



“Ashok Leyland Limited
Q1 FY '24 Earnings Conference Call”
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MODERATOR: **MR. JOSEPH GEORGE – IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Ashok Leyland Q1 FY '24 Earnings Conference Call, hosted by IIFL Securities Limited.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Joseph George from IIFL Securities Limited. Thank you, and over to you, sir.

Joseph George: Thank you, Michelle. Hi, good afternoon, everyone. On behalf of IIFL Securities, I welcome you all to the 1Q FY '24 Results Conference Call of Ashok Leyland. From the management team, we have with us Mr. Shenu Agarwal, MD and CEO, Mr. Gopal Mahadevan, Whole-Time Director and CFO, Mr. K.M. Balaji, Deputy CFO.

I will hand over the call to Shenu, sir, for the opening remarks, post which we'll start with the Q&A. Over to you, sir.

Shenu Agarwal: Good afternoon, ladies and gentlemen. It's a pleasure to have you at the Ashok Leyland Q1 FY '24 Earnings Call. I thank you very much for the interest shown in Ashok Leyland.

The domestic MHCV industry witnessed a Y-o-Y growth of about 3% in Q1, backed by a favorable macroeconomic environment and a strong replacement demand. Healthy growth in the end-user industries like cement, steel and infrastructure as well as improvement in general manufacturing activity and consumption trends continue to stand in favor of demand from fleet operators. Good pick-up in bus demand has also augured well for the industry.

The growth in MHCV segment is slightly muted, owing to the effect of some pre-buying in Q4 of last year, because of implementation of OBD2 norms from April 1, this year.

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We expect the growth trajectory to improve going forward. Significant allocation towards capital expenditure in the Union Budget 2023-24 would continue to provide the necessary traction to MHCV demand in the near to medium term.

As far as LCV industry is concerned, the progress of the monsoon and its impact on rural demand remains a key factor to watch for.

Overall, we maintain our earlier guidance of 8% to 10% growth for MHCV and 5% to 6% growth for LCV for the entire fiscal year FY '24.

The commodity prices moved marginally northwards in Q4 of last fiscal. Since we pass on the effect of commodities generally with a lag of a quarter, we had some impact from this, which was, to an extent, neutralized with efficient inventory management. It is expected that commodity prices would soften in the coming months.

Ashok Leyland has been able to beat industry growth in Q1 as well in both the MHCV and the addressable LCV segments. On top of that, we have also been able to raise prices consistently, including a price hike in Q1 this year. What is good to see is that the retention of such increases is improving. We are also putting efforts in reducing our costs, both the product cost as well as overheads. All these are visible in our Y-o-Y margin improvement.

The EV business housed under Switch is crucial for future proofing Ashok Leyland. While we will continue to look at external investors, Ashok Leyland, shall, in the meanwhile, fully support the efforts of Switch in developing world-class products. Switch presence is growing, and I'm happy to share that our electric products are performing extremely well. We are also preparing for launch of our Switch Electric LCVs in the second half of the year.

During the quarter, Ashok Leyland has launched a Star 6x4 ED PTO Ready Mix Concrete, Ecomet Star 1915, 2820 G45 FES, Ecomet Star

16 ton and 18 ton, 24 feet, 4225 MAV, and 13.5 meter bus with 19.5 ton GVW, thereby expanding our range further. I'm extremely confident that with these launches, and the continued network expansion, we will add on to the market share gains achieved in the last few quarters.

Now I will quickly run you through our Q1 performance.

In Q1, our MHCV volumes have grown at 7% on Y-o-Y basis as against the industry growth of 3%, resulting in market share improvement for Ashok Leyland.

Bus TIV volumes grew by 39% and the corresponding growth for Ashok Leyland in Bus segment was at 93%. Bus market share has improved for Ashok Leyland from 20.2% last year to 28.1% now, that is by 7.9%.

Truck TIV was almost flat in Q1, and AL volumes have grown, resulting in a market share improvement of 0.6% from 31.1% last year to 31.7% in Q1 this year.

This is the sixth consecutive quarter of 30%-plus market share for Ashok Leyland.

Our Q1 LCV volumes have grown by 3% over last year, that is in current year, Q1 was at 14,821 numbers versus previous year Q1 of 14,384 numbers.

IO sales have registered a 12% decline in Q1 Y-o-Y, consequent to the meltdown in many economies around the world. We did 2,222 numbers in Q1 in the current year versus 2,527 numbers in Q1 in the previous year. But relatively speaking, our performance in IO is still better as overall CV exports out of India has declined sharply this quarter.

Good performance in aftermarket sales continued in Q1. Our aftermarket sales at Rs. 617 crores grew by 34% over same period last year, which was at Rs. 459 crores.

Volumes under Power Solutions business have doubled in Q1. That is at 8,776 numbers in Q1 this year versus 4,381 numbers in Q1 previous year.

Q1 revenues stood at Rs. 8,189 crores, 13% higher than Q1 of last year at Rs. 7,223 crores.

EBITDA for Q1 was at Rs. 821 crores, which is at 10%, as against Rs. 320 crores at 4.4% in Q1 last year.

Our PAT was up more than 7x at Rs. 576 crores versus Rs. 68 crores in the previous year. You may note that the tax expense for the quarter considers a one-time deferred tax credit of Rs. 172 crores on account of expected transition to lower tax regime.

