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GST No.: 06AAACA6990Q1Z2

ATL/SEC/21 August 16, 2021

The Secretary, **BSE Ltd.,** **Phiroze Jeejeebhoy Towers,** **Dalal Street,** **Mumbai- 400 001**	**The Secretary,** **National Stock Exchange of India Ltd.,** **Exchange Plaza,** **Bandra-Kurla Complex,** **Bandra (E),** **Mumbai-400 051**

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 analyst and investors to discuss the financial and operational performance of the Company was held on August 5, 2021.

Please find attached herewith the transcript of the aforesaid call. The same has also been placed on the website of the Company i.e. www.apollotyres.com.

This is for your information and records.

Thanking You,

Yours Sincerely,
For Apollo Tyres Ltd.

Seema Thapar

(Seema Thapar)
Company Secretary & Compliance Officer

Apollo Tyres 1Q FY22 Results' Conference Call

Nitin Agarwal: JM Financial

Good afternoon, everyone. Thank you for joining in for Apollo Tyres 1Q FY '22 Result Conference Call. We thank Apollo Tyres management for giving JM Financial the opportunity to host the call today. We have with us, the senior management team from the company represented by Neeraj Kanwar, Vice Chairman and Managing Director, Apollo Tyres, Gaurav Kumar, Chief Financial Officer, Ravi Shingari, Group Head, Accounts and Taxation along with the IR team. We'll start with the opening comments from the management and then followed by a Q&A.

I would like to hand over the floor to Mr Kanwar for his initial remarks. Over to you, Sir.

Neeraj Kanwar, Vice Chairman & Managing Director

Thank you. Good morning, good afternoon to everyone. And a very warm welcome to all of you for quarter one earnings call. First of all, best wishes for you and your family's health and safety. Last few months have been once again, very difficult for all of us. And I would like to take this opportunity to thank each and every stakeholder of Apollo Tyres for their continued effort and support.

On the positive side, we have witnessed a steady pickup in demand momentum in India from June onwards, and I do see light at the end of the tunnel in terms of vaccination and opening up of the Indian economy. However, let me reiterate that we continue to prioritise safety for all our stakeholders over everything else. Although we have limited medical expertise to comment on COVID pandemic, based on our interactions with market participants, we remain optimistic on industry outlook in the near medium term and very bullish in the longer-term.

Moving to business, the quarter results were impacted by COVID second wave in India and rising RM cost pressures. I'm pleased with the strong operating performance in Europe and healthy performance in India.

At a broad level, I would want to highlight three things. Firstly, in quarter one, strong operating performance in Europe helped partially negate the margin decline in Indian Operations, which highlights our long-term strategy of diversification and de-risking of business model from any one geography. Secondly, in India despite COVID second wave and cost pressures, the pricing environment remains stable. And lastly, we continued to gain market share across key product segments in our major markets. The result of the strategic initiative taken in Europe is reflected in the operating performance in terms of continued good profitability, over the last few quarters, you would have noticed. We aim to make our European Operations a small, fast growing operation with high rich profitable levels.

Over the past 15 months, we have taken initiatives across various fronts that have ensured that we emerge stronger through this pandemic. These initiatives not only have helped us reduce and optimise costs, but also has made us more resilient and future ready.

Finally, despite the uncertainties and difficult economic environment, we have significantly strengthened our balance sheet in the last 15 months. In fact, in the last 15 months, I have been very impressed with the passion and commitment shown by all our stakeholders. And this has encouraged us to get even more bolder in current times. We recently unveiled our new corporate identity and our vision for 2026. As part of our vision 2026, we've laid down performance targets and also key enablers, which would help us to achieve our vision and our performance targets.

Finally, in terms of outlook, we are optimistic about demand momentum in the near medium term, given continued demand recovery and stable pricing environment across our key markets. I would once again use this opportunity to reiterate our long-term focus area. We are committed to use every possible opportunity to emerge as a leaner and a much more efficient organisation. We continue to see huge opportunity in our key markets over the medium long-term and are well placed to leverage the same given our investments in our capacity in R&D, in our brand, distribution and cost optimisation.

With this, I would like to thank you again. And I'd like to conclude my opening remarks and hand over the call to Gaurav. Please stay safe. Thank you.

Gaurav Kumar,, Chief Financial Officer

Thank you, Neeraj, and good afternoon ladies and gentlemen. Continuing from where Neeraj left, let me start by reiterating that as a company, we are first and foremost focused on the safety and well being of our employees and other stakeholders. In India, we continue to face a big challenge dealing with the pandemic, which, together with the rising RM cost pressure, put additional challenges.

