



“Ashok Leyland Limited Q1FY16 Earnings Conference Call”

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MODERATOR: MR. ASHISH NIGAM – AXIS CAPITAL LTD

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Ashok Leyland Limited Q1FY16 Earnings Conference Call hosted by Axis Capital. As a reminder, all participants' 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Nigam from Axis Capital. Thank you and over to you, sir.

Ashish Nigam: Good Afternoon, Everyone. On behalf of Axis Capital, Welcome to the Q1FY16 Conference Call of Ashok Leyland. From the management, we have with us Mr. Gopal Mahadevan — CFO of Ashok Leyland and Mr. K.M. Balaji — General Manager, Corporate Finance. I will hand over the call to Mr. Mahadevan for his opening remarks, post which we can have Q&A. Over to you Gopal.

Gopal Mahadevan: A Very Good Afternoon to all of you. I am very happy to share the Q1 Results of Ashok Leyland which you must have seen yesterday which our board has approved. I am going to keep this very brief because I am sure all of you have gone through the results but I will give the Key Highlights and then hand it over back to Ashish so that we can have an interactive Question-and-Answer Session. Our volumes have grown by about 45% as against 23% on the industry. I think we had forecast in the beginning of the year that the overall industry we had expected to grow at somewhere between 10% to 15%, very gratifying to note that the industry actually has grown at 23%, we have almost grown at double the rate. The total volumes for M&HCV Domestic has been about 18,600 units; our revenue at Rs.3,841 crores was up 55%; we have had a double digit EBITDA in the first quarter itself at 10.1% which was up 285% over the same quarter last year; profit after tax was Rs.159 crores as against the loss in the same period and our EPS was 0.56 per share as against a negative of (-0.18) in Q1 last year. Debt-equity at the end of the quarter was very stable; it was below 1 at 0.90 times. On the volume front again I needed to share with you that our exports have been up at 38% to 2,881 Units on the LCV as well we have done reasonably well with a growth of about 33% in an industry which was actually sliding at 6,700 Units. Overall, I think these margins have been achieved because of two or three reasons — One has been that there has been a significant top line growth; the Second one has been that we have maintained our realizations despite a little bit of pressure that is there on the discounts in the industry, but our net realizations as we focus internally have improved. Our costs have also been better than last year. If you were to look at it, our material cost is lower than last year. Our operating overheads, our manpower cost everything has been as a percentage of sales have come down. And in terms of debt management also vis-à-vis last year we are much better and our interest costs have also actually come down over last year. So overall if you were to look at it, this has translated into PAT of about Rs.159 crores which is about 431% up.

With this short background of the performance now I am going to hand it over to Ashish, we are happy to answer any questions or clarifications you may have.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Pramod Kumar. Please go ahead.

Pramod Kumar: My first question pertains to the industry recovery, Gopal. The sector has been a standout performer in terms of if you compare to Passenger Vehicle or especially Two-Wheelers and even the broader economic data points like IIP and all. So, what are the factors which are driving this kind of a sustained recovery and strong recovery, and how do you see it for the rest of the year from an industry perspective and is it something like recovery is getting preponed and you may have a more normalized FY16 at the industry level?

Gopal Mahadevan: There are multiple reasons for why the industry is growing, some of which we have shared in the past, Pramod; one is this industry say for the last year which is FY15 had seen a severe degrowth by more than 50%. So you had an industry which had 350,000 units of annual volume coming down to nearly 200,000. So there has been a pent up demand in terms of replacement of vehicles which have started from last year itself and that is why last year had a first full year of growth after a long hiatus of almost 3-3.5 years. The second reason is the economics of the transporter itself has changed now with diesel fuel prices coming down and the freight rates on a net basis have actually been favorable to the transporter. We have seen a recent diesel price decrease again and all of this has been benefited and the net cash or the disposable income at the hand of the transport companies are significantly better than what it was a couple of years ago. The third reason has been that we are seeing green shoots of growth in the economy, we are seeing that there are some announcements that the government has made in terms of infrastructure. When I travelled to the Eastern part of the country along with the managing director we did see that the oil companies were wanting new fleets for transporters, FMCG is doing the same thing. So there is a lot of requirement for transport that seems to be kicking on. Of course, the mining is still to catch up. That is why you do not see the tipper sales going up as expected but I think there is a lot of pre-buying also in anticipation that the industry is expected to grow, as the government is possibly taking the steps to ensure that in the medium-term there is going to be a growth in industry. These are possibly the reasons why we are seeing this growth happening. That is why we have seen 23% growth in the TIV in Q1. To your query of what our expectations are at the moment I would say that we are cautiously optimistic that this growth trend may continue over the rest of the period give or take one quarter. Typically, the third quarter could be a little down because of the year-end badging issues, but I do not at this moment foresee any reason why the growth trend cannot continue, but we have to see this quarter-on-quarter but we are cautiously optimistic about this.

Pramod Kumar: And '17, do you still expect a fairly good growth in terms of double-digit growth, in terms of while you expect the industry to normalize because this pent up demand run would be over to a great extent?

