India, May 15, 2014

Analyst / Investor Conference Call

Fourth Quarter and FY 2013-14

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**Aniket Mhatre:** Good evening 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 and Finance, Rakesh Dewan, Head, Accounts and Ritu Kumar, Head, Financial Planning and Control. I would now request Gaurav to begin with his initial comments on the results and then we can take over the question and answer session.

**Gaurav Kumar:** Good afternoon everybody and thanks for joining the call. Let me begin with the few broad comments and then we would jump into Q&A session.

On a consolidated basis, sales for the quarter were at Rs 32 billion with the growth of 6% compared to the same period last year. The EBITDA vis-à-vis last year continued to be higher at 14.4% compared to 11.9% for the same period last year. Principle reason again being with raw material prices and growth on the topline driving up the profitability improvement.

In terms of raw material, while they continued at fairly stable levels vis-à-vis Q4 of last year there was a slight movement up in terms of a few percentage points. On a mixed basis given the lack of demand in the OEM segment our replacement sales for full year went up to 79% vis-à-vis 76% last year and hence there was a product mix improvement also at an overall company level.

In terms of category wise for full year the truck tyres dropped from 48% to 45% and car tyres contribution in the overall mix went up from 35% to 37%. For the full year sales were at Rs 133 billion, grew by 4% over last year and the EBITDA margin were at 14.1% compared to 11.4% for last year. With capex being at relatively lower levels vis-à-vis last year, and strong cash flows, there was a significant reduction in leveraging, the net debt came down to Rs 9.6

billion compared to Rs 23 billion for last year. In terms of an outlook, while things are still slow in terms of demand from the Indian market there is expectation of demand pickup later in the year. Europe is showing signs of recovery and hence there should be a good demand coming through and we would be looking at a double-digit growth for our operations in the current year. With improvement in demand but still at a certain level we expect raw material prices to be moving up but in a certain narrow zone.

Moving on to a specific operations starting with India, for the Indian operations the sales for the quarter were just under Rs 22 billion up by 8% over last year, primarily coming through an increase in volume by 6%. Capacity utilisation continued to be at lower levels about 75% given the demand situation particularly from the OEMs. The EBITDA margin for the quarter was at 12.1% compared to 12.3% last year, one of the other factors contributing into EBITDA was the other operating income of Rs 175 million which is related to the Chennai VAT refund, we had a substantial amount in last quarter which was related to all prior period whereas the Rs 175 million relates only to this quarter.

For the full year sales at Rs 86 Billion were more or less flat, 1% growth over last year essentially driven by volumes and the EBITDA margin for the full year was at 12.8% compared to 10.6% last year.

The net debt reduced from Rs 19.5 billion to Rs 13 billion continuing to make the balance sheet strong. In terms of revenue segmentation from a 71% contribution of replacement market it went up to 76% primarily due to decline in the OEM demand and market share gains in the replacement market which further contributed to the profitability improvement. The truck share in the Indian operations fell a couple of percentage points to 64%. In terms of an outlook for the Indian operations we expect volumes to pickup later in the current financial year improving capacity utilization and revenue growth.

Moving on to Europe operations: sales for the quarter were at Rs 9.3 billion with a 8% growth over same period last year, driven by a volume growth of 13% and negated by 5% to the extent of price and mix. The EBITDA margin was at 17.3% as compared to 17.5% in the same quarter last year. For the full year sales at Rs 37 billion were up 8% compared to last year, again driven by a volume growth of 12%. The full year EBITDA margin was at 17.8%, slightly lower than last year but continuing at very healthy levels. Our European operations at the end of this year in fact have repaid all the term loans that were existing since the time of the acquisition and currently now have only a working capital borrowing. Today incidentally is the 5th Year Anniversary of our completion of acquisition of Europe and in that time period we have totally paid back the term loan that was there on the books.

Lastly moving on to the South African operations, which underwent a transaction in the current year on December 2, 2013, when we sold off the Ladysmith Plant which produces passenger car tyres and the Dunlop brand to SRI and hence sales vis-à-vis same period last year would not be comparable because of reduced operations. For the quarter the sales were at Rs 1.5 billion with an EBITDA margin of 3.6%. Over and above that there is substantial other income which is due to rental income coming in from SRI provision of certain IT services etc., and hence the net profit numbers in fact continues to be higher than even EBITDA and we are still positive with reduced operations.

