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GST No.: 06AAACA6990Q1Z2

ATL/ SEC/21 **November 16, 2023**

The Secretary, National Stock Exchange of India Ltd., Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051	The Secretary, BSE Ltd. Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001.

Sub: Transcript of Analyst/ Investor Conference Call

Dear Sirs,

Pursuant to Regulation 30(6) and 46(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that a Conference Call for the analysts and investors to discuss the financial and operational performance of the Company for Q2 FY 24 was held on November 8, 2023.

Please find attached herewith the transcript of the aforesaid call. The same has also been placed on the website of the Company https://corporate.apollotyres.com/investors/ir-updates/

This is for your information and records.

Thanking you,

Yours faithfully,
For Apollo Tyres Ltd.

SEEMA THAPAR Digitally signed by SEEMA THAPAR Date: 2023.11.16 13:07:35 +05'30'

(Seema Thapar)
Company Secretary & Compliance Officer

Apollo Tyres Ltd Q2 FY24 Earnings Call

Moderator: Hello, everyone. On behalf of Equirus Securities, I welcome you all on the Second Quarter FY24 Conference Call of Apollo Tyres. From the management side, we have Vice Chairman and Managing Director, Mr Neeraj Kanwar; CFO, Mr Gaurav Kumar, and members of IR team.

Without further ado, I hand over this call to Mr Kanwar for opening remarks, post which we'll open up for Q&A session. Over to you, sir.

Neeraj Kanwar: Thank you, Ashutosh. Good evening, and thank you all for joining us today. I welcome you all to this post results quarter call. Looking at the second quarter performance, the team has delivered yet another strong quarter with consol operating margin at 18.5%, 160% increase in consol earnings y-on-y. We have time and again consistently displayed our strong focus on profitability, cost optimisation, free cash flow generation, and improvement in return ratios. And this quarter was no different.

Let me also reiterate that we also remain focused on leveraging long term opportunities to achieve segment leading growth across our key markets. And I believe that our continued work on business fundamentals and key pillars, places us in a very favorable position to deliver superior, sustainable, and profitable growth over medium to long term. Finally, let me take this opportunity to thank all our stakeholders once again for their continued support.

Coming to our performance, despite headwinds in some of our key markets like Europe, we reported mid-single-digit y-on-y growth in consol revenues, along with an impressive 650 basis points improvement in consol EBITDA margin. The performance was driven by improved sales mix, benign raw material costs, and tight control over costs. We are witnessing signs of demand pickup across some of our key markets, and I am confident that we will see significant improvement in the momentum in the medium to long run. In terms of outlook, we expect a recovery in demand environment. In domestic markets, we are seeing good growth segments like commercial vehicles.

Coming to Europe, we expect the demand to recover from current levels. Finally, we are cognisant of slightly increasing RM prices, and will target to negate the same through improvement in product mix, optimisation of our costs, and in case required, well-timed pricing actions.

Let me now talk about key pillars of our F26 vision, and highlight some of the work done by the teams in the past quarter. Starting with R&D, we continue our focus on new product development and launches. On the tyre technology side, the team has developed ultra-low rolling resistance tyre technology for Indian market. This would help further strengthen our product range as customers shift towards fuel efficiency and low rolling resistance tyres. The team has also undertaken various process improvements, helping us further improve our process efficiencies. For example, the introduction of conductive curing bladder has helped us reduce cure time, thereby increasing productivity.

Moving to Digitalisation, we continue to work on new-age technologies as we prepare for the future. On the customer side, we have launched programmes to transform the customer experience. On the other side, we continue to drive our Industry 4.0 initiatives. A vast majority of our production machines across our plants are streaming data into our data lake on a real-time basis, giving us significant data and insights on areas of improvement. Helped by these data insights, we have initiated capacity enhancement programmes, which would help us further improve asset utilisation and our return ratios on existing capital blocks.

Coming to Sustainability, the team continues to scale new heights as we go ahead. Our Chennai plant received the coveted SEEM National Energy Management Award for its initiatives to foster energy efficiency. Recently, we also won the Silver Award under the category of CSR Water Body Revival Project. Finally, Apollo Tyres Foundation won a Gold Award for its CSR project on a Healthcare Programme for the trucking community under the category of health care.

Talking about Brands, we continue to invest in brands across our key geographies. We continue to focus on brand building and range enhancement as we enrich our sales mix. Starting with India, I am extremely happy to share that Apollo Tyre's brand awareness and preference was at an all-time high in September of ‘23. Furthermore, we are one of the most talked about tyre brands in the category on social media with best-in-class sentiment. Finally, as for latest data set, we are one of the highest-searched brands on Google.

Coming to Europe, we achieved second place in the automotive and suppliers category of MT500 Survey, a Dutch organisation assessing corporate reputation. For the second year in a row, the Vredestein brand was showcased in France early October as naming partner of the 45th edition of the late 20-kilometer de Paris’ mass-participation run. On the product side, the Vredestein Quatrac achieved a remarkable feat last September, consistently ranking in the top five of Auto Bild’s annual all-season tyre tests over the past five years. In 2023, it secured second place in wet handling, impressive wet braking performance, and excelled in snow conditions.

