India, August 12, 2015

Analyst / Investor Conference Call

First Quarter FY 2015-16

**Amyn Pirani:** Good Morning, Everyone and Welcome to the Post Results Conference Call of Apollo Tyres Ltd. From the management team, we have with us Mr Gaurav Kumar — Chief Financial Officer; Ms Ritu Kumar – Head, Corporate Strategy and Mr Davendra Mittal — Head-Finance.

I would now request Gaurav to begin with his initial comments on the Results and then we can start the Question-and-Answer Session. Over to you Gaurav.

**Gaurav Kumar:** Good Morning, everyone, and thank you for joining in. As usual, we will begin with opening remarks and then we can take your questions. For the consolidated operations: sales for the quarter were Rs 28.3 billion, a decline of 12% over the same period last year. This essentially was a result of a 7% revenue decline in India operations, a significant impact of exchange rate of euro vis-à-vis rupee for the European operation and the restructuring of our South Africa operations which is now in final stages. In terms of a real impact which contributed to revenue decline was really the India operations as the others are more notional or not material. The EBITDA margins for the quarter continued to improve significantly; it was Rs 5 billion at 17.7%; more than a 4.5% improvement in terms of margin compared to the same period last year. Raw material continued to be favorable for the industry; it declined sequentially by another 7%, and we are now probably seeing the bottom most point for the raw material prices. Short-term expectation is that we may see some increases, but, in general, the raw material scenario continues to be fairly good for the industry.

In terms of revenue segmentation, three-fourth of the revenue came from the Replacement market with the balance being OE. Truck and Car Tyres contributed 81% to our revenues with the balance coming in from the Light Truck, Farm and other categories.

Based on the strong results and the cash flows, the debt position continued to improve; gross debt reduced from Rs 11 billion at the end of last quarter to Rs 8 billion, in fact we had surplus cash on a consolidated basis.

Moving on to the India Operations: sales for the quarter were Rs 21.2 billion, down 7% vis-à-vis same period last year. An equal impact from volume and price mix of 3.5% each. The operations continued to be impacted primarily by the decline in the TBB market (Truck Bias), due to the influx of Chinese imports. They continue to increase and were up 30% on a sequential basis i.e. when compared to last quarter. They are taking up a significant share of the market. The industry is pursuing the matter with the government, yet, we continue to have slow progress from the authorities and the industry continues to be impacted by this.

On the other side, in the Truck Radial segment, radialization continues to increase. We experienced strong growth in TBR sales. And looking at the market position and the future potential and the fact that we are currently the leader in this segment, we have decided that we would increase the capacity of Truck/Bus Radial at our Chennai plant in one-go to 12,000 tyres per day. I would like to remind you that we had earlier taken an approval and informed that we were increasing the capacity to about 9,000 tyres per day. Now, the current project in one-go would increase this capacity from about 6,000 to 12,000 tyres per day over a three-year period. The total CAPEX for this Truck/Bus Radial expansion would be Rs 27 billion over a three-year period coupled with the other announced CAPEX which is maintenance CAPEX. We anticipate that our CAPEX spend over the next three years in India operations would be close to Rs 40 billion. And with this in mind we also took an enabling resolution for debt raising up to Rs 20 billion which would be raised gradually over the next three years. So again, on the debt side, it would be a gradual raise in debt in line with the CAPEX program and internal accruals.

The EBITDA margin for the quarter given the industry and market scenario, continue to improve significantly. On a sequential basis, we were up 2% reaching 19% and in fact with other income the EBITDA margins were close to 20%. On a Y-o-Y basis the EBITDA, improved from Rs 2.9 billion to Rs 4 billion. Similarly, on the net profit side, improvement from the same period last quarter was more than 4.5%. With all these strong cash flow, the debt continue to come down making the balance sheet very healthy; the debt at the end of this quarter was Rs 7.5 billion compared to Rs 11 billion at the end of last quarter, and the net debt at India operations was down to Rs 3 billion.

In terms of revenue segmentation, the Replacement segment contributed 65%, OE 25% and the balance 10% being exports which again is mostly the Replacement. The truck and car tyre segments contributed 64% and 17% respectively to our revenues with balance being made up by other categories. We recognize that the sales decline that has been experienced in this quarter is disappointing vis-à-vis market condition, and steps are being taken to address this issue and we would return to growth from the quarter going on. We are now exploring options in the two-wheeler segment actively.