Last quarter, we saw the India domestic sales coming down sequentially, especially the OE sales were significantly impacted. We are now witnessing a steady improvement in the demand momentum. The RM pressure continues, which has impacted our operating margins in the first quarter of fiscal year '22. We have taken 3% to 4% price increase across product categories in Q1 and have already announced further price increases in the current quarter to offset this cost push.

And while we may lag behind in the near-term, due to this RM cost push, we continue to target the mid-double-digit EBITDA margins on a steady state basis in the medium to long-term. Europe once again following on from the last quarter, reported a strong operating performance in Q1 on the profitability front. And it reaffirms the business potential of Europe as a market along with the benefits of diversification and de-risking of our business model. The European Operation, post the strategic initiative of last year, is now showing clear signs of returning to consistently higher profitability similar to the scenario of five to six years back.

While the business environment is improving, these are still uncertain times. However, on the basis of the various strategic measures that we have taken through the last 15 months in both India and Europe Operations, we are far better placed and in a stronger financial position to face the current situation.

Moving on to financial results. The consolidated revenue for the quarter stood at INR 46 billion, a growth of nearly 60% over the same quarter last year, though a decline of 9% on a sequential basis. The big growth year-on-year basis is on account of the fact that first quarter of last year had a massive impact of COVID first wave. In terms of demand outlook, based on our discussions with market participants, we expect healthy demand momentum in both our key geographies India and Europe.

The consolidated EBITDA for the quarter stood at INR 5.7 billion, a margin of 12.4%, which is significantly up compared to 8.5% in the same period last year. This margin improvement has been helped by growth in top-line, cost control and healthy profits of the European Operations. We witnessed a drop in margins on a sequential basis, primarily on account of RM inflation.

Coming to the balance sheet, we have been able to strengthen our balance sheet over the last several quarters with cost control measures, control over CapEx and timely equity raise. The net debt to EBITDA for the consolidated operation remains at 1.6x.

Moving on to India Operations, the revenue for the quarter was INR 32 billion, a growth of 80% plus over the same period last year, but a decline of 11% on the sequential basis. The EBITDA for the quarter, at INR 3.3 billion, was at 10.4%. A slight decline compared to the 10.8% for the same period last year. The sequential margins came down significantly, once again as mentioned earlier, impacted by the RM cost push. Price increases have been taken and already announced to negate this.

In terms of the demand environment, we saw maximum impact of COVID second wave and the lockdowns in the month of May, and have witnessed a steady demand recovery since then. We also put a greater thrust on exports to counter the reduced domestic demand and this resulted in our highest-ever export turnover last quarter. At the end of last quarter, the net debt in India Operations stood at INR 39 billion and the net debt to EBITDA at 1.8x.

Moving on to Europe, the revenues for the quarter were EUR 114 million, an increase of 25% compared to the same period last year. The EBITDA for the quarter was at EUR 19 million, a 16.3% margin compared to a mere 2.2% for the first quarter last year. Apart from the strategic moves, our continuous focus on improving the sales mix also adds into this healthy margins.

Our UHP, the Ultra High Performance proportion of tyres in the passenger car categories has gone up to 38%. The strategic move regarding specialisation of Enschede plant is now complete. We continue to gain market share in the TBR and the farm segment. In the European Operations, the market is showing signs of good growth and we look to, in fact, significantly up our volumes going forward.

Thank you, we would be happy to take your questions.

Q&A

Nitin Agarwal: JM Financial
Thank you, Gaurav. We will now begin with a question and answer session. You may please press the raise-hand option to ask a question. We wait for a while till the question queue assembles. The first question is from the line of Ashutosh Tiwari, Ashutosh please unmute yourself to ask your question. Ashutosh, your line is unmuted. You may please speak now.

Ashutosh Tiwari: Equirus Securities

So firstly, Gaurav, what was the growth on a quarter-on-quarter we saw a decline, on a quarter-on-quarter basis in India in volume terms?

Gaurav Kumar,, Chief Financial Officer

Ashutosh, the decline in unit volumes was about 11% in India Operations sequentially.

Ashutosh Tiwari: Equirus Securities

Okay. And secondly, we have done very well in exports side, can you throw some light what really happened in the quarter and is this a sustainable kind of export sales that we can see going ahead?

Gaurav Kumar,, Chief Financial Officer

Yes, it's definitely sustainable. A, it's not just a one quarter happening, Ashutosh. We've been building towards these overseas markets that we have always talked to you people about not being dependent on one geography. Europe Operations also now have a reasonable dependence on India for volumes coming in, but apart from that, we have developed our markets in North America, South America, the ASEAN-Middle East region and that was the fundamental strategy of saying that we should have these other markets to de-risk ourselves and not being dependent on just one market alone. There's a lot of R&D work, brand building that has gone in, in these geographies. And in such times as last quarter, we upped the volumes there.

