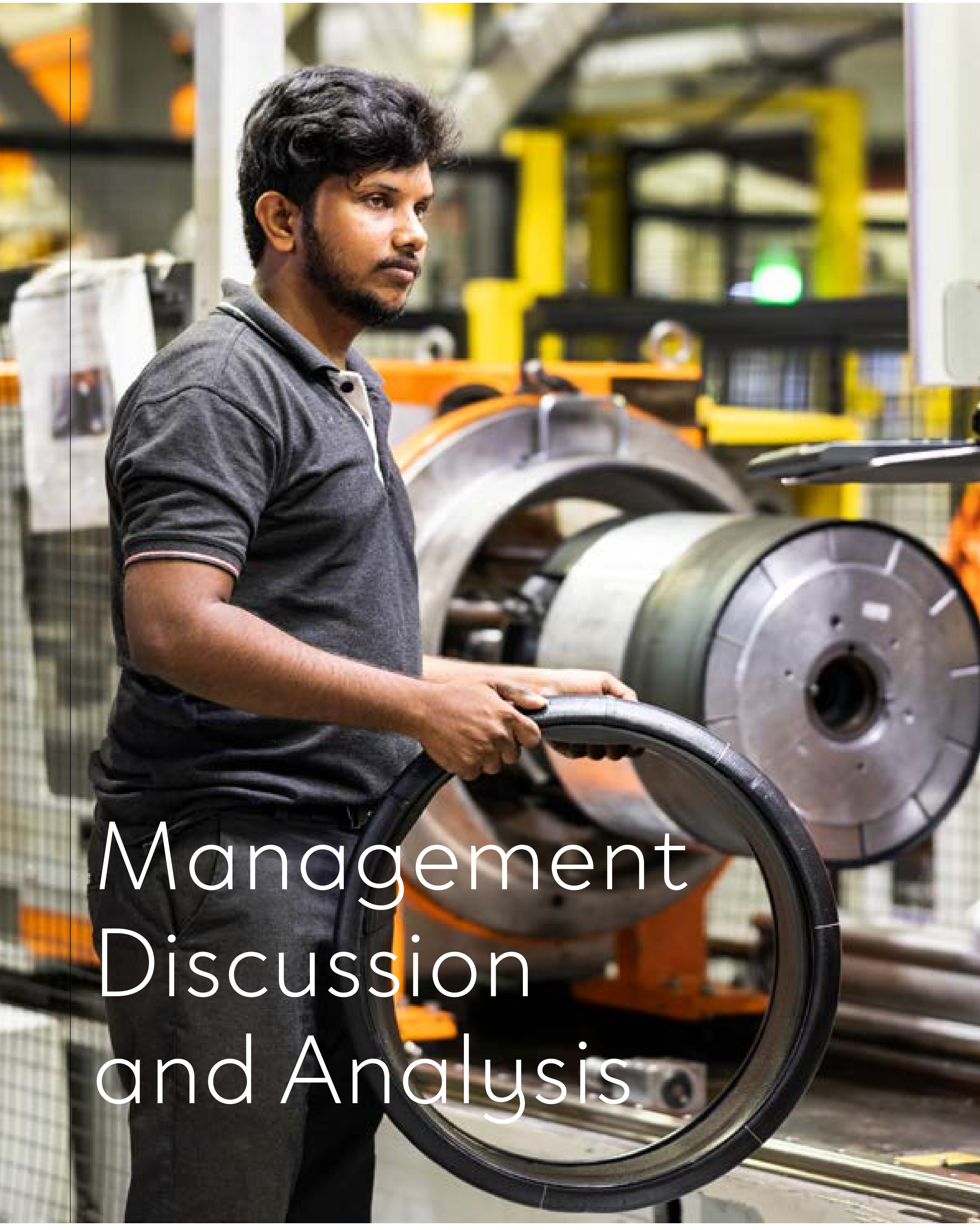


Management Discussion and Analysis

India market overview

Economy

Financial Year 2021-22 (FY22) saw the continuing threat of COVID-19 pandemic. The year began on an ominous note with the second wave of the pandemic hitting many countries. The focus for individuals, communities, companies and nations was on finding innovative ways of working in a new normal, leveraging technology with a sharp focus on health and safety.

In the latter half of the year, the new COVID-19 variant - omicron - led to increased mobility restrictions and financial market volatility. The year continued to see supply disruptions, which weighed hard on economic activity. Along with these complexities, inflation was much higher and more broad-based than anticipated.

Despite such difficult times, humanity fought back and ended the year on a high. According to data from the International Monetary Fund (IMF), countries across the globe posted significant growth rates, compared to the deceleration in Calendar Year 2020 (CY20).

The US grew by 5.6% for CY21, compared to 3.4% de-growth a year ago. Overall, the advanced economies bounced back with a strong growth trajectory of 5%, compared to a 4.5% de-growth. The European economy also posted a growth of 5.2% with the sharpest gains registered by the United Kingdom (7.2%), France (6.7%) and Italy (6.2%).

The emerging markets and developing economies collectively posted 6.5% growth, compared to a decline of 2%. China was back on its northward path as it posted 8.1% growth. Such bright sparks globally helped the world economy increase its GDP by 5.9%, compared to a 3.1% de-growth in CY20.

The fiscal year for India saw the severe impact of the dreaded second wave of the virus on healthcare system, resulting in loss of countless lives. Despite the health scare, the country bounced back and saw a rise in demand, which helped shore up private income and expenditures, taking it to pre-COVID levels.

According to data from Government of India, the country's GDP for FY22 expanded to 8.7%, highest in 22 years. The improvement in the economy comes over a GDP contraction of 6.6% for FY21.

Auto segment

It has been a while since the auto industry achieved robust growth and this fiscal will be no different. The last time the industry ended on a high was FY18 when it closed the year with an overall production of 29 million units, posting a robust 15% growth over the previous year.

Since then, the industry has been facing multiple issues including economic slowdown, poor consumer demand, chip-related issues, liquidity crisis and more. This has resulted in poor production growth of 6% (FY19) and two subsequent years of de-growth (15% and 14% for FY20 and FY21, respectively).

FY22 was the year of learning ways to manage the global supply chain bottlenecks, given the continuing impact of COVID-19 pandemic on the global supply chain. Semiconductor chip shortage severely impacted the industry. And yet, one must acknowledge the resilience of the auto players in India, which continued to move ahead despite the challenges. The industry kept the value chain in motion, worked on projects to indigenise parts, focussed on cost control, invested in newer technologies and endeavoured to enhance exports in order to beat the poor consumer sentiment in the country.