For the full year the sales from South African operations were Rs 12.6 billion with a negative growth since the operations were not comparable. We would continue to look for additional customers to grow the South African business to improve the capacity utilisation of the Durban plant and are also in the process of introducing the Apollo brand in the South African and other African markets as we develop sales and marketing.

Over and above that in the current year we are now focusing on our operations in Middle East and Thailand for the ASEAN market as the growth markets and similarly focusing on the Brazil operations to grow the Latin American market.

Finally, a point we have been discussing with a number of you over the last few months, the board today gave us approval for going ahead with the Greenfield plant in Central Eastern Europe. The project size in fact is a scale one at Euro 500 Million which would look to setup a capacity of 16000 cars tyres per day and 3000 truck tyres per day. The plant would be expected to begin construction sometime in 2015 and then this investment would be made over a period of four years which would be funded totally out of internal accruals of Apollo Vredestein and debt taken on the books of Apollo Vredestein with no expected outflow of cash from the Indian operation.

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

**Amyn Pirani Deutsche Bank:** My first question is on the Greenfield expansion, can you clarify that this whole capacity will come at the end of four years but in the middle will you have any part capacity coming up or you will have this plant operation only at the end of four years?

**Gaurav Kumar:** As I mentioned, from the time of construction you could take at least 18 months to the rollout of first Tyre, so the first tyre would come out somewhere at the end of 2016 or may be the last quarter of FY 2017 and would then ramp up to reach the planned capacity. In terms of tonnage, this could be about 330 metric tonnes per day capacity which would be reached only somewhere in 2019.

**Amyn Pirani:** So this will not help you in any way in meeting your fiscal 2016 requirement as well?

**Gaurav Kumar:** That is correct.

**Amyn Pirani:** What is the capacity right now at Vredestein and how much can you increase it through Brownfield expansion?

**Gaurav Kumar:** The Vredestein capacity through FY 2014 was at overall 6.5 million tyres of which 6 million was passenger cars and then there is space master and agricultural tyres, through a capex undertaken last year that capacity has been increased to little short of 7 million so let us say about half a million increase in Vredestein. There is very a little scope of further Brownfield expansion at Vredestein and also if you are looking to set up a Greenfield it does not make sense to further expand capacity in Western Europe. For the next couple of years, the needs of the European operations would continue to be met from India which we are doing even currently, in the current fiscal year we expect to supply about a million car tyres from Indian operation to Europe and in a couple of years time the Indian capacity would be needed back for the Indian operations by which time the Greenfield would start meeting the needs of the Europe market.

**Amyn Pirani:** But bulk of it would be the Apollo branded tyres right or can you give any breakup between how much would be Apollo and how much would be Vredestein?

**Gaurav Kumar:** Bulk of it is Apollo brand, there is a small amount of Vredestein brand also manufactured in India but you are correct bulk of it is Apollo brand. The Greenfield also when it comes into operation will be manufacturing a mix of both Apollo and Vredestein brand.

**Amyn Pirani:** But say if there is a significant growth coming in from your specialty tyres or the Vredestein branded tyres in say in the next 12 months to 18 months can you increase production of the Vredestein branded tyres from your Apollo facility or is there a limit there as well?

**Gaurav Kumar:** There is no limitation, we can manufacture Vredestein branded Tyres in India, there is always a small lead time to get the necessary moulds etc.

**Amyn Pirani:** On the European operations, generally Q4 is seasonally weaker than the Q3 in terms of margin but obviously some reduction is expected but would you say that the reduction in margins this time around has been slightly more or are you okay with the margin trend, has the piping competition been higher than it was in the last quarter?

**Gaurav Kumar:** This year the drop is more than what was experienced last year that was a result of more winter tyre sales in the January to March quarter of last year so some bit of it is always a seasonality impact. The drop is not surprising this year given the extreme strong performance and if we look at over the years there is no surprising performance. For example in the Q4 of last year the EBITDA margin was 17.5% it is 17.3% this year so pretty much expected.

**Amyn Pirani:** Lastly on your tax rate, this time around for the Q4 specifically the tax in India as well as consolidated has been quite low so any particular reason for that?