Moving on to Europe Operations: Europe, in spite of its troubles showed growth both in the Auto and Tyre sectors. Sales for the quarter were at Rs 7.4 billion which was a 13% decline over the same period last year. The decline essentially is due to the exchange rate impact which would be there only for one quarter and from then on given that the Euro devaluation had happened towards end of 2014, the exchange rate impact would no longer be a factor. However, in Euro terms we actually had a growth of 2% led by a strong volume growth of 8%. We outgrew the car tyre industry which grew by 3%. The EBITDA margins were at 13.5%, a decline compared to last year given the strong pressures in terms of price and mix that is happening in the European industry.

The other big step in this geography which is the Hungary project is proceeding on schedule. The funding for this project has been tied up and we have done all the necessary paper work. There is a tie-up of €300 million debt over a seven-to-eight year period for funding this project and the balance €200 million would come through internal accruals and state aid. The outlook for Europe continues to be cautious but growing.

That is all from our side. We would be happy to take your questions.

**Basudeb Banerjee:** If I see in your segmental reporting of others where Rs 1750 million of revenue you have reported EBIT of Rs 50 million loss, there has been a swing in terms of profitability on a sequential basis. So, can you highlight on that aspect?

**Gaurav Kumar:** This loss is a result from of various small operations, the principal one contributing to it is South Africa as we have taken the last set of write-off for materials which were there in the plant, as the plant got shut off. This quarter we expect that we would wrap up everything and what would remain in South Africa are only the trading operations.

**Basudeb Banerjee:** What were the landed costs per kg of the various commodities this quarter?

**Gaurav Kumar**: For Rubber, the price was around Rs 130, Synthetic Rubber was around Rs 100, Fabric at Rs 260, Steel Cord at Rs 115, and Carbon Black was at Rs 60.

**Basudeb Banerjee:** As you said volume have already started picking up on the low base, but still price cuts have been the case this quarter also. So where do you see the end of the road for the price cuts down the line in Europe?

**Gaurav Kumar:** Linked very closely to the raw material scenario. So, as of now raw materials continue to decline. As I mentioned that even sequentially raw material was down about 7% as a basket. Michelin and Continental have announced a price increase from October for summer tyres, (while the season is more relevant for winter tyres) but we have seen first signs of a price increase in the next quarter with an expectation that this is sort of bottoming out of the raw material.

**Basudeb Banerjee:** So, there can be a scenario where volume growth is happening even during price increases in a stable raw mat scenario?

**Gaurav Kumar**: I would say not stable, but slightly increasing.

**Basudeb Banerjee:** Your views on Yuan devaluation impact on Domestic Bias Truck Tyres?

**Gaurav Kumar:** A little too early to say because on the face of it devaluation of the Chinese Yuan could impact us but the fact as I mentioned earlier in the call that the volume of Chinese import is significantly higher and they come in at dumping prices. Does a 2% additional benefit really change that equation? Not really. It is not as if the price differential was 5-7% where 2% make a huge impact. The price differential between the Indian Radial versus the Chinese Radial is almost at about 30%.

**Basudeb Banerjee:** One of your competitors mentioned that it takes almost 3-quarters plus to implement any anti-dumping duty if at all. So what is your view on that – is that such a huge time lag?

**Gaurav Kumar**: It is a significant time lag because from the time you start to collect all the data to make that representation before the government, it is a significantly long time period. Anything can happen on the dumping area within this year. Also, you need to recognize that there are two factors which make a case of dumping — One is that the Tyres that are coming in are at dumping prices which can be established, but simultaneously they must be hurting the industry. On an overall sense, every Tyre industry player in India has had margin expansion.

**Pramod Amte:** Can you put in context what is the thought on the bias capacity considering that you are aggressively moving up the TBR capacity? And what are the TBR segment growth rates overall and within that what is the growth for Indian versus the Chinese players?

