

MANAGEMENT DISCUSSION AND ANALYSIS

Macroeconomic Landscape

INDIAN ECONOMY

India's economy began on a strong footing for the Financial Year 2019-20 (FY20). FY19 had closed registering a growth of 6.1% and there were clear expectations that the economic powerhouse would have a higher GDP growth rate for FY20. However, as the year progressed, it was evident that the forecast was far removed from the realities faced by the country.

The year began in the middle of the general elections and saw a lull in economic activity during its first quarter. While the liquidity crisis in the Non-Banking Financial Companies (NBFCs) had been brewing for some time, it aggravated during the year and led to the choking of credit flow in the economy, especially to the Micro, Small and Medium Enterprises (MSMEs) sector. Along with corporate and environmental regulatory uncertainty and poor consumer sentiment, the International Monetary Fund (IMF) and other rating agencies downgraded the growth rate for the year and pegged it around 5.8%. To tackle the evident slowdown, the Reserve Bank of India (RBI) eased policy and the Government of India widened budget deficit goals to spur economic growth.

There were incipient signs of recovery in the third quarter of the financial year. However, the fourth quarter witnessed headwinds in the form of the COVID-19 outbreak and the subsequent nation-wide lockdown. Data released by the Central Statistics Office showed that the GDP growth for FY20 now stands at 4.2%, compared to a 6.1% in FY19.

4.2%

GDP growth in FY20

**India's growth (%)**

FY20		4.2
FY19		6.1
FY18		7.2
FY17		8.2
FY16		8.0

Source: Second Advance Estimates of National Income, 2019-20, Ministry of Statistics & Programme Implementation; Economic Survey of India 2019-20.

Auto Sector

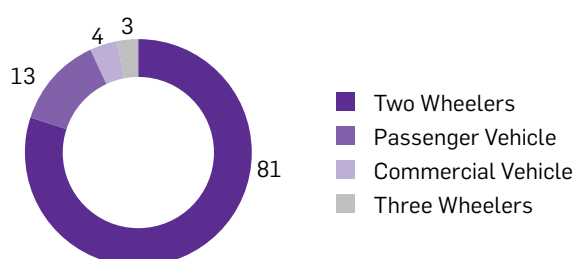
FY20 is not a year the auto segment is likely to forget soon. The sector has been facing a long slowdown, with the unit growth in FY19 being largely led by the high-volume three-wheeler and two-wheeler categories, which grew 49% and 16.5%, respectively, over the previous year. However, for FY20, all the key categories were in the negative growth zone.

Passenger Vehicles (PV) closed the financial year with sale of 2.8 million units compared to 3.4 million units in FY19, down by 17.8%. Commercial Vehicles (CV) sales were down by a whopping 28.8% to close the year with sale of ~0.72 million units. The growth leaders for the industry, three-wheelers and two-wheelers, also posted negative growth of 9.2% and 17.7%, respectively for the year.

The auto industry has been in need of a boost since the beginning of FY20. Without any stimulus, along with poor consumer sentiment, increased cost of ownership due to higher insurance cost; higher financing cost due to the NBFC liquidity crisis; no relief on high GST; increased vehicle prices due to the BS-VI upgrade only added to the woes of the industry. Consequently, overall industry sales fell 18%.

Domestic auto sales, FY20 (million units)

2W		17.42
PV		2.77
CV		0.72
3W		0.64

Segment-wise share in domestic auto sales, FY20 (%)

Source: Society of Indian Automobile Manufacturers (SIAM)

Tyre Segment

Since FY09, the tyre industry has been growing at a CAGR of 7%. It had de-grown only during FY13. However, FY20 seems to be a repeat of FY13, as the numbers from Automotive Tyre Manufacturers Association (ATMA) indicate. According to the data released by ATMA for 11 months, the industry shows an overall decline of ~6% compared to the 11-month numbers of FY19. This is no surprise as the industry's fortunes are closely linked to those of the auto sector and the overall economic development.

In terms of key segments, demand for the Medium & Heavy Commercial Vehicle (M&HCV) segment tyres dropped by 12% even though it had seen a stellar growth of 16% for FY19. The other major segment, PV, posted a drop of 3% for the year.

Total tyre production (million units)

FY20		176.80
FY19		191.98
FY18		177.67
FY17		166.94
FY16		152.03

Segment-wise share in tyre sales, FY20* (units)

Motorcycle		65,648
Scooter (3W)		6,760
Scooter (2W)		27,357
LCV/SCV		11,175
PV		40,721
M&HCV (T&B)		17,966

*Industry figures





EUROPEAN ECONOMY

During the Calendar Year 2018 (CY18), the European Union (EU) recorded a GDP growth of 1.9% even as it slowed compared to the previous years. CY19 saw the growth further slipping to 1.2% on the back of falling demand, persistent global trade tensions, uncertainties over Brexit and other issues. During this time, almost a quarter of the EU's GDP (24.7%) was generated by Germany, followed by France (17.4%) and Italy (12.8%), ahead of Spain (8.9%) and the Netherlands (5.8%). Further countries like Germany and Italy were hit the hardest given their reliance on exports. The year saw the UK formally leaving the EU but uncertainties on the future relationship continued.

Auto Sector

According to European Automobile Manufacturer Association (EAMA), CY19 saw a growth of 1.2% in new car registrations across the EU, with unit sales of more than 15.3 million, marking the sixth consecutive year of growth. While the year started on weak footing due to the lasting impact of the introduction of the world harmonised light-duty vehicles test procedure in September 2018. However, the big surge came in the final quarter of CY19, and especially in December which pushed the full-year performance of the EU market into a positive zone.

Germany with a 5% growth continued to lead the EU market in terms of new-car registration followed by France (1.9%) and Italy (0.3%). By contrast, both Spain (-4.8%) and the UK (-2.4%) observed demand for new cars fall in CY19.

Similarly, EAMA data for CVs mentions that the market expanded by 2.5%, marking the seventh consecutive year of growth.

Each of the major markets ended the year on a positive note – Germany (6.1%), France (4.3%), the UK (3.0%), Italy (1.9%) and Spain (0.3%).

