“Ashok Leyland Limited Q4 FY'16 Earnings Conference Call”

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MODERATOR: **MR. ASHISH NIGAM – AXIS CAPITAL LIMITED**

Moderator: Good day, ladies and gentlemen, and welcome to the Ashok Leyland Q4 FY'16 earnings conference call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 Limited. Thank you and over to you, sir.

Ashish Nigam: Thank you. Good morning, everyone. This is Ashish Nigam from Axis Capital. Welcome to the Q4 FY'16 conference call of Ashok Leyland. From the management team we have with us Mr. Vinod K. 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 K. Dasari: Good morning. Thank you for participating in the Ashok Leyland investor call. This is Vinod Dasari from Chennai. Let me say six points and then we will open it up for questions.

2015-2016 was a fantastic year, we posted record turnover, our revenue was up to Rs. 18,800 crores. The second point, I wanted to make is this was backed by record levels of market share. This is the fifth straight year that we have gained market share in the domestic market despite the entry of many new players. And the good part about the market share was that we gained market share in every single segment that we compete in as well as every single region that we compete in. So, it was not something that was focused on one area. The market share we finished as reported by SIAM is 32.7% versus 28.5% the year before.

Not only we did well in revenue as well as market share obviously, the revenue also got a nice boost from an increase in aftermarket sales where we had substantial growth in our annual maintenance contracts and extended warranty packages as well as our spare parts sales. As far as the profitability goes, this was a record profitability for us. In terms of EBITDA, we were at 11.5% of revenue which is the highest ever.

In Q4 we were well higher than 12% - 12.6%. As far as cash is concerned, we finished our operating working capital as we measure it at negative so we were minus one day at the end of the year. For the year, we generated cash of Rs. 2,000 crores or so and that has brought down our debt to equity to record low levels, our debt to equity now stands at 0.24% and the total debt has come down to Rs. 1,151 crores from what used to be much higher, more than Rs. 6,500 crores level sometime in the recent past.

The fifth point I wanted to make is given that we had a fantastic year with an operating PAT of Rs. 1,111 crores we use the opportunity also to make sure that we rationalize our investments and continue to get back to the core focus of our company. And as such, we cleaned up most of the investments where we had a doubt and made a provision for that. This pretty much completes all the rationalization, there is a little bit left, but majority of this has been completed.

The last point that I wanted to make is that we have taken a resolution approval from the Board for further equity infusion, but that is just an enabling resolution it was taken last year also given our cash position and our debt position, I do not think we will require it; but just to make sure that we have the ability to raise funds if we ever require to, we took the enabling resolution.

A lot of people asked me about that so I thought I will clarify that upfront. Those are the six points I wanted to make and then we will now open up for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: My first question, Vinod, pertains to the industry growth. If I am not wrong, Gopal guided on CNBC today that you are looking at an industry growth of 15% to 20%. I just wanted to understand some more bit about that in terms of is it factoring in the kind of expected pre-buying what you are looking at the industry level? And if that is the kind of growth what you are looking at including pre-buying, how would the two half's of the year behave because I presume the pre-buying will be more towards the second half of the year or more 4Q? So, just want to understand how do you see or look at the year broken up into two half?

Vinod K. Dasari: Well you are right that the pre-buy will have a bigger impact in the second half, but that is not the only thing that is driving the TIV. TIV is being driven by replacement demand, more and more places people are banning old vehicles, and there is infrastructure demand that is picking up. So as such there will be continued growth and very high levels of utilization throughout the year, but as we come closer to the fourth quarter, it will possibly be at very high levels of utilization. So my gut feel is that while the overall year we should grow at 15% or more by the year-end that quarter will be much higher growth. And for the full year, I think it will be maybe 45% - 55% H1 to H2 to try and answer your question.

Pramod Kumar: Which is not very different from the normal years, right, not very different?

Vinod K. Dasari: Yes. I think there will be a capacity crunch in the end and I do not think the industry can suddenly deliver so many vehicles.

Pramod Kumar: And just a follow-on on that. I believe the technical regulations that the chassis needs to be done before March 31, right?

Vinod K. Dasari: Right.

Pramod Kumar: So, you may have build-up of inventory of the old chassis so that you can continue to sell them in FY'18 at a much better price?

Vinod K. Dasari: Sometimes the government may not allow so it is too risky to build too much of an inventory.

