



# “Ashok Leyland Q 1 FY ’18 Earnings Conference Call

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## **Operator**

Good morning ladies and gentlemen. Welcome to the Ashok Leyland Q1, FY18 conference call hosted by Axis Capital. At this time all participants are in a listen-only mode. Please note that this call is being recorded. Now I would like to handover the conference to Ashish Nigam of Axis Capital Over to you sir.

## **Ashish Nigam**

Thank you, good morning everyone. Welcome to the Q1 FY18 conference call of Ashok Leyland. From the management, we have with us Mr. Vinod Dasari, Managing Director of Ashok Leyland; Mr. Gopal Mahadevan the CFO; and Mr. K. M. Balaji, General Manager, Corporate Finance. I will hand over the call to Mr. Dasari for his opening remarks, post which we can have Q&A. Over to you, Vinod.

## **Vinod Dasari**

Good morning. This is Vinod Dasari from Ashok Leyland. Our first quarter was extremely interesting because we entered the era of BS IV. I think this is the third major change that the government has put us through in the last three quarters. First was the demonetization. We recovered from that. And then suddenly this overnight change from BS III to BS IV at the end of March. We recovered from that, fortunately, because of our technology called the iEGR, which allowed us to simply swap engines and not have an impact.

That iEGR is performing very well. In fact, we're confident that we've got from that. We have extended the warranty from about 18 months to 48 months. The feedback from the field has been very positive. And we are looking at how to extend the capacity also a little bit while debottlenecking internally.

The success of iEGR; and a couple of other new products, like the GURU and Sunshine, have helped us improve our market share. The good part is that we've not just gained market share in one segment or in one region but we have gained market share in every single segment and every single region across the country. This allowed us to achieve our highest-ever market share of 34.7% in Q1.

Equally, our international operations, despite the problems that we've had with Saudi Arabia as well as with Qatar, has slowly started to recover. We had a fairly good Q1 with that, especially from Bangladesh. And the Oyster product that we have launched in Middle East, for the first time, we are able to compete head-to-head with the Japanese models.

We are getting good traction on that, including from Emirates airlines, which historically for 40 years has only bought Japanese. We are head-to-head with Mitsubishi Rosa and Toyota Coaster. It feels good that an Indian company is head-to-head competing against the Japanese in an international market and winning market share.

Equally, we have started the supplies just this month actually not in Q1, but we've just started to supply a large order of Ivory Coast that we've had. That would help bolster the international markets.

Our defense business did well. We not only supplied almost over 1700 kits to the Indian armed forces but we also supplied over 1,000 completely built-up vehicles. It is a long-gestation business, but we have won several tenders in the last few months. And we are very excited about the long-term prospects of the defense business.

The LCV business is going well. We have now started to launch the Partner again. The MiTR has helped build some market share in the LCV segment in its category. Overall, we have been able to retain our market share or inch a little bit forward. And now we are looking at a slew of new products coming almost one a quarter, and we are quite excited by that.

Lastly, our spares and power solutions business. Our power solutions business has slacked because there is not much power shutdown, but nevertheless they are able to maintain their market share. Our spares business and aftermarket business continues to do very well. Last year, we had grown by about 30% in the first quarter, this year, we grew by 34% despite a very flat market.

So all in all, from a market standpoint, I think, given the set of new products and the initiatives that we had launched, we are doing extremely well. In the next one month or so, we will be launching a whole slew of digital products also.

On the profitability, we had an impact, compared to last year, in first quarter. Last year, first quarter, I don't know if you remember, but we had a huge positive because of some export orders. The mix was exceptionally good, and hence the margins were better last year. And this year, April and May, because of the conversion to BS IV, the volumes were very low. That impacted. June was very good. And I hope that, going forward, we'll be able to come back to our historic margin levels.

That's all I have. I will ask Gopal to share a little bit about GST and its impact on Ashok Leyland or how we are dealing with that. And then we will hand it over for questions.

### **Gopal Mahadevan**

Yeah, thanks, Vinod. I think, GST, predominantly on the sales side, there has not been much of an impact, as far as the commercial vehicle industry is concerned. You know, while we saw a lot of read about GST price decreases being passed on etc., I think Ashok Leyland did that rather quietly. The earlier rate was about 29.3% to 29.5%, depending on the vehicle.

And the GST rate is 28%. So, from 1<sup>st</sup> July, we just started to invoice it at the lower rates. As far as the other aspects of GST are concerned, we are still trying to understand the implications of it. We need to understand what could be the impact on PNR, there could be favorable impacts as well on the supply chain side because we no longer have CST or expungement as a cost.

So I will have information to share with greater granularity as we move in to the end of the quarter because we are just about 20, 24 days old into GST. I'll now hand it over back to the operator.

### **Question-and-Answer Session**

#### **Operator**

Thank you. First question comes from Pramod Amthe from CIMB. Your line is un-muted. Please ask your question.

#### **Pramod Amthe**

Hi. Couple of questions, one, June was relatively a better month, is it more driven by the discounting in the market place or you feel something has changed, especially with loans being so low in June and July. You expect this trend to continue?

#### **Vinod Dasari**

June was good because the markets finally started responding to the feedback on the iEGR and the volume started to pick up. There was no discounting, in fact our margins were better and we increased the pricing in June a little bit, or reduced the discounts.

#### **Pramod Amthe**

Was it the same for rest of the industry.

#### **Vinod Dasari**

No I can't say about rest of the industry because there is some competitive pressure when people are trying to gain market share. But we have said historically we don't believe in buying market share. So we will continue to build market share on the back of our network, as well as back of our products.

