MANAGEMENT DISCUSSION AND ANALYSIS
VISION 2020

‘To be a premier tyre company with a diversified and multinational presence’.
The global economy, led by robust growth in the emerging markets and developing countries, posted a 3.8% growth in Calendar Year 2017 (CY2017) racing past the 3.2% growth in CY2016. The expectations and estimates for CY2018 included better performance than CY2017. While CY2018 did begin on a strong note and posted solid numbers in the first half of the year, the growth engine started sputtering during the second half. Increased trade tensions between the US and China saw major economies posting weaker numbers, impacting the global economy. The trade conflicts also negatively impacted market sentiments leading to a tightening of the financial market for the emerging economies and later for the developed markets, as well. Demand from Asia softened further and affected the Euro-area economies, which was already dealing with the loss of momentum due to weak consumer and business confidence. According to the data from April 2019 edition of IMF’s World Economic Outlook, the global economy posted a growth of 3.6%, a shade below the 3.8% in 2017.

For Apollo Tyres, FY2019 was a year of enhanced focus on its offerings and brand front. The Company roped in Sachin Tendulkar as its brand ambassador and introduced multiple initiatives to ramp up its product portfolio. These actions enabled the Company continue towards a northward path as it posted a consolidated revenue of ₹17,273 crore, a growth of 18% over the previous financial year.

MARKET OVERVIEW

India
During financial year 2018-19 (FY2019), India was back on a 7%+ growth track as it shed the residual effects of demonetisation and Goods and Services Tax (GST) implementation. According to the International Monetary Fund (IMF), the real GDP growth was estimated at 7.2% for FY2019; and the industrial segment grew at a faster clip compensating for the deceleration in the services sector. Agriculture growth was robust at 4%. India’s story continued to be driven by domestic consumption and the fiscal in review witnessed a rise in contributions by gross fixed capital formation and exports.

Auto Segment
Despite India’s over 7% growth rate, the automobile segment failed to get traction hitting multiple speed breakers and was forced to shift gear to the slow growth lane. Liquidity concerns and crunch, uncertainty around the forthcoming elections,
price hikes, mandatory insurance and other such challenges took a toll on India’s automobile market as it grew by 5.2% in FY2019 vis-à-vis a strong 14.2% and 6.8% in FY2018 and FY2017, respectively. The Passenger Vehicles (PV) segment, the poster child of Indian automobile industry, sputtered as it moved to the slow lane and posted a 2.7% growth rate, against a 7.9%, 9.2% and 7.2% for the previous three financial years. Despite several product launches during the year under review, sales failed to rev up, especially during the second half of the year. However, it is interesting to note that the overall value of purchase has gone up with customers upgrading from entry-level hatchbacks to premium hatchbacks and compact SUVs. While Commercial Vehicles (CV) segment continued to be on a strong footing as it expanded by 17.5% for the financial year, two-wheelers saw a sharp drop in growth to 4.9% as against 14.8% in the previous financial year.

However, like FY2018, the auto sector continued to post strong numbers on the exports front. Overall automobile exports in FY2019 grew by 14.5% as against 16% for FY2018 and negative growth of 4% for FY2017. The growth was led by three-wheelers, which grew at a whopping 49% and two-wheelers growing at 16.5%.

Tyre Segment
Despite the slow growth in the overall automotive sector, the tyre industry had a good run during FY2019. According to the Automotive Tyre Manufacturers’ Association, the tyre industry witnessed double digit growth during FY2019 and posted a growth of nearly 11% to an estimated ₹63,000 crore (US$ 9 BN*). In terms of key segments, the CV segment (truck bus tyre) continued to be on a stellar growth path and recorded a 16% growth. However, the PV segment posted a flatish growth for the year. The CV industry, aided by good monsoon and an uptick in the economy, followed a growth path in line with the auto industry. The CV segment continued to account for the highest value within the industry.
Europe
Like the global economy, the European economy in CY2018 was significantly influenced by the uncertainties of Brexit and the trade war between the US and China. Although the migration crisis of the past year calmed down, finding a common and sustainable solution to the issue remained one of the European Union’s (EU) major challenges in CY2018. The second half of CY2018 witnessed a softer momentum for Europe’s economy. This was primarily due to the introduction of new automobile fuel emission standards in Germany and concerns about sovereign and financial risks weighing on domestic demand in Italy, apart from the weakening financial market sentiment. After six years of uninterrupted growth, EU’s GDP grew by 1.9% in CY2018 with the growth dynamics slowed compared to the past three years.

Auto Segment
CY2018 witnessed Europe posting its fifth consecutive year of growth for the industry. The PV registrations reached 18.1 MN units during the year under review to have a minor growth of 0.1% compared to 3.8% in CY2017. The demand was mostly driven by Central European countries where new car registrations grew by 8.0%. In Western Europe, Spain and France led the growth with 7% and 3%, respectively while Germany saw a fall of 0.2% in registrations, even as Italy and the UK posted negative growth rates of -3.1% and -6.8%, respectively.

As car production in Europe declined by 1.7%, exports could not buck the trend and posted a decline of 1.6%. Interestingly, there was a substantial increase in imports, which was up by 9.3%.

Tyre Segment
According to the European Tyre and Rubber Manufacturers’ Association (ETRMA), the performance of the tyre sector was generally stable for CY2018. The European market witnessed a small increase (1%) in the replacement market for passenger car tyres due to a strong increase in the growing market for all-season tyres. The growth for the segment could have been much higher but for imports of PV tyres, which continued to grow and gained market share. In line with the decline in registration and production of cars, the market for consumer tyres from the Original Equipment Manufacturers (OEMs) declined by 4%. Agricultural tyre sales posted its fifth year of negative growth of 4%. Effective legislations hit the imports of Truck Bus Radial (TBR) tyres significantly and resulted in a robust 9% growth in aftermarket and 4% growth for the OEM segments.