While, the Society of Indian Automobile Manufacturers' (SIAM) data does paint a grim picture of a flat growth rate of 1% in the industry's overall production numbers, one needs to look between the numbers to understand that the low-volume, high-value segments like commercial vehicles (CV) and passenger vehicles (PV) have finally delivered on growth promise.

After de-growing for two consecutive previous fiscals, the PV segment posted a compelling growth of 19% in the overall production numbers to close the year at 3.65 million vehicles produced during the year. The segment continued to see significant demand in the utility vehicles which posted a growth of 43% and now account for around 46% of the segment, up from 39% a year ago.

CVs also had a good year as it posted an overall growth of 29% in terms of vehicles produced and closed the year with an overall production number of 0.8 million units. Of course, this is still a far cry from the heydays for CVs in FY19 when the industry had produced over 1.1 million units.

While the industry's overall domestic sales showed a decline of 6%, thanks to poor sales of two-wheelers which dropped by 11% year-on-year, a focussed exports program by all auto companies helped them beat the domestic blues. The overall exports jumped sharply by 36% to close the year with 5.6 million vehicles exported compared to 4.1 million in FY21.

19%

Growth in PV segment

29%

Growth in CV segment

Tyre segment

Like the auto industry, the tyre industry too, had little to cheer for the past two fiscals. With a Compound Annual Growth Rate (CAGR) of just 3% over the past decade (between FY11 and FY21), the industry has witnessed erratic growth. According to the data from Automotive Tyre Manufacturers' Association (ATMA), in the past decade, only twice has the industry seen double-digit growth (13% in FY15 and 10% in FY17). However, FY22 might be a year where the growth might surpass the previous numbers. According to the data released by ATMA for 9 months, the industry has grown at a robust rate of 23%.

23%

Growth registered in 9 months

Europe market overview

Economy

Like the rest of the world, the pandemic left an indelible mark on the European economy. According to data from Eurostat, the statistical office of the European Union (EU), GDP for CY20 fell by 6.6% in the Euro area and by 6.2% in the EU.

While the pandemic managed to ravage Europe, various countries continued to mitigate the spread by implementing temporary lockdowns, encouraging work-from-home and limiting people's transportation.

However, the rapid deployment of vaccines in Europe allowed for opening of economies. Along with pent up consumer demand and strategic government actions to spur demand, the European economy initiated a rebound in CY21. Nevertheless, like the rest of the world, Europe too had to face supply side challenges as the economy struggled to keep pace with the abrupt swings in the level and composition of global demand. This affected several key industries, including global logistics and microprocessors. The region closed the year with a tepid 5% growth.

5%

Growth in European economy

Along with pent up consumer demand and strategic government actions to spur demand, the Europe economy initiated a rebound in CY21.

Auto segment

According to the European Automobile Manufacturer Associations, CY20 was one of the worst years for the PV market. The year saw the biggest yearly decline in car demand since records began. The segment contracted by 24% to 9.9 million units as a direct result of the pandemic. CY21 was no better for the PV segment as sales of new cars declined by 2.4% to 9.7 million units, despite the record low comparison base of CY20. Shortages of semiconductor chips played a major role in the contraction as it impacted production and availability of vehicles to customers.

Looking at the full year for the four major EU markets, Germany posted a decline (-10.1%) in 2021. In contrast, Italy saw the highest increase (+5.5%), followed by Spain (+1.0%) and France (+0.5%) with modest growth.

After a huge drop of 19% in CY20, the CV registrations in the EU increased by 9.6% to reach 1.9 million units. While this was at a lower base and is still to reach the pre-pandemic level of 2.1 million units, it was heartening to see all major EU market, except Spain (-2.8%) posting growth during the calendar year. Italy saw the highest percentage gain (+15.5%) followed by France (+7.8%), while registrations increased by only a modest 0.6% in Germany.

Tyre segment

CY21 was a year of recovery for the tyre industry. Given the contraction in the auto industry, especially in the PV segment, it directly impacted the tyres supply to the OEMs. However, this was offset by the gains made by the industry in the replacement market.

Industry Structure and Developments

India

The tyre industry is directly dependent on business from the OEMs and the replacement market. As per data, the growth is led by all segments of the tyre industry. Riding on the demand upswing in the second half of FY21, the industry continued to see good momentum in the medium and heavy commercial vehicle (M&HCV) segment which grew by 21% for the nine months. Further, the upswing was visible in exports as well which showed a significant upward trajectory for the segment, as it posted an overall growth of 66% for the nine-month period.

The PV segment saw strong demand from both OEMs and the replacement market, and grew by 46% for the nine-month period. Exports for this segment continued to post month-on-month growth and the segment saw compelling growth of 116% for the nine-month period.

India continued to be one of the biggest two-wheeler (2W) tyres market in the world. While the production of 2W tyres saw a dip, the bullish demand from the replacement market continued.

Despite strong momentum in volumes, the tyre industry players had to grapple with margin pressure, as they witnessed a sharp 30% escalation in their overall raw material costs. Additionally, due to the pandemic, the industry saw unprecedented disruptions on the supply chain due to global port congestions, container shortages and blank sailings. The Ocean Freight rates rose over five times on most shipping routes during the year.

Oil prices continued a northward trajectory during the year, scaling a peak of USD 140/bbl on account of geopolitical factors, supply disruptions, inability of OPEC members to increase oil supply as per agreement, and rise in natural gas prices.

Natural rubber availability in India was severely constrained during the April-December period in 2021, on account of weather-related challenges, COVID restrictions in Kerala, and so on. Further, the inverted duty structure on natural rubber (25% or ₹30/kg whichever is lower) continued during the year. The domestic natural rubber prices rose to a seven-year high during the year. The shortfall in domestic availability had to be met through imports from major rubber-producing countries such as Thailand and Indonesia.

Europe

Tyres supply to the OEMs recorded a decline of 8%, as per data from the European Tyre and Rubber Manufacturers Association.