7th

**Consecutive year
of growth for the
CV market in Europe**

Tyre Segment

For CY19, the tyre industry performed poorly in the EU, according to data from the European Tyre and Rubber Manufacturers' Association (ETRMA). Barring the motorbike and scooter tyres recording a 2% rise and replacement truck tyres with a flat growth, all other tyre segments were in the negative zone for the year.

Agricultural tyre sales performed poorly for the sixth year in a row and dipped by 6% vis-à-vis the previous year. This was largely due to the extreme drought resulting in poor harvest and low financial returns for farmers. Also, expectation of stricter regulations for the farming industry in relation to climate change policies and uncertainties around it further dampened consumer sentiments for investment into new equipment and tyres.

PV tyres also performed poorly during CY19 and replacement consumer tyres fell by 3%. Despite the growth in new car registration of 1.2%, tyre sales to OEMs declined by 5%. Both categories, Summer and Winter tyres, showed a negative growth of 7% and 6%, respectively during CY19.



INDUSTRY SCENARIO

India

The tyre industry is directly dependent on the business from the Original Equipment Manufacturers (OEMs) and the replacement market. With the auto sector in a limbo during FY20, the tyre industry was directly impacted as sales to OEMs reduced drastically. However, the replacement market helped recoup some of these losses, with the CV space witnessing a greater utilisation of existing assets and increased sale of replacement tyres.

According to ATMA data, replacement sales for M&HCV accounted for 72% of its total domestic production, among the highest in all categories. The category saw good demand in the replacement market post monsoon till the arrival of COVID-19 and the subsequent lockdown. During FY20, imports continued to fall with sustained imposition of anti-dumping duty.

India's tyre industry was helped to a certain extent by the falling materials costs of some of its key raw materials. These raw material prices declined by ~5% in FY20 over the previous year, aided by a drop in carbon black, synthetic rubber, nylon fabric and chemicals prices. However, the domestic natural rubber prices saw an increase of ~7% during the same period. The domestic supplies were partially impacted during FY20 due to erratic weather pattern. Prices for the imported natural rubber witnessed a spike in the second half of the financial year. Reduced production and supplies from Indonesia and Thailand due to the onset of fungal leaf disease were the key factors for this. India continued to witness the inverted duty on natural rubber during the year.

Europe

While the performance for the European tyre industry was weak, it continued to evolve. The year saw instances of industry players driving initiatives to integrate manufacturing and trade in an attempt to reduce their dependence on independent tyre distributors in Europe.

In terms of categories, in the PV segment, the All-Season segment continued to outperform the other segments (Winter and Summer tyres) and posted a double-digit rise over the previous year. The growth in the segment is also bringing in an increasing number of players, resulting in pricing pressure. Another segment which showed positive trend was the Ultra-High Performance (UHP) segment and it witnessed a high single-digit expansion.

The imports of PV tyres from outside Europe continued to post strong growth during the year and continued to gain market share. The share of UHP and Winter tyres in imports is increasing. While anti-dumping duties have been imposed on Chinese imports of truck tyres, these have been partly replaced by imports from other countries, particularly South East Asia and Korea. Imports from the Association of Southeast Asian Nations (ASEAN countries) grew by 215% in CY18 and by 170% in CY19 and from South Korea by 117% in CY18 and 7% in CY19.

The impact of COVID-19 is already being felt across the auto and tyre industries. According to ETRMA data for March 2020, replacement passenger vehicle tyres sales declined by 26% and by 15% for both agricultural and CV tyres.

72%

**M&HCV replacement
sales of its total
domestic production**



SCOT ANALYSIS

Strengths <ul style="list-style-type: none"> • Wide geographic footprint • Full-range tyre player • Brand architecture • Distribution muscle • Diverse and experienced leadership • Robust R&D infrastructure • Enduring associations 	Challenges <ul style="list-style-type: none"> • Margin erosion • Market penetration • Financial stress
Opportunities <ul style="list-style-type: none"> • Two-wheeler tyre segment • Greenfield manufacturing base • European market • New geographies • New segments • Distribution expansion • Anti-dumping 	Threats <ul style="list-style-type: none"> • Macroeconomic environment • COVID-19 • Volatile exchange rates • Price competition • Integrated distribution • Capital-intensive operations

Strengths

- **Wide geographic footprint:** Apollo Tyres has the advantage of a diversified market base across geographies and therefore, it is not completely dependent on the Indian market alone. Further, the Company is working towards establishing and growing operations in other large markets, including ASEAN and North America.
- **Full-range tyre player:** 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.
- **Brand architecture:** The Company is powered by strong product brands in its key markets – Apollo and Vredestein. 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. In Europe, the Company's brand, Vredestein has a heritage of over 110 years and an established presence and enjoys a reasonable premium positioning, especially in Winter and All-Season segments. Vredestein has been named All-Season Manufacturer of the Year by German automobile magazine, Auto Bild. The Company's new ranges like Vredestein Wintrac Pro and Vredestein Quatrac Pro have been given top ratings by multiple external media and tyre testing agencies. Further, increased spending on building the corporate brand is starting to make Apollo Tyres a stronger brand in India and a recognised one globally.
- **Distribution muscle:** Apollo Tyres enjoys an extensive distribution network for its products across its two key markets – India and Europe.

- **Diverse and experienced leadership:** The Company has a global and culturally diversified Management Team driving growth across geographies.
- **Robust R&D infrastructure:** 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 its growth.
- **Enduring associations:** The Company has long established relationships with global OEM manufacturers, present in India, and has forayed into the premium OEM segments in India. Further, the Company is aggressively pursuing its strategy of building OEM relationships in Europe and has seen few initial wins.

Challenges

- **Margin erosion:** In a rapidly rising raw material cost scenario, the Company may be 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.
- **Market penetration:** The Company will need special focus on the Summer Segment to improve its footprint in Europe to supersede competition in a non-growing market. OEM 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.
- **Financial stress:** Europe operations have been under financial strain with a weak market scenario coupled with pricing pressures and our own internal situation of a higher cost plant in western Europe and a ramping up plant in Central-Eastern Europe.