The Company’s Vredestein Sportrac 5 was one of just two compact car tyre models to receive the coveted ‘highly recommended’ mark in the latest summer tyre test of ADAC.
INDUSTRY STRUCTURE AND DEVELOPMENTS

India
India’s tyre industry is directly dependent on the auto market and any changes in the latter has an impact on the industry. For instance, new axle load norms were introduced in early part of FY2019 and this led to a drop in the vehicle demand in the second half of the year with a consequent hit on the tyre sales to the CV OEMs. Again the Non Banking Financial Company (NBFC) liquidity crunch impacted the truck purchases of small fleet operators and directly affected the OEM sales in the industry. In FY2018, the government had introduced anti-dumping duty on Chinese tyres leading to drop in imports. During the year, imports did not see a growth indicating that customers were looking at other factors rather than price. In the PV segment, one of the key trends visible was the continued ‘ubерisation’ phenomenon. With the success of ride-hailing services like Uber and Ola and availability of public transport, customers continued to postpone purchase of their second car, instead opting for high-end variant as their first car. This is further validated by the fact that the demand for Compact SUVs and premium cars/hatchbacks is on the rise and consequently demand for such tyres continued unabated during the year.

Concerns around raw material, especially natural rubber, continued to plague the industry. The production of natural rubber in India has been continuously dropping in the last decade, even as consumption has been on the rise. This has led to a huge demand-supply mismatch. During FY2019, the problem was further compounded by the Kerala floods. Over the years, other factors have added to the woes of the industry. Export obligation period has been reduced from 18 months to six months and the pre-import clearance has been made mandatory. Additionally, only two ports, JNPT and the Chennai Port, have been permitted and there are now port restrictions in other ports. Further, the industry continues to grapple with the inverted duty structure. While import of natural rubber is an option, the current inverted duty structure taxes imports of natural rubber at a higher rate of 25% to compared to that of finished tyre, which has a duty of less than 10%. Beyond natural rubber, the variation in oil prices, along with the weakening of the rupee against the US Dollar by 8% also added to the increase in raw material costs.

Europe
In Europe, the year witnessed a trend in the tyre distribution segment where further vertical and horizontal integration drove market participants into a consolidation process, resulting in fewer and bigger market participants. All major industry players continued to drive initiatives to integrate manufacturing and trade, which in the long term will reduce independent participants in Europe’s tyre distribution market.

Given the continued strong demand for the All Season tyres, it posted robust growth in the previous financial year. While there was a slight growth in the Winter tyre segment, it is expected that the All Season growth will cannibalise the market of Winter and Summer tyres in the long term. The financial year in review witnessed a sharp increase in the number of players in the All Season segment resulting in pricing pressure on the existing players. The overall Ultra High Performance (UHP) segment showed a positive trend with a high single-digit growth driven by an increase in winter volumes and All Season volumes.

Imports from China and other countries has become a worry for the industry as FY2019 saw that the low-cost imported tyres are highly visible in the market putting an increasing volume and price pressure on all segments.

THE PRODUCTION OF NATURAL RUBBER IN INDIA HAS BEEN CONTINUOUSLY DROPPING OVER THE LAST DECADE, EVEN AS CONSUMPTION HAS BEEN ON THE RISE. THIS HAS LED TO A HUGE DEMAND-SUPPLY MISMATCH.
SWOT ANALYSIS

Strengths

• Apollo Tyres has the advantage of a diversified market base across geographies and therefore, it is not dependent on the Indian market alone. Further, the Company is working towards establishing and growing operations in other large markets.

• With its entry in the two-wheeler segment, the Company is now a full-range tyre player in India and can service the large and growing two-wheeler tyre segment in India and Europe.

• The Company is powered by strong product brands in its key markets – Apollo and Vredestein.

• Apollo Tyres enjoys an extensive distribution network for its products across its two key markets.

• In Europe, the Company’s brand, Vredestein, has a heritage of over 110 years and an established presence. It enjoys a reasonable premium positioning, especially in Winter and All Season segments.

• In India, the Company is a leading brand in the CV segment, which accounts for the bulk of the industry’s revenue.

• The Company is best positioned to maintain its leadership position in the truck radial segment and drive growth through the same.

• The Company has a global and culturally-diversified management team driving growth across geographies.

• The Company’s Research & Development (R&D) facilities for PV and CV tyres will play a key role in bringing cutting-edge technology and innovation to drive growth for the Company.

• Increased spends on building the corporate brand, including Apollo Tyres’ association with Manchester United and its association with football in India, is starting to make Apollo a stronger brand in India and a recognised one globally.

• The Company has long established relationships with global OEMs present in India and has forayed into the premium Original Equipment (OE) segments in India.

• The Company is aggressively pursuing its strategy of building OE relationships in Europe and has seen few initial wins.

• In the premium Winter segment, we successfully introduced the new Wintrac Pro that was awarded test winner in a major German specialised press magazine.

Welcoming cricketing legend Sachin Tendulkar to the Apollo Family as its brand ambassador.
**Weaknesses**

- In a rapidly-rising raw material cost scenario, the Company is unable to pass on cost escalations to consumers, in a timely fashion, due to intense competition and various market dynamics resulting in pressure on margins.

- The necessary improvement of our footprint in Europe will need special focus on the Summer segment, which is needed to supersede competition in a non-growing market. OE homologations are needed to develop the necessary acceptance in the markets, accompanied by good test results compared to other premium manufacturers. Summer tyres are the pinnacle of the UHP strategy, as summer sizes lead the conversion into higher dimensions in Winter and All Season.

- Europe operations have been under strain with a weak market scenario coupled with pricing pressures and our own internal situation of a large investment and a ramping up plant.

