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India, May 12 2015

Analyst / Investor Conference Call

Fourth Quarter & FY 2014-15

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**Amyr Pirani:** Good Evening, everyone and welcome to the Post Results Conference Call of Apollo Tyres. I would like to start the call by congratulating Mr. Gaurav Kumar for his appointment as the CFO. Apart from Mr. Gaurav Kumar, from the management team we have Ms. Suzanne Johnson-Walsh – Manager, Investor Relations and Ms. Swati Taori – Divisional Head, Accounts. I would now request Gaurav to begin with his initial comments on the results and then we can start the question-and-answer session.

**Gaurav Kumar:** Thank you, Amyr and thanks for the congratulations also. Good Afternoon, everyone. As usual, we would begin with our opening remarks and then we would hand over for the questions.

On a consolidated basis, the sales for the quarter were at Rs.31 billion, lower by 4% over the same period last year. This essentially was the impact of South Africa operations as we continue to restructure and wind down the same and some impact through the currency devaluation in terms of the European revenue. The EBITDA margin for the current quarter continue to improve at Rs.5.2 billion, it was at 16.7% compared to 14.4% same period last year. Raw materials continue to fall and came down by 8% vis-à-vis the third quarter. We believe that we are seeing the bottoming out of raw material prices and from here onwards we would probably see a slight increase now in the coming quarters. In terms of revenue segmentation, three-quarters of the revenue were from Replacement market and about one-fourth from the OE. On a product category wise, Truck revenues contributed at 48% and Passenger Car at 35% essentially these two categories on a consistent basis contributed to (+80%) of the revenue. For the full year, the revenue were at Rs.127.3 billion had again a de-growth of 4%, primarily with the same South Africa impact where year-on-year basis, the total revenue fell by Rs.8 billion and the impact of Euro devaluation. The

EBITDA margin for the full year was at Rs.19.3 billion at 15.2%, up by more than a percentage point compared to last year. With the significant increase in profitability and limited capex investment, the net debt continue to come down; compared to last quarter figure of Rs.4.6 billion the net debt at the end of this quarter was at Rs.4.1 billion.

Moving over to specific operations: For the Indian operations, the sales for the quarter at Rs. 22.4 billion, were up by 2%. Volume impact of 5% offset 3% to that extent by price and mix. The EBITDA margin for the quarter continue to improve from 12% last year, the number for this quarter was at 16.8%. For the full year, sales at nearly Rs. 89 million, were up 3% over last year, again about a 5% volume positive impact led by price and mix, and the EBITDA margin for the full year was at 14.8% compared to 12.8% last year. The net debt for the Indian operations came down from Rs.10.5 billion to Rs.7.9 billion. One of the major factors which we have discussed with all of you as we met you, which is, that the Chinese TBR imports continues to be a factor. Over the full year, we see that the Chinese TBR imports increasing by nearly 35% vis-à-vis last year, particularly, the impact has been pronounced in the last two quarters. They continue to have a significant market share of the TBR Replacement segment, though overall the numbers for the Truck segment is still small and that is a solution the industry is still finding the right thing in terms of dealing with the Chinese dumping.

Moving on to the European Operations: Europe has shown signs of recovery. There is increase in new vehicle registrations and also small increases in the Replacement market; however, pricing continues to be under pressure. Sales for the quarter at Rs.8.9 million were down 4%. While we had a volume growth of 21% there was a negative price and mix impact of 7%. So in Euro terms, the revenue grew by 14%; however, year-on-year, the currency impact of 18% meant that the rupees number was down by 4%. EBITDA margin was at 15% compared to (+17.3%) for last year. And one significant factor contributing into this was liquidation of inventory of winter tyres, which was a result of the poor winter last quarter. For the full year, the sales number for the European operations little short of Rs.36 billion was

down 4% compared to last year. The volumes grew by 6% and almost negated completely by price and mix; however, the currency devaluation of 4% was the factor contribution to the top line decline. Overall, with the last quarter margins for the full year, the EBITDA margin was at 17% compared to 17.8% for the last year, a small decline.

South Africa operations, which were over time becoming immaterial vis-à-vis the consolidated operations, are now in final stages of being restructured. We have a small team based in South Africa, which is essentially now like some of our other geographies, essentially a trading team. Both in India and Europe, we continue to reduce inventories leading to also gains vis-à-vis the working capital debt.

In terms of capacity utilization, in India, we were a little lower than 80% capacity utilization and Europe also we took production cuts in the last quarter to bring down the overall utilization levels to just below 90%

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

**Jay Kale**

**Elara Capital:**

My first question was regarding the customs duty increase for Natural Rubber from 20% to 25%. Have you all taken any pricing reaction to this in the market?