**Rakesh Dewan:** For Indian operations this year, in the last quarter there was an impact of some additional depreciation claims, which was due to the capital investment beyond threshold of Rs 1000 million, as per the Income Tax Act this allows for an additional depreciation claim which has reduced the tax drastically for this quarter and overall for the year also. Tax rate for Indian operation is about 18% to 20%, which is one off phenomenon

**Amyn Pirani:** But going forward what kind of a broad number we look at?

**Rakesh Dewan:** The normal tax rate for India will remain around 28% to 30% only, further dependant on the capital investment exceeding the threshold investment as per Indian Income Tax Act, and accordingly there will be some reduction for next year also.

**Amyn Pirani:** For Europe around 25% or lower?

**Rakesh Dewan:** Europe is around 22% to 25%.

**Hardik Shah Birla Sunlife Insurance:** Regarding the Greenfield operation, what is the kind of debt that you will be looking at?

**Gaurav Kumar:** At this stage, it is difficult to give you a precise figure. The bulk of the funding would first come from the internal accruals of Apollo Vredestein because going forward over the next four years it will be only incurring maintenance capex. It was already doing a run rate of Euro 80 Million EBITDA last year, that would increase as we grow and all of the free cash flows from that operation would go towards the Greenfield and only the balance amount would be looked at as debt funding.

**Hardik Shah:** What would be the estimated capex for the consolidated level for 2015 and 2016 roughly?

**Gaurav Kumar:** Some of the project for the Indian operations is still being firmed up. On an immediate basis in terms of expected growth in the Indian market for the current fiscal year, we have sufficient capacities; however, on a medium term basis we would be looking to expand the Chennai Plant further on the truck radial capacity because we expect that in a few years time we would need higher capacity on truck radial for India and the other export market and secondly the continued conversion of the Kalamassery Plant into specialty tyres from the current product mix of truck and agricultural. I do not have that number, expected outflow would not be very high in FY 2015 but there would be a certain amount of capex addition in FY 2016 and that would be funded out of the Indian operations because it is being incurred there.

**Hardik Shah:** My last two question, one is about the capacity utilization in Europe what would it be?

**Gaurav Kumar:** Currently we are running at 90% plus in Europe.

**Hardik Shah:** Your capital employed for Indian operations have gone up, any particular reason for that?

**Gaurav Kumar:** There would be a certain amount of assets coming up. I do not have an immediate answer

**Nishit Jalan**

**Nomura Securities:** What kind of pricing action we have taken in the domestic market in both truck and car segment over the last quarter and this month?

**Gaurav Kumar:** As of now we have taken no pricing actions. There are off and on sales schemes which are there, sometimes a competitor may be taking discounting actions and we may react to that but in terms of any price changes taken up way or down way, there has been no change announced in the Indian market.

**Nishit Jalan:** I asked this question because generally on sequential basis we have seen rubber prices coming down but for the company if I look our RM to sales that has increased from 65% to 67.5% so what has led to that kind of an increase?

**Gaurav Kumar:** There would be a certain amount of inventory increase and also sequentially if I see raw material did not come down so while you may be seeing a decline in rubber prices for the overall raw material mix there has been no decline in the January to March quarter vis-à-vis last quarter.

**Nishit Jalan:** So that decline in rubber prices has been opted by some other commodity?

**Gaurav Kumar:** Yes overall for the year the prices have gone up for carbon black, tyre cord fabric which has offset the decline in the rubber prices.

**Nishit Jalan:** But we are seeing that even in the last one month there has been a further decline in a rubber prices so even do you think this has been offset or should we expect some improvement in margins going ahead?

**Gaurav Kumar:** I would not be able to give out margin guidance, neither do I have a visibility on the overall raw material prices for April and May, so really would be difficult for me to comment on your question.

**Nishit Jalan:** If I put it slightly differently, what was the average rubber cost last quarter and what is it currently?

**Gaurav Kumar:** Again I would not have an average rubber price currently because I get that input only on a more broader time basis, the average rubber price for the Q4 was Rs 175 per kg.

**Nishit Jalan:** And as compared to Q3 what was that?

**Gaurav Kumar:** Q3 was Rs 178 per kg.

**Nishit Jalan:** Even in rubber sequentially there has been no decline?

**Gaurav Kumar:** Sequentially there is a decline of Rs 3 per kg which has been offset by increase in some of the other raw materials.

**Ruchi Vora**

**UBS:** My first question is on your sales mix and what is the outlook like. Can you give me some color on India in terms of for FY 2014, what was the growth like in the replacement market some color on that, OEM and also a split between truck and car and going forward what is the kind of growth that we expect for the next two years? I know it will depend on lot of other external factors but what is your sense?

