

India, May 28, 2010

## Analyst / Investor Conference Call

### Annual & 4<sup>th</sup> Quarter of Financial Year 2009-10

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**Ramnath**

**Subramaniam:**

Good evening to all of you. On behalf of IDFC Securities, I welcome all of you to this Q4 FY10 Earnings Call of Apollo Tyres. I also take this opportunity to welcome Mr Gaurav Kumar, Group Head, Corporate Strategy and Finance, Ms Ritu Jain and Mr Rakesh Dewan. Gaurav, can you just run us through the results and probably we can start the question & answer session after that.

**Gaurav Kumar:**

Good afternoon everyone. First, to give you an overview of the operations before coming to the numbers.

Starting with the Indian operations; the Indian market continued to see strong demand and our capacities were fully utilised. However, we had significant pressure from the raw material cost push which went up by nearly 12% on a quarter-to-quarter basis. Towards this starting from last quarter, we had been taking price increases. In the replacement market, we took a 5% price increase in January and in the current period post March, we have announced two price increases; 3.5% in May and 3.5% from beginning June. Similarly in OEM, we have taken 3 rounds of price increases of 5% each in December, February, and April.

European operations had an unusually strong and extended winter which resulted in strong demand for winter tyres and an unusually good quarter not in line with the typical seasonality factor. Winter tyre sales in fact were double of expectations, which meant that we were producing winter tyres almost up to February whereas in a normal case, winter tyre production is stopped in December.

South African operations continue to face difficult times. But vis-à-vis the same period last year, they had a much better quarter. Seasonally of course, the December quarter is usually a better one and hence there were some volume declines on a quarter-to-quarter basis.

While India faced the raw material cost push in this quarter, the South African and European operations would have the same pressure coming in the current quarter, that is, April to June. Towards this, we have also announced price increases from May; in South Africa 10% and in Europe a 4% price hike.

The other significant aspect is that our Chennai plant started production as we had mentioned towards the end of the quarter and rapid ramp up is happening both in the passenger car tyres and the truck radial space.

Lastly, a little bit on the outlook -- the current quarter is signifying a pretty tough time for us. One is on the raw material front, which continues to go up led by natural rubber. There are two other factors: we had a significant capacity decline in our Perambra plant in Cochin while

the long-term settlement is being negotiated. For nearly half the current quarter, we have operated at just about one-fifth of the capacity and currently we are at two-third of the capacity. South Africa on the other hand face the nationwide strike of ports which has led to major issues on raw material availability across various industries and we may have to take plant shut down just because of unavailability of raw material.

Coming to the specific numbers at a consolidated sales level, we declared annual sales of Rs 81 Bn, up 63% vis-à-vis FY2009; 40% was the result of inorganic growth during the year, 17% through volume and 6% was the impact of price increases and mix change. EBITDA at Rs 11.9 Bn was 14.7% and the net profit at Rs 6.5 Bn was 8%. Similarly for the quarter, the sales were Rs 21.4 Bn, up 65% vis-à-vis same period last year, bulk of it coming through the inorganic growth route. EBITDA was Rs 2.9 Bn at 13.4% and the net profit at Rs 2.2 Bn at 10.2%. One of the factors contributing to this high net profit in the current quarter is an exceptional gain of Rs 630 Mn, net of tax, in South Africa. As part of the South Africa deal, when we had closed the deal, the company had a pension surplus which was locked up in a separate fund and as part of the agreement, half of it was to go to the previous shareholders/sellers and half of it to the company. It took us about 4 years to realise that money. So the Rs 630 Mn is the exceptional gain for us. The net debt figure for the company as of March 31, 2010, was Rs 13.6 Mn which brings our debt equity ratio at 0.7.

That is all I have to say. We will be happy to take questions.

**Bhagyesh Kagalkar**  
HDFC Securities :

The clarification is on the revenue decline in India, Europe and South Africa. Can you just throw more light on why the revenue has declined in the all the 3 operations?