**Gaurav Kumar:**

Given where the raw materials are, while the duty increase on Natural Rubber is not desirable for us and further increase the inverted duty structure, there has been no price increase taken as of now, it will impact the Domestic Rubber prices to a certain extent and will start reflecting in future, but as of now the industry has not taken any price increase.

**Jay Kale:**

What would be your import stand in Natural Rubber and your domestic procurement, will that see a shift after the traction?

**Gaurav Kumar:**

The purchasing teams will again relook at the price equation with the increase in duty, but given that there is a shortage of Natural Rubber in the country, we are now sourcing majority of our requirement from overseas

even for the Indian operations. And if needed, that number can even go up further.

**Jay Kale:** My second question was regarding your RM to sales and your consolidated operations. That has seen a significant jump on a sequential basis. For the fourth quarter it is around Rs.17.6 billion total RM cost and Rs.31.1 billion is the sales. So could you just throw some light on that?

**Gaurav Kumar:** We will have to get back to you,

**Basudeb Banerjee**

**Antique Finance:** I missed out at standalone level you said. How much was the volume-price mix for the revenue growth?

**Gaurav Kumar:** On a standalone for this quarter the volumes grew by 5% and offset 2% by price and mix.

**Basudeb Banerjee:** So what was the quantum of price one should assume it is in the OEMs and the CV buyers or the price cuts were in Car Replacement also?

**Gaurav Kumar:** There was no price cut in the Car Replacement with OEs it is formula-linked, so some part of it passes on naturally and there would be certain discounts which would be passed on as part of the business, there is no price cut which has been announced in the segment.

**Basudeb Banerjee:** Every quarter you mention the landed price of the major commodity on a Synthetic Rubber, Carbon Black, etc.,?

**Gaurav Kumar:** On per kg basis natural Rubber was Rs.130; Synthetic Rubber was Rs.120; Fabric Rs.270, Carbon Black Rs.75.

**Basudeb Banerjee:** Major drop in CB was there on a sequential basis?

**Gaurav Kumar:** That is correct, both Synthetic Rubber and Carbon Black dropped significantly.

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- Basudeb Banerjee:** Your capex plans, the last quarter whatever it is because any changes to that as such?
- Gaurav Kumar:** No changes to the capex plan, the Chennai expansion is underway. We are still on the drawing board vis-à-vis in terms of finalizing the plan for the Truck Bias capacity conversion. There would be significant capex coming out of that, but that is still getting firmed up.
- Basudeb Banerjee:** So out of 500 TPD capacity in Chennai, your TBR capacity in Chennai is close to around 200 MT?
- Gaurav Kumar:** TBR capacity in Chennai is close to 350 MT per day.
- Basudeb Banerjee:** As far as recent media article, you said you are planning to expand the TBR capacity in Chennai?
- Gaurav Kumar:** That is right.
- Basudeb Banerjee:** So what is the present utilization of that 350 MT?
- Gaurav Kumar:** For the TBR capacity, our utilization is almost close to 90%, that is why the decision taken to expand the Truck Radial capacity.
- Basudeb Banerjee:** So broadly if the Chinese incursion of these TBRs as you said is not the case, then you might have been running at full utilization?
- Gaurav Kumar:** On the Truck Radial side, there is nothing much that we have left in terms of capacity, where the Chinese Radials are impacting is more on the truck cross ply because their selling prices are in fact lower than Indian Truck Cross Ply. So, they are impacting the utilization of the Truck Cross Ply to a certain extent and not Truck Radials.
- Ashutosh Tiwari**
- Equirus:** You mentioned that in the current quarter in Europe basically you sold off some inventory of winter tyres, and because of that the margin was lower. So what is roughly impact of that selling in the margins?