#### **Pramod Amthe**

Sure. And second is with regard to the P&L. Compared to the raw material expense, which we thought might be going up because of the BS4. You seemed to be hurt more on the employee and other expenses to impact on your EBTIDA margin. Can you give a color where what has changed and what's the outlook on RM?

And second when do you expect to come back to double-digit margins.

#### **Vinod Dasari**

I'll also ask Gopal to step in. But RM is fairly steady, there have been some increases and we will increase some prices in 1 of August by about 1% or so. Employee costs was because of the increase

due to wage settlements that we had done across three of our plants. Anything else you want to add?

**Gopal Mahadevan**

No. I think so, you're right absolutely, Vinod. See, the employee cost, what happens is our salary raises and all the impact of cost increases happened from July. So this quarter, when you look at it April to June, has the impact of the last year's salary raises, which was not there in Q1 of last year.

Now why is this explanation being given for the first time? The reason is you had a situation where the revenues have actually come off a bit. So when you have a top line actually coming off and then you have the salary raises also coming mid-month as appropriate, as a percentage of revenues, it looks a little higher. As we move forward, I think this will start evening out and we don't see an issue. And also what happens is, typically, in the first quarter, we have made some additional provisions if required, anticipatory, etc., all of which will start kind of evening out as we move forward into the year.

The other thing and as far as other expenses are concerned, some of it did come, but we had a one-offs, certain one-off, two or three one-off expenses also which came in and which we booked in the current quarter. One was we had the global conference. Second one is there have been some payments to consultants. Since there was a huge amount of marketing effort, we have put in a little bit of travel. But some of these things are a little more front ended, so as we move forward, I think, we are going to be well within our overhead plan.

**Pramod Amthe**

Sure. Thanks and all the best.

**Operator**

Thank you. Next question comes from Aryn Pirani from Deutsche Bank. Your line is unmuted.

**Aryn Pirani, Deutsche Bank**

Good morning. Thanks for the opportunity. Actually, my first question was on your benefits that you get in Pant Nagar. So I just wanted to confirm, I think, because then GST was being about to be implemented, there were still some confusion about whether these excise duty benefit will continue and how the operations will happen. So do we have now full confirmation on whether this will continue and how will it work compared to the past?

**Gopal Mahadevan**

See we'll have to wait and watch for the notifications, circulars, etc. , while they have said they are still not very clear how this is going to happen. The only thing that we're looking at, just like I mentioned, I'll have greater information to share with you folks by possibly the end of the second quarter, because this is the first month and we really do not know the mechanism of the

compensation for the places like Pant Nagar. All we know is that, earlier, the Pant Nagar benefit used to be the excise duty that was there on the net sales realization or the value addition portion we used to get the benefit of that.

Today, what the government seems to have said is that roughly about 58% of the 14%, which translates to about 8.5% of the net realization would actually come back as a benefit.

**Amyr Pirani**

Okay.

**Gopal Mahadevan**

We do not know whether its net realization, whether its value addition, etc, but all I can tell you is that, now from this month onwards, the input credit which was not available on excise duty is now available. So we expect that the impact may not be high on our company as a whole because, there are other benefits also which we're getting like, input price materials will be changed, input cost materials have changed because of CST not being a cost or the expungements in various states not happening. It is not that we don't have the numbers, but we don't know how it is going to get implemented. So we'll have to wait for a month or two before we can tell what the impact is. And we also need to see the mechanism of the compensation for the Pant Nagar.

How are they going to do it, is it going to be done as a refund, is it going to be done as a credit? But overall, at the moment, on a company-level basis it appears, I'm only telling you it appears that the impact may not be significant.

**Amyr Pirani**

Okay, but just to clarify, the benefit was still fiscal 2020 for you?

**Gopal Mahadevan**

Yes it is.

**Amyr Pirani**

Okay. And just one more thing on the iEGR, obviously now you did mention that you have more feedback. So just wanted to check, are you having to educate your customers a lot on the iEGR? Is there a certain apprehension?

And secondly, what is the initial feedback, like, in terms of fuel efficiency or performance? Because it's still very early days, but whatever if you can share.

**Vinod Dasari**

Yes, the initial feedback from the customers is very positive. In fact, across the segments our performance on fuel efficiency is better than our own BS III.

**Amyr Pirani**

Okay.

**Vinod Dasari**

It won't still have competitive benchmarks, so wherever we have benchmark, we are certainly doing well. So we are very excited by that. We did nearly 1,500 customer sessions to educate people on iEGR. We have videos made up. We use social media. And we did nine very large auto expos across the country between April and May.

**Amyr Pirani**

Yes, okay, okay. That's better. And just lastly, what can you share? What is the inventory position right now at dealer end and maybe at your end compared to where you were after the – after March 31?

**Vinod Dasari**

Our dealer inventory is very tightly controlled. We never let our dealers go more than 7 to 10 days, and that's only – we keep that also only because that's how long it takes to transit from one place to another. All our sales through our dealers are cash and carry. We don't believe in credit. So we don't stuff the pipeline. Our own inventory would be less 9,000 vehicles, which is about one month's stock, including all domestic, international and everything.

**Gopal Mahadevan**

Our working capital is well within that.

**Vinod Dasari**

Yes. Working capital, we measure it as operating working capital, is 8 days.

**Amyr Pirani**

8 days, okay, okay.

**Vinod Dasari**

Yes, which is inventory plus receivables minus payables.

