

India, February 6, 2015

Analyst / Investor Conference Call

Third Quarter FY 2014-15

Amyr Pirani:

Good evening everyone. And welcome to the post results conference call of Apollo Tyres. From the management team, we have with us Gaurav Kumar, Group Head, Corporate Strategy & Finance; Suzanne Johnson-Walsh, Manager Investor Relations and Swati Taori, Group Manager, Accounts. I would now request Gaurav to begin with his initial comments on the results and then we can start the question and answer session.

Gaurav Kumar:

Thanks Amyr. Good evening everyone and thank you for joining on the call a little late in the day. As usual I would give a few opening comments on the results and then we can take your questions.

For the consolidated operations, sales for the quarter were at Rs 30.9 billion, lower by 11% over the same period last year. There was a volume decline of 7%, contributed by a decline in the European sales owing to the much weaker winter and South African manufacturing operations which we have effectively closed as of end November 2014. As compared to the same period last year, the South African operations instead of three months were barely operating for over a month. The EBITDA for the quarter was at Rs 4.9 billion with margins slightly under 16% as compared to a 16.4% margin for the same period last year. The raw material cost continued to decline on a sequential basis. It was down 2% led by natural rubber which was down 8% sequentially.

In terms of segmentation, we had 79% of the revenue coming in from the replacement segment and the balance from OEM. From a product category perspective, 46% of the revenues came from truck and 36% from the passenger car segment with balance from the other categories.

On a nine month basis for the current financial year, the revenue was Rs 96.3 billion, a de-growth of 5% over last year, which was impacted by 2% volume decline. The EBITDA margin on the nine month basis continued to improve. It was 14.7% compared to a 14% over the same period last year. With these healthy cash flows our debt continued to reduce. The net debt at the end of this quarter was Rs 4.6 billion, half of what it was at the end of previous quarter. Looking forward we expect the raw materials to continue remaining soft and probably a little lower in the next quarter.

Moving on to India operations, sales for the quarter were at Rs 21.1 billion, down by 2% on a year on year basis, essentially on account of negative price and mix. We took some price reduction particularly in the cross ply segment and other product categories which has contributed to this. The EBITDA for the quarter was at Rs 3.3 billion with a margin of 15.4% as compared to 14.3% margin last year. On a nine month basis, sales were at Rs 66.4 billion with a growth of 3% primarily contributed by volume increase and the EBITDA for the nine month period was at Rs 9.4 billion with a margin of 14.2% as compared to a 13% margin last year. The net debt for the India operation was at Rs 10.5 billion compared to Rs 12.1 billion at the end of previous quarter. In the truck and bus segment, we continued to see growing radialisation and estimate that the current levels of radialisation in the truck segment is 35%. Overall, the industry witnessed volume growth in TBR while the cross ply segment continued to decline. On the passenger car side, the market growth was in low single digits of about 3% for the current quarter with our estimate for the nine month period is 5%. The significant decline both for the market and Apollo was in the agriculture segment. In terms of an outlook, we have seen pickup on the truck tyre side. On a nine month basis, even though it is the result of the base effect, truck sales are up by 20% whereas on the passenger car side the vehicle sales are up by only 9%. The outlook for the next year on the truck side is that we may begin to see an up cycle leading to a significant growth. On the passenger car side we would probably continue to have growth on sales of vehicles still in low single digits. As of now on the LCV

segment we have seen no recovery and it typically lags the truck segment. As of now, there is negative growth in LCV on the OE side.

Moving on to South Africa operations, it is not a comparable quarter on quarter but again the sales for this quarter were Rs 0.8 billion as against Rs 3.5 billion for the same quarter last year. You would recall that in the December quarter of last year for two months we had complete South Africa operations and for one month post the Sumitomo transaction we only had the Durban plant. In the current quarter we essentially ran the Durban plant for only October. We had informed of entering into a business rescue plan in September and under the same the creditors approved the plan and as of end January all the creditors have been paid up. Also as a part of the business rescue plan, looking at the cost competitiveness of South Africa and some of the other challenges, we undertook a retrenchment exercise and with effect from end November we have retrenched and closed down all the manufacturing operations which impacted about 600 employees. Going forward, in South Africa we would operate only through trading operations with about 20 employees. As a result of the retrenchment package which was agreed last quarter but paid out just about a few days back, we have taken an exceptional charge of about Rs 790 million in this current quarter which has also impacted the consolidated operations.