**Opportunities**

- In India, the Company has a healthy lead over its competition in terms of capacity and market share in the Truck Bus Radial (TBR) segment. This implies healthy growth prospects with increasing ‘radialisation’.

- In India, the Company’s two-wheeler tyre product has been widely accepted by the market and there are prospects of scaling the market share in a fast-growing and profitable segment. There are also plans to introduce the products in Europe and other parts of the world.

- The Company’s highly automated state-of-the-art greenfield plant in Hungary is now operational and it is well-positioned to grow in the European market due to its cost-competitive manufacturing.

- The Company is continuously working towards building OE capability in Europe. With enhanced capacity and a state-of-the-art plant, it is well positioned to win more OE business, which in turn will generate replacement demand and enhance brand positioning.

- With the premium positioning of the Vredestein brand in Europe and the new state-of-the-art plant in Hungary, the Company has good prospects for improving its product mix towards a more profitable premium car tyre segment.

- The Company continues to increase its focus on new geographies such as North America and in geographies where it has already made some inroads, such as in the Association of Southeast Asian Nations (ASEAN) and the Middle East. These geographies will be the growth avenues for future.

Apollo Tyres’ Chairman Onkar Kanwar was conferred the Order of the Rising Sun, Gold and Silver Star by the Government of Japan. He was also awarded the Officers Cross (Civilian Division) of the ‘Order of Merit’ of Hungary.
MANAGEMENT DISCUSSION AND ANALYSIS

- The Company has launched truck radial tyres in Europe, which will further enhance revenue and market presence.
- The Company continues to have a focussed approach on increasing its sales channels and distribution expansion.
- The Company has started its deliveries to European OEMs, endorsing the premium position of its Vredestein brand and further strengthening its position in the Summer segment.
- Growth in premium segment of PV (17” and above) in all product segments (Summer/All Season/Winter).
- Anti-dumping measures in EU against Chinese imports will support to expand Apollo’s TBR footprint.
- The Company still needs to establish a larger presence in new growing geographies to reach economic-sized operations.

Threats
- Economic downturn or slowdown in key markets (India and Europe) can lead to decreased volumes and capacity utilisation.
- The coming year will have one large investments on stream. There would be pressure on margins as the utilisations ramp up gradually.
- Increased competition from global players in India could impact the Company’s growth plans and/or profitability.
- Tight labour market in Europe and low level of unemployment can make talent acquisition challenging in Hungary.
- There is a continued threat of raw material price volatility and this translates into pressure on margins in case of a rapid rise in raw material prices.
- A weak Indian currency can result in pressure on margins, since the Company is a net importer.
- A growing influence of budget tyres, mainly Tier 2 and 3 brands from established manufacturers, could further impact business, particularly in Europe.
- Economic and political instability factors like Brexit and the trade war between China and the US can impact business in Europe.
- Consolidation in the distribution landscape as independent dealers disappear and wholesalers and company-owned networks are grow may affect the Company’s market reach. Internet is playing a major role in the change (vertical and horizontal integration).
- High capital intensity resulting in regular need of large capex for growth puts pressure on free cash flow.

SEGMENT-WISE PERFORMANCE

The Company continued to focus on its key regions, APMEA (Asia Pacific, Middle East and Africa) including India and Europe. While Apollo Tyres has a small presence in the Americas, it further added new territories in its key regions and offered an expanded product range in these markets.

In FY2019, the APMEA operation continued its focus on key themes for the Indian market: consolidating leadership position and expanding market share by introducing new products across segments. The Vision 2020 for the India business aims at building leadership in multiple industry segments. Committed investments in R&D and brand building continued to fuel the growth journey of the region to attain its vision. The region has seen continued OEMs approvals with high satisfaction, as well as increased customer acknowledgements. For other countries in the APMEA region, the Company continued seeding the markets with country-specific products, building brand salience and expanding distribution networks.

Commercial Vehicles
In the CV tyre segment, the Company continued its leadership position. It further built on its dominant position in the overall TBR market. In the TBR replacement market, the Company posted strong growth as it increased its market share significantly over the last financial year. Improved product portfolio, network expansion and creating high visibility were the key themes to the Company’s success during the year. Apollo Tyres became the first tyre company in India to introduce a range of fuel-efficient tyres in the later part of the FY2019, which highlights the role played by its R&D team in creating first-to-market products. Furthermore, the Company saw lot of action in the light commercial vehicle (LCV) segment as it expanded its 17.5” portfolio in the LCV radial segment with the launch of trailer tyres. Based on the market feedback from the LCV bias segment, R&D helped the team introduce a new and improved rib tyre to further strengthen the Company’s position in the segment.
The Company’s best-in-class and robust product portfolio backed by cutting-edge R&D ensured that the OEM business paced ahead at a healthy clip as it continued to maintain and build on its OEM leadership position in the Indian market. With the emergence of electric vehicles, the financial year witnessed the Company becoming the exclusive supplier to Tata Motors’ ultra-electric buses. On similar lines, the Company saw its tyres fitted on the 9 mtr electric buses of Ashok Leyland. Both these wins validated the role played by the Company’s R&D team. Apollo Tyres was the preferred choice of Indian and global OEMs, including Tata Motors, Ashok Leyland, Eicher Motors and Bharat Benz during the year under review. This has ensured that Apollo Tyres now have high visibility not only in the Indian market but also in the export markets of these OEMs, including the Middle East, Mexico, South Africa, Bangladesh, North and Central Africa. Another notable win for the Company was bagging the prestigious ‘TATA Motor’s Partner-level Supplier’ award as it had the distinction of being the only tyre company to receive this award.

Network expansion remained a key focus for the Company during the year. The Company doubled its Apollo CV zones to take the total number to 50. Further, the Company also expanded its Apollo Retread Zones. This has helped the Company to offer best-in-class range of tyre services ensuring maximum return on investments to the trucking community.

