

India, January 29, 2010

Analyst / Investor Conference Call

Third Quarter of Financial Year 2009-10

Ramnath

Subramaniam:

Good afternoon to all of you. On behalf of IDFC-SSKI Securities, I welcome you to the Apollo Tyres Q3 post results conference call. I take this opportunity to welcome Mr Gaurav Kumar, Ms Ritu Jain, and Mr Rakesh Dewan on behalf of the company. Gaurav, can you please start off with the brief presentation and we can start the question and answer session after that. Over to you Gaurav. Thanks.

Gaurav Kumar:

Good afternoon. I will give a brief overview of the results and then we can take the questions. The reported consolidated quarterly revenue is at Rs 23 billion which is up 108% over the corresponding period of the last year, out of which the bulk came from inorganic growth which is 62% and balance from volume. EBITDA margin is at 16.8% and the net profit for the quarter is Rs 1.9 billion at 8.2%. For YTD which is nine months, the revenues total up to ~ Rs 60 billion and the growth which is at 62%, comprises 39% from inorganic, 18% from volume, and 5% from price. On a consolidated nine months, we have net profit at Rs 3.9 billion at 6.5%.

Now, coming to specific operations, we will start with the Indian Operations. The Indian Operations continue to have strong demand and the healthy sign was that truck OEMs showed definite strong demand. This coupled with strong replacement demand resulted in good numbers. The revenue for the quarter is at Rs 13.2 billion, which is 58% of the overall revenue, up 47% over the corresponding period of last year and is entirely coming from volume growth. The EBITDA margin is 15.5%, and the net profit for the quarter at Rs 1 billion at 7.7%.

What we faced as a challenge in the quarter was raw material prices going up by about 10% sequentially and that pressure is likely to continue in the current quarter, which is the January to March quarter where raw material costs would probably be up by another ~15%.

In South Africa, there has been some revival in the economy after three quarters of negative GDP. The GDP growth turned positive by 1%. The revenues of the South Africa Operations for the quarter is Rs 2.9 billion comprising 13% of the overall revenues, up 45% over the corresponding period of last year and the bulk of it is coming from volume growth. The EBITDA margin is at ~ 11% and the net profit at 5%. On YTD basis, South Africa Operations recorded revenues of Rs 8.3 billion, EBITDA margin of 9% and net profit margin of 3%.

The European Operation has recorded very strong results, and this was aided to a large degree by the seasonality factor because of our strength in winter tyres. Traditionally, October to December quarter for the European Operations is a good one. We were further positively impacted by the fact that the winter was extremely strong and has been a lengthy one in Europe resulting in increased sale of winter tyres. For example, the market for winter tyres in Europe was up by 15%. Compared to that Apollo Vredestein sold nearly 25% extra winter tyres. This resulted in the revenue

for the quarter being Rs 6.8 billion with an EBITDA margin of 22% and the net profit of 10%. On YTD basis, which is 7.5 months, the European operations have revenue of Rs. 14.3 billion, EBITDA margin of 16%, and a net profit of 5%.

One figure which we were not able to disclose earlier because of certain regulatory constraints is the net debt in Apollo Vredestein books which as of December 2009 is Rs 4.7 billion resulting in a total consolidated net debt for Apollo at Rs 13.7 billion.

The work on the Chennai plant continues as planned and we expect it to start commercial production towards the first quarter of the new financial year. It would start with production of passenger car tyres and then subsequently truck and bus radial tyres.