Opportunities

- **Two-wheeler tyre segment:** 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. The Company plans to introduce the products in Europe and other parts of the world to drive further growth.
- **Greenfield manufacturing base:** 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 as it provides a cost-competitive manufacturing base in the region.
- **European market:** The Company has started deliveries to European OEM manufacturers endorsing the premium position of its Vredestein brand. Also, this will help to generate replacement demand. With the premium positioning of the Vredestein brand in Europe and now with the modern 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.

- **New geographies:** The Company still needs to establish a larger presence in new growing geographies to reach an economically viable operation size. The Company continues to increase its focus on new geographies such as North America and in regions where it has already made some inroads, such as in ASEAN countries and the Middle East. These geographies will be the growth avenues for future.
- **New segments:** 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 robust growth prospects with increasing radialisation. In Europe, the Company has launched TBR tyres in Europe, which will further enhance revenue and market presence. Growth prospects exist in the premium segment of PV (17" and above) in all product segments (Summer/All Season/Winter).
- **Distribution expansion:** The Company continues to have a focused approach on increasing its sales channels and distribution expansion.
- **Anti-dumping:** Anti-dumping measures in EU against Chinese imports will support to expand Apollo Tyres' TBR footprint.

Threats

- **Macroeconomic environment:** Economic downturn or slowdown in the key markets (India and Europe) can lead to decreased volumes and capacity utilisation. Further, economic and global political instability and the trade war between China and the US can impact business in Europe.
- **COVID-19:** A prolonged lockdown due to COVID-19 in many parts where the Company operates can have a significant impact on its business. Further, the coming year will have one large investment on stream. There would be pressure on margins as the utilisations ramp up gradually and the Company faces reduced demand due to the pandemic.
- **Volatile exchange rates:** A weak Indian currency can result in pressure on margins since the Company is a net importer.
- **Price competition:** A growing influence of budget tyres, mainly Tier-2 and Tier-3 brands from established manufacturers, could further impact business, particularly in Europe.
- **Integrated distribution:** Consolidation in the distribution landscape as independent dealers are disappearing, wholesalers and company-owned networks are growing. Internet is playing a major role in this change (vertical and horizontal integration).
- **Capital-intensive operations:** High capital intensity resulting in regular need of large capex for growth putting pressure on free cash flow.

SEGMENT-WISE PERFORMANCE

The Company continued to focus on its key regions – APMEA (Asia Pacific (including India), the Middle East and Africa) and Europe. Also, it continued to build its presence in the Americas with product releases and seeding the market.

During FY20, the APMEA operation continued its focus on key themes for India's market - consolidating its 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 segments of the industry. 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 OEM 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

Apollo Tyres continued to consolidate its leadership in the CV segment. In the M&HCV category, the Company's R&D and manufacturing worked hand-in-hand to launch tyres for both Truck Bus Bias (TBB) and TBR for the new axle load norms for trucks. The products were tuned to carry higher payloads while continuing to offer their value propositions to the customers, thereby maximising productivity. The other big product introduction was the EnduRace TBR range for Intermedia Commercial Vehicle trucks and buses. As India continues to witness higher investment in the infrastructure development, there is a growing demand for tyres from the Tipper segment. To cater to this demand, the Company introduced two new products, EnduTrax MA and EnduTrax MD, specially created for the tipper application.

In the Light Commercial Vehicle/ Small Commercial Vehicle (LCV/ SCV) category, the Company's offer of premium EnduRace radial technology products helped further inch up its market share. To cater to the fastest growing segment in the LCV space, Pickups, the Company launched the EnduMaxx LT range and offered unmatched cost of ownership, highest mileage, a very durable product and fuel savings. The product was launched across 12 states with over 26,000 footfalls at key identified markets. The Gold Award recognition by SEAC Singapore Customer Engagement Awards in the Most Admired Brand Activation category is a testimony to the success of the product launch. Given the success of the product, the Company extended the EnduMaxx LT to the SCV category as well.






Apart from launching products to cater to different applications, the Company took multiple initiatives to engage with its customers. On the M&HCV front, it focused on further strengthening its driver connect programme, Apollo Swastha Saathi. The programme saw additional coverage in new districts even as the trucking community appreciated the Company for reaching out and helping them to be healthy and safe. The other key customer connect initiative, Leaders and Movers Meets reached out to over 15,000 customers through more than 300 meets organised during the year.

15,000+

Customers reached through customer connect initiative, Leaders and Movers Meets

Best-in-class and new product launches, continuous engagement with the customers and creating a strong brand helped the Company up its market share in both categories of the CV space and post double-digit growth in the replacement market. OEM supplies continued to be under strain due to poor growth by the OEMs in the categories.

M&HCV segment sales* (million units)

FY20		17.97
FY19		20.84
FY18		18.04
FY17		16.26
FY16		16.76

*Industry figures

Passenger Vehicles

During FY20, the Company continued its market leadership journey in India in the PV segment. To increase market share, the Company focused on new product launches, marketing campaigns and increasing the distribution network. The year closed with the Company crossing a significant milestone in achieving its India Vision 2020 of 'Building Leadership' as its Passenger Car Radial (PCR) business took a pole position in the replacement segment and further strengthened its hold in the OEM sector. Apollo Tyres witnessed its replacement volume business grow double digits for FY20 over its previous year.

During the year, Apollo Tyres sharpened its focus on the fast-growing SUV segment. It introduced the 2nd generation All-Terrain SUV tyres, Apterra AT2, for the off-road enthusiasts complementing the Company's existing Apterra range, including specialised Highway Luxury, Highway Terrain, High Performance tyres for the SUVs.

With its R&D teams across the globe working on creating products, which can set new benchmarks, the Company introduced Amazer XP, a new-age low rolling resistance tyre with low noise and high comfort for the entry level hatchbacks and sedans. This launch was very well received by OEMs as well and readily bagged new OEM fitment for Tata Tigor, Tiago (including the Electric Vehicle models), Renault Kwid, Datsun Go and Go+.






