Apollo Tyres

Operator: On behalf of IIFL Capital, I welcome you all to the Q2 FY27 results conference call of Apollo Tyres Ltd. From management, we have with us Mr. Ravi Kumar Shingari, Chief Financial Officer, and Himanshu Sharma, Head of Investor Relations and Budgeting. I would now like to hand over the call to Mr. Ravi Kumar Shingari for his opening remarks. Over to you, Ravi.

Ravi Kumar Shingari – CFO: Thanks, Joseph. Good morning, everyone, and thank you for joining us today. I would like to welcome you all to the Apollo Tyres Q2 FY27 earnings call. Before I begin, let me say that I am honored to take on the role of Chief Financial Officer at Apollo Tyres. I would like to thank Chairman Neeraj, the Board, and the leadership team for the trust they have placed in me.

Apollo Tyres has built a very strong foundation over the years, and I look forward to working closely with the team as we continue to enhance performance, strengthen financial discipline, and create long-term value for our shareholders and stakeholders.

Unfortunately, Neeraj could not join us today for the call due to some unexpected circumstances. On his behalf and on behalf of Apollo Tyres, I would like to wish everyone a very Happy Diwali.

Coming to the performance, the second quarter was characterized by a challenging operating environment marked by persistent geopolitical uncertainty and significant inflation in key raw material costs. Despite these headwinds, I am very happy to say that the business delivered a resilient performance and continued to execute on its strategic priorities.

On a consolidated basis, our revenue grew by more than 16% year-on-year to 79.7 billion rupees, while EBITDA stood at 8.6 billion rupees, translating into an EBITDA margin of 10.7%. More importantly, this was our strongest year-on-year revenue growth in the last 16 quarters, reflecting the strength of our brands, customer relationships, and market positioning.

While profitability was impacted by elevated raw material costs, disciplined cost management and operating efficiencies helped partially offset the inflationary pressures. While I will come back to the results in a little while, let me take this opportunity to talk about the tangible progress we are making across our strategic priorities, reinforcing the long-term foundations of the business.

On the innovation front, we further strengthened our product portfolio through new approvals and engagements with leading OEMs, including BMW, Mercedes-Benz, Mahindra, and Tata Motors. In digital transformation, we are increasingly leveraging artificial intelligence and advanced analytics to improve productivity, quality, and operational reliability. During the quarter, we successfully completed the SAP S/4HANA implementation for our US business, and now we are on our way to implementing the same for the European and Indian operations.

On brand building, we continued to invest behind both Apollo and Vredestein, driving consumer engagement across our key markets. In India, our BCCI-led campaigns significantly expanded our rural outreach, while in Europe, targeted partnerships and premium positioning initiatives further strengthened the Vredestein brand.

Equally importantly, we remain focused on strengthening organizational capability. During the quarter, our Chennai plant was recognized with the {? CII EFI ?} National Excellence Award for

Report is AI-generated and may contain inaccuracies.

employee relations, reflecting our commitment to building a highly engaged and collaborative workforce.

Sustainability remains deeply embedded within our long-term strategy. We continue to strengthen our ESG framework and are encouraged by the recognition received from leading ESG rating agencies. Operationally, our AP plant and our Kerala plant achieved gold-level zero-waste-to-landfill certification, further supporting our 2030 sustainability ambitions.

Now I would like to talk about India operations to start with. India operations revenue increased by nearly 26% year-on-year to 59.2 billion rupees, representing an acceleration over the growth delivered in the first quarter. The performance was broad-based across both replacement and OEM channels, with volume growth and pricing contributing almost equally to the top-line expansion.

Profitability remained affected by the sharp escalation in raw material costs. India EBITDA stood at 6.6 billion rupees, with a margin of 11.1% compared to 15.3% in the corresponding period last year. However, I believe the more important takeaway from the first half of the year is the company's response to this inflation cycle. Since April 2026, raw material costs have increased by approximately 25%, making this one of the steepest and fastest cost inflation episodes we have experienced in many years.