**Amyr Pirani**

Okay, okay, understood. Okay, that was very helpful. Thanks for the opportunity.

**Vinod Dasari**

And we have actually, it's third of the variable pay for all executives. It's measured on an average level, not on a moving level rather than at the end of month.

**Gopal Mahadevan**

For internal purposes, yes.

**Vinod Dasari**

So that we keep a tight lid on it all the time rather than, let's say, the month time.

**Amyr Pirani**

Thank you.

**Operator**

Thank you, Amin. Next question comes from Chinmay Gandre from Future Generali. Your line is unmuted.

**Chinmay Gandre**

Yes, thank you for taking my question, Sir, can you throw some more light on the raw material cost, which has basically improved on a Q-o-Q basis? Like previously in the last quarter, we had some exports which did not happen and were supposed to happen in Q1 – or Q2. So has that helped in lower raw material costs for the current quarter? Or is there any other thing also?

**Gopal Mahadevan**

Well, basically there are two, three things that have happened. The realization mix has also been a little adverse this quarter in comparison to Q1 of last year, which I think our MD mentioned was because of a slightly richer mix in the same period last year. The second one is raw material prices have been going up. Let me assure you that. And we possibly are the only company which has been raising prices as efficiently as possible.

**Chinmay Gandre**

Hello, sir, actually I was asking, basically from Q4 FY2017 to Q1 the current quarter, your raw material as a percentage of sale has basically improved, not deteriorated. So on a Q-o-Q basis, I mean, we expected, because of the, like, commodities going up and also mix being in favor – less in favor of M&HCV in the Q1 versus the Q4, basically raw mats should have been higher or maybe flat as Q4. But it has improved almost like around 150 to 200 basis point on a Q-o-Q basis.

**Gopal Mahadevan**

That again is because we've had a slightly higher share Defence in the current quarter.

**Chinmay Gandre**

Defence. But can you quantify, like, what could be defence share as a percentage of the total?

**Gopal Mahadevan**

We don't give those breakdowns please.

**Chinmay Gandre**

Sir, on the exports which was supposed to happen in Q4, has this happened in Q1? Or basically that will come into Q2?

**Gopal Mahadevan**

That will happen in Q2. It'll happen in Q2, Q3. Happy to share with you, that is, that one that we were looking for has also materialized in Q1. So we're ready to start our shipments from Q2 onwards.

**Chinmay Gandre**

Okay. And secondly, with respect to realization also on a Q-o-Q basis, Q4 versus the current quarter or Q1, basically that has also increased. I understand, like, maybe 8%, 9%, 10% of positive impact would come because of the BS IV implementation, where the price is higher. But this quarter also had the mix impact. Basically M&HCV were lower as a percentage of total bought or total sales, so – but despite all that, I mean, if I just divide our total sales, by our volumes, the realization seems to have improved, that will be primarily attributed to defence, right?

**Gopal Mahadevan**

Spare parts.

**Chinmay Gandre**

Okay. Now spares, would be what portion of your sales overall?

**Gopal Mahadevan**

Last year, we had Rs. 1,000 crores out Rs. 20,000 crores. It's about 5%, but I think what MD is directing or driving the team through is to actually get back to at least about 10% to 15% in the next three to five years. There's a whole bunch of activities that we are now focusing on including spreading the network, connecting of various entities. Stakeholders in this came from drivers, to

fleet operators, to retailers, to dealers, to the company itself. So there's a lot of effort and focus on driving of spare parts. That will also give a larger share in the overall life cycle cost of the vehicle.

**Chinmay Gandre**

And my last question, How is the overall situation on the ground. Basically, June saw some pick-up in terms of the sales that you have done, so how has things moved on from June onwards?

**Vinod Dasari**

I think demand is there. The competitive and competition activity is getting to be very fierce, which is a good sign. People are trying to discount to win back market share, so – and yet we see good pull for our products. So we're not going to chase the discount. I think so long as the market is back and supporting, I think we will be okay.

**Chinmay Gandre**

Okay. Thank you, sir. Thank you for taking my questions.

**Operator**

Thank you, Chinmay. Next question comes from Kapil from Nomura. Your line is unmuted.

**Kapil**

Hi, sir, good morning. Sorry, there was a bit of delay in logging in, so my question might be repetitive. In case it is, I can talk to you offline. Firstly, I wanted to check on volume growth for the industry as a whole. Last time, we had talked about 10% to 15%. So do you think we are likely to end there, or has there be some change in outlook?

**Vinod Dasari**

Well, for the first quarter the volume was actually down 31%.

**Kapil**

Yeah.

**Vinod Dasari**

Which was last year first quarter.

**Kapil**

Yeah.

**Vinod Dasari**

But I think July is a little bit muted because of the GST confusion, people didn't know exactly how much should be and all that. But I think that's also behind us. So with BS III, BS IV behind us and GST behind us, I think next three quarter should be much stronger.

**Kapil**

Okay. Okay. And secondly, have we done any benchmarking exercise with competition? Because the benchmark to look at would be the technology of SCR versus iEGR. So any comparison you have in terms of fuel efficiency or power or something like that?

**Vinod Dasari**

See, I don't like to talk about my competition that much. So let me say this, there is a lot of negative campaigning being done by some core competition. I know who it is, but I don't want to name them.

**Kapil**

Right.

**Vinod Dasari**

But primarily because they're scared of the iEGR.

**Kapil**

Okay.

**Vinod Dasari**

Remember, we were the first ones to launch the SCR in 2010.