Beyond the introduction of new products and laser sharp focus on the network, the Company upped its engagement with its customers. It conducted over 100 activities with fleet owners under the banner of ‘Apollo Sakushal Sarathi’ programme and strengthened its relationship with large- and medium-fleet operators. Further, the Company conducted over 250 ‘Leaders & Movers Meet’ programmes to deeply engage with its customers and support them in their journey of improving efficiencies and reducing cost. For the LCV segment, the Company piloted its innovative and first-of-its-kind school engagement programme called the ‘Apollo Safe Scholars’.

ANOTHER NOTABLE WIN FOR THE COMPANY WAS BAGGING THE PRESTIGIOUS ‘TATA MOTOR’S PARTNER-LEVEL SUPPLIER’ AWARD, THE ONLY TYRE COMPANY TO RECEIVE THIS AWARD.
Passenger Vehicle
The Company continued its market leadership journey in India in the PV segment as well. FY2019 was a year of achieving key milestones from technology and branding perspective. Banking on its cutting-edge R&D, the Company introduced SUV tyres—Apterra White Lettered—with white lettering on the sidewall. A key technological advancement, the offering marks Apollo Tyres’ entry into high-visibility tyres market and the distinction of being amongst a few manufacturers in India with this technology capability. The financial year saw the Company expand its co-branded tyre range with Manchester United Football Club (Man Utd) and the tyre was available to Man Utd fans driving fast selling cars like Brezza, Nexon, BRV-WRV, XUV 500, Duster and Scorpio/XUV 500. Further, the Company was extremely successful in growing its premium range—Apollo Alnac 4G—meant for premium hatchbacks and sedans. To make deeper inroads in the luxury tyre segment, the Company expanded its range of Aspire 4G branded tyre. With multiple branding initiatives and a focus on increasing distribution for the brand, the Company grew this business significantly over the corresponding previous financial year.

As part of its long-term strategy, the Company aims to reach the highest echelon of customer preference and has put in ample resources in the last few financial years to achieve this objective. The Company accomplished an important milestone as it ranked #1 in the JD Power 2018 India Original Equipment Tyre Customer Satisfaction Index in small cars segment and #2 in the midsize cars or sedan segment category.

For the PV tyre segment, the financial years ended with a bang as it concluded its inaugural edition of #BadRoadBuddies, an initiative to build and stay connected with the SUV/4x4 community. The event recorded participation of nearly 50 off-roaders, social media influencers and journalists from different parts of India. The community was joined in the final leg of the drive by cricketing legend Sachin Tendulkar—brand ambassador for Apollo Tyres—and the senior leadership team of the Company.

On the OEM front, the Company continued its growth march as the #1 supplier. Its tyres are now standard fitment in the top 8 car brands of the top 10 highest selling cars.

Off-Highway Tyres
In this segment, the Company focussed on three key sub-segments: Industrial, Earthmovers and Agricultural.

In the Industrial and Earthmovers segments, Apollo Tyres persisted with its focus on the existing market and expanded its product offerings to cater to newer markets, including underground mining, port and loader applications. According to internal estimates, the category grew more than 2x that of the industry growth of ~17%. Again, a best-in-class range helped in bagging new OEMs like Case Construction Equipment and Luigong and the year witnessed an increased demand from existing partners.
Further, the Company added a new range to target new segments like compactors and cranes with the existing OEMs.

In the Agricultural segment, the Company increased its market share, despite a depressed year for the segment. The confidence in its products made the Company the first player in the segment to increase standard manufacturing warranty from five to seven years.

As part of its branding strategy for the Industrial segment, the Company participated in various events like Bauma 2018 & IMME 2018 exhibitions. The Company combined its Corporate Social Responsibility (CSR) activity, along with its innovative Industrial tyres van campaign in eight states across India to showcase the product range and help its customers with health and eye check-up camps. For the Agricultural segment, the Company continued with its ATOM platform to engage with its customers. During the financial year in review, the Company conducted more than 300 ATOM events with an outreach to over 20,000 customers. Along with conglomerate ITC Ltd., the Company jointly organised 250+ activations to touch over 10,000 customers. The Company and auto giant Mahindra & Mahindra Ltd. conducted joint campaigns and reached out to the tractor customers across a few states. Apollo Tyres also participated in multiple exhibitions in India, including Agro Vision, Krishithon, Agro World and others. It effectively used wall paintings to enhance its rural reach with over 25 lakh square feet of branded walls across the length and breadth of the country.

Two-wheelers
With an objective of becoming a full range player, the Company continued to strengthen its brand in the two-wheeler tyres segment even as it continued to expand its range during the year under review. Apollo Alpha—India’s first ‘zero-degree steel motorcycle radial tyre’—was launched during FY2019. Designed and developed at Apollo Tyres’ Global R&D Centre, Chennai, the tyres cater to the biking enthusiasts. The launch was accompanied by a high-voltage campaign #ThrillUpYourBeast.

During the financial year, the Company further expanded its two-wheeler range to cater to premium sports bikes like KTM, Dominar, BMW and TVS Apache. Currently, the Company’s portfolio covers the entire market in India. Even though the Company has a presence only in the replacement market, according to internal estimates, it has now a sizable market share in the category.

Brand building
FY2019 was a year of focussing on further brand building. The Company adopted a 360-degree approach to strengthen its brand awareness. To target the biking community, the Company used OOH media across major biking routes, including Manali to Leh, Delhi to Chandigarh, Coimbatore to Ooty, Mumbai to Lonavala and others. Similarly, the Company effectively used the same media to target customers in over 30 cities for its Amazer 4G live range and cities with high concentration of luxury cars like Chandigarh, Ludhiana and Cochin for its Aspire brand. Apollo Tyres participated in the Kumbh Mela with wall paintings, parking lots services and safety activations, among others. The Company continued to use its connection with Man Utd and related football associations for social media and on-ground activations. All these brand awareness efforts have yielded results as the Company moved to the #1 position in brand awareness in India and #2 position in overall Brand Equity as per the commissioned Brand Track Study.

