

India, May 11, 2011

Analyst / Investor Conference Call

4th Quarter & the Financial Year 2010-11

Bhushan Gajaria

Good afternoon and welcome you all to the Q4 FY11 earnings call of Apollo Tyres. Representing the management we have with us Gaurav Kumar, Group Head Corporate Strategy and Finance, Rakesh Dewan, Head, Accounts and Ritu Jain, Head Corporate Strategy. Without further ado I will hand over the floor to Gaurav for initial remarks.

Gaurav Kumar

Good afternoon everyone. Welcome to our earnings call. I'll begin with few brief highlights and then we can take the questions. On a consolidated basis the net sales for the quarter were at Rs 27 billion, up 27%. This comprised the volume gain of 12% and the balance 15% coming as a result of price and mix. The net profit at Rs 1.9 billion was 7%. On a full year level, the net sales was Rs 89 billion, up only 9%, though the growth for the 4th quarter was much more. This was a result of volume decline of 7% and an improvement on account of price and mix of 16%. The reason for volume decline was essentially coming out of the lock out and strike that were there in the Indian and South African operations earlier in the year.

We ended up with a total net debt figure of Rs 23 billion taking our net debt to equity at 0.9. One of the major highlights which we kept talking about has been the steep raw material price pressure, and this continued during the quarter with no easing up, particularly from the natural rubber front. There has also been upward movement on the crude oil front resulting in upward pressure on the crude-related raw materials.

Moving on two specific operations, the Indian operations had net sales of Rs 17.6 billion for the quarter, up 34% which comprised 14% from volume and the balance from price and mix. The operations had significantly lower tax rate for the quarter due to the higher depreciation coming out of the Chennai plant and the MAT credit. South African operations recovered to some extent with the operations being at full capacity throughout the quarter not impacted by any closures etc. and had sales of Rs 3.5 billion. and at a net profit level they were at 2% plus. Europe

continued with healthy margins, though both on a sequential and year-on-year basis they are down. You would remember that the same quarter last year had two benefits. One, a very severe winter which meant we were still selling winter tyres in January, February and March. And secondly, far lower material prices vis-à-vis the current quarter. Similarly, vis-à-vis the third quarter, because of the sales shift to summer tyres, the margins were lower. The sales number was high at Rs 6.2 billion, up 14%. However the net profit level dropped to under 5%.

There is also an element of a higher consolidated profit coming in which is not a simple addition of all the 3 operations, primarily due to accounting translation from IFRS to Indian GAAP, which is a notional entry and not a real profit and hence to that extent, the consolidated net profit for the quarter at 7% is higher by nearly Rs 900 million.

Moving on to the outlook -- it continues to be extremely challenging. There is no easing up from the natural rubber front. While it has been stable around this levels of Rs 230/kg, and once in a while comes down a little but the general expectation is that it would continue to be at these high levels. With crude levels at around \$100/barrel, the raw material pressure would continue. What is expected is that the levels that have been reached in the current quarter would probably maintain around this for the full year and hence there is an opportunity for companies to play the catch up game in terms of increasing prices. In India for example we announced a price increase on the radial product from April 1st. We have also taken price increase in the cross ply category in April and are going to be taking another round of price increases in May. We have also received some price increases with OEMs. The other 2 geographies also are looking at price increases to try and mitigate this raw material pressure to the extent possible. One of the other risks which we need to take into account is the slowdown in the OEM sales with rising interest rates in India. The April numbers for vehicle sales have been significantly below the trend and that is one aspect that could impact us.

The last point I would like to make for our Europe Operations is the Apollo Tyres introduction in Europe has been done fairly smoothly. In the latest test results that were carried out by two highly respected German magazines, Apollo has come out among the top performers and has been

in fact called as one of the rising stars in the brands that are aiming to play in the Europe market.

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

Chirag Shah,
Emkay Global

If you can share your tonnage sales as well as rubber cost and carbon black and NTC cost?

Gaurav Kumar

The total tonnage sale is about 419,000 tons for the entire year and for the quarter it is about 125,000 tons. Rubber prices for the quarter were about Rs 230/kg.