Our last pillar is our People. We continue to build on what we have already achieved. We are committed to our D&I targets and continue to build on programmes like Apollo Women in Tech. We're also facilitating workshops and interventions driving inclusive culture and mitigating unconscious bias. We recently introduced the Apollo Digital Acumen as we facilitate employee learning and upscaling. IT leaders delivered more than 15 hours of learning sessions on advanced manufacturing, on cloud technologies, on cybersecurity, et cetera. Finally, we recently won the coveted Brandon Hall Global Excellence Awards, one of the most prestigious awards in human capital management.

As always, we are keeping a close watch on the markets and on our costs. We'll continue to be judicious about CapEx and we'll continue to focus on sustainable and profitable growth.

With this, I'll conclude my opening comments and hand over to our CFO, Gaurav. Thank you. Gaurav, over to you.

Gaurav Kumar: Thank you, Neeraj. And good afternoon, good evening, ladies and gentlemen. Continuing from where Neeraj left, let me share further details of the operations for the last quarter. The consolidated revenue for the quarter stood at INR 62.8 billion, a growth of 5% over the same quarter last year. The consolidated EBITDA for the quarter stood at INR 11.6 billion, a margin of 18.5% compared to 12% for the same period last year, and 16.8% in the last quarter.

In terms of our continued focus on profitability, our net profit was more than 2.5x and EBITDA more than 1.5x of the same quarter last year. There was a significant margin improvement even on a sequential basis.

Coming to the balance sheet. We have been able to further improve our leverage ratios given the focus on cash flow and profitability. The net debt to EBITDA for the consolidated operations was at 1x versus a 1.4x in March 2023. On the return on capital ROCE, if we annualise the first half, our ROCEs were in excess of 16%. In the Indian Operations, we continue to see demand momentum with healthy growth in the replacement and OEM segment. We've had a double-digit top-line growth in our domestic sales, which got muted to some extent by the challenging export markets. Even there, the exports are showing signs of pickup vis-a-vis the previous quarter.

Operational efficiency and strict cost control led us to report a healthy improvement in EBITDA margins, about 130 bps on a sequential basis and a 880 bps on a Y-on-Y basis and a healthy free cash flow. In terms of outlook, as Neeraj mentioned, we are seeing good signs of volume growth, particularly in the CV segment, and going ahead, we are confident of delivering a good revenue growth. We are cognisant that the raw material trend has reversed its downward trend. We would probably face a slightly upward trend, but in terms of delivering a strong operating performance, we are confident on account of better sales mix, price positioning, and cost efficiencies.

For the India Operations, the revenue for the quarter was INR 43.4 billion, a growth of 5% over the same quarter last year. The EBITDA for the quarter at INR 8.4 billion, was a margin in excess of 19% compared to 10.3% in the same period last year and 17.8% in the last quarter. The net debt to EBITDA for the India Operations was at 1.1x compared to 1.7x at the end of March 2023.

Coming to Europe, the markets remained subdued with the industry volumes in passenger car and truck declining by 7% and 9%. We continue to do better than the industry. We registered an 18% growth on a sequential basis on the top line and an improvement in sequential margins as well. We've gained market shares in the passenger car and Agri segments.

For the European Operations, the revenue for the quarter was EUR 169 million, up 18% sequentially, though lower compared to same quarter last year. The EBITDA for the quarter stood at EUR 24 million with an EBITDA margin of 14.1% compared to 15.3% for the same period last year and a 13.4% on a sequential basis. We continue to focus on the product mix with the UHP proportion being around 40%. The market is beginning to look better as we move into the third quarter. There is no change in our CapEx guidance for FY24 and we will continue to focus on profitability, free cash flow generation and improvement in return ratios as we go ahead.

With this, I would conclude my opening comments. Thank you. We would be happy to take your questions.

Question and Answer Session

Moderator: We have our first question from Mr Jinesh Gandhi.

Jinesh Gandhi: Hi, can you talk about what was the volume growth in this quarter for India Operations given that we had seen a reasonably good revenue growth? So, breakdown between volume growth and price increases?

Gaurav Kumar: Just one minute, Jinesh. The volume growth was 5%. So, the entire top line growth, Jinesh, came from volume growth.

Jinesh Gandhi: Okay. Okay. And this would be largely replacement driven or how it would be?

Gaurav Kumar: The volume growth?

Jinesh Gandhi: Yeah.

Gaurav Kumar: Overall, both replacement and OEM volumes were in excess of double digits and then got pulled down because of exports.

Jinesh Gandhi: Oh, okay. That's good to know. Secondly, with respect to the pricing environment in the market, if you can talk about that, given that we had seen some bit of increase in competitive intensity in previous quarters, in that context, how things are now?