To the second part of your question, these volumes or the kind of level that we have done in the last quarter are very much sustainable.

Ashutosh Tiwari: Equirus Securities

Okay. And lastly, if I may ask, in terms of European Operations, obviously, we saw 15% decline quarter-on-quarter, but how do you expect the sales to trend in this quarter? Will it normalise to -- generally to $130 million, $155 million, euro sales in Europe, will it normalise to that level in 2Q?

Gaurav Kumar,, Chief Financial Officer

Yes, it would normalise. You should also take into account the fact that in the first quarter, we had just closed the specialisation of the Enschede plant. It's a fairly big strategic move and we were going through the transition phase and in our case, for a manufacturing industry, it's not just a simple move that you pickup one tyre, which is being produced in plant A, and from the next day, start producing it in plant B. There's a fair bit of work of industrialisation, SKU-by-SKU, which goes along, so there was a quarter of transition that we went through. And keep in mind that some of the challenges or some of the drop in sales that you see is due to the current significant problems on container and freight that is hitting worldwide, not just our industry. So yes, to your question, the Q2 should see European Operations at a normalised level of the past.

Ashutosh Tiwari: Equirus Securities

Okay, thanks. That's good to hear, I think.

Nitin Agarwal: JM Financial

We have the next question from the line of Jinesh Gandhi. Jinesh, please unmute yourself to ask your question.

Jinesh Gandhi: Motilal Oswal Securities

Hi, am I audible?

Nitin Agarwal: JM Financial

Yes, you're audible

Jinesh Gandhi: Motilal Oswal Securities

Yeah. Hi. Gaurav, my question pertains to firstly, in the India business what kind of RM cost inflation do we expect in second quarter? And what's the price increase which you have taken? And second question pertains to European Operations. It seems we haven't yet seen impact of commodity inflation considering gross margin expansion on Q-o-Q basis. So what are your thoughts on that? And thirdly, have we started seeing benefit of employee cost reduction in Europe, again, not reflected on Q-o-Q basis. So do we expect in coming quarters? Thanks.

Gaurav Kumar, Chief Financial Officer

So the RM cost increase that we expect in Q2, Jinesh, over Q1 is about 5%. We are looking to take a price increase of a 3% plus in Q2, 3% to 4%, which would negate this completely. And in fact, with the rolling across of price increases taken in the past, even look to cover up something. On the European side also, the gross margin improvement that you're talking about is despite the cost push. The RM cost push is there to a lesser degree, in Europe, compared to a much larger figure in India. So in spite of that, the gross margin expansion is a reflection of a richer product. And from this quarter onwards, that is the June quarter, the benefits of lower salary are already beginning to flow into the P&L.

Jinesh Gandhi: Motilal Oswal Securities

Thanks, I'll come back in queue.

Nitin Agarwal: JM Financial

We have the next question from Raghunandhan. Raghunandhan, please unmute yourself to ask your question.

Raghunandhan N.L.: Emkay Global Financial Services

Thank you. Thank you for the opportunity. I hope I'm audible.

Nitin Agarwal: JM Financial

Yes, you're audible.

Raghunandhan N.L.: Emkay Global Financial Services

My first question was on the demand conditions across segments in India, how is the demand coming back, which are the segments where the demand is coming back more quickly than others. And secondly, Gaurav, I would request you to share the commodity-wise prices, which you generally do. And thirdly, can you remind us please of FY '22 CapEx and any thoughts on FY '23 plans?

Gaurav Kumar, Chief Financial Officer

Raghunandhan, the demand is coming back strongly across categories, probably the only laggard to some extent would be the truck OEM which may take another quarter for the demand to pick up. In the replacement segment, across categories, we are seeing good demand momentum and in fact, starting from June onwards. OE also, the PCR and the farm category are good. It's only in the truck OEM that there is some amount of lag.

On your prices, just a minute. Natural Rubber for the quarter was at INR 170/kg, synthetic rubber at INR 155, carbon black at INR 90, and steel cord at INR 155. What was your third question Raghu?

Raghunandhan N.L.: Emkay Global Financial Services

On the CapEx side for FY '22 and '23.

Gaurav Kumar, Chief Financial Officer

For FY '22, we remain at the CapEx guidance of earlier which is around the INR 1,800 crore mark. And we continue to closely look at the situation to say, if we see demand faltering and whatever, if we need small amounts of deferment, we may do that, but not a big deviation from this figure that we had guided towards. FY '23 is still on the drawing board. Given these uncertain times, we are as of now not committed to any large CapEx for FY '23 in India. And in Europe, that number is more or less of a steady maintenance CapEx. There is no big growth CapEx as of now.