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

- Bhagyesh, HDFC:** Could you just quantify the raw material prices for us in Q3, means rubber, carbon black and other raw materials per kg?
- Gaurav Kumar:** Average price for rubber was Rs 113/ kg, tyre cord was Rs 190/ kg and carbon black was Rs 50/ kg. The overall raw material cost was Rs 98/ kg.
- Bhagyesh:** Was there any earlier lower cost inventory?
- Gaurav Kumar:** There would have been some inventory carried from the previous quarter. That is something which would be very difficult for me to estimate as to what was the actual buying price. This is the actual consumption price for the raw material mix for the quarter.
- Bhagyesh:** Okay and what would be your margin strategy for Q4 in the domestic business because rubber is almost at Rs134 to 140/ kg and we have taken a price hike. Can you throw more light on this?
- Gaurav Kumar:** We have taken a price hike of 5% in the replacement market. And we are looking for another price hike in the OEM of also 5%. Given that the OEM price hike in the previous quarter was in December, so for the current quarter it would be an almost 10% price hike. That would negate some of the raw material cost push, but not entirely. We would then look at further cost control measures and in exports also we are increasing prices to try and negate the raw material cost push as much as possible.
- Ashish, Sharekhan:** Just wanted to understand what kind of pricing power do we have currently? The demand remains very robust but what kind of price increases can we take in the OEM segment going ahead?
- Gaurav Kumar:** Well as mentioned earlier, we have taken one round of 5% price hike and the second one is being discussed. If raw material prices continues to go up or remains at this level, we would need another round of price hike. But I think the a ability to leverage, to a large extent, would depend on the demand-supply scenario which if it remains where it is today, then the pricing power is there with the industry. But if the demand starts coming down or supply increases, then that would be a different story altogether.