**Gaurav Kumar:** So let us start from your last question on expected growth. The expectation is that the current year would still see subdued growth, second half should see some demand growth coming back in the OEM segment and then in the future year, growth should be more or less back to historical levels. The replacement market has had decent growth. Based on our estimate for passenger car tyres the replacement market for car tyres grew by about 4% in FY 2014 so it was a positive and for truck it was positive to the extent of about 3%-odd so for both truck and car the replacement segment had the positive growth, we grew substantially more than the industry particularly in passenger car, we gained market share so we grew by nearly 20% in the replacement segment and in the truck segment overall for the full year we were up by about 5%.

**Ruchi Vora:** What is your expectation really in terms of the replacement market? I know OEM will depend a lot on the macro shapes at but on the replacement market what is your sense over the next two years?

**Gaurav Kumar:** Replacement demand should also come in at higher growth than the current numbers which have been with the subdued economy as economic activities, infrastructure projects we had taken up, but the upturn on the replacement side would not be as dramatic as the OEM, if you look at historical growth levels truck has been at about 6%-7% and the last year was at 3%, so that is the differential long-term versus one year. On the passenger car on the other side the historical growth levels have been about 10% versus a 4% last year.

**Ruchi Vora:** In terms of Europe, can you give us some more color on what is really happening with the market in terms of pricing and what is the sense on volume growth over the next few quarters?

**Gaurav Kumar:** In the last year, the European market grew by about 5% in volumes because the last few months came in very strong, first quarter particularly in Europe market has been up by 8% so the expectation is that Europe market will show a positive growth this year. Typically that number is around low-to-mid single digit which is a good scenario for them. In terms of specific quarter, we do not have any specific input if there would be variations within the quarter so I would say you could take it at mid single digit growth and we would continue to strive to outperform the market by a certain amount. This year the outperformance has been significant I would say it would be to some degree but not a 5% versus 15% that was the case in FY 2014.

**Ruchi Vora:** Correct and what is happening on the pricing, what is our sense on pricing going into the next year?

**Gaurav Kumar:** The pricing as we have repeatedly said has already come down so this year itself is in line with the industry, we had about a negative 5%-odd on the price mix, given that demand is coming back and raw materials are beginning to inch up we do not expect that competition would be taking any further pricing actions downwards.

**Ruchi Vora:** Just a quick touch upon what is your expectation on margin. I know it determined a lot by rubber prices but anything on fixed cost that you think you can up margins or what is your sense on the movement of rubber prices?

**Gaurav Kumar:** As we have repeatedly said we don’t give out a margin guidance, but there would not be any substantial change from an expenditure point of view as we currently stand in next year vis-à-vis current year. We will continue with our spends on brands which were increased in this year and that is with a very conscious aim to increase the corporate brand visibility across geographies with our partnership with Manchester United that would continue. We continue to focus strongly on R&D particularly as we want to make a bigger impact and entry into the European market so both from our R&D centers in India on the commercial vehicle side and passenger vehicle in Netherlands we would continue to focus as we go into new markets, so we do not expect any cuts in the other expenses in any manner.

**Ruchi Vora:** Just last question on the company's strategy, now that balance sheet has delivered meaningfully how do we look at growth at your Greenfield expansion in Europe, how do we look at growth in terms of geographies or in terms of more capacity expansion in India and could you also if you have that number handy touch upon what is the absolute capex outlook for FY 2015 and FY 2016?

**Gaurav Kumar:** In terms of other than the Greenfield the key market where we had setup sales and marketing offices, Brazil to address the Latam, Thailand market to address the ASEAN region and the Dubai office for Middle East will continue. All these three are sales and marketing operations which will seed off the current capacities. We would be looking at capacity expansion in India at the Chennai Plant as I mentioned. That is the project which is getting finalised, still not firmed up and secondly full conversion of the Kalamassery plant into other product categories, which is ongoing and that is where as of now I do not have a fix on the capex number because those projects are getting finalised. Our overall maintenance capex for all the three operations combined is about Rs 2 billion and you can expect that to continue. From a Greenfield perspective very small capex in FY 2015 because bulk of the year would go in getting the environmental approvals, the various permits and licenses may be a few Million Euro but in FY 2016 if things go as per plan, we could be looking at a capital spend in the Greenfield of close to Euro 200 Million Euro. On the India side, I still need to get numbers once the project plans are finalised.