Operating working capital is at Rs. 1,522 crores as of June '23, primarily supporting the increased activity levels.

Capital expenditure for the quarter is roughly at Rs. 95 crores.

Net debt as of 30, June 2023, was at Rs. 1,464 crores as against a negative of Rs. 243 crores at the end of fiscal year '23.

I now open the floor for questions. Thank you.

Moderator: Thank you very much, sir. We have the first question from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: My first question is around some of the cyclicity of discounting in the CV industry. So over the past sort of seven to eight years, I think, there have been maybe a few instances where discounting slowed down a little bit. And we seem to be in the midst of that sort of scenario right now. But there seems to be more confidence that lower discounting in the CV industry can sustain for a longer period of time. So just trying to understand what's giving you that confidence? And any color on that would be very helpful.

Shenu Agarwal: Yes. I mean, it is true that historically, things have happened in a certain way as far as discounts are considered. But we have an opinion that currently, CV industry is poised for a lot of change. And I think everybody in our industry understands that everyone needs to invest in this new change, that is coming up on us.

We have heard from our peers as well in various media reports that everybody wants to focus on profitability. Of course, it is very difficult to say how competition would respond as far as discounts are concerned. But generally, the feeling at least right now is that people want to maintain healthier practices and look at value selling, look at generating more profits, so that we can all, as an industry, also invest in the new things that are upon us in the future.

Chandramouli Muthiah: Got it. That's helpful. My second question is on the plan to launch sort of a zero-ton to 2-ton LCV over time. So I understand this is a pretty large volume category within LCVs, which you're not playing in at this point. So it makes a lot of strategic sense to participate there.

If you could give us some idea on what sort of time lines you have in mind to put this product into market? And just your thought process around sort of competitive intensity there, I think the zero-ton to 2-ton LCV market is more competitive than sort of the 2-ton to 8-ton segments. So just any early thoughts there would be super helpful.

Shenu Agarwal: Yes. As we also stated in our analyst meet, I think last month was that we are seriously considering an option of getting into sub-2-ton segment. As you said, it is a very attractive large sized market. And having now achieved more than 20% market share in a relatively short period in 2-ton to 3.5-ton gives us confidence that we can be active player in the sub-2-ton as well.

Now of course, right now, it is too early to comment on the time lines, etc. Because this market is a very mature market, and it's entrenched with the competition that has been there for many years. And therefore,

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whatever and whenever we want to enter this, would depend on us being able to come up with a very sharp proposition on what kind of product do you want to come up with. Yes. So that will take a few more months. As we said in the Analyst Meet as well, hopefully, during the year sometime, we would be able to tell you more about this.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura Group. Please go ahead.

Kapil Singh: Congratulations on a strong set of results. Firstly, I wanted to talk about industry growth, because first quarter has been soft. You had guided for same as well due to pre-buy. But what are the signals you are reading from the ground, if you could talk about that?

Shenu Agarwal: Yes, Kapil, thank you for the question. I think the momentum, the pulse on the ground is very strong. We don't see any kind of negativity in any of the segments actually. The momentum is going well. I think, the growth was a little bit muted like, we explained in the last call as well that there could be some pre-buying in Q4, and therefore, this quarter, it was expected that the growth would be slightly muted.

We are still happy that we had a marginal growth in the MHCV segment, but especially in the Bus segment, there was tremendous growth in the market. As I said in my opening comments that we still maintain our guidance that we gave last time of 8% to 10% growth for MHCV and 5% to 6% roughly for LCV for the entire year. We are still maintaining that guidance. And therefore, we think that the momentum would actually further increase going into quarter 2, quarter 3 and so on.

Kapil Singh: Okay. Great to hear. And second, if you could just talk about as you look ahead over the next two to three years, we have talked about market share, further expansion to around 35%; and margins, we are aspiring to get to 15%, margin right? So what are the levers that you are seeing for both that are possible from hereon as we move towards that goal?

Shenu Agarwal: Kapil, there is a lot of opportunity that Ashok Leyland has. As far as market share is concerned, I mean, we have been talking about the disparity in our market shares when we look at geographical market shares. North and East, although we gained substantially last year, but still, we are like, 25% range there, although we have improved from 20% to 25% now.

But we definitely want to improve our market share in North and East to roughly 30% or more. And if we can do that, definitely, we could be touching close to 35% overall. Even in product segments, we have a huge opportunity in some of the specific segments. For example, like in MDV buses, in medium heavy-duty buses, we have a market share of 50% or more. But in ICV buses, which is about two-thirds of the bus industry, our market share last year was still like around 15%.

We have substantially improved in Q1 in ICV buses, and we want to continue to do that. So I mean, we have our play very well understood. We have our actions deployed in the right place, whether it is product segments or geographies. And we hope, I mean, just, if we continue to focus on the fundamentals, whether it is product segments or establishing the right network or getting our network right in the white spaces, we have right now, I think, we can move towards that number of 35% in the next few years.

As far as margins are concerned, I think, in the analyst meet last month, we said in the near term, we want to achieve a double-digit EBITDA. And in the longer -- in the medium to long run, we want to aim at mid-teens, which is roughly around 15% EBITDA, right? So I mean, we are happy that in Q1, we could achieve double-digit EBITDA actually because a lot of things worked in our favor. But double digit is what is our focus in the near term right now.