Pramod Kumar: Okay. And the second question pertains to the launch cycle, Vinod, as in the last two years we have done all the right things in terms of launches opening up sub segments like 37 tonne which has done extremely well and opening up a region as well in terms of reach. But how should one look at FY'17 from a pricing perspective from your side? Because we do hear that Tata Motors wants to regain market share, they are launching a 37 tonne product this month or so, so is Eicher in the matter of next one or two months and they have seen some market share traction of it. So, how should one look at the industry competitive scenario in terms of fight for the segment shares across the board and also the pricing environment and in context with the commodity hike? So, how should one look at pricing and margins for the industry in FY'17?

Vinod K. Dasari: Pricing will continue to remain aggressive because of the competition, but we do not price our products to win market share. Our business is very simple, Pramod. I need to make a product that is better than somebody else so that it enhances the ability for my customer to make more money. Second, I need to have a network that allows the customer to have a vehicle that continues to perform. If my customer's wheels are turning only then he is making money and when his wheels are turning, that vehicle should be performing at or better than anybody else in the market, we focus on that. Continuously over the last one year or two years while there have been discounts and so on, our net sales realization across the segments has actually gone up. While there will be aggressive competition and all that and yes, there is lots of pricing pressure not just from these two that you mentioned, but also from some of the other smaller ones newer entries, tremendous pricing pressures but we are not going to buy our market share.

Moderator: Thank you. Next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Some housekeeping questions first. If you can share what was the average discount in the quarter that was one. And the second housekeeping question was on commodities what is the kind of incremental pressure you are witnessing from Q1 onwards and the kind of price hikes that you have looked at?

Vinod K. Dasari: Well, first of all the discount question, Chirag, it is very difficult to answer and rather irrelevant because we have discounts anywhere from nil discounts on all our new products whether it is a BOSS or a Captain, we do not give any discount on that anywhere to very old vehicles which are maybe up to Rs. 3 lakh discounts where in some region we are not present, we might give a high discount. It is a penetrative strategy, but that is a marketing call. What we look at in every business unit that we have and we have 11 business units now inside Ashok Leyland, everybody is measured on profitability and their compensation depends on it. So they look at particularly the net sales realization to make sure that they are actually recovering as an overall better pricing than whatever was going on regardless of discounts. As far as the commodity price increases there, it is hard to predict. There is steel guys who are saying that they have got this minimum import price now from the Government from China. We were not importing much from China anyway. But regardless, there will be potentially an increase in steel price and possibly some of the other commodities given that the demand is going to be so high. But all the cost increase we pass on. So if there is a commodity cost increase, there will be a like-to-like slightly higher to make up for the margin, whatever is the cost increase plus our margin will be passed on as price increase.

Chirag Shah: Fair point. And slightly broader question, while last year the road benefited from shift of demand from railways to roadways because we were dynamic in terms of pricing and diesel price benefits being passed on. Of late we have seen some changes happening over there and railways also are taking corrective actions. Do we see some shift of demand going back to railways because of that? The freight rates have gone up in the system for roadside, and railway they have been reducing freight rates for example?

Vinod K. Dasari: See Chirag, this is also a very macro question. 80% of the transport in this country happens by road and majority of the train transport that happens is for bulk materials for process industries. So as mining increases let us say there will be more coal that is transported from the mines or if there is iron ore that is being generated that will be used by the trains. But normal goods are not shifting from trucks to rail because the last mile does not exist in rail. So, we do not see a threat to our business from rail directly.

Chirag Shah: Okay. And sir, if I can squeeze in one last question on gross margins, sequentially we have seen some pressure on gross margins, any specific thing to look? Is it product mix or how should one look at that number? Because we are assuming that the gross margins would improve, but it seems they have decelerated marginally sequentially.

Vinod K. Dasari: In fact it is only related to mix. There are certain lines of businesses that did not do well. These are non-vehicle related ones, they will come back in this year. So vehicle related ones I must say our gross margins sequentially or year-on-year were probably at the best levels in the quarter. You want to add something?

Gopal Mahadevan: Just to clarify just to build on what Vinod said. When we look at the margins business wise internally actually the margins have improved sequentially. And what Vinod was conveying was when you have these mix changes that happen between say the amount of defense, non-defense, exports, domestic, and then within bus you have STU, non-STU; and within trucks also you have larger vehicles and ICV. When that mix starts to kind of change every quarter, we do see that the margins change. But just to clarify, there is absolutely no pressure on margins in the fourth quarter.

