



“Ashok Leyland Q4 FY24 Earnings Conference Call”

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MODERATOR: **MR. NISHIT JALAN – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Ashok Leyland Q4 FY24 Earnings Conference Call hosted by Axis Capital 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 the “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishit Jalan from Axis Capital Limited. Thank you and over to you, sir.

Nishit Jalan: Sir, thank you. Good afternoon, everyone. Welcome to Q4 FY24 Post Results Conference Call of Ashok Leyland. From the Management Team, we have with us Mr. Dheeraj Hinduja – Executive Chairman; Mr. Shenu Agarwal – Managing Director and Chief Executive Officer; Mr. Gopal Mahadevan – Director and CFO; and Mr. Balaji KM – Deputy CFO.

I will now hand over the call to Mr. Hinduja for his “Opening Remarks” and post which maybe we can start with the Q&A. Over to you, Mr. Hinduja.

Dheeraj Hinduja: Thank you. Good afternoon, ladies and gentlemen.

Before I start on the Results, earlier today, we announced the appointment of Mr. KM Balaji as Chief Financial Officer, Mr. Gopal Mahadevan, currently CFO and Whole-Time Director will continue to be associated with Ashok Leyland as Director, Strategic Finance and M&A. Mr. Balaji, currently Deputy CFO, will take over the role of Chief Financial Officer with effect from 1st June 2024. Mr. Gopal Mahadevan as Director, Strategic Finance and M&A will continue to serve on the Board of Directors of Ashok Leyland and its subsidiaries. In his new role, Gopal shall focus on the growth agenda of Ashok Leyland subsidiary companies as well as M&A strategies for Ashok Leyland. The team will be further strengthened with both of these gentlemen.

Coming to the Result:

FY24 has been a record year for Ashok Leyland, whether it is revenue or EBITDA margins or profit. We have achieved all time high numbers in FY24. Coming in a year when we are celebrating our 75th year of existence makes this even more special. While revenues grew by 6% over last year, our EBITDA has grown by 57% to reach Rs. 4,607 crore. Our PAT for FY24 at Rs. 2,618 crore is also the ever higher. Our EBITDA margin touched 12% in FY24 from 8.1% in the previous year, reflecting our continued focus on better price realization, efficiency and sourcing and business operations along with a better revenue mix. The softening of commodity prices has also helped.

I would like to specifically mention that FY24 has also been a year of record cost savings for us. Our material cost as a percentage of revenue is lower by 4.3% over FY23. Another factor that

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supported profitability was impressive growth in our high margin business covering spare parts, defense and power solutions. FY24 performance gives us even more strength to move forward towards our midterm objective of achieving mid-teen EBITDA. The market has also shown confidence in the company's ability to grow in the future as our stock price recently touched its peak. Since April 1, 2023, this is about 50% appreciation in the company's market cap.

Our net debt at the end of FY24 is close to Zero. This is after Rs. 1,500 crore investment in Optare Switch and owned during the year. I'm also happy to state that Ashok Leyland is now back to number one position in MHCV buses with a very impressive market share gain in FY24. While we had a few challenges initially, our market share growth of Q4 and of April reflects a positive momentum in the MHCV trucks as well. Going forward, we are confident of increasing our market share in both the trucks and bus segment. Our medium-term goal of achieving a 35% market share in MHCV segment remains intact.

In the 2-to-3.5-ton SCV segment, we are now #2 with the market share of more than 20%. We have planned for 6 new product launches in this segment in FY25, which should give us a further boost to our market share. Currently, we address about half of the LCV market in India. We are looking to expanding our LCV product portfolio to cover at least 70% to 80% of the market in the next few years. LCV presents a huge potential for us to grow our CV volumes in future. Our market share and CV exports out of India has improved significantly in the last two years. Despite subdued market conditions in SAARC and in some parts of Africa, Ashok Leyland registered growth in export volumes, this reflects that our strategy of local market presence, focused product development for IO markets and our strong distribution relationships in key markets is working well for us. As some of these markets start turning, we see good volume expansion in our IO business.