Gopal Mahadevan: At FY17 you are right, but by that time we expect the economy would have started to grow and if that happens this is one industry which would actually grow ratably higher than the growth rate of the economy. We are actually seeing a revival of the commercial vehicles industry, but, yes, it is going to hinge on the growth of the economy, and if all of us believe that the Indian economy is going to grow which is the general feeling of not only the investing community but also business community while things are a little slow, but I think FY17 should be a good year for the economy and for the industry as well.

Pramod Kumar: Now coming to your performance, you guys have done extremely well, in all probability you will be going back to a historical peak this fiscal itself whereas the industry will probably take another year to do that. So just wanted to understand markets again are the primary driver. I just want to understand the regional color to this and the product color to this because you guys have been investing a lot in network build up for the last four years or so now. Just wondering whether that is in a way playing out meaningfully in terms of giving you a far more higher penetration in the non-South market and higher market share? And also in terms of your product launches, which have been quite intensive, so is it kind of giving you a leg up over competition in certain categories, especially on the higher 30-tonne plus, and how do you see that being sustainable?

Gopal Mahadevan: Over the last couple of years, Ashok Leyland has been making strides on multiple fronts; one is on the market front, you have rightly observed, we have significantly increased our network point sales and service points over the last four years, it has gone up by something like 400 points to about something close to about 1250 to 1300 points. The network is actually humming. The second focus that the company has brought in over the last couple of years has been to ensure that the dealers are profitable. We do not push inventory at all into dealers, we ensure that the dealers are making sales, are able to turn in cash and profits for themselves. In the event, we find that a dealer is not able to move certain inventory beyond a 15 to 20-day period we actually shift the inventory out at our own costs. So, there is a huge amount of traction that is happening at the dealer front as well. The third reason is right that we have introduced new products which are doing well. The BOSS has been very successful in its addressable segment and CAPTAIN has been receiving exceedingly favorable responses, absolutely state-of-the-art and we would be actually launching various variants of Captain which is actually from 16 tons to 49 tons. The fourth reason of course for the profitability has been that we have been extremely focused on cost and waste elimination. We have done a whole bunch of work on material cost reduction which we have shared earlier, fruits of which you can see in the current quarter, and as well as the attempt to reduce the breakeven point which has ensured that our overall overheads are down, and of course, the focus has also been on operating working capital. So, confluence of factors have actually resulted in the performance of the company.

Pramod Kumar: Gopal, on the regional bit which you touched upon, because you have historically done that, if you can give some regional color on the growth as to which regions are doing in terms of growth rate and your regional market share as well, that will be really great?

Gopal Mahadevan: I do not think we give regional market share but I can give you a color about it. Still the South market shares continue to be high, our dependence on growth for South market has significantly moved away. If you look at it all the zones the North, East, West and Central, our market share is upwards of 20% and in some cases about 25%. That has been actually very important feature in this growth because now we are a complete pan India network and the focus has been on the rest of the country as well both not only in sales point but also service points all of which has actually resulted in this. In terms of vehicles I would say that the TIV has actually seen the growth coming in from the higher tonnage Haulage vehicles and Tractor and Multi Axle Vehicles which is being the case with Ashok Leyland also. Once we see the mining sector opening up, we would also see a growth in the Tipper segment.

Pramod Kumar: So regional wise, which region is particularly doing well for the industry level, not exactly I am not looking at Leyland numbers in particular?

Gopal Mahadevan: For us if you look at it overall, West has grown very well at the industry level and we have also seen that for us we have done pretty well in the East as well as a company.

Moderator: Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: My first question is on the Pantnagar side. Could you share with us what was your capacity utilization ratio for the quarter at Pantnagar? Also relating to Pantnagar, what was the benefit now like per unit? Is the tax rate going up because of the fact that Pantnagar income tax benefit has expired sort of related, if you could guide for full year?

Gopal Mahadevan: First, let me share with you that Pantnagar benefits continue till 2020 and there are two benefits in Pantnagar — One is the excise duty and the Second one is the Income Tax. So, more if you were to look at it on an operating profit basis, it is more the excise duty benefit that actually impacts our operating performance. That continues and the excise duty rates were increased from 8/9% to 12/13% which has actually benefited Ashok Leyland. This was done I think at the end of December 2014 and we do get a benefit out of this. So, our strategy of putting in the Pantnagar plant has paid off. And our capacity utilization in Pantnagar is close to about 75%. What we are doing is it is not only for the benefit we are looking at it in terms of supply chain and the reach efficiency. Overall, we want to ensure that we are manufacturing vehicles at the appropriate manufacturing locations which will reach our customers efficiently in terms of costs which is what we are doing. To your next question on income tax benefits from Pantnagar, at the moment, if you really look at it the impact actually comes from the excise duty benefit that continues. Income tax is a little more complex which I cannot possibly explain over the call but you have to maintain separate sets of books and then they have to be merged with the larger Ashok Leyland tax books, etc. But, the key driver while Income Tax is very-very important and I am not disagreeing with you on that, the larger benefit actually comes from the excise duty.