**Gaurav Kumar:**

I believe you are asking the quarter. In India, the revenue decline is 1%.

**Bhagyesh Kagalkar:**

Yeah, but what is the reason?

**Gaurav Kumar:**

Essentially when we took price increases in January, the competition followed with price increases about one to two months later and that invariably resulted in a little bit of a volume impact in the short term – that is the reason for the revenue decline. In South Africa, as I mentioned there is a seasonal factor. Quarter 3 is always their best season, but if you look at vis-à-vis the same period last year, the decline is not there, it is in fact up 13%. Similarly for Europe, it is more a result of the seasonal factor. We had mentioned last time also that their strongest quarter is the December quarter. In fact this number that you are seeing is still significantly better than what was expected.

**Chirag Shah,**  
Emkay Global:

Can just share the tonnage sold in this quarter?

**Gaurav Kumar:**

We will not have the consolidated tonnage as both South Africa and Europe measure sales in units and not MTs. I can tell you the tonnage sales for India. It was 82,000 MT.

**Chirag Shah:**

Okay so it is a decline Q-on-Q?

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- Gaurav Kumar:** Yes.
- Chirag Shah:** On the Cochin plant, what is the kind of impact that you will have on your top line or on a tonnage basis.
- Gaurav Kumar:** The Cochin plant has a capacity of about 280 MT per day. For about one-half of this quarter, it has functioning at about 50 to 60 MT per day and is currently operating at about 200 MT per day. So if you take our overall capacity at about 850 MT per day, we have lost about close to 250 MT per day for half of the quarter and for the balance, we are losing about 100 MT per day. The next round of discussion with them is on June 1, 2010, and we will get to know where it is going.
- Chirag Shah:** And also some housekeeping questions like what was your rubber cost and carbon black and nylon tyre cord?
- Gaurav Kumar:** The rubber price for India for the quarter was Rs 140/ Kg, tyre cord fabric was Rs 195, and carbon black was Rs 50.
- Chirag Shah:** Is it safe to assume that the previous quarter costing for India would be applicable to South Africa and AVBV?
- Gaurav Kumar:** That would not be the case because the recipes are very different. When I give you these numbers, they are based on a certain recipe which is truck dominated, cross ply dominated. Apollo Vredestein is passenger car radial, South Africa is a combination of equal proportion of truck and car, but all radials, so all of them have different recipes.
- Chirag Shah:** Just wanted to understand what is the kind growth or production that you can achieve for FY11? If I look at your this year's financial data in India for example you had something like 3,30,000 MT of sales?
- Gaurav Kumar:** We are as of now with an assumption that Perambra comes back from next quarter. We should be looking at a 20 to 25% growth in the top line in India.
- Chirag Shah:** When you say top line, it is tonnage?
- Gaurav Kumar:** Tonnage would be much lesser, would be about 10 to 15% and the rest would be price. Europe would be more or less flat because they have continued to function at full capacity. There would be only price increases contributing into the top line and in fact the top line could be absolutely flat because they have depleted the inventory last year. South Africa, I still do not know what kind of impact the port strike had on the top line in terms of numbers, but we should see a growth in both volume and value terms because we have announced a 10% price hike. Also last year for the bulk of the time they were functioning at 5 days a week and now have gone back to 7 days a week operation.
- Chirag Shah:** So, on this port side that you indicated, what exactly is the issue and how long has this been going on?
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- Gaurav Kumar:** I believe it is an issue going on for about 2 to 3 weeks. What it does is that it does not allow any ships to come in and hence some of the raw material for various industries is not available. Port strike has now been lifted, but in some cases the ships do not just wait outside, they get diverted.
- Chirag Shah:** The price hikes for AVBV and South Africa, are these sufficient for you to cover your cost pressures?
- Gaurav Kumar:** Right now, it is not sufficient, but given that the raw material impact always comes in with a lag, they will take that assessment going forward. While in India it comes on almost immediately, in South Africa and Europe it comes in with a lag of 3 to 6 months.
- Chirag Shah:** Fair enough, but you are definitely seeing pressure on sequential margins?