- Gaurav Kumar:** What has been done is because one is nearing the end of the winter season and otherwise one would have to carry that inventory right till the second half of next year, so there are wholesalers who would pick up those tyres at lower prices, we took the view that it would be better to liquidate that inventory rather than holding on to those tyres for two or three quarters. That is the reason that margins have been lower than the historical levels for this quarter.
- Ashutosh Tiwari:** So, you think that the margin shall again increase in the next quarter?
- Gaurav Kumar:** We do not give out guidance on margins, but yes, this was more a one-time phenomena.
- Ashutosh Tiwari:** And the employee cost also in the subsidiaries are lower in the current quarter, if I do consolidated minus standalone, it had declined from last year as well as the third quarter. So partly could the impact of South Africa operations also, but what is the major thing over there?
- Gaurav Kumar:** South Africa is one thing and as I mentioned we did also took some production cuts in Europe, some of the people there are kept on a temporary basis, while a very large part of it is permanent people, but based on production levels, the numbers can come slightly down but the biggest contributor to that is South Africa.
- Ashutosh Tiwari:** If I look at the consolidated related tax outgoings and deduct from the standalone figures, the subsidiaries tax was negative?
- Swati Taori :** Yes actually the tax rate in Europe has reduced because there is a concept of fiscal unit, the end of the year end we usually do these tax adjustments because of which the tax rate comes down, and the most important reason is that on the basis of advice received from tax consultant, the view which has come is that we would be able to carry forward the losses which we have suffered in South Africa, which we were not doing until the last quarter. So we created a deferred tax asset on that part, and that is what has led to a reduction in tax numbers so far as consolidated is concerned.

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- Ashutosh Tiwari:** Going ahead the tax rate would be normalized, at what level in Europe?
- Gaurav Kumar:** Typically, the tax level in Europe has been high-teens or about 20%.
- Ashutosh Tiwari:** If I look at the other expenses standalone, they have gone up on a QoQ basis. So what is the reason behind that because the sales level is hardly 6% increase versus last quarter? Is it because the discounts being offered are in other expenses, is that the reason?
- Gaurav Kumar:** These are discounts also and certain corporate charges which is the result of setting up of global operations, which are charged to operations all across.
- Sonal Gupta**
- UBS Securities:** Again coming back to the employee cost question, because we see almost like a Rs.1 billion drop quarter-on-quarter, I understand there could be some translation impact because of the Euro depreciation plus you said some production cut, but in South Africa there was an exceptional charge taken up of almost Rs 0.8 billion last quarter, so was there still some employee cost included in Q3 numbers because of South Africa?
- Gaurav Kumar:** For Q3, we would have had normal employee charge which is for two months and over and above that at end November, beginning December we paid out the retrenchment package which was reflected as the exceptional item, whereas for the current quarter, there would no employee charge in the South Africa operations. So, on a like-to-like basis, there is a clear removal of two months of employee charges in South Africa, which were there in last quarter and are not there in this quarter.
- Sonal Gupta:** I am just trying to get that were there any other one-offs which have depressed this number because it seems quite a big drop?
- Gaurav Kumar:** There are no one-offs there.

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- Sonal Gupta:** Again just wanted to clarify on what you mentioned that the Chinese imports have impacted truck cross ply in India and not TBR, so is that the case because I heard that Truck Cross Ply already have antidumping duty ?
- Gaurav Kumar:** There is no antidumping duty on Truck Cross Ply, the antidumping was on Truck Radial, which has gone now. So the prices at which the Chinese TBR comes in is below the prices of the Truck Cross Ply, which we are selling. So essentially, the customer looks at it as a choice of making Chinese Truck Radial instead of the Indian Truck Cross Ply. We have not seen any impact on our utilizations of Truck Radial capacities in spite of the growth in imports on the Chinese side.
- Sonal Gupta:** Could you remind us because you talked about the SKU duty structure, so Natural Rubber is at 25% import duty and what is the import duty on Tyres?
- Gaurav Kumar:** 10% is the maximum and if you take into accounts some of the other geographies it is at 7-8%.
- Sonal Gupta:** Where are you in terms of your Truck Bias capacity utilization now?
- Gaurav Kumar:** We are at about somewhere at the 80% mark.
- Sonal Gupta:** But you still have not really firmed up your plans on how to convert this going forward?
- Gaurav Kumar:** It has not been firmed up because it needs an overall holistic plan, there is no benefit in taking a very quick decision in converting some small capacity, it needs to be part of an overall plan, we have three plants which have Truck Cross Ply capacities, only Chennai is completely Radial and hence it is an overall decision of the speed of conversion, and also, which plant would be converted.
- Sonal Gupta:** The EBITDA margin for Europe this quarter?
- Gaurav Kumar:** It was 15%.

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**Amyr Pirani**

**Deutsche:** Gaurav, you mention that Chinese TBR imports this year has gone up by something like 35%. Could you give us the number as to how much the TBR overall market itself would have grown this year?

**Gaurav Kumar:** The TBR market estimate of growth is 30% Domestic.

**Amyr Pirani:** So it is not as if the Chinese imports are taking away a large share, would that be a correct assessment?

**Gaurav Kumar:** That is the correct assessment, overall, the differential in growth is 30% versus 35% which is not a huge number, the growth is more rapid in the last two quarters, and again, we saw a very big jump in the third quarter, fourth quarter for example compared to third quarter, the growth has been only 8%.