Binay Singh: What will be your income tax rate guidance for the year, because it has moved up quite sharply in Q1?

Gopal Mahadevan: We have to look at the effective tax rate in terms of the deferred tax also factoring in. So, at the moment, our rates will continue to be at the current quarter which is at about 32%. Because the reason is like this; we are not investing very heavily into CAPEX, so the depreciation benefits are not really significant and then of course we claim our R&D benefits but other than that there is nothing that we foresee at this moment in time, and if there is anything we will share at the appropriate quarter.

Binay Singh: Just on the margin side, we have already posted around 10% margin in a seasonally weak quarter. So going ahead, how do you see the margin drivers like in terms of commodities, have you seen like a lot of gain to this quarter already play out or do you think there is more to go? So, if you

could just talk a little bit about the margin drivers that you see from here on for the rest of the year?

Gopal Mahadevan: At this moment it is very early for us to predict a margin driver for the full year and normally we do not give an outlook for the year, but generally what we have seen and I believe that is going to hold out for this year also is that we are going to see a margin improvement as we move forward into the subsequent quarters as well. Do not hold me against it on a quarter-to-quarter performance but I think my exit EBITDA margin for the fourth quarter would be better than what we are at the moment which is for the current quarter which is 10.1%. Definitely, we see an improvement in that. Of course, the most important thing is volume growth which we expect to happen because as I mentioned at the beginning of the call we are very cautiously optimistic that there is a volume growth in the industry that should happen. Q3 may be a little slow because of the calendar year-end rebadging. But otherwise we do see a margin improvement as we move forward.

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

Kapil Singh: Firstly, I wanted to check on, ABS is becoming mandatory from October 1. So, do you expect some kind of pre-buying ahead of that, is the Company prepared for that and what kind of price increases do we need to take for that?

Gopal Mahadevan: I cannot share the price increases, but, yes, your question is correct because a lot of regulation becomes mandatory on 1st of October. So there would be certain amount of pre-buying which we expect to happen in August and predominantly in September. Having said that after that in Q3 while there may be a little bit of dampener we expect at this moment that there could be an after-effect of the pre-buying that happens due to which it could be a little slow in Q3, but we expect the demand again to pick up in Q4 because if the cost go up, there is no choice but to comply with the regulations and these have to be passed on to the customers. The transporters are a reasonably educated lot, they know about what is happening, what I am saying is they are a savvy lot... let me correct myself, they are an extremely savvy set of people and they understand that the regulations have to be complied with and they are aware that this regulation impact can come in. I do not see a significant impact on it at the moment in terms of the cost because the new regulations mean additional cost.

Kapil Singh: What I was trying to understand is that, how much does ABS cost in terms of percentage or is it like Rs.20,000 per truck on an average or will it be?

Gopal Mahadevan: Yes, it would be, but the problem is giving a per truck average is because the sizes of trucks are different, but, yes, they are close to that number that you are talking about.

Kapil Singh: And so far we have not noticed any pre-buying because of this?

Gopal Mahadevan: No-no, I said that I expect some pre-buying in August and September, I do expect that.

- Kapil Singh:** In terms of Pantnagar, what is the full year production target that we have?
- Gopal Mahadevan:** We have an annual capacity of about 50,000 units. I cannot give you a production target for the full year, but like I mentioned to you we have used about 70-75% of the Pantnagar facility. We will continue to optimize the Pantnagar facility because it is beneficial for the company.
- Kapil Singh:** For the full year, ideally I would expect your tax rate to be lower than 32%, 33% because Pantnagar plant would be significantly more profitable. So, in light of that, could you explain the tax rate guidance?
- Gopal Mahadevan:** I would say let us wait for the tax rate because the tax rate is not just simply an effect of just current year's profits and tax rates on that. There are carry forwards and implications on that. I would get a more granular detail about the tax rate as we move into the Q2 or Q3 more specifically. That is why I was very careful when I said that I expect at this moment in time to be the same, but I can only give a more granular tax rate possibly at the end of Q2.
- Kapil Singh:** How much has the material cost actually declined in this quarter when we look at compared to previous quarter?
- Gopal Mahadevan:** If you look at material cost as a percentage to sales, this quarter has been at about 69.4% as opposed to 73.3% in the same quarter last year. It has been on account of three factors — One has been the product mix has been rich in this current quarter which I did fail to mention in the earlier part. There has been a rich product mix in the current quarter with larger Heavy Duty vehicles being sold and of course the Defence business as well and that has improved realizations and so as a percentage of sales that does reduce the material cost. The second one is initiatives that the company has been taking which we shared with you that we are looking at alternative materials, design, we are looking at ways and means to reduce the material cost through new sources and supply chain efficiencies as well over and above the design and material initiatives that we are taking. And of course the third thing has been that like you mentioned earlier generally we have seen that commodity prices are coming off a little bit which is going to be beneficial to the company and the benefit of that as well is also adding to the overall material cost reduction. So, I would say these are reasonably equally spread among all three.
- Kapil Singh:** More benefit could come on account of commodities going forward as well.
- Gopal Mahadevan:** I believe so. Logic tells me that it should happen in the commodity prices soften as expected and of course the recent China devaluation that has happened is a double edge sword in terms of we will have to see the larger macroeconomic issues that will pervade the Indian economy in terms of what the devaluation has done. But I think it is also going to make imports more competitive, but we will have to wait and watch.
- Moderator:** Thank you. The next question is from the line of Akshay Saxena from Credit Suisse. Please go ahead.