However, the high value OEM truck segment saw robust growth of 25% closing CY21 with 5.8 million units. Along with the OEM truck segment, the overall replacement market brought cheers to the PV industry as it saw a robust growth of 14%, led largely by a 35% growth in all-season segment and single digit growth in the other segments – summer and winter tyres. Like the OEM truck segment, the industry saw growth coming in from the replacement truck tyres segments which registered an increase of 12%. Along with supply to PV OEMs, the replacement agriculture tyres also saw a decline of 3%.

SWOT Analysis

Strengths

- 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.
- With its reasonable presence 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.
- The Company is powered by well-established 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 100 years and an established presence. It also enjoys a reasonable premium positioning, especially in winter and all season segments.
- The Company has state-of-art manufacturing facilities in India and Europe and with a robust network, it can easily distribute and sell its products across the globe.
- The Company has entered the CV tyre segment in North America, after a successful launch of its passenger vehicle range in this market.
- In India, the Company is a leading brand in the CV and PV segment, which account for the bulk of the industry's revenue. The Company is best positioned to maintain its leadership position in the truck radial and PV segment and drive growth through the same.
- Apollo Tyres has a global and culturally diversified management team driving growth across geographies.
- The Company's research and 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 Apollo Tyres.
- Increased spends on building the corporate brand has made Apollo an enduring brand in India and a recognised one globally.
- Apollo Tyres has long established relationships with global OEM manufacturers, present in India, and has further forayed into the premium OEM segments in India.
- The Company is aggressively pursuing its strategy of building OEM relationships in Europe and has seen key wins.
- 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.

Weaknesses

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

Opportunities

- In India, the Company has a considerable lead over its competition in terms of product brand equity in the truck bus radial (TBR) segment. This implies impressive growth prospects with increasing 'radialisation.'
- Apollo Tyres has a leadership position in passenger car tyres segment with significant growth prospects.
- In India, the Company's two-wheeler tyre product has been widely accepted by the market and there are prospects of scaling up the market share in a fast-growing and profitable segment.
- The Company's highly automated state-of-the-art greenfield plants in Hungary and India are scaling up and are well-positioned to drive growth in the European and Indian market due to a new cost-competitive manufacturing facility.
- Apollo Tyres has started deliveries to European OEM manufacturers endorsing the premium position of its Vredestein brand. 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.
- The Company has brought the Vredestein brand in India catering to the higher segment of the market.
- 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 the future.
- The Company has launched truck tyres in Europe, which will further enhance revenue and market presence.
- Anti-dumping measures in EU against Chinese imports will support the expansion of Apollo's truck tyre footprint.

Threats

- Economic downturn or slowdown in the key markets (India and Europe) can lead to reduced demand and capacity utilisation.
- The continuing lockdown/ disruption situation due to COVID-19 pandemic in many parts where the Company operates can have a significant impact on the business of the Company.
- The coming year will continue to face pressure from raw material costs continuing the need to take large price increases across markets to protect margins.
- A weak Indian currency can result in pressure on margins, since the Company is a net importer.
- 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 and this can impact the Company network and profitability.

Segment-wise performance

The Company continued to focus on its key regions - India and Europe. Also, it continued to build its presence in North America with product releases.

In FY22, the APMEA (Asia Pacific/ Middle East/Africa) operation continued its focus on key themes for the Indian market - consolidating its leadership position and expanding market share by introducing new products across segments. Committed investments in R&D and brand building continued to fuel the growth journey of the region to attain market leadership position. The region has seen continued OEM approvals with high satisfaction as well as increased customer acknowledgements. For other countries in the APMEA region, it continued increasing the presence with country specific products, building brand salience and expanding distribution networks.

Committed investments in R&D and brand building continued to fuel the growth journey of the APMEA region to attain market leadership position.

Commercial vehicles

Apollo Tyres maintained its overall leadership across the radial segments in the M&HCV category. This was supported due to the overall strategy of new launches or refreshing the range, investing in expanding the distribution network, investing in dealer relationship and multiple initiatives.

In the truck bus radial (TBR) segment, the Company focussed on ensuring its performance edge and brand advantage as it rolled out improved products across the range in key volume segments.

It introduced the EnduRace MA and extended the benefits of even-wear performance and higher durability to the end customers. The segment also saw the addition of a strategic new product, EnduRace RA(t), an all-wheel fitment tyre. The product established a robust market presence and garnered superior performance feedback.

On the tubeless radial range, the Company made two key additions to its extensive portfolio - EnduRace RD2 for drive fitment and EnduComfort CA2 for premium coaches. Both the products offer the latest advancements in Bead technology and the products have been developed keeping in mind the best performance for the regional and coach segments.

In the truck bus bias (TBB) segment, the Company's new products, Abhimanyu and XT100 HD continued to gain traction with superior performance benchmark in the industry. With more than 2.5 million kms of field and indoor testing, Abhimanyu has been accepted for its growing performance demand for bias tyres from the customers.

During the fiscal, the Company resumed its 'Customer Connect' program and has supported its ambition to increase fitment share across fleets. As part of the program, multiple initiatives were conducted to raise awareness and help customers get the right application to fit with the tyres.

In the light commercial vehicle (LCV) segment, the Company continued to play on its strength of radial technology, significant brand value and a segmental approach to the market. It dominated the market with a high replacement market share. The product quality has made it a favourite with the OEMs and the Company has a high share of business in OEMs.

In pickup and SCV radial segment, the top selling ENDUMAXX LT continued to show consistent gain in volume and market share throughout the year. The Company also strengthened its bias portfolio for the small commercial vehicle (SCV) segment with the launch of 'BHIM'. The product has been appreciated by the customers and business partners alike.

The Company also strengthened its bias portfolio for the small commercial vehicle (SCV) segment with the launch of 'BHIM'.

Passenger vehicle

The Company continued to strengthen its market leadership position in India driven by new product launches, a sharp focus on building brand salience with effective campaigns, expansion of distribution footprint and adding new OEM customers to the Company's portfolio.

Even as the year began under the shadows of the second wave of the pandemic, the Company, with its focus on its initiatives, managed to successfully thwart the headwinds and close the year with a double-digit growth for the overall PV category. The focus on R&D-led product development and continued brand building saw it inching its market share up by nearly 100 basis points.

For the passenger car segment, post the first quarter, the industry saw an increase in demand. The demand saw the Company's Alnac 4G, one of its highest selling patterns in OEM and created for compact SUV, premium hatchback and sedan segments, recording a mighty year-on-year growth.