Further, in the past few years, the Company has been targeting the premium segment and has made significant inroads in the same. With R&D creating best-in-class products like Apollo Alnac 4G (for premium hatchbacks, compact SUV and sedans) and Aspire 4G (for luxury sedans/SUV), the business grew at a healthy clip as compared to the previous year.

While the PCR replacement saw a good traction in the financial year, the OEM business saw slowdown on account of weak OEM sales. Nevertheless, the Company saw some significant wins during the year, including Tata Harrier, Tigor and Tiago, New Creta, Renault Kwid and others.

The Company continued to invest in ramping up its distribution network. It added over 200 multi-branded outlets and 120+ branded retail stores during the financial year.



**PV segment sales*** (million units)

FY20		40.72
FY19		42.84
FY18		42.81
FY17		41.58
FY16		38.70

*Industry figures

Off-Highway Tyres

The Company's Off-Highway Tyres (OHT) category is focused on three key sub-segments: Agriculture, Industrial and Earthmovers.

In the Agriculture tyre segment, the industry was impacted by uneven and delayed monsoon. While the replacement tyre demand declined in H1, it started improving in the next two quarters till COVID-19 lockdown hit the country. Despite the sluggish demand, the Company introduced products like VIRAT 23 and VIRAT Harvest adding to its rich and diverse portfolio to cater to general agriculture and haulage & speciality applications like puddling, compact tractors and row crop. Another highlight for the segment was the launch of multiple Apollo Farm Zones (AFZ) across the country. The AFZs are an industry-first branded retail and service store concept for agriculture tyres. The zones offer a range of products and services, including an Agronomist to guide the farmers in their tyre selection process.






To engage and reach out to its customers, the Company continued to invest in rural brand building through unique on-ground activations like engaging with existing customers through the ATOM platform and partnering with OEMs in various customer service camps. The Company also focused on digital outreach to reach out to the end consumers using SMS, Facebook and YouTube promotions around the Apollo Farm category.

In the Industrial tyres category, the Company continued its strong growth story in FY20 as well. It added the next generation Backhoe Loader and Crane Front Range to its wide portfolio in FY20. While the Company grew well in the replacement segment, it also bagged new business from JCB and other OEMs. All these efforts helped the Company grow well and increase its market share, even as the segment itself registered a degrowth of 5%, according to ATMA data. Apollo Tyres continued to bag key tenders with Coal India and cement companies in the Earthmover category.

Two-wheelers

The Company continued to make its mark in the two-wheeler tyre segment. Its foray in this segment is a recent one but thanks to a best-in-class and high-technology product portfolio, it has already grabbed 7% market share of the replacement market. The year also saw the focus on building a larger portfolio mix, shifting towards higher premium bikes and scooters as it launched 17 new SKUs, along with innovative off-roading pattern for premium vehicles, tubeless SKUs for economy/ executive motorcycles/cruiser market and new pattern for scooters. With a focus on radialisation of the two-wheeler tyre market, the Company extended its steel radial portfolio with the launch of two new SKUs – Alpha S1 140/60 R17 and 130/70 R17.

2-wheeler segment sales* (million units)

FY20		99.77
FY19		107.92
FY18		98.68
FY17		91.45
FY16		79.94

*Industry figures





Brand building

The Company's relentless focus on R&D and brand building, as its two key pillars to gain market share, has seen continued investments during the year. The year saw the launch of the corporate advertising campaign – Ganga, leveraging its association with the sporting legend, Sachin Tendulkar. One of the highest decibel brand campaigns for Apollo Tyres, the Ganga campaign helped it gain top-of-the-mind recall and a sharper brand image. The Company also launched its new communication campaign '#Apollo Apterra Bad Road Go to Good Places' covering major platforms like TV, Out of Home (OOH), movies and digital. For its two-wheeler business, the Company executed the Alpha sustenance campaign earlier in 2020 to make it the one of the most viewed brands by the end of campaign. A focused approach for its various campaigns helped the Company achieve huge viewership on its YouTube channel with Ganga commercial reaching over 48 million and Alpha commercial being seen by over 35 million viewers.

Beyond the PCR and two-wheeler segment, initiatives were also taken for the CV category by having an incremental digital channel ramp up to their on-ground product launches, consumer offers, warranty launches and others.

The Company won its first Effie award for Apollo Alpha business under the Automotive Aftermarket category highlighting how a late entrant took on two industry giants and won.

1st

Effie award won for the Apollo Alpha business

Community centricity

The Company started its community building initiative #BadRoadBuddies in early 2019 and the year saw more activities under the theme. Apollo Tyres arranged and carried out over 200 regional Bad Road Buddy drives across India, reaching out to over 5,000 SUV users who participated. Similar engagements were done for the two-wheeler category and it saw over 12,000 bikers coming in for various programmes and a strengthened community of loyalists for Apollo Tyres' products. As part of its community building initiative, the Company also supported the Millennium City Marathon in Gurugram.

200+

Bad Road Buddy drives across India, reaching 5,000+ SUV users

Beyond India

With operations in key countries like Thailand, Malaysia, Sri Lanka, Vietnam in the APMEA—Asia Pacific, Middle East and Africa—region, the Company continued to invest in creating brand, working on the requirements of each region to bring country-specific products.

Europe

In Europe, the Company largely operates in the replacement market in PCR, Agriculture, TBR, Motorcycle and Bicycle segments, even as it continues to make headways into the OEM segment across all segments.

During the year, the Company's technology-optimised and best-in-class Vredestein range of tyres continued to win top ratings in multiple independent tests. The Vredestein Quatrax Pro, the first All-Season tyre fully focused on the UHP segment was rated second out of 31 models in the Auto Bild test on tyres in the 225/45 R17 size. Given the expertise in crafting high-technology All-Season premium tyres, Vredestein was recognised as 'All-Season Manufacturer of the Year' by Auto Bild. The year also saw success in adding Volkswagen (for VW Golf Mark 8) to the expanding OEM list. In the PCR space, the Company saw a gain in its replacement market share even though its volumes declined marginally while the overall market witnessed volumes decline by 3%.