Raghunandhan N.L.: Emkay Global Financial Services

Thank you, Gaurav. I'll come back in queue.

Gaurav Kumar, Chief Financial Officer

Thank you.

Nitin Agarwal: JM Financial

The next question is from the line of Siddhartha Bera. Siddhartha, please unmute yourself.

Siddhartha Bera: Nomura

Hi, sir. Thanks for the opportunity. Sir, my first question is, again, a clarification on the first quarter number you highlighted that the volumes were down 11%. So, I mean -- and we have taken a 3% to 4% price hike. Also, if I compare the RM per tonne, it is like up only 7%, while we have highlighted that it is about 10% Q-o-Q. So I mean, is it a reason that exports have gone up and that is why the mix is slightly different and that is why the ASPs and RM costs are not comparable?

Gaurav Kumar, Chief Financial Officer

So, Siddhartha, I can only give figures at the aggregate level for reasons of confidentiality. The overall volumes is down 11%. There is a fair bit of mix change between replacement, OE and exports and even within product categories, which would play into the mix. And the 3% to 4% price increase that I talk about is in the replacement segment. In some of the OEMs, it is larger, it's also taken in the middle of the quarter. So it does not -- it's not there right through the quarter. So you would find it difficult if you were to do all the maths with five-six product categories, three channels, but I would not be in a position to share details segment-by-segment.

Siddhartha Bera: Nomura

Okay, sir, understood. And the price hike of about 5% which we have taken from July. So that -- sorry, 3% plus so probably will that be sufficient to achieve the net double-digit margins of our target or you think there will be more price increases required, if suppose the commodity prices remain stable, where they are?

Neeraj Kanwar, Vice Chairman & Managing Director

Gaurav, let me answer this. So we are seeing raw material prices now. Some softness is coming in China. As recent as two days ago, we've seen some softness in the Chinese economy because there's a wave of COVID coming there. When that happens, commodity prices should start softening, but in quarter two, the company has already announced price hikes. We've already taken one in July and we will be taking one in August. So in all likelihood, it should balance out as we go along.

Siddhartha Bera: Nomura

Understood. Sir, last question is on the Europe side. If I see the industry, it is like stable Q-o-Q in the first quarter, and the outlook remains quite good and in the 18 inch plus tyre segment, I think there's a good healthy double-digit growth as well Q-o-Q. So, in that backdrop, our Europe revenues are down sequentially. So, any particular reason, why -- have we lost some market share or what has happened there?

Neeraj Kanwar, Vice Chairman & Managing Director

So, like Gaurav mentioned, because we are in this phase of transition where you have seen the specialisation project just finished in the month of March end and therefore molds movement to

India, mold movements to Hungary has taken time; plus you need to industrialise some of the products in the new plants in Andhra, in Chennai, and in Hungary and therefore it is taking time. And therefore there is a loss in sales because of loss of production. So it's really an internal factor as this quarter, you will see that we'll be back to normal.

Siddhartha Bera: Nomura

Okay, sir, understood. I'll come back in the queue.

Neeraj Kanwar, Vice Chairman & Managing Director

Thank you.

Nitin Agarwal: JM Financial

Thank you. We have the next question from the line of Joseph George. Joseph, please unmute yourself to ask your question.

Joseph George: Equity Research

Thank you for the opportunity. Am I audible?

Nitin Agarwal: JM Financial

Yes.

Joseph George: Equity Research

Thank you. So I had three questions. The first question is with respect to the EU sales. So you mentioned that because of the restructuring effort that was being put in the Dutch Operations, this quarter's revenues were impacted. I wanted to understand whether this production disruption, short-term, of course, has resulted in significant fall in the inventory that is available with your dealers? Because I'm guessing the end demand would have continued at the same rate, but it's your production disruption that has resulted in lower revenues?

Neeraj Kanwar, Vice Chairman & Managing Director

Yes, in some cases, specifically in Germany, yes, it has happened. But it's only a quarter. So we will be back in terms of volumes and sales, as I've mentioned, is you have to see on the positive side, it has given us a healthier P&L. EBITDA margins are above 15% quarter-on-quarter, while even volume went down, EBITDA was still higher than 15%. So that's a very positive sign. As soon as we get to normal sales, there will be expansion on EBITDA margin.

Joseph George: Equity Research

Sure, understood. The second question that I had was with respect to the exports that are happening from India into Europe. So when you reported EUR 114 million as the revenue for the European Manufacturing Operations, does it include the revenues generated by exporting tires from India into Europe? Just wanted to understand this accounting method.