In response, Apollo has implemented pricing actions of up to 15% in the replacement segment, alongside meaningful price increases in the OEM business. While raw material prices will eventually stabilize and may even soften over a period of time, our objective is to ensure that the enhanced pricing discipline demonstrated during this cycle becomes a permanent feature of the business. We strongly believe that this will contribute to a fundamentally stronger, more resilient, and more profitable business model over the long term.

Looking ahead, we expect demand conditions in India to remain supportive. While reported volume growth may moderate over the coming quarters due to a higher base, revenue momentum should continue to benefit from the pricing actions implemented since April. On margins, although the direction of recovery is clear, the timing of the price recovery will depend on the trajectory of commodity markets and geopolitical developments. Our focus will remain on balancing growth with profitability while maintaining disciplined execution.

Turning to Europe, the operating environment remained challenging during the quarter. Revenue declined by 12% year-on-year to 157 million euros, primarily reflecting weakness in the truck and agriculture segments, which were impacted by temporary supply disruptions as a fallout of our {? Enschede ?} plant closure.

Despite these challenges, there were encouraging signs beneath the surface. Our PCR business continued to gain market share despite subdued demand conditions, reinforcing the strength of our brand and product proposition. EBITDA margins for the European operations for the quarter stood at 10.3%. While our margin recovery trajectory in Europe has taken longer than initially anticipated, that has been due to a combination of market softness and transition-related challenges. However, our strategic rationale remains unchanged. The actions we are undertaking today are intended to create a structurally more competitive and financially stronger European business.

Report is AI-generated and may contain inaccuracies.

Our immediate priorities remain clear: completing the manufacturing transition, stabilizing the supply chain, and enhancing cost competitiveness. Over the medium term, we remain committed to building a European business capable of delivering high-teen operating margins.

Moving on to the balance sheet, as we communicated previously, we continue to invest behind our strategic growth priorities. Consolidated net capital expenditure during the first half of FY27 was around 15 billion rupees. This is broadly in line with our full-year plans. What is particularly encouraging is the strength of our financial position despite this investment cycle. Through disciplined balance sheet management over the past several years, we have significantly enhanced our financial flexibility.

As of September 30, 2026, consolidated net debt to EBITDA stood at just 0.9 times, providing substantial capacity to fund future growth while maintaining a prudent capital structure. Even under our ongoing investment plans, we are fairly confident that leverage will stay comfortably within our targeted range. This financial strength gives us the ability to continue investing in capacity expansion, digital transformation, and brand building to drive long-term value creation.

Ravi Kumar Shingari – CFO: ...information technology, product development, without compromising balance sheet resilience. To conclude, while geopolitical developments and commodity volatility continue to create uncertainty in the near term, the underlying fundamentals of our business have continued to strengthen. Over the past several years, we have invested meaningfully in expanding and optimizing our manufacturing footprint, enhancing operational capabilities, strengthening our brands, and building digital and technology platforms that improve decision-making and productivity across the organization. These investments are now increasingly translating into stronger competitive positioning and improved resilience across market cycles.

We remain highly confident about the long-term opportunity ahead of us. In India, we are well positioned to benefit from a growing tire market, improving product mix, and a more rational pricing strategy. In Europe, our focus remains on unlocking the full potential of the business through improved competitiveness and a stronger operating model, enabling us to leverage a significantly larger profit pool.

Supported by a healthy balance sheet, improved business fundamentals, and disciplined execution, we believe that Apollo Tyres is well positioned to deliver sustainable growth and long-term value creation for our stakeholders. Thank you for your time and your continued support. With that, we would be very happy to take your questions.

Operator: Thank you, Ravi. This is Joseph again. Let us start the Q&A session. Participants who have a question, please use the raise-hand icon to ask a question. The first question is from the line of Raghunandan. Raghu, please unmute yourself and ask your question.