Gaurav Kumar: The pricing environment has remained fairly stable. There was some pricing action taken on the truck bias category by competition and we also had to reduce prices marginally. There has been no pricing action on other product categories.

Jinesh Gandhi: Okay, okay. And lastly, India tax rate for first half seems to be close to about 35%. So, why the tax rate is so high and how do we see it going forward?

Gaurav Kumar: There are, given the current profitability, we would be pretty much in the similar range. There are no abnormals in this. I would still check with the tax team and we can get back to you.

Moderator: We have our next question from Siddhartha Bera.

Siddhartha Bera: Yeah, sir. Thanks for the opportunity and congrats on a good set of numbers. Sir, on the volume side for the India business, how will be on the replacement side, the growth be across truck and bus and passenger vehicle, if you can just break it out?

Neeraj Kanwar: Going forward, we are very bullish. We see the CV cycle, as I mentioned in my opening remarks, coming back. We see it already - signs in the OE showing very positive movement in CV. In passenger car also, the OE side is showing a double-digit growth. So, we believe that replacement going forward in Quarter 3 and Quarter 4 is going to be much better than Quarter 1 and Quarter 2.

Siddhartha Bera: And how was the Quarter 2 in terms of the replacement growth in truck and bus and PV?

Gaurav Kumar: Yeah, so PV for us was flattish. The growth in truck was close to 20%.

Siddhartha Bera: Understood. So, is it fair to assume that because of the pricing actions, we have seen some recovery in the volumes because it's been quite weak. So, any color on why this recovery we have seen and do you expect this recovery to sustain in the second half?

Neeraj Kanwar: We have not done any price corrections in Quarter 2. It's purely the brand pull that's coming in and the cycle of CV coming back. As you know, we are leaders in the CV segment. We are also now the clear leaders in passenger car tyres. We've also introduced the Vredestein brand in the premium segment. So, all of these moves that we have made in the market are now giving us good positive growth.

Siddhartha Bera: Got it. And sir, second question is on the commodity side. So, you indicated that we have seen some increase. So, any color on how much the increase has been on a per ton basis in the current quarter, Quarter 3?

Gaurav Kumar: Siddharth, the expectation for Quarter 3 is about a 2% - 3% increase in the raw material basket.

Siddhartha Bera: Okay. Got it. And sir, last year on the working capital sir, we have seen that this first half has been seen some drag on the working capital side. It has gone up quite a bit. So, do you expect there will be some normalisation over the year or do you believe some of these levels -- basically, I think payables have seen a sharp decline which has led to the increase in working capital. So, how to think about this for the whole year?

Gaurav Kumar: Yeah. So, the payables part is a very conscious decision, Siddharth. In some cases, the payments as per normal cycle or paying early was beneficial from a pure financial cost perspective and hence we chose to pay early. We can very easily go back to normal payables. There is no abnormality in the working capital increase. In fact, the inventory levels are down. There is an increase in receivables on account of sharp increase in the OE business which is as per the normal receivable days and as I mentioned the decrease in the payables which you also highlighted. Both of those are conscious decisions by the company. It is not caused by any pile up of inventory or piling up of receivables which is not usual.

Moderator: We have our next question from Mr Raghunandan.

Raghunandhan N. L.: Congratulations, sir, on strong numbers and festival greetings. Sir, firstly, on the Europe market, given that sluggish market is expected in the near term, how do you expect the recovery to pan out? And also how much would be the channel inventory as of now? And how it compares with the normal levels?

Neeraj Kanwar: I think we have seen Europe has bottomed out and we believe that now we will see a positive curve as far as growth is concerned. Also, as you know, Apollo is investing a lot in technology and our products are coming out at high levels. Our products have also been consistently attaining podium positions. So, we believe that the Vredestein brand in car tyres, will see a growth. Apollo in passenger car has gone down because of some product, not challenges, I would say, but we do not have some of the sizes, which we are now building those sizes in our factories in India. So, we will also see a surge in Apollo brand of passenger car tyres.

As far as Apollo TBR is concerned, we've already started seeing that there is a very good pull for our brand coming up. So, we believe that even in the CV cycle in Europe, we will have good growth. On the channel inventory, Gaurav, any thoughts?

Gaurav Kumar: Raghu, the inventory on the passenger car tyres, which is the main segment is fairly normal. There is no pile up on that. There is some bit of higher inventory on the Agri side, given how the market has been.

Raghunandhan N. L.: Got it, sir. On the commodity increase, you indicated a marginal increase of 2% to 3% next quarter. In your opening remarks, you alluded to cost saving efforts. Any quantification as to what are the focus areas and benefit? And also, if you can add some color on the efforts you are making on the product mix improvement?

Gaurav Kumar: So, on the cost saving side, Raghu, it's an area of constant work going on. There are savings depending on how the operations are faring, whether on the top line side or pressure from raw material, or savings on the SG&A side. The manufacturing efficiencies focus on that continues, but here it's more on the SG&A, whether it's directly sales related or lower spends across advertising, freight, travel, etcetera.