- Gaurav Kumar:** That is correct.
- Chirag Shah:** Even on YoY basis also, margins would be under pressure for these two operations?
- Gaurav Kumar:** Yes also because raw materials in the first half of last year were almost at their lowest level.
- Ajay Sethia  
Centrum Broking:** You indicated about the price increases for replacement market to an extent of 3.5% in June. As far as OEM is concerned, what sort of price increases are you looking for in the near-term? Second, if you can take us through what is the supply and demand situation on the truck radial side. And third, if you can give us the split between OEM, replacement and exports for Q4 and FY10?
- Gaurav Kumar:** In India for OEM, the last price increase was in April of 5%, so the dialogue is on with them given the raw material pricing pressure, but that will take some time because we have got a price increase just about 2 months back. Your second question was about?
- Ajay Sethia:** How are you seeing the demand and supply situation as far as TBR is concerned?
- Gaurav Kumar:** That continues to be extremely tight. The level of import has gone down and anti-dumping duty remains in place. As of now, in the supply side, our capacity and Birla's capacity are coming on stream, but would still take some time to ramp up. As of now, the demand supply will continue to remain very tight, at least in the current year. Frankly if you got the tyre right, one can easily sell everything that you are producing. On our revenue segmentation for India operations in Q4, replacement was 67%, OEM 25%, and the balance was exports. For the full year, replacement was 71%, OEM 21%, and the balance exports.
- Jyotsna Moorthy  
Enam Securities:** Just wanted to check on a couple of things. One is we saw in the papers that TBR imports have been removed from the restricted list. So does that hamper our volumes going ahead?
- Gaurav Kumar:** Not really.
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- Jyotsna Moorthy:** Was that for the OEM market or for the replacement market as well?
- Gaurav Kumar:** That happens for everybody, but given that the anti-dumping duty was put in place, this was expected because you would not have an item on the restricted list and also have an anti-dumping duty imposed on it.
- Jyotsna Moorthy:** So the imports from, may be other places like Malaysia or other countries would still come in and will we see any pressure as such?
- Gaurav Kumar:** Theoretically yes, but we have essentially seen truck tyre imports from only two geographies which is China predominantly and Thailand. So new geographies getting added is unlikely. Malaysia has very small capacities. It is not a cost competitive place and apart from a Continental facility which is not doing well, there are no global majors in Malaysia.
- Jyotsna Moorthy:** On the domestic market, we said that we have taken price hikes for the replacement market of 3.5% in May and 3.5% from June is expected which is 7%. Is it enough to combat our raw material price increase or we will continue to see further price increases to maintain our margins at FY10 levels?
- Gaurav Kumar:** If we have to maintain margins of FY10, we will need further price increases.
- Jyotsna Moorthy:** And is the competition also doing the same thing because we should not be getting hit like how it happened in January?
- Gaurav Kumar:** Well as of now, the competition has followed. It has always tended to take price increases with a lag and our broad philosophy has been that unless there is a significant impact on volume, we have always gone ahead and taken those increases.
- Jyotsna Moorthy:** Currently what is our Chennai capacity running on a per day tonnage?
- Gaurav Kumar:** The number sort of changes every day, so difficult for me to say, but I we they are at about 2500 passenger car tyres per day.
- Jyotsna Moorthy:** On the TBR front?
- Gaurav Kumar:** It will be just a few hundreds per day.
- Jyotsna Moorthy:** So by the end of the year we should ramp it up to 250 MT?
- Gaurav Kumar:** I will not have the end of the year figure right now, but our average for the year is expected to be 100 MT per day. So we should be at about 200 MT by the end of the year.
- Nidhi Kadakia  
Marwari Shares:** I just wanted to know what is the reason for a sharp decline in the tax rate during the year on a standalone and consolidated basis?
- Gaurav Kumar:** One there was a change in the tax rate from 34% to 33.2%, which has resulted in the reduction of deferred tax liability. Then there is some impact of the Chennai capitalisation from a taxation point of view and
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lastly, some additional depreciation which came in from the previous year. All this combined to give us a lower tax burden.