Moving on to Europe, the sales for the quarter at Rs 8.8 billion were down by 18% over the same period last year. In the same currency terms, the decline was 11%, with 6% on account of volume and 5% on account of price and mix. The devaluation of Euro had a further impact of 7% causing a total de-growth of 18%. The 7% de-growth on account of currency is a notional risk because in terms of actual operations, both the sales and the costs are incurred in Europe. The EBITDA for the quarter was at Rs 1.8 billion. Despite a decline in sales, the margins were still very healthy at 20%, though lower than the 22% in the same quarter last year. On a nine month basis the European sales were at Rs 26.9 billion with a de-growth of 4% over the same period. The decline was essentially contributed by price and mix as we had much weaker winter

this year. The EBITDA for the 9 months period was Rs 4.8 billion at 17.7% margin as compared to 17.9% margin for the same period last year.

In terms of our other major project in Europe, we are continuing to proceed as per the plan on the Hungary investment. As informed to you previously, we estimate that we would start construction in April 2015. We have already got the environment approval and are on track to get the other regulatory approvals to start construction. That is all from my side. We would be happy to take your questions.

Pramod Amte

CIMB:

With regard to Europe, when do you expect the volume recovery to come considering the ground level situation in the industry?

Gaurav Kumar:

The expectation for the European industry is that it would have a small growth of 1% - 2% next year. Even for the full calendar year 2014, the industry grew by a little under 2% and we were more or less in line with the industry. It is just that the last quarter was very weak which impacted the entire industry and even us.

Pramod Amte:

And what is your thought on the India pricing environment and also the recent noise about antidumping to be brought into the Chinese imported tyres?

Gaurav Kumar:

While the domestic industry has held pretty firm on prices particularly for truck radial and passenger car tyres, there is increasing pressure from imports particularly imports from China. In this quarter on a sequential basis, the imports have gone up by close to 20% and are being offered at significantly lower prices. That is where industry is pushing for an antidumping action. The matter has been taken up with the government but right now there is a significant impact from these imports from China.

Pramod Amte:

And was that the reason you guys took a pricing action on the cross ply or is it more to do with the other competitive forces?

- Gaurav Kumar:** The cross ply side is more due to the other competitive forces given the continuous decline in raw material. And the fact is that the cross ply demand continues to go down. Even in the current year it is down by about 10%. Pricing action was taken on cross ply segment, while the segments which are getting impacted by imports are truck radial and the passenger car tyres.
- Pramod Amte:** Since you have closed down the Africa operations, would you go aggressively for other geographical expansions now?
- Gaurav Kumar:** Right now Pramod the geographical expansion or the big investment that we are looking at is the green field plant in Hungary. We have also announced the expansion of our Chennai capacity on truck radial that is needed. We will continue to push aggressively for growth in some of the focused geographies like ASEAN, Latin America and even Africa where the 20 people team will operate like the teams that are based out of Brazil and Thailand right now.
- Ashutosh Tiwari**
- Equirus Securities:** What is the mix of truck tyres in this quarter in India particularly?
- Gaurav Kumar:** Truck tyres contributed 66% to the India revenues this quarter.
- Ashutosh Tiwari:** And how much of that would be coming from the bias tyres roughly?
- Gaurav Kumar:** About 37% would be from truck cross ply.
- Ashutosh Tiwari:** You mentioned that there is a pressure in the bias segment particularly the volumes are declining and that is probably one reason why the prices have been cut over last two months. Can we see further price reductions if the trucks bias market declines and the utilization level across players falls down?
- Gaurav Kumar:** It would be very difficult to predict pricing action because that is not depended on just one player alone but is a function of a whole lot of various factors. But yes, in general that segment will continue to decline as radialisation increases and all the players will continue to look at the options to convert the truck cross ply capacities into other product segments.