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- Ashish:** What is the outlook on demand then? What kind of volume growth do we see going ahead?
- Gaurav Kumar:** In OEM, actually there was no slowdown in the car segment. The slowdown was in the truck segment where the numbers are significantly up and we are talking about truck sales or production at the earlier high levels of 2007. Replacement is continuing at an earlier level. It may not see the kind of strong growth which was there in the first half due to the base effect. We are expecting a high single-digit growth in the replacement segment. But overall, demand-supply would continue to remain very tight in favor of the industry.
- Ashish:** What is the tonnage for this quarter in terms of the volume?
- Gaurav Kumar:** The tonnage sales for India Operations is 87,000 tonnes.
- Ashish:** How are the international operations looking? Seasonally for Apollo Vredestein this was a good quarter, but what kind of growth do we expect in those operations going ahead considering the economic scenario there?
- Gaurav Kumar:** There are positive signs of economic recovery in Europe. Simultaneously, some of economic outlooks are cautioning of a double dip recession. So, one cannot be completely sure. The European market has traditionally had a growth rate of anywhere from 1% to 2%. It has never had the growth rate that Indian or Chinese markets have seen. One would normally expect any European operations to typically have growth rate in mid-single digits at best, that is on account of inflation and some volume increases. In Apollo Vredestein we would accelerate some of it with supplemental volumes from South Africa, but that would take some time.
- Ashish:** Okay, fine, and how is the scene in South African Operations?
- Gaurav Kumar:** South African Operations is witnessing an economic revival. If we look at the last five years scenario, out of which three years have been with us, we have had a topline growth of 7%. Next year, we may have a flat or a single digit growth depending on how the economy is. But in general, we would expect about a high single digit to a 10% growth on the topline.
- Ashish:** What would be the stable state margins for the European and South African Operations in the next year?
- Gaurav Kumar:** Stable state margins for European Operations would be around the 13% mark. For South Africa, it would be 12%.
- Ashish:** So is this what we are expecting in the next year because I think raw material prices world over would be showing a similar trend?
- Gaurav Kumar:** Difficult to predict whether the margins would be what stable state is. It would depend on the demand scenario, raw material costs and a whole host of factors. We can only state what our stable margins have been and that attempts would always be there to at least be at those levels.
- Ashish:** Fine and finally on the Indian capex, what capacity is the Chennai plant going to start production with?
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- Gaurav Kumar:** Capacity for this year is going to be negligible because as I mentioned the production will start towards end of March. Next year, we would expect a capacity of ~ 100 tonnes/ day on an average for the full year.
- Chirag Shah,
Emkay Global:** My question was pertaining to the South African and European business. How are you seeing the pricing power over there and what are the general industry utilisation levels? Would be helpful if you could throw some light.
- Gaurav Kumar:** We would not have so much of information on utilisation levels in Europe given the large number of players, but they have in general had problems because two large players -- Michelin and Continental -- have actually stopped operations in their home countries. Michelin has shut a plant in France and Continental attempted to do that in Germany but was not successful due to political pressure. South Africa, we know that some of the competitors are operating their plants for five days a week. And we have also very recently in the current quarter, gone up from the five or six days to seven days. So, utilisations were definitely lower in the South African industry too.
- Chirag Shah:** So, raw material concern is an issue that you may face in your international businesses?
- Gaurav Kumar:** Raw material pressure would be there in all operations because all the raw materials are very much international commodities and prices across regions are very much the same. There may be only a time lag between the impact in one geography versus the other, based on their individual stocking norms.
- Chirag Shah:** But in India, you were able to pass them on to some extent, but are there price hikes happening in South African and European markets too? Have you observed that as a trend, or can you say that prices would be passed on to the extent possible?
- Gaurav Kumar:** South Africa, till now, there has been very little price increase given the low demand scenario. The only one who has talked of a price increase as of now is Goodyear from April 1st, but they have not talked of any quantum. So, one will have to wait and watch as to how the industry scenario develops.
- Chirag Shah:** And in Europe?
- Gaurav Kumar:** Europe is a difficult call to take because of the size of our operations. We are not really the market leader or the price leader. It will be a call, once one sees the policy taken by some of the larger players. We will also have to take into account the fact that the increase in natural rubber prices would hit Europe typically with a lag of a quarter, unlike India. So, we would take the big hit on raw material prices towards the end of this quarter. Therefore some of these pricing actions, which were very relevant for India in the current quarter itself becomes more relevant for the overseas operations towards the end of this quarter or the next.
- Chirag Shah:** So, is it right that the raw material pressure in the European Operations will start happening from next quarter, that is Q1 FY11?
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- Gaurav Kumar:** Typically the kind of raw material pressure that we have faced in the third quarter in India, though not an exact one, would come into Europe in the January to March quarter. And what we are seeing in January to March quarter in India is something that Europe would typically face in the April to June quarter.
- Chirag Shah:** Could you also share tonnage sold data at your South African and European business, is it possible?
- Gaurav Kumar:** As per the international norms, they don't talk in terms of tonnages but in terms of units. To give you an idea, in European Operations, the quantum of passenger car tyres which is the real bulk of their business, is about 5.2 million for the calendar year 2009, compared to the previous year's 5.1 million. So, in a market which is down slightly, we have managed to maintain volumes.
- Chirag Shah:** To maintain their volumes. So, they must have gained market share.
- Gaurav Kumar:** They have gained market share slightly, but what is more important is that they have gained market share in winter tyres. And hence the profitability is better than last year.
- Chirag Shah:** Okay. Second question was on your interest cost. If I observe, it has gone up Q-o-Q, from Rs126 million to Rs 211 million. What I understand is that you are capitalising some of the interest cost because of your ongoing capex programmes?
- Gaurav Kumar:** That is right. Some of the capitalisation was done in the previous quarter. And that is now beginning to come into normal operations and hence the interest cost is higher.
- Chirag Shah:** What would be your average cost of interest?
- Rakesh Dewan:** ~10%.
- Chirag Shah:** Your other expenses seems to be on the lower side as compared to last quarter.
- Gaurav Kumar:** The big reason for that is that because of the strong demand, while we did not take much of a price increase, some of the sales incentive schemes that were out in the market were withdrawn or reduced, resulting in a big reduction in other expenses.
- Chirag Shah:** So, is it that the discounts or incentives that you offer, you book it in other expenses. It is not reduced from net sales?
- Gaurav Kumar:** These are not discount. The discounts are netted off from sales, but these are incentive schemes. For example, turnover-linked incentives which gets booked in other expenses.
- Chirag Shah:** Last question, is it because JK was facing strike at one of its plants for truck and bus segment, that you were able to garner a larger market share and hence your tonnage volume is slightly inflated? Is it a right assumption to make or how should one look at it?