**Kapil**

Right.

**Vinod Dasari**

We own a company, which is one of the four companies in the world that makes SCR technology in Germany and supplies to global OEMs. So it's not like what we don't know SCR, it is something that we could easily do. But in India, we know that if you have an additional confusion with the urea tank, which requires to be filled at frequent interval, it has its own dosing system, it has its own sensors, it has its own electronics. So much complexity is not something you can de-leverage

in India. So we have both solutions; EGR and SCR. We've been having SCR since 2010, but we took four years to develop something that is truly, uniquely Indian using Indian innovation and we developed this iEGR. If we just use the traditional EGR, it would not have worked.

**Kapil**

Right.

**Vinod Dasari**

We did a lot of work in combustion efficiency in terms of how much we burn off inside the engine rather than send everything out; and then how well we re-circulate the gas in a very controlled manner, exhaust gases. So we have a total of 33 test beds inside Ashok Leyland and we're very proud of our Indian technology. By the way, if you look at the competition – I might be wrong, but I believe we're the only manufacturer of commercial vehicles, large commercial vehicles who makes their own engine. So we design, develop, manufacture our own engines. And hence we're able to take the customer feedback in India and make it truly an indigenous product. And so we are very proud of it.

Competition is, unfortunately, spreading wrong rumors that some places, they said that, Ashok Leyland is going back to SCR. There is no such thing that we are doing. Some places, some customers spread the rumor saying that we are doing a recall. That's not true. We have actually more than doubled our warranty.

**Kapil**

Yes, yes.

**Vinod Dasari**

If that people said, no, no, no, it's not possible. Well, we made it possible. And we gained a lot of market share over the last five years.

**Kapil**

Yeah.

**Vinod Dasari**

From 23% to about 31%, or 32% during the BS III era. Now we came up with an iEGR, okay. Europeans don't have this. So seeing they don't have it, rather than talk about their product, they're going to talk down our product, right? And it is a fact that in some places the diesel exhaust fluid is not even available.

**Kapil**

Right.

**Vinod Dasari**

And it costs so much more money. It's difficult to handle. These are all facts also, but I am not worried about it. We also sold SCR-type vehicles long time ago. We don't anymore. We have some buses. Somebody had even taken a picture of a bus and was circulating that Ashok Leyland has gone back to SCR. Actually, that was a bus made for Chennai transport, local city transport; and made in March, and they were circulated. And they wanted SCR because it was inside the city and they were able to do that. So it's very, very unfortunate that the industry is doing this, but we are not going to stoop to some of these levels. We are going to maintain what we are, and that gives us more confidence, I mean, gives the customer also confidence. If everybody is coming talking negatively about Ashok Leyland, that means something's good is about Ashok Leyland, and it shows in our market share.

**Kapil**

Right, right.

**Vinod Dasari**

Gopal, do you want to add?

**Gopal Mahadevan**

Yeah. I just want to add something to what our MD has said. Let both of us assure you that, a lot of things that are being said about vehicle seizing etc., all of this is not correct. We are the only player who can offer different technology – we were offering BS III in-line; and then after that, if we look at BS IV, two solution with EGR and SCR. We have got a BS V which we are supplying quite regularly to Ukraine. And we have Albonair systems which are ready for BS VI.

The second thing is, anyway, we are – actually, if you ask me BS IV – Vinod was mentioning to all of us that BS IV, that the iEGR introduction has been one of the best introductions in the recent history of the company because the level of hiccups that we had were very, very small.

In one case, there was some problem with the wiring harness, and people said, no, no, this is something to do with iEGR. This is how the propaganda is coming. Let me assure you there has been nothing wrong with the iEGR engines or the emission systems. They are working as we had planned. This is not something that we put together in the last minute. This has been something that Vinod has been driving over the last two to three years. And there has been extensive testing before we launched it. Only thing is, while everybody did offer some solutions, we are possibly the only company in India to offer this iEGR solution for the higher HP engines also.

**Kapil**

Right. Sir, my question was not so much saying that there is some concern, but basically as a customer one would compare both the technologies, so I wanted to check if you have done internally any comparisons with the SCR technology of competition. And do you think there is a need for Ashok Leyland to have both the technologies? Or you will be banking on iEGR for next two, three years?

**Vinod Dasari**

So we do not have competitor intelligence.

**Kapil**

Right.

**Vinod Dasari**

I'm not going to say whose vehicle and all that. Our vehicles are also taken by competition, and done that is normal in this industry.

**Kapil**

Right.

**Vinod Dasari**

So we benchmark each other's vehicle very well. This we – people even tear the vehicle down completely to the last nut and bolt. That's quite common. And this is like I said, it's the norm. And let me assure you that, unless a customer asks for SCR, we are not going to go to SCR.

**Kapil**

Okay, okay. All right, sir. Thanks for all the details.

**Operator**

Thank you, Kapil. Next question comes from Vivek Gedda from HSBC. Your line is unmuted.

**Vivek Gedda**

Hi, thanks for your opportunity. I just had one question. Given that iEGR is simple to manufacture than SCR and vehicle prices in the industry normally converge. So should we expect margins for AL to improve over to you next one to two years? Or should we expect that you'll maintain margins and there'll be a pricing difference versus competition to gain market share? Thank you.

**Vinod Dasari**

No, I think we will focus on our margins. And we will let the customer reward us the market share. We are not going to chase market shares and let go of our margin.

**Operator**

Thank you.

**Vivek Gedda**

Okay, thanks.