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- Ashutosh Tiwari:** Any pricing action you have seen in other segments of tyres as well? Like in passenger cars or TBR, have you seen any price cut over there also?
- Gaurav Kumar:** We have not taken any pricing action in TBR or PCR.
- Ashutosh Tiwari:** On the Europe front, you mentioned that the EBITDA margin was around 20% in the quarter and EBITDA was around Rs 1.8 billion. But if we look at the subsidiary numbers, the consolidated minus standalone the EBITDA is coming out to be lower for subsidiary at around Rs 1.65 billion only. So what's the mismatch over there?
- Gaurav Kumar:** There are other smaller subsidiaries in Dubai, Brazil and Thailand which are finally merged into the consolidated piece.
- Ashutosh Tiwari:** Is that the reason of the significant decline in the segmental EBIT in Europe? If I look at it, last year EBIT of Europe was Rs 2.01 billion while this time it is Rs 1.38 billion only.
- Gaurav Kumar:** There is even a decline in Europe because the revenues are lower as compared to last year and as I mentioned the margin was 22% in the same quarter last year versus 20% this year. So, Europe has a lower profitability number compared to same quarter last year.
- Ashutosh Tiwari:** Is there any impact of inventories because inventory would have been revalued at the closing rate of Euro-INR and the impact of that also there in the reported numbers?
- Gaurav Kumar:** The balance sheet gets restated at the end quarter exchange rate and whatever is that difference you would see, a smaller profit consolidation happening but it is a notional risk as there is no exchange risk out there on the operation.
- Ashutosh Tiwari:** But would that also be a part of EBITDA only given that inventory is being revalued at the quarter ending exchange rate?

- Gaurav Kumar:** No. Actually inventory movements are also translated at an average rate, so as such there is no impact.
- Ashutosh Tiwari:** How is the market in this quarter, as it is only January. How is January because definitely third quarter was weak because of mild winters in Europe but how are you finding the current month, January basically.
- Gaurav Kumar:** Ashutosh, I would not have the volume numbers for January.
- Romil Jain**
- Quantum Advisors:** On the EBITDA margin which was 14.2% on a standalone side, on a normalize basis excluding to some extent the raw material benefit, what kind of sustainable margins should we see going forward and any product mix change that you see going forward?
- Gaurav Kumar:** We would not be able to give out margin guidance and it is very difficult to say what a normalised level is. I would have to ask someone to give us a normalized level of raw material prices. Until we have that, it is difficult to say what a normalized level of margins would be. Your second question about product mix, it will continue to change in favor of truck radial within the overall truck segment and we expect the radialisation to continue to increase. Secondly going forward the way the OEM indications are next year, probably truck as an overall proportion would also increase within the overall India mix.
- Romil Jain:** So right now what would be the total truck share in your total revenue?
- Gaurav Kumar:** In India, truck tyres contribute 66% to our overall revenue.
- Romil Jain:** Passenger vehicles and other categories would be roughly how much?
- Gaurav Kumar:** Passenger car is 17% and then the balance is light commercial vehicle, farm and other product categories.
- Romil Jain:** What would be your market share in the replacement and the OEM category?

Gaurav Kumar: Right now the market share is a difficult thing to estimate because the industry association has stopped publishing the data. We believe our overall truck market share is about 26% and car market share would be somewhere in high teens.

Romil Jain: That is in the replacement or the OEMs you are talking about?

Gaurav Kumar: This is an overall domestic, OEM plus replacement.

Romil Jain: As you are saying that we are seeing increased radialisation, on the truck side, the bias capacity that we have with the players, is it very costly to convert that to the radial capacity or how that happens?

Gaurav Kumar: Yes, conversion to radial is a fairly costly exercise. It would always be more economical to convert it to another cross ply product category and that is where we are examining plant by plant as to what is the plan that we have with our truck cross ply. As soon as that is firmed up we would announce that and we believe each player in the tyre industry would be thinking through the same.