Chirag Shah

Is this for India Operations?

Gaurav Kumar

The rubber price is for India Operations. The European Operations and South Africa also would be at fairly similar level.

Chirag Shah

Carbon black and NTC?

Gaurav Kumar

Carbon black is at Rs 57/kg and tyre cord fabric is at Rs 225/kg.

Chirag Shah

I missed out on the April price hike point you highlighted?

Gaurav Kumar

We took a price hike of 5% in truck radial and 3% in passenger radial and 3% in cross ply category in April. We have announced a price hike of 5% in the bias product and are taking broadly across the range an 8% price hike with the OEMs. The effective date maybe 1st April or 1st May across different OEMs.

Chirag Shah

The first two price hikes in the replacement have been passed on?

Gaurav Kumar

That's right.

Chirag Shah

I have two questions on the results side. One is your staff cost, if I look at the consolidated level, it has gone down in absolute amount, be it YoY or be it QoQ. Can you throw some light over there? Is there any VRS scheme? Can you throw some light over there?

Gaurav Kumar

There is no VRS scheme, Chirag. As I mentioned the reduction that you are seeing in the number is more because of an accounting entry. When the

	Europe costs are translated into Indian GAAP, the gain in the pension fund as per the actuarial valuation is booked in the profit and loss, under staff cost, as required by the Indian GAAP, which however is not required by the IFRS. There is otherwise no reduction in the staff cost.
Chirag Shah	This Rs 900 million amount you indicated, it is completely lying in staff cost?
Gaurav Kumar	Not completely in staff cost, there would also be some impact on account of exchange rate fluctuation applicable on inventory valuation in both the overseas subsidiary, of approximately Rs 300 million.
Chirag Shah	So it is in raw material and staff cost broadly and there will be some miscellaneous items?
Gaurav Kumar	That's correct.
Chirag Shah	Tax rate also is lower. On the consolidated it is 8% only for the quarter?
Gaurav Kumar	Which is coming out of India operations because of the Chennai investment and the MAT credit that we had, the Indian operations had a significantly lower tax rate. There was lower tax rate in Europe as well in the 4 th quarter due to R&D benefit on new product development.
Jaibeer Sethi, CLSA	You mentioned a price hike in cross ply tyres. Has that already gone through or is that something which has been proposed at this stage and which has not yet been passed through the trade?
Gaurav Kumar	It is only proposed and yet to be passed through.
Jaibeer Sethi	The other was, during March in particular, there was a sharp dip in rubber prices and I know that some of your competitors had used that time frame to actually hedge your rubbers for the coming quarter. Could you throw some light on whether you had the opportunity to do that or not?
Gaurav Kumar	We have also taken advantage of that. I do know that our Purchase had booked some quantities in that week or 10 days when the prices had dipped. This would show up in the next quarter results. But there is of limitation as to how much you can book. We have maintained that we do

not play as of now at all in the hedging market which is really paper speculation. We restrict ourselves to strategic booking in advance of higher quantities. So we would have booked higher quantities but there is a restriction as to how much is actually available for booking.

Jaibeer Sethi Okay, so it was at best a few weeks of booking which might have happened in that period.

Gaurav Kumar Probably, yes. I would not have that estimate.

Jaibeer Sethi You mentioned that there are certain accounting adjustments within the European EBIT numbers. Could you give us sense as to what was the clean EBIT in that business?

Gaurav Kumar The clean EBIT would be about 6%.

Jaibeer Sethi So it was actually a bit down YoY.

Gaurav Kumar Essentially, as we have always maintained, last year was an exceptional year for the 2 quarters which was December and March.

Jaibeer Sethi So, this entire 900 million amount you mentioned, most of it would end up being in the European Operations?

Gaurav Kumar Yes.

Jinesh Gandhi, Motilal Oswal My question is on your European and South African businesses. Have we taken further price increases there?

Gaurav Kumar Yes, we are looking at announcing a 4% price increase in the European Operations and that is likely to come in June and similarly in South Africa we have announced an 8% price hike in April.