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- Gaurav Kumar:** We do not think there has been a significant impact of this. We have been operating at peak capacity all through the year.
- Mahantesh Sabarad, Centrum:** Good afternoon Gaurav, very good results, and I also noticed from the breakup that you gave your Apollo Vredestein operations have been doing wonderfully well. You did mention about winter tyres forming a large chunk of the sales, but then the 22% EBITDA margin in Apollo Vredestein seems to be an abnormally high number. Am I right to say that and it will taper off soon?
- Gaurav Kumar:** As a quarterly trend, yes. Apollo-Vredestein's best quarter always is the December quarter. That is because these operations are rated number one on their winter tyres in continental Europe, resulting in strong winter tyre sales and better margins. And since the sale of these tyres begins from September onwards, the second best quarter is September. Both sale numbers and profitability would definitely come down in the March and June quarters, which has been the trend.
- Mahantesh Sabarad:** You did mention and gave an indication that raw material cost would be up 15% for you when you look at your Indian Operations sequentially from December to the March quarter, and you have taken some pricing action to negate part of that effect. So, what could it be for Apollo Vredestein going forward from a December to March quarter?
- Gaurav Kumar:** We still need to do some work around that because given that the whole set of tyres that are manufactured changes completely. The recipe cost and other costs would alter dramatically. So, a difficult one for us to predict immediately, but one would expect that raw material costs would go up by the mid-single digit.
- Mahantesh Sabarad:** And you have no pricing action to resort to ward off that increase in raw materials?
- Gaurav Kumar:** On an immediate basis, no, because the pricing action in Europe is led by some of the larger players.
- Mahantesh Sabarad:** So, if I understand correctly, let us say 8% or 9% increase in the raw material cost coupled with the fact that you have no pricing increase and then you will have a deteriorating product mix, Vredestein margin should actually come down by say 10 percentage points or something?
- Gaurav Kumar:** Vredestein in fact historically makes a loss in March quarter at a net profit level.
- Mahantesh Sabarad:** So you think this time around too you might be at a near loss situation?
- Gaurav Kumar:** It is too early for us. As it is, we would not like to give guidance on margins. Given that this will be the first March quarter for us in Europe, it is very difficult for us to say whether it would be a loss or profit.
- Mahantesh Sabarad:** Secondly on your Chennai expansion plans, can you take us through the expansion plans in terms of tonnage capacity, when you are going to operationalise that and how do you see the tonnage output out of Chennai facility on a quarterly basis going forward?
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- Gaurav Kumar:** I won't have it on a quarterly basis. The plan broadly as I said is that the operations would start in March with passenger car radial tyres. The average capacity for FY11 which is April 2010 to March 2011 would be 100 tonnes per day.
- Mahantesh Sabarad:** On passenger car radials?
- Gaurav Kumar:** No, on the total plant. Passenger car capacity in the Chennai plant as of now is just 60 tonnes overall. So, the average capacity for FY11 will be 100 tonnes. We expect that to go up to 250 to 300 tonnes in FY12. And by FY13, we should be at 400 tonnes.
- Mahantesh Sabarad:** When you look at commencement of operation in March, you will also start with TBR tyres?
- Gaurav Kumar:** Commercial production of TBR may happen only in early April. Trial production may be there in March.
- Mahantesh Sabarad:** What is the implication in terms of your depreciation? You will take a depreciation charge once the plant is operational, right?
- Gaurav Kumar:** That is right. Whatever is permitted by the accounting norms. So, if the project is on schedule, then we will be able to take the depreciation charge in the current year.
- Rakesh Dewan:** It will happen only at the end of the year, may be in March, when we will capitalise the plant.
- Mahantesh Sabarad:** And what would be your project cost?
- Gaurav Kumar:** That remains at Rs 20 billion for the entire project. That has not changed.
- Mahantesh Sabarad:** And you have spent how much so far?
- Gaurav Kumar:** Again, the project spend is on a daily basis, so I won't know. I know for a fact that by March 2010, we should have spent Rs 10 billion on the project.
- Mahantesh Sabarad:** And not the entire amount would reflect in the gross block, only a part?
- Gaurav Kumar:** That would depend on what is permitted to be capitalised, etc.
- Enam Asset Mgt:** Could you give some kind of outlook on the replacement as well as OEM car and OEM truck market growth in FY11?
- Gaurav Kumar:** That would be difficult since the manufacturers have not yet given us the outlook for next year. We will get the outlook for next year somewhere towards the end of February. In general, we expect a strong growth.
- Enam Asset Mgt:** And the replacement should be around 10% to 12%?
- Gaurav Kumar:** Replacement should be somewhere around this number if the current GDP growth continues.