It also upgraded its Aspire 4G Luxury models and reintroduced it as Aspire 4G+ offering better mileage, handling and ride comfort. The Company's focus on offering premium, best-in-class products for the entire range of cars, saw it offering different sizes of Aspire 4G+ catering to luxury passenger vehicles.

During the fiscal, the Government of India put import of tyres on the restricted list, in line with its intent of 'Make in India' initiative.

To cater to the growing demand of premium tyres in India, the Company successfully launched its global brand – Vredestein. Along with Aspire 4G+ and Vredestein product offerings, Apollo Tyres made inroads in the premium/ ultra-premium segment.

The Apollo Amazer 4G life, one of the largest selling tyres in replacement market, continued its northward march recording its highest ever figure of over ₹350k in December 2021 and closing the year with a double-digit growth. Offering fuel efficient products, the Amazer XP grew over 200%.

It is a testimony to the Company's focus on creating top-in-class products accepted by multiple OEMs. The fiscal saw its tyres as standard fitment in most of the launches including XUV700, Punch, New Baleno, MG Astor, Skoda Kushaq, Taigun and Slavia.

350k +

Recorded by Apollo Amazer 4G life

200+%

Growth registered by Amazer XP

Off-highway tyres

The Company's off-highway tyres (OHT) category is focussed on three key sub-segments: Agriculture, Industrial and Earthmovers.

Despite the economic turmoil of FY22, the Agriculture segment had shown growth. However, the momentum got derailed during the fiscal. The second wave of COVID-19 in the beginning of the fiscal had a big impact on rural India. Even as the industry started seeing some revival in demand, a rainfall deficit in July-Aug, followed by heavy rainfall in September 2022 dampened the sentiments.

In addition, rise in commodity prices saw a drop of income in the hand of the consumer, putting the entire hinterland in distress. All these factors saw a contraction in demand and the impact was visible in both OEM and replacement markets.

The tractor sector de-grew and the replacement market also did not fare better leading to a sharp decline over a high base of FY22. Adding to the woes of the industry, increasing raw material prices continued to put pressure on profitability.

Apollo Tyres continued to strengthen its product range by further expanding its robust portfolio. Thanks to the brand presence of well-established products like Farmking, Virat 23 and Krishak Gold, the Company sustained its market share gain of FY22 even as it further consolidated its position in special application segments like compact, puddling and row crop.

The Company's industrial segment faced strong headwinds due to the slowdown in the infrastructure growth, especially road construction. The segment saw a decline in volumes mainly for the backhoe loader segment, while it registered growth in non-backhoe segments.

In the earthmover segment, the Company made inroads in coal and cement-based applications while the mining segment continued to grow.

Two-wheelers

In keeping with its overall strategy of bringing in top class products, focus on brand campaigns and increasing distribution footprint, the Company's two-wheeler category made significant inroads in the high-value, highly profitable premium motorcycle tyre market following a similar strategy, thus increasing its market share to reach double digits.

The Company's full range strategy supported it to cross sell the two-wheeler products to customers of agriculture and car category, both in the rural and urban markets.

The fiscal saw the launch of the 'Vredestein' brand for two-wheelers in India. The Company launched the Vredestein Centauro ST and Vredestein Centauro NS, targeting the 650cc plus category of super sports and sport touring bikes.

With the Vredestein brand, the Company plugged its product gap and covered all major international brands like Triumph, Ducati, Kawasaki and Yamaha, among others.

The Company launched the Vredestein Centauro ST and Vredestein Centauro NS, targeting the 650cc plus category of super sports and sport touring bikes.

Brand building

The digital platform continued to be key for brand building as it gave a larger exposure to the Company's marketing and communication initiatives and other brand building content.

The year saw multiple launches on the digital platform including Apterra Cross. This was supported by an amplification on various digital platforms and focus on digital events in over 14 cities. Considering the success of the previous fiscal, the Company continued its association with PowerDrift for its Apterra range. The travel-oriented videos have garnered over 3 million views with positive interactions.

Bringing the much-acclaimed Vredestein brand to India was the year's biggest highlight. The Vredestein passenger and two-wheeler tyres saw a grand launch in Mumbai, India followed by a track day event with key stakeholders including auto journalists and influencers, to help them experience the brand. To further enhance the 'premiumness' of the brand, the Company tied up with various golfing events across the country.

In the two-wheeler segment, the Company focussed on its ActiGrip R6 and ActiGrip F6 tyres for Royal Enfield motorcycles. It also created a product film, 'Adventure Borne', to highlight the ethos of ActiGrip R6.

The products and the campaign were marketed via digital and social media, and biking events across cities. The marketing efforts helped in reaching out to more than 3.5 million people. As part of the brand building initiatives for the segment, the Company continued to be in touch with its loyal communities across cities via digital variants of its flagship 'Bad Road Buddies' initiative and regional biking events.

The product film, 'Adventure Borne', highlights the ethos of ActiGrip R6 tyres.

Beyond India

With operations in key regions such as ASEAN, Middle East and Africa as part of the APMEA region, the Company continued to invest in brand building, working on the requirements of each region to bring country-specific products.

Europe

In Europe, the Company largely operates in the replacement market in PV, agriculture, industrial, truck and bicycle segments, even as it continues to make inroads into the OEM segment in PV and agriculture.

During FY22, the Company focussed on adding new sizes to its product lines introduced in FY21 and consolidate the market offering. The year saw the product launches and marketing initiatives in line with this strategy as it added 24 sizes in the ultra-high performance (UUHP) tyre segment (19 inches and above) among its All-season and Winter offering – Vredestein Quatrac Pro and Vredestein Wintrac Pro, respectively.

Further, it expanded its offering for the family and executive car segment by introducing 18 sizes in the new summer product Vredestein Ultrac and 11 sizes in the new winter tyre, Vredetstein Wintrac.

It bolstered its Van portfolio with 6 sizes each in All-season and Winter offering – Vredestein Comtrac 2 All Season+ and Vredestein Comtrac 2 Winter+.

The Company also focussed on its other global brand, Apollo, in Europe. The fiscal saw it revamping the business model to make the business leaner and more efficient. It leveraged its global footprint and optimised its product sourcing to ensure best-in-class Apollo branded products in Europe. It introduced four new TBR SKUs and 18 new OHT SKUs for the Europe region.