Raghunandan: Thank you for the opportunity. Wishing you a very Happy Diwali and best wishes to Ravi and Himanshu for all the milestones ahead. Thanks for the opening remarks. Firstly, if you can talk about the volume performance, in the opening remarks you mentioned that half of the growth came from volume, so approximately 13%. Within that, how is the performance in OEM, replacement, and export segments? Also, within replacement, if you can talk about how various categories are doing, that will give us a sense of what to expect ahead.

Report is AI-generated and may contain inaccuracies.

Ravi Kumar Shingari – CFO: Sure, Raghu, and thank you so much for your kind wishes, Raghu. I look forward to your support as we move forward.

In terms of volume performance, the OEM channel led the pack for us in this quarter on a year-on-year basis. In OEMs, we witnessed approximately 25%+ growth in volume, followed by replacement, which was in the low double digits, and exports, where it was largely flat.

Moving into replacement, while the numbers are fairly small, the maximum percentage volume growth was seen in the two-wheeler segment, which was above 25-26%, followed by the truck and PCR segments. PCR exports did not deliver strong volume growth, but as far as India replacement is concerned, both PCR and truck performed well. PCR gave us approximately mid-teens growth, while truck was in the high single digits.

Raghunandan: Yes, thank you for providing that color. On commodities, these are extremely challenging times, but hopefully crude prices have started to correct over the last week, which gives some hope for the future. Firstly, for Q2, if you can share how much the raw material basket increased and, for various commodities such as natural rubber and synthetic rubber, how much the prices increased. Then, for Q3, what is the approximate increase expected in the commodity basket, and what are the price hike plans?

Ravi Kumar Shingari – CFO: [pause] Raghu, on the Q2 raw material increase, we had already witnessed a massive increase in the first quarter. From there, we again saw an upside. If I compare Q2 FY27 to Q2 FY26, the overall basket cost went up by approximately 25%, with natural rubber reaching unprecedented levels, and it continues to rise. As we speak, it has already touched the 300-rupee mark in India.

Compared to last year, the cost of natural rubber went up by almost 25-26%, and crude-led derivatives all witnessed substantial increases of between 28% and 35% across various segments. Steel cord was in the low double digits. Going forward, we expect that from Q2 to Q3, the total basket cost may move up by around mid- to high-single digits.

As you would have seen, in the first half of the year we have been taking fairly timely pricing actions, which has been a big differentiator in this financial year. Going forward, in Q3 and Q4 as well, our teams are fully geared up. Some increases have already been announced in October, and, more importantly, we have also started receiving price increases from our OEMs.

All in all, I think there will be pressure on costs, but we are confident that our commercial team will be able to take timely pricing actions.

Raghunandan: Yes, thank you for that. Just the last question on the Europe business: can you share how the {? Vredestein ?} performance was for the quarter, in terms of revenue and EBITDA?

Ravi Kumar Shingari – CFO: {? Vredestein ?} is a fairly stable business and, by and large, it has remained at the same levels as what we have seen in the past few years. Coming specifically to Q2, our EBITDA margins have been somewhat subdued, and we also have to understand that there is a bit of seasonality in that business. Q2 margins are slightly subdued, which you will see changing in Q3.

Report is AI-generated and may contain inaccuracies.

As I said, revenue was flat, and EBITDA margins by and large remained at a similar level, slightly lower than what we delivered last year due to the cost pressures that we are seeing. However, it is important to look at the {? Vredestein ?} business from a seasonality perspective, as I mentioned, and Q3 is when we will be able to see an uptick in EBITDA margins there.

Raghunandan: Thank you, sir, and wishing you all the best for the future.

Ravi Kumar Shingari – CFO: Thank you, Raghu.

Operator: We move on to the next participant. The next question is from the line of Siddhartha Bera. Siddhartha, can you unmute yourself and go ahead, please?

Siddhartha Bera: Yes, hi, sir. Thanks for the opportunity and Diwali greetings to the team. My first question is on the price hikes. Can you quantify how much you are planning to take to improve gross margins in the coming quarters, given the cost pressure? Is there anything that you have taken in September or October that should benefit Q3? Some thoughts there would be helpful.