**Gaurav Kumar**: The fact that the market will continue to radialize and if we impose even decent set of growth numbers i.e. somewhere around a 5% for the overall Truck market, and in five years take the radialization level from the last year number of 35% to 70%, we recognize that we would need a larger TBR capacity to service that market. That is the context and the rationale for the larger TBR expansion. On the Cross Ply side, we already had plans which we had discussed with all of you earlier about converting some small capacity into Industrial Tyres. We are also examining the larger TBB segment for conversion into other product segments, namely, Agricultural Tyres or I would say we would even consider converting them into PCR capacity as the last resort as our demand for PCR keeps growing. We would explore various avenues and then convert those capacities into the required product segment. To your second question, current set of numbers are not in for the current year, but if we look at last year, the market share of imports which is predominantly Chinese, 80% plus of the TBR imports is Chinese, the market share on a total basis is still below 10% but if we look at it in a sub-segment basis which is TBR Replacement market, the market share was 20% plus last year. This year, first quarter given that there is a 30% jump in the imports, the market share would have gone into mid or high-20s.

**Pramod Amte:** Which is equivalent to a leader's position market share if I am not wrong?

**Gaurav Kumar:** It is equivalent to a leader's position on an overall basis. We anticipate our market share which is OEM plus Replacement to be about 27%. Imports are pretty much getting close to where the top players are even on an overall domestic segment.

**Ashutosh Tiwari:** In the 'Annual Report' it was mentioned that the PCR Replacement market in India grew by 12.4% last year versus Apollo's growth was quite low. So, what is the reason behind it and who is gaining market share in that segment because if I look in the same context you also mentioned that Chinese PCR imports were higher by only 10%. So, I do not think China is a factor.

**Gaurav Kumar:** We did lose some market share last year. The Chinese import was one of the factors when it comes to entry level tyres. With such tyres undercutting the prices we lost some market there. One big factor that plays out is that we still need OEM approvals with the higher segment of Cars which is growing at a faster rate than the overall Car segment. That is still pretty much dominated by the global majors. The approval process to get into higher-end cars takes more time. And that is really was the factor which contributed that our PCR sale were a little below the industry growth.

**Ashutosh Tiwari:** You mentioned that truck bus, bias segment is mainly hurt because of the Chinese imports. And if you look at your margins and industry margins per se it is not increasing. It has increased substantially over say last one year. Then what steps we are taking in terms of price cuts to revive the demand? Definitely, if we are not cutting prices, that will impact the volume growth for industry.

**Gaurav Kumar:** There have been small price cuts. Just playing the game which is to take huge price cuts to try and match up to the Chinese is not a solution and we have never gone down that route because that game will never end. The influx of Chinese imports while it is Truck Radial, is impacting the Cross Ply demand more because they come in at levels which are slightly below the Cross Ply Tyres offered by the Indian industry.

**Ashutosh Tiwari:** I am talking about this Cross Ply Tyres only. How much price cut you have taken and can we take further price cut in that segment because mainly Chinese Tyres imports are hurting that segment, so can we take a price cut in TBB segment to revive demand?

**Gaurav Kumar:** We definitely took some price cuts. Whether it could revive demand or not is a question mark and that is a judgment call by the sales and marketing team. We did take a price cut of about 2% and that was a collective decision of the sales and marketing team, which was probably the best strategy.

**Ashutosh Tiwari:** How much was the decline in the TBB volumes over last year and how much is contributed to sales roughly in terms of mix?

**Gaurav Kumar:** I would not be able to share specific volume decline for that segment. I can tell you the mix proportion. TBB today contributes about one-third of our total revenue in the India operation.

**Ashutosh Tiwari:** How much by TBR and PCR?

**Gaurav Kumar**: TBR is almost equal, just 1 to 2% lower. PCR contributed 17%.

**Deep Shah:** On the demand environment, particularly in the European region, can you please throw some more light on the same?

**Gaurav Kumar:** While there has been caution all around in Europe with troubles of Greece, etc., the Auto sector and the Tyre industry has been growing. In fact Auto industry is showing even higher growth than the Tyre sector. For the first half of this calendar year, the growth was 3% for the car tyre industry.

**Bharat Gyanani:** Given our plans to expand the TBR capacity and given the ongoing Hungary project as well, so can you give guidance on what would be the CAPEX levels on an overall basis in the next 2-3-years?

**Gaurav Kumar:** Based on the current plan for the next three years, the India CAPEX should total to Rs 40 billion, of which Rs 27 billion is for Truck Radial expansion, rest of it is for conversion of Bias and maintenance CAPEX. For Europe, the CAPEX over the next three years should be about €400 million for Hungary which is Rs 28 billion and over three years the maintenance CAPEX in the Dutch plant will be another Rs 3 billion. So let us say total CAPEX over the next three years of Rs 70 billion.