Neeraj Kanwar: And just to add to that, our whole focus is on enriching our product mix. As I mentioned to all of you, that our whole, the new Apollo 2.0 is going only after profitable growth. So, you have seen past eight quarters, Apollo margins have been the best in the industry and they will continue to be the best because our hardcore focus is on our balance sheet ratios, on profitable growth and on margin. So that is a very, very clear mandate given by me to all the regions that we are not going only after market share, but we have to go for profitable growth. So, you'll continue to see better results as far as the company is concerned.

Raghunandhan N. L.: So, on the product mix enrichment, mix enrichment, what ratios you constantly track in terms of, you know, would it be the diameter of tyres, how it is shifting to larger tyres or within your brands?

Neeraj Kanwar: So, I want to tell you two things here. And Gaurav you can take out that pie chart of how much 12 inch-13 inch has gone down from where it was in the meantime, let me know that number. So yes, we do analysis of the diameter as you know 12 inch and 13 inch are really not profitable products in India.

So, we are continuing to go down on 12-inch -13 inch and go up on 14-inch - 15 inch and upwards. So, it's all about upsizing and about going after the higher sizes which is 17 inch and up in India. That market is also growing as you know SUV market is now the fastest growing market in India and so, Apollo is standing as a leader in the SUV market.

Also, I want to tell on another thing that as far as Indian brands are concerned in India, Apollo is the price leader. Apollo is the price leader in passenger car with the highest volume selling in the replacement market. So, we are continuously monitoring on how to see how we can enrich our product mix. Then we have also brought in the Vredestein brand which is targeting the multinational brands that are in India which is Bridgestone, Michelin, Conti, Pirelli. And so, we have positioned Vredestein at the higher end of the market to compete with the international brands. And so, a combination of both of these, gives a better margin coming into the company.

As far as Europe is concerned, from the very beginning, today our UUHP which is the ultra-high-performance tyres, that basket would be around 44% or 45% of the entire basket. So, that also has come from a 35% level to a 45%. So, that also gives us better margin improvements.

Gaurav, you have that data on 12-inch -13 inch, how it's gone down?

Gaurav Kumar: I don't have the exact figures but Raghu, to give you over a 15-year period, 15 years back, the largest selling size was a 12-inch tyre which would have been about 30% plus, just volume of tyres. 10 years, 7 years back, that moved to 13-inch and currently the largest selling SKU and this is India Operation would be 14-inch, upwards of 30% of the overall mix.

Similarly, within India, while 16-inch and above is a very small market, that would have moved only from negligible to currently in the range of about 5%. So, that's how the mix change in India has happened. In Europe, in fact, if we go back a decade or six years back, the UHP proportion used to be in 20s, early 20s and that's now in excess of 40s. So, that's also been a journey made over the last 6-7 years.

Neeraj Kanwar: And Gaurav, one more thing I want to add here on two-wheeler journey which is very important. So, as you have seen, we have invested in the higher end of two-wheeler in bias and radial. We were the only company pioneering to make motorcycle radials in India. Now the others are trying to come in. These are again, profitable sizes. So, we are not going into volume and mass in two-wheeler because that's not profitable. We are going to high tech. So, if you see the entire radial basket of Apollo, starting from OHT all the way down to two-wheeler in the radial category, these are all high-end technology products where they're making better margins for us.

Raghunandhan N. L.: Thank you so much, sir, for the comprehensive answer. Lastly, Gaurav, would you be able to share the commodity cost data and reifen numbers?

Gaurav Kumar: Yeah. So, natural rubber was in the region of INR 160 per kg. Synthetic rubber about 145. Carbon black, 114. On the Reifen numbers, just a minute. Reifen in the current quarter was at EUR 38 million.

Raghunandhan N. L.: And EBITDA margin there?

Gaurav Kumar: EBITDA was just about break-even. This is not seasonally their best quarter.

Raghunandhan N. L.: And for RMV basket, how much was the fall Q-o-Q and Q2?

Gaurav Kumar: Sequential basis, it was a 2% fall.

Moderator: We have our next question from Mr Vimal.

Vimal: Congratulations on a very strong quarter. So, my question is on performance and outlook of the replacement market going forward on the domestic part. So how do you expect that to pan out, especially on the MNC front? And the second question is, assuming that there is a 5% increase in raw material basket and the current mix continues to remain same domestically, what's the kind of pricing increase you'll have to take in order to maintain the current levels of EBITDA per ton?

Gaurav Kumar: Yeah, so replacement, as we've mentioned, Vimal, that the momentum is very strong. The current outlook is that we should continue with a double-digit volume growth. CV has been very strong. We are seeing good signs in PV. So, from a domestic side, the current outlook on a year-on-year basis would be a double-digit growth.

On your second question, if RM was to go up by 5%, we would need to take about a 3% price increase. If everything else was to remain just the same.