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- J Radhakrishnan, IIFL:** Can you please tell me what was the RM growth in this quarter and for the nine months?
- Gaurav Kumar:** In this quarter, sequentially it was up 10% over Q2.
- J Radhakrishnan:** For us or the industry?
- Gaurav Kumar:** Well, I can only talk about us. I won't have the industry prices. For the nine month period, it was down 17% vis-à-vis the same period last year.
- J Radhakrishnan:** You have announced now the Apollo Vredestein debt numbers. Is it possible for you to tell us the acquisition cost also?
- Gaurav Kumar:** Not possible yet. We have got only this clearance from the Administrator. Only thing I can say is that whatever was the acquisition price over and above the debt, which is the payout by Apollo, is factored into the Apollo India balance sheet. There is no further payout that will go from Apollo India towards the Vredestein transaction.
- J Radhakrishnan:** Okay, and you mentioned that a 5% increase in replacement market is taken from January. And in December, it has been taken in OEM. Was this in the beginning of December or the end? Has the increase been reflected in this quarter?
- Gaurav Kumar:** It is from the start of December, but not yet reflected because it got finalised only in January and would be taken with a retrospective effect from December 1st. So the entire effect of the increase will come in January to March quarter.
- J Radhakrishnan:** This capex of Rs 10 billion that has been spent in Chennai, was everything spent in FY10 or something was done in FY09 also?
- Gaurav Kumar:** About Rs 2 to 2.5 billion was spent in FY09.
- J Radhakrishnan:** So, for FY10 roughly we can take it as Rs 8 billion?
- Gaurav Kumar:** That is correct.
- J Radhakrishnan:** And what it may be in FY11?
- Gaurav Kumar:** It should be a similar number of Rs 8 billion.
- Jaibir Sethi, Noble:** The depreciation seemed to have come down a bit on a Q-o-Q basis. Could you tell me what happened there?
- Gaurav Kumar:** Well, some of our capitalisation estimates were revised based on the Chennai project ramp up and that is the reason for depreciation coming down slightly.
- Jaibir Sethi:** When you start commercial production in the Chennai plant, what kind of fixed overheads do you envisage there?
- Gaurav Kumar:** That would be a difficult one to give because I would not be able to share business plans of individual plants.
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- Jaibir Sethi:** Alright, but the depreciation and the interest charge would start presumably by the end of March?
- Gaurav Kumar:** That is correct.
- Jaibir Sethi:** Lastly, in terms of the rubber price, could you run me through your current sourcing mix. Is it entirely domestic or is there some rubber imports being done?
- Gaurav Kumar:** Typically, the import content is about 10% to 15%. And it would essentially be the same for this year also.
- Jaibir Sethi:** Okay, and are there any thoughts being put to possibly increasing this import content?
- Gaurav Kumar:** We keep looking at the situation, but in general, the landed cost of imports if it is duty based is costlier than the domestic rubber. Also you will have to carry a larger inventory if you are importing rubber. So, it is a situation which is constantly evaluated. If the price equation between domestic and international rubber changes, then we may go for imports.
- Abhijit Dev,
Kotak Mahindra:** Just wanted to know the tonnage volumes for Q2 and Q1 of this year.
- Gaurav Kumar:** Q2 for this year was 82,000 tonnes and Q1 was 79,000 tonnes.
- Naveen,
Ambit Capital:** Just wanted to check the utilisation rates at your European and South African Operations?
- Gaurav Kumar:** European Operations, the utilisations would be somewhere at 90% plus. For South Africa, the capacity utilisation would be around the 80% mark.
- Naveen:** And when would you essentially start looking at outsourcing from Apollo South Africa to Apollo Vredestein?
- Gaurav Kumar:** Small quantities have started which is really at the trial level in this current quarter. Commercial outsourcing would start in the April to June quarter.
- Naveen:** But as you mentioned seasonally it would not be a strong quarter for Apollo Vredestein. So, in that sense, would you really require any outsourcing from Apollo South Africa?
- Gaurav Kumar:** What really happens Naveen is that because of a limited capacity, Apollo Vredestein has at times given up on certain sales. More importantly, it is forced to produce the entire range itself including the smaller sizes. This would allow Apollo Vredestein to concentrate on the higher size or the better part of the product mix in Europe and look to source the smaller sizes from South Africa. Eventually the sourcing would move to India because from a cost perspective, India is even better than South Africa.
- Naveen:** I believe they are currently outsourcing some portion of their off-highway tyre requirements?
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- Gaurav Kumar:** Not the off-highway, we outsource agricultural, bicycle and industrial tyres. The industrial tyres are the golf cart, forklift and other tyres.