Our focus on profitability remains. We are clear that we are not going to discount our products to win market share. We are confident that our market share wins will come on the back of our products superiority and our expanding reach. Our product portfolio is very robust, and our future pipeline is strong. Ashok Leyland's products are known for their reliability, fuel economy and application suitability. Actions are in place to further widen the differentiation on these aspects. We are proud of delivering our first ever battery electric BOSS ICV in the last quarter. Our 55 ton electric tractor trailer is also ready and 1st unit shall be delivered within the next few months. We already have customer pilots going on for H2-ICE truck. We are ready to deliver to NTPC our first set of fuel cell buses. Our first LNG trucks were delivered earlier to MGL. We are proud that we have now a complete portfolio of alternate fuel vehicles in the market.

Switch and OHM are progressing well. We have just started delivering our first eLCVs in the market. In the next few months, we shall launch our second offering in eLCV space as well. Both these vehicles will be segmented first and have the potential to transform the last mile mobility in the country. We are preparing to make supplies of 950 electric buses to Delhi and 320 buses to Bangalore. The development of our E1 electric bus for Europe and Middle East is in advanced stages.

OHM, our E-MaaS subsidiary has now been fully activated. It is now managing electric bus operations in Bangalore, Ahmedabad, Bihar and Chandigarh. Ashok Leyland's balance sheet is strong enough to support funds requirements of both Switch and OHM. At the beginning of the year, there was widespread anxiety that CV numbers in Q1 and Q2 might degrow because of elections and other factors. April numbers have proven this wrong. In April, MHCV industry grew by 10%. Our addressable LCV industry also showed positive growth. The pulse on the ground is very positive. Most macroeconomic parameters are favorable. There is a prediction of a good monsoon. A stable government post the elections will see a flurry of robust economic measures. The country is poised to grow at a faster pace in the foreseeable future. All this augurs well for the future of the CV industry. We wish to remain optimistic for the CV industry for both H1 and FY25.

I now hand it over to the moderator for any questions that you may have. Thank you.

Moderator: Thank you very much, sir. We will now begin the question and answer session. Thank you. The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Firstly, best wishes both Gopal and Balaji on your new roles. My first question is just on the outlook and the comments Mr. Hinduja had given on FY25. So, I think previously over the past, 3 to 4 election cycles before COVID, we have seen a pickup in M&HCV demand in the year following elections. And then last year also I think you had given us a little bit of color on the sort of outlook you have for the M&HCV and the LCV segments. So, just wanted to dig a little deeper on that to see how you're thinking about both M&HCV and LCV growth opportunity ahead in FY25?

Shenu Agarwal: Thanks, Chandramouli for the question.

Before I speak on FY25 industry, let me just give a perspective on FY24 especially on the M&HCV side. Overall the M&HCV industry of course had a single digit growth about 3% to 4% for the year. But I think we should look at it in a different way. We should divide FY24 in two parts, the first part being the first 7 or 8 months and the second part is the last 3-4 months. If you look at the first 7-8 months, the industry was growing at a pace of 8% to 9% and of course in the second part, which is last 3-4 months, industry degrew, but there was a specific reason for that. And the reason was a very high base number that the industry was operating at in the last quarter. And that was because of OBD-II norms that had forced some prebuy. So, we have to just keep in perspective that if we exclude that period of high base number because of which the industry degrew, industry has been growing before that by 8%-9%. And then in April, again, the industry has grown by about 10%, right. So, to that extent, there is nothing fundamentally wrong in the industry. And I say that also because we find lot of positive momentum on the ground, the pulse on the ground is very, very strong. All macroeconomic factors are in the favor. There were a lot of apprehensions before the start of the year that elections might drag the industry growth, but that has not happened, at least in April it has not happened. Even in May, we think that the momentum is there on the ground, right. Of course the results will come in next week or so, but we remain very optimistic about M&HCV industry in FY25, not just for the whole year but for

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H1 as well and also for LCV, again the prediction was that there would be a negative growth in quarter one and quarter two, but April was reasonably good. April Industry was about 2%-3% positive right. So, on both the segments, we are quite optimistic.

Chandramouli Muthiah: Got it. That's helpful. My second question is just specifically how the mix of vehicles has moved within the M&HCV segment over the past 3 to 4 years. I think pre COVID the 40 ton plus vehicles were sub 5% of our M&HCV volumes and at this point we're closer to sort of 30% of our M&HCV volumes coming from that 40 ton plus segment. So, just wanted to understand going forward how you see this migration? Are your key customers continuing to prefer replacing those 25 to 35 ton vehicles with 40 ton plus and any fundamental factors behind this decision making. Just trying to understand how the mix might move going forward?