Vimal: Understood. And this is irrespective of what competition does, you will take a price increase?

Gaurav Kumar: We will always have to see it within context of the industry. We've always been leaders in taking price increases. Currently, the RM increase is much lower. And we'll see how things are. As mentioned, we will first focus on cost reduction efforts and then take a call on the pricing front.

Vimal: And you're confident to maintain EBITDA per ton levels in India? The current EBITDA per ton levels? Because these are levels which we have not seen in a very, very long period of time. So, on EBITDA per ton basis, what's the outlook?

Gaurav Kumar: We don't give out guidance on the profitability front. We are focused on profitability, free cash flow, return on capital that will continue. But specific guidance on profitability, Vimal, we will not be able to give.

Vimal: No issues. All the very best.

Moderator: We have our next question from Nirav.

Nirav: Yeah. Hi, sir. So, I just wanted to know that at what crude prices are we comfortable maintaining and improving our current EBITDA level?

Gaurav Kumar: So, the current levels of crude, which reflect or maybe a one quarter back, which reflect in the current prices are comfortable as seen in the margins, Nirav.

Nirav: So, sir, we can say around USD 80 per barrel?

Gaurav Kumar: Just keep in mind, though, that crude while playing into the raw material prices of a large basket, our raw materials are still fourth, fifth level derivatives. So, yes, crude prices impact them, but they have their own demand supply cycle also.

Nirav: So, sir, I can assume that we are comfortable between USD 80 to USD 85 per barrel price. Or is it much?

Gaurav Kumar: Broadly, yes.

Nirav: Okay. And so, also the current capacity utilisation for the Indian market stood at 73%, which is relatively less. So, what is exactly the reason behind it?

Gaurav Kumar: The reason is simply the where our current capacity is and the demand levels. As Neeraj mentioned, there have been efforts on capacity de-bottlenecking through the whole AI, ML and Digitisation. So, there have been certain capacity enhancements which will come in handy as and when the demand grows. And currently, this capacity is fairly good for serving us for the next couple of years.

Nirav: Sir, could you give me the capacity utilisation product wise for PCR and TBR?

Gaurav Kumar: Broadly for truck it's about 75%, for passenger car it's about 80%. This is India.

Moderator: We have our next question from Mr Amyn.

Amyn Pirani: Hi. Yeah. My first question was on the ROCE, you know, Gaurav, you mentioned that 1H you have already hit 16% and your medium-term target is 12% to 15%. So how should we think about it? Should we think that maybe the target itself can be upgraded or should we think about that there are factors which could take this back down to that 12% to 15% range, which, you know, which could come in the future?

Gaurav Kumar: So, Amyn, when the target was set at the beginning of this five-year cycle, we were at mid-single digits and we have seen how with focus on certain key of these parameters, how much of improvement we have brought about. And yes, the current market conditions are favorable, but we would definitely be looking to revive the target upwards and continue to maintain it at these levels.

Amyn Pirani: Great. That's good to know. Secondly, you also talked about the fact that in response to a question that, you know, there was some price action taken on truck buyers by competition and you also responded. So, what I'm just trying to understand is that if say the action was in say truck radial or PCR, would your response have been different because, you know, otherwise the problem with this category has always been that, you know, if one player does something, others end up, you know, responding to it. So, I'm just trying to understand that, are you okay doing it in truck buyers, but in truck radial you feel you have a stronger position or, or how should we think about this?

Gaurav Kumar: Yeah. So, Amyn, as you rightly said, it will depend from segment to segment. Truck buyers was facing in fact, much lower demand, lower capacity utilisation. So, we took some pricing action on it and each of these capacities or product category pricing decisions would be taken independently. We cannot generalise that we will follow the same way that we did on truck bias, but we still have to function within the overall industry dynamics. So, it will always have to be a call taken, taking into account various factors.

Amyn Pirani: And just lastly, you know, I think this is the, I think in 1H also you maintain significant, you know, control on CapEx. And it appears that your utilisation except for PCR is still below 80%. So, how should we think about this? Do you envisage having to do a major capacity expansion over the next six months? Or do you think that for now, you're still comfortable and that is something that you'll have to think about maybe one year down the line?

Neeraj Kanwar: Gaurav, can I answer that?

Gaurav Kumar: Yes.

Neeraj Kanwar: Okay. So, we are not looking at any growth CapEx, as I've been mentioning quarter on quarter. We are looking at a very CapEx light model to enhance our capacities in all our factories. And even in my opening remarks, I said, through data, through digitalisation, we are getting a lot of data in our cloud lake., We have two now digital innovation centers, one in the UK, one in Hyderabad. And here there are data scientists sitting and they are analysing data, working along with the plants to see how we can increase our production from the current equipments with a very, very small amounts of investment in CapEx i.e., could be conveyor belts, could be some automation, but not, nothing major. So, we are looking for, the next one to two years, all the growth will come through such innovation in the company rather than to go and buy new equipment. I hope I've answered you.