Neeraj Kanwar, Vice Chairman & Managing Director

Yes, it's on a transfer prices basis, but, Gaurav, you may want to answer that correctly.

Gaurav Kumar, Chief Financial Officer

Joseph, yes, the Indian Operations account for that in their sales with a transfer pricing allowed markup. The European Operations accounting-wise would treat it as bought outs and then they have to add their selling and distribution costs and other administrative costs to make a margin over and above that. So the margin to that extent is shared between the geographies dictated by the transfer pricing regulation, which is an international practice. And in the consolidated, the sales of India Operations to Europe get eliminated, and only the sales to the third party, actual customer counts.

Joseph George: Equity Research

Understood, that's clear. And Gaurav, the last question that I had was in relation to the employee cost, I think a previous question touched about it -- touched upon it. The simple exercise that I'm doing here is taking and deducting the standalone employee cost from the consolidated employee cost and looking at the trend, and what I noticed is that the fall that we are seeing is not very sharp. So did you mention that June quarter results completely reflect the benefit of the headcount reduction, et cetera? And there isn't any further benefit that is going to come in the September quarter, it will just be a continuation of the existing benefit?

Gaurav Kumar, Chief Financial Officer

That's correct. There may have been small increases in some of the other geographies as we grow in the Americas, et cetera. So, when you do the consolidated minus standalone, you need to take into account that there are other operations and as they grow, there are small additions in manpower. Hungary also, as it ramps up the volume, may have taken on some additional manpower. But to your fundamental point, in the Netherlands company, there is no carrying manpower cost, which is related to the restructuring or the specialisation, that was all closed as of end March.

Neeraj Kanwar, Vice Chairman & Managing Director

Yes, and just one more point, Gaurav, to add it on to, standalone employee costs might go up in India because we are into a phase of long-term settlements in Kerala. Also AP is ramping up so more employees are coming into AP. And so you might see slight fixed overheads going up, employee cost going up.

Joseph George: Equity Research

Understood. Thank you for the responses.

Nitin Agarwal: JM Financial

Thank you. Our next question is from Pramod Amte. Pramod, please unmute yourself to ask your question.

Pramod Amte: ABN Amro

This is with regard to exports, the exports are gone up to almost like INR 5 billion, it seems from India, would you be able to give a color how much of this is going to Europe and how much is going to the rest of the markets?

Neeraj Kanwar, Vice Chairman & Managing Director

Gaurav, you have that breakup?

Gaurav Kumar, Chief Financial Officer

Pramod, I don't have this readily, but we can come back to you and give you the broad breakup of Europe and rest of the world.

Pramod Amte: ABN Amro

And the second question is with regard to the consol net debt. This is a second quarter -- second consecutive quarter where it has moved up from almost like INR 38 billion to INR 48 billion. Do you see it as a cause of concern, considering that you still have a decent CapEx to make and where you expect it to peak out in the coming quarters?

Gaurav Kumar, Chief Financial Officer

So Pramod, it's not a cause of concern. There are, A, the leveraging ratio is well under control. But even besides that, a couple of factors which have contributed into this increase, even if we hold the same level of inventory, in terms of number of days, the value of that has gone up, because the costs have gone up.

And secondly, given the second wave of COVID in India, the operations went through a little bit of a start stop. So we've actually had an inventory increase, which would not have happened if it was normal operations. So if we take out these two factors, there is a marginal increase in net debt still given the operating performance, but we do not see it as a cause of concern at all. Our leveraging levels, our balance sheet should be well under control.

Pramod Amte: ABN Amro

Thanks and all the best.

Gaurav Kumar, Chief Financial Officer

Thank you, Pramod.

Nitin Agarwal: JM Financial

Our next question is from the line of Sonal Gupta. Sonal, please unmute yourself to ask your question.

Sonal Gupta: UBS

Good afternoon, and thanks for taking my question. Just a couple of questions. One, could you break out the other operating income for this quarter in India?

Gaurav Kumar, Chief Financial Officer

Sonal, the biggest component of the other operating income is the investment promotion subsidy that we get based on our investment in Chennai. And there is also a similar component, which is the unwinding of the deferred income relating to the EPCG as we fulfill the obligations. These two components pretty much comprise all of it, which is almost as much as 80 - 85%. The rest is small, which is sale of scrap, et cetera.

Sonal Gupta: UBS

So what was the total number?

Gaurav Kumar, Chief Financial Officer

That number is about INR 875 million.