Shenu Agarwal: Yes, that's a good question. I think even in the last year or last couple of years, we have this trend emerging and we think it will continue to emerge in this fashion. So, few things are happening that we all know. One is that there is a great pull towards tractor trailers and also towards tippers. Now both these products, they need more power because the kind of applications they work around. Also another thing is that we know that the aging of the fleet is at its highest, it is at about 10 years I think and the normal used to be like 7-8 years, right. So, there is a law of replacement demand, replacement market that is emerging and it will continue to emerge for the next few years until we get back to a lower / normal age bracket. Now what is happening is I think around 70% of vehicles in the market are from BS-IV era and therefore these are all mid turn, low turn vehicles and when these get replaced, they will obviously get replaced by more higher turn vehicles, right. So, I think this trend is going to continue. Replacement demand is going to be very strong in times to come and slowly these BS-IV vehicles are going to be converted into the latest technology vehicles.

Chandramouli Muthiah: Got it. And just lastly, a bookkeeping question. Just wanted to understand, I think couple of quarters back, you had mentioned that you are currently in a high tax rate year, but FY25 onwards you did mention that you're working towards getting to a different tax bracket. So, just want to understand how we should think about tax rate for FY25?

Gopal Mahadevan: See at the rate, we will decide on the tax rate for FY25. This is Gopal. So, as we proceed through to the year because there is a threshold profit that we need to achieve for getting into the lower tax rate because of some working that we'll need to do. But having said that, I think that in all probability we will get into a lower tax rate next year.

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

Kapil Singh: Sir wanted to ask you regarding the industry outlook. One of the things is that the base in the first couple of months was also low last year. So, when you're talking of strong growth, are you talking for Ashok Leyland or you're talking for the industry as well where you think and any indication do you think we could be somewhere close to high single digit, double digit somewhere in that bank for the full year?

Shenu Agarwal: Yes, see very hard to give you a specific number right now. It's too early in the year. Yes, I agree to some extent April had a low base, but then 10% is not bad at all, right? And even LCV had shown us some good prospects. We really think industry, because I'm not saying just from the numbers etc., but we really think that the pulse on the ground is very strong like I said. We also look at other factors that affect the CV industry in the short and medium run, freight demand, diesel prices, freight rates, most of them are looking positive. Most of them are in the green, right. So, we see no reason as to why the industry should not continue to perform well. Like I said, there was some anxiety about the elections, so irrespective of a base, I mean elections, if they had a power to dampen the industry, it would have dampened, right, but that has not happened. So, even that factor is not playing out that well. And even May is looking promising right now. I mean this is just depending on the trends in the market or the kind of inquiries that are being generated as of now. So, Yes, we continue to be optimistic, but very early to give you a specific number, but I think it should be a good year.

Kapil Singh: Thanks sir. That is very helpful and encouraging to hear. Also, if you could talk about the fact that we've achieved close to 14% margin this quarter and full year we are at 12%, do you think there is headroom here to keep improving margins over next couple of years as well through the same ways as we have been doing in last maybe one to two years, any broad perspective? Do you think because we talked of mid-teens kind of margin as the aspiration. So, just your thoughts on how things are evolving. Any comments on commodity outlook and pricing environment and discounts as well please?

Dheeraj Hinduja: So, I think you're right that our stated objective is to retain this mid-teen EBITDA margin. And that is why I think we're very clear of not really playing a discounting game and growing our market share on the basis of products and our extended network as well. I do believe it is possible to maintain this. We've done a lot of internal work in terms of cost reduction, productivity improvements, efficiency. At the moment, commodity prices are going in our favor as well. So, I would say that our objective is very much to maintain these types of margins.

Kapil Singh: And lastly, if you could just help us with the CAPEX and investment plan for FY25 please?

Shenu Agarwal: Yes. So, see, last year our CAPEX was close to Rs. 500 crores and you would have seen that we have been very consistent with our CAPEX. And the reason for that is there's like a well thought out plan on the product. It's not like you wouldn't see any jerky reactions from Ashok Leyland on CAPEX, right? Because it's already laid out for next few years. Of course it is very dynamic, so we keep on looking at the market conditions and change the plans here or there. So, even for FY25, our CAPEX would be between Rs. 500 to Rs. 700 crores.

Kapil Singh: And sir investment plan be?