**Operator**

Next question comes from Binay Singh from Morgan Stanley. Your line is un-muted.

**Binay Singh**

Hi sir, this is Binay. My question is on the discounting side. In the past, we've often talked about almost 1.80 lakh to 2 lakh discount per vehicle. This quarter, given production was very low, did that number come off significantly? Because that would have also helped gross margins to some extent.

**Vinod Dasari**

Discounting is something that people are confused, especially by the media. Our net sales realization have continued to go up. If you look at, as somebody earlier had asked, between Q4 and Q1, our net sales realization has improved, right? As well as the mix has improved.

**Binay Singh**

Yeah.

**Vinod Dasari**

So again, this quarter, we are considering a price increase. At some deals somewhere some may give a 1 lakh discount or so. By the way, some competition is saying that we are giving 6 lakh discounts. That's not correct. Our down to the area manager-level person, every month gets an MIS based on his area's profitability. And every single executive in this company is measured on working capital, market share as well as profitability. They can't let go of one and claim the other, so it's equally measured and equally paid for also. So we will not give discount even if some competition does.

**Binay Singh**

When did the discounts fall off very sharply for you? Because they ideally would have raised because our production was a problem in April and May.

**Vinod Dasari**

We did reduce the discounts in June. That's what I was saying earlier. And it helped our margins up in June, but volumes were so low in April and May that we could recover it in June just to come back to our historic double-digit margin.

**Gopal Mahadevan**

See, we are the only player who has been raising prices consistently. And this is not being done because of anything other than, if raw material prices increase, we have no choice but to raise prices. So if you look at it January, we had risen prices. We couldn't do that in the same in Q3 of last year because of the demonetization uncertainty. We were the only player who raised prices in January. And then in April, when we raised prices for BS III, BS III to BS IV, I think we raised, anywhere between 10% to 14%. Is it correct Balaji.

**K. M. Balaji**

Yeah.

**Gopal Mahadevan**

Well, there were lot of questions. I mean my friends from the analyst community called up and said, is this going to affect your volumes? You are the only people who seem to have raised prices. The rest of the competition actually is reducing prices. I said, see, we have to sell trucks sensibly. Otherwise – we are not in this business of buy one, get one free It doesn't help in the long run, right? Organizations have to be profitable.

Yes, you will have a quarter here and there when you would see, because of a mix or a marked to market foreign exchange entry, you would see some changes happening in the results. And that means some minor blips, but largely you must understand one thing: What are we trying to do here? We are actually trying to improve devolatis the company from the domestic truck business even as we grow it. We are aspiring for leadership there. The second one is we are also looking at growing our aftermarket, our exports, our defense business and our LCV business. So we are not in this discounting game. We never lead discounts. And we would continue to try to drive profitability in the business.

**Binay Singh**

Right Sir, just relating that, if you would answer two questions. One is, what is your revenue mix now broadly? Like, what percentage will be trucks, exports and spares? And secondly, you mentioned about doubling warranty. Is this the one that's getting applicable from 1st of August, along with the price hike? What are thoughts behind that?

**Vinod Dasari**

Basically raw materials prices that have gone up.

**Binay Singh**

Okay, so the – it's mainly for the raw materials side, not because you're now offering more warranty also.

**Vinod Dasari**

No, no.

**Binay Singh**

And sir, what is the thought behind offering a more increased warranty period now?

**Vinod Dasari**

It's a statement of confidence in our products. Somebody else is saying that your product doesn't work. I am saying, well, let me put my money where my mouth is

**Binay Singh**

Okay, sir. Thanks.

**Operator**

Thank you Binay. Next question comes from Jinesh Gandhi from Motilal Oswal Securities.

**Jinesh Gandhi**

Hi, sir, my question pertains to the price increases from April, you indicated were about 10% to 14%.

**Vinod Dasari**

Yes.

**K. M. Balaji**

Yes, yes, yes, price increases, were for BS IV, it is roughly 7% to 10% depending on the model.

**Jinesh Gandhi**

And apart from BS IV, did we take any price increase in April?

**K. M. Balaji**

Yes, it was taken in April.

**Vinod Dasari**

And discount reduction.

**K. M. Balaji**

Discount reduction has also happened.

**Jinesh Gandhi**

Okay, okay. So net price increases was about 10% to 14%.

**K. M. Balaji**

Yes.

**Jinesh Gandhi**

Okay. Secondly, can you throw light on how has been performance of Hinduja Foundries now as a division? Are we seeing improvement as we had expected?

**Vinod Dasari**

The performance has substantially improved. In fact, while they did not make an EBITDA positive in the last quarter because of the lower volumes in April and May for everybody, it's not just us, in the month of June they actually did very well. And they have actually made a cash profit. So now that the market is back, they are doing very well. They've cut down their rejections. They have improved their production. So it will be EBITDA accretive going forward, in my opinion.

**Jinesh Gandhi**

Okay, but in month of June, would it have substantial EBITDA loss?

**Vinod Dasari**

No, no. Last quarter was a minor EBITDA loss.

**Jinesh Gandhi**

Minor EBITDA loss, okay, okay.

**Vinod Dasari**

June actually was a cash profit.

**Jinesh Gandhi**

Right, right, right, understood. And lastly, on CapEx can you indicate about what kind of CapEx plus investment have you budgeted for FY2018?

**Vinod Dasari**

Yes, we know we've put in a black number of Rs. 500 crores. I don't see any major CapEx coming in the foreseeable future. Most of it is R&D expenditure, as we are working on Euro 6, BS VI as well as electric vehicles.