Sonal Gupta: UBS

INR 875 million. And just on the exports. I mean, I know you may or may not be able to break it out for this quarter. But, I mean, just on a directional basis, could you help us understand like, say, I think roughly we used to be at around 10% of exports? So how is this number looking? You're looking to change that now with the industrialisation at Enschede? Where could this be in this -- by end of this year and next year?

Gaurav Kumar, Chief Financial Officer

Sonal, we would expect this number to be in a 15% plus range. The India business will still continue to depend primarily on the domestic business because that's also showing healthy growth, but the 10% will probably move up to a 15% range.

Sonal Gupta: UBS

Right. And just lastly, I mean, just carrying on from Joseph's question, so when these sales are recognised in Europe, so this -- when you're giving us EUR 114 million, this includes all the full sales in Europe other than the Reifen or does this -- I mean, like just trying to understand that as the mix shifts more towards Indian import, will that mean that the margins optically sort of come down a little bit.

Gaurav Kumar, Chief Financial Officer

So to your first part, it excludes Reifen. We have always talked of our European numbers and shared with you what the market wanted, which is the European manufacturing and sales operation, and Reifen is separate in our commentary. To the second part of your question, the way the manufacturing optimisation has been done depending on which SKUs come from where. Unless something goes very much off on either freight rates or exchange rate, the business which is sourced from India do not pull down the European margins.

Neeraj Kanwar, Vice Chairman & Managing Director

In fact, Sonal, it will only get more margin expansion happening because India will be selling sizes which are smaller, and profit expansion will happen.

Sonal Gupta: UBS

Right. So, I mean, like you making, let's say, whatever, somewhere around a double-digit margin in India plus the European margins, right? So you're saying that the -- at both entity levels you're not going to see any dilution in margin because of this?

Neeraj Kanwar, Vice Chairman & Managing Director

No. No, that is why this specialisation of the Enschede plant has been done. Whereby removing the loss-making sizes because Enschede cost of manufacturing is very high to Eastern Europe and to India, and therefore, margin expansions will happen in both the regions.

Sonal Gupta: UBS

Okay, thanks. That's great to know. Thank you so much.

Neeraj Kanwar, Vice Chairman & Managing Director

Thank you.

Nitin Agarwal: JM Financial

Thank you. Our next question is from the line of Nishit Jalan. Nishit, please go ahead and ask your question.

Nishit Jalan: Axis Capital

My first question is, in Europe after this restructuring exercise, what is the revenue potential that we have from the European Manufacturing Operations that we can do in terms of euro million, can you help with that please?

Gaurav Kumar, Chief Financial Officer

So near-term, Nishit, we would be able to expect to see, depending on the market conditions are high single-digit.

Nishit Jalan: Axis Capital

Gaurav, not near-term, I'm just asking with the capacity available in both Netherlands and Hungary after this restructuring. If you operate at whatever 100% utilisation, what is the peak revenue potential from these regions?

Gaurav Kumar, Chief Financial Officer

Nishit, the only issue is that we have taken into account a large number of sizes that will come from India. So to say, what is the European Operations' potential, just looking at the European capacity is not looking at it the right way because there's a fundamental decision taken that x percentage of the SKUs for European business would come from India.

Neeraj Kanwar, Vice Chairman & Managing Director

You have to also keep in mind, we do buy outsourced products from BKT, from other manufacturers, and so that's how the sales operations takes place in Europe. It's not alone, only the two plants that you're talking about.

Nishit Jalan: Axis Capital

So that number is difficult to share. That's what you are saying. We understand that exports will happen, but just wanted to understand if Hungary and -- let's say Hungary operates at 100%

utilisation, what kind of revenues can we do? I'm asking from the perspective that if both of those plants are fully operational, and obviously certain SKU will export from India, when you will feel the need to expand capacity in Europe itself?

Gaurav Kumar, Chief Financial Officer

So, Nishit, we will look at the demand. We will also assess let's say the next expansion should come somewhere in FY '24 maybe and whether that should happen in India or in Europe, it will be a mix of demand across geographies, and not just the European demand on which the decision would be based. Too early to say when and where that expansion would be needed, but, yes, over our five-year horizon, clearly we would need a PCR expansion for our European Operations and for our Indian Operations.

Nishit Jalan: Axis Capital

Okay. Just one follow up on this question. Exports from India to geographies like North America and all would be done from India or you will do it from Europe? And when we look at export piece of business in the India and entity standalone business, will this be a higher margin business compared to the domestic operations or it will be at par?

Gaurav Kumar, Chief Financial Officer

Sure. So even exports to North America, U.S., that you mentioned, is a mix. It goes from both India and the European plant. And again, it's dependent either on the product line, even within the passenger car categories there could be a development of a passenger line for the Indian plants and a passenger car tyre line in the European plants. And so it's not just from one geography. And what was your second question?