Jatin: This is Jatin. Let me just continue the question that Kapil was about to ask. This is on the other expenditure side, wherein we have seen a very sharp increase on a YoY basis, and even on a quarter-on-quarter basis, despite the production volumes actually coming down, there is an increase at an absolute level. So, if you could just clarify why is that?

Gopal Mahadevan: The main reason for it is we have had these exports that have happened to both Senegal and Zimbabwe, we have seen a good export performance in the quarter primarily driven by this. As part of the export order, we are also supposed to provide certain ancillary services and product offerings; there is stuff like ticketing systems, service, additional service and spares support that has to be provided as well as certain on-ground support that the company is expected to provide. All of which actually features in the other expenses as selling and distribution expenses. That is the reason why you have seen a higher selling and distribution expenses. If we were to remove the effect of that we are predominantly in line with last year. There is nothing unusual to report in terms of expenditure growth in other expenditure.

Jatin: These would be recurring in nature or these are just...?

Gopal Mahadevan: Even if it recurs I am not too worried about it because on a net margin, on an EBITDA basis or on an operating margin basis or on PBT basis this will either get shifted into material or get netted out in realization or go into other expenditure. I am actually explaining a little bit of accounting here so that people understand what this is about. The point that comes up is that depending on the way the contract is worded, some contracts may have other expenditure, the amount coming in expenditure but then it should have been also neutralized by the higher realization that these orders will fetch. In some cases they may get added to material cost, if suppose we have to supply the spares upfront, for example, it will come in material cost. But yes, if these orders it is going to depend on the specific details of each order but what we look at frankly is what is the margin that the company makes on this order and that is how we take the orders. The classification is an outcome of the specific orders. So, that is why in this quarter we have had this additional charge coming in, but we are seeing a saving in material cost which I should have mentioned that is another fourth reason for the performance of the company. Our thrust on exports will continue, we are very clear, in the medium term Ashok Leyland is going to view revenues coming from exports to be about a third of its revenues. So we will pursue that. At the moment some of the orders that are coming are opportunistic. I cannot expect that they will happen quarter-on-quarter but our team is on the ground and Africa is a very important continent for us in terms of our export thrust. We have already mentioned that we have Middle East, Africa, South East Asia, CIS and at a later stage possibly South America as important clusters for the export initiative. So we will pursue these orders in the future as well.

Jatin: In terms of revenue, could you just give some more color in terms of either whatever you can share, the Defence players or in terms of cyclical, non-cyclical, what is the broad breakup for this quarter?

Gopal Mahadevan: Broad break-up I will continue with what we have been sharing in the past; we have our truck revenues which accounts for about 57% of the revenues for the quarter, the Bus revenues are

approximately about 10% to 11% and the rest is by the other businesses including LCV. Typically, our cyclical business is about 50% to 55% which is where we are at the moment because the growth is coming from the Truck business and there is a huge revival that has happened in the industry. That would continue but our efforts in the medium term has been what we have shared with the investors and world at large has been that we would want to ensure that the India Truck business which is the cyclical part of it should be possibly about a third of the revenues in the medium-term of Leyland. That is what is our target.

Jatin: When you say Truck revenue is at 57%, does this include exports or this is just pure Domestic?

Gopal Mahadevan: This excludes Exports.

Moderator: Thank you. The next question is from the line of Basudeb Baneerjee from Antique Finance. Please go ahead.

Basudeb Baneerjee: Sir, just wanted to know as you said initially that mix improvement in Defence business is being on the higher side that led to major reduction in raw material to sales. How much of this quarter-on-quarter improvement was attributable just to raw material reduction out of this whole quantum of 340 basis points?

Gopal Mahadevan: That is what I said, it is approximately a third each. I have said that improvement in realization that ultimately has an impact on material cost also because the percentage of revenues, the second one has been the mix also which I mentioned the realization and mix was one, the second one was the material cost reduction initiatives that the company has taken; the third one was the reduction in material cost rates... the input prices. I said that it is a confluence of factors which is including all three have actually resulted in this and I would at the moment broadly attribute a third of the portion coming for each of these regions.

Basudeb Baneerjee: This higher S&D expenses for the Senegal, Zimbabwe exports, that is just for this quarter or they are going to continue in future also?

Gopal Mahadevan: That is what I said. We cannot estimate that till some of the African orders get completed. In the next quarter also, we may see a ratably higher selling and distribution expenses, but like I mentioned, I will repeat, these are ultimately coming out of sale revenue that we have booked based on orders. For me what matters is the net margin that I make on the order which is very much in line or higher than our average. So, I am not too concerned about that.