**Bharat Gyanani:** When will the additional TBR capacity commence?

**Gaurav Kumar:** Commercial production for the enhanced capacity would commence in the second half of FY 2017 and it will keep ramping up. Again, like for any of our expansion it is not that the entire capacity will come on stream in one-go.. We will reach the final 12,000 Tyres per day in about three years time from now.

**Bharat Gyanani:** The Hungary plant would commence production only in FY2018, is my understanding right?

**Gaurav Kumar:** Production would commence in January 2017.

**Sonal:** So, what is the thought process because like you said that the other criteria for anti-dumping would be whether it is hurting the industry and on an overall level, obviously, like you are saying it is probably around 10% and the industry is showing margin expansion. Could you give some numbers in terms of how much is the TBB market declined last year in terms of volume for the industry?

**Gaurav Kumar:** The industry numbers have not come out but our broad sensing from our market intelligence is that the TBB market is down 15% to 20%. It is two thirds of the truck/bus industry and in short-term, it is getting missed because of the overall raw material scenario that is what is being taken up. The bigger issue is also that if this is allowed to continue, it will not just hurt the Tyre industry but would go on to hurt even the ancillary sectoRs For example, a very large proportion of natural rubber grown within the country goes into Truck Bias, because of quality issues bulk of the Natural Rubber used in Truck Radial is imported and hence if the government continues to allow the Chinese imports to come which leads to a decline of the Truck Bias segment. This will cascade into an effect of demand for Natural Rubber within the country which then translates into the Natural Rubber prices and all those things. While at an overall basis, one can say that the Truck Radial, Truck Bias together is fine as an overall segment, the fact is that Truck Bias get hurt faster than it would have been in normal sense. It would also have an impact on certain very specific segments namely Natural Rubber grown within the country and the Tyre parts of the industry.

**Sonal:** On the European side, there seems to be a sharp decline in margins. I think last year margins were around 17%. Could you tell us what was the margin last year?

**Gaurav Kumar:** Year-on-year basis it was 15.9% and that has declined by 2.5%, essentially a result of the various price reductions, discounting schemes being run. Also, the operation was preparing to sell larger volumes. The target was a higher revenue number and the expenses, etc., were incurred in line for that which did materialize. While we outgrew the industry, our own internal target was to go for higher growth.

**Sonal:** So, your SG&A spending has also been higher which is impacting the margins?

**Gaurav Kumar**: It was essentially on account of building up for larger market share including the brand building activities that are being done.

**Sonal:** But in the industry per se it is not a pressure point and industry as of now is just passing on the benefit on raw material cost side. There is no major price cut which is putting the industry pricing under pressure?

**Gaurav Kumar:** From the last few quarters the industry is passing on whatever raw material benefit continues to come in. So margins are in a way remaining around a certain level but not continuously going up in Europe.

**Mukesh Saraf:** Firstly, you had mentioned in Indian operations, 3.5% each of price and volume negative impact. So this price is primarily only the TBB or this has some kind of price correction or some extra discounts on the TBR as well?

**Gaurav Kumar:** The price cut specifically is TBB but there were schemes running on various product segments, TBR, PCR etc., so the average price realization is lower. I would not have specific break up as to how much lower on each product segment.

**Mukesh Saraf:** This would also have the impact of your OEM price cuts, right, because that would be kind of a pass-through?

**Gaurav Kumar:** It would have the impact of OE price cuts also

**Mukesh Saraf:** Broadly, could you give us the OE Replacement mix in your TBR and TBB?

**Gaurav Kumar:** I would not have the mix specifically for each segment but, in general, for Truck it is about 25% OEM and 75% Replacement.

**Mukesh Saraf:** Secondly, if I look at your overall capacity in tonnes per day, it would be close to about say 1,400 tonnes per day. Would more than half of that be right now TBB capacity say close to 800 tonnes per day?