Nishit Jalan: Axis Capital

Whether export is more profitable than the domestic operations or will it be at par?

Gaurav Kumar, Chief Financial Officer

Exports is not as profitable as the domestic business, also because of the fact that the margin is shared between geographies. India Operations has to charge what transfer pricing norms allow us to charge. The domestic replacement is the most profitable segment. And then OE versus exports would vary depending on across product categories or across where raw material cycle is.

Nishit Jalan: Axis Capital

Okay, thank you so much.

Gaurav Kumar, Chief Financial Officer

Thanks, Nishit.

Nitin Agarwal: JM Financial

We have our next question from the line of Sanjeev Goswami. Sanjeev, please unmute your line to ask your question.

Sanjeev Goswami: Fractal Capital

Yeah, good afternoon, sir. Sir, my first question is with regards to your Investment Promotion subsidy that we have. I understand that we have it from Tamil Nadu and Andhra Pradesh government. And it has two components, the Phase 1 is more bulky kind of one, which is linked to the milestone that we achieve and we get one-time subsidy and the second is a 12-year or 15-year trail that we have. It's a bit difficult to actually model it in line with the CapEx and the gross block additions that we do. So, can you give us some kind of guidance how we should look at this number over the next two, three years, because these are committed CapEx from which it is coming?

Gaurav Kumar, Chief Financial Officer

Sanjeev, the CapEx in Chennai has been completed. You could more or less look at the current year number as a fairly stable number. There are no one-offs in the current quarter other operating income.

Sanjeev Goswami: Fractal Capital

Okay. The reason I asked is because in financial year '21, you had INR 161 crores as a Phase 1 subsidy, which is against INR 8 crore, which happened in FY '20. So there was a very huge jump, which happened in one financial year. So do you think it will continue?

Gaurav Kumar, Chief Financial Officer

No, Sanjeev, last year one big jump was because post switching from VAT regime to GST regime and I'm not the big expert on taxation matters. There was a period in between where there was a lack of clarity on how the subsidy that was offered for investment would be changed over because the VAT regime changed to GST. Once that was clarified, there was a backlog of a couple of years which came in, in one go. And that's why you saw one-offs. The current quarter is a normalised scenario when that regime of the Investment Promotion subsidy is established, which is why I said that the current quarter number is a fairly stable one that you could model for your purposes as continued.

Sanjeev Goswami: Fractal Capital

And we have almost INR 260 crores sitting as receivable of this investment subsidy. Have we received this part?

Gaurav Kumar, Chief Financial Officer

There is no big overdue. It keeps coming in, so if there is a INR 260 crore, I think a large part of it has been received. Ravi, anything more on that?

Ravi Shingari, Group Head, Accounts & Taxation

No, Gaurav. That's a fair understanding. A large part of it has come in this quarter.

Sanjeev Goswami: Fractal Capital

Fair enough. Thanks a lot, sir.

Nitin Agarwal: JM Financial

We have a next question from line of Hitesh Kiran. Hitesh, please unmute yourself to ask your question. Hitesh, you are on mute.

Hitesh Kiran

Thanks for the opportunity. So if I look at the profitability of your Netherlands manufacturing operations, I have the FY '18-19 and '20 number were in FY '18 we had an EBITDA of close to 10%, FY '19 was about 5% and FY '20 was very breaking even. So, after the specialisations that you carried out, what is the level of profitability that you expect out of that particular plant?

Gaurav Kumar, Chief Financial Officer

So, again, Hitesh, we have repeatedly said that looking at the profitability of a plant is not the appropriate way to look at the profitability of operations. In India just because they are simply plants and not legal entities, we do not track for external purposes, we would have that internally. But we would not look into it plant-by-plant. And similarly for European Operations, you've got to look at the profitability of the entire European Operations rather than say, what is Dutch profitability and what is Hungary profitability?

Hitesh Kiran

No, I understand that there would be some corporate overheads would be higher in the Netherlands entity. But still just to broadly understand the kind of benefit that we would have from this revamp, how should we look at it? If you can just quantify the kind of benefit that can come in from the specialisation that you have carried out over there.

Gaurav Kumar, Chief Financial Officer

As we mentioned earlier, there is a saving of about EUR 30 million in the employee costs as a result of this going forward. Other than that, we would not be at liberty to share individual operations profitability in Europe. But to the first part of your question, there is an employee cost saving of about EUR 30 million.