Kapil Singh: Great. Sir, if I could just lastly touch on the EV side as well, we have seen quite a few orders coming in for -- from the various governments, but Ashok Leyland so far has already participated very aggressively in

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those orders. So what is your outlook now as we look into FY '24, FY '25?

Shenu Agarwal: No, Kapil, that's not right. I mean, we have been participating in the tenders that have been floated by STUs recently, especially the CESL two tenders that we participated. Now we are in discussions with all these STUs, wherever we got an opportunity to get into contracts. So yes, I mean, we have a pretty healthy order book that we are going to now focus on executing.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: I have two questions. Firstly, on the margin. Just trying to get a little bit more color. The gross margin expansion of 200-basis-point despite some cost push, it's quite strong. So I'm just trying to understand what were the levers for improvement here? And more specifically, when I look at the remainder of the year, you've got better operating leverage yet to play out. You've got steel correction tailwind yet to play out.

So if you can just give us some thoughts on how we should be thinking about margins for the remainder of the year? Will we be decisively able to improve where we are in quarter 1?

Gopal Mahadevan: Yes. Hi, Gunjan, this is Gopal. See, essentially, I know you're looking at Q1 versus Q1. So what has happened last year is there are two things that have we have been actually working on. One, of course, if you look at the general industry trend, there has been a softening of steel prices. But even there in Q1, there was a slight amount of steel price increase. But the pace of growth of steel price increases happened from Q1 of last year to Q3, Q4 and then coming off has been helping the industry. But that is the upside.

What have we done at Leyland? At Leyland, what has happened is, when you compare Q1 of last year with Q1 of this year, this is actually baked

in four quarters of price increases. And net price realizations have approximately gone up per quarter, say, by about 1.5%, 2%, and of course, there is a mix impact etc.

The second thing that has happened is, last year, as we have shared with you, we had embarked on a huge cost reduction viz., material cost reduction program, which is, we had looked at bulk buying, consolidating vendors, alternative design, changing some of the bells and whistles, which were actually helping to drive performance, but at the same time, getting, which was enhancing performance, but also bringing down cost.

All of this resulted in the first quarter itself. First quarter typically is not a great quarter for the industry. But we were saying that, can we hit a 10% margin in the first quarter? That was the internal question that we had, and we were able to do that.

So three factors: much better revenues than last Q1 of last year where we then ended up with 4.4%. And this quarter, we ended up with a 10% EBITDA, Q1 versus Q1. Second one is consistent price enhancements that have been able to deliver better net realizations. Third one is cost reductions on the material front, which has resulted in the gross margin expansion.

Gunjan Prithyani: Okay. And so for the remainder of the year, is there any further cost, I guess, you're talking about the recent initiatives that you have taken, and of course, the modular platform. So is there more to come from those initiatives? Or going into the remainder of the year, it's essentially going to be operating leverage and steel correction, which is yet to play out?

Gopal Mahadevan: No, you must understand one thing. One, price increases, for example, if you do it quarter-on-quarter-on-quarter sequentially, they have an impact as we move forward. That is step ladder method of actually incremental improvement in the naturalization that will happen.

Similarly, when you do cost reduction, there is a reverse step ladder method, maybe a defending step ladder method, where the costs start to come out quarter-on-quarter. So to be candid with you, in the forthcoming quarters, we are expecting the benefits of the cost reduction initiatives that we have been doing for the past few quarters.

Over and above that is the play that if steel prices were to come up, and I think the general consensus from external reports is that the second half of the year, steel prices are going to be soft. We are already in the second quarter, the first half is almost going to get complete. So after that in the second half, steel prices are going to get soft. So that would actually add on to the profitability for the industry also. So we believe that if the industry were to grow at about 10% to 12%, which is not at all bad, if you look at the 45% or 48% growth that the industry has posted last year.

I think riding on that volume base, the industry growth, say, even by 10% this year, there is scope for margin expansion. And then after that comes in the operating leverage and the other benefits that you can get.

Gunjan Prithyani: Okay. Got it. That's good to hear. The other question I had was on the Hinduja Leyland Finance. If you can just refresh us on where we are on the time lines, how long it can take for the business to demerge? I know you all raised money, but just figuring the demerger time lines there?

Gopal Mahadevan: Okay. I'll tell you what is happening is it's not a demerger. Hinduja Leyland Finance is actually going to merge into NXT Digital. So it's a reverse merger that is happening. There's no demerger. I think the time lines, there are some formalities that are to be completed. Our expectation is that it should happen anywhere between Q3 and Q4. No major deviation in the time lines.

Gunjan Prithyani: Okay. And last one from my side will be just the inventory level, is there any -- where are we versus the typical inventory levels in the channel?

Gopal Mahadevan: See, I would only say that in this quarter, we have actually brought down inventory levels a little bit because we are very kind of very nimble quarter in this inventory management. So we don't have any significant inventory in the pipe that is with company or dealerships. I think, it's at manageable level. Month-on-month, it keeps oscillating, but from our side, there is no stuffing of the inventory at all.

Moderator: Thank you. The next question is from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: Congratulations on a great set of number. My first question is on the non-vehicle side. Because looking at the Q-o-Q model mix and the way the volumes have come off, and the ASP looks like your non-vehicle side of the business has done very well. So if you can just throw some color on the quantitative aspects there as to how spare, how is defense, how is genset business, and that will be great?