The strategy to focus on profitable products like agricultural tyres and high-value niche segment passenger car tyres paid rich dividends for the Company as it posted record sales along with record profitability. Its focus on strengthening the Vredestein brand and the UUHP segment has seen the brand grow in double digits for the fiscal year.

Outlook

The geopolitical strife in Europe and runaway inflation make for an ideal recipe for uncertainty. The ongoing conflict has already impacted global energy prices.

The World Economic Outlook (WEO) update in April 2022 states, "Economic damage from the conflict will contribute to a significant slowdown in global growth in 2022 and add to inflation. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries hardest."

Supply disruptions have become the norm and will result in higher and more broad-based inflation. Private consumption is expected to recover much slowly leading to restrained consumer demand.

In all this, the outlook depends not just on the outcome of the conflict in Europe but also how effectively economic policies deployed under high uncertainty can limit lasting damage from the current external crisis.

According to International Monetary Fund (IMF), global growth is projected to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. This is 0.8% and 0.2% lower for 2022 and 2023, respectively, than projected in January.

For Europe, the IMF has lowered its economic growth in the 19 countries sharing the Euro to 2.8% and is 1.1% points lower than its forecast in January.

For India, the FY23 growth forecast has been slashed to 8.2% from 9.0%, saying that higher commodity prices will weigh on private consumption and investment. This was one of the steepest cuts for emerging economies compared to the IMF's January WEO forecasts.

Amid such see-sawing economic conditions, Apollo Tyres has adopted a cautious approach. The focus continues to be on investing in good cost and cutting down bad cost, employee safety and conserving cash. The Company is cutting down on all avoidable costs and focusing on good cost such as R&D, eTraining, brand building, and so on.

To tap the new demand in the Indian and APMEA markets, the APMEA region will continue to focus on bringing in new products in all its key segments.

Some key launches are planned in the coming year in both TBB and TBR categories including some future flagship products. The products are made to undergo a rigorous testing phase after understanding the customer and the application requirements.

The success of recent launches in FY22 is testimony to the fact that the strategy of investing to build strong R&D capability and testing teams has paid off. Along with new product offerings, the Company will also be enhancing its capacity for high-growth products to meet the demand.

Beyond the product offerings, the Company is also testing innovative sales and service models for fleets. Finally, the region will continue to focus on strengthening and expanding its retail network, both for the CV and PV segments.

The Europe region has been working on refreshing its entire portfolio in the last two years. The results of this strategy have been evident given the enduring growth and market share gain in FY22. The region is confident that these refreshed products and a focus on brand spend on both the Company's global brands, 'Vredestein' and 'Apollo', will help the region to further its position in the market. The region will also focus on expanding the network for the Apollo branded TBR tyres in Europe.

For India, the FY23 growth forecast has been slashed to 8.2% from 9.0%, saying that higher commodity prices will weigh on private consumption and investment. This was one of the steepest cuts for emerging economies compared to the IMF's January WEO forecasts.

The success of recent launches in FY22 is testimony to the fact that the strategy of investing to build strong R&D capability and testing teams has paid off.

Risk and concerns

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 managed effectively and mitigated to protect the interest of the shareholders and stakeholders, to achieve its business objectives and to create sustainable value and growth.

The Company's risk management processes focus on ensuring prompt identification of these risks and identification of a mitigation action plan which is monitored periodically to address risks 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 raise alarm at appropriate time.

The list of key risks and opportunities identified by the Management are as follows:

Financials

1. **Raw material price volatility**
   - The industry is raw material intensive. Natural rubber, which is a major raw material, is an agricultural commodity and is subject to price volatility and production concerns. Most other raw materials are affected by the movement in crude prices.
   - The industry has already witnessed significant hike in raw material prices. Rising crude oil prices increase raw material costs and may affect the profitability of the Company.
   - 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 costs in a timely manner**
   - Demand-supply situation must remain in favour of the industry to enable it to premiumse its products.

3. **Dilution of import restrictions on tyres and increased competition from global players**

    - Dilution of anti-dumping duty on Chinese tyres will increase price competition for the domestic tyre manufacturers.

4. **Radialisation levels in India**

    - Slower-than-expected increase in the radialisation levels in the truck tyre segment may affect Indian operations. Excess capacity may result in competitive pressures.
    - 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.

5. **Cyber attacks**

    - The cyber-attack threat of unauthorised access and disruption of business operations continues to increase across the globe.

6. **Repeated outbreak of COVID-19 waves and their impact on economic growth**

    - Several waves of COVID-19 were witnessed in different geographies causing disruptions to supply chain in varying proportion.
    - 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 the 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.

Social

1. **Manpower and labour**

    - Disruptions due to COVID-19 may impact availability of manpower at our plants.
    - Retaining skilled personnel may become increasingly difficult in India with the increasing demand for talent.
    - Tyre manufacturing is significantly dependent on availability of skilled labour. Any labour unrest, shortage of labour or diversion of labour to other industries may impact tyre production.

Internal controls and systems

The Company believes that internal controls is one of the key pillars of governance, which provides freedom to the management to operate 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 a well-defined organisation structure, roles and responsibilities, documented policies and procedures, financial delegation of authority, ERP controls, among others. IT policies and processes ensure mitigation of business risks through controls. 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 and errors, accuracy and completeness of accounting records and the timely preparation of reliable financial information.

The Company uses SAP as its core enterprise resource planning (ERP) software. The ERP controls are regularly evaluated. Systems and processes are continuously improved by adopting best-in-class processes and automation, and implementing the latest digital tools.

Apollo Tyres has a culture of internal controls. The operating management is not only responsible for revenue and profitability, but also for maintaining financial and commercial discipline within an internal control framework.

The Company has a well-established, independent, and in-house internal audit function that is responsible for providing assurance on compliance with operating systems, internal policies and legal requirements. It also suggests 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 operational effectiveness through management's ongoing monitoring and review process, and are independently evaluated by the internal audit team.

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 in quarterly meetings.

Most importantly, the senior management sets the tone of 'no tolerance to non-compliance' and promotes a culture of continuous innovation and improvement. The management also supports independent and objective internal auditing and implements recommendations of the internal audit.

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.