Amyn Pirani: Absolutely. And that's great to know. Thank you and Diwali greetings in advance to the team.

Neeraj Kanwar: Thank you. Happy Diwali to you too. And one more thing is that what will this drive is our ROCEs will become better. Okay? We already had higher than 15% if I'm not mistaken in Quarter 2, we are aiming at going to much higher levels. So, this productivity enhancement will spread the asset much more at much, much lower CapEx, and we'll be able to achieve much better balance sheet ratios going forward.

Moderator: We have our next question from Mr Sanjeev.

Sanjeev: A couple of years back, you'd put out the message and I remember having a discussion on the nature of your R&D expenses, the fact that you were spending higher than industry, and there was a link between that R&D expenditure and the price premium. In fact, at that time, in the OE segment, you were getting your net-net at a discount to average prices to competition, and then you moved from a discount to a premium. So, your, you know, specific spend on R&D had a measurable, which was that you moved from a discount to a premium in the OE segment. So that was the quality sensitive segment, and it was demonstrated that your R&D was productive. So that's, you know, where are we on that? That's one. So, there are there are two detail oriented and then one big picture question.

Second was that the offtake with your MBOs was your receivables were lower, demonstrably lower. I remember 18 days as compared to almost 30 to 40 days of competition. So, in the MBOs, it was demonstrated that the same thing was happening in the replacement market. And for me, the demonstrable number was that your receivables were lower as compared to industry. So, where are we on that? So, these are the two numbers related question, which is in in line with, you know, you've already answered these questions partly about the movement, you know, up the value chain.

My big picture question is that having gone to the premium end, whether it's through Vredestein or, you know, becoming a global player as compared to competition, you know, which is mostly local oriented, and also being more focused on price performance, etcetera. You know, you kind of moved up the value chain. But once you look for dominance in the volume segment, and given that India remains a BOTP market, will you come back into the commodity segment just to dominate? You know, you have the money, you have the CapEx capability, you can start going in for volume shares rather than price or profit pool shares. So, could we get a sense of now what you're thinking going forward? So, this is the big picture, you know, question which is linked to what you will probably do on the M&A side, having, you know, finished your work on the value chain side.

Neeraj Kanwar: Okay. Sanjeev, there are two, three questions you asked. So, I'll try and answer two of them and the time receivables, Gaurav will take on. So, on our strategy perspective, I want to mention, as I've mentioned all the time that there are key five pillars for us going forward, which is going to drive EBITDA margins and our balance sheet ratios. I'm not so concerned about top line. Okay? And that's my mantra of profitable growth going forward, whether it was eight quarters ago, or whether it is eight quarters ahead. So, we are not going in for value volume products.

We are very clear we are going only after those markets, channels of distribution, which are going to be profitable to the company, whether it is in India, Europe, etcetera. We will keep on investing in R&D. Please understand because as you have said, R&D has given us a position in the premium segment. Otherwise, we were never in the premium segment. So today, amongst the Indian domestic players, today Apollo in both the truck-bus radial and in light truck radial and in-passenger car radial is clearly the premium price leader. And why is that? Because of the products and our performance and R&D. Okay? And therefore, we have been able to even garner more market share and we've become leaders in these top three segments of the market. We will continue to invest in R&D. We will remain under 2.5%, 3% to sale is our R&D expenditure.

My second basket, which I spoke about is the Brand. Because we've started investing in the brand, there is a brand pull coming in from the customer. So again, we will continue to build our two brands, Apollo and Vredestein in all our markets. So, my theory is very clear that we want to go into any new country, then we have to go and build the brand and build the product and take small steps. Only then can you garner good market share. So today the company is very, very clear and focused on looking at healthier margins and had profitable growth. Even going forward, that philosophy is not going to change. That philosophy will remain. We will continue to look at ROCEs, we will continue to look at free cash flows, and we will continue to better our margins as we move forward.

Gaurav, you want to come in?

Gaurav Kumar: Yes. So, Sanjeev, on the receivable front, we've always focused on that. Our working capital management has highlighted against competition. In fact, we've got now the operations focusing very sharply on inventory, where I would say we were at industry medians. And we are pushing the operations as to how we can improve and look to be the benchmark on that also.

Sanjeev: So, you know, just to confirm my understanding, therefore, we can look forward to a kind of a hub-and-spoke structure where you have production centers in India and maybe Hungary or Europe, and the rest of it will turn into a logistics and distribution company where you will seek, you know, it's going to turn into a distribution-oriented company if you're going to focus on margins rather than size?

Neeraj Kanwar: I didn't understand your -- where's the confusion?

Sanjeev: What I mean is your incremental investments will now be less towards, you know, manufacturing CapEx and more in on the working capital space. That is how you will push up your ROCE, I presume?

Gaurav Kumar: In the near term, as Neeraj mentioned, currently there is no growth CapEx. At some point of time, as the market grows, etcetera., even to just keep pace, there would be requirements, even the current model is the existing set of plants serving both the domestic geographies and the other international geographies across the world, and that will continue, for them to be just sales and marketing or distribution models.