Shenu Agarwal: Thank you, Pramod. So let me just start with the Power Solutions business first. And I want you to just keep this in context that there was supposed to be an emission norm change from July 1 2023, which actually got postponed now by about 12 months. So because of this announcement of postponement which came very late into the quarter, there was some pre-buying that happened in the quarter, which would impact our Q2 and Q3 volumes as far as the Power Solutions Business is concerned.

Now all of that pre-buying did not happen that we were anticipating, because the announcement came like a week or 10 days in advance that the norms would get postponed. Otherwise, we would have registered even a higher volume in PSB. But just keep that in mind. Although overall, we are doing well. And in the whole year also, we would register a significant growth in our PSB volumes. But just for a quarter 1 perspective, you have to just keep in mind that some pre-buying has happened in quarter Q1.

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Coming to defense business, yes, last year was not a very good year for defense. And therefore, you are seeing very high growth percentages in the defense business.

Now even in the last call, we said that defense pipeline is now building up sharply. We have just announced receipt of Rs. 800 crores order from the Army. And I think the pipeline is building up very robustly. So for FY '24 and even for FY '25, we see very healthy defense volumes to happen. But just see that in context of the last year, which was not very good, right? So the base for itself was not so good.

On part sales, we are very, very happy and also very confident that we have not just registered a very good increase or growth in our parts business, but we also continue to do so. Last year, we did about 30% growth or more than 30% growth in our parts business. And even in this quarter, you have seen that the parts business has grown beyond 30%. This is really not just about the growth itself, but it also, I think, reflects how our network is spreading overall and how our market share is getting more-and-more spread out even in North and East areas. So it's a culmination of all those efforts. But yes, overall, on non-vehicle business, we are very optimistic.

Pramod Kumar: And second question is on the discounting side because the discounting scenario has seen a big change over the last three to four quarters. If you can, Gopal, if you can just help us understand what used to be the typical discounts, what the industry was seeing on HCVs? And where are we today as in -- just trying to understand how much of this profitability delta has come from discounting reduction alone?

Gopal Mahadevan: You see, this quarter also we raised prices by 2%, yes, net. So it depends on the model. When I'm giving a very average number because what happens is that you have certain SKUs and there are North, South, East, West pricing etc., that happens. Definitely, discounting has, in absolute terms between last year and this year itself have come down by

anywhere between 10% to 15% in terms of vehicle. Don't add that stake to the margin.

Because what happens is discounting is one stream of activity, price realization is another stream, billing is another stream of activity, net price realization is a third stream of activity. So what has happened is quarter-on-quarter, like you mentioned, as I had mentioned, the 10% to 12%, why is it coming? Because quarter-on-quarter, if you look at four quarters, average, we would have raised prices by 1.5% to 2%, right? So you would have actually had last year maybe about 7% to 8%. And then you have another 2% coming this quarter. So sequentially, it would have had about 10% of price increases that is happening.

So that the industry is also holding, which is good for us because that means that the industry is able to absorb these prices and still deliver a marginally higher growth, which is good.

Pramod Kumar: And then, Gopal, do you expect this is like, something which you've not seen historically, even forget after the last two, three years were discounting went out of control, and now you're having a great run on pricing. But we never seen this kind of very strong pricing in this industry for the longest period of time. I don't recollect if you from your experience or Balaji's experience or even Shenu's, if you've seen this even, like say, 15 years, 20 years back, I don't recollect at least in the last 15 years, 17 years. So I'm just trying to understand what's driving this price discipline, sir?

Gopal Mahadevan: 2018-19 was a good year, yes. 2017-18, 2018-19, while the discounting was happening, net price realizations in the BS IV regime were actually getting better. The margins for the industry was good.

Pramod Kumar: But that was on a lower cost structure as well. The content cost was much lower than where we are today. The average truck size were also much smaller. But if you look at the price increasing velocity because it's one thing to -- because it ultimately adds up, right? Everything adds

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up, and the customer also, there's somewhat of demand sensitivity at some particular level, right? I'm just trying to understand from a very high discounting-led environment where net pricing was actually collapsing to environment where net pricing is going up sharply. How is the industry, how is the customer base reacting to this? I'm just trying to understand how far can we continue to have such run.

Gopal Mahadevan: Let me put it in perspective and then I'll request Shenu also to add. See, there are two, three things here. Your point is right. But what has happened is, unfortunately, the cost of the vehicle went up by approximately 20% to 22% in Q1 of FY '20. And what happened is the whole thing had imploded, right? Because it was bang at the start of COVID.

So there is no demand, and you are launching and you are forced to launch products for regulatory compliance with a product which was 20% to 25% more. It could be 13%, 14% in some SKUs, but broadly, I'm saying 20%. So once that happened, the pricing power was virtually not there in the industry. And the industry always, like you rightly said, already had the practice of discounting. So then the situation went southwards as further discounting happening for a very limited customer demand.

Now last year, what has happened is, after '20-'21 and then we saw in Q4 of '21-'22, and maybe second half of '21-'22 demand coming back. Last year, there're a lot of pent-up demand, so to speak, started to happen. Because we must understand India suddenly turned into a high-growth economy. And you need transportation to fuel this growth. So then what happened is, whatever demand that had actually not taken place in the past, suddenly, and the axle load norms also, which had created capacity of maybe about 160,000 vehicles had also kind of -- the impact was over.

So the industry, I think the demand suddenly started to ease of last year.