Romil Jain: On the passenger vehicle side, what are the prospects of the tubeless tyres that we are going to have, going forward and currently what is the penetration of that in the market?

Gaurav Kumar: Tubeless continues to increase and over time particularly in the big cities as road conditions improve we will continue to see increasing penetration of tubeless tyres. I do not have the percentage which is there currently.

Jasdeep Walia

Kotak Securities: On Europe margins, in this quarter you are saying that EBITDA margins are at 20% and if I remember correctly in the last quarter which is 2Q FY15 you mentioned margins were around 17%, so there is 3% quarter-on-quarter

increase in margins in Europe. But if I look at the segmental level the margins are broadly the same at around 13% why is that?

Gaurav Kumar: Segmental report takes into account all the subsidiaries because what is reported in Europe has a whole lot of subsidiaries into it. Whereas, what I talked about is our European operation which is the Apollo Vredestein operations in which the European business is done. However at the European holding company level, you also have the subsidiaries of Latin America, ASEAN and Middle East since that is how the legal entity structure is.

Jasdeep Walia: So it is fair to assume broadly 300 basis point in the negative impact of all those subsidiaries on EBITDA, which is roughly around Rs 0.30 billion?

Gaurav Kumar: I would have to look at in detail but on a very quick reaction possibly yes.

Jasdeep Walia: What is your company doing with the plant and machinery which is there in South Africa? I believe 90 MT per day capacity is still there.

Gaurav Kumar: Close to that capacity is there. Once we have taken care of the liabilities to creditors and to employees which is all settled, we will see how we can dispose of the plant and machinery. If any of them makes sense for our Indian plant, we will assess that or we will just dispose of the plant and machinery.

Jasdeep Walia: Is that a bias cross ply plant there?

Gaurav Kumar: No. It even has a small capacity of truck radial.

Jasdeep Walia: Could you give me data on volumes (Y-o-Y trend) in India?

Gaurav Kumar: For this quarter, the volumes were up 1% Y-o-Y.

Amyr Pirani

Deutsche Equities: In Europe, given that the winter tyre sales were weak for the industry in this quarter, should we assume that this is lost sales or do you think that some of it could flow into the coming quarter?

- Gaurav Kumar:** No. This is mostly lost sales because the winter tyre segment is very specific and a bulk of these sales happens if the winter comes in early, in November and some part of December. Even if there was going to be a severe winter in February, a very large number of buyers would then essentially think that it does not make sense to buy winter tyres because they would have to again switch by April. So, to a large extent this is lost sales.
- Amyr Pirani:** And are you seeing any price competition in the winter tyres as well or is it limited to the standard tyres?
- Gaurav Kumar:** There is pricing pressure across category given that it is not unique to us. Everybody would have estimated the winter tyre demand at a certain level and the industry was down significantly. The fact that we came out with a new range and we priced it up compared to the previous range also backfired to a certain extent. So Europe continues to have pricing pressure also given the fact that raw material costs are still going down.
- Amyr Pirani:** So would it be fair to say that in Europe companies are passing on and almost the entire benefit?
- Gaurav Kumar:** For this year I would say, yes, which is why even though raw materials are down something like 10% vis-a-vis last year you have not seen margin expansion from us because bulk of that benefit has been passed on and to a certain extent because volumes have not grown. The fixed cost has not got spread over a larger volume.
- Amyr Pirani:** Coming back to the India pricing, I guess the fact that some pricing reduction has happened given that raw materials have been so weak. I just want to get a sense that as and when the commodity cycle reverses how do you think that the industry place competitively in terms of raising pricing when required unlike the last cycle?
- Gaurav Kumar:** I would point toward the fact that industry has held on to the prices even as raw material have continued to go down for a number of quarters. When the situation reverses, for sometimes, it may not be easy to take price increases

unless it is also backed up by strong demand. Very difficult to say as to what is that tipping point as a combination of demand and raw material cost increase when the industry would be able to take price increase. But the bigger question would be that would it be with a lag or would it be immediate. And that is a difficult one to answer today for me.