Moderator: Thank you. Next question is from the line of Pramod Amthe from CIMB. Please go ahead.

Pramod Amthe: If you look at from the point where you are standing with five-year high type of a market share, where do you see scope to further improve your market share or outperform the industry growth from here onwards?

Vinod K. Dasari: Good question, Pramod. If you look at our five-year market share, we actually split it up between medium commercial vehicles and heavy commercial vehicles in two parts. The medium commercial vehicles which is the ICV segment let us say 7.5 tonne to 16 tonne and 16 tonne to let us say 49 tonne which is the heavy. In both cases we are at a five year high. But if you look at individually, we are at only 17% market share in the ICV segment. So, obviously we will focus more on that and that is why we launched BOSS last year, we launched some buses. Now, we have got two world class products coming. One is the Sunshine School Bus, which is India's first rollover compliant school bus, India's first Frontal Crash Protected School Bus. We designed this school bus with school children when we had at least 150 kids coming into our tech center to help us, give us ideas on the design and the look including anti-bacterial seats for that matter. So, we are very excited about this product. It will be launched in the next couple of months. Similarly, we have taken the BOSS platform and if you look at the ICV segment in the same 12 tonne range about half the market is either premium or heavy overload. We are present in that, but we are not at all present in the value segment. So, we had to launch a world class product at a much better value and that is the Guru product that we are launching. So, both of these will come in the next quarter or so and this is where we have to expand our product portfolio. Equally we look at those regions in the country where we are weak we will have to see how we can push our market share there. But at the same time, we have to defend our key areas of south and west.

Pramod Amthe: And second question is with regard to the emission norms effective April 2017. What will be your engine strategy for BS-IV and then have you finalized anything for BS-VI, how will you be tackling going forward?

Vinod K. Dasari: We have been ready for BS-IV since 2010 because we have been supplying BS-IV vehicles since 2010. They were based on SCR, Selective Catalytic Reduction. We also have and EGR solution up until a certain horsepower. Some of it is confidential, I would rather wait till April 2017 when we launch it. We have some very innovative ways. If you recall even with BS-III, we had the most innovative solution for how to meet the emission norms. So, Ashok Leyland is a company where we continue to focus on what we call as second hemisphere renovation not otherwise, but how do I meet emission compliance in an Indian way rather than simply try and cut and paste a solution from Europe, which may or may not work in India and if it works, it will be very expensive. We are trying to come up with an Indian solution. We already export Euro 5 vehicles by the way and we are ready even with Euro 6 solution, but that does not mean that is the solution that I will take to the market. We will continuously evolve and innovate and try and come up with a truly world class solution even for Euro 6.

Pramod Amthe: And still you are still, you are very near to that achieving an Indian solution you feel for the adjusting fleet for BS-IV?

Vinod K. Dasari: Well we already have one. We have one with SCR, we have one with EGR so we are continuing to evolve on that. We have some very good ideas in the pipeline. I do not want to give out the strategy there.

Pramod Amthe: Sure. And last question if I can ask. Where is your capacity utilization in the fourth quarter and do you see capacity limitations if the industry continues to be an uptrend, you guys have to relook at your CAPEX and capacity plans?

Vinod K. Dasari: I think even in Q4 we were at about 75% maybe 80% in some months. I do not see capacity internally as a concern if I look at it very broadly. I worry about the supply chain capacities more than our own capacity. Inside Ashok Leyland, we are looking closely at maybe fully built buses, how do we enhance the capacity for that? Those are minor investments that in fact our Board has approved and we will probably look at augmenting the capacity of our bus body plants. As the bus body code comes in, we might have to make more vehicles which are fully built rather than just selling chassis and if we make it, we have better control on the quality and the performance of it than if a customer makes it at somebody else. Similarly, I think as the truck code will come and cab legislation will come, we might have to look at some augmentation of capacity on cab, but these are not anywhere near the level of investments that we had to do previously. We are not looking at building the Pantnagar type of plant anytime in near future.

Pramod Amthe: So what should be the CAPEX for FY'17 - FY'18, any indications?

Vinod K. Dasari: 217-2018 or 2106…

Pramod Amthe: Yes, 2016-2017 or next year forward?

Vinod K. Dasari: I do not know, we will play it as we go, but it will be somewhere about Rs. 500 crores or so.