That is why the industry grew by about 45% to 48%. When this was

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happening, when some of the players decided that no, we don't need to actually keep discounting to acquire customers, then we saw the price realizations holding on.

Hopefully, what we are expecting is that the same rationale will continue as we move forward. Because, frankly, I think customers have to be acquired from capability and not by discounting. So if this continues, the industry's breakeven point, I'm not just talking about Leyland's, the industry's breakeven point will come down quite sharply. Because what will happen is the same amount of volume or even a slightly lesser amount of volume can give good margins.

So this, along with the commodity prices coming off, operating leverage kicking in and better pricing that has happened over the last several, say, six to eight quarters, all of this should see better profitability for the industry. And I mean, in all humility, we have been actually posting better results at least until now. And we have been taking cost out, which we have been sharing quite openly with you. We have also shared with you our medium-term target of mid-teens EBITDA. We said this time that let us share what we are doing as a company and what we are aspiring as a management team. So that, the investors understand this better.

Moderator: Thank you. The next question is from the line of Arvind Sharma from Citigroup. Please go ahead.

Arvind Sharma: So the first question would be on the AVTR range, the moderator platform. Would it be possible to just help us with the overall contribution of this range to your total volumes? And if you can just comment on the profitability as well? So that'd be the first question.

Gopal Mahadevan: Well, you see, AVTR is a range that factors in the higher tonnage vehicles. We possibly will not be able to share exactly how much of it. Because all I can tell you is that, we actually monitor this for the heavy commercial vehicles. We also talk about the intermediate commercial

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vehicles, and we look at the margins. To be candid, the team is now working on how do we improve the profitability of the intermediate commercial vehicles even further.

As far as the heavier commercial vehicle is concerned, all I can tell you is that the higher the tonnage of the vehicle, the better is the margin, because the realizations per ton improves. So AVTR range has actually been a big success on three grounds, I would say.

One is product performance. Absolutely, I would say, in certain cases, above industry, there is a clear demand pull on the product from the industry. This industry is the toughest of all the industries, if you take the two-wheeler, four-wheeler and then you take MHCV trucks, I would say that MHCV trucks has the finest and the most, knowledgeable customers, because this is used for commercial purposes. So here, the AVTR, I think as a product has had exceptional acceptance by customers. This is one.

The second one is the complexity of production has come off quite a bit, which is why we are able to increase our throughput on production and even though the tonnage of vehicles has gone up and serviceability also goes up.

The third one, as far as AVTR range is concerned, is that the -- we possibly will see the benefits, and we are seeing the benefits of the complexity of production actually coming down in terms of number of parts, the assembly of vehicles, the number of vendors, the inventory that we need to carry. So we're seeing that slowly happening. And as we move forward, these are things that we shared with you in 2020-'21, and all of that is happening. So AVTR is crucial and an important step for us.

Arvind Sharma: If I could also ask a second question more on the Bus segment. Can you throw some light on the new orders from STUs that you are seeing, how much are -- what's the proportion of electric buses to ICE buses? And

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do you foresee a time when a majority of these new orders would be on the electrical side?

Shenu Agarwal: Yes. So see, the electric thing has just started. I mean, there have been like two large tenders so far. And therefore, as a percentage of the total bus industry, it's still very small. But I think, we are seeing that the market is gradually going to move towards more-and-more of electric. It has not even penetrated the private sector as yet, because of ecosystem challenges. But yes, I mean, there are several reports in the market that indicate that about 30% to 40% of at least the STU demand can be electric.

While different governments have been proclaiming different things, some are even like we just heard a few days back, that government wants 100% of STU demand to be electric now going forward and achieve that by 2030 or earlier. Yes. I think, we will see the timing can be varying, but definitely, this is going to happen.

Electrification will happen starting from buses and then moving on to the smaller vehicles, the LCV range. And then also even in the trucks in some special specific niche areas. Yes, it is bound to happen. It's just like what would be the inflection point that is to be watched for.

Arvind Sharma: Got it, sir. And is there any proportion that you can share between sales to STUs and the private orders in the Bus segment for Ashok Leyland? Is there any proportion that you can share?

Shenu Agarwal: Sorry, can you ask that again?

Arvind Sharma: Sir, the proportion of volumes from STUs and private orders, is there a proportion that you can share?

Shenu Agarwal: Gopal, can you?

Gopal Mahadevan: We didn't discuss much about the Bus in this call, because everybody was discussing on trucks.

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Actually, this quarter, we possibly have again gone back to number one in Buses in India. And our product range is much expanded today, and we are still working on the bus portfolio. The bus portfolio is very important to us.

The second bit of it, I would say, is that the bus portfolio actually is becoming more-and-more profitable. It was when the maximum impact that happened on COVID was on account of buses. So no schools, no intercity transport, all institutions were shut, everything was work from home, suddenly, things have started to come in. Even the large software giants are now insisting that you need to work at least three times a week or four times a week and all schools are up and running, colleges are up and running.

So what happens is that, we are seeing that there is a margin improvement. And just to add to what our MD, Shenu, mentioned, you know that the EV bit of it is just starting. Now we are seeing STU is also actually ordering a lot of diesel buses.

To give you an idea, today in this quarter, okay, I'll tell you the TIV, broadly, STU would account for approximately about 7.5% to 8%. The STU has actually grown by about 55%. But out of the total buses, which is you take it as private, STU, ICV passengers, the largest is actually on ICV passengers essentially in school bus segments, which actually accounts for nearly 71%.