(₹ Million)

Sl. No.	Particulars	Year Ended March 31, 2022 Standalone	Year Ended March 31, 2021 Standalone	Year Ended March 31, 2022 Consolidated	Year Ended March 31, 2021 Consolidated
1	**Revenue from operations**				
	Sales	143,068	113,545	205,808	169,546
	Other operating income	3,426	3,789	3,668	4,424
	Total (1)	**146,494**	**117,334**	**209,476**	**173,970**
2	**Expenses**				
	a) Cost of materials consumed	94,938	62,383	109,554	70,653
	b) Purchase of stock in trade	8,466	6,948	22,060	20,093
	c) Changes in inventories of finished goods, stock-in-trade and work-in-progress	(3484)	69	(7,759)	3,198
	d) Employee benefits expense	10,240	9,109	25,742	25,134
	e) Other expenses	22,027	18,481	34,138	26,917
	Total (2)	**132,186**	**96,991**	**183,735**	**145,995**
3	**Operating profit (EBITDA excluding other income) (1 - 2)**	**14,308**	**20,343**	**25,741**	**27,975**
4	Other income	1,269	1,215	1,235	1,294
5	Less: Finance costs	3,822	3,794	4,444	4,430
6	Less: Depreciation & amortization expenses	8,239	7,134	13,997	13,150
7	**Profit before share of profit/ (loss) in associates / joint venture, exceptional items & tax**	**3,517**	**10,630**	**8,535**	**11,689**
8	Share of profit / (loss) in associates / joint venture	-	-	1	-
9	Exceptional items	(13)	(110)	(59)	(6,077)
10	**Profit before tax**	**3,504**	**10,520**	**8,477**	**5,612**
11	Less: Provision for tax				
	Current tax	612	1,904	948	2,247
	Deferred tax	281	1,388	1,143	(137)
	Total	**893**	**3,292**	**2,091**	**2,110**
12	**Profit after tax**	**2,611**	**7,228**	**6,386**	**3,502**

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, Interest Coverage Ratio, Current Ratio and Debt Equity Ratio as compared to the previous year other than the following:-

Sl. No	Particulars	FY22	FY21	% Change	Explanation
1	Operating Profit Margin	9.77	17.34	-44%	Higher raw material cost led to reduction in operating profit margin.
2	Net Profit Margin	1.78	6.16	-71%	Higher raw material cost led to reduction in net profit margin.

CHANGE IN RETURN ON NET WORTH

Sl. No	Particulars	FY22	FY21	% Change
1	Return on Net Worth*	2.75	8.42	-67%

* Reason for change- Lower profitability led to reduction in return on equity.

Information technology

Digitalisation is a key growth pillar for Apollo Tyres. To accelerate digitalisation, considerable progress has already been made in building a robust foundation.

Further, the Company streamlined its IT operations by creating a single global IT organisation and bringing in specialists in contemporary technologies. Considerable investments were made to ensure cyber security. The outer perimeter of the Company's global network was secured and the defences of key systems were upgraded.

During the year, the Company also received the coveted TISAX certification for the European business, which confirms that its information security management system complies with industry-defined security levels.

The fiscal year saw the Company making serious strides in its Cloud journey with the setting up of the data lake and strengthening of Internet of Things (IoT) capability. The Company now has the capability to stream thousands of data elements every second from production machines to the Cloud. These are now being used to identify and address opportunities to drive productivity, reduce waste and improve product and process quality.

It has set up a digital innovation hub in London. Apart from building capabilities by hiring data scientists, it is partnering with Glasgow University in the UK on several PhD programs with a view to use technologies to solve complex problems around productivity maximisation and elimination of waste.

To support its profitable growth strategy and sweat its assets, the Company has resorted to digital technology and ERP systems. It aims to 'connect' its supply chain, consisting of 165 distribution centres, 19 regional distribution centres and 7 factories, into a single integrated global supply chain. This real time, end-to-end integration will enable the Company to improve accuracy of demand and supply planning and working capital efficiencies.

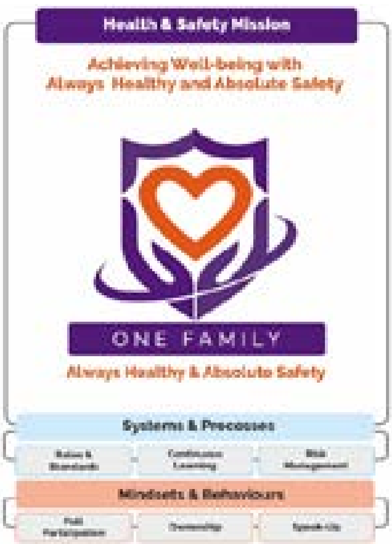
It has also developed capability to optimise production during capacity constraint periods. The move to Cloud will also strengthen business continuity in case of any IT disaster / major outage.

Health, safety and environment (HSE)

The Company continued to build on its health, safety and environment (HSE) culture through strategic involvements and initiatives across its value chain. It has an integrated business approach to drive HSE synchronisation across business aspects.

During the fiscal, it launched its health and safety mission statement - 'Achieving well-being with always healthy and absolute safety' - on World Day for Safety and Health. The mission was developed to spread awareness amongst the employees about well-being, health and safety in the workplace as well as in each and every aspect of their lives.

To ensure that people are aligned with the new mission, the Company did multiple focused interventions to ensure full participation at all levels and made more than 2 lakh safety contacts on various HSE elements.



(Under the HSE mission, the Company adopted six key elements under two broad themes -System and Processes, and Mindset and Behaviours)

The Company improved its HSE performance from FY21 and significant improvements were observed in the leading indicators (Near misses, unsafe acts/conditions and BBS reporting, training person-days and Gemba observations). Lost time injury frequency rate (LTIFR) at the end of FY22 was reported at 0.41 per million person-hours worked (an improvement of 35% over FY21).