Shenu Agarwal: Investment is, the only investment I think, or the significant investment required will only be in Switch. Maybe to some extent OHM, we don't see much requirement in OHM right now, but we haven't finalized the exact numbers. It should be kind of lower than what we did last year, but we'll let you know. I think it will take another month or so, but at least for the first half, I don't

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think there is any need to invest even in Switch. And I would also like to tell you that Switch in quarter four has been EBITDA positive. Yes, so this is the first quarter where they have turned around into being a profitable company. And even in FY25, we are, as I said, we are still kind of refining the plans. But we hope that Switch would remain EBITDA positive, Switch India would remain EBITDA positive.

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

Gunjan Prithyani: Just couple of follow-ups. Firstly, on the margin there has been quite a tight control on the staff cost also, if I see sequentially and even most other cost items seem to have been rationalized a lot. So, is there any specific to call out that you think will normalize going into fiscal 25 or these are new slower reset base that's how we should be thinking about fixed cost going ahead?

Shenu Agarwal: Yes, Gunjan, thank you for that question. It's a very, very interesting question. See, in automotive sector, you know that the cost tends to go up even if you don't increase the headcount at all, the cost tends to go up by 10% to 11% because of increments and other recognition and reward that you do for your employees. Yes, but in our case, you would have seen while we of course give very handsome increments to our people. But in our case, you would have seen that the cost has not gone up to even that extent. So, there is definitely some efficiency that we do try to create, some productivity enhancement measures we do try to undertake as far as our executive manpower is concerned or even our blue-collar manpower. So, to that extent, I think even going forward, there are several avenues that we would be looking at how we can increase productivity of our people and therefore keep the overall manpower cost on a tight leash.

Gunjan Prithyani: So, if I recall, I think on a full year basis, last year you had mentioned that there was some Rs. 300-Rs. 400 crores of cost which were taken out. Is there a number that you can sort of share maybe, I don't recollect what exactly the number for last year was? But there was this fixed cost program where you were talking about taking out the fixed cost and being very, very efficient around it. Is there a number that you can share with us and how should we think that is there more efficiencies to be made going into fiscal 25?

Shenu Agarwal: We never said Rs. 300 – Rs. 400 crores, but I can tell you it is a significant number. And as far as the future is concerned, this year also we are looking at a very ambitious target on cost savings, which is even better than last year. So, we'll continue on that journey. And at Ashok Leyland, we think that cost optimization is a journey that never stops. There is always an opportunity to reduce your cost, cut your waste. And the simple reason for that is technology keeps on changing. You come up with new products, new platforms and whenever you come up with a new technology, new platform for the first time, you really you know, I mean build some extra cost in it just to be on the safe side and therefore there's always an opportunity to relook at your product, even your business operations to see where the opportunities are. So, I can tell you that at least for this year, we see there is a great opportunity in cutting cost further.