So you have about 8% to 9% in STU and the balance is private buses. This ratio will start to actually change when governments are going to order more-and-more of STU. I mean, STUs are going to start ordering. You must remember that the scrappage has also affected the government vehicles and including buses, where they will be a push to replace their existing fleet. Some of which are very old. And also, you will see private passenger transportation going up when intercity starts to grow further.

Moderator: Thank you. The next question is from the line of Pramod Amthe from InCred Capital. Please go ahead.

Pramod Amthe: The first question with regard to the electric trucks. There are some signs of some mining companies or others importing the trucks from abroad. How are you looking at the space, and when you're planning to introduce the products here?

Shenu Agarwal: Hi, Pramod, thank you for the question. As far as the trucks are concerned, we are working on several different applications as far as the electric is concerned. How we want to focus on some of the niche applications where we are working very closely with some of the customers.

I think going forward, within the next few quarters, you would see some kind of activity in that space. These would not be in a true sense, commercial launches, but these would be some kind of large scale, medium scale customer pilots that we intend to do, right. So those discussions are ongoing on the market size as well with customers, understanding their requirements, understanding the local geography, the application, etc. At the same time, with that information coming in now, we are maturing our technology and tweaking it to suit to the market requirement.

Yes. I mean, we are not in a hurry to kind of commercially launch or make a lot of noise about it, but we want to make sure that we focus on maturing the technology in the right way, make it well suited for the applications that are in the market and that are ready to absorb this kind of technology, working with some very mature large customers who have a lot of interest in these vehicles either because of the TCO compulsions or because of their own environmental goals. So that is our focus area.

Pramod Amthe: And second one is to Gopal. There seems to be a substantial movement in the net debt from a net cash position to a net debt from March to June.

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Is it all attributed to working capital? So what is the working capital situation now?

And second with related to the same is, what is the investment into subsidiaries which has gone into June quarter?

Gopal Mahadevan: You're right. I mean, the predominant part of it. See, what happens, there is nothing wrong in this working capital movement. Let me assure you. Because we have possibly over the past several years, we have been talking about negative working capital at the year-end. And then you will see that this is a traditional pattern that happens.

In the first quarter, the working capital actually becomes positive. The reason is you know why? Especially the February and March month, there is a lot of demand. And so what happens, your FG inventory, and since we don't have -- maybe we do offer a little bit of credit now. But otherwise, the collections are also pretty high.

So what happens is on the current asset side, it is actually, it comes down quite low. It comes down quite a bit. And complementing that, you have the vendors, the current liabilities, which goes up. So the net working capital becomes negative, right? And so there is a huge rush of cash that happens in the month of February and March, but which is why we don't keep kind of exemplifying it or trying to expand it beyond a point.

In the month of April, May, June, what happens is that the demand is actually lower than what it is in the fourth quarter. And so the creditors need to be paid out. When that happens, you see a sudden payment cycle that comes in. And when that happens, the working capital turns from negative to positive, which is why approximately Rs. 240crores of net cash, which was there, has actually become Rs. 1,400 crores.

Shenu Agarwal: Rs. 1, 500 crores.

Gopal Mahadevan: Rs. 1,474 crores of debt. But Among that, we, I think, have also provided some support in terms of, I think, about Rs. 215 crores, that goes to

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Switch. But the main reason is working capital. And this will, again, start to stabilize. As we go forward, in the second and third quarter, again, it will plateau. And in the fourth quarter, again, we'll gain. But what happens is year-on-year, we will actually see that the net cash generation is getting better.

K. M. Balaji: Actually, you would have seen in the last quarter, our working capital was around two days. And now it has increased more to support the activity. It has increased to nine days. This is only reflected by way of movement in the debt also.

Our debt, we were in a surplus cash position, if you recall at the year-end, Rs. 243 crores. So from there now, we have moved to Rs. 1,400 crores, roughly Rs. 1,700 crores of movement have happened. And this is primarily because of the working capital movement, which has gone up from minus one day or minus two days to now plus nine days, is 11 days, that is attributing to the change in the debt situation. And it will keep improving. As you see, now quarter-on-quarter, it will keep improving. And then finally, we'll end up in the better than what we did in the last financial year Q4.

Moderator: Thank you. The next question is from the line of Aryn Pirani from JPMorgan. Please go ahead.

Aryn Pirani: My question was actually related to what was just discussed right now. So just sticking to the cash flows, you mentioned that capex was Rs. 95 crores for the quarter. What was the investment in Switch in the quarter?

Gopal Mahadevan: I think, the investment in Switch, I think, we did about Rs. 200 crores or so, not an investment, not in equity. There was no equity investment that was done. There were some temporary short-term loans that were given, if my memory serves me right.

Aryn Pirani: Okay. But the full year...

Gopal Mahadevan: Just want to clarify, Aryn, you know, this company as well. Whatever numbers that Balaji gave in terms of working capital days, that does not include Switch support. And just to give you a perspective, when we said that we have already shared with you earlier itself, I think even before the investment meets that we had in Mumbai, we had mentioned that we will support Switch in one way or the other for about Rs. 1,200 crores in the current year. That plan will not change.