**Jinesh Gandhi**

Okay. And Rs. 500 crores are – would be excluding investments and subsequent recent JVs.

**Gopal Mahadevan**

Yes, that would exclude investments, for example if we have to put an investment into HLFL for instance. That would exclude that. We were required to put some money into Optare to keep it sustained while we have impaired the whole investment. Albonair, some marginal investments need to be made because we just need to keep the network of these companies up, as per regulation, but otherwise we are not looking at some big amount because we have kind of impaired and taken off some of the transferred link investments already.

HLFL is doing well, by the way. As of 31st of March 2017, their book size was Rs. 14,000 crores. They were Rs. 10,000 crores exactly a year back, so they have grown at 40%. Book is very stable. They are very strategic to Ashok Leyland. Almost 50% of the book is M&HCV, but the balance of 50% is a very rich mix of two-wheeler loans, loan against property and other businesses that a typical NBFC have. So as we move forward, we will have to ensure that we keep funding it along with the other investors. Then we can take a division at the most appropriate time on the book size to do an IPO. I know that will also be a question, so I thought I'll answer it.

**Jinesh Gandhi**

Sure, sure. And lastly, on the warranty front, you indicated doubling of warranty business on – just on iEGR range of products. Or this is across entire range.

**Vinod Dasari**

Across, across, wherein practically everything is iEGR.

**Jinesh Gandhi**

Right, right, right. Understood. Okay, sir, thanks and all the best.

**Operator**

Thank you, Jinesh. Next question comes from Prateek Poddar from ICICI Prudential. Your line is unmuted.

**Prateek Poddar**

Sir, I just wanted to ask you on MHCV exports. The growth rate in this quarter has been like 50%. How sustainable is this trend? That is one. And second is also on LCV exports, if you could just talk a bit about that. Because that's a big opportunity for you, right? So maybe, on these two areas, if you could just touch upon, that will be great.

**Vinod Dasari**

Yes, exports should be about 25% higher this year, hopefully.

**Prateek Poddar**

What is driving this? Is it MHCV only when you say 25%? And what is driving this?

**Vinod Dasari**

Yes, MHCV only – I think we should also be growing like that. I think, like I said, we added new products, like the Oyster in the Middle East market, which we'll expand to others. We've started sending Euro 5 vehicles in Ukraine. We'll open new markets as well. And the projects orders that we had, Gopal mentioned we finally got the funds for it, so we will start to ship those also.

**Prateek Poddar**

And on LCVs I would have – I mean since the base is quite low, I would have thought – and the size of opportunity is relatively bigger than MHCVs as you have been guiding for. I would have thought that growth could be faster. Or is it that it takes time for you to ramp up?

**Vinod Dasari**

No, no, no, we want to first focus on the opportunity in India. Most of the export market is left-hand drive, and we'll have to convert the vehicles and develop them into left-hand drive, right?

**Prateek Poddar**

Okay, okay. Thank you so much sir.

**Vinod Dasari**

We want to focus on the opportunity in India first.

**Prateek Poddar**

Okay, okay. Thank you.

**Operator**

Thank you, Prateek. Next question comes from Sahil Kedia from Bank of America. Your line is unmuted.

**Sahil Kedia**

Thank you for the opportunity. I just have two quick questions. Firstly, all the transition of all BS III to BS IV, is that all done in terms of inventory? Or is there some that is still yet to be changed over to BS IV? That would be point number one. Second, we are reading a number of newspaper articles which are saying that, because of GST, the turnaround times for fleet operators has now reduced. What do you think? Is this likely to impact the growth outlook for the industry now that the effective capacity may have gone up?

**Vinod Dasari**

So we are probably at about 65% or 70% of the vehicles that require conversion, of the total inventory. It is either converted or exported. So I think maybe another three months or four months, and we should be able to finish that, hopefully.

**Gopal Mahadevan**

Are you saying there are faster turnaround times because of GST?

**Vinod Dasari**

Yes, yes. Regardless of GST or not, yes, it has had a minor positive impact on the profitability of our fleet owners, which is good. If they make more money, they'll buy newer vehicles. They are buying newer vehicles, especially because they are getting better fuel economy. They are able to carry more loads. They even go longer distance, and they can go at higher speeds.

So that is the advantage that the industry will see because of this, but separately, I'll also say that, look, on average a truck driver is able to drive a truck for about 300 to 400 kilometers a day, depending on the speed that he goes. So maybe, at best, if it's on only a National Highway he can go 500 kilometers or so. In some cases, we have seen customers who run our vehicles with really driving and he'll go up to 900 kilometers.

But the driver stops not because of the toll or the GST thing. He used to stop because he just gets tired after a while. And typically, they used to plan to stop at the state crossing. And so I didn't see a substantial improvement. There is some improvement.

**Sahil Khedia**

So in your opinion, it doesn't impact.

**Vinod Dasari**

I think it will only have a positive impact.

**Sahil Khedia**

Okay. All right, all right thank you so much sir.

**Operator**

Thank you, Sahil. Next question comes from Pramod Kumar from Goldman Sachs. Your line is unmuted.

**Pramod Kumar**

Congratulations on a new high on the market share. And I think that should kind of address the iEGR confusion as well, or the lack of confidence on that. My questions pertain to three aspects. One was on the iEGR pricing, if you can just help us understand, what's the differential for, say, 31 ton or versus your SCR offering itself? Or better if you can highlight what is the SCR pricing and the EGR price gap versus competition?