**Ruchi Vora:** But we have fully funded to basically cater to growth for FY 2015 right and what is the lead time to a capacity expansion in India let us say if the market picks up over the next two years and can we also cover FY 2016 with a good double digit top line number with our existing capacity?

**Gaurav Kumar:** As I mentioned our current capacity utilisation in India and specifically even for Chennai plant which will cater to bulk of the growth is in mid-70s so if you take a high single digit growth this year and a double digit growth in FY 2016 we have enough capacity. If the growth comes back we would really need capacity for FY 2017 for which a lead time of 12 months is good enough.

**Ruchi Vora:** The way we should look at the next two years is basically depending on the volume growth pickup and probably a flat or no meaningful change in pricing and obviously a flattish kind of EBITDA margin so basically your volume growth and balance sheet delivering is what will lead to earning growth right, is this the correct way to look at your numbers?

**Gaurav Kumar:** That is correct. I would again not comment on any kind of margin guidance but yes on the topline with demand picking in we would expect that Indian operations would come back to growth though not at their historical level growth ranging from 15% to 20% and if things go as per expectations then FY 2016 would come in with that kind of a growth and start saturating the capacity that we have in India.

**Aditya Makharia**
**JP Morgan:** Just wanted a sense on the margins for the Q4 on the standalone side they are even lower than the Q2 if we see at 12% the EBITDA margin so just wanted some color on the same?

**Gaurav Kumar:** For the Indian operations, which is at 12% I will need to go back and check again for Q2 but if you look vis-à-vis last quarter they are at similar levels which is Q4 of last year and Q4 of the current year, on a sequential basis again there is improvement in margins if you take out the Chennai VAT refund matter. Last quarter we had a significant one time other operating income coming in. so if you take that out the EBITDA margin would be in fact higher in the current quarter vis-à-vis Q3.

**Aditya Makharia:** The rubber prices in the Q2 while I refer to because that time you were 13% and you know this quarter we are 12% and my sense is as compared to the Q2 obviously rubber prices are substantially lower so that is where I was just coming from?

**Gaurav Kumar:** Since then while the rubber prices have come up by nearly Rs 10 per kg but again they have been counter balanced by increases in steel cord, tyre cord fabric and carbon black so in terms of an overall raw material mix between second quarter which is the September quarter versus the March quarter raw material decline is just by Rs 1 per kg so less than a percent.

**Aditya Makharia:** So pricing for the industry is held up, I mean nobody has resorted to discounts or anything of that sort, nothing material?

**Gaurav Kumar:** Nothing material. There have been discounts offered by players at various times and those have put some pressure particularly from a volume perspective if everybody had held on maybe we could have sold more but overall we have gained market share so it is not as if we have lost out heavily due to one or two players resorting to discounts at a point of time.

**Aditya Makharia:** Just last question, what is the volume growth in Vredestein in this quarter?

**Gaurav Kumar:** 13%

**Basudeb Banerjee Quant Capital:** Just going through your standalone balance sheet we can see a significant chunk of cash flow generation incoming from current liabilities increasing substantially so can you highlight that aspect?

**Rakesh Dewan:** I will need to check that. I will get back with the details.

**Basudeb Banerjee:** Second thing Sir, as you would say every quarter what was the exact blended cost of nylon, carbon black and SBR this quarter?

**Gaurav Kumar:** So rubber for the current quarter as I mentioned earlier was at Rs 175 per kg, synthetic rubber at about Rs 130 per kg and tyre cord fabric at Rs 255 per kg, carbon black at Rs 87 per kg and steel cord at Rs 125 per kg.

**Basudeb Banerjee:** So broadly as per what you described today that FY 2016 will be a very capex intensive year both the 200 million of Euro Greenfield capex and by that time you said standalone utilisation might be reaching on the higher side so to cater to FY 2017 demand so one can expect this deleveraging spree to culminate in FY 2015 and again the debt burden can start increasing from FY 2016 will be that the right way to look at?

**Gaurav Kumar:** As of now yes on the current expectations we would need some borrowings in FY 2016, how much whether it would be a significant going up on debt etc., would also depend on the cash flows that are generated.

**Hardik Shah**
**Birla Sunlife**
**Insurance:** Could you share the expected debt. I know that you have not finalised the amount of debt but at a broad level what is the kind of gearing that you will be comfortable with for FY 2015 and FY 2016?