Moderator: Thank you. Next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: I wanted to understand your strategy in the tractor trailer segment like here if we see the industry has nearly doubled in the last five years and you have pretty high market shares here. So maybe five years down the line, where do you see this segment? Currently it is about 20% of the total volume so where do you see it? And your product portfolio launches, are there any portfolio gaps that can be filled? And secondly, in the higher tonnage segments, most of the vehicles are in 180 horsepower. Due to emission norm or other reasons, do you see a shift towards the 230 horsepower and how are we placed there? And lastly, in the LCV segment, I guess you have separate dealerships there so, would you continue with the strategy? And with certain issues in the Leyland Nissan JV, what is the product portfolio strategy here or how would the new vehicle launches pan out?

Vinod K. Dasari: Okay, you asked many questions so let me try and go one by one and if I miss one, please correct me. As far as tractors are concerned, they are still a relatively small portion of the overall TIV. They are used in very specific applications either some use it for car carrier, some use it for container, and some use it for cement transport and they are mostly unique applications because in many cases they are one side empty. The other problem that you see in tractor trailer is It is difficult to find a tractor trailer driver because it is more difficult a vehicle to drive so there are specialist drivers required. Lastly, I think the government is now coming up with more rigidity or regulation on the trailer itself. So yes, the market will grow if those other three applications that I said will grow there are two segments predominantly in this, 35 tonne and 40 tonne segments where we have a very low market share, but the 49 tonne segment where we are probably having about 60% - 70% market share. Now, as far as the horsepower goes, when I joined the industry ten years ago or so, the average median horsepower in the industry was about 120 horsepower to 140 horsepower. Now it is about 180 horsepower. If it moves to 230 horsepower Yes, we are ready to make 230 horsepower. We have engines anywhere from 40 horsepower to 450 horsepower with our NEPTUNE. We have not launched those because we do not yet see the volume that is there. But 180 horsepower to 230 horsepower we can do it with our H Engine itself, we do not even need to bring in NEPTUNE yet. As far as our LCV is concerned, wherever the dealerships are common they share the premises. If the dealerships are different then they keep their premises different. The reason we have a separate distributorship for LCV is because it is a different set of customers, it is a different set of buying factors. Mostly it is customers who are daily operators, some of them are owner operators. They need the vehicles to be serviced in a very time sensitive manner on the same hour or minute sometimes. So, it is a different set of customers and hence we have a different dealership there. As far as the product plan is concerned, yes, we have a product plan. I cannot talk about it because it is with a joint venture partner. As and when we are ready to talk about it, we will let you know.

Srinath Krishnan: Sure. Finally, consol debt sir, excluding the financing?

Management: Consol debt net of cash was about Rs. 9500 crores as, I will just give you that number…

Management: That includes predominantly…

Management: Yes, that is HLFL predominantly if you look at it sorry, Vinod, you are right. It is predominantly HLFL.

Srinath Krishnan: Excluding that sir, how would that be?

Management: On a standalone it was Rs. 1,151 crores

Management: I will just give you a number, just give me a moment.

Management: So, can we go on, I will reply

Management: It is Rs. 11229.

Management: How much is HLFL?

Management: Out of that, HLFL is Rs. 7350 and we have got the other companies; these joint ventures and Optare, Albonair, et cetera.

Moderator: Thank you. Next question is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

Amyn Pirani: I have two questions, the first is on the industry growth expectations. Now, given where we are in the cycle, would you think that we could actually grow faster? And in that context, is the guidance on the conservative side or is it because you are not seeing any significant improvement in industrial activity on the ground?

Vinod K. Dasari: I think it is very difficult to predict, but what I know is that this will probably be a banner year for the commercial vehicle industry. If I step back and rather than make an exact prediction on what it will be, five years ago this market was at its peak and we had sold about 360,000 medium commercial vehicles medium and heavy commercial vehicles in this. Then it came down to 200,000 the next year it went to 230,000 then to 280,000 and so on. So we are still not even at the previous peak. So I know that we have had two years of consecutive growth, but that is because this is a base effect. So there is still a lot of upside left. At what pace it will come, personally I would not want it to be a 50% - 60% growth in one year and then a drought again the next year. I like this 15% - 20% growth rate that is there. So as long as the market is growing at 15% - 20% and we are growing faster than that that is the best scenario to be in.