**Nidhi Kadakia:** What kind of impact do you see from the European crisis on your operations?

**Gaurav Kumar:** In Europe, since most costs and revenues are in Euros, it does not get impacted and in fact imports into Europe become uncompetitive. So that is not a big issue as such. Some of the raw material pricing particularly natural rubber would be linked to a dollar and will go up. So we are not completely immune, but not as hard hit. The other big impact that will come in is on the consolidation level. While our earnings in Euro Mn will remain the same, the Rupees Mn figures goes down with this crisis.

**Saurav Das  
Sundaram BNP:** Just a few questions. First, on the standalone results. I saw that although our top line has broadly remained the same, we see an absolute reduction in other costs and employees costs as well on a sequential basis. In fact the other expenses are lowest in the last 5 quarters. Any particular reason for that?

**Gaurav Kumar:** One reason is essentially that with the strong demand, there were comparatively less sales promotion schemes which were running and hence the other expenses are lower. On the employee cost, some R&D staff salary has been classified as R&D expense, which is generally done in the year end, otherwise the staff cost has not reduced

**Saurav Das:** So is it fair to assume that the current run rate on employee cost would be broadly sustained?

**Gaurav Kumar:** That is true, but there will be some part of the employee cost, for example directors commission etc. which is linked to net profit. Also a part of our salaries are variable pay and hence they could be impacted.

**Saurav Das:** Typically bonuses and hikes are affected in which particular quarter?

**Gaurav Kumar:** From April 1<sup>st</sup>.

**Saurav Das:** On the tax rate again, what would be a right tax rate for the next year?

**Gaurav Kumar:** I would take it at full rate.

**Saurav Das:** On the product side, as we see the proportion of radials gradually inching up in our product portfolio, does it also have implications on the total composition of rubber within the portfolio which is Natural Rubber versus Synthetic Rubber and does that have any impact on the overall weight of the tyres and broadly profitability?

**Gaurav Kumar:** You need to see it categorywise. In passenger car tyres proportion of synthetic rubber is significantly higher.

**Saurav Das:** When you say significantly higher, can you give a broad number?

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- Gaurav Kumar:** It could be as much as 50% of the total rubber component. Where as in the case of truck radial, the proportion of natural rubber is much higher, synthetic rubber would be 10 to 15%. So it will depend on which segment grows by how much. Broadly, passenger car is growing faster, so our proportion of synthetic rubber is increasing, but not that dramatically.
- Saurav Das:** Synthetic rubber proportion in a bias tyre would be even lower than 15%?
- Gaurav Kumar:** It is lower predominantly in India also because of temperatures. Synthetic rubber has certain limitations on heat dissipation.
- Saurav Das:** So to understand it broadly, the mix will depend on the segmental growth and not so much into the conversion of truck bias into radial?
- Gaurav Kumar:** That is correct. So a company which uses a far greater proportion of synthetic rubber will not face the kind of raw material cost push that a truck company would which is why our European operations, if things remain the way they are, would need a smaller price increase than Indian operation.
- Saurav Das:** What are the synthetic rubber prices right now, if you have that number?
- Gaurav Kumar:** I do not have it right now because that also depends on various grades, and not a single price.
- Saurav Das:** But is it a publicly available number which we can track through some sources?
- Gaurav Kumar:** There are some price data basis. They are public sources, but not available on simple websites like the natural rubber prices. But if you drop me a mail we can tell you best way to track that.
- Saurav Das:** Is it significantly different from natural rubber now?
- Gaurav Kumar:** I believe yes, it will be at least 30 to 40% off right now.
- Saurav Das:** Radialisation on the truck side would see a significant increase in demand, but on a replacement cycle basis is it fair to assume that the ROCEs on a radial plant are lower?
- Gaurav Kumar:** To start with the ROCEs on a radial plant could be lower because the investment costs are higher and then you are in a ramping up phase. For a couple of years, you would see the ROCEs coming down and then when the plant reaches economical capacity, in a stable state the EBITDA level of our radial plant is expected to be higher. By that time, the plant depreciation will also bring down the asset level while you will start making better ROCEs.
- Saurav Das:** With the removal of truck radial from the restricted list and the capacities coming in do you think that there is a possibility of the pricing power gradually diminishing for you?