Ravi Kumar Shingari – CFO: Siddhartha, thank you so much for your wishes. From a pricing action perspective, the raw material push was approximately 25% in the first half. To compensate for that and maintain margins at similar levels, we would have needed approximately 16–17% in price increases.

So far, across various categories, we have been able to take average price increases of between 11% and 13%. As you know, the nature of the industry is such that pricing actions cannot be taken at the same pace at which raw materials move, so the increases we take across categories are gradual.

There were some announcements around October, but they will be in different categories, somewhere in the range of 1–2%. That is typically how pricing actions are taken, but there is a sustained plan and we have to watch raw materials carefully. At the same time, we have to be cognizant of the market scenario.

There are planned increases that may come in December or January, depending on how raw materials are moving and how the competition or the market is responding. By the end of October, we would have taken, across categories, as I said, around [trails off]

Management: ...across various categories between 13% and 15%, which is more or less in line with industry trends. In some cases, we are leading the price increases, and in some cases, other players are doing so.

Siddhartha Bera: Got it, sir. My second question is on Europe. We have continued to see considerable weakness on the revenue side over the last few quarters. Is it more company-specific, because due to the transition we could not supply, or is demand simply very weak? How do you see the outlook in the second half or perhaps next year for the business?

Management: Europe's impact is a combination of both factors, as you rightly pointed out. The market has slowed down, so there is an impact from the broader economic slowdown. There is also the impact of our transition from Enschede and the movement of that supply chain to our different plants.

Report is AI-generated and may contain inaccuracies.

This was an expected impact. When we were preparing our budgets, we had also factored in that there would be some impact on sales. One factor was overall availability and supply, but the second factor was domestic supply chain management, which we are now putting in place as we shut down our Netherlands plant.

Going forward, from Q3 onwards, as we all know, Q3 is again our stronger quarter. From Q3 onwards, we expect to meet our budgets and probably bring revenue and volumes in line.

Coming back to Q2, I would like to share some data points. While you see overall revenue going down, if you examine the categories in detail, we actually gained market share in the PCLT category while the market was slow. In the PCLT category, we grew 5% year-on-year. Similarly, in Apollo Tyres' PCLT business, we saw very high volume growth, probably northwards of 50%.

Those two areas propelled volume growth. However, we saw a decline in the agriculture and TBR segments, largely due to a combination of the supply chain reorganization and the transition of our manufacturing from Enschede and Hungary to India.

Siddhartha Bera: Understood, sir. My last question is on working capital. We did see a steep contraction in the first half. Do you see some normalization coming through in the second half, or should we expect some of the challenges affecting it to continue for some time?

Management: In the first half, [pause] a large impact was also due to payouts related to the plant shutdown. That is now behind us. As you rightly indicated, the second half should see stable working capital norms. The seasonality aspect in Europe will also come in, and cash flows tend to get better in the second half of the year.

Considering everything together, we will see more stable working capital in the second half of the year.

Siddhartha Bera: Got it, sir. Thanks a lot. I will come back in the queue.

Operator: The next question is from Arvind Sharma. Arvind, please unmute yourself and go ahead.

Arvind Sharma: Hi, good morning. Can you hear me?

Management: Yes, Arvind, good morning. We can hear you.

Arvind Sharma: Good morning, Ravi. Good morning, Himanshu. Thank you for taking my question. I have two questions. First, when we look at your Q2 numbers, there was very strong control over other expenses or operating costs. What was the driver behind this, including employee costs, and how sustainable is it?

Management: As we started seeing the cost push around raw materials, we began holding a strategy meeting almost every week. The focus areas are very clear: what pricing actions we need to take to maintain margins, and what bad costs we can cut down or what costs can be shifted to a future date.

There has been very strong discipline around our A&P budgets. We have collaborations with BCCI, but beyond that, we have been monitoring everything very closely. As we saw the impact of raw

Report is AI-generated and may contain inaccuracies.

materials, we continued taking those cuts on a timely basis.