- Gopal Mahadevan:** And just to add here to what Shenu said it is not just merely fixed cost that we're looking at. We are looking at the cost of the product and taking even some of the variable costs out. So, this is a continuous journey of improvement that will happen. We will be deploying digital. There is a whole host of opportunities that come in and so we are turning to be a completely fast-paced digitally driven organization that has got a lot of opportunities.
- KM Balaji:** Balaji, here, Gunjan. In short, we are not leaving any expense head. We look at every item and then look for a cost reduction, be it the material cost side or on the overhead expenditure side.
- Gunjan Prithyani:** That's good to hear. The other question that I had was on the subsidiaries. Now you mentioned Switch being profitable. I would imagine the scale is very, very small right now and the contracts that we're doing on the E-bus side, the running of those buses doesn't lie with Switch, right? I just want to be clear around that the buses are run by the other subsidiary and Switch is only the manufacturing company right? Is that understanding correct?
- Shenu Agarwal:** Yes, in principle, correct Gunjan, but just to correct or just to clarify that Switch, we are not saying is profitable yet. We are saying it is EBITDA positive, right? So, we still have some journey to go, Switch India. Yes, I'm talking about Switch India. So, we have still have some journey to go as to make it overall net profit positive as well. Now coming to your answer, yes, as you know few quarters back we had activated a subsidiary directly under Ashok Leyland which we call OHM Mobility. That company is our E-MaaS Company and in future, all the contracts, GCC contracts that will be signed, or we will undertake will be signed by OHM Mobility. There are some contracts that we still have in Switch Mobility, which we are trying to transfer to OHM, but it requires several approvals, etc. So, we are in that process and whenever it is possible, we will transfer those contracts to OHM.
- Gunjan Prithyani:** And last question on Hinduja Leyland Finance, if you can just share a little bit on the operating metrics around what's the AUM, what's the net worth and where are we in terms of the process of that amalgamation or reverse merger that we were working on?
- Gopal Mahadevan:** See, as far as the Hinduja Leyland Finance is concerned, I would say that the reverse merger process is back on track. It had some procedural issues more than anything else. So, otherwise what was envisaged as the original merger strategy continues. So, we expect that this may take a couple of more quarters, but I think once that happens, we believe that there is a value upside that will be seen not only for Hinduja Leyland Finance, but also for Ashok Leyland because the investment that is there in the Ashok Leyland's book is not reflective of the value that Hinduja Leyland Finance and its own subsidiary by the way Hinduja Housing Finance has. So, we are even looking at some sort of value release even in Hinduja Housing Finance at the moment, but not through a listing. We are looking at whether there are opportunities for getting in third party investors, but it's at a very early stage, but we'll let you know that. The whole idea is to see that some of these subsidiaries that Ashok Leyland has come is actually start getting reflected in their true value. That's what it is and the other bit is as far as Hinduja Leyland Finance is concerned, the overall AUM of Hinduja Leyland Finance is 38,000 cr and of Hinduja Housing Finance is about 11,000 cr which makes it about nearly 50,000 cr. It's a pretty large sized finance company

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today. The NIMs are, I don't have the exact number, but to give you a thread, GNPA is at about 4.5, NNPA is at about 2.25 or 2.3. So, it has been pretty well managed, it is pretty diversified. It is not just focusing on commercial vehicle, they've got two-wheelers, three-wheelers, off-road, loans against property and of course they also do buy out of papers, sell down, so they have their own part chartered out and the CV share is now hardly about 27% to 30%.

- Gunjan Prithyani:** The net worth as of the end of the year for the Leyland Finance?
- Shenu Agarwal:** I will share that with you offline, I don't have that number readily, but I will share that net worth.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.
- Jinesh Gandhi:** Couple of questions from my side. One is you talked about the fleet average has been increasing and this has been happening for the last few years. Any sense on what is causing this delay in replacement demand coming back? Is there any structural issue there or why it is not getting justified now?
- Shenu Agarwal:** No, Jinesh, it does take time, because the aging of the fleet started actually happening during the COVID times, right, a lot of people are kind of trying to come out, so lot of it is happening. It is not that it is not happening, but what I said was that it needs to accelerate further, and all indicators are positively saying that it will, but it takes time. It is not like, it is a major investment, it is like fleet, so people do take time to invest and time to take those opportunities to grow their business and time their vehicle purchases accordingly.
- Jinesh Gandhi:** But are you seeing the last part of this replacement getting delayed because of small and single fleet operators holding back on their own purchases? Is that also one of the reasons for?
- Shenu Agarwal:** That is true. So, the larger fleet operators will replace earlier than the small ones, yes, and smaller fleet operators, of course they get when times are bad, they get into more of a problem. For larger fleet operators, it is really easy to kind of absorb bigger shots and then come out of it more quickly, right. So, that is what I was saying, so it takes a little bit of time.
- Jinesh Gandhi:** And secondly, with respect to we talked about CAPEX to be just about Rs. 500-Rs. 700 crores. I believe we have still reasonable headroom to grow from the current capacity as utilization would be close to 80%. If you have to trigger the next round of capacity addition, can we do it through Brownfield route only or we will have to look at a Greenfield?
- Shenu Agarwal:** See, we are evaluating our manufacturing footprint as we speak, right, because of course for next 2-3 years, we see no problem as far as capacity is concerned, but hopefully we have to prepare ourselves for a period beyond that. So, we are looking at it, we will come out with more details and share with you. Right now, it is hard to say how it will come, but yes, what one thing we know is that after 3 years we might need additional capacity.