Amyn Pirani: In Africa, is the provisioning for the retrenchment completely done in this quarter or could we have some exceptional item in the next quarter as well?

Gaurav Kumar: The provisioning for the retrenchment is completely done and there would not be anything in this current quarter. As we sell equipment, etc., overall we don't think there should be a write-off compared to all the fixed assets that we have but that I would say is the next target before us to ensure that there is no further write-off on account of the fixed assets that we hold.

Nikhil Deshpande

Sharekhan: How much is Vredestein's contribution in Europe's segmental revenues?

Gaurav Kumar: Vredestein's sales for the quarter were Rs 8.8 billion.

Nikhil Deshpande: And could you give a corresponding figure for last year?

Gaurav Kumar: For last year it was Rs 10.7 billion.

Nikhil Deshpande: On the Indian operations sequentially, we have seen your gross margins falling despite weak raw material prices and we have seen the other expenditure going down by almost Rs 0.50 billion.

Gaurav Kumar: Yes. Other expenses are down because there was certain marketing and sales promotion expenditure in the previous quarter which is not there. On a year-on-year basis in the December quarter last year there was a provision related to a litigation which is not there. So, that is the reason for decline in the other expenses. I am not sure which gross margin are you mentioning. If I just see net sales less raw materials, the margins have gone up so maybe we are looking at some different numbers. We can take it offline otherwise we will

just hold up the queue because simply looking at sales less minus raw materials the margin has gone up.

Nikhil Deshpande: I am seeing it at as raw material cost as percentage of sales at 63.4% for the quarter, last quarter Q-o-Q September quarter is at 63% that is what. We can take it off line.

Gaurav Kumar: Okay.

Pulkit Agrawal

Karma Capital: I was just wondering, if you have a wish list for the upcoming budget. Any expectations?

Gaurav Kumar: Wish list I could give you, expectations is a difficult thing. We would want rubber duty to be reduced, antidumping duty to be imposed on Chinese tyres and antidumping duty to be removed from some of our raw materials.

Pulkit Agrawal: And two or three years hence, what could be the two or three drivers for your revenues or EBITDA that we should watch out for?

Gaurav Kumar: On the Indian side the biggest driver for revenues based on the business as is would be the truck radial and the continued radialisation. Most importantly, truck radial today contributes much higher margins on a per tyre or a per kg basis vis-à-vis truck bias so increasing radialisation is good from an overall trend basis. Also economic growth is expected to come back as we have sort of gone through now two years plus cycle of fairly weak demand growth in India. If we get back to the kind of growth projections that are being given for tyre industry, that would be the second big driver of growth. As of now, raw material scenario continues to be favorable in near-to medium-term. On the European side, the coming on stream of the Hungarian Greenfield which will be a cost competitive facility, selling higher volumes in Europe would drive growth.

Nishant Vass

ICICI Securities: I just wanted to understand from an industry standpoint perspective about your expectation on the radialisation pace. You are saying that you are seeing a lot of increased growth there, so in couple of years down the line where would we be from 35% today?

Gaurav Kumar: We feel that from the current 35%, in three years itself we should be touching 50%. In five-year time, we would be somewhere in the 60% - 70% range.

Nishant Vass: From an industry placement market perspective could you give us a breakup of how much truck and passenger vehicle kind of contribute in tonnage terms?

Gaurav Kumar: That number is not available in public domain. So, I would be guessing the truck tyres would be anywhere around 60% - 65% and passenger cars could be around 20%.

Nishant Vass: From an intuitive perspective should the truck tyres share be higher than the OEM share normally in the replacement market?

Gaurav Kumar: In truck, the replacement is a much higher proportion than the replacement. Typically it would be about 75% - 25%, whereas in the passenger car it is almost like a 50% - 50%.

Nishant Vass: And the similar number in OEM would be around 60% say the breakup between truck and passenger vehicle and the other segments? So, I am trying to break down the replacement industry per se. I am just coming from the fact that industry and the replacement side how much would that be getting contributed from the truck bias side?