- Naveen:** How much does that contribute in your total revenue?
- Gaurav Kumar:** Agricultural, industrial and bicycle tyres together would typically contribute about 20% to our revenues. It is a little lower this year because the agricultural segment was down. But if you look at the last few years, these segments contribute about 20% to the revenue.
- Naveen:** What is the raw material to sales ratio at Apollo Vredestein. Can you give us some sense on that on a blended basis?
- Gaurav Kumar:** The raw material to sales at Vredestein is ~ 25%.
- Naveen:** Is this a blended ratio for the whole year or for the quarter?
- Gaurav Kumar:** This is for the nine month period.
- Naveen:** Lastly just wanted to check if you can give us some sense on the pricing differential for Vredestein tyres as against some of the leading players like Michelin or Bridgestone?
- Gaurav Kumar:** Vis-à-vis Michelin, Vredestein typically would be lower by about 10% to 15% depending on which particular tyre size we are talking about. The gap would be much smaller vis-à-vis a Bridgestone or a Continental.
- Naveen:** And this gap would be even smaller in case of winter tyres?
- Gaurav Kumar:** That is right. In fact, Michelin is not the lead player on winter tyres. The lead players would be Continental, Nokian. And Vredestein would be more or less at par with Continental in winter tyres.
- Naveen:** So do you see some scope where we could probably look at some small price hikes or that is totally ruled out?
- Gaurav Kumar:** It would move in line with the market. Typically, any round of price increase is led by the leaders.
- Anurag Jain, Kotak:** Just one question, on a full year basis, how does Apollo Vredestein fair this year? You said, two quarters it makes money, two quarters it does not make money. So, on a full year basis, how does it fair?
- Gaurav Kumar:** On a full year basis, if you look at the last year, they made 307 million in revenue with an 11% EBITDA margin and 1.5% net profit.
- Anurag Jain:** Sure. So, that would be significantly better this year in terms of net margins?
- Gaurav Kumar:** It would be better. Significantly is a subjective term. EBITDA and the net profit margins would be better than last year.
- Chirag Shah, Emkay Global:** Just on Apollo Vredestein. You indicated RM to sales is 25% or 75%?
- Gaurav Kumar:** 25%.
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- Chirag Shah:** It is so low. If you can just help us understand how is the raw material mix for Apollo Vredestein?
- Gaurav Kumar:** The reason for it being very low is not that the raw material prices are lower. It is essentially because the selling prices are significantly different. Firstly, you are looking at only the passenger car segment. Secondly, you are looking at a set of passenger car tyres which is a very high mix of winter tyres and ultra-high performance. And because of its brand positioning, etc., the price realisations are far higher than what you have in India. So, with the same set of raw material prices, the raw material as a percentage of sales is far lower, which is not unique to Apollo Vredestein alone. If we look at any European player, the raw material to sales ratio would be around the 30% mark.
- Chirag Shah:** Okay, but the mix, if I say, the raw material mix between rubber, NTC, carbon black -- is it more or less the same?
- Gaurav Kumar:** They would have a much higher proportion of synthetic rubber given their climatic condition compared to the Indian one where because of average temperatures being high, we have a much higher proportion of natural rubber.
- Chirag Shah:** If 25% is your RM to sales, what is the biggest cost item for you at EBITDA level?
- Gaurav Kumar:** The manpower cost would be the biggest cost item for European Operations which is about 30%.
- Chirag Shah:** Any scope of bringing it down or it is in line with the industry?
- Gaurav Kumar:** It is in line with the industry. We do not see any scope of that reduction. As I mentioned we would increase volumes in Europe through outsourcing but not really look at reducing any production in Europe.
- Chirag Shah:** Okay, so the staff cost cannot be reduced, only operating leverage can come into picture and staff cost to sales can go down.
- Gaurav Kumar:** That is correct.
- Chirag Shah:** Okay and just an update on MRF. Any indication that MRF has raised prices further in the market?
- Gaurav Kumar:** MRF has taken a price rise in January from what we hear. Which is about 2% to 3% in the replacement market. So, the price hike that the industry took in October, MRF has taken that in January.
- Chirag Shah:** Okay, so the differential of 7% to 8% is there and hence further price hikes are actually ruled out unless MRF increases the price. That is the right way of looking at it?
- Gaurav Kumar:** That is correct, difficult to take any further price hikes immediately.
- Chirag Shah:** But have you seen any loss of replacement market share due to no price hike by MRF? Has that actually happened?