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- Gaurav Kumar:** We do not believe it to be the case because frankly on the radial today one is able to sell whatever one is producing. While there were initial hitches when the restrictions were put in terms of licensing in November 2008, they had already been overcome by the OEMs who could get the license on a regular basis. Deterrent for the replacement market will continue to be anti-dumping duty to a certain extent.
- Saurav Das:** How much is that right now?
- Gaurav Kumar:** That varies from player to player. For various Chinese players, this is from about \$25 to \$40 per tyre. And for the various Thailand companies, this varies from about \$70 to \$90 per tyre.
- Saurav Das:** What is the consolidated debt and standalone debt on a net level?
- Gaurav Kumar:** The consolidated net debt was Rs 13.6 Bn and for India the net debt was Rs 8.7 Bn
- Saurav Das:** Broadly your projections for the year ending FY11, how these would look like?
- Gaurav Kumar:** We would say that the debt equity ratio should be 1:1 from our present 0.7 because we will continue to invest heavily into Chennai. So from our current Rs 13.6 Bn, we may go up to about close at Rs 18 to 19 Bn debt.
- Saurav Das:** And that is broadly our peak debt number from where we start deleveraging.
- Gaurav Kumar:** That is correct.
- Saurav Das:** Are you happy with the current debt equity structure in terms of going to 1:1? There are no plans to raise equity?
- Gaurav Kumar:** Our lending covenants do allow us to go up to 1.2. If we look at any international operations, we are still well within our norms. So 1:1 is comfortable. If we then come across a growth opportunity, may be an equity in future will be looked at.
- Saurav Das:** My question is more to do with the type of volatility which we typically see in tyre business in terms of EBITDA margins. So there could be strain on some cash flows if margins come down?
- Gaurav Kumar:** Current year, there will be some strain and which is why the debt equity levels will go up because if we have a performance like this year, then our borrowing would be much lesser. But we are benefiting from the fact that we invested ahead of the others in a year when things were difficult which positions us for growth.
- Abhijeet Dey, Kotak:** Good afternoon Sir. Just regarding the price hikes which have been taken in the OEM segment, you mentioned 5% each in December, February, and April. Have all these been passed on?
- Gaurav Kumar:** That is right.
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- Abhijeet Dey:** You did not face any type of pressure from the OEMs regarding this?
- Gaurav Kumar:** Demand is extremely strong. It always takes a few months with the OEMs, but we have enough rationale and have got the price increases.
- Abhijeet Dey:** But in the immediate future you are not looking for any further price increases at least in the OEM segment?
- Gaurav Kumar:** We are in dialogue for the next round of price increases because as I mentioned, raw material prices have continued to go up and we are still not fully covered, so we are in dialogue for the next round.
- Abhijeet Dey:** In the replacement market, the 3.5% increase which you took this month, has that been followed by your peers?
- Gaurav Kumar:** Yes, this time all the competition has taken those price increases in fairly quick succession. Reason also is that the margins of some of the other peers have fallen more sharply because they took price increases later and the way raw material has gone up if they do not take these increases, they will slip fairly at the border kind of a zone and hence the May price increases have been taken fairly quickly by competition.
- Vinay Shah**  
**Reliance Mutual Fund:** Good evening Sir. Can you throw some light on the Capex part?
- Gaurav Kumar:** Capex for previous year?
- Vinay Shah:** Capex plan for previous year and for FY11 and 12?