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- Jinesh Gandhi:** And the last part of the capacities would be fungible between the alternate fuels which you are looking at, including EVs versus pure ICE. Would that be a correct understanding?
- Shenu Agarwal:** Definitely. The idea is to create common capacity, common lines where we can do both, which will give us a lot of flexibility in the future and it will also kill lot of uncertainty, market uncertainty to flow into our production planning, right. So, that is the idea. Even the new plant in Lucknow that we are constructing is based on the same principles, so it should be the same line. On the same line, we should be able to make electric buses as well as the traditional buses with traditional fuels.
- Jinesh Gandhi:** And lastly, can you talk about what is our outstanding order book for e-buses which we have on our hand and now are all the hurdles being taken care for us participating in the further tenders for future tenders on the e-buses?
- Shenu Agarwal:** Yes, Switch, right now, actually we are very happy with the progress of Switch India. Switch is actually going to have a different struggle now, the order book is very handsome. We have 1,500 in hand, we have 950 to deliver in Delhi and another 320 to deliver in Bangalore and then few more. So, as we are going to deliver these, we have to really ramp up on various aspects on production, sourcing, capabilities etc. So, Switch might have a different problem this year, where it will be kind of pushing the vehicles out. Of course, as far as tenders are concerned, new tenders are concerned, we will be participating in the tenders. Of course, we are going to do that on a profitable basis. If we think that we are going to make a loss, upfront loss, we are not going to be interested in that tender, but there is ample opportunity even for profitable tenders in the coming year.
- Jinesh Gandhi:** And eLCVs again, do we have a sizable order book or that will build up as now since deliveries have started?
- Deeraj Hinduja:** So, the eLCV, we have only launched into the market at the end of March and the order book is building up. There is a lot of interest from e-commerce and logistic companies, especially many multinationals who are looking for the last mile to be green as well. So, I would say that it is early days, but a lot of strong interest and we will also be launching the IeV3, which is the smaller version in the next 3-4 months.
- Moderator:** Thank you. The next question is from the line of Raghunandan NL from Nuvama. Please go ahead.
- Raghunandan NL:** Sir, firstly on the defense segment, how has been the performance in Q4 and how do you see the outlook for FY25? Can it cross the Rs. 1,000 crores mark?
- Shenu Agarwal:** Defense actually is one area we are very buoyant on, even in FY24 we could grow our topline on defense by more than two times and that Rs. 1,000 crores mark we have always been saying we want to reach there. And we are very glad to say that in FY24, we were almost there. We did not touch it, but we were almost there. But having said that, I would also tell you that our order

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pipeline, also the visibility for the next couple of years is very strong, so now having kind of almost touched that Rs. 1,000 crores benchmark for defense, we are going to set up much higher target for ourselves.

Raghunandan NL: Sir, if you can elaborate a little on the new products and MHCV and LCVs, can you provide more details on which categories, applications, you are trying to strengthen AL's position or fill white spaces?

Shenu Agarwal: It would be a combination, Raghunandan. As for obvious reasons, we can't divulge all the details on the new upcoming products, but yes, it will be a combination. Large part of it would be covering our white spaces, but even otherwise it will be strengthening our product positioning in the market to the next level. So, all the launches would be aimed at increasing market share, so as our philosophy also when we look at any new product or any new launch, we look at how we can be better from ourselves or better than competition. So, in each case, it should give us better market penetration.

Raghunandan NL: And on the gross margin side, it has shown an improvement. Can you talk about the enabling factors in opening remarks, the Chairman referred to pricing and discounts discipline, there is also a positive mix and there is also share of defense which would have gone up. Can you provide a little more on details of gross margin and going forward, do you expect things to sustain on the discipline side or do you see any risk of competition increasing?

Shenu Agarwal: Raghu, gross margin, of course, we have had an impressive increase in FY24 over the previous year. But I think more than that what we are happy about is that it has come through all round performance, whether it is mix or whether it is cost savings on materials and other cost or whether it is price realization, I think everything has played really well. On the mixed side, like I said, defense is a reasonably good margin business for us. We have grown more than twice. Power solution business is also good margin business for us, and we had 40% plus growth there in FY24. And spare parts is a very high margin for us, we had a growth of about 32% in spare parts. Then, even in LCV, not just that we could increase the market share, but also our focus remains on margins. And even on the bus side, we are actually very happy that the bus margin has done very well. I mean we have grown our market share by about 5%-5.5% in buses, at the same time, we have grown our margins quite well. So, I think overall, it is a good thing in terms of mix and in terms of our ability to realize better prices in the market, which of course as you would agree, comes mainly from your superiority of the product and your ability to reach the customer. So, as far as FY25 is concerned, a lot of these actions I think will get translated into the next year because it is not like one off action, it is kind of a journey. It is like a series of actions that we have planned. Even on the cost, we think we can do even better than what we did in FY24. A lot of it also depends on some of the external factors, so we will keep guessing the market, the competitors response etc., but I think if the industry continues to do well like it did in April, I think even those external pressures would not be too much to handle.