We have maintained a very strong check on manageable costs such as travel. Wherever possible, wherever things have been within our control, we have acted accordingly. We cannot do much about freight because that is again being driven in a different direction.

By and large, controllable expenses have been kept in check. As far as sustainability is concerned, you would have seen in the last few quarters that cost discipline has now become an integral part of our operations. The entire leadership team is monitoring this almost on a fortnightly basis.

That is the kind of rigor and discipline that has been brought into cost controls.

Arvind Sharma: Got it. Thank you so much. My second question is on the India pricing environment. You have alluded to some price hikes undertaken to pass on cost pressures. Where do you think the pricing environment is right now? As a corollary to this question, can you talk a bit about the competitive landscape in India, especially in the TBR segment?

Management: As I mentioned earlier, our attempt and endeavor is to ensure that steady margins are a regular feature. However, given the pace at which raw materials have moved, it is not possible to match them exactly, and there will be a timing gap. There is also a level of price increases that market conditions dictate and that we can take.

By now, as I have already indicated, we have taken price increases in the range of 13-15% across various categories.

Specifically on TBR, we have been the market leaders in terms of price increases and their timing. We are probably leading the overall price increase strategy there. So far, in TBR, we have taken approximately 13-14% in price increases.

More importantly, while this was in replacement, we have also managed to obtain reasonable or similar price increases from OEMs. As we all know, OEM pricing is not formula-linked. Despite that, the teams have managed to implement these price increases across OEMs.

Therefore, in TBR, these are the actions that have already been taken. Have I answered your question, Arvind?

Arvind Sharma: Yes, very clear. Thank you so much.

Operator: The next participant we have is Rishi Vora. Rishi, please unmute yourself and go ahead.

Rishi Vora: Yes, hi. Thank you for the opportunity. I might have missed this, but have you guided for the quantum of commodity inflation in Q3 at this point?

Management: Yes, Rishi. We talked about it. We are expecting a mid- to high-single-digit cost push on the entire basket from Q2 to Q3. Rishi, am I audible? Did I answer your question?

Rishi Vora: Yes, very clear. My second question was on pricing. We would obviously have taken pricing during Q2, and perhaps not all of the quantum would have been realized during the quarter. With the price increases that we have already taken, what price pass-through will happen in Q3,

Report is AI-generated and may contain inaccuracies.

according to you? Will it be 4-5% that comes through, or lower or higher? If you could say what we realized in Q2 and what remains for Q3.

Management: It is important to understand that we are in an inflationary cycle as far as raw materials are concerned. While we are trying to take timely pricing action, and as I indicated, we are expecting further cost push, volatility is quite high.

As you rightly mentioned, a large part of the price increases would have been taken at different points in time. In Q3, for the range that I mentioned, between 13% and 15%, we will probably see the entire impact of that full price increase coming through.

How much of that compensates for the raw material cost push, and what kind of further price action we take in November or December, will probably become clearer as we move toward the end of the quarter. However, as I said, our endeavor and attempt is to ensure that we maintain healthy margins, and that has always been our guiding principle for pricing action.

Rishi Vora: Understood.

Rishi Vora: In OEMs, how much of the price increase would we have received? I assume it is formula-linked, or is it generally negotiated?

Management: It is largely formula-linked, so that of course comes with a lag of one quarter. However, there were some OEMs where it was not formula-linked, and as I mentioned, through negotiations we have also managed to obtain an appropriate price increase to take care of the increase in raw material costs.

Rishi Vora: Understood. Just one last question on volume growth expectations in the domestic market. In the first half, we would have grown by the low double digits. Now the base is catching up, but do you expect the industry to continue growing at a mid-single-digit or high-single-digit volume run rate, or do you have a different view based on what you are seeing on the ground?

Management: I would like to take you back to last year. If you recall, Q3 last year was when the {? GST ?} changes happened and BIS came in. We are therefore already sitting on an inflated base from last year.

In Q1 and Q2, we saw very high, almost mid-teens, volume growth in India operations across categories. In Q3, since we are already starting from a higher base, a large part of revenue growth will come from pricing actions.