THE COMPANY MOVED TO THE #1 POSITION IN BRAND AWARENESS IN INDIA AND #2 POSITION IN OVERALL BRAND EQUITY AS PER THE COMMISSIONED BRAND TRACK STUDY.
The financial year saw the region’s volumes of PV tyres marginally declining over the previous year, in line with the overall market sentiment. However, a strong improvement in the product mix witnessed revenue growth move to the positive zone for FY2019. The region continued to seed the market with its TBR offering and the reviews of customers and dealers have been positive. In line with the market trend, while the volumes for Agricultural segment declined, again a healthy product mix helped the region to show an uptick in turnover and increase its market share in a declining market. During the financial year, the Company entered the radial compact tractor tyre segment as it introduced 14 sizes from 16” up to 20” in the new Traxion70 and Traxion65 product lines.

The Company renewed its focus on the bicycle segment as it introduced the innovative and sustainable Fortezza Flower Power – the first bicycle tyre in the world to be produced from rubber produced from the roots of the Russian dandelion flowers. Also, the Vredestein brand returned to the highest level of professional bicycle racing as it joined forces with the French World Tour Team AG2R-La Mondiale.
Like the APMEA region, Europe continues to leverage the Man Utd association to promote the Apollo brand throughout the region. Its other key brand, Vredestein, is the main sponsor of the Mille Miglia, one of the most prestigious classic car events. Furthermore, the Vredestein brand was associated with the ISU speed ice skating world championships in Inzell, Germany to create more visibility and build awareness. To celebrate the rich legacy and the 110 years anniversary of the Vredestein brand, the Company created a heritage movie during the introduction of the Quatrac Pro in March 2019.

OUTLOOK

According to IMF estimates, the world economy will grow 3.3% in CY2019, the weakest since 2009, when the world economy shrank However, the growth will pick up in CY2020 to 3.6%. The slow growth in the global economy is due to the fall in the growth rate from 2.2% to 1.8% in the Advanced Economies. Nevertheless, the emerging markets and developing economies will continue to grow around 4.4%, albeit a tad slow than that of 2018 at 4.5%.

Europe

According to European Commission projections, the entire EU’s GDP growth is expected to slow to 1.5% in CY2019, before rising slightly to 1.7% in CY2020. Continued uncertainty related to global trade and the slowdown of Chinese economy are expected to have a negative impact on the EU economic growth. Also, the effects of Brexit on the economy are likely to start being felt in 2019. Major economies, including Germany where weak global demand and tougher car-emission standards have hit factory production; France with street protests; and Italy with weak domestic demand and high sovereign-debt spreads continue to dim the growth outlook. Despite the negative outlook, the tyre industry is expected to be relatively stable for the year ahead. It is expected that the All Season tyres will continue to grow. The replacement market for truck is another segment, which should see good growth numbers.

India

According to IMF estimates, India’s growth is expected to accelerate moderately to 7.5% in FY2020, driven by continued investment, improved export performance and resilient consumption. However, Society of Indian Automobile Manufacturers (SIAM) estimates that the automobile sector in FY2020 will continue to be muted for PV sales and the year will end with 5% growth over FY2019. While the first half of FY2020 is expected to remain tepid due to the general elections, the industry can expect a rise in demand in the second half of the year. With BS-VI coming into play in FY2021, the industry is gearing for a jump in prices by −10-15% for petrol vehicles and −20-25% for diesel variants. It is expected that customers will prepay buying, thereby bolstering demand in second half of FY2020.

According to rating agency ICRA, the domestic tyre demand is expected to grow in the range of 7-9% over the five-year period from FY2019 to FY2023. This will be hand in hand with investments made by the industry players over the same time frame. Moreover, a forecast of normal monsoon for 2019 will support the CV and Agriculture businesses, especially for the replacement business given the uncertainties of an election year.

Against this background of global and Indian outlook, Apollo Tyres will continue its three-pronged strategy:

• To consolidate market position in existing markets and seek new markets/segments
• To continue investment in both brands – Apollo and Vredestein – and capacity expansion via organic expansions
• To seek other growth opportunities

As part of its strategy, the Company will continue to seed existing and new markets in APMEA and will continue to seed other important markets across the globe, including the Americas. However, the Company will stay focussed on its key markets: India and Europe. For Europe region, the focus will remain around premiumisation in the sizes 17” and above for the PV tyres segment and all its sub-categories: Summer, Winter and All Season segments. Importantly, the Company will focus on getting OEMs on board and move away from its replacement-only strategy in the past. With the initial positive feedback of the TBR tyres from its Hungary plant, the region will see an aggressive focus on this segment. However, the region is gearing to pricing pressure for its All Season tyres given increased competition in the segment. The Company has ended the year with a showcase of its highly rated Quatrac Pro for the UHP and Ultra-UHP segments. For India, the Company plans to maintain its leadership position in the TBR segment. With increased brand building activities and on-ground activations around key initiative like #BadRoadBuddies, the Company aims for the leadership position in PV tyres segment. The Company plans to replicate its radialisation success story in the truck/bus segment in the two-wheeler segment with its Alpha range of radial tyres.
RISK MANAGEMENT FRAMEWORK

Apollo Tyres has in place a robust risk management framework that identifies and evaluates business risks and opportunities. The Company recognises that these risks need to be handled effectively and mitigated to protect the interest of the shareholders and stakeholders, to achieve business objectives and create sustainable value and growth. The risk management processes focus on ensuring that the business risks are identified promptly; and a mitigation action plan is evaluated and monitored periodically to ensure that the risks are being addressed accordingly. The Company’s risk management infrastructure operates with the following objectives:

- Proactively identify and highlight risks to the right stakeholders
- Facilitate discussions around risk prioritisation and mitigation
- Provide a framework to assess risk capacity and appetite; develop systems to warn when the appetite is getting breached

The list of key risks and opportunities identified by the management are the following:

FINANCIALS

1. Raw material price volatility
   a) Natural rubber is an agricultural commodity and subject to price volatility and production concerns.
   b) Most other raw materials are affected by the movement in crude prices. Any increase in crude oil prices may impact the prices of some of the raw materials.
   c) Both natural rubber and crude prices are controlled by external environment and are, therefore, beyond reasonable control of the management.