**Gaurav Kumar:** The TBB capacity is less than half out of 1400 tonnes. Around 550 tonnes would be TBB.

**Mukesh Saraf:** So going forward, you see either converting this to something else, say even if I look at the 5-year horizon of yours, if your TBR industry penetration is going to be 70%, you have to convert this to say OTR or Two Wheelers. Would you say that in about 5 years' time you will have to still need more CAPEX in your domestic operations apart from expanding existing TBR, converting this also would be a kind of a high CAPEX?

**Gaurav Kumar:** Conversion would be a significant CAPEX. As I mentioned, difference between Rs 40 billion and Rs 27 billion, a large part of that is budgeted towards TBB conversion. As of now would we need additional is something we do not know because this is something that is looked at very actively and is worked on depending on how the market shapes up.

**Jasdeep Walia**: In the initial remarks you mentioned that the company is taking some steps to revive volume growth in India. Can you highlight what those steps are?

**Gaurav Kumar:** I would not be able to share specific steps being taken out in the market, but the fact that revenue did not come in as per our expectation, there are steps being taken aggressively to address this.

**Jasdeep Walia**: Secondly, when are you planning to launch the Two Wheeler Tyres?

**Gaurav Kumar:** I do not have a specific timeline to it but should be towards end of this fiscal year or latest by beginning of next fiscal year.

**Jasdeep Walia**: What will be your business model in that space, would you outsource manufacturing or you plan further CAPEX to manufacture Two Wheeler Tyres also?

**Gaurav Kumar:** It is a little too early to get into that.

**Amyn Pirani**: What would be your capacity utilization for TBR because if you are saying that the new capacity will start giving Tyres only say late next year, is there a possibility of losing share because the segment has been growing?

**Gaurav Kumar:** The current capacity utilization for Chennai is at about 90%. The current capacity while we always talk of the approximate 6,000 tyres per day. In actual sense when we impose the entire mix it is 5,600 a day. It is being debottlenecked to 6,400 in the current year to take care of the growth need. Then the expansion takes it from 6,400 to 12,000 tyres per day.

**Amyn Pirani**: You mentioned that part of the conversion of the Bias capacity could be to PCR. So just wanted your sense why not TBR, is there a technical difference as to why PCR is more favorable compared to TBR conversion?

**Gaurav Kumar:** Technically, either is possible. It is just that with this expansion in Chennai, TBR capacity are taken care of for the next 5-6-years at least and all concentrated in one plant rather than having a small capacity of TBR in the second plant. So, that is for a better optimization of having manufacturing capacities spread across different plants.

**Amyn Pirani**: In Europe, obviously, 1Q is not a seasonally strong quarter for you in terms of margins. But, going into the season when you generally have the Specialty Tyres and the Winter Tyres, if things remain as they are, would you see margin pressure compared to last year number or do you think you could do numbers similar to last year numbers on the margin front?

**Gaurav Kumar:** The target is to have margins at the level of last year while growing on the top line. I would not want to get into a margin guidance discussion, but the target is very much that first quarter really has no indication as to where we would end up actually.

**Nikhil Deshpande**: Sir, could you give the capacity expansion in Chennai in TPD terms? Are we also looking at PCR expansion at Chennai or it is only going to be TBR?

**Gaurav Kumar:** The capacity expansion in Chennai which is with the CAPEX would be 336 MT/day with debottlenecking, etc., the Chennai plant capacity would start getting actually close to 800 tonnes/day which would be at the scale of largest plants globally. Currently, in Chennai, we are only looking at truck radial expansion and not PCR.

**Nikhil Deshpande**: In Europe, because of raw material prices, we have seen your margins on a decline vis-à-vis the India operations where we have seen a margin growth for you as well as for the industry. So, how do you compare both the markets and where do you see margin stabilizing for both the operations?

**Gaurav Kumar:** Two markets have very different dynamics – Europe has had a margin stabilization at very high level. If you do not look at a quarter last year Europe margins were 17% plus whereas the Indian margins were at 14%. The European players have typically had margin stabilization around the high teens or the 20% mark and that is where they have been whereas the Indian players who are still catching up. Again do not look at just one quarter, we were still off that margin. So, one quarter trend has been the European business having significant seasonality impact is not the right indicator. It depends a lot on what is the stable level of raw materials.

**Nikhil Deshpande**: So, structurally, do you see India operations not for you only but for the Tyre industry moving up from approximately 10% margin range in mid or early teens or how is it that stabilizing factor?