And the second question was on the volume growth for yourself because you did talk about, in the earlier call, a 10% to 15% growth. And given that Q1 has ended not so great, would you still hold that guidance, including exports and everything? And then finally I have a question on EVs which I'll come back once you've answered these two.

**Vinod Dasari**

SCR should, in my opinion, cost more because it's got a more complex system, more electronics, more dosing systems and all of that. So I would say maybe about Rs. 20,000 to Rs. 30,000 extra.

**Pramod Kumar**

Okay. And Vinod, about the volume growth strategy, as in the guidance for yourself, including exports, for the year.

**Vinod Dasari**

I can't give you an exact guidance, but I'll stick to what I've had said before.

**Pramod Kumar**

Okay. And finally, on EVs, Vinod. And we've seen that EVs have led to some of the non-traditional companies entering India, like JCB with the Solaris range. And even some of the Chinese companies have gone ahead with orders from Gurgaon and Bangalore. And other STUs are also placing order as we speak. So given all this, how do you see the EV landscape for you, I do know that you have announced an alliance with Sun recently, but just want to understand if there's any timeline as to when do you start supplying your first – in a large project, not like one-off or introduction. But some large STU order which is 100 plus or something like that? And what would be the EV strategy for the company from a two to three year or horizon in terms of how much of the fleet you could see an EV option available for the customer?

**Vinod Dasari**

I think, this will take at least 18 to 24 months. There are large proto order, everybody wants to try. Here we have three different EV options, as I mentioned to you earlier. So but I don't see it having a significant impact in the industry for at least next 18 to 24 months.

**Pramod Kumar**

18 to 24 month. And Vinod, just to stretch that a bit. How is the viability? Because I see the price gap between the EVs, and even though at top of the range, diesel vehicles being too cheap. So is it something like the government is funding from its pocket or do you see commercially being viable, as it – or rather, if I were to ask it this way, as to how many years before we see EVs becoming viable from operator profitability perspective?

**Vinod Dasari**

It's still early days. I mean given the capital costs which is nearly five to six times of a normal vehicle. Unless there is state subsidy, nobody can make money, but it's coming down. I think battery costs are coming down, 10% to 12% every year. And the capacity is also going up 10% to 12%.

**Pramod Kumar**

Sounds good, but we will be ready, right, for the EV opportunity. So it's not like the non-commercial players will come and have a head start over us.

**Vinod Dasari**

Yes. We were the first to launch the electric vehicle in India.

**Pramod Kumar**

Yeah, yeah, I know that. So I'm just wondering whether when do we start seeing meaningful orders coming through

**Vinod Dasari**

Yeah, it's like I said, 18 to 24 months.

**Pramod Kumar**

Okay, thanks a lot. Thank you. Best of luck.

**Operator**

Thank you, Pramod. Next question comes from Aniket Mhatre from Haitong Securities. Your line is unmuted.

**Aniket Mhatre**

Hi, sir. Good morning and thank you for the opportunity. Just quickly on the margins front, basically, one, my question was of if the 1% price increase is sufficient to cover up the raw material cost increase that has happened this year. And also, given the raw material price increase and the fact that competition is extremely fierce right now as you alluded to, would you guide for achieving the similar margins that you achieved last year?

**Vinod Dasari**

I hope so.

**Aniket Mhatre**

Okay. And is this 1% price increase that you have taken sufficient to cover up the raw material costs, sir?

**Vinod Dasari**

Yeah. I mean we also did that in Q1, right? So you have substantial amount in Q1.

**Gopal Mahadevan**

We were the only company that's actually taken a raise, when there was, between BS III and BS IV, and it was very, very substantial. This is whole thing about price increase. It is not defined, if I may say so in the most positive sense of the term. It is not something that – it is not just an equation that we can keep implementing. We have to figure out how our dealers are looking at it, how our customers are looking at the offering, what is happening in the market. The only thing that we don't do at Ashok Leyland is we don't use pricing as a differentiator to sell, because there is no differentiator.

**Aniket Mhatre**

Right.

**Gopal Mahadevan**

In any sector, if you look at it – any sector, which is actually saying – any player in any sector, who has tried to use discounting as a way to gain market share can do that in the short term or at the loss of – at a much larger loss to the company. What we have been doing is we have been consistently raising prices and making some offerings, making changes on the products, driving out costs on the engineering side as well as on the overhead side. And then trying to also raise prices, so that we are able to manage the profitability – believe me, it is the profitability just doesn't come from switching on the pricing lever.

**Aniket Mhatre**

Right.

**Gopal Mahadevan**

So it's not exactly that, if raw material prices go up by 1%, then I'll have to raise by 1.2% because I have to make a 20% margin on revenues right, on gross margin. So it's not exactly like that and I will also have – it won't be possibly 1% across both. So while we'll announce it as a final tweaking, we may tweak between various products. So ensure that I get a mix also, which is favorable to ensure that my gross margins are maintained. It's a pretty complex activity that happens.

**Aniket Mhatre**

Sure. I understand that, sir. And one more question on a question that a previous participant asked regarding the Pant Nagar benefits that may continue post GST. I just wanted to get some clarification. You indicated that, 58% of 14%, you would get the benefit on. So just wanted to understand what does 58% on 14% is?

**Gopal Mahadevan**

No. 58% is what the government has said, it is going to give. 14% is the CGST part.

**Aniket Mhatre**

Sure, okay, okay, got it.

**Gopal Mahadevan**

CGST.

**Aniket Mhatre**

Yes, yes, I got it. Understood. So, you are saying basically this about – you will get a benefit to the extent of 8.5% post GST on the output from Pant Nagar.