Basudeb Baneerjee: What is the timeline of now on BS3 to BS4 upgradation on rest of India basis?

Gopal Mahadevan: Rest of India basis it has to be 100% BS4 by 1st of April 2017 but it is going to happen in stages, select cities have been notified which will start from the latter part of this year onwards, but India has to be on BS4 as per the government notification by 1st of April 2017.

Basudeb Baneerjee: You see any chances of postponement on that due to infrastructural bottlenecks, anything on that angle?

Gopal Mahadevan: To be honest, I am not able to comment at all on this. At the moment, I would take that the notification that the government has given is what is going to happen because I think there is already a certain amount of delay in this BS3 to BS4 conversion and now the government is apparently very clear that this going to happen on 1st of April. If it happens, I will tell you here whatever it is, BS3 or BS4, we are ready with the engines and for us we see our capabilities to service both. So, for us it is not something that from a financial performance angle is something that we are concerned about, but yes, I think BS3 to BS4 becomes more environmentally friendly and it is appropriate that we move technologically upwards so that we are able to have better emission norms for the vehicles. So we are hoping that this time the government is going to possibly stick to that, but fuel availability is going to be important. I am sure the government is looking at all these logistics.

Basudeb Baneerjee: Any changes to your CAPEX and investment guidance for this year and next year?

Gopal Mahadevan: I think we have given a guidance of about Rs.500 crores both ...I repeat for the clarification of both CAPEX and investments into subsidiary companies put together. At the moment, I am not able to give anything different. I think we will stick within that number. If there is any change we will let you know. We are going to be at that number only for the current year.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: My question pertains to the pricing environment in this quarter. A) Did we take any price increase and can you indicate what kind of discounts were there in this quarter?

Gopal Mahadevan: Yes, we did take a price increase in April and that is across vehicles. The second part what is that the discount levels have marginally gone up in the current quarter and we have seen that generally there seems to have been a little increase in discount levels, earlier I mentioned that it is about 1.75-2 lakhs, I find that discount levels have been about 2-2.20 lakhs per vehicle. Now, having said that, what we do at Ashok Leyland which I shared with you and Jinesh, you know very well is that we look at the entire business on a net realization basis. So, I take orders on a net margin basis and I also look on net realization basis. So, what we focus on net realization that the organization gets after having a price increase and also after having a discount. So, on a net realization basis, our realizations have actually improved over the quarter which is evidenced by the higher margins.

Jinesh Gandhi: So what was the quantum of price increase — about a per cent or...?

Gopal Mahadevan: Yes, it was about a per cent on an average, but it is across the vehicles, it can vary.

Jinesh Gandhi: What were the inventory levels at the end of the quarter?

Gopal Mahadevan: Our inventory levels at the end of the quarter has increased over the March levels marginally and the finished vehicle inventory was about 5,300 units in June, it is very marginal. I would say that in March the numbers were at about 3,700 or so, but we had to do that because I would say

marginal, they had to go up because in line to keep up with the overall volume increase that has happened. So, as the number of days, if you look at my operating working capital it has been at about 13-days and we are reasonably comfortable with that what we are doing. Of course, the team is striving to get the number of days down, but we also want to ensure at the same time that we should not miss the opportunities in the market.

Jinesh Gandhi: Can you spell out what is your gross debt and net debt?

Gopal Mahadevan: I will tell you that we have the total debt in the books is about Rs.3,800 crores, my debt-equity stands at 0.9times. Now, when you say gross debt and net debt to be honest I do not have really that kind of surplus cash in hand, I see one number because we avoid the numbers, maybe some Rs.20-30 crores lying in cash... cheques coming in not banked is not really significant of the debt-equity of the company. So, overall, it is about Rs.3,800 crores for the quarter and the debt-equity is 0.9:1.

Moderator: Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Sir, I was checking your tonnage by market share. So, I was curious to know that in 25-ton segment, maximum gain of market share has happened for you. Can you elaborate the reasons for that — is it some product launch which has done well for you, or is it certain product categories has done well?

Gopal Mahadevan: There are certain products that we have done very well and certain lift axled vehicles as we call it here, we have a significant market share and that has been going very well, we call it as a 3718 which has done very well and that is one of the reasons why we are seeing this higher market share happening. Also, I think the network has also helped in terms of the reach that we are able to get today. On all fronts, I would say that the customers are realizing that on performance, on service, on reach Ashok Leyland is performing very well and this is a result of the confidence that reposed by customers. We hope and we are confident that this trend will continue.

Hitesh Goel: Sir, are you seeing any major pick up in the Mining segment which can result in a significantly higher growth? What was the proportion of Trucks going into mining say at the peak and what it is now, can you give us a sense of that?

Gopal Mahadevan: I may not be able to answer this specifically because we do not get that level of breakdown because of strategic reasons but I can only tell you that at the moment we are seeing the certain amount of revival in the Mining segment happening on the eastern side of the country and there are lot of enquiries which are coming for Tippers especially from that side of the country. The rest of the country there is a lot of work that the government has done in terms of the coal mining, etc., and towards the opening of the sector. So, we expect that the latter half of the year we would see that if things were as per plan, we are going to see orders from this sector coming in especially on the Tipper side. If that happens, we are going to see some large Tipper orders as well. But, we will have to wait for the second half.