Moderator: Thank you. The next question is from the line of Priya Ranjan from HDFC Asset Managers. Please go ahead.

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Priya Ranjan: Two questions, one is on the mix, what was the non-vehicle revenue percentage in this quarter? And secondly, if I look at the console PBIT and standalone PBIT, even last year, we have roughly around Rs. 500 crores loss, even this year we have around Rs. 520 crores loss. So, if these losses are primarily only through Switch or something else, can you just elaborate on that?

Gopal Mahadevan: So, as far as the mix of revenues are concerned, we normally don't give out the complete breakdown here, but the main revenue earner is of course the trucks and buses, which they account for nearly about 60%, maybe nearly about 70% of the revenues. And then you have light commercial vehicle, which again accounts for about 11%. I am just talking about it on an annualized basis. So, you have 70 and 80 while the rest is coming with the rest of the businesses. But most important is the growth of all of these businesses like commercial has been flatish, but if you really look at it, the market share has grown in a market in India with the addressable market has actually come down by 4%, but other businesses like aftermarket, defense, power solutions have actually done record revenues and exports has posted a 5% growth despite very challenging circumstances in international market and all major players in India actually posting a degrowth. So, to that extent, the whole bouquet of business has done very well. And like Shenu mentioned earlier, the bus business has kind of sharply grown, domestic bus, the market share has moved from somewhere around 32% to 33.8. Truck has shown a little bit of kind of a small 1%-1.5% reduction, which the team is pretty confident can be set right pretty soon. Now, as far as the delta difference between profits of Ashok Leyland and consolidated are concerned, the major impact is only on account of Switch. And that too, I think the UK operations are where the challenges are and we can't blame the management directly on that because the market in Europe itself as you all know is going through a lot of turbulence and challenge. All European economies are actually going through a lot of uncertainty. The UK market themselves are not doing well. UK has its own internal problems in terms of fiscal challenges that it is having. So, Switch India on the other front is actually launching products. See, in these kind of situations what is most important is to ensure that you don't move away from your strategic direction, which is to ensure that you are launching the products, creating the customers, keeping yourself ready when the market is going to grow. At the same time, the management of Switch UK, while they are doing all of this, have also been reducing expenditure, trimming down costs as much as possible to ensure that the cash burn is reduced. I think that this year Switch India should do well, but we will wait for things to unfold. We have got an exciting range of products also now in light commercial vehicle they have been making. The OHM, which is the other subsidiary, is making bids in some of the tenders, which will again be an order book for, OHM needs an order book for Switch also because the OE that is going to supply OHM is going to be Switch. So, I think we are very positive about the outcome of these businesses. But I thought I would give a slightly longer answer to your question, because otherwise people will feel that this is just some loss-making entity. It is not just that I think there is a lot of effort and excitement around the EV business.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