**Amyr Pirani:** For the Chinese imports or for TBR as a whole?

**Gaurav Kumar:** January to March quarter, TBR imports vis-à-vis October to December quarter saw 8% growth.

**Amyr Pirani:** And you mention that as of now these are mostly impacting the Cross Ply, but speaking to your customers on the operator side, do you get a sense that even they could start using them or what has your experience been in the past regarding this?

**Gaurav Kumar:** Right now, there is a differential in quality and given that they come in at prices which are below TBB, an operator who is convinced of the radial advantage sees merit in using them, and to a certain extent it may accelerate the pace of radialization which as of now is at about 35%, which would then start meaning that the plan for conversion has to be accelerated, still to early to say, also the industry is working on how to calculate through the antidumping and extra routes and that factor also has to be taken into account and watched for in the next coming quarters.

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- Amyr Pirani:** As of now, have you seen any movement from the government or any communication on that or nothing has happened so far on the antidumping duty side?
- Gaurav Kumar:** As of now, nothing has happened, it is being taken up, the whole preparation of the application, and submission also takes a certain amount of time. It is being worked on and it is more in a preparation stage right now than saying that it is with the government and it is being considered.
- Amyr Pirani:** On Europe we have seen an improvement in OEM demand but are you seeing any of that moving down to Replacement or is it too early?
- Gaurav Kumar:** It is as of now too early, the first quarter of 2015 which is the quarter gone by, has seen positive growth on the Replacement side, but still small numbers, whereas the revival in OE as of now is stronger.
- Jatin**
- Credit Suisse:** And is it fair to assume that this volume growth is also a function of the large liquidation that you have done underlying volume growth, steady state would be a lot lower?
- Gaurav Kumar:** That is correct.
- Jatin:** On the China TBR, are there any Chinese Cross Ply imports also that are happening or it is only just TBR as of now?
- Gaurav Kumar:** Only TBR.
- Jatin:** I think you mention but just wanted to confirm it, you have not seen any increase in import levels from the December quarter levels, it is broadly at those levels right now?
- Gaurav Kumar:** Yes single digit increase.

- Jatin:** And why would that be the case, because given that there is such a large price differentials, would you expect gradually more and more people to move towards it or is the quality differential sufficiently large and you do not see the market share of the Chinese Radials increasing significantly from current levels?
- Gaurav Kumar:** Your first part of the question as to why had that price differential they do not see through the market, it is a combination of factors which is quality being right at the forefront, but also more importantly, the customer service aspect, the Chinese model mostly has been that they would come through with those prices, sell it to a few large players but unlike where a company would focus on a certain market as a focus market, put in resources to engage with the customer, those kind of efforts are not undertaken, which means you would always be able to service some markets closer to the port with some large importers. So it is a combination of a quality customer service etc., aspect that leads to a certain limited penetration.
- Jatin:** Is distribution also a challenge right now for them, can they work on that?
- Gaurav Kumar:** They can work on that but it is a reasonably large country with a number of retailers, distributors being a very large number, unlike the western model which is why the Chinese focus on those markets first, you can tie up with a few wholesalers and you can do deals of a million tyres, and then that wholesaler has his own network to distribute, there is nothing like that possible in India, and hence to a certain extent that places a fair bit of constraint in terms of the penetration of the Chinese Tyres in that segment.
- Jatin:** And have you seen the branded players also starting to shift their Tyre imports from Europe to Chinese, is that also a factor in the increase in the China imports?
- Gaurav Kumar:** So what is happening in some of the other markets is the likes of Michelin or Continental are also focusing on their low-end brand. In developed markets, particularly, Tyre players operate through multiple brands and while they would have a brand at the top level, they would have 2-3 brands also

competing at various levels. So in some cases they may take more aggressive price cuts on their lowest brand to compete with the Chinese Tyres while not impacting the prices at their top end.

**Jatin:** No, my question was at one point in time Michelin was importing a lot of it, what they used to supply in India. So is the China import increase also a function of a Michelin shifting from let us say Europe to China given that that is feasible now, earlier that was not feasible?

**Gaurav Kumar:** No, Michelin, if anything in fact would have shifted from imports from China, probably Thailand to domestic, because their plant has begun operations.

**Jatin:** No, I meant somebody like a Michelin, you have now Yokohama, for example, which is getting aggressive in India, basically, I am saying a branded player rather than Chinese?

**Gaurav Kumar:** In the TBR side, a very large portion of the imports is what we would call Chinese, Chinese, the lesser-known brands, it is only on the Car Tyre side that the large part of imports are the well-known brands.