2. Ability to pass on increasing cost in a timely manner
   a) Demand-supply situation must remain in favour of the industry to enable it to undertake price increases.
   b) The situation is further impacted by competitive activities and a general reluctance by other industry players, to make quick and appropriate price hikes.

3. Continued economic growth
   a) Demand in the tyre industry is dependent on economic growth and/or infrastructure development. Any slowdown in the economic growth across regions impacts the industry.
   b) In the past few years, the Company has made significant investments to increase in production capacities, both in India and Europe. Any slowdown in economic activities, may adversely impact return on such investments.
   c) In Europe, the Company’s tyre sales in winters are subject to seasonal requirement, which can be adversely impacted in case of a mild winter.

4. Current investment plans
   a) Apollo Tyres started investment on setting up a new greenfield facility in Andhra Pradesh. This involves a significant capital commitment, along with other investment needs (both growth and maintenance/administrative). These will result in higher leveraging of the balance sheet and a strain on the financials.

5. Future growth
   a) Lower profitability due to some of the above factors impacts the ability to invest in future growth.
   b) Increased competition from global players such as Michelin, Bridgestone and others in India, may also hamper growth.

SOCIAL

6. Manpower and Labour
   a) Retaining skilled personnel may become increasingly difficult in India due to the entry of global majors in the Indian tyre industry.
   b) Attracting and retaining manpower in Hungary will continue to be a challenge.
   c) Tyre manufacturing is significantly dependent on availability of skilled labour. Any labour unrest, shortage of labour, diversion of labour to other industries; may impact tyre production.

INTERNAL CONTROLS AND SYSTEMS

The Company believes that internal control is one of the key pillars of governance, which provides freedom to the management within a framework of appropriate checks and balances. Apollo Tyres has a robust internal control infrastructure, which has been instituted considering the nature, size and risks in the business. The framework comprises, inter alia, a well-defined organisation structure, roles and responsibilities, documented policies and procedures, financial delegation of authority and other such elements. IT policies and processes also ensure that they mitigate the current business risks. These policies are complemented by a management information and monitoring systems, which ensure compliance with internal processes, as well as with applicable laws and regulations. The operating management is not only responsible for revenue and profitability, but also for maintaining financial and commercial discipline.

The Company’s internal control environment ensures efficient conduct of operations, security of assets, prevention and detection of frauds/ errors, accuracy and completeness of
The Company has a well-established independent in-house Internal Audit function that is responsible for providing assurance on compliance with operating systems, internal policies and legal requirements, as well as suggesting improvements to systems and processes. The Company has also identified and documented key internal financial controls for critical processes across all plants, warehouses and offices wherein financial transactions are undertaken. The financial controls are evaluated for operating effectiveness through management’s ongoing monitoring and review process, and independently by Internal Audit.

The Head of Internal Audit reports functionally to the Audit Committee and administratively to the Chairman and Managing Director of the Company. Key internal audit findings are presented to the Audit Committee at its quarterly meetings.

Most importantly, the senior management sets the tone at the top of ‘no tolerance to non-compliance’ and promotes a culture of continuous innovation and improvement.

### DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Apollo Tyres prepared the financial statements in accordance with the requirement of the Companies Act 2013, and applicable accounting standards issued by the Institute of Chartered Accountants of India. The management of Apollo Tyres accepts the integrity and objectivity of these financial statements, as well as the various estimates and judgments used therein. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements are reflected in a true and fair manner and also reasonably represent the Company’s state of affairs and profit for the year.

![Corporate Overview Corporate Overview Financial Statements](Statutory Reports)

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Particulars</th>
<th>Year ended</th>
<th>Year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>March 31, 2019</td>
<td>March 31, 2018</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Standalone</td>
<td>Consolidated</td>
</tr>
<tr>
<td>1</td>
<td>Revenue from operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gross sales</td>
<td>120,896</td>
<td>103,881</td>
</tr>
<tr>
<td></td>
<td>Less: Excise duty</td>
<td>-</td>
<td>2,549</td>
</tr>
<tr>
<td></td>
<td>Net sales</td>
<td>120,896</td>
<td>101,332</td>
</tr>
<tr>
<td></td>
<td>Other operating income</td>
<td>2,642</td>
<td>1,688</td>
</tr>
<tr>
<td>2</td>
<td>Other income</td>
<td>1,114</td>
<td>1,195</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>124,652</td>
<td>104,215</td>
</tr>
<tr>
<td>3</td>
<td>Total expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Decrease/(Increase) in finished goods &amp; work in process</td>
<td>(2,615)</td>
<td>125</td>
</tr>
<tr>
<td></td>
<td>b) Consumption of raw materials/Purchase of stock in trade</td>
<td>83,194</td>
<td>65,329</td>
</tr>
<tr>
<td></td>
<td>c) Employee benefits expense</td>
<td>7,372</td>
<td>7,097</td>
</tr>
<tr>
<td></td>
<td>d) Other expenses</td>
<td>20,795</td>
<td>17,972</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>108,746</td>
<td>90,523</td>
</tr>
<tr>
<td>4</td>
<td>Operating profit</td>
<td>15,906</td>
<td>13,692</td>
</tr>
<tr>
<td>5</td>
<td>Finance costs</td>
<td>1,379</td>
<td>1,375</td>
</tr>
<tr>
<td>6</td>
<td>Depreciation &amp; mortisation expenses</td>
<td>4,463</td>
<td>3,644</td>
</tr>
<tr>
<td>7</td>
<td>Profit before share of profit in associates/joint venture, exceptional items &amp; tax</td>
<td>10,064</td>
<td>8,673</td>
</tr>
<tr>
<td>8</td>
<td>Exceptional items</td>
<td>(2,000)</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Share of profit in associate/joint venture</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Profit before tax</td>
<td>8,064</td>
<td>8,673</td>
</tr>
<tr>
<td>11</td>
<td>Provision for tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Current</td>
<td>1,807</td>
<td>1,885</td>
</tr>
<tr>
<td></td>
<td>-Deferred</td>
<td>336</td>
<td>564</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2,143</td>
<td>2449</td>
</tr>
<tr>
<td>12</td>
<td>Profit after tax</td>
<td>5,921</td>
<td>6,224</td>
</tr>
</tbody>
</table>