So whether we will do it as loan funding, whether we'll give it as equity, whether we'll give it as other instrument, is all we are actually taking a decision. But Switch business plan will continue because this company is going to come out with some very good launches, both here and in UK. And we are looking at two variants of LCV coming out, another variant of a bus coming out and maybe a European model bus also coming out.

So we are not going to let this action slow down. So that plan will continue, and we will continue to support and infuse funds as and when required. But this year, I think the overall estimate, we stand by it, which will be about Rs. 1,200 crores, which we have shared with you already.

Aryn Pirani: Great. And just on the Switch, the electric bus that you mentioned, now at least in India, most of these EV buses are being bought as of now by the STUs and the model in which they are being bought is of a build-operate kind of a model. Now do you have any initial thoughts as to when you launch an EV Bus? Obviously, I'm guessing that over a period of time, there will be a demand from the non-STU category also. So are you gearing-up for or planning to whenever you launch, bidding for these build-operate and transfer kind of projects? Or would you want to focus on the non-STU segment for these -- for the EV buses specifically?

Shenu Agarwal: Yes. See, as far as the EV buses for the private sector, which is outright purchase kind of a model is concerned, it will take more time. So we are working with the customers to penetrate into that segment or rather to say, let us develop that segment. Now there is no segment right now,

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right? But that will take a little bit more time. Because it's not just about the product, it's also about a lot of ecosystem challenges that we have to deal with. So we are working with our customers on some of those challenges to be overcome.

But on the STU, which is like clear and now, the only model right now is the build-operate kind of a model. And you know that Switch has participated in some of these tenders, especially in the last leg of tenders, and we have won some of those tenders as well. So definitely, we are going to try to execute those. And we are in discussions with various STUs to be able to do that.

Amyr Pirani:

And if I can just squeeze-in one last question on this model. Obviously, the way the financials and the profitability will work on these models is different from how we have looked at the company for all these years. So how should we think about when you start -- like this will be long term, you will not make the money upfront, you will keep the asset on your books. So maybe not today, maybe later on, whenever you can, it will be helpful for us to understand how should we think of the profitability and the ROCE on this kind of a business? And how does it differ from your existing business?

Gopal Mahadevan:

See, Amyr, how you can possibly look at this, as a portfolio. Because we are a commercial vehicle manufacturer. We have a vision. We want to be numbered in the Top 10 in the world. And we need to do a lot of actions on multiple fronts, which is we have to expand our LCV portfolio. We need to enhance our market presence in India. We need to grow our exports further. There are defense vehicles that need to be enhanced. So there's a lot of work that's going on. This is one bit.

The second bit is we also need to be a very relevant player in future fuels. We cannot afford not to be there. So what are the future fuels? Of course, there is CNG, LNG, with which we have actually got working variance. Other than what has been introduced in the past, we are working with some of the large organizations in India, which you know

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for hydrogen, H2-ICE. We are also having some collaboration happening on hydrogen fuel cell.

Now coming to EV, that is why we also had a separate company called Switch for EVs. At the moment when Switch is evolving and we need to pick and choose orders as we move forward. Now that is why we have a company called as OHM, which is not yet kind of operationalized. Because we first wanted to do that in Switch.

You will hear more about OHM in the coming months, when we decide to operation it. Today, OHM doesn't have any operations. But when we do that, our view and our strategy would be to house all the e-mobility as a service, the eMaaS, the long-term returns asset-based financing in OHM.

Now if you actually step back and look at it, there is no major difference that you will see at a 30,000-feet level between a company like HLF and which is a finance company, and OHM. Correct?

Amyr Pirani: Yes.

Gopal Mahadevan: Asset lending, only difference is here, you are doing operating leases. Which means, you manage the vehicle, you run the vehicle, you ensure that the STU or the customer pays for it, and it is a pay per kilometer with assured guarantees etc., and these are slightly longer-term contracts.

We will now, if the country starts to kind of move in this direction, it will happen to akin to what is happening in solar or what happened in solar over the last 10 years, 15 years, 20 years. Long-term contracts, great annuities, payment mechanisms are mature, costs have come down. They have even got better than grid rates. So we may actually see that happening.

At the current juncture, the EV industry is still pretty nascent. So but what we said is, no, we need to participate as a bus manufacturer. That

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is why we are creating OHM. You will hear more about this in the future, and we would be more than happy to serve customers as a direct sale also. We are readying ourselves for that.

So the market will also start saying, "Hey, why should we go to this? Let me own the asset and let me own to operate it." Where the customer has the heft of financing on that advantage. See customers in this business won't leave any money on the table. If they find that they have got a better arbitrage opportunity, better funding capability, better rates coming from banks, and if they believe that they can run it more efficiently, they will buy the vehicle of us, like buses are being run today.

Moderator: Thank you. The next question is from the line of Chirag from White Pine Investments. Please go ahead.

Chirag: I only had one question on defense. So if you can indicate, what was the revenue from defense or growth Y-o-Y? And more importantly, what kind of products we saw because there are multiple products, which we now have on plate? And also a road map over the next 12 months to 24 months, which product basket is likely to see conversion? If you can help me with that, it would be helpful.

Shenu Agarwal: Yes. So I mean, as you know, that we have developed a wide variety of products now, all within the land mobility scope. But we have a wide variety of products. I mean, there are like normal vehicles like stallion and now we have some armored vehicles and so on and so forth. So yes, I mean, like I said in my opening comments and later even, last year was not a good year, but we do expect FY '24 and FY '25 to be very good years. There are a lot of discussions going on with Ministry, with the Army. There are a lot of tenders that are coming up. There are some that we have already won.