Of course, we will see volume upside as well. Our expectation is that it should be between mid- and high-single digits compared to last year.

Rishi Vora: Any guidance on exports, given that they have been volatile and the situation is also difficult? Any guidance on when you are seeing an export recovery?

Management: It is difficult to say at this stage because volatility is quite beyond our control. Our exports go to Europe, America, the Middle East, and Southeast Asia. Therefore, it will be very difficult to say.

Report is AI-generated and may contain inaccuracies.

For now, we are being very careful and conservative on exports because we see strong demand momentum in the domestic market. Let us see what Q3 brings in terms of export conditions.

Rishi Vora: Understood. All the best to you. Thank you.

Operator: The next question is from Vijay Pandey. Please go ahead.

Vijay Pandey: Hi. Can you hear me?

Management: Yes, Vijay, we can hear you.

Vijay Pandey: Firstly, on European demand, we want to understand how much of the restructuring is over and what remains. When can we expect normal operations to resume, from Q3 or Q4? Also, the weakness in agriculture and the supply constraint on the agriculture side: will that remain for the entire year, and do you expect it to continue into next year as well? I believe we have stopped production of agriculture tires there. Could you highlight the nuances affecting the European business?

Management: Thanks, Vijay. In Europe, as we all know, we shut down our Enschede plant to move away from a high-cost manufacturing location. Alongside that, we also relocated our TBR manufacturing facility from Hungary to AP, our India plant.

Plant operations in Enschede stopped at the end of Q1. As we speak, there is a team on the ground working on the dismantling of equipment, its sale, and related activities. This will take its own 2-3 quarters to bring the plant to full closure.

As far as operations are concerned, the supply and manufacturing facilities should largely be ready in the next 2 quarters. Hopefully, from the next financial year, we should see largely stable operations in Europe and a return to the normalized margins that we used to have in Europe.

In the first 2 quarters, there is a major focus on putting the entire supply chain in place. We are actively reorganizing warehouses in different parts of Europe and also changing our business model. Along with our S/4HANA implementation in Europe, all of this is expected to be completed in this financial year or perhaps by Q1 of the next financial year. Hopefully, by next year you will see largely stable operations in Europe.

Vijay Pandey: Secondly, on other expenses on a consolidated basis, generally Q4 has a higher lump-sum increase, and that was also the case last year. Should we expect that to happen this year, given the raw material and margin headwinds? Or, because we have maintained expenses well in the first 2 quarters, should we also be able to maintain them in Q3? Should this increase in Q4 return to a normal level, or how should we look at it?

Management: You are referring to other expenses, correct?

Vijay Pandey: Yes.

Management: It is very difficult to say because this is a dynamic situation, and we are taking actions as circumstances evolve. I already mentioned that the leadership meets every fortnight to take real-time decisions. If it requires us to be even stricter and more vigilant in Q4, we will do that.

Report is AI-generated and may contain inaccuracies.

However, it is very difficult to comment. It will all be driven by how the other cost pressures develop and what kind of demand we see. The focus will always be on ensuring that operations are stable and that we are able to capitalize on the demand momentum we see in India.

Vijay Pandey: Secondly, on debt, we have taken gross debt of around 1,500 crores in the first half. I think you also mentioned that 1,250 crores is from non-convertible debentures, with an interest rate of 8.5%. How do you see interest rates moving forward, both in terms of the P&L and cash? I do not think we are making the entire interest payment in one go, but please correct me if I am wrong.

Management: Vijay, on this, you can probably connect with the Investor Relations team offline, and they can give you more granular details. From my side, I want to emphasize that we are in a very comfortable leverage position. Our consolidated net debt to EBITDA is below one even with this additional debt. Even with all the expansion plans that we have announced, we are confident that we will remain within a workable net debt-to-EBITDA limit.

For the granular details, you can get in touch with the Investor Relations team, and they will be happy to share them with you.