Jinesh Gandhi Okay, so with all this price hikes which you have taken in 3 key geographies, would it be sufficient to cover the raw material cost push which has been there, or to what extent our cost push would get covered by the price increases?

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- Gaurav Kumar** I would not want to give a margin guidance but the margins continue to be under pressure. I would not say that we have covered up for the entire raw material cost push. So all geographies would need to take up follow-up price increases if they have to maintain margins and that is being worked on actively in each geography.
- Jinesh Gandhi** And in terms of the volume outlook, on the OE front we are witnessing some slowdown in the volumes. How has been the demand on the replacement side? Are we seeing any signs of slowdown on replacement side as well?
- Gaurav Kumar** Immediately there are no signs of slowdown on the replacement side. You would also remember that replacement right through the 2nd half of last year, barring the last few months, had been much more sluggish compared to the OEM. In the short term, when OEM sales go through a slowdown, and if the economy is still doing okay, it actually always results in better replacement sales. So on a short-term basis there would not be a cause for concern. But if there is a prolonged slowdown on the OEM side, there may be an issue. If it is interest rate driven, then it is of lesser of concern to us because it shifts demand to the replacement side, but if it is due to economic slowdown than obviously it also translates into the replacement demand getting impacted.
- Jinesh Gandhi** Sure and lastly in terms of the CapEx, any changes in the CapEx line?
- Gaurav Kumar** No, changes in the CapEx plan. This year would essentially be completion of the Chennai project which would be about Rs 7 to 8 billion including the normal maintenance CapEx in the 3 operations. Next year it would only be maintenance CapEx.
- Jinesh Gandhi** Primarily in terms of your European revenues in this quarter, how much of that could be from Apollo branded tyres?
- Gaurav Kumar** Apollo tyre sales in Europe would just be about maybe 3% of the quarter sales of entire European Operations. Currently it is insignificant and the numbers would grow more than double next year but would still remain in single digits, in terms of percentage contribution to European revenues.
- Naga Deepika,**

Capital Market	What would be the quantum of price hike we took in FY11, and particularly in Q4?
Gaurav Kumar	In Indian operations, Q4 as compared to Q3, we have an average improvement in price realisation by about 4%, and for the full year the price improvement would be 17%.
Naga Deepika	Okay, and the European and South African operations?
Gaurav Kumar	South African operations we did not take any price increase in Q4, however on a full year basis the prices would be up by about 10%. For Europe sequentially comparison would not make sense because their whole product basket keeps changing from quarter to quarter. When it changes from summer to winter tyres, it really does not make too much of sense to look at the increase in realisations. For the full year, prices were up by 26%, but it would depend a lot on this whole product mix and hence would not make logical sense as it would for the other operations.
Naga Deepika	And coming back to the Indian operations, I would like to know how was the replacement demand in Q4? Going ahead what is the demand growth expected in the replacement market in Q1 FY12?
Gaurav Kumar	The market in FY11 compared to FY10 has been much softer. If I look at the industry figure, the growth in the truck tyre production was only 6%, whereas if you remember the previous year, it was a double-digit growth. Only in passenger cars the industry volumes have gone up by nearly 30%. We expect the car tyre demand to soften and truck tyre demand probably to improve a little to high single-digits as per current expectations.
Naga Deepika	Okay, that will be in the next year?
Gaurav Kumar	That is in the current financial year, which is ending March 2012.
Naga Deepika	Also if you could give an update on Chennai facility. What is the capacity at which it is running currently?
Gaurav Kumar	We entered the year with Chennai facility at about 150 metric tons per day capacity and during the course of this financial year, we would probably be ending close to 400 metric tons per day. So it is very much

going according to the plan and by the first quarter FY13 we would reach the current planned capacity of 450 metric tons per day.

Bharat Ganani,

Asit C Mehta

If I see the standalone numbers, the other income this quarter is Rs 170 million, significantly higher than the last quarter. Just wanted to understand the reasons for that?