Vredestein was recognised as 'All-Season Manufacturer of the Year'

The Company's foray in the TBR segment in Europe is bearing fruits. The Company saw strong growth across countries in Europe in this segment as customers have recognised the products' durability and performance on wet surfaces, high resistance to impact, more possibilities for re-treading, excellent control and road-keeping. The Company launched additional SKUs on the 17.5" range bringing its market coverage on 17.5" range to 70%.

In Agriculture segment, the Company saw two notable launches showcasing the high level of technology and R&D play in its products. Apollo tyres introduced the world's tallest radial floatation tyre and set new standards in terms of rolling ability and soil preservation, in a world-beating diameter of 2.15 metres. This was followed by the introduction of a new tractor tyre, the Vredestein Traxion 65. According to test conducted at RDW test track (ISO certified: ISO 10844:2014), the tyre came to a lower in-cabin noise of up to 29% compared to its premium competitor. These exceptionally low sound levels gave a new degree of comfort to tractor drivers using the Traxion 65. Also, in another



test by independent German test institute, DLG, it was confirmed that Vredestein Traxion tyres were far more economical option than competitor's options over their lifetime. In fact, the results proved that the Vredestein Traxion XXL has a 50% longer lifespan ultimately resulting in a saving of €1 per operational hour per tractor.

The Company's commitment to offer best-in-class products with a high-technology component helped it inch up the volume sales slightly even as the overall market declined by about 10%. The same best-in-class product for the agriculture sector helped the Company to increase its presence in the OEM space and added marquee clients like John Deere, CNH and Claas.

In Bicycle tyres, the Company reorganised its supply chain and was ready to develop its sales, focusing on premium product, particularly on e-bikes. During the year, the Company showcased two key products - Vredestein Aventura and Vredestein Icon. The former is the perfect choice for gravel cyclists looking to ride on concrete roads or gravel roads and even on grass and loose earth. The Vredestein Icon has been designed, along with renowned Italian design house Italdesign Giugiaro to create the next-generation tyre for e-bikes. The Company was also a proud recipient of the coveted Eurobike Award for its Vredestein Fortezza Flower Power bicycle tyre. The tyre won the recognition, among ~400 other entries, for being produced from Russian dandelion, offering enhanced performance and scored highly in terms of sustainability.

In the Motorcycle segment, the Company introduced the Centauro range of sport touring radial tyres, designed especially for motorcycles on European roads.

During the year, the Company submitted a Request for Advice (RfAx) to specialise Enschede plant (in the Netherlands) over a period of two years to have a sustainable business and focus on producing only high-value tyres. Given the current operating environment, the Company cannot produce certain tyre sizes at a sustainable and competitive level and plans to specialise towards high-value tyres to secure a sustainable future for the plant in the Netherlands. Currently, Apollo Tyres is in discussion with the Works Council to reach a conclusion on the way forward.



OUTLOOK

With the worldwide outbreak of COVID-19, the global economy is staring at a recession of a magnitude never seen before in recent history. To counter the pandemic, countries across the globe has resorted to lockdowns, which has already brought the economy to a standstill. While the debate between 'Lives and Livelihood' rages across the world, the International Monetary Fund (IMF) has issued a warning that the repercussion of COVID-19 will be similar to the worst recession since the Great Depression and will dwarf the economic damage caused by the global financial crisis a decade back.

The IMF's recent projection for a 3% contraction of the global economy would mark the steepest downturn since the Great Depression of the 1930s. However, experts believe that the situation can further worsen given that the behaviour of corona virus continues to be unknown and there are no immediate medical solutions.

With the countrywide lockdown, India will certainly be hit hard, and IMF along with other rating agencies have sharply slashed India's growth estimate for FY21 ranging from 0% to 1.9% from the 5.8% estimated in January 2020. According to the European Economic Forecast, EU economy is expected to contract by 7.5% in 2020 and bounce back by 6% in 2021.

COVID-19 has grave consequences for the automobile industry and all related sectors, with most automobile manufacturers having announced temporary closure of plants due to collapsing demand, supply shortages and government measures. OEMs in India are forecasting a de-growth of 30-40% in FY21 demand given the BS-VI implementation and price increase, COVID-19 impact, poor consumer sentiment and liquidity crunch, which in turn will seriously impact the tyre industry.

Industry experts estimate a decline in the replacement tyre industry as well with impact of the pandemic playing well into the year. All industries across the globe are looking at their respective governments and their decisions regarding stimulus packages, support to turnaround sentiments, triggering demand and other such factors, which will decide the economic outcome for any country.

Against the bleak global, Indian and European outlook, Apollo Tyres has adopted a cautious approach. The focus is on employee safety and conserving cash. The Company is re-engineering production and cutting down all avoidable costs and focusing on the good costs like R&D, e-training and brand building, among others.

The APMEA region is witnessing some traction in demand in the CV and the agri space and it has put in place all necessary plans to tap this demand. In multiple categories like LCV/SCV, two-wheeler and OHT, the Company will continue its efforts to drive radialisation as it offers best value to the customers on the back of its technology strength. In other categories, the Company is continuing its progress in numerous product developments to

compete and gain market share while keeping its customers' business needs at the forefront. There are a host of new product launches planned in FY21 and the Company is exploring the digital medium and innovative ways like virtual launches to reach the customers.

In Europe, Apollo Tyres will continue to focus on the passenger car segment and introduce new dedicated UHP products in the All-Season and Winter range to gain market share. The year ahead will also see an acceleration of introducing the TBR range in key European markets. The Company will continue to target growing the overall distribution footprint by adding new customers across Europe and penetrating the car dealer channel. Further, the Company is hopeful that it will reach a conclusion to its RfA submission and discussion with the Work Council about the way forward for the Enschede plant. This will help the Company to secure a sustainable future for the plant in the Netherlands and improve cost competitiveness in the market.