Amyn Pirani: Fair enough. Sir, and on your CAPEX guidance, I mean, you have been talking about Rs. 500 crores for the last two years and doing much lower than that no complaints there because I think even this year you did less than Rs. 200 crores if I am not wrong. So is your investments expected to pick up or you feel that you could be well within the Rs. 500 crores as you have been in the last two years?

Vinod K. Dasari: So, I would still keep that Rs. 500 crore number,. Hopefully we spend lesser than that. Look, it is easy to just invest away when the market is booming but I do not want to just invest money to build capacity. I would rather invest money to build capability, which will be lot more sustaining. But there are certain items like new capability of bus building or new capability of cab building, if that is required it might force us to do some investment and we are not afraid of doing that investment because it will give us higher revenue and higher margins. But whatever investment does we have to follow and go through a very strict internal mechanism of approval and we are quite stingy in our CAPEX maybe you can call it lessons learned from the past, but probably the more judicious thing to do.

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

Sonal Gupta: Just the first question I had, could you give us the revenue share in this quarter I mean, how much was domestic trucks as a percentage of your Q4 revenues and buses and exports?

Management: Our revenue from exports was approximately about 10% of the total revenues.

Sonal Gupta: For Q4?

Management: And the consolidated I think in terms of full year it was about 10%, am I right?

Management: Yes.

Sonal Gupta: Right, no, sir for Q4, what would be domestic MHCV revenues?

Management: Domestic MHCV revenues both trucks and buses was roughly about 74%.

Sonal Gupta: Okay. And sir, just wanted to understand the other thing was in terms of the tipper market, would you have the numbers off hand in terms of what is the percentage growth in tipper market and what is the size of the tipper market and what are the expectations? Are we seeing a very strong growth in that segment now?

Vinod K. Dasari: Last year the tipper volume did not grow; the industry grew by about 31%, tippers only grew by about 17%. But as the infrastructure is starting to come, I am sure the tipper market will start to come back a little bit, but there is a lot of tipper capacity available. If you remember, the road construction guys had bought a lot of the stuff and their vehicles are sitting idle. So some of them will just focus on capacity utilization first so, there will be a lag in infrastructure versus the tipper industry. Infrastructure people are saying is happening but we do not see that reflected in tippers yet, but I know it will happen sooner or later.

Sonal Gupta: Okay. Sir, would you have the number for FY'16 what was the total tippers industry volume?

Management: Total number of tippers sold was about 45,000 vehicles by the industry in FY'16.

Sonal Gupta: Okay. And sir, my last question is on the IndAS the new GAAP that is coming in and what would be the impact for Ashok Leyland of that?

Management: It is not very significant thankfully because there is a certain amount of revenue reclassification mildly which happens in terms of some export expenditures have to be grossed up. Depreciation there is no major impact. As far as the foreign currency is concerned, any swap entries would need to come into the P&L if there is any cross currency swaps. Well at the moment I would say that the impact is favorable, but I do not want to kind of whet the appetite of any investor saying that let me add this into the P&L performance because we remove that when we look at the overall performance of the company. Other than that, there are not any major implication that will come. On the consolidated side, of course what happens is the previous year numbers when we start reporting would start to get reported under IndAS but those are again like some entries for goodwill, etc., which will have to be reclassified, nothing very significant that I am too worried about.

Sonal Gupta: Okay. So my specific question was also in terms of I think, I do not know, revenue recognition on AMC and maintenance contracts I mean, how would that change really under the…

Management: That is what I said, if I look at it for the business per se, it would have some impact; but when you look at the larger size of Ashok Leyland, the impact would not be that significant. That is how you have to see it because like I mentioned the truck and bus, the domestic MH&CV business accounts for nearly about 75% of the revenues. There is no major change that happens in that and then you have the various other businesses and out of that the spares and the AMC business is roughly about a Rs. 1,000 crores business on an Rs. 18,800 crores revenue. So, it is not very significant.

Moderator: Thank you. Next question is from the line of Jamshed Dadaboy from CITI Group. Please go ahead.

Jamshed Dadaboy: A couple of questions, first on your consolidated shareholder funds, could you give us a sense of what your impairment has been overall at a consolidated level? I am just trying to tally the profit and the accretion to reserves?

Management: I will possibly take it offline because that will take a little bit of time, my dear friend. So, I will ask you to be in touch with Balaji. What is happening is that some of the impairment entries that we take on a standalone basis will not be reflected in the consolidated because that has to be done on the consolidation, when you have done it on an equity basis that will vanish. So what we have done is you must.