- Gaurav Kumar:** For FY11, the Capex in India is expected to be Rs 12 Bn, bulk of which will be in Chennai, that is close to Rs 10 Bn. This number is higher than the previously announced numbers because we are looking at further increasing the passenger car capacity from 8000 tyres to 16,000 tyres and given the strong demand there are some investments in other bias capacities. In South Africa as demand is coming back, we will be looking at a Capex programme of about Rs 1.2 Bn and Apollo Vredestein will continue with its normal Capex of about Rs 0.8 Bn. So a total Capex of Rs 14 Bn across the 3 geographies.
- Vinay Shah:** And FY12?
- Gaurav Kumar:** FY12 as I mentioned would be difficult to say as of now. The only one which is certain is about Rs 4 Bn in Chennai for completion of the various capacities. The rest would be maintenance Capex which would be about Rs 1.5 to 2 Bn. No other growth plan that has been firmed up right now.
- Vinay Shah:** And Sir will it be a right time to reveal the deal size for Apollo Vredestein?
- Gaurav Kumar:** We are now in a position to do that. The amount that we paid out was Rs 2.5 Bn or Rs 245 crores for getting the 100% equity.
- Vinay Shah:** What was the total debt figure as on March 2010, consolidated?
- Gaurav Kumar:** That was Rs 13.6 Bn consolidated debt for us.
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- Vinay Shah: And cash amount, cash and liquidity investment?
- Gaurav Kumar: Rs 3.5 Bn was the cash in hand.
- Chirag Shah  
Emkay Global: Gaurav, if you can share some more details on Apollo Vredestein on the balance sheet side, like what was the debt when you acquired the company and what is the debt position at the year end and also something on working capital side?
- Gaurav Kumar; I would not be able to share all details Chirag. I can give you the debt number, but I cannot talk about working capital details etc. The number when we took on the company in debt was Rs 7.5 Bn, that was on May 15, 2010. The current number is Rs 3.8 Bn. The large reduction is primarily because of the way the year has proceeded in terms of sales, and depletion of inventory which has led to working capital borrowings coming down significantly.
- Chirag Shah: And you are operating at almost 100% level, so is it that next year if demand grows over there, you will be looking at South Africa aggressively in terms of meeting their demands?
- Garuav Kumar: South Africa has already started the offtake, but can do it up to a limited extent because we will have our own markets which we are committed to. Also any of these numbers cannot be scaled up very quickly because for each size that you add, there are certain testing programmes. South Africa and Europe have worked on a programme based on their expectations to test and approve certain sizes. So even if the demand is more, it will invariably be for new sizes, the testing of which will need 3 to 6 months even if it was to be implemented quickly.
- Chirag Shah: So if I put it other way around, what is the incremental supply you can do in European markets on the volume side?
- Gaurav Kumar: South Africa would look to supply may be about 150,000 tyres. As of now unless something happens to demand, we really do not have any spare capacity in India. So Europe at best would see a flat year.
- Hitesh Goel,  
Daiwa Capital markets: Just wanted to know what is the EBITDA margin in Europe and South African business for this quarter?
- Gaurav Kumar: For South African operations the EBITDA for this quarter was 7.8% and the net profit was 26% because of the exceptional item.
- Hitesh Goel: And for European operation Sir?
- Guarav Kumar: For Europe the EBITDA was 21% and the net profit was 12%.
- Ambrish  
MF Global: If I look at the price and trend, the price hike in replacement looks much lower than the OEM. Is there an issue in terms of competitive pressures which does not allow you to take higher price increases in replacement?