Principal Risks and Opportunities

FINANCIALS

Raw material price volatility

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

Ability to pass on increasing cost in a timely manner

- Demand-supply situation must remain in favour of the industry to enable it to undertake price increases.
- The situation is further impacted by competitive activities to make quick and appropriate price hikes.

Continued economic growth

- 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.
- In past few years, the Company has made significant investments to increase production capacities, both in India and Europe. Any slowdown in economic activities, may adversely impact return on such investments.
- 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 season.

RISKS AND MITIGATION

The Company has in place a robust risk management framework that identifies and evaluates business risks and opportunities. Apollo Tyres recognises that these risks need to be handled effectively and mitigated to protect the interests of the shareholders and stakeholders, to achieve business objectives and create sustainable value and growth.

The Company's risk management processes focus on ensuring that these risks are promptly identified and a mitigation action plan is developed and monitored periodically to ensure that the risks are being addressed accordingly. The Company's risk management framework 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

Radialisation levels in India

- Slower than expected increase in the radialisation level in the truck tyre segment may affect Indian operations. Excess capacity may result in competitive pressures and decline in profit.
- At the same time, an unexpected quicker increase in the level of radialisation can result in faster redundancy of cross-ply capacities and create a need for fresh investments.

Future growth

- Lower profitability due to some of the above factors impact the ability to invest in future growth.
- Increased competition from global players such as Michelin, Bridgestone and others in India, may also hamper growth.
- Continued lockdown due to COVID-19 can lead to a serious impact on the organisation, including a significant drop in demand, decline in profitability, liquidity concerns and others.

SOCIAL

Workforce

- Retaining skilled personnel may become increasingly difficult in India due to the entry of global majors in the Indian tyre industry.
- Tyre manufacturing is significantly dependent on availability of skilled labour. Any labour unrest, shortage of labour, diversion of labour to other industries; may impact its tyre production.



SOUND 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 framework, 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, etc. Information Technology (IT) policies and processes also ensure that they mitigate the current business risks. These policies are complimented by a management information and monitoring system, which ensures compliance with internal processes, as well as with applicable laws and regulations.

The Company's internal control environment ensures efficient conduct of operations, security of assets, prevention and detection of frauds/ errors, accuracy and completeness of 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 operating management is not only responsible for revenue and profitability, but also for maintaining financial and commercial discipline.

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

The financial statements have been prepared 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 Ltd 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 have been made on a prudent and reasonable basis, in order that the financial statements are reflected in a true and fair manner and also reasonably present the Company's state of affairs and profit for the year.

(Rs. Million)

Sl. No.	Particulars	Year Ended		Year Ended	
		March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
		Standalone		Consolidated	
1	Revenue from Operations:				
	Sales	108,327	120,896	160,965	172,734
	Other Operating Income	2,293	2,642	2305	2,755
2	Other Income	349	1,114	469	1,231
	Total	110,969	124,652	163,739	176,720
3	Total Expenditure				
	a) Changes in inventories of finished goods, stock-in-trade and work-in-progress	1,128	(2,615)	1917	(4,704)
	b) Cost of materials consumed & Purchase of Stock in Trade	67,247	83,194	88,840	106,086
	c) Employee Benefits Expense	8,261	7,372	24,822	24,296
	d) Other Expenses	20,055	20,795	28,537	30,224
	Total	96,691	108,746	144,116	155,902
4	Operating Profit	14,278	15,906	19,623	20,818
5	Finance Costs	2,257	1,379	2808	1,811
6	Depreciation & Amortization Expenses	6,207	4,463	11,381	8,127
7	Profit before share of profit/ (loss) in associates / joint venture, exceptional Items & Tax	5,814	10,064	5,434	10,880
8	Exceptional Items	-	(2,000)	0	(2,000)
9	Share of profit/(loss) in associate / joint venture	-	-	0	1
10	Profit before Tax	5,814	8,064	5,434	8,881
11	Provision for Tax				
	- Current	1,027	1,807	1274	1,871
	- Deferred	(299)	336	(604)	212
	Total	728	2,143	670	2,083
12	Profit after Tax	5,086	5,921	4764	6,798

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 Key Ratios viz. Debtors Turnover, Inventory Turnover, Operating Profit Margin and Net Profit Margin as compared to the previous year other than the following:-

Sl. No.	Particulars	FY 2020	FY 2019	% Change	Explanation
1	Interest Coverage Ratio	4.16	7.33	-43%	Reduction in interest coverage ratio is due to increase in finance cost.
2	Current Ratio	0.71	1.35	-47%	Reduction in current ratio is due to optimisation of working capital.
3	Debt Equity Ratio	0.41	0.32	28%	Increase in Debt equity ratio due to increase in borrowings.

CHANGE IN RETURN ON NET WORTH

Sl. No.	Particulars	FY 2020	FY 2019	% Change
1	Return on Net Worth*	6.63	7.95	-17%

* 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 Rs 5921.09 million to Rs 5,086.24 million.



ROBUST IT PLATFORM

IT continued to strengthen the foundations of the Company, playing a pivotal role in the adoption of newer technologies aiming at providing better quality products and best user experience. The Company is investing heavily in modernising the IT infrastructure at plants. The digitalisation and automation journey has started to yield results. Some of the key initiatives undertaken during the year includes:

- Strengthening the B2B portals
- New cloud-based Transport Management system
- Adoption of Office365 for organisation-wide collaboration
- Implementation of Business Intelligence solutions
- Setup of Global Network Operations Centre and Security Operations Centre
- Automation of inter-company transactions

HEALTH, SAFETY AND ENVIRONMENT AT THE FOREFRONT

The Company is under the Health, Safety and Environment (HSE) culture transformation journey and HSE practices are being integrated with business processes systematically. Structured efforts are introduced to make the Company's eco-system safe with the active participation of every employee, contractor and business partner.

The Company continued to focus on its five strategic priorities mentioned below to achieve its safety vision: Committed to the highest safety standards to ensure that every day we return safe and healthy to our families.