**Disha Seth**

**Anvil:** I just wanted to know that how is the Replacement in TBR and PCR grown in Indian operations by what growth rate?

**Gaurav Kumar:** In terms of our estimate, the Truck Replacement market grew by about 5% and the OEM by about high-teens which resulted in the overall Truck market growing somewhere between 6% to 7%, the TBR market on the other hand grew by 30% and a negative growth on the Truck Cross Ply for the full year.

**Disha Seth:** And in TBR, what is our market share compared to others?

**Gaurav Kumar:** In TBR, we estimate our market share to be between 26% and 27%.

**Disha Seth:** And you will be the first one or JK?

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- Gaurav Kumar:** We do not have an estimate of JK's market share and that data is no longer available publicly, we believe our capacity is larger than JK, but we do not have market share of the other peers.
- Disha Seth:** Total capacity of Truck Tyres how much will be like capacity of TBR as a percentage?
- Gaurav Kumar:** Again, the capacity data of other players is not available for us, we have a Truck Cross Ply capacity of 10,000 Tyres per day and Truck Radial capacity of about 5500 Tyres per day, about close to 1/3<sup>rd</sup> of our Truck capacity is Radial.
- Disha Seth:** And in case of like your competitors you believe that compared to JK you have the highest market share and MRF would be more into Cross Ply or Radial?
- Gaurav Kumar:** MRF also has a sizeable radial capacity and as I mentioned before we do not have the capacity estimates of various players.
- Disha Seth:** And going forward, how are we going to deal with the Cross Ply, are we selling out at low prices and how is the situation going forward?
- Gaurav Kumar:** We have taken some price cuts in the Truck Cross Ply. That is with the resultant decline in market, some bit of pressure from the Chinese Tyres but a small price reduction of 2 to 3%. What the future will unfold we will not sell at prices below levels, it does not make sense from an overall profitability perspective or return perspective. As I mentioned earlier we are on the drawing board to look at plans for conversion of Truck Cross Ply capacity into other product segments and that is something we would look to finalize in near future.
- Disha Seth:** And the mentioned market share of 26-27% in TBR would be in Replacement?
- Gaurav Kumar:** That is overall domestic which is Replacement plus OEM.

**Aditya Sundaram**

**Edelweiss:** if you would just help me understand on the European side, I was just looking at our numbers, I do not know if you mentioned this initially but I see the sales degrowth happening it is about a 20% decline we have done like Rs.8.5 billion of sales in Europe as opposed to about say I think it is in about Rs.10-odd-billion plus in the same time last year, could you help me understand that please how is the Replacement happening on the PCR side there in Europe?

**Gaurav Kumar:** So the European sales in rupee terms is down 4% while the volume was up 20% there was a price and mix impact of 7%. So in Euro terms the top line was up 14%; however, there was a negative exchange rate impact of 18% year-on-year for the 4<sup>th</sup> quarter, which led to the 4% decline in top line.

**Aditya Sundaram:** And how do we see the Replacement picking up there because as I have noticed that the PCR segment OEM side is doing really well right now, what basically if you could help me understand the Replacement life of a tyre, is it like 5-years, 6-years the same thing as here, or is it rather quicker there?

**Gaurav Kumar:** It is much quicker there, typical replacement life of a tyre in Europe would be about 2-years.

**Aditya Sundaram:** I understand we have slightly smaller market share right now but how do we see that improving going forward and what are our strategies for that?

**Gaurav Kumar:** We continue to gain market share though it's still in single digit and you are right that we are a small player, we would continue to push through a dual brand strategy backed up by spends on advertisement promotion, marketing and also R&D. So it is essentially continuously supporting two things, which are R&D and marketing efforts, to gain market share, yet even in 4 to 5-years time with our Hungary plant being utilized fully, the gain in market share would still be single digit if the expected scenario is to fold out with the size of the European market.

**Aditya Sundaram:** But how do we see that going forward, how do we really increase at this point in time this is all we can do that is we can just be a little more

aggressive on our visibility side that is what we are looking at currently based on the dual brand strategy?

**Gaurav Kumar:** Neither do we have the kind of capacities to let us say move from a 2 point something market share to a 4%. That would mean let us say next year an additional Tyres of about 6-7 million, we do not have that kind of capacity, and we will not abandon the Indian market and divert our capacities to Europe. Hungary plant would also come up gradually. So we will continue to work towards that and also any large jump in volumes if one attempts to do they would invariably be accompanied by some knock on prices, which we would not want to take.