Vijay Pandey: Will this level of debt be sufficient to fund the upcoming capex, or will we need further debt going forward? Is it related to working capital, or is it also related to the capex coming forward?

Management: It is a combination of both. We may see more debt coming in as we embark on the expansion plans that we have announced. Again, I would like to emphasize that the leverage ratios remain very comfortable. We are in a very comfortable position.

Vijay Pandey: Okay, sir. Thank you, and all the best.

Operator: Ladies and gentlemen, the next question is from Amin Pirani. Amin, please go ahead.

Amin Pirani: Hi, {? Ravi ?}. First of all, congratulations on the new role. Hopefully, we will interact more in the future. My first question is more of a medium-term one, and then I have a few questions on the results.

First, if I look at your ROCE, we are about to, or have, embarked on a relatively large capex cycle. Net debt to EBITDA is low, but we have had a deleveraging cycle, and net debt will move up somewhat now. How should we think about this? At one point, you had a mid-teens target, but obviously the external environment was not favorable. How should we think about how ROCE will move?

Amin Pirani: ...move because, as you rightly said, we are sitting on a high volume-growth base and capex is increasing. How should we look at this over the next 12 to 24 months?

Ravi Kumar Shingari – CFO: Thanks, Amin, and thanks for your wishes. I look forward to meeting you soon.

We have seen demand coming through in the results. At the same time, our capacities are almost 85-90% across all the plants. Therefore, it is very important to keep that demand momentum in

Report is AI-generated and may contain inaccuracies.

consideration as we look at our expansion capex. Otherwise, if we do not take timely action, we will end up losing market share.

For us, it is always a tricky conundrum, and we have to balance it with the right amount of capex. ROCE will, as we go through the capex cycle, face some short-term impact. However, at a steady state, as we have guided in the past, we always want to target mid-teens ROCE, which will be our stable state of operations.

As I said, we are prioritizing the growth story right now. Once we are able to capitalize on that growth story, we will see ROCE come back.

Amin Pirani: Okay, great. That is good to know. Secondly, just some bookkeeping questions on the results. In Europe, do we still have any costs related to the Enschede plant pending, or from Q3 will our spending relate only to the Hungary plant?

Management: There are two parts to it, Amin. At an operational level, there will be no plant operating cost as such because operations have stopped. Hungary will be the only operating plant there.

However, for the next few quarters, we may see some costs incurred for dismantling and moving the equipment out. Those costs may continue to come in small amounts, but we do not expect them to be significant.

In this quarter itself, if you had seen, there was an exceptional item of around 2.3 million euros in the European operations. This was largely due to some employees who remained in a different legal entity, and that has now also been taken into the books.

By and large, I think we are through with the large part of the costs that we have already taken into our accounts. There may be some cleanup costs that you will see coming up in Enschede.

Amin Pirani: Since Q3 is generally a seasonally strong quarter, especially from the perspective of winter tires and specialty tires, is Hungary now fully equipped? I think some of the high-performance tires were previously supplied from Enschede. Is Hungary now fully equipped to take care of that?

I am asking this in the context of whether it is possible that we may miss some of that demand in Q3 because we are still in transition and Hungary is not set up for it. Some color there would be helpful.

Management: A significant part of that was already being catered to. Q3 is largely the period for winter tires, and PCR is one of the most profitable segments in Europe. Therefore, the plan had already been put in place between India and Hungary.

The smaller sizes will be supplied from India, and the high-end tires will be produced in Hungary. That plan is in motion.

Going forward, what is important is to take care of OHT and agriculture supply, which will be catered to from Indian plants. As I already mentioned, in Q2 we saw a volume increase in PCT

Report is AI-generated and may contain inaccuracies.

Vredestein, but the volume loss was largely in agriculture and OHT. That is something we will now start seeing stabilize from next year.

Amin Pirani: Okay, great. Thanks for that.

Operator: The next question is from Basudeb Banerjee. Basu, please go ahead. Basudeb, you need to unmute yourself and go ahead.

Basudeb Banerjee: Yes, hi, everyone. Am I audible?