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- Gaurav Kumar:** It is more a result of competitive pressure and also because OEMs had demand which was far greater than what they had projected or expected and hence their willingness to give price increases was higher. Also while we took price increases in 2008 in replacement, it did not happen in OEMs because of the sharp fall in demand.
- Amreesh:** How do you see this trend may be going over the next couple of quarters? Do you see similar trend being possible?
- Gaurav Kumar:** Possibly the price increases in both the segment will be similar given the strong demand scenario.
- Amreesh:** You also spoke about other expenses being lower because of certain incentive schemes being withdrawn. Do you see that sustaining given the competitive pressures, or do you think these schemes will have to be launched and therefore the other expenses may inch higher from the 4<sup>th</sup> quarter levels?
- Gaurav Kumar:** That always is a decision taken on a quarter to quarter level. So at some point of time, they will definitely come back. That is a decision taken by sales and marketing looking at each quarter's demand scenario. In all likelihood, they will come back at some point of time.
- Amreesh:** What were the sales at Apollo Vredestein and in Apollo Dunlop in the 4<sup>th</sup> quarter? Also if you could give the EBIDTA and net profit numbers.
- Gaurav Kumar:** The South Africa sales for the full year are Rs 11 Bn.
- Amreesh:** And for the quarter?
- Gaurav Kumar:** For the quarter, Rs 2.6 Bn. The EBITDA number for this full year is 8.7% and for the quarter is 7.8%. The net profit for the full year is 8.7% and for the quarter is 26%. Coming to the European operations, the full year sales number is Rs 20 Bn with an EBITDA of 17.5% and a net profit of 8.5%. For the quarter, the sales number is Rs 5.6 Bn with an EBITDA of 21% and a net profit of 12%.
- Vaishali Jajoo  
Angel Securities:** One strategic question I would like to ask. Everybody is putting up capacities on radial side right now because there is a mismatch between the sales and demand and that is why we see everybody is getting a good realisation on that front. Will we be able to enjoy the same kind of high realisation on radials and so the EBITDA margin 2 years down the line when capacities come in?
- Gaurav Kumar:** The realisation Vaishali on radials even today is not higher than the historical trend. Radials, in various markets around the globe, sell at 15 to 20% higher than the truck cross ply and that is what we are getting. India is an extremely price conscious market and nobody will pay a price which is higher than the normal premium. So even today, the premium that a radial tyre gets is that normal 15%.
- Vaishali Jajoo:** Okay, so that would continue?
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- Gaurav Kumar:** That should continue.
- Rahul Sony,  
SKS Capital:** Sir you said that your rubber cost was Rs 140/ kg last quarter, but according to information with me it was around 170 kg?
- Gaurav Kumar:** Rs 140/ Kg is average price for the quarter. There would be some inventory that would have been carried forward from the previous quarter. Rs 170 is the current price.
- Rahul Sony:** How much percentage the natural rubber forms as total tyre cost?
- Gaurav Kumar:** That again Rahul as I explained earlier will vary from segment to segment. So for an overall company, it is very difficult for me to give. At a broad level for Indian operations, raw material as a percentage of sales is 60 to 65%. Natural rubber would be about 40% of the 60 to 65%.
- Rahul Sony:** The recent sharp rise in natural rubber prices, what is the main reason behind that? Just a demand-supply factor or there is any other factors?
- Gaurav Kumar:** There is extremely strong demand led by China and India. Also there were certain weather disruptions in Thailand which led to shortage in production and then thirdly now is the traditional lean season in India due to monsoons in Kerala.
- Rahul Sony:** Just want to know, will the current price hike be sufficient to cover the cost rise?
- Gaurav Kumar:** If we had to maintain margins, we need a significant price increase.
- Deepika  
Capital Market:** Can you give me the volumes made in this quarter and year?
- Gaurav Kumar:** The tonnage sold in India is 82,000 metric tons for the quarter and 330,000 metric tons for the year.
- Deepika:** Can you tell me, will there be any change in mix of nylon tyre cord fabric in the cross ply tyres vs radial tyres?