**Aditya Sundaram:** In the Domestic side, have we made price cuts or are these mostly discounts that we are offering across the segments and to compete with the Chinese tyres?

**Gaurav Kumar:** It is a combination of both; we have taken price cuts particularly in the Truck Cross Ply side in December and that has continued through this quarter, similarly, we took some price cuts in the other Cross Ply segments, the rest has been discounting.

**Aditya Sundaram:** Would you be able to share the average discount that you are currently doing may be an absolute number?

**Gaurav Kumar:** That number keeps changing, so I do not have a fixed number as to where that level is.

**Rahul Kumar:** Out of the total sales what is the percentage of Bias and the Radial part if you can segregate?

**Gaurav Kumar:** For India operations 52% of the India revenue is Cross Ply and 48% is Radial.

**Rahul Kumar:** So it is evenly matched, even if we take the European part, there will be a higher on the Radial side?

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- Gaurav Kumar:** Europe would be almost completely Radial they do have a small proportion of Cross Ply, so let us say about 90% Radial and 10% Cross Ply.
- Rahul Kumar:** Two questions: If you could elaborate concluding the Chennai plant which we are setting up, where are the other facilities located for our Indian operations?
- Gaurav Kumar:** We have a plant in near Baroda, have two plants in Kerala in Cochin and the Chennai plant.
- Rahul Kumar:** Considering the thrust of Government of India on the 'Make in India' initiative, because you were talking about the inverted duty structure, how prudent would be more for tyre manufacturer to put up capacity in the country if the duty structure does not get corrected, how well it is the thought of the government for 'Make in India' with respect to the tyre industry growth, if the structure is not getting corrected?
- Gaurav Kumar:** The inverted duty structure worsening is a disappointment for us, which was already significantly inverted even earlier. The Indian market is our home market and a very important market for us. We will continue to maintain and enhance our position and at each stage when we needed additional capacity, an economic analysis would be done as to which is the best place for serving that market. It is difficult for me to comment as to what is the right place to put it up.
- Rahul Kumar:** Since we are the best player in the industry, after the fall out of the Cooper deal, now considering the current conditions in the country and outside also, are we looking out for some additional buyout or getting some quick capacity from prospective seller in the market, anything in the buyout are we looking out for something?
- Gaurav Kumar:** Right now, the focus of the company is setting up the European Greenfield and significant amount of human and capital resources are being focused on, there is no acquisition opportunity which seems to be available in the Tyre industry as of now, it is not something that one can really plan for.

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- Rahul Kumar:** I am dwelling on the point because we heard in the media and the paper also some one-off player is a seller of a capacity in the Laksar Unit I am not getting the name of the player right now, but does it suit our criteria also, can we be a good match for them, as we have a good capacity in the Bus and Radial segment?
- Gaurav Kumar:** If the transaction comes up as a possibility, we will assess if it is the good fit or not, as of now we are not working on any transactions.
- Rahul Kumar:** We have not evaluated it as of now?
- Gaurav Kumar:** We are not evaluating any transaction right now, yes.
- Arjun Khanna**
- Principal Mutual :** My question is on your capex going forward, could you fill us in on what you expect to spend in FY 16 & 17?
- Gaurav Kumar:** FY 16-17 combined is Rs.15 billion on the Chennai expansion that is something we are going ahead, take into account about Rs.1 odd billion maintenance capex each year, so another Rs.2 billion. As I mentioned the plan for conversion of truck cross ply are being looked at.
- Arjun Khanna:** You had mentioned earlier roughly Rs.5 billion, does that stand?
- Gaurav Kumar:** Rs.5 billion is for conversion of smaller plants into the Specialty Tyre segment that is also now being looked at in light of an overall Truck Cross Ply conversion, so the number will probably be higher when we look at the entire capacity. Will it all get spent on Specialty Tyres or will it get distributed into other product segment is not yet firmed up. We do not have a fix on it yet, but I would tend to think that over this two-year timeframe, we would be spending more than Rs.5 billion on the capex. On the European side to FY16 & 17 apart from maintenance capex at the Dutch Plant, we should be spending close to €250 odd million towards the Greenfield, again that schedule can vary with the terms finalized with the equipment supplies, etc., but €250 million is a reasonable ballpark number.