**Gaurav Kumar:** Only if somebody could give us level of growth of the market and the raw material prices we would be able to provide the stable level of margins .

**Arjun Khanna**: In terms of East European plant at Hungary, you had mentioned you were taking part in some OEM programs. Has there been any progress in the same?

**Gaurav Kumar:** That continues. The target is that the initial supplies would be from Vredestein and India operations. The Hungary plant would look to begin supplies to OE in minimum a year after it starts commercial production because any OE would also audit and approve a specific plant. We are scheduled to participate with the likes of Volkswagen, etc., in the new platform but supplies from the Hungary plant is at least 3-years away.

**Arjun Khanna**: You mention Volkswagen. Are you taking part in any others and have we won any?

**Gaurav Kumar:** As of now apart from Volkswagen, where we are shortlisted, the dialogue is still on in Europe with some of the other premium OE manufacturers.

**Arjun Khanna**: You also mentioned that sometime back we may launch the Vredestein brand in India. We have not quite seen anything of that till date. Has there been a change in plans?

**Gaurav Kumar:** The Vredestein brand is present in India. Given that it was positioned as a Premium Tyre for Premium Cars and a large part of that still gets imported, fitted in with the global majors, the market for that is still very small. So, it has been around for a year. The fact that you have not heard about it is what we are also experiencing that without big spend or without having a big product range, the volumes continue to be very small and hence they face the challenge that they do not make sense economically to produce in India because of small quantities disrupting production run. If you look at lower sizes, the pricing coming in from Netherlands becomes an issue.

**Arjun Khanna**: What would be our sales revenue from that say for the last fiscal?

**Gaurav Kumar:** It would be less than 1% of our overall revenues.

**Arjun Khanna**: With the Iran market potentially opening up and given we used to play out there, is there any chance of getting those sales back?

**Gaurav Kumar:** That is looking to be addressed but the dilemma there is always that you build up a market and then suddenly due to political developments that market goes away and then getting back in a market is never just a few days or a few weeks scenario. So, we will address that market and we have had growth in our Middle East operations. But in a long-term, some of those Middle Eastern markets continue to be a question market because of political sanctions that could come very suddenly on them.

**Sameer Deshpande**: The Yuan problem we are facing and you have mentioned at length about the destruction of the Indian market which is happening because of 30% lower prices of Chinese imports. Is the inverted duty structure still continuing because we had the raw materials that is Natural Rubber which we require are imported at a higher custom duty than compared to the finished Tyres from China?

**Gaurav Kumar:** The inverted duty structure is still continuing, in fact, the Rubber duty was hiked. We had recently a positive statement from DGFT saying that they find the inverted duty structure unfair, whether we will have quick action to address the same, is something that needs to be seen and would be definitely a step which is logical and would be very welcome.

**Sameer Deshpande**: Basically, this Make in India campaign is the main plan on which you can straightaway approach the government and see the things being restored at the proper level. And also, this anti-dumping duty which is the need because the quality of the Chinese Tyres still good despite the 30% price being lower?

**Gaurav Kumar:** The industry is taking all steps. So it is not for the lack of effort that there is a certain time that is needed to work on these things. Quality maybe does not match up to the best tyre but like for various products there is always a customer at that price who is willing to take the risk. There are safety issues, but there are customers who would say that if I am getting it at a 30% lower price, economically, it is still worth the risk.

**Jatin**: You mentioned you have taken a 2% price cut on the Bias segment. Has that been followed by a similar kind of price cuts by the competition as well?

**Gaurav Kumar:** It has been followed by a similar price cut from the competition.

**Jatin**: Is it fair to say that if we look at an ex-Chinese import Tyre basis, then till the time this issue is addressed, the industry is likely to see very flattish kind of volume growth because we are seeing that the Chinese are almost growing at slightly higher than that base?

**Gaurav Kumar:** On the Truck side overall, yes, that number could continue to be under pressure. The key is also over the last year or even more, we have not seen really the kick start of economy in various sectors that are relevant to us, infrastructure, some of the mining sectors, etc., If that happens, then growth will come. Also, one very large segment which continues to use Cross Ply is the mining segment. That really has not started off at all.