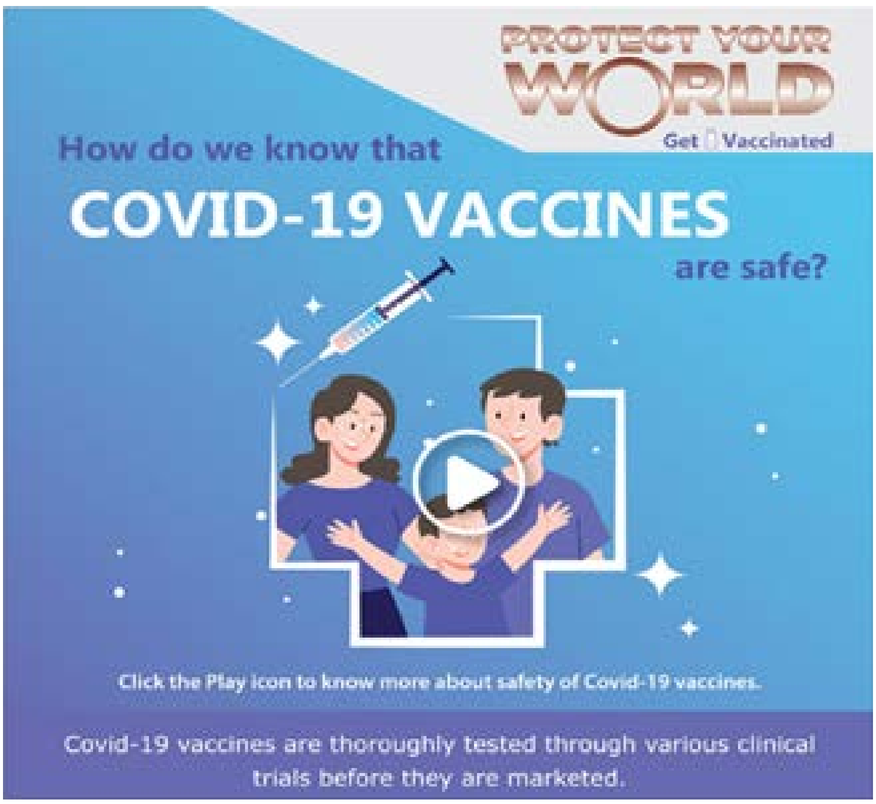
During the fiscal, it adopted ISO HSE Management Systems in all its manufacturing locations and successfully achieved HSE management certification (ISO 14001:2015 and ISO 45001:2018) for its new plant located in Andhra Pradesh. It also successfully completed compliance audits in its six other plants across the globe.

Physical and virtual Gemba observation system continued to be an effective method to engage teams across the globe. It is a widely-used system to involve cross functional teams to find improvement opportunities in the ecosystem. More than 1,700 Gembas were conducted during the fiscal.

The Company continued its efforts to manage and support people in COVID crisis management. Important steps were taken at crucial periods to pro-actively assess the situation and initiate actions to manage the same.

The Company organised vaccination camps across multiple locations for its employees and their family members. There were continuous messages from the leadership team highlighting the pandemic risks and necessary precautions to be taken to ensure that each employee was safe.

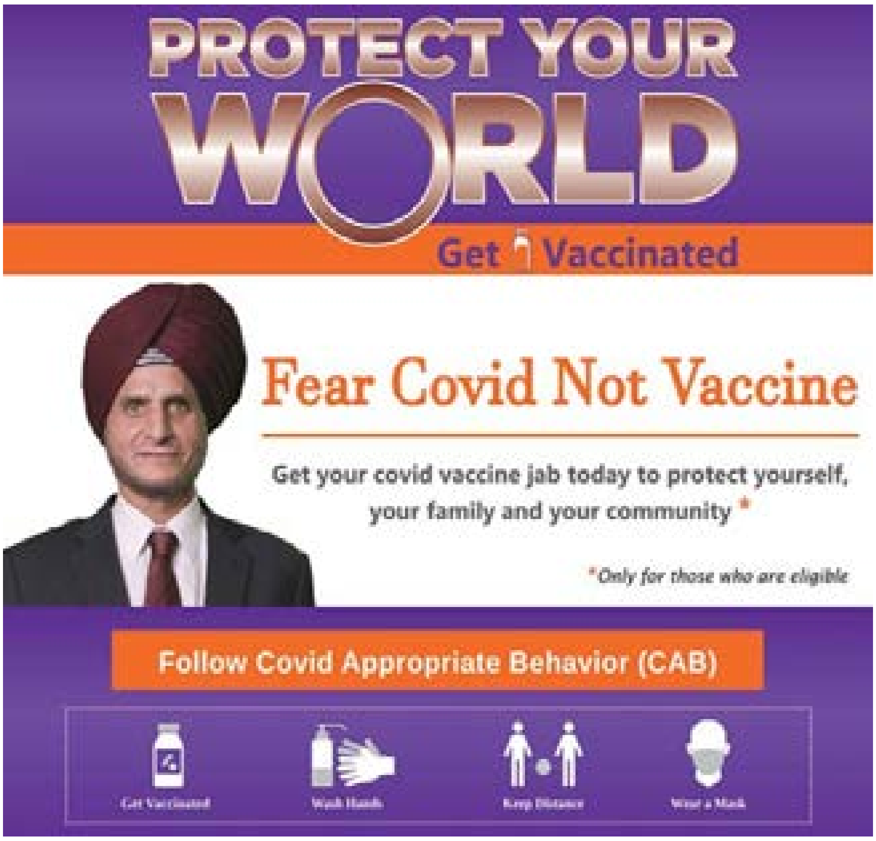
During the dreaded second wave of the pandemic, even as the medical infrastructure in India was overwhelmed due to the large number of cases, the Company supported its employees and their families by procuring and providing oxygen



concentrators as emergency medical support. Also, it ensured that its employees were provided with health insurance against COVID-19.

This helped its employees to significantly reduce medical expenses in case of serious health complications due to the virus. Further, to deal with the pandemic, the Company introduced a policy which ensured that in case of death of an employee due to COVID-19, the family would be given two years' pay and the Company will take responsibility of the education of the children till graduation.

Further, the Company engaged physical and mental health experts to guide the employees and provide 24x7 assistance. It created platforms to provide access to people to facilitate quick response.



Development in human resources and industrial relations

The people form the bedrock of the success of Apollo Tyres. Employees are one of the key strengths of Apollo Tyres and HR plays an important role of managing, guiding, engaging and motivating the Company's workforce. Moreover, HR at Apollo Tyres is viewed as a strategic business partner aligned with the business requirements.

Armed with the new vision, 'Driving Progress, Together,' purpose and values rolled out during the fiscal year, the HR continued supporting the Company's 'People first' motto.

Learning and development

In the new normal, as people started returning to their workplaces in the later part of the fiscal, learning and development (L&D) continued to remain a focus area for the Company. While L&D has always been at the core of the Company's people practice, it has seen a focussed push during the pandemic. The Company has invested in a variety of programs and learning initiatives to hone technical, product, process, leadership and soft skills of the people through classroom, on-the-job and online training.