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- Arjun Khanna:** What would be our rough maintenance capex at the Dutch unit?
- Gaurav Kumar:** Dutch Unit the maintenance capex ranges between €15 to 20 million, so let us say another Rs.1 billion a year.
- Arjun Khanna:** In terms of expansion, are we looking at the Two Wheelers segment also?
- Gaurav Kumar:** Yes, we are looking at that segment carefully, we do not have a decision as yet, whether we would get into the segment or not.
- Arjun Khanna:** There were also press reports of our so-called alliance with Beijing Auto. Would you care to comment?
- Gaurav Kumar:** Those press reports were highly premature. We keep looking at various opportunities for growth and as of now there is nothing concrete on that report.
- Arjun Khanna:** European operations, we talked about the R&D set up. Could you tell us how much would be our annual expense for R&D a year?
- Gaurav Kumar:** Arjun, the total spend on R&D is about 1.5% of sales, but that is the consolidated spends which includes the R&D spend in the R&D centre in Chennai which is for Commercial Tyre and in Netherlands which is for Passenger Vehicles.
- Arjun Khanna:** If we would look at the mix, would it be predominantly towards the Dutch unit since I would assume expenses would be higher there?
- Gaurav Kumar:** Fair assumption, yes, if you look at passenger sales and the spend there, it would probably be a higher percentage compared to India.
- Arjun Khanna:** In terms of apportionment, would it be fair to say that the standalone also has part of these expenses because there would be a portion to the standalone?
- Gaurav Kumar:** That is correct.

- Arjun Khanna:** If we look at this number, say, a couple of years back, what would be R&D as a percentage of sales?
- Gaurav Kumar:** A few years back, our R&D has a percentage to the sales used to be less than 1%, we in fact had identified it as one of the areas where we were spending less compared to the global benchmarks which had typically (+2%) if we look at the global Tyre companies. So the increase in spends is a factor of two considerations – one, we realize that we need to spend more, and also as we went out into various markets and competing with global major, the spend also had to go up and then we were operating in now fairly sophisticated markets like Europe.
- Arjun Khanna:** We have been looking at participating in OEM tenders for PVs in Europe. Any successes till date?
- Gaurav Kumar:** We have been shortlisted by Volkswagen for example for their new platforms, which will rollout from post 2017. We will initially look to begin supplies from India, but ultimately the objective would be to supply to OEMs from the Hungary plant and dialogue is on with various OEMs, but it is a process that till the plant starts commercial operational, they go through an audit of that. It is a business, which will come in only at least a couple of years down the line post beginning of the Hungary operations.
- Arjun Khanna:** Just on the pricing trends in CV Tyres, if you could just break it up between Bias and Radials? Bias you did mention raw mat prices are being passed on, but incrementally given that your outlook on raw material is a fall from here, do you see further scope of cutting prices?
- Gaurav Kumar:** It is a factor of industry dynamics and not just individually what we can decide. Given the trends and the fact that raw materials will begin to move up, it is unlikely that we would see price cuts.
- Arjun Khanna:** What was the Radial segment?

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- Gaurav Kumar:** Radial, we have not taken any price cuts and again we would see similar raw material cost increases. So similar trend; we would not be looking on to pass on any price cuts there.
- Arjun Khanna:** If raw material prices do move up in terms of crude and other derivatives, do we see taking price hikes in the Radial segment?
- Gaurav Kumar:** It will again depend on the quantum of raw material cost push and again how the industry dynamics plays out. One would like to increase prices even if there is a small increase, but it has to be seen in context of the overall industry reaction.
- Arjun Khanna:** You had given numbers for Fabric say roughly Rs.270 and Carbon Black Rs.75. As on date today, have those prices moved up from last quarter?
- Gaurav Kumar:** I would need to check the broad expectation given was that this quarter we should see raw material increases of 1% to 2%.
- Jasdeep Walia**  
**Kotak Securities:** There has been a restatement of your third quarter numbers in the fourth quarter release. So if I look at the sales in the European region for the third quarter in the fourth quarter release, it is Rs 8.6 billion versus around Rs 10.45 billion in the third quarter release. So can you just elaborate what kind of changes has been done in the reporting structure?
- Swati Taori:** Actually, our segment what we were calling Europe earlier, we used to include a lot of non-operating subsidiaries in Europe in certain other subsidiaries in other geographies, which were all coming as a part of Europe segment. So this time with this restructuring we have ensured that we are including operating subsidiaries and only Europe we are considering and no other subsidiaries which were based outside Europe.
- Jasdeep Walia:** Has the change been done for third quarter of FY14 also or that FY14 numbers for European region are being reported under the old format?

