?

Gaurav Kumar

Historically, pricing has been maintained with the kind of discipline that we have seen but where it will go in future is very difficult for me to comment. That's each individual player's decision.

Mukesh Saraf

On margins, you had mentioned that you would be exporting from India to the European operations. So do you see margins improving in those exports because there pricing is premium or do you see the shipping expenses, etc., offsetting a good portion of that?

Gaurav Kumar

Margins for the European exports are very good right now. With the rupee devaluation, they have improved further to be almost equal to replacement sales margin.

-
- Mukesh Saraf** The proportion is going up because European capacity is not going up so much. Can this be further beneficial for the margins?
- Gaurav Kumar** That's correct. But please recognise that this is essentially export of passenger car tyres, which in itself is just 1/6th of our overall sales. So in terms of an overall impact on Indian operations, it is a small percentage.
- Aniket Mhatre** On behalf of Standard Chartered Securities, I would like to thank the management team of Apollo Tyres for taking their time out for the call. Thank you to all the participants for joining us on the call.
- Gaurav Kumar** Thanks everybody.