These programs were curated to achieve business goals, support the Company in becoming future ready and to help the employees understand challenges, learn, grow and #GoTheDistance.

The Company launched several global learning initiatives under the umbrella of Apollo Virtual Academy.

In partnership with Lumina Learning, it established the leadership capability framework which supported it to craft the Apollo Laureate Leadership Development program for emerging and established leaders.

In addition to this, several training were delivered to employees such as Apollo Total Quality Management training, Apollo Tyres Values, Apollo Tyres Business Skills, Compliance training, Five@5 Habit Calendar, Apollo Summer of Learning, and so on.

In Europe, targeted functional trainings were key priorities in the fiscal year. Various programs were launched to build key business capability within finance, sales and marketing teams.

To support the flexible deployment of employees in Enschede plant in the Netherlands, the 'Turbo Dynamics' project was initiated with a training plan developed for flexible employees.

In India, several learning initiatives were launched for the field teams to support their capability building journey across behavioural, functional and leadership areas. Some of these programs include executive coaching and leadership accelerated program for newly on-boarded leaders, ADMIRE program for sales training, among others.

A new platform, Apollo LXP, was also launched to impart virtual tyre and product category training.

The Company's capability development programs for its manufacturing facilities and its global R&D centres in India and the Netherlands focused across several areas including 'Total Quality Management' training for process improvement; 'Technical Talk' to support functional and technical training and 'Competency Improvement' program.

The other programs such as 'Knowledge House', 'SAKSHAM' and 'EVOLVE' continued to support skill transformation.

The Company's two global R&D centres in India and the Netherlands saw capability building on leadership development, functional and product training, and intercultural awareness. Examples include intercultural awareness webinars, personal effectiveness training, tyre academy coaching and mentoring programs.

Employee focus

People practices ranked high on the priority list during the fiscal as the Company introduced multiple practices. Some of these included Apollo Voice (global employee engagement survey), Global Recognition and Retention Plans, Global Rewards (performance bonus), Policy and Alignment, APEX Talent Management and Leadership Competency framework, Global Competency framework and so on.

The global employee engagement survey is an example of the Company's focus on participatory management. It is inspiriting to note that its overall sustainable engagement score of 89 surpassed global manufacturing and auto sector benchmarks.

The Company continued to adopt and ameliorate its best-in-class engagement practices. These included focus on promoting a good lifestyle including workshops on mental health, first-aid, team building, Women's Day celebrations, Q fest, ER connect, ladies club, science exhibition for employee wards, coffee break series, Rendezvous with the President, Connect with CTO, and so on.

Over the years, Apollo Tyres has adopted sports as a medium to foster the spirit of camaraderie and competition among its employees, engaging with them on and off the job. Some of the sporting events include Apollo One Family Run, Sports and Arts Council, volleyball, cricket, among others.

The Company aims to contribute to its employees' growth and advancement through job enrichment and rotation. Over 200 employees worked across the Company's offices, plants, field, R&D and Centre of Excellence.

Industrial relations

Labour relations remained conducive in all its operations. The Company has consistently worked in collaboration with trade unions and other employee bodies to improve the working environment for its people, and enhance productivity and cost-effectiveness of the operations globally.

Regular meetings were scheduled with employee representatives, trade union leaders and the management to discuss welfare and productivity-related concerns, and address the grievances of workmen at the grassroots.

During the fiscal, the unions and employees were highly cooperative with the management.

Sustainability

The Company's sustainability journey, which began in 2010, was strengthened further during the year. As a part of its sustainability governance, the Company adopted ISO 26000 guidance on social responsibility. The standard operating procedures (SOPs) of six core subjects, namely fair operating practices, consumer issues, environment and community development, labour and decent workplace, and human rights, have been assured by a third party. Additionally, across its key regions, the Company continued to focus on two key themes of'Environment' and 'Social'.

Environment

In the fiscal, the Company continued its efforts in core areas of biodiversity conservation and waste management. Local initiatives included activities towards climate change mitigation and watershed management. It initiated the Miyawaki Afforestation initiative in Gujarat, India and planted over 10,000 plants of different varieties for carbon sequestration.

The Company was recognised by the Kerala State Biodiversity Board for exceptional work done for biodiversity conservation. Also, it partnered with the same board to create a biodiversity park in Perambra, Kerala, India.

In Europe, the Company joined hands with Municipality of Enschede on the 'Stadsbeek' project which aims to solve the existing problems of rainwater and groundwater levels to enhance the living environment.

Social

The Company continued to ramp up its healthcare program for the trucking community across 32 centres in 19 states of India. The healthcare centres continue to provide COVID awareness and a preliminary test to the trucking community. During the fiscal, it partnered with state and local governments for conducting vaccination drives across 32 healthcare centres. Over 1.4 lakh beneficiaries received COVID vaccination.

The Company has joined the 'Jan Andolan' for tuberculosis (TB) free India to contribute to India's national TB elimination program which aims to eliminate TB from India by 2025. It partnered with USAID and the Union and Central TB division for this initiative. During the fiscal, it organised two campaigns for TB identification amongst the trucking community.

Additionally, in the reporting year, two webinars on the theme of Partnership for Action against TB (PAcT) were organised. The main aim of the webinar was to invite more corporates to join the partnership for TB elimination. With its consistent effort, the Company has mobilised over 15 corporates who have joined the 'Corporate TB Pledge'.

To facilitate TB testing and treatment at the doorstep, it has inaugurated seven new designated microscopic centres (DMCs).

A total of 13 DMCs has been established so far since inception of this TB initiative. The work in this domain has earned recognition certificate by the Ministry of Health and Family Affaires. The Company continues to be recognised for its healthcare initiative for the trucking community.

Under the community development theme, the focus has been around aiding the livelihood and enhance income generation for women and farmers to improve farming practices. During the fiscal, over 2,700 rural women received income generation training and over 5,000 women were linked with various government welfare schemes and availed benefits worth ₹3.7 crores.

One of Company's livelihood initiative, Navya, ran its annual 'Ek Naam' campaign, in partnership with Alliance Francaise and CSRBOX to felicitate eight exemplary women beneficiaries who created their identity by breaking the bias and stood against odds. These women have not only created the livelihood opportunities for themselves but also for their community.

1.4+ lakh

Beneficiaries received COVID vaccination

5,000+

Women linked with various government welfare schemes

₹3.7 crores

Benefits availed by women