Gaurav Kumar: We can work that out but the truck share within the replacement would be even higher than the 60% - 65% that I talked about.

Nishant Vass: From the pricing action that the industry took is the understanding correct that there are lot of players who were obviously providing discounts on the

gross price side since last couple of quarters and this pricing action was more kind of acceptance to that fact?

Gaurav Kumar: Just to correct you the pricing actions that I mentioned is what we took, I do not have player-by-player pricing action taken. Discounting has been off and on across product categories not just in cross ply.

Nishant Vass: Could you give us general break up between what is your capacity in the radial side and the nylon side and what would be the utilizations in both of them?

Gaurav Kumar: For truck radial our capacity is 6,000 tyres per day. And utilisation there is 90% plus. On the passenger side our capacities are about 32,000 tyres per day. Utilization would be in 70% and similarly truck cross ply our capacity is about 10,000 types per day and utilisation is in the 70%.

Nishant Vass: And can we estimate the similar number for the LCV and the Agri side in terms of utilizations?

Gaurav Kumar: Should be similar but I don't have ready figures for that.

Sonal Gupta

UBS: Any estimates on how much import in the TBR market and PCR market in terms of Chinese tyres are we talking about?

Gaurav Kumar: On the imports the estimate is that they are getting close to a double digit share but that is on the overall market. You actually just start breaking it into more relevant category because the imports are essentially in truck radial segment. So if you take the truck cross ply segment as a different segment and the fact that imports coming in from China essentially play in the replacement segment, their share starts getting close to 20% of truck radial replacement market. And similar would be the case in passenger car where, while the overall share would be somewhere in the teens but given that imports essentially play in the replacement segment that would be in excess of 20%.

- Sonal Gupta:** So there is a quite a meaningful share that these guys import.
- Gaurav Kumar:** Yes a meaningful share at a sub-segment level.
- Sonal Gupta:** In terms of the outlook on the replacement side for both the segments, like you have already sort of talked about little bit but the passenger car given that the demand has been pretty weak over the last three years, flattish, we don't really see much of a replacement growth. But on the truck side, given that there is a double effect given, although it is coming of a low base so OE volumes will go up. The replacement market should pick up with higher freight, tonnages, ton kilometer in transported, etc. So any thoughts on what sort of volume growth can you expect on the truck side and the passenger car side?
- Gaurav Kumar:** On an immediate basis the big pick up with the base effect would be on truck OEM but simultaneously with some of the actions expected from the government in budget, even the replacement segment would see better growth than last year but probably would still be in mid-single digits.
- Sonal Gupta:** This is for trucks you are saying?
- Gaurav Kumar:** This is for truck and the passenger cars unless the overall sentiment improves and interest rates come down, as of now the growth rates that are being seen are still in single digits which are much lower than the historical past. If we look at some of the projections out there, over next five years they are talking of a double digit growth in passenger car tyres.
- Sonal Gupta:** Could you give out the average raw material cost for the quarter?
- Gaurav Kumar:** The average raw material cost for this quarter was Rs 132 with natural rubber at Rs 137, synthetic rubber at Rs 140 plus, and tyre cord fabric at Rs 290.
- Sonal Gupta:** And carbon black?
- Gaurav Kumar:** Rs 86.

- Sonal Gupta:** On the raw material costs, we have not seen as much of a gross margin expansion for you on the standalone side as we have probably seen for some other players. So, is there a mix shift in Q2 to Q3 or is this the impact of price cuts?
- Gaurav Kumar:** A very difficult thing to analyze and as of now apart from one player the others have not even announced the results for this quarter. So, I really cannot comment about other players. Sequentially, we have seen the margin expansion which is about a little under 1%. If you look at the fact that the raw materials have gone down by 2% that translates into a straight margin impact of about 1.2-1.3% and the margin uptick is just a few decimal points off that.
- Sonal Gupta:** So is this primarily the impact of the price cuts that you have taken. Will that be a fair assessment?
- Gaurav Kumar:** There is an impact of price cut and there is also an impact of the fixed costs spreading over smaller volume.
- Ashutosh Tiwari**
- Equirus Capital:** There was some agreement between the Kerala Rubber Tyres Growers Association and the tyre companies about a higher NR price. So any update on how much we are paying currently and also what proportion of our sourcing comes from India.
- Gaurav Kumar:** We are sourcing about half from domestic and half from overseas for our India requirement and that is a number which changes every quarter looking at the price parity between the landed costs of imported and the domestic price. So there is no commitment in terms of saying that we have to buy a certain quantity. What has essentially been agreed with the Kerala government is ensuring that the duty levels are Rs 30 per kg or 20% whichever is higher which works out pretty much where the market would be looking at the prices today. And that is being adhered to. The international prices would work out to about Rs 100 a kg. So 20% or Rs 30 would work out to about Rs 130 and the domestic prices are currently around the Rs 130 mark.