- Gaurav Kumar:** Nylon tyre cord fabric is almost completely replaced by steel cord in truck radial.
- Pramod Kumar  
JM Financials:** Just wanted to understand more about Chinese imports. After duties and rise in natural rubber prices, what according to you could be the difference between Chinese imports and Indian prices in truck radials right?
- Gaurav Kumar:** I do not have the latest data, but till about a month or two months back, that is before the anti-dumping duty was imposed, they would still be coming in a prices which would be 20%+ lower than the Indian prices.
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- Pramod Kumar:** So don't you think there is a pretty good incentive for the OEMs and the replacement markets, who would likely import tyres from China, given the fact that replacement market prices have been moving up.
- Gaurav Kumar:** But that incentive has remained through the year, so it is not a recent phenomenon.
- Pramod Kumar:** Yes, but they were not allowed to import. Leyland for example, says that they had applied for license, but it was not cleared by the government for almost a year or so. Now that it has been removed, things may change. And this 20% gap which you are talking about, is it that for the OEMs or you are talking about the replacement market?
- Gaurav Kumar:** It is across the markets. Let us take a situation of few years back when there was no dumping duty, no license etc. and we were at cross ply. Even then the Chinese tyres used to come in at 20-30% lower. The big issue is quality and after sale service. So you may buy a small toy or battery which is Chinese and if it fails, you can replace that quickly as the amount you would have lost is Rs 100 or a few hundreds but when you buy a pair of truck tyres, you are spending atleast Rs 20,000+ on a pair of Chinese tyres. If it fails, the OE has a huge brand equity issue and in the replacement market, a dealer will end up defaulting on his service level. So Chinese imports is a threat, it has been growing, but it has remained at a certain level because these tyres come in with very little warranty, very little after sales network.
- Pramod Kumar:** One thing which I was curious about was that in China the auto growth demand has been much more rapid. Despite that there has been no shortage of tyre capacity and they are still able to export. Does that mean the tyre industry in China has been able to grow pretty much in line with the auto industry growth there or is it that there is lot of capacity which has always been there?
- Gaurav Kumar:** We believe there were significant capacities and also the setting up of capacities has been ahead of the demand. China is a big net exporter and has always remained that way and even today, there will be significant surplus capacities in China.
- Pramod Kumar:** And just to get more details on the Chinese tyre, is that the guys who normally export tyres to India are these organised players or these are some small regional players who get into the export market?
- Gaurav Kumar:** Both. There are good companies, there are the likes of Michelin, Bridgestone which are also present in China and Michelin tyres coming from China and in fact the anti-dumping duty imposed on Michelin tyres coming in from China is the highest among various players. There are also good Chinese companies like Triangle and then there is a whole host of Chinese companies which are various small brands.
- Pramod Kumar:** So the ones which are of good repute like the Michelin and Triangle even their differential would be around 20%?
- Gaurav Kumar:** No, their differential would be much lower.
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Pramod Kumar: With those guys the warranty and the quality issues would not be that great, right?

Gaurav Kumar: Absolutely and that is why the duty imposed on Michelin tyres coming in from China was the highest because they were selling at much lower price than compared to what they were otherwise.

Supriya Madye  
ICICI securities: Can I have numbers of natural rubber prices for the corresponding quarter last and for the full year?

Gaurav Kumar: The natural rubber price for the same quarter last year was Rs 85 and for the full year it was Rs 115 / kg.

Supriya Madye: Do you have any number in Q3 also?

Gaurav Kumar: Q3 it was Rs 113/ Kg

Ramnath Subramaniam: Thanks all of you for logging on to the call. Thank you Gaurav, Ritu, and Rakesh for joining the call. Thank you and all the best to you.

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