Visible Leadership

The financial year saw the Vice-Chairman and Managing Director taking a personal pledge and making sure safety is included at a functional level. The HSE KPIs were reviewed and monitored

periodically by the Presidents at the Regional level. HSE Gemba is practiced by management teams to gauge the strengths and opportunities with respect to HSE implementation.

With the pandemic affecting various regions around the globe, the Company's leadership team made proactive and timely interventions to guide and advise the employees. The senior leadership communicated with all employees updating them about the pandemic and the Company on a weekly basis. Further, the Company's leadership reached out to groups of people across various locations.

Functional Ownership HSE leading and lagging indicators are defined at a functional level and monitored periodically through safety council meetings. The year saw identification of accident prevention opportunities through near-miss reporting, unsafe acts, etc. Best HSE practices were deployed with business process in other operations like branded retail outlets, warehouses and others.

There were structured efforts undertaken at every manufacturing plant to implement the safety programmes related to machine safety, energy isolation, electrical safety, fire and life safety, material handling, and chemical safety.

Apollo Tyres' manufacturing plants migrated to ISO:45001:2018 from OHSAS:18001:2007. This transition is in line with the Apollo Safety roadmap to enhance rigour on risk reduction through the active participation of the leadership team and workmen.

Road risks continued to be a major issue and structured efforts were undertaken to make employee commute and work-related travel safer. Multiple measures were begun, including ensuring retractable seat belt for every passenger along with CCTV cameras in the bus to ensure compliance, monitoring of drivers wearing seat belts for hired cabs and others.

Capability Enhancement

Multiple training and development programmes were organised at each level of the organisation. These included HSE culture transformation workshops for leadership teams, Safety for Manager for line managers, risk-based training for construction and project workers, first-aid courses for office employees and planned inspection, fire, and life safety courses for warehouse-in-charges.

Positive Reinforcement

People have been recognised and awarded periodically to drive HSE. The annual Chairman Safety award is one of the high-level awards organised in the Company. Further, the Company's manufacturing plants have structured safety awards at a functional level based on defined evaluation criteria. In the projects, 10% of total workers were rewarded each month. These have helped to inspire and motivate employees to participate in safety culture transformation journey.

Awareness and Communication

The Company continued to spread awareness about safety throughout the year. Campaigns were conducted for employees, partners and customers on road safety. An innovative digital



campaign called Love Yourself was launched to cover employees, contractors, and business partners across the value chain. An online login portal has been introduced to have daily HSE intervention with employees while logging into the Company's network to reinforce the HSE practices.

Continuous awareness programmes were conducted across the organisation to make people aware of precautions and actions related to COVID-19. Awareness content is ensured in line with respective country and World Health Organization (WHO) guidelines. All the interventions have seen a direct impact on the safety culture. The Company's greenfield project in Andhra Pradesh (in India) achieved 10 million safe person-hours without a lost-time incident during the year. The Company's Chennai plant (in India) received the Best Supplier for Environment Promotion recognition from an OEM customer. The Company's Limda plant (in Gujarat, India) achieved 100% compliance scores based on fire safety and flood safety parameters defined by an OEM customer.

STRONG HUMAN RESOURCES & INDUSTRIAL RELATIONS

Human Resources (HR) at Apollo Tyres continued to play a pivotal role in managing, guiding and motivating the Company's workforce. A strategic business partner, their function is aligned with the Company's business requirements.

Nurturing Teams

The Company remained focused on its journey to achieve the Vision 2020, with its People First motto and active HR participation. The year saw the HR team launching multiple initiatives to enhance employee engagement and boost morale. During the year, the Company launched Apollo Pillars to recognise and reward employees' long-term contribution towards its growth and success, felicitating employees' key journey milestones with it. The APMEA region launched the 'I AM APOLLO' campaign as an employee recognition platform to highlight the growth journey of employees in Apollo Tyres across various functions and locations.

Providing Opportunities for Growth

Capability building and talent management continued to be a key focus area for the Company and HR launched multiple initiatives in training and learning and development areas. Some of the key programmes included the Apollo Virtual Academy (AVA), Refresh@Apollo, Winning with Customers, Admire, First Line Manager's Program, Power Pivot and Power BI, Apollo ONE and many more. Most of the programmes focused on specific requirements of locations, functions or the whole organisation and were accordingly designed and developed. The Company rolled out its Global Apollo Talent roadmap and deployed it successfully across all functions and regions, using the 9 Box grid, talent mapping and flight risk assessment.

Like the other plants, HR at the Hungary plant also set up an e-learning process to focus on the professional knowledge of the shopfloor teams. To further create awareness of the tyre

manufacturing process in Hungary, the Company launched a tyre building facility, in cooperating with Miskolc University, Hungary. Similarly, in Enschede plant, a first-line leadership training programme and a company-wide safety programme was launched, along with internal training for operators.

In line with Apollo Tyres' belief that it is important to support its people in realising their career aspirations, as well as empowering them to contribute towards organisational growth, the Company provided various opportunities for its people to grow laterally and vertically within the organisation.