- Ashutosh Tiwari:** Okay. But earlier domestic prices were lower around Rs 110 so will that lead to any increase in the natural rubber sourcing cost in the fourth quarter because of the agreement?
- Gaurav Kumar:** No, the domestic prices went to a lowest of Rs 120. They never went to Rs 110. And then, very quickly were in the late Rs 120. If they were to be prevailing at Rs 110 level and we have to pay Rs 130 we would then assess if there is merit in increasing the international component. But the fact is, if the international still comes in at about Rs 130 and there is domestic available at Rs 120 we will then source more from domestic sources. So as I mentioned the mix can keep changing every quarter looking at the price parity.
- Ashutosh Tiwari:** How much fall we are seeing in the crude related raw materials like synthetic rubber and carbon black as of now and what impact that could have on the raw material cost as a percentage of sales in the coming quarters?
- Gaurav Kumar:** On a sequential basis, in fact there is absolutely no fall in the crude related raw materials because each of them have their own demand supply, and the fact that crude has fallen is not necessarily a fact ensuring that they would fall. So, there is no price reduction in synthetic rubber, tyre cord fabric and carbon black on a quarter-to-quarter basis.
- Ashutosh Tiwari:** And sequentially there is a fall in other expenses. Is that because production levels were lower in the current quarter and there were some stock built up also in the second quarter which has lead to a lower relative cost. So is there any production drop which happened from Q2 to Q3?
- Gaurav Kumar:** Yes, there is a production cut that we took looking at the inventory situations but also in another expenses there were certain sales promotion and advertisement expenses in previous quarter which came down in the current quarter.
- Romil Jain**
- Quantum Advisors:** What would be the difference between the EBITDA in the truck radial and the personal mobility radial segment?

- Gaurav Kumar:** We would not be able to share margins of each individual sub segment but passenger car tyres return much higher profitability than truck radials.
- Romil Jain:** But just roughly any numbers, very roughly difference?
- Gaurav Kumar:** No, unfortunately we would not be able to share quantum on that.
- Amyr Pirani**
- Deutsche Equities:** Just to clarify wasn't there already some antidumping duty as far as TBRs are a concerned or is my understanding wrong on that?
- Gaurav Kumar:** There was an antidumping duty on TBR that is now into its Sunset Clause so it is under review. So right now there are a whole lot of legal reviews going on around the antidumping duty.
- Amyr Pirani:** But the existing antidumping duty still stands or has it been suspended for now?
- Gaurav Kumar:** As of now, it has been suspended.
- Amyr Pirani:** So as of now Chinese tyres are able to come freely you are saying.
- Gaurav Kumar:** That is correct.
- Amyr Pirani:** And on the passenger car side we did not have an antidumping duty in the first place?
- Gaurav Kumar:** That is correct.
- Jasdeep Walia**
- Kotak Securities:** So you mentioned some time back on the call that you have kind of upgraded the product range in Vredestein and it backfired as a strategy. Can you please elaborate on that?