Hitesh Goel: Why I am asking is, you used to give this figure and I recall that at the peak at least Trucks going into Mining, Tipper segment used to be 20% of the industry volumes and it has come down to single digits. Is this numbers, right?

Gopal Mahadevan: Yes, you are right. I think that is the reason why I mentioned at the beginning of the call that we have not seen that kind of traction in the Tipper segment. We expect whether it is going to be 20% or not, you know me, I do not give those kinds of specific numbers because we have to wait for things to pan out. But I would say that we expect the Mining sector will open up in the second half of the year and we are going to see a significant improvement in the Tipper volumes as we move forward. That is as you know is also a reasonably profitable segment.

Hitesh Goel: Can you give your market share broadly also in the tipper segment?

Gopal Mahadevan: I will give it to you at the latter part of this call.

Moderator: Thank you. The next question is from the line of Raghunandan from Quant Capital. Please go ahead.

Raghunandan: Just wanted to understand what would be the share of Defence sir, broadly — would it be closer to 5% this quarter?

Gopal Mahadevan: Our Defence sales typically range from anywhere between say about 4-5% and the range is almost the same for the current quarter. The quality of the orders has been better so we have been able to sell a lot more kits and that has helped a company and we expect that over the rest of the year give or take a quarter we would see some traction here as well.

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

Aryn Pirani: Just coming back on the growth rate, just wanted to confirm, so earlier you were talking about 10-15% growth rate at the beginning of the year, but now you are saying that you could see the 20-22% for the industry continuing for the full year, is that what you are saying?

Gopal Mahadevan: That is what we believe at the moment. There is no reason why I would expect that for the full year the growth rate will start decelerating unless something happens. Because last year we mentioned that we would see a 10% growth in industry and then we found that ...I am talking about 2014-15 if we were to look at it, in the first quarter there was actually a decgrowth that happened and slowly the industry started to grow and I remember that for the December '14 quarter for the nine-months period, the overall industry had actually grown by 10% exactly and we finished the year with about 16% growth for the full year. Now, this year we had said that riding on the back of this growth, we expected that another 10-15% growth on the base would happen. But we have seen the growth to be 23%, of course, I think one thing that I would also like to clarify here because that is why I said this quarter-on-quarter is a very-very difficult thing to predict, we have had a base effect of Q1 which has been that there has been a negative (-10%) growth in the first quarter of last year. You have seen 23% or 24% growth on riding on top of it.

But this has happened because of certain larger economic factors pertinent to the industry itself — better fuel prices, there has been a revival of replacement demand, certain industries have been asking for new sets of vehicles and there has been a general optimism that the economy is going to revive, due to which there has been buying. I expect as I speak that this will continue as we move into the balance three quarters. But, really we will have to wait and watch, because that is why it is very-very difficult in the first quarter to really state what is going to be the exact growth rate of the industry till the year end. There has been a base effect on the TIV, but if you were to look at Ashok Leyland's performance, we have been actually beating the industry growth rates for more than I would say 5-6-quarters now and we expect to hold on to our market share and continue to grow with the industry.

- Amyr Pirani:** You mentioned that BS4 could be applicable from 1st April, 2017?
- Gopal Mahadevan:** Not applicable, BS4 is already applicable...
- Amyr Pirani:** In rest of the country, outside of the top cities?
- Gopal Mahadevan:** Yes.
- Amyr Pirani:** So, could you just remind us what kind of a price increase the industry may have to take, I do not want for you specifically, but in general what is the kind of price increase that could happen for the industry because of moving to BS4?
- Gopal Mahadevan:** I think the average increase that would happen would be somewhere between Rs.60,000-75,000 a Vehicle.
- Amyr Pirani:** I know it is a bit early, but in that case, even in fiscal 2017, there could be some amount of pre-buy right, because this will be more significant than the breaking safety norm change?
- Gopal Mahadevan:** No-no, I agree. I look at this way. There can be a certain amount of pre-buying, but I do not think pre-buying is going to be the only contributor to volumes. One thing is pre-buying, second one is general economy itself reviving and that is going to be very important. That is what all of us are expecting to happen. So, the growth of the commercial vehicles industry even for the rest of the year and also needed a couple of years following this one is expected, because economy is supposed to grow. Of course, there are certain things like pre-buying. So what is going to happen in one quarter there is going to be a pre-buying and the next quarter there may be an effect of pre-buying but that is why I said quarter-on-quarter beyond a point does not make sense, because the industry is such that it does because of certain factors. But over a 12-months period, we have to see what is the trend expected which is what I am trying to share with you folks.
- Moderator:** Thank you. The next question is from the line of Kaushal Barukh from Emkay Global. Please go ahead.
- Kaushal Barukh:** Could you share your outlook on the Buses and the LCV industry and your growth within these segments?