Gaurav Kumar

There was some profit on sale of fixed assets which is purely a one-time gain and would not be a recurring items.

Mayur Millak,

Alchemy Shares

You mentioned the staff cost was not really down but there was pension revaluation. Could you give the amount relating to pension revaluation?

Gaurav Kumar

This would be about Rs 600 million.

Mayur Millak

What is your total employee strength?

Gaurav Kumar

About 16,000.

Mayur Millak

Any guidance on the rubber prices? Do you think this would be the peak or we could still see another round of hike?

Gaurav Kumar

The expectations which all the experts on rubber are predicting, and I would not say that we have any expertise here, is that this should be about the peak. And we have also seen in the last few months that it has been stable at around this level of Rs 230/kg, barring some small aberrations here or there.

Mayur Millak

Assuming if rubber continues to increase, do we see another price hike in the immediate future?

Gaurav Kumar

We would have to. We have still not covered up for the entire cost push on a sequential basis and in most of the cases our margins have dropped and we would definitely want to improve them. The challenge last year had been that while we were taking price increases, the raw material cost push was greater and at a faster pace. If raw material now stabilises, it will give us an opportunity to catch up and improve our margins and hence further price increases would definitely be considered. We also know that

some of our peers would face even greater pressure because of the kind of results they have declared in Q4 and hence continuation for them at the current levels would be a greater challenge, and there would be a general tendency to take price increases.

Vaishali Jaju,
Religare

Just one question on the trend in the industry. Last time you mentioned there was inventory build up on the CV replacement side. Can you just update on what is the status right now?

Gaurav Kumar

There is no inventory build-up in the current quarter. We have brought down the inventory in the Indian operations by about Rs 200 million. The inventories, I would not say are lower overall, but now the large chunk of higher inventory levels would be because of the higher price levels.

Vaishali Jaju

Utilisation level post the increase in capacity at Chennai plant and in Europe?

Gaurav Kumar

In India and Europe we continue to function at full capacity and even in South Africa we are back to 90%. So right now we have very little spare capacity. Whatever little capacity loss is there is more on account of product mix and SKU changes.

Saurabh Agarwal,
Equirus

I wanted to know the pricing action from competition?

Gaurav Kumar

The April price increases which were announced have been taken by MRF also and most of the industry took the radial prices increases. In the truck radial, the price increase was essentially led by Michelin. On the truck cross ply side we have taken the lead on price increases which is getting passed through in the coming weeks and we would hope with this kind of raw material pressure, competition would also follow suit.

Saurabh Agarwal

So it is not that in the last quarter our price increase was much lower than that of competition?

Gaurav Kumar

No absolutely not. We have taken price increases in line with competition. In the cross ply, as per the usual trends in the previous years, we have taken the lead on price increases.

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- Saurabh Agarwal** Going forward do we expect the employee cost to go back to normal levels as a percentage of sales?
- Gaurav Kumar** They would. As I mentioned that the figure that you see at a consolidated level is an aberration due to accounting standards and consolidation of the 3 geographies. On a normal level there was no change in the employee cost and they would remain at similar levels.
- Saurabh Agarwal** One last question, what kind of volume growth should we expect for European and South African businesses?
- Gaurav Kumar** European business we have increased our capacity for passenger car tyres from 5.2 to 6 million, the full impact of which will come in FY12. We expect a double-digit growth or higher for the South African operation given the fact that last year, nearly 3 months were lost due to various strikes and closures. And similarly for the Indian operations we would expect a much higher volume growth, given that Chennai plant capacity would increase from an average of 75 to 100 tons a day last year to about close to 300 tons in FY12. So Chennai by itself would provide a volume growth of 20% to 25%. The fact that one of the Kerela plants had a closure for three months, the volume growth should be upwards of 30% for Indian operations.
- Saurabh Agarwal** Would not radial sales cannibalise your cross ply tyre sales?
- Gaurav Kumar** As of now that is not happening. What is happening in the industry is that all the growth in the truck tyre segment is being taken up by radial. In terms of absolute numbers the cross ply demand is not declining. Once a certain level of radialisation is reached, that is when the real conversion would take place.
- Saurabh Agarwal** For FY11 what sales would be from cross ply tyre and how much would be from radial tyres?
- Gaurav Kumar** Radial sales would be about 25% to 30% and the balance would be cross ply.
- Mayur Bageria,
Wealth Managers** On the rubber side how do we manage the purchases? Is it on a long-term contract basis or is it more on a medium-term or more on a spot basis.