- Gaurav Kumar:** What happens Jasdeep is that a player regularly comes out with product upgrades. If I may say, like if you were to relate to a mobile industry so you come out with the next range of tyres in which you have done improvements and you offer something more to the customer. What we did with that introduction of the new range of winter tyres was that and we also took a price increase. That move backfired in the current environment of a weak winter and weak raw materials. So we lost volumes even more than the industry.
- Jasdeep Walia:** What is the status of your capex plans in India? Have you started the Brownfield expansion and when would it be completed?
- Gaurav Kumar:** We have started the investment in the Brownfield expansion in Chennai. It should be completed by mid-2016.
- Bharat Gyan**
- Angel Broking:** Just wanted to understand the radialization, trend. The penetration as on the industry level is as you mentioned is about 35%, so just wanted to get the split of the radialization penetration in the truck OEM segment and the truck replacement segment.
- Gaurav Kumar:** Our estimate is that the radialization, on the OEM side is about 70% and on the replacement side would be 30% or lower.
- Mukesh Saraf**
- Spark Capital:** This quarter if you could tell me volume growth that you have seen on the truck replacement side and the truck OEM side.
- Gaurav Kumar:** We would not be able to share that kind of data.
- Mukesh Saraf:** And just looking at the next one year or so, we are obviously seeing a steep improvement in the OEM volumes and especially in the multi-axel vehicles. Would you say that growth in your OEM volumes will be much sharper than your growth on the replacement volumes especially in the radial side just

assuming that the 25 ton and above generally be more of radial then the bias even at the OEM.

Gaurav Kumar: That is correct. On the truck side particularly truck radial, we expect the OEM growth to be much higher than the replacement and that would reflect in our volumes.

Mukesh Saraf: Sure but that should have some bearing on your margins as well versus this year. Next year you should see the mix of OEM probably higher than replacement.

Gaurav Kumar: Yes, it does have an impact but keep in mind that those are additional volumes. It is not as if we are running at 100% capacity utilization and we have to divert volumes from replacement to OEM.

Mukesh Saraf: And in general if you could just share what you are seeing in terms of the fleet operators looking to probably, if they were delaying their decision on replacing tyres, are they now being more forthcoming because you are seeing freight rates staying stable and diesel cost going down. So their profitability is obviously improving. So even a qualitative kind of take on this?

Gaurav Kumar: Overall the sentiment is far more positive especially on the truck side and that should start translating into demand growth. But as of now on the replacement side, it is still what I would say as a cautious outlook given that demand growth is still low-single digits and there is much more buoyancy on the OE side.

Mukesh Saraf: Why I asked that was also because you said you have taken some price cuts on the bias tyres. So, when a fleet operator decides that he is okay with replacing the tyre and he knows obviously that the radial is much more costly than the bias tyre further, cutting bias tyre prices. Would that even swing the decision of the fleet operator or how does that thing works?

Gaurav Kumar: It may start influencing the decision of some fleet operators but overall from the market we don't see the pace of radialization slowing down.

Nishant Sharma

HDFC Bank: Question is more on the change in management that is being announced today can you just help me out on that?

Gaurav Kumar: Mr. Sunam Sarkar who was earlier the CFO is moving over to a new role at Chief Business Officer. He would drive the company's growth in South East Asia and that entire region. We are focusing on that region and seeing good volume growth and would want to drive business growth in that entire region. And we have Mr. Raj Banerji joining in as our new CFO who has come in from experience in British Petroleum and Reliance.

Nishant Sharma: And secondly can you just help me out on the bifurcation of imported rubber that we have and the domestic rubbers do we use anything on that?

Gaurav Kumar: On natural rubber as I mentioned earlier, the proportion can keep changing from quarter-to-quarter. It is not a fixed quantum. As of today we would be almost 50-50 domestic versus imported on our natural rubber usage.

Nishant Sharma: My question was related like just yesterday we have a news item where in domestic natural rubber producers were asking for hike in import duty on natural rubber from 20% to about 30%. So what is your take on that?

Gaurav Kumar: Obviously that is not a move we will support but if it goes through our mix may change even more in favor of imported.

Amyr Pirani: On behalf of Deutsche Equities, I would like to thank the management team of Apollo Tyres for taking out the time for the call. Thank you to all the participants for being there on the call.

Gaurav Kumar: Thanks everyone.