Gopal Mahadevan: I think broadly we have seen the Bus segment actually has been about 19% growth for Q1 Domestic and I expect that the growth should be in the range of anywhere between 15-20%. But, why I am kind of clarifying this is because a lot of this is going to depend on the orders that STUs are going to play, the JNNURM orders, the funding that is going to happen, but we expect things to pan out. There is no reason why I should be pessimistic at this moment in time the things are not going to pan out. So that is why we are giving this outlook. LCV, I think will start recovering from the second half of the year, it has actually shown certain amount of degrowth while our LCV volumes have gone up by about 33%, I think we would see actually the revival happening from the second half, whether it is going to be from Q2 or Q3 is to be seen. Typically, what happens? There is a lag between the LCV industry impact and the trend that the heavy commercial vehicles industry does. So, even in that way, Heavy Commercial industry started to degrow, LCV was still continued to grow and then started to sympathetically start to come down. Now, when the heavy commercial vehicles have started to grow, we are still seeing the tail of the demand curve, results that the LCV industry is still showing a degrowth. But in the second half, things are expected to pan out. Let us hope that this happens.

Kaushal Barukh: How has been your market share gains in geographies ex-South within India?

Gopal Mahadevan: I did mention that earlier, that we have gained market share. The only thing that I would say because frankly for us what matters market share is only one outcome of this. The most important thing is are we growing, are we able to service more customers, are we getting more reach to the customers and am I able to do all this better and more profitably. That is the focus that Ashok Leyland did. Not that market share is not important, but that is only one number, that is why we as a management team would prefer to see the larger indices than just look at one particular index. But having said that all I can share with you is that in all regions, we have actually gained market share.

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

Sonal Gupta: Could you give us what was MHCVs including exports as a percentage just to get a sense of what is non-vehicle revenues?

Gopal Mahadevan: Our total MHCV volumes including exports would be something like around 75-80% because my exports have grown very significantly; they constitute about 15% of my revenues for the quarter.

Sonal Gupta: What percentage of your volumes are now being financed by Hinduja Leyland Finance and how has that trended say compared to last year same quarter?

Gopal Mahadevan: I would only share this way that because this is a little bit of competitive detail but we ensure that broadly Hinduja Leyland Finance possibly finances something like around 10% of our volumes, not more than that. That is the internal thing that we have. The financing would happen more on the Truck side than on the Buses side. I would not want to give a trend whether we have gone 2% higher or 3% higher in Hinduja Leyland Finance because for us all finance companies

are important and Hinduja Leyland Finance is only a strategic part of the main M&HCV and LCV business. Having said that Hinduja Leyland Finance has its own other business portfolios as a measure of good governance, we also have caps as to how much of Ashok Leyland business they can do not only the minimum amount, so that there is derisking and then there are other business portfolios like Two Wheeler Financing and I would say other Loan portfolio purchases as well as Four Wheeler Financing happening. So, there is a whole bunch of other activities that Hinduja Leyland Finance does. But it is a very important strategic asset for us which is used to actually kind of package the whole financing along with the commercial vehicles that we sell to the customers.

Sonal Gupta:

The industry has seen a significant shift upwards in terms of tonnage. This is coming at a time while we are asking this is a replacement sale, most of what is getting replaced would be 25 tonners. So transport or fleet operators essentially moving to higher tonnage truck. One is what is driving this – are they seeing enough load availability or it is simply just the better economics of the 31-tonners or 37-tonners is what is driving this, and therefore do you see this shift is structural? If you could give some quantitative thing around freight rates, how they moved over the last couple of quarters or what has been the trend?

Gopal Mahadevan:

I think that is what I mentioned again. I would say there are two large buckets of reasons for the growth – one was of course that there is a base effect of Q1 Vs current year versus Q1 of last year which we have seen. I am talking about the total industry volume here. So, we had actually seen last year that there was a 10% reduction in the TIV but this year we have seen a 23% increase. But having said that, the other reason for the growth is also because of the following reasons: One is that the net freight rates have improved for the fleet operators because of the big diesel prices coming off. Second thing is the Replacement demand has kicked in because this industry had gone through a kind of a drought or a degrowth for nearly 3-years where nearly 50% of the industry volume had been wiped out. So, we are actually seeing that coming back. The third reason like I mentioned, we are seeing generally, the fleet operators seem to be seeing that there is a general economic recovery, that seems to be there, so their end customers be it infrastructure companies or larger corporations or manufacturing companies or chemical industries or FMCGs or oil companies, all of them are actually making enquiries and also wants some fleets to be changed because they are seeing some growth happening possibly during the current year. The three reasons which are driving this overall demand. And hopefully, with the economy starting to grow in the second part of the year, we would see the traction being maintained.

Moderator:

Thank you. The next question is from the line of Aditya Makharia from JP Morgan. Please go ahead.

Aditya Makharia:

Specifically to the South, has that market grown above the average industry rate in this quarter?

Gopal Mahadevan:

Overall South markets have grown at lesser rate than the TIV growth in current quarter.