Neeraj Kanwar: See, we are talking about the next two years, how the markets behave, how our brands behave. We will continue to analyse the markets and right now for the next two years, we are going on a very CapEx light model, which is looking at only digital transformation of the factories.

Moderator: We have our next question from Joseph George.

Joseph George: Hi. A great set of numbers. Just one question. I'm trying to understand what is the trigger point for you to take a price increase? So, you know, earlier you mentioned that next quarter you expect the RM basket to be up 2% to 3%, which might be a small pressure on margins maybe, but you said it's not enough to trigger a price hike. So, do you have like a, you know, a minimum margin criteria, maybe 15%, 16% whatever that number is or an ROC criteria? And if you see the RM pressure pushing the margin numbers or the ROC numbers below those threshold targets, you trigger a price hike, especially given that you're the leader in taking price increases? So, just wanted to understand your thoughts there.

Gaurav Kumar: So, broadly Joseph, the targets were laid out in the vision numbers, which we have been talking about EBITDA margins in excess of 15%. And we are well ahead of that as discussed recently with Amyn also that ROCE targets also have been exceeded and we will look to maintain these. There is no hard defined rule to say if ROCE is currently at 16%, at 15.5%, we should trigger a price increase. It's a discussion that will happen on a very regular constant basis. So as next quarter comes in, up to a certain point, the operations push themselves, challenge themselves to absorb the cost push on raw materials and mitigate it through other means. There is no defined set of numbers to say at this point, we'll take the price increase. But broadly, the intention would be, if we keep a ROCE as a sacrosanct, that should be above the 15% mark that we are looking at very stringently.

Moderator: We have our next question from Akash.

Akash: So, I just wanted to gain some understanding about how the RM management is done, the basically the raw materials, how are they kept? So, can you give a broad sense of like, how's the number of inventory days that we have? And then, also on the sourcing side, how is the sourcing between domestic and the international? So, just so we can get a sense of how basically the impact should come to our numbers with what kind of lag and etcetera?

Gaurav Kumar: So, the overall RM inventory for us is usually about 20 days. So, let's say anywhere between 2.5 weeks to 3.5 weeks. In the current set for our industry while you can -- we would usually not be dependent on a single supplier as a risk mitigation strategy. One can tie up volumes with the various suppliers based on estimates of demand and production, but pricing is fixed on a quarterly basis.

Akash: Got it. And on the domestic sourcing versus international?

Gaurav Kumar: So, for our India Operations, it would almost be an even mix between domestic and international, almost like 50-50 can vary plus minus 5% depending on the price dynamics or any other factor from quarter to quarter.

Akash: Got it. And next, so you've been talking about strong volume growth that we are expecting in the coming quarters as well, and everything looks good on the domestic side. But in one of the comments, you also mentioned that we are seeing pick up in the export segment and things are looking incrementally better. So, can you give some more qualitative comments on that what, basically where is the improvement coming from and how much of an extent of improvement can we see so that this volume number that's in the mid-single digit overall, can it move towards the high single digit side in the coming quarters?

Gaurav Kumar: So, while the year-on-year decline in the exports volume is of the order of 40%, but on a sequential basis, export volumes have gone up by 7%. Not one particular category, which is a highlight, it is fairly even between truck, passenger car, etcetera. So, one is looking as this continues, the extent of which the exports were dragging down our top line growth in the domestic market should start improving with the domestic volume, sales volume being up in double digits compared to last year.

Akash: So, will it be fair to assume that we can maybe in the subsequent one or two quarters go towards the overall volume growth towards a high single digit kind of a number?

Gaurav Kumar: Definitely possible.

Akash: Best of luck.

Moderator: We have our next question from Mr Nishit.

Nishit: Congratulations on a good set of numbers. I have three questions. Firstly, from a segment perspective, Apollo has done well moving away from CVs to passenger vehicle and now focusing on two-wheeler premium also. Just wanted to hear your thoughts on OHT segment, because that's not a big segment from an overall revenue perspective. But if I look at profit pool, that's a very big segment. One of the domestic players is making good money and has a good global presence, right? So, just wanted to understand, should we not focus in that segment in a really big way and that would help us in profitable growth and improving our ROC? That's number one.

Number two, see, you mentioned that there will not be much growth CapEx in the next at least one year and EBITDA should be healthy. In the first half, we have seen some increase in working capital, but going ahead, your absolute net debt should come down very, very sharply. Is that assessment right?

And thirdly, more from an industry perspective, we have seen natural rubber prices hovering around low levels while we have seen some volatility and uptake in other commodities. So, your internal assessment, what is your internal assessment on natural rubber prices? How should one look at it? Because we read some of the expert opinion saying that there is some mismatch between demand and supply, now supply is coming down and all those sort of things. So, just wanted to hear your thoughts. So, these are my three questions.