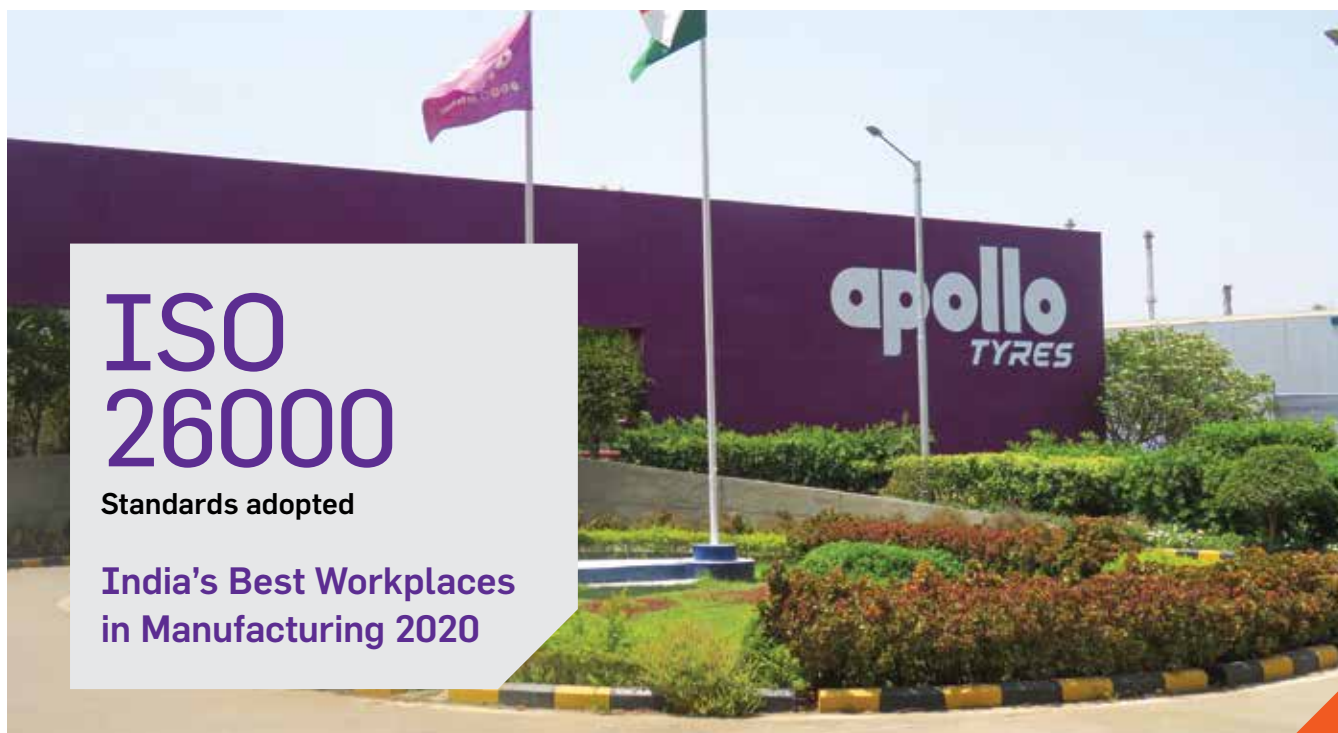
Engaging with People with 'One Family' as a core value of the Company, HR organised multiple 'Apollo One Family' and other events across various locations to bring its people together for a cause and to have a good family time. The Company's various location/functions organised events, including Wellness Marathon, Baisakhi Festival, Apollo Family Day, blood donation camps, Ladies Forum and Sangamam for female spouses of employees, among others to create a strong bond for the Apollo Family. The Europe region celebrated the 110-year anniversary of Vredestein and organised a 'Family Day' that witnessed participation of over 4,000 visitors and officials.

As COVID-19 started spreading across the country, it was heartening to see Apollo Tyres' One Family stand together to provide food and essential kits to the poor and daily wage workers near their vicinity.

Building a Positive Organisational Culture

The Company has been recognised among India's Best Companies to Work for in 2019 and among India's Best Workplaces in Manufacturing 2020. It has been ranked among the top 50 companies across industry and among top 30 organisations in the manufacturing sector. Employee motivation, pride for the organisation and work ethics have contributed towards these recognitions. In a rigorous Trust Index Employee survey and Culture Audit People Practices framework, the Company excelled on five dimensions namely Credibility, Respect, Fairness, Pride and Camaraderie signifying the high-performance and high-trust culture at Apollo Tyres. Apollo Tyres actively encourages the principle of 'One Family the core' as its organisational culture, which is supported by good infrastructure. Additionally, the Company culture endorses the use of latest technology and diverse learning opportunities to motivate its people, the leadership focuses immensely on employee welfare and promotes a culture of healthy work-life balance, along with empowerment and liberty to function.

Labour relations remained conducive across all India operations. The plants in India created multiple opportunities to promote an open and supportive work environment and enhance participative decision-making. Plant councils, house committees and safety cells were a few of the activities conducted in various production units.



ISO 26000

Standards adopted

India's Best Workplaces
in Manufacturing 2020

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

Apollo Tyre's sustainability journey began in 2010, when it started to report on the Environment, Social and Governance (ESG) indicators as part of its long-term business strategy to highlight improved performance and sustainable growth. During the year, the Company embarked upon the journey of ISO 26000, guidance on Social Responsibility, whereby the Standard Operating Procedures (SOPs) of four core issues of the seven—Fair Operating Practices, Consumer Issues, Environment and Community Development—are assured by a third party. Further, across its key regions, the Company continued to focus on its CSR activities around its two major themes - Environment and Social. Within Social, there are two sub themes: Health and Community Development.

Environment

During FY20, the Company continued its efforts in the core areas of biodiversity conservation and waste management. Local initiatives included activities towards Climate Change Mitigation and Watershed Management. In Europe, the Company joined hand with Municipality of Enschede on the 'Stadsbeek' project. Stadsbeek aims to solve the existing problems of storage and drainage of rainwater and groundwater, as a result of climate change issues, to improve the habitability of the area.

Social

Within the Health theme, the Company continued to ramp up its healthcare programme for the trucking community across 32 centres in 19 Indian states. During the year, the healthcare centres had over 1,000 volunteers who supported in implementation of the programme. During these harrowing times of COVID-19, the Company created awareness and distributed resources and information of COVID-19 across various communities, reaching out to over a million people. Also, provided thousands of people essential supplies – such as ration support and hygiene kits. The Company's Agartala-based healthcare centre continues to support the Government of Tripura in doing basic COVID-19 screening.

Under the Community Development theme, the focus has been around aiding the livelihood and income generation of women and farmers to improve farming practices. One of the Company's initiative, Navya—livelihood initiative for underprivileged women—won the Best Organisation supporting Women 360 degree Award for its committed work with the communities. The programme also ran an ongoing campaign in partnership with French Institute in India to felicitate eight exemplary women beneficiaries. The programme is now being implemented through beneficiaries themselves and creating a domino effect!

The financial year witnessed the Company bag the Institute of Company Secretaries of India prestigious 'ICSI CSR Award'.