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- Gaurav Kumar:** Well, we have sold everything that we could produce. So, there is no loss in market share. January, it is still too early to say because that is where we took a significant price hike of 5%. I won't have the industry data to say how January volumes have been impacted.
- Sahil Kedia,
Enam Securities:** Just a small question. Can you give me the debt number on the standalone books please. You mentioned the consolidated debt.
- Gaurav Kumar:** Standalone net debt on India was Rs 7.6 billion.
- Sahil Kedia:** And debt at Apollo Vredestein was Rs 4.7 billion?
- Gaurav Kumar:** That is right
- Sahil Kedia:** Just wanted to also check what is the sense on the Dunlop business? Where do you see that going in the coming quarters? You mentioned that there had been a marginal pick up that is happening. Can you just shed some more light on that?
- Gaurav Kumar:** In the three years that South Africa Operations have been with us on a full year basis, they have gone up to EBITDA margins of 14%. So, if the economy comes back completely, that is the GDP growth rates of around 4% to 5% per annum, then we could go back to those kind of margins. Of course this would also depend on the commodity prices.
- Sahil Kedia:** But if I am not mistaken, this year we are already at, I think, one of the highest levels in terms of quarterly revenue, is that correct?
- Gaurav Kumar:** The revenue has continued to go up, but the margins have been better in the past. We have benefitted at net profit level because of the economic conditions, the interest rates also dropped significantly and simultaneously given the pressure, we put a lot of emphasis on inventory management. So, our interest cost has come down significantly to result in net profit margins being the best ever.
- Vishal Saraf,
SBI Mutual Fund:** Just wanted again some more clarity on the previous questions, when we were talking about the price hikes. Probably, you mentioned in the call earlier that we are looking at 15% increase in RM cost in the coming quarters. And we have taken only a 5% price hike. So, what is the kind of price hike you think we will need further to compensate for the cost hike?
- Gaurav Kumar:** Vishal, it is not just a simple equation of raw material price. When I tell you a 15% price increase in raw material cost, it is assuming a certain recipe. Now, that keeps changing because the technical people keep on exploring as to what mix they can change, what chemicals they can use, and what quantities of those chemicals. So, finally what is the raw material increase that will result could be a little different from the one that I have given. The other fact is there is a certain amount of effort that goes in, in difficult quarters on control of other expenses which was done also in this quarter. So, we would take the kind of price increase that we think is possible given the industry dynamics, and with our analysis, we could take a 5% increase given where the competitors were. We will keep on looking at further price increase possibilities. As of now it is difficult to say as to how much we should take to maintain the margins.
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- Vishal Saraf:** How do you see the overall competitive scenario in the industry? All the Indian players themselves are going in for capacity increase and like you said earlier, taking price hike is a matter of overall demand-supply. So, how do you see that shaping up going forward?
- Gaurav Kumar:** The capacity increases are happening really in one segment which is truck radial which would start coming onstream in FY11. Only towards second half of FY11 would there be any significant capacities of truck radial coming in. Truck radial today is somewhere between 5% to 10% of the overall tyre industry. So, it does not impact the dynamics of the rest of the tyre industry in terms of demand supply. On the rest of the 90% to 95% of the tyre industry, the demand-supply situation should continue to remain extremely tight, unless something changes drastically on the GDP growth number.
- Vishal Saraf:** Okay, and how do you see the threat of imports from China because that has typically been the factor which has kept the prices low?
- Gaurav Kumar:** The prices have been kept low more by the domestic industry dynamics than Chinese prices and imports. This is something we will never be able to wish away but if the recommended anti-dumping duty on truck-bus radials also comes in play, then to that extent, the situation would become little more favourable for the domestic industry.
- Vishal Saraf:** Sir, any idea when it is likely to come and what impact it can have on the overall import?
- Gaurav Kumar:** The likelihood, if it gets through, would be by end of this quarter. So, towards end of March, beginning April we should have this. How it would impact the volumes is again a difficult one to say, but it would increase the import prices by at least around \$40 / tyre.
- Vishal Saraf:** So, that will help in improving your pricing power?
- Gaurav Kumar:** It may not directly help in improving our pricing power because we have always got pricing benchmarked internally amongst ourselves. What it may do is reduce some of the import volumes.
- Ashish,
Lucky Securities:** Just wanted to understand the reason for a price discipline in the industry. There seems to be a general improvement in margins across the various players. So, what has prompted this kind of a pricing discipline in the industry?
- Gaurav Kumar:** We can only give a guess about that because one cannot say the reason being followed by individual players for their pricing. We would think that, firstly, it is the simple demand-supply scenario. Because of the strong demand right through the year, when raw material prices went up there was an ability to take price increases, The second reason probably would be the fact that each player is looking to expand capacity and hence there is some amount of pressure to generate internal cash flows.
- Ashish:** Is there a reduced import intensity in terms of competition from China or elsewhere?