Management: Yes, Basu, you are audible.

Basudeb Banerjee: Thanks, sir. Just to understand, as you said earlier in the call, Q2 year-on-year raw material basket costs were up 25%, and the overall cumulative price hike has been somewhere around 12-13%. Over and above that, the raw material basket is up somewhere around 8% in Q3 over Q2. In Q3 through October, there has been a blended price hike of approximately 2% over and above the 12-13% that has already happened. Is that the right way to understand it?

Management: Basu, you have put it very simply, but we will have to approach it differently. On this level of detail, it would be useful if we connect offline and take you through all the changes that have happened at that granular level.

Basudeb Banerjee: What I was basically trying to understand is that consumers have absorbed a massive price hike, as you rightly said, and despite that, replacement is growing at double digits.

With an additional 8% increase in the raw material basket, it would require an additional 5-6% price hike. There has been a 2% price hike, which mathematically implies a further 300-400 basis points of gross margin risk in the December quarter.

That is one side of the issue, purely mathematically. On the other side, considering the movement in Brent crude prices over the past couple of days and the abnormal price of natural rubber, which could easily correct by 30-40% if it follows Brent crude, I was trying to understand in which quarter one should expect the raw material basket to peak.

After that, assuming prices remain at today's levels, directionally your gross margin should start reversing, based on past precedent that you do not cut prices in the replacement market.

Management: Basu, when we conducted our Q2 earnings call, our expectation was that in Q3 we would start seeing raw materials stabilize. However, as we move toward Q3, we are seeing a single-digit, high-single-digit increase coming through in Q3 as well.

As I have already mentioned, it is a very volatile market, and a lot of factors, at least on the cost side, are not within our control as far as raw materials are concerned.

What we have managed to do is maintain industry pricing discipline. I would say that pricing discipline across the industry has been at a very different level of rigor in the first half. Therefore, you see successful price increases across the industry.

Report is AI-generated and may contain inaccuracies.

That is something within our control, and depending on market conditions, we will continue taking timely action. We will also apply a great deal of rigor to controlling other expenses.

As far as how raw materials behave in Q3 and Q4 and when they start stabilizing, our current expectation is that we should see them peak toward the end of the year, and from next year onward they should start stabilizing.

This is again subject to all the volatility we are seeing and to circumstances changing daily. I would therefore like to add that caveat regarding how markets and the geopolitical situation evolve.

Assuming that the situation stabilizes, I would say that from next year onward we should start seeing raw materials taper down.

Basudeb Banerjee: No, certainly, that is quite helpful. Thank you.

Himanshu: [pause] Basudeb, Himanshu here. Just one thing to highlight: it is somewhat like crystal-ball gazing, but historically our margins peak or start correcting as raw materials start flattening, and they peak out as raw materials start correcting.

One thing I want to highlight is that, compared with previous cycles, we have been able to maintain or manage our expenses and balance sheet much better. That is why, at the lowest point, historically, if you go back a few years, when raw material increases were at their peak, our margins used to fall to single digits.

We have been able to maintain our margins in a much better position. Our endeavor going forward will continue to be to maintain and optimize costs, invest, and grow. However, crystal-ball gazing and saying exactly in which quarter it will peak out [trails off]

Management: It would be slightly difficult for us to say exactly when, but directionally, as you rightly said, in earlier downcycles, margins of the India business used to be as low as 7-8%, and now, despite all these factors, they are at 11%.

We will certainly want to see, with the price hikes and the reversal in the commodity basket, how quickly we return to 16%, which in any case will take care of the cash flow and ROCE questions that have been raised in the past.

Basudeb Banerjee: Thanks.

Operator: Thank you. Due to time constraints, we will take that as the last question for the day. On behalf of IIFL Capital, I thank you all for attending this call. Have a good day.

Management: Thank you.

Management: Thank you, everyone. Thank you for joining today.

Operator: Goodbye.

Report is AI-generated and may contain inaccuracies.

Apollo Tyres

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

Report is AI-generated and may contain inaccuracies.