**Jatin**: When I look at Apollo India as a whole, broadly, we are seeing that you can see a capacity growth or TBR can grow at maybe 13-14%. If TBB continues to decline at 15% and like you mentioned the share of both is almost equal now. Then where is the growth likely to come from on the volume side?

**Gaurav Kumar:** On the volume side it could come from the other segments. We have had growth even in the current quarter on the PCR side and the other product segments. So, if TBB and TBR end up canceling each other on an immediate basis, there would be a small growth as a result of other segments. As this equation reverses in terms of the volume numbers of TBR and TBB, then even the TBR would start contributing to the growth.

**Chirag Shah**: Your margins are really strong across businesses. But if I have to look at EBITDA per tonne or EBITDA per Kg, how the performance has been? Could you can share some thoughts over there or if you can at least share your tonnage production number at least in India because your margins may look slightly above normal. Also because your raw material benefits have come in and you may not have passed on completely because your top line is slightly lower in that sense, hence your EBITDA margin seems to be on the higher side, but on EBITDA per tonne, how the performance has been?

**Gaurav Kumar:** If you look at it in an absolute number, the EBITDA has gone up. Both the production and sales is down. So, while I do not have the exact tonnage number, the fact is that the volumes were down 3.5% and production was also down in a similar trend.

**Chirag Shah**: What was the volume drop sequentially?

**Gaurav Kumar:** Sequentially, the volume decline is about 2%.

**Chirag Shah**: Assuming the mix stays where it is, can we expect the EBITDA per tonne number to sustain or you see incremental pressures coming in and the demand recovery does not happen?

**Gaurav Kumar:** As mentioned before, we will not get into a margin guidance discussion.

**Chirag Shah**: You just mentioned an interesting fact that the quality of Indian Rubber or Rubber produced in India is more suited to TBB Tyre and not TBR. Any particular reason for that because this is something very interesting that you are highlighting?

**Gaurav Kumar:** The principle reason is that a very large part of Indian Rubber is with small growers hence there is quality differential. In one part of the process, for processing the Natural Rubber, heat treatment, etc., is done in a manner where the Natural Rubber continues to pick up dirt and impurities. For example, in some cases it is just put out on the road to dry up. That results in the rubber sheet accumulating impurities which could cause a quality issue in the TBR product. And hence, for our TBR and for the industry, most of the Natural Rubber is imported. Hence the comment that I made earlier that the government continues to do nothing about TBB. The impact on the

Natural Rubber growers within the country would in fact be even greater than the Tyre industry.

**Chirag Shah**: You made a comment that the expansion at the Chennai plant will take care of your next three-four years demand at least if not more. Now, we always had this interaction that TBR is going to ramp up at a faster pace and we are sitting in a situation where there is a risk of overcapacity or underutilization for TBB and we are putting in new CAPEX, in a sense for our TBR. Has not the strategy would have been correct to look at the conversion of TBB capacity to TBR also earlier itself and that would have helped us in a sense in ensuring better utilization of asset?

**Gaurav Kumar:** That would be true, Chirag. The manufacturing and technology team look at the overall manufacturing blueprint, recognize as to how much of TBB capacities to be converted, what is additional TBR capacity and take that decision. It is also not a simple case of building blocks saying I can put it in one space versus the other, there are a whole lot of technology issues, manpower training issues, etc., which come into consideration.

**Ashutosh Tiwari**: What is the utilization level in the TBB segment as of now?

**Gaurav Kumar:** It would be about 70%.

**Ashutosh Tiwari**: Sir, you highlighted about 90% utilization level in the TBR segment. That is of 6,000 or that is of 5,600?

**Gaurav Kumar:** That is of 5,600. If there is a rated capacity, moment you put a certain product mix into it, which means you need size changes, etc., you do not get that rated capacity because you will lose a certain amount as you make SKU changes.

**Ashutosh Tiwari**: This 6,400 would come up by this year-end?

**Gaurav Kumar:** 6,400 would be in place by year-end. It will again increase gradually but by the end of this fiscal year we should be at close to 6,400.

**Ashutosh Tiwari**: You mentioned that roughly 65-66% of revenue comes from Truck and Bus, 17% from PCR. Exports would be how much?

**Gaurav Kumar:** This is including exports. When I gave the product wise revenue, they include domestic and exports. Whereas if you look at it channel wise, exports is 10%.

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

**Gaurav Kumar:** Thank you, everybody.