Hitesh Kiran

No, that is pretty straightforward but as, Neeraj, also mentioned that there are some product lines which you have moved to India, which were the low margin or probably were making loss, say, and the ones that you have retained. So at least on gross margin side, if we have to look at the annual numbers and see the kind of expansion that can come on the gross margins, at least there will you be able to probably share some color there?

Gaurav Kumar, Chief Financial Officer

Unfortunately, not Hitesh. We would not share details.

Neeraj Kanwar, Vice Chairman & Managing Director

Gaurav, at a broader thing, Hitesh, keep one thing in mind, what we have mentioned from the beginning, that the profitability of Europe is sustainable going forward. You will see some more margin expansion happening as production gets streamlined. Let's not look at a factory, please. Let's look at the entire Europe entity. Because there are various product groups, there are various SKUs coming from various places in the world. The focus is now to increase our share of Ultra High Performance tires and UUHP tires, which will give you much better profit margin expansion. So going forward this EBITDA margin is sustainable, and will only expand from here on. So that's a broader guideline that I'm giving you.

Hitesh Kiran

Okay, great. Thank you.

Nitin Agarwal: JM Financial

Thank you. Our next question is from the line of Basudeb Banerjee. Basudeb, please unmute your line.

Basudeb Banerjee: Ambit Capital

I have a question for, Gaurav, just to understand as in the initial comments you said that 5% further increase in raw mat basket for next quarter and broadly trickling effect of Q1 price hikes and incremental price hikes in July, August, will take care of that. So just wanted to understand that that is about mitigating the future pressure on gross margin, and about the 450 bps impact which we saw this quarter. So, how to expect going back to the 15%-16% India business margin levels? By when will you have the confidence of getting back to those levels, assuming operating leverage is back at normal levels?

Gaurav Kumar, Chief Financial Officer

So, Basudeb, A, as we've said earlier, we will not be in a position to give out margin guidance. Going back to mid-teens kind of margin will not happen in one quarter. There is operating leverage, which will also start coming in from the September quarter itself, because of the kind of demand that we are seeing. And there are various steps being taken, whether on the cost side, whether on the mix side, which will start pushing up the margins.

Basudeb Banerjee: Ambit Capital

Second thing, like what's the progress of Andhra Phase 2 as such?

Gaurav Kumar, Chief Financial Officer

Andhra phase two is already being installed. The machineries were all ordered. They are now coming in. That's the large part of the FY '22 CapEx. So more or less the Phase 2 which is taking up the PCR capacity to 15,000 tires per day, and TBR to 3,000 tires per day. All of the CapEx would get incurred in FY '22, when there would be a very small part in FY '23. And much of that capacity would be available from FY '23.

Basudeb Banerjee: Ambit Capital

So 3,000 tyre per day is similar to what TPD for TBR including Phase 2 overall?

Gaurav Kumar, Chief Financial Officer

So 3,000 TBR is about 190 tonnes per day.

Basudeb Banerjee: Ambit Capital

So that is the incremental from Phase 2.

Gaurav Kumar, Chief Financial Officer

The Phase 1 is about 161 odd and a similar number would get added on to Phase 2. So total Andhra, 320-330 tonnes per day.

Basudeb Banerjee: Ambit Capital

And Chennai was roughly 550.

Gaurav Kumar, Chief Financial Officer

Chennai today is close to 900 tonnes per day.

Basudeb Banerjee: Ambit Capital

Oh, sorry, 900. So total will be 1,200 plus.

Gaurav Kumar, Chief Financial Officer

That's in excess of 1,200.

Basudeb Banerjee: Ambit Capital

And last question, if I missed out, including maintenance and project and everything, Europe, India, what's the consol CapEx for this year, as of now, you are saying?

Gaurav Kumar, Chief Financial Officer

So for this year INR 1,800 crores CapEx in India, and about INR 200 crores CapEx in Europe. So INR 2,000 crores.

Basudeb Banerjee: Ambit Capital

It includes everything?

Gaurav Kumar, Chief Financial Officer

Includes everything.

Basudeb Banerjee: Ambit Capital

Sure, thanks.

Gaurav Kumar, Chief Financial Officer

Thank you.

Nitin Agarwal: JM Financial

Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Neeraj Kanwar, Vice Chairman & Managing Director

Well, I would to thank everyone who has participated today. Hopefully, we have been able to answer all your questions. And if you do have any more questions, please feel free to write into the IR team and we will get back to you. Thank you so much, really appreciate. Stay safe, all the very best.

Gaurav Kumar, Chief Financial Officer

Thank you.

Neeraj Kanwar, Vice Chairman & Managing Director

Thank you.

Nitin Agarwal: JM Financial

Thank you. On behalf of JM Financial that concludes this conference. Thank you for joining us and you may disconnect your lines now.