accounting records and the timely preparation of reliable financial information. The Company uses SAP—an Enterprise Resource Planning (ERP) software—as its core IT system. The systems and processes are continuously improved by adopting best-in-class processes and automation and implementing the latest IT tools.

The Company has a well-established independent in-house Internal Audit function that is responsible for providing assurance on compliance with operating systems, internal policies and legal requirements, as well as suggesting improvements to systems and processes. The Company has also identified and documented key internal financial controls for critical processes across all plants, warehouses and offices wherein financial transactions are undertaken. The financial controls are evaluated for operating effectiveness through management’s ongoing monitoring and review process, and independently by Internal Audit.

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### DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

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KEY FINANCIAL RATIOS

In accordance with the SEBI (Listing Obligations and Disclosure Requirements 2018) (Amendment) Regulations, 2018, the Company is required to give details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios. Please note that there is no significant change of 25% or more in the Key Ratios viz. Debtors Turnover, Inventory Turnover, Interest Coverage Ratio, Current Ratio Debt Equity Ratio, Operating Profit Margin and Net Profit Margin as compared to the previous year.

Change in Return on Net Worth

<table>
<thead>
<tr>
<th>SL No.</th>
<th>Particulars</th>
<th>FY2019</th>
<th>FY2018</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>i)</td>
<td>Return on Net Worth*</td>
<td>7.95</td>
<td>9.89</td>
<td>-20%</td>
</tr>
</tbody>
</table>

* Return on Net Worth is computed as Net Profit by Average Net Worth. Decline in Return on Net Worth is primarily due to decline in Net Profit from ₹6,223.9 MN to ₹5,921.1 MN.

INFORMATION TECHNOLOGY (IT)

At Apollo Tyres, the IT function continues to play an important role in ensuring the execution of all operations across the Company. Furthermore, IT is the custodian of the organisation’s cyber security and intellectual properties. Additionally, it also guides and supports the organisation through digital transformations that underpin its growth ambitions. FY2019 was a year of stabilising and modernising the IT through various infrastructure and security initiatives, as well as supporting digitisation and technology projects for the business functions. Some of the key initiatives in areas such as infrastructure, compliance and our digital journey, during FY2019, included:

- Data Centre refurbishment
- Continuing our journey to cloud-based applications and landscape to reduce cost of ownership and redundancy of our IT assets
- Disaster recovery enhancement for our critical applications
- Rollout of Managed Security Service to monitor the IT environment from internal and external threats
- Started an initiative for technology enablement journey, including machine learning and artificial intelligence
- Multiple dealer digitisation initiatives to improve access and connection to the Company’s dealer network

GENERAL DATA PROTECTION REGULATION (GDPR)

The Company is implementing its GDPR roadmap with all major compliances in place to ensure protection of personal data at all locations in the organisation. An awareness campaign was rolled out to ensure that data privacy becomes part of its DNA.

HEALTH AND SAFETY

The Health, Safety and Environmental (HSE) transformation journey gained significant momentum in the previous financial year to achieve the Company’s safety vision: ‘Committed to highest safety standard to make sure we return safe and healthy to our families’. The impetus was led by the Management Board as it laid down strategic priorities to bring in a culture of safety across the organisation.
Visible leadership
The Chairman, Vice Chairman & MD and the entire Management Board members personally started driving the safety transformation efforts. One of the strategic pillars for the Company is safety. The year saw the formation of the HSE Council headed by the Vice Chairman & MD, Neeraj Kanwar, to review and monitor safety performance. Based on the detailed analysis and review of hazards, risks and incidents in whole value chain, the Company launched its seven Safety Absolutes during the year. Further, the leadership team visited multiple work locations and conducted HSE Gemba to understand the depth of implementation and key issues.

Functional ownership
The financial year saw the functional leadership team deciding to renew focus on incident reporting and investigation process. The incident investigation is led by respective functional heads and the learning cascaded to the whole organisation. A total of 79 work related Lost Time Incidents were reported during the year.

Capability Building
Safety training programmes were conducted at various levels. Risk-based training programmes offered to all employees and training effectiveness monitored at functional level. Over 12,000 employees/contractors were trained in Safety Absolutes course.

Positive reinforcement
During the year, the first Chairman Safety awards for three categories were distributed. The categories include management, individual and team that had brought a significant change in work culture. Further, plant and function level reward and recognition programme was established at various levels to inspire and motivate employees to participate in the HSE culture transformation.

Awareness and communication
During the previous financial year, safety messaging was integrated in all formal communication. Further, the messages were reinforced through frequent safety campaigns, messages and awareness drives.