- Jinesh Gandhi:** In the past, we had won several orders or other several tenders on the defense side, but didn't materialize, so are we seeing any progress on those tenders now given there is quite a bit of activity on the defense procurement side?
- Gopal Mahadevan:** So, Jinesh, those are orders, see those defense tenders have been won, but we will have to wait for it, it is not materializing. The government has its own pace of ordering. So, some orderings will start now, because the government is also managing its defense budget astutely, but here again, but what is happening is aside of the core Stallion revenues, we have start into both between Ashok Leyland defense business and ALDS. I think they are now actually growing very rapidly and while we don't want to issue a forward-looking statement, I think 25 numbers and 26 numbers will be much better than even what we have posted in 24, which itself is a very high record number.
- Jinesh Gandhi:** So, this is coming from Stallion alone?
- Gopal Mahadevan:** So, I think more than, not only Stallion, it is coming from other new orders also which have been started executed in the FY24. I think the composition is getting better, which means it is no longer, we want to actually ensure that the concentration of Stallion, while it should continue to grow, should come off. The concentration should come off.
- Jinesh Gandhi:** And the last question on Switch UK, so it was looking to put up capacity in Spain, so any update on that? Are we still going out with that given the pain which is there in Europe?
- Gopal Mahadevan:** No, I think we will see. I think it is very strategic. It is a very small strategic kind of pin that we have put on the map. Because what is important is that at the point in time when Europe starts to expand, we need to have presence to quickly ramp up sales there. It is not really guzzling cash. There are very few people. But what happened is at the time when we actually put that made that investment, the European market was looking very promising and this was you must remember pre-Ukraine, Russia and all that. Then what happened is there has been a little bit of a downturn in the European market and we are now looking at waiting for things, but we are not stepping up. The first vehicles actually by the way, will be delivered in coming September. I think it is a few numbers, but we want to ensure that we do make that small step in Spain.
- Jinesh Gandhi:** So, it is on track from September?
- Gopal Mahadevan:** Yes.
- Moderator:** Thank you. The next question is from the line of Nishit Jalan from Axis Capital Limited. Please go ahead.
- Nishit Jalan:** One question around the industry growth, one common thing that we keep hearing is that the impact of dedicated freight corridor will have on the road freight and on the truck demand. So, just want to hear your thoughts, we have seen commissioning happening, it is still not full commissioning. What kind of impact are you seeing on the roads where DFC has got

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commissioned, especially on the container traffic, any numbers or anything that you can highlight here?

Shenu Agarwal:

No, Nishit, as you said, this has not played out fully yet, lot of links in the chain are missing, right? So, far there has been no impact. But even going forward we have actually done a very massive in depth study of this whole thing. We are now talking to various people in cement, steel etc., and even other sectors. The whole TCO of this new model for potential new model around DFC is not working out yet. So, there are some like fundamental issues in the model which have to be sorted out and I really think it will take a long time. It will take a few years at least before it starts taking some shape. So, yes, this is a longer chat we need on that, but maybe when we meet, we can talk about more about this. But I don't think it is going to be a major significant impact in the short run.

Nishit Jalan:

Shenu, one more question around Switch mobility. So, given that there will be more and more requirements for investments around EVs, any medium-term outlook or any medium-term investment plan that you can share on Switch mobility? I am not asking for 1 year or 2 years, maybe over the next 5 years, what kind of investment would be required in Switch mobility to do product development, setup capacity and OHM as well, right because OHM will be a little bit more working capital intensive business because you are not selling the product outright to the STUs, right? It is more of a build, operate kind of a model. So, any thoughts on what kind of investments would be required over the next 3-5 years in both these EV entities put together?

Deeraj Hinduja:

Let me answer that. As we have said, the India Switch story is moving very well and LCVs will start picking up as well, and as Shenu said, our concern really is now how to get all the buses delivered based on the order book and more tenders that we have been involved in. I think those results will come as well. And this should irrespective of the performance of UK, the India side should be able to manage immediate funding needs and as the Gopal was explaining, UK and Europe will pick up and we have been spending time on development of new vehicles, so all of them are now coming out. So, for Delhi, for Bangalore, it is a brand new 12 m low floor bus that is going. In Europe, it is a brand new E1 that has been developed over the last 2 to 2-1/2 years. So, all the investments that have been done will now start bearing fruits and in our view, the majority of the CAPEX for those new products, we have already borne. Now, the markets will pick up and I would say that every government, every city is moving towards electric. So, let us wait and see and I think we can probably give you a more precise response to this in another few quarters.

Moderator:

Thank you. As there are no further questions from the participants, I would like to hand the conference over to the management for closing comments.

Deeraj Hinduja:

I would like to thank all of you for your continued interest in Ashok Leyland. And I would like to reiterate, I know there has been a lot of questions with regard to the expected growth for this year and what the outcome could be for this year, all we can say is that indications remain good, especially with the customer base. I think that is really the true test, how are the customers feeling and their replacement demand itself and you can segment the market as well. So, there are

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pockets that might see some slowdown, but they are more than made up by other areas of the vehicle. From Ashok Leyland side, our interest or I would say our goal remain on maintaining our EBITDA margins and continuing to grow market share, but not buying market share. It will be done on a profitable basis and we are as we said on track both in LCV, MHCV. So, overall, we continue to be fairly positive on the outcome in the near future. Thank you.

Moderator:

On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.