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- Gaurav Kumar** The Indian rubber market is all spot based. There are no long-term contracts which are available so there is only spot prices and spot booking of quantity. In the overseas market, predominantly South East Asia you can have up to quarterly price contracts. In some cases where we have gone directly to large producers, one can tie up quantities for a longer-term. But prices would again move at best on a quarterly basis. So there is no price fixation beyond a quarterly level.
- Mayur Bageria** In India when you say spot, both quantity and price are on a spot basis?
- Gaurav Kumar** Absolutely, because there is no large single owner or single company which is dealing in the product. It is a fragmented lot of farmers who sell to some cooperatives and hence one cannot book quantities in advance.
- Mayur Bageria** Last 4 years we have seen quite volatility in terms of margins. Do you see this situation changing, from the industry perspective? Some change where the industry is far more prudent in getting the supplies at a reasonable price. And then how do we tackle this situation on a slightly medium-term basis?
- Gaurav Kumar** I do not think we would be more inefficient than any of the global players in terms of procurement. Somebody may have an advantage over us because of sheer quantities being purchased are higher or logistics advantage for a particular raw material. So there is nothing much that we can do about raw material prices moving up, particularly if it is a commodity like natural rubber. The only way out for the industry is through price increases. The Indian industry dynamics have remained in a manner where price increases are taken in smaller lots unlike the Western world where the price increases are taken in much larger chunks.
- To be able to say how and where the industry dynamics would change, in the coming years, would be a difficult one. One welcome change that will happen is that with increasing radialisation, the key players in the segment would include the likes of Michelin and Bridgestone. And we have seen that globally, their price behaviour is far more rational. They tend to take price increases in larger chunks of 10% odd if it is warranted by the raw material cost push. We would hope that with the entry of some of these MNCs, while there would be competition, it would marginalise some

of the Indian players and the price behavior would start becoming more rational.

Mayur Bageria But then again, the consumers in India may be more price sensitive. So whether there will be scope for the same kind of price increase behaviour is a little difficult to say?

Gaurav Kumar One good part is that even as an individual or as an OEM, we do need tyres. If I have a car parked at my home and I need tyres, I would have to buy it, irrespective of the price levels if I want to move around in a car.

Mayur Bageria Does it not make sense to go for a backward integration whether in India or outside?

Gaurav Kumar There are possibilities of backward integration but the challenge is that it is a fairly capital intensive industry. At the end of the day capital is limited. So if we choose to go for backward integration in a significant manner, on our raw materials which apart from rubber are also industrial products and would require investment into full plant and machinery. It would probably mean giving up some opportunity of growth on the tyre front. And that is a call that we need to take. We are actively looking at possibilities on the natural rubber front which clearly has become a pain point (a) on the price front and (b) on availability given how demand has grown. We are definitely not looking to backward integrate any other raw material. Natural rubber is one where we are actively considering what we can do or even in terms of maybe a long-term tie-up with a rubber producer, where we tie-up our quantities. But all this would still be then open to price negotiations.

Mayur Bageria Can you give a broad breakup in percentage terms on how much would be passenger cars, OEM trucks and the replacement trucks?

Gaurav Kumar In FY11, of the total revenue of India Operations, 66% was replacement, 26% was OEM, both of these are domestic India and 8% was exports. From a product segment-wise truck was 61%, passenger car was 19%, light truck was 10% and the balance 10%.