Neeraj Kanwar: Nishit, on OHT, you are right. There are healthier margins while revenues are smaller. But here the company is focusing on OHT. I want you to know. We have converted one of our plants' - nearly 50% of the capacity is going towards OHT. See, OHT in itself, 80% of OHT is Agri. The remainder is the industrial portion and the actual big sizes. Already in Agri, we are the leaders in India.

As far as Europe is concerned, Vredestein has a premium position in Europe. So, if Michelin is 100%, we are above 90%. So, we are seen as a premium brand in OHT. Currently, Europe and America OHT market is very, very negative. It's in the tune of I think, minus 30% or minus 40% over last year. So, the company is holding back on making investments in this. We are right now looking at how we can just sustain ourselves in OHT. But there is a very clear focus going forward. Keep also in mind that CapEx is heavy in OHT. So, first, we want to create the brand, create the market and then slowly, slowly, we will look at CapEx going in.

Then, you had asked about net debt. You are right in your views. I think net debt should be going lower than one as a company. Yeah. Then you have mentioned about natural rubber prices. So, you know, given the instability in the world and in the economies of the world, given there's a war, there are two wars going on today. We cannot predict the prices of natural rubber. But I can assure you one thing that I can predict my margins will be healthier. So, if we have to cut costs, if we have to optimise our sales mix, if we have to also take timely price increases, we will take as and when we see the basket of RM going up. So, we will continue to have focus on our margins. So natural rubber prices, I can't predict right now.

Nishit: Just one follow up. What would be the share of OHT in our overall revenues in India and Europe? And if you have the numbers handy, how many SKUs do you have in the OHT segment? Because what I understand is that in this segment, you need to have more and more SKUs to have a meaningful market share. Correct me if I'm wrong?

Gaurav Kumar: Farm and total industrial in India was about 12%, but a large extent of it is farm. Whereas in Europe, it's about 13%. I don't have the number of SKUs readily; we'll have to come back to you Nishit.

Moderator: We have our next question from Mr Priya Ranjan.

Priya Ranjan: So, we have seen significant amount of debt reduction, but we have not seen the amount of corresponding reduction in the interest cost. And is it, I mean, one will be the function of the interest rate has gone up in the last one year. But how should we look at that? Because I think that is one of the critical factor for your PAT growth or the PVT growth, going ahead?

And the secondly, on if you can touch upon the strategy in Europe, because I think Europe at this point of time, I think when the inflation is one of the key criteria in Europe, I think the, our market share should ideally improve being a slightly discounted brand. And this is one of the area where we have to spread our wings, I mean, in the major countries across the different geography within the Europe. So, if you can throw some light on that?

Gaurav Kumar: So, Priya Ranjan, interest cost will keep coming down on a quarter basis there might have been working capital borrowings which are then again not there at the end of the quarter, but broadly the interest cost will keep coming down and then feeding into a net profit growth.

On the Europe side, yes, we are a Tier B brand compared to the absolute top brands, but we are also not a discounted brand and we are not attempting to win market shares, as Neeraj has constantly highlighted, by trying to play the price game. So, we will function within the market of building up the brand, taking steps in the various geographies where within Europe we may be not as strong as some of the other geographies but we will not go after big market share gains on back of pricing actions.

Priya Ranjan: Understood. And in domestic market you touched upon I mean there has been significant amount of growth in the truck side, but I mean the passenger car any reason because I mean this is one segment the passenger car has been not seen any kind of major degrowth in last many years. So, any specific reason do you see in the market is why the market itself is a weak?

Gaurav Kumar: No particular reason, it has had strong growth this one quarter it was flattish so more an aberration. If we look at the previous years it was growing and it was growing much more than the truck side. So, we are seeing now good signs in the festive season and we expect that our demand growth to come back on the passenger car side also.

Priya Ranjan: Sure. And the 17 inch, 18 inch do you see that pickup is happening in India as well? Because a lot of SUVs are coming with the 17-inch, 18-inch side and that time in the share of that business is I mean, that kind of vehicle is going up. So, how well prepared we are in terms of in next two, three years? And secondly, in last few years because our focus has been on ROCE and profitability. Our marketing, do you think that our marketing investment has been slightly lower and we need to up that game a bit as well?

Gaurav Kumar: So, the share of 17-inch, 18 inch in India is going up with the SUVs etcetera, but still very small compared to what we see in our European Operations, if there are, if we say UHP is 17 inch and above where it's 40% there, here it's still in mid to low single digits. So, it will keep growing faster than the overall market, but still way behind the international levels. We have increased our marketing spends. Will you see a sudden big splurge or jump from the current levels? No, we'll be conscious of building up the brand, but building it up with spends, going along with the focus on profitability and cash flows.

Moderator: That was the last question for the day. I will now hand over the floor to the management for any closing remarks. Thank you.

Neeraj Kanwar: Well, we'd like to thank all of you and be rest assured in quarter three you will see a better result from the company. Thank you.

Gaurav Kumar: Thank you.