**Gopal Mahadevan**

I presume so, but I don't know what the base is. I'll have to wait.

**Aniket Mhatre**

Okay. And what was the benefit that you used to get previously?

**Gopal Mahadevan**

Earlier, it used to be not on a per se that we used to get about 12% to 13% of the value addition.

**Aniket Mhatre**

Okay.

**Gopal Mahadevan**

Now the 8%, I don't know whether it's possible net realization on value addition, but then the other side is that, when I'm going to get this benefit all my input excise duty which was hitherto – or non-vatable is going to be more vatable. It's no longer a cost.

**Aniket Mhatre**

Right, right.

**Gopal Mahadevan**

So you see, I don't want to give any numbers here, because, if we go wrong, I don't want to enter risk of being misinterpreted. That's why I said I will know about it, and let me repeat it: While we assume that at the company level, we don't see an impact. I would want to wait and watch, see the impact and then share it with you possibly closer to the end of the current quarter. Because we have two months left, let us see what the government is going to do on the Pant Nagar benefit. I don't know whether they are going to give me a cheque or are they going to give a refund order or whether they are going to adjusted against tax payments, we are not still clear.

**Aniket Mhatre**

Okay, okay.

**Gopal Mahadevan**

We genuinely don't know.

**Aniket Mhatre**

Okay, okay. And my final question is on the write-offs, sir. You have again taken about a Rs. 15 crores write-off on one of your subsidiary.

**Gopal Mahadevan**

That is the investment that we made into Optare. Like I mentioned to you we have impaired Optare fully including the potential loans. You see the company has guaranteed loans of Optare approximately about £30 million. It has got its own loans of £30 million. What we decided to do is a measure of prudence. Year before last, we wrote off about Rs. 150 crores in Optare for the equity. After that, we have written off about, £30 plus £30, £60 million. We have written off nearly about Rs. 520 crores, it is not written off, impaired in 31st March.

**Aniket Mhatre**

Okay, right.

**Gopal Mahadevan**

So, when we have done that, like I mentioned in the call earlier, Optare is still a company which is running which is manufacturing buses. This has been done as a measure of conservatism, okay, because we want to also, like, for example, there is John Deere, JV has been completely impaired and provided for and called. Have you earlier provided for and sold. We had impaired the LCV, JV, but we have written back Rs. 296 crores.

**Aniket Mhatre**

Yes.

**Gopal Mahadevan**

So what we are trying to do is to get the balance sheet to a realistic level where the cash flows replacement will be – will reflect the valuation that is held to the balance sheet.

As we keep increasing money, which is not going to be huge, we may increase to about six million, seven million, eight million £ into Optare, because it's also trying to get now orders, there seem to be some feasibility on orders, etc.

**Aniket Mhatre**

Okay.

**Gopal Mahadevan**

Once we do that, we'll have to pump in some money which we will continue to invest, but it's not going to blow a big hole in the company, okay,

Just to tell you, here in Albonair we have provided for 50%, even though it was Euro 6 technology. This is to ensure that we don't have a bloated balance sheet and within the balance sheet to a realistic level.

**Aniket Mhatre**

Okay, okay. No, I just wanted to understand just one point, whether these write-offs will continue or whether you have taken the write-off – I mean, at this level, are we done with the write-offs now?

**Gopal Mahadevan**

To answer your question: All let me put it in very simple statement. All material impairments have been done.

**Aniket Mhatre**

Okay, got it.

**Gopal Mahadevan**

Now when I keep investing into a subsidiary which is impaired, I can't say this will treat it as equally. So what we will have to do is to convert the loan into equity. It is not any impairment, that has already been implied. If we convert bank loans also into equity which has again been implied. That may be cash flow. Now what we are trying to do is to ensure that, whatever trickles of money that go into Optare, for example, in the future, we'll have to impair it this is not going to be real issue, in relation to what was invested earlier, okay.

**Aniket Mhatre**

Okay.

**Gopal Mahadevan**

Similarly, Albonair, 50%, almost Rs. 250 crores has been impaired, again a measure of good disclosures. So now the balance sheet is more, what shall we say at a reduced level and we must remember we have got HLFL, I think, post-investment values about Rs. 900 crores, which has got a tremendous upside potential.

**Aniket Mhatre**

Definitely, sure.

**Gopal Mahadevan**

Okay, it must be at least 2.5 times. But I am not – we are not going to use – that is just an investment that could stay. It's still not, I believe reflected in the sum of parts.

**Aniket Mhatre**

Got it, yes, sure. Great, sir, got it. Thanks, thanks very much for your clarification, sir.

**Gopal Mahadevan**

And this is not many companies do, but we've decided that that's how we want to run the business. We want to keep it as simple as possible.

**Aniket Mhatre**

Yes, sir, I got it. Thanks.

**Operator**

Thank you, Aniket. Due to time constraint, that was the last question. Now I hand over the call to Mr. Ashish Nigam for the final remarks. Over to you, sir.

**Ashish Nigam**

Thank you. On behalf of Axis Capital, thank you all for joining the call today. And thanks again to the Ashok Leyland management for giving us the opportunity to host the call. Have a good day, everyone.

**Gopal Mahadevan**

Thank you.

**Vinod Dasari**

Thanks.

**Ashish Nigam**

Thank you.

**Operator**

That does concludes our conference for today. Thank you for participating on the Reliance Conference Bridge. You may all disconnect now. Thank you all.  
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