Rajat Chandak,

ICICI Prudential	In the South African Operations, the impact of raw material price changes take place with a lag of a quarter?
Gaurav Kumar	That is correct. It comes with a lag of a quarter because they are sourcing, particularly natural rubber, entirely from Southeast Asia where, as I mentioned earlier, there are quarterly contracts.
Rajat Chandak	You mentioned that all the growth in the truck segment in India is taken away by the radial tyres. Is there some pressure in terms of pricing for the cross ply tyres?
Gaurav Kumar	There is no pressure because also there is no capacity getting added. The pressure would have come in if the market had started declining or there were capacity additions coming. However in the case of cross ply there is a fair bit of stability. There is no capacity being added and the demand is stable.
Nikhil Deshpande, PINC Research	Could you share what is the mix on replacement-to-OEM for the quarter?
Gaurav Kumar	For the quarter its 70% replacement and 30% OEM for India operations.
Nikhil Deshpande	What was the volume in tonnage sold in Q4 of FY10 and FY11?
Gaurav Kumar	In Q4, it was 110,000 tons for FY10 and 125,000 tons in FY11.
Saket G, UBS Securities.	Would you be kind enough to give me details on the MAT tax rate for Indian Operations please?
Rakesh Dewan	The overall tax rate on a consolidated basis is 8% for this quarter and 19% for the full year. We have a MAT credit this year because of Chennai plant.
Sangam Iyer, Alpha Accurate Advisors	Could you just give us the tax rate that we should expect for next year on a consolidated basis?

Gaurav Kumar	For the Indian operations it should be in the range of 20%. The other two operations would pay their full tax which is 30% for South Africa and 25% for Europe.
Sahil Kedia, Enam Securities	Last quarter our average cost of rubber was Rs 185/kg versus this quarter at 230. Is this for the standalone number that you had given or for the entire company?
Gaurav Kumar	Entire company. India should be more or less at a similar number.
Sahil Kedia	Because in your later comments you have mentioned that in the overseas operations the raw material prices actually come with one quarter lag. So I just wanted to kind of understand if there would be a large disparity between what India would have as a rubber cost versus some of the overseas companies?
Gaurav Kumar	In the last quarter no. But in some of the previous quarters that had been the case. You would remember that in the last quarter there has been no significant volatility, there has been a drop for a few days. But in general rubber prices have remained far more stable, though at much higher levels than desired. But in previous quarters there would be a difference in rubber prices between overseas operations and Indian operations.
Sahil Kedia	What was our cost of rubber for Q3 in the standalone operations?
Gaurav Kumar	In Q3 standalone it was at was around Rs 185/kg.
Sahil Kedia	So that is my question, if you are saying that now it has gone to 230 which is over a 20% increase, a 4% price increase seems to have yielded a very good set of results. I am just trying to understand how that has happened? Is it because of product mix change because mathematically it should have been a little more deeper cut if your cost has actually gone up by 20% on raw materials?
Gaurav Kumar	20% increase is only in rubber prices. Overall raw material basket has gone up by 10% sequentially.

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- Sahil Kedia** In all the volumes that we are going to be selling on the Apollo branded tyres in Europe, would that revenue be accounted for in Apollo Vredestein or in the standalone earnings as exports?
- Gaurav Kumar** It would get accounted in the Indian operations which would be sold at a transfer pricing to Europe and then Europe sells it to the final customer at whatever price. So in consolidated results, the inter company sales would get knocked out but would factor as sales in both India and Europe standalone operations.
- Sahil Kedia** Can you share with us the number of tyres exported to Europe operations?
- Gaurav Kumar** We have sold approximately 175,000 tyres in the past year.
- Sahil Kedia** Can you just tell us what was the mix of passenger cars in this quarter versus last quarter sales in your standalone business? Just to understand how much the mix has improved.
- Gaurav Kumar** This quarter it was 18%. I do not readily have the last quarter number but compared figure for Q4 of last year was 14%.
- Bhushan Gajaria** Gaurav, would you like to make any closing remarks.
- Gaurav Kumar** Nothing more from my side, Bhushan. Thank you.
- Bhushan Gajaria** Thanks a lot to Gaurav Kumar and all other participants.

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