**Gaurav Kumar:** Internally from a debt equity perspective and that is something which is also looked at internationally a 1 or a 1.1 on a net debt equity is about a level where which they are allowed so we would want to be at levels of about let say 0.75 etc., which always leaves a cushion available for any unexpected downturn or any growth possibility that comes up so that is the kind of comfortable level and we know what sort of an upper limit. There is the other way of looking at it which is net debt to EBITDA which is more and more international lenders look at it and there typically the comfort zone ranges from 3.5 in an aggressive case to a 4 plus. If we are operating at below 3 it is a very comfortable level.

**Hardik Shah:** What is the kind of forex exposure that you are having and any MTM losses and hedging position?

**Gaurav Kumar:** In terms of any loan taken the European operations take a loan in Euro so there is no forex exposure there. For the Indian operations any loan taken in any foreign currency is immediately hedged so we do not have any exposure on regarding a borrowing vis-à-vis forex. There is a monthly operational foreign exposure with exports and imports and a call is taken on that on a monthly basis looking at the outlook. So our forex exposure is not really anything significant.

**Hardik Shah:** Any MTM losses?

**Gaurav Kumar:** There is a small gain on forex fluctuation in India.

**Hemang Kapasi**

**Canara Robecco:** What level of cash you will be holding at European subsidiary?

**Gaurav Kumar:** As of March we are holding Euro 6 Million of positive cash and actually zero debt as of March 31.

**Hemang Kapasi:** You would be retaining cash at European subsidiary right you would not be doing any dividend payouts to the parent or anything like that?

**Gaurav Kumar:** There have not been any dividend payout up to the parent because European operation has been funding some of the international growth as we have setup operations in other geographies, it also as I mentioned earlier repaid all its term loan and also expanded capacity in the last year and going forward it would be using its cash flows for the Green field operation.

**Hemang Kapasi:** Can you just give me one figure of what would be the free cash flow for the year in the European operation?

**Gaurav Kumar:** I do not have that number readily but at a very broad level the EBITDA for the European operation was about Euro 80 million, we had capex of about Euro 35 million for the current year, not a significant change on the working capital side and a very little of interest so there would be a positive cash flow of about Euro 40-45 million for the current year.

**Bharat Gianani**

**Reliance Securities:** Just wanted to know the standalone as well as the consolidated tonnage sold for the quarter as well as for the entire year?

**Gaurav Kumar:** We do not have that number because the overseas operations as per the international norms have their sales in unit and in India while we can do the tonnage so that's the number that no longer makes sense.

**Bharat Gianani:** If you can share the standalone tonnage that would be fine for 4Q as well as for FY 2015?

**Gaurav Kumar:** We have stopped sharing that for now a number of quarters so unfortunately I cannot share that.

**Jasdeep Walia**

**Kotak Securities:** What is the gross debt number as on year end consol including whatever short-term debt comes under current liabilities?

**Gaurav Kumar:** The consolidated gross debt is Rs 16.1 billion.

**Jasdeep Walia:** Could you talk about volume trends Y-o-Y in India in the Q4 and any change in mix that you would have noticed in Q4 versus last year or quarter-on-quarter?

**Gaurav Kumar:** Volume in the Q4 vis-à-vis same period last year grew by 6%. Last year replacement was 73% it is 76% in this quarter so 3% point additional in the replacement segment vis-à-vis OE. In terms of product category pretty much same no change vis-à-vis truck, car etc., or anything.

**Jasdeep Walia:** I missed your opening remarks so where this new plant coming up?

**Gaurav Kumar:** The final country decision is still to be taken because we are negotiating with the respective governments on the level of state aid under the EU norm. The two shortlisted countries are Hungary and Slovakia and we have a site in each of these places. The final decision on the exact site would be taken through.

**Jasdeep Walia:** So Thailand is out?

**Gaurav Kumar:** In the sense the Thailand plant was always for catering to a different market the ASEAN region. We have decided we would first cater to the European market given the kind of growth we are having and capacity needed, the ASEAN Greenfield will follow and difficult for me to comment on a timing for that.

**Jasdeep Walia:** So this new plant, which is coming up will manufacture truck tyres also or it is only car tyres?

**Gaurav Kumar:** Now the project is for both car tyres and truck tyres. The initial phase would be 16000 car tyres a day and 3000 truck tyres a day.

**Jasdeep Walia:** What would be the ultimate scale?

**Gaurav Kumar:** We have taken up a land on which we can expand this capacity to three times the current capacity so in its ultimate stage we could set up a plant of 900 tonnes per day.