HUMAN RESOURCES & INDUSTRIAL RELATIONS
In an ever-increasing competitive and challenging world, Apollo Tyres continues to focus on its ‘people pillar’ as a key to achieve its core objective of sustainable growth and social objectives. The Company acknowledges the role of the Human Resource (HR) community as a strategic business partner in the organisation and continues to invest in a wide variety of HR activities.

During the year under review, the Company continued with its HR strategy and a sharp focus on the following themes:

Capability Building
Given the lack of technical institutes to teach about tyre technology, the Company has had a sharp focus on building capability since its inception. The Europe region continued with its ‘Essential 7’ programme to talk to the line manager to support and enhance the line manager’s skill. Around 15 workshops were held in FY2019 with a special

The Company joined hands with Ashok Leyland to provide healthcare facility to the trucking community in and around Chhindwara, in the central Indian state of Madhya Pradesh.
focus on mentoring, performance management and coaching. The Hungary plant created a self-service platform learning environment for its employees. The platform contains instructions for its various processes and the employee can use multiple learning methods (text, video, pictures and tests). Moreover, for the ease of access, the content is available through smartphone, desktop and tablet. In the Indian plants, initiatives like Signature 2019 was launched where employees were asked to present their Kaizen projects to share their learning. There was also Saksham, a programme, which focusses on the development required during the transition in the new role of an employee.

Employee Engagement
With ‘One Family’ as one of the core values of the Company, it actively engages with the employees at all levels. The Company looks at engagement as beyond the traditional event-based engagement programmes and at a holistic engagement initiative where the endeavour is to provide clear job knowledge; clarity about the scope of opportunities (both horizontal and vertical); an environment, which promotes learning and sharing; open communication and others. The Company endeavours to provide an engaging environment by ensuring that the above parameters are met. A robust Internal Job Posting system ensures that employees are aware of available prospects. The leadership team actively participates in the quarterly ‘townhalls’ as it answers any and every questions from the employees. Finally, each location has a list of events to continuously engage with the employees and, at times, their families as well. The Hungary plant has a regular programme for employees and their family members called ‘Family Factory Visit’ and gives an opportunity to the closest relatives of the employees to visit the plant. The Indian plants held various events like festival celebrations, Women’s Day celebrations, running and wellness programmes and others.

Performance Management
The performance management process, ‘Horizon’, completed its third annual cycle. The Company’s performance management system gives ample opportunities to each employee to discuss not only about the performance but also the opportunities available in the organisation.
Talent Management
In an increasingly competitive world, talent management has become a key focus area for the HR function in the organisation. The Company actively endeavours that its employees look at job enlargement and rotation opportunities. For the Company, supporting such a journey is a win-win arrangement wherein employees discover avenues of growth and the organisation can leverage well-inducted candidates with a deep understanding of its business and culture. Multiple people across the organisation were given the opportunity to work in new functions or move to a new location.

Industrial and Employee Relations
The Company continuously engages with its unions and work councils across its global locations. In the Indian plants, the Company concluded long-term agreements with its unions. The Company has implemented a structured grievance redressal system in its India plants. A new pension plan for all Netherlands-based employees was agreed upon. The agreement was cost neutral and is innovative in its kind.

CSR: SOCIAL COMMITMENTS
Apollo Tyres is fully committed to fulfil its responsibility to the society and environment, given the wide range of CSR activities it undertakes within and outside India. While the Company started its first initiative, Healthcare for the Trucking Community in 2000, it created Apollo Tyres Foundation in 2008 to undertake all its CSR initiatives.

The organisation respects the value of the community by supporting rural livelihood, addressing solid waste management in the community and protecting biodiversity. It also encourages its supply chain partners and employees to be equally conscious of the environment and play their part as responsible citizens. The long trajectory of the organisation in the space has helped it to focus its efforts towards four core areas of work: Healthcare for Trucking Community, Solid Waste Management, Livelihood for Underprivileged Women and Biodiversity Conservation. In addition to these four core areas, a few local initiatives pertaining to watershed management, computer literacy and philanthropy were also undertaken.

During FY2019, the Company managed to achieve some significant milestones. Under its Healthcare for Trucking Community programme, which is rolled out through the 31 centres across 19 states, a 33% increase of beneficiaries availing the service was recorded compared to the previous year. Under the Solid Waste Management programme, the Company set up End-of-Life Tyres playgrounds in rural schools addressing environmental threats of disposal of used tyres.

The Company established a one-of-its-kind ‘Farmer Producer’ organisation for organic farming for women farmers under the Livelihood for Underprivileged Women initiative. The Company’s honey making unit in Kottayam, Kerala got certified to the international standard on Food Safety Systems Certification [FSSC], a rare feat in this area. The Mangrove Conservation programme under its Biodiversity theme hosted its first inter-college quiz competition in Kerala. The Mangrove audio-visual film won an International Woodpeckers Film Festival Award 2018 for the best CSR initiative.

In Europe, the Company joined hands with Municipality of Enschede to solve the existing problems with rainwater and groundwater nuisance and to improve the living environment of the area, called ‘Stadsbeek’. The Company participated in the initiative of laying coconut mats along the banks of the stream to grow native plants which will help in increasing various animal species, such as insects and frogs.
During the year, the Kerala floods devastated the state. In a heart-warming gesture, the Company and its employees across the organisation rallied together and provided assistance to the beneficiaries and communities at large in Kerala. Additionally, in Europe, employees of the Company donated a fixed sum and suggested a charity organisation to which the funds could be donated. Last year, the total amount of donations was divided among five foundations.

The Company’s sustainability journey has not just been limited to the work in the communities. This year marks Apollo Tyres’ foothold in the space of managing carbon footprint. During FY2019, the organisation received its first external verification of the Corporate Carbon Footprint, in line with International Standards of AA1000 and ISO 14064 for FY2018 and FY2019. This is aligned to our vision to be in the league of forward-looking organisations. The details of all the initiatives listed above are further elaborated in the subsequent section under Sustainability.