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- Swati Taori:** Actually, this change is done for all comparative periods, so the change is incorporated in all the periods, which are published.
- Jasdeep Walia:** Because when Gaurav gave this sales growth numbers for Europe in rupee terms, I believe he said that the sales are down some 4%, but if I look at the report numbers, the degrowth is much larger?
- Swati Taori:** It is not only sales that we report there, it is other revenue, other operating income also which gets reported, so that is why the difference.
- Gaurav Kumar:** The numbers that I give out is the operating Dutch entity, which is the Tyre business. Earlier, the numbers that you are talking about because under the European holding company, we had operations in Thailand, Middle East, Brazil, etc., all of it used to get reported as Europe, because the ultimate holding company was in Europe, and that had caused confusion in some set of numbers because the Europe operating numbers and what were getting reported in segmental, it was pointed out on the call itself was causing a confusion, which is why they have been separated between Europe and others.
- Jasdeep Walia:** Now this depreciation of Euro, though it is causing short-term problems because your rupee revenues are going down YoY. Actually it will be very positive in the long term for your European operations. Could you quantify the kind of benefits you can derive on the cost front on account of depreciation of Europe? Does it improve your competitive positioning in Europe meaningfully?
- Gaurav Kumar:** It does improve the competitive ability. Short-term apart from the translation knock that we take there is some element of cost pressure, because some raw materials are dollar-denominated, but the exposure in terms of currency is miniscule, it does make Europe competitive vis-à-vis any other imports coming in, and also at a certain level starts opening up possibilities to look at addressing the US market in a bigger way and that is something that we would look at given the size of the US market. At these level of exchange rates, the European operations can start looking at U.S.

market given that overtime we would also have the Hungary operations coming on-stream.

**Jasdeep Walia:** The currency in Hungary also is depreciating as much as Euro, is it benchmark to Euro?

**Gaurav Kumar:** It is not benchmarked to Europe, it is based on market sources. Over the last six months or so where we have been in Hungary, it appreciated slightly but not significantly so it used to be about 310 to a Euro, now it is at about 300.

**Jasdeep Walia:** Could there be meaningful improvement in your margins going forward because of this depreciation of Euro?

**Gaurav Kumar:** We would not want to give out margin guidance and that is a combination of whole lot of different factors.

**Jasdeep Walia:** I think dividend has been increased this year significantly. Could you just elaborate on what will be the policy with regard to dividend payments going forward?

**Gaurav Kumar:** Board took into consideration the performance of this year and also how the global tyre companies have been looking at dividend payouts and this is something that had been raised with us by a number of investors and hence the board decide to move the dividend payout to more towards the international norm, and that is the reason for a significant increase in the dividend payout this year.

**Jasdeep Walia:** So the ratio of dividends to net profit, which is there for this year, will be continued in future years also?

**Gaurav Kumar:** There is nothing like a fixed number, it is a combination of performance of that year balance sheet cash flow position, and more importantly, also the plans that company immediately has for the next year in terms of investment needs. Considering all of that the dividend payout was increased substantially this year, there is nothing like a fix to say that this number is hard coded.

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- Jasdeep Walia:** Other income has been negative this quarter. Can you elaborate on the reasons behind the same?
- Gaurav Kumar:** Essentially, two reasons contributing into it -- one was FOREX fluctuation and the second one was mark-to-market of certain investments that was done.
- Jasdeep Walia:** Investments into what kind of instruments?
- Gaurav Kumar:** Essentially, money market instruments.
- Nikhil Deshpande**
- Share Khan:** You had earlier given a timeline of May 16 for your Chennai expansion. Are we on track or is there any change to that?
- Gaurav Kumar:** It would be slightly later, we placed certain orders little later, as we wanted to be sure on the recovery. We expect that increased capacity to come on stream about a quarter later, instead of May 16, it would be September 16.
- Nikhil Deshpande:** What capacity would be coming on stream in Chennai?
- Gaurav Kumar:** During our capacity increase, it is difficult to give a number on day one and then next month, it grows up, over a span of about three quarters that the capacity would ramp up fully; so starting from September-'16 by mid-2017, we would have expanded the TBR capacity by that 50% which is being planned. But it is difficult to give a capacity on a monthly basis.
- Nikhil Deshpande:** So it is approximately about 170-200 TPD?
- Gaurav Kumar:** It is roughly, yes, about 170-180 TPD.
- Nikhil Deshpande:** How do you see the growth in the Truck Replacement segment currently and what has been the trend in the last quarter?
- Gaurav Kumar:** I do not have the number for last quarter readily. Overall finally for the full year aided by the OEM, the growth number has ended up at a decent level

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which is a little under 7%, we have not seen any significant pick up this year which would indicate that the number would change, but if it is around 6% to 7% mark, that is okay, though expectations is that there would be a revival this year and the number should go up, but right now we still have to see the evidence of that.

**Amyr Pirani:**

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