**Jasdeep Walia:** So this breakup you have given me for 330 MT per day?

**Gaurav Kumar:** Right now what I have given you is 330 tonnes.

**Chirag Shah Edelweiss:** I was just looking at your commodity cost index. Can we assume that most of the benefits of the rubber prices are in or how it will pan out over next three quarters?

**Gaurav Kumar:** As I mentioned earlier I do not have what is the final average price for rubber for the company in April. It is lower than the number which was there in the previous quarter but finally the overall raw materials price depends on five or six key raw materials, the buying time etc., if I just look at that simple analysis there is some sort of small raw material benefit on account of rubber but the expectation on an overall raw material sense is that it would only go up in the current year vis-à-vis FY 2014.

**Chirag Shah:** But at least for next two quarters we can expect the basket is still favorable on a Y-o-Y basis at least if not on Q-o-Q basis?

**Gaurav Kumar:** It is more or less similar. I do not think the numbers are lower than previous year.

**Chirag Shah:** Second question was on India business. You highlighted that your mix has improved for both OEM to replacement mix as well as passenger car to commercial vehicle mix despite that if we look at your margins they are still not great in that sense the way the mix has panned out for you so what can be the reason for that higher discounting or how should one look at it?

**Gaurav Kumar:** You also have to take into account the fact that we were operating at the 75% capacity utilisation.

**Chirag Shah:** But that would be the case for almost full year in that sense right if I have to look at entire full year you would be in that vicinity, give or take one or two percentage points?

**Gaurav Kumar:** So that negates to a certain extent the mix advantage that we are talking about.

**Chirag Shah:** When things revive even if the mix gets adverse for you the question was that if the revival happened then the mix gets adverse for you, how will your margin profile play out assuming the other things remain constant?

**Gaurav Kumar:** Difficult for me to comment but yes when the demand revives typically the OEM demand should revive more than the replacement and to that extent the mix would turn a little adverse but utilisation would start playing in positively, I really cannot give a number as to how that would pan out going forward

**Chirag Shah:** The second was on Vredestein so beyond this kind of capacity increase 7 million there is no further scope of doing debottlenecking or any of that sort? That is a right way of looking at it?

**Gaurav Kumar:** Yes, in an overall capacity sense Vredestein capacity cannot be further expanded.

**Chirag Shah:** How do you see the market for Vredestein evolving because I was slightly surprised when you were saying that you were shipping more of Apollo brand and not necessary Vredestein brand so can we make an assumption that in the locations where you present in Europe the market share were Vredestein is today is largely it has achieved its potential there could be some minute gains every year but the large part of the reach has been covered in that way is it the right way of looking at it?

**Gaurav Kumar:** I would not say so, when we acquired this company five years back it had a capacity of 5 million tyres. Today we are taking the capacity up to 6.5 million where bulk of the production is Vredestein brand and some small Apollo brand so over a five year period we are expanding the capacity to 30%. The Greenfield continues to envisage that it will be a mix of Apollo and Vredestein brand so Apollo and Vredestein brand will continue to grow but will the Greenfield do only Vredestein kind brand, no.

**Chirag Shah:** Any thought on what could be the mix or it is not yet decided and second is generally are the Apollo tyres size and Vredestein tyre size are interchangeable on a particular lines you can actually make both of them or you will need to have separate lines because the size and the composition mix?

**Gaurav Kumar:** The production lines whether at Europe or India are capable of doing either brand.

**Chirag Shah:** But there could be some efficiency loss, suppose if we switch from one particular brand to other brands or no there is no significant efficiency loss also?

**Gaurav Kumar:** There is a small efficiency loss. The more brands, the more SKU you have yes, the reason for introducing the Apollo brand in Europe is a conscious strategy because the two play at different price points so we cannot achieve the kind of volume growth with only Vredestein brand that we can achieve with a dual brand strategy and that is something that is followed by every global major. The likes of Michelin, Continental etc., they do not sell in one brand alone.

**Chirag Shah:** What could be the pricing difference between the two brands?

**Gaurav Kumar:** It ranges from 10% to 15%.

**Aniket Mhatre:** On behalf of Standard Chartered Securities, I would like to thank the senior management team of Apollo Tyres for taking their time out for the call. Thank you to all the participants for being there on the call.

**Gaurav Kumar:** Thanks everybody