- Aditya Makharia:** So in the sense when you are saying industry grew 23%, you are saying that the South would have probably grown at...
- Gopal Mahadevan:** Total TIV grew at about 23% and the Southern markets have grown at about 16% or 17% I think.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Two questions: One, if I look at last year, even in current quarter, the 37-tonner did very well for us in terms of gaining market share. How big this category can become because from second half onwards we will have some base also? What kind of products you are selling over there?
- Gopal Mahadevan:** At the moment, I cannot comment on how large this entire segment will come because we will have to wait and pan out but it has been one of our more important products in MHCV segment and we expect this demand for this product will continue over the rest of the year as well. That is the only outlook I can give because frankly, for us to give an estimate as to this is what I expect the 37-tonner to this particular model to grow at, because this is a little too micro at this level for us to say. For example, in LCV, if you were to look at it, it is a completely different example, but the rigid front suspension that was introduced about 6-months back has actually been a very important product which has helped us to grow significantly over the market in the addressable space. So, it is an important product. It is growing and I expect this to grow in the second half of the year as well but we will have to wait and watch out.
- Chirag Shah:** But can this category be like 10%, 15% of the overall segment? If the demand potential customers are becoming so farther, it can become so big?
- Gopal Mahadevan:** Depending on the applications that is there it could possibly be about 10%, 12% but let us wait and watch. I do not want to give something which is overly optimistic but I think what you say is correct, it can become that much but we will have to wait and watch for that.
- Chirag Shah:** This would be largely Multi-Axle Vehicles, right? Nothing on the Trailer side or Tipper side, nothing like that?
- Gopal Mahadevan:** Not on the Tipper side, it is a Multi-Axle Vehicle.
- Chirag Shah:** Second question was you indicated that there is a good amount of inquiry that you are seeing from various business segments. I wanted to understand the Replacement demand that has been kicked in which has been driving the demand. Is there actually if I have to like overall population in the system, have this as an increase in population or there was some scrappage that have happened and the population itself had gone down, which is kicking the Replacement demand?
- Gopal Mahadevan:** I do not think the level of scrapping has been equal to or greater than the fresh demand that has come in. What we believe here is that the demand has come in because of the pent up requirement of the industry over the last 2-3-years, excluding last year where there has been a growth of 16% of the industry volume, I think that is one of the reasons, the second one I told you about the general economics are getting better. So, there is an incentive for the fleet operator to invest in

new vehicles and this is also evidenced by the better repayment records that the finance companies are having. The third thing has been that the end customers also started to kind of require the fleet operators start changing the fleet, because the average fleet started to increase and they were very particular that the fleet operators have better fleets for them to get orders.

Chirag Shah: Because we are headed for historic high margins for the year and even next year with the volumes come in, is there a thought process internally that beyond a point you would like to invest back in the business or pass on to your end users, the incremental profitability?

Gopal Mahadevan: I will only put it this way; what I have told at the beginning of the call is that we had a 10.1% EBITDA and we expect that the exit EBITDA for the current year which is Q4 FY16 would be better than what we are in the Q1. That is what we are looking at and we should be able to achieve, but as far as passing on margins, etc., is concerned, I think what we are looking at is have I got sufficient reach with the customers, do I need to improve that, how is the quality of the vehicle, what is the service level that I can give to customers, and of course, how do I grow this whole business profitably quarter-on-quarter, year-on-year. What we want to ensure is the overall strategy of the company, when you look at it is to ensure that the company keeps growing. The second one is it has become more profitable through product mix, through cost management, to material cost management and overhead management and also cash flow management and operating working capital management. So if we are able to get all of this done, at the end of it we need to ensure that we have the benefits of operating leverage and better ROCs. That is the intention. Strategy of whether a particular model has if I find that the margins or will I share some of it to enhance my volumes or market share, that is more a sales or a particular geographical call which is not the overall strategy of the company. We are very clear, we have been mentioning it in all the calls — Ashok Leyland will only do meaningful market share, which means our intention is never to go and chase volumes at the cost of profitability. I think all metrics are important that is why we have shared with the investors. There are a whole host of other matrices but the three most visible ones are market share, EBITDA margin and the third one is operating working capital. So, everybody including our front end leadership team there are very clear what their targets are and that is how we are getting measured and monitored.

Chirag Shah: One clarification on the Defence, if I understood correctly, there is no major lumpy impacts in the quarter which is leading to a far better RM-to-sales ratio, because generally we tend to have a lumpy impact of Defence in a quarter.

Gopal Mahadevan: I will put it this way; it is not a lumpy impact, but the volumes will change between CBUs and kits. This quarter we have had some kits but we could have completely built units in the next quarter. That would depend on the oftakes. Some of these things are not driven by what we can sell. Some of these things are also dependent on what the customer would want to buy. So, we do expect Defence orders to come in the subsequent period of the current year also. And at the moment, the visibility that we have is that this is not going to swing our profitability significantly.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints, that was the last question. I would now like to hand the floor over to Mr. Ashish Nigam for closing comments.

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 this call. Have a good day everyone.

Gopal Mahadevan: Thank you, Ashish. Thank you, everyone, thank you very much.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Axis Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.