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- Gaurav Kumar:** We would not have the import numbers of December and January, so will not be able to say if any of the recent announcements have made an impact. The import level in truck tyres went down drastically last year when the need for licensing had come in on truck radials and then had gone back to earlier levels by the middle of this year. On the passenger car side, the import levels continue as before.
- Ashish:** Is there a big import duty on the imports currently?
- Gaurav Kumar:** In case there is no other special provision, the duty levels are less than 10%.
- Ashish:** Some anti-dumping duty or something is imposed currently?
- Gaurav Kumar:** There is an anti-dumping duty on truck cross-ply tyres of which the imports now are actually negligible. Very recently there is a recommendation of anti-dumping duty on truck radial tyres from China and Thailand.
- Ashish:** So, if it were not for this anti-dumping duty would our margins be significantly lower?
- Gaurav Kumar:** We don't think so because as of today we are hardly selling any truck radials. Our capacity today is 300 tyres/ day. So, the number of truck radials being imported don't impact us so much. Also as I mentioned earlier our pricing has always tended to get governed more by domestic players' pricing. The level of Chinese prices have only a small impact.
- Nidhi Kadakia,
Marwari Shares:** What is the breakup between replacement, OEM and export for this quarter?
- Gaurav Kumar:** For India Operations, in terms of revenue, replacement is 70%, OEMs 21%, and exports 9%.
- Nidhi Kadakia:** So, we can actually say that in second half your OEM revenue contribution will increase and replacements will decrease?
- Gaurav Kumar:** It is already changed because last year, the replacement was at 74%. The strong OEM demand has already come into play and OEM revenue contribution has gone up to 21%.
- Shiv Chanani,
Reliance Mutual:** Just a couple of things on the European Operations. I just wanted to understand the level of operations that are going to be there in Q4. Is it going to be similar to let us say what it was in Q1?
- Gaurav Kumar:** Broadly, January to March revenue numbers should be around the same as the April to June quarter.
- Shiv Chanani:** Right, and secondly, if I look at the European Operations, let us say Q2 versus Q3, would you say that the entire improvement in margin is because of the operating leverage or was there some cost savings and improvements, post your taking it over? Was there any currency impact as well?
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- Gaurav Kumar:** There is very little currency impact because the dollar to euro did not move so dramatically. Difficult for me to differentiate between how much of an improvement in performance would have been. Bulk of our improvement is the result of the strong winters and winter tyre sales. It has always been historically a good quarter for Apollo Vredestein, but typically their margins have been around the 20% mark. So, it is a little higher than in the past.
- Naveen,
Ambit Capital:** The standalone debt of Rs 7.6 billion, is it a net debt figure? Can you just give the gross debt figure or the cash figure?
- Gaurav Kumar:** The gross debt is Rs 10.3 billion.
- Naveen:** Alright, and on the consolidated basis?
- Gaurav Kumar:** Consolidated gross debt would be Rs 17.3 billion.
- Chirag Shah,
Emkay Global:** Hi Gaurav just missed the point on import from China. If you can just help us understand the latest data that you have, monthly import run rate in truck and bus radials from China, that would be helpful.
- Gaurav Kumar:** I will not have the monthly numbers. At a broad level, import market share in truck-bus segment would be 6% to 7%. Passenger car tyres continue with a market share of close to 15%.
- Ramnath
Subramaniam:** On behalf of IDFC-SSKI Securities, I would like to thank the senior management team of Apollo Tyres for taking their time out for the call.
- Gaurav Kumar:** Thank you for joining us.

(ends)