So overall, I mean, without disclosing the specific details of what is coming up, overall, it seems like we will have a good pipeline on defense for at least next couple of years, including this year.

Chirag: Okay. Sir, if I can just clarify. So is it water bowser and stallions that are sold or is there more products, which are coming across like whether 6x6 or...

Shenu Agarwal: It's a variety of products. It's not just one product. It's a variety of products. So for example, the previous order that we have won is like the gun-towing vehicle. And also, there is some advanced kind of development happening on the Stallion, right? So it's like a variety of things that are coming up.

Chirag: And sir, just one question, Gopal. If you look at the past historical trends from quarter 1 to quarter 4 margin trajectory, if what you are indicating plays out on the industry side, we have generally seen 400 bps to 600 bps sequential margin improvement from Q1 to Q4. Whenever industry volumes every quarter, as it keeps on moving up, margin trajectory for the industry tends to move up in this bank. Whatever the start point is. Except for one year or two years of exceptions where margins were more or less stable.

If that happens, then this year itself, you will end it quite closer to the ambition or expiration margins that you have around 15%. Is this the right way given the tailwind that you have been highlighting?

Gopal Mahadevan: You see, this is feasible. We can't comment whether it's going to be 15%, 16% or no. Let the year go out. All we can tell you is that, I think, for probably the first time or maybe once or twice earlier, but we have got a 10% margin in Q1.

Now I just wanted to share an interesting data point, which we didn't mention. If you look at Q4 EBITDA, where we had 11% EBITDA being posted for the quarter, our revenues were about Rs. 11,626 crores. This

quarter, when we have actually done a 10% double-digit EBITDA, just 1% lower than the sequential quarter, okay, just 1%, the revenues are actually Rs. 8,100 crores. Which means, it's roughly 30% lower, but the margins have actually not deleveraged that much at all. And that has been possible for the reasons of the efforts that the company has taken, the pricing that the industry has been able to do, the company has been able to roll out, the cost on the material side that has come off. And we are also able to rein in our overhead so that you can see the benefits of it coming.

Company will always attempt to perform better than the industry in all fronts, whether it is on products, whether it is on market penetration, market share, pricing, etc. I think Q4 profitability can be significantly enhanced from the Q1 levels. What it is, we'll have to wait and watch.

Chirag: No, fair point. It was more of a direct sale than I was trying to understand because that's...

Shenu Agarwal: Yes. One thing I think you need to keep in mind that last year, I mean, if you look at our last six years or seven years, we went through two migrations on emission norms, the BS III to BS IV and BS IV to BS VI, right? And that built up our cost significantly.

And then you know that we had this unprecedented inflation for about six quarters to eight quarters in FY '21 onwards, right? And that increased our material cost as a percentage of sales tremendously. So we were like in BS III era, roughly around FY '17, FY '18, we were still around 69% in material cost as a percentage of sales, which actually went up to like roughly around 78% by FY '22 in just a span of six years.

So inflation and two migrations on emission norms, right? And I think what was good about last year, as you know, that industry had a major tailwind coming out of COVID and coming out of other factors.

So I think, last year was a kind of a typical year where the industry grew 48% in trucks, even in heavy-duty trucks and even in LCVs. And on top of that, there was a very strong price realization benefit that also happened. So now just keep in mind that those two things would not follow the same path. The industry, we are not saying industry which is growing, again grow by 48% in MHCV, we are saying 8% to 10%, on last year's pace. And also price realizations would not be to such a high extent.

Now most of the effort going forward, although I'm not saying we will not increase the price, we have increased the price in Q1, and we'll look at other opportunities whenever they come in. But the effort, I think, the focus would be now onwards more on cost reductions than how we can reduce our cost. How we can look at value engineering? Because of these two migration changes, we have a lot of product -- new product, new aggregates that have come into the picture. And there, whenever there is a new aggregate, new design, there is a good opportunity to look at value engineering there, So I mean, those are the things that we are more focused on. Last year was a different year. This year would be different factors that would play out.

Moderator: Thank you. Ladies and gentlemen, we take that as the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.

Joseph George: Hello, Shenu, sir. Would you like to make some closing comments?

Shenu Agarwal: Yes. Thank you. So thank you once again, ladies and gentlemen. Q1 has been good for Ashok Leyland in terms of MHCV market share gains and margins. Even on the LCV front, we had a gain in our market share. Overall, a good run continued in Q1 for Ashok Leyland.

Contribution from defense, LCV, Aftermarket and Power Solutions was also very supportive in the overall performance. Revenue mix was also very favorable. Price recovery and cost savings went as per our plans,

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and we are quite satisfied with those. With the robust economic growth outlook as well as the increased outlay on infrastructure, we expect a good demand situation going forward as well.

Softness on commodity cost is expected to continue for the subsequent quarters, which should help with our margins going forward. Given this backdrop, we hope to continue with a good run, both on margins and on market share.

Thank you again for the interest shown in Ashok Leyland.

Moderator: Thank you very much, sir. I would now like to invite Mr. Joseph George for his comments. Over to you.

Joseph George: Thank you, Michelle. Thank you, everyone. I would also like to thank the entire management team of Ashok Leyland for taking out time. I would also like to thank all the participants for joining in. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IIFL Securities Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.