Jamshed Dadaboy: It looks like it was Rs. 100 odd crore?

Management: Can we do that offline so that we don to spend time in doing this reconciliation?

Jamshed Dadaboy: Okay, fine, that is fine. Then I will ask another two questions. First one is you all have a large amount of cash on balance sheet but the debt level has also gone up year-on-year. Is it just some timing mismatch?

Management: No, no. These are the year-end collections that happen so the net debt that we have in the balance sheet is very low it is about Rs. 1,150 crores, which is what you heard the MD state that the debt equity had come down 0.24%. So what happened is when you have these collections, see March has been a very good month and as you are aware Ashok Leyland does not give any credit on the domestic truck business or for any of the non-government business. So we have to collect the monies and only then we dispatch the trucks. So we had a certain amount of money which was sitting in the bank due and we also had due to which our operating working capital also had come down significantly. So those monies were actually invested into mutual funds and deposits as very short-term money, that is why you saw that happening. There is no mismatch of asset liability we only have long-term. Since you raised this point which is interesting, we only have as of the end of March we only had long-term debt which was for financing long-term assets. If we do borrow for short-term for purposes if there is a requirement for borrowing for short-term purposes, of course we dip into the CP market.

Jamshed Dadaboy: No, because the reason I am asking is year-on-year on both the parent and a consolidated basis it looks like your debt level has gone up.

Management: Of course it has gone up. See, what the figures that I had mentioned of 11,221 crores was before reduction of the cash that was there in Ashok Leyland and so if I were to shave off another Rs. 1600 crores, the net debt would be in the range of Rs. 9500 crores. But we must remember that out of that nearly about Rs. 7300 crores is Hinduja Leyland Finance. Hinduja Leyland Finance is a very growing finance company and like other finance companies, they do leverage the debt by 8 times to 10 times the net worth. So when you have a balance sheet such as Hinduja Leyland Finance coming in, the debt levels go up. So if you were to shave that off, Ashok Leyland standalone debt at the end of the year was only Rs. 1,150 crores net. So, the debt equity was 0.24% as opposed to 0.6% in the same period last year. We have generated cash of about Rs. 2,000 crores during the year. So in terms of cash generation, this has been an exceptionally good year and just to kind of reiterate what Vinod mentioned at the beginning of the call, even though you did not ask it but for the benefit of investors who have joined in late, the resolution that we put in for equity issuance is purely something that we do as a standard operating practice year-on-year. We have been doing that for six year to seven years and we continued the practice in this year also because in the event we see some great opportunities which we will not miss as quasi-equity, we may go for it. But the company has no plans to raise equity at all in the current year or in the medium term to mention.

Jamshed Dadaboy: Okay, that is helpful. Sir, second question you mentioned in I think, Mr. Dasari mentioned in his opening remarks that pricing will be aggressive, but you all will not buy market share. Now coming to like end of FY'18 your excise duty benefits will cease. At that point in time, your discounting will have to obviously come down or pricing goes up. What is your thought in terms of your medium-term market share? I know you all mentioned the tilt towards ICVs, but does this mean that on the heavy commercial side you all are sort of okay with your market share as it is today, excluding the fact that obviously you all will have some penetration driven strategies in the north and the east? Is that the way we should think about the business?

Vinod K. Dasari: First of all, your information is wrong. Our excise duty benefit does not get over next year like most of the other people. We started in 2010 so our Pantnagar benefit goes on till 2020.

Jamshed Dadaboy: Okay, sorry. But what will you do once it gets over?

Vinod K. Dasari: We wi'll hopefully reduce costs by then to recover from the loss of excise duty benefit.

Jamshed Dadaboy: What do you think about pricing or do you think the industry has just moved to a higher table of discounts?

Vinod K. Dasari: I do not think this whole panacea that we have the discounts is relevant. I keep saying that let us look at net sales realization and net sales realization is continuing to go up. Some parts of the business you have to give discount because there is other new competitors who are giving discounts, but we do not give discounts where our net sales realization is worse. We will make sure that our margins are maintained and there are newer products on which we give no discount. So as far as pricing is concerned, we are fairly comfortable.

Moderator: Thank you. Next question is from the line of Govind Chellapa from Jefferies. Please go ahead.

Govind Chellapa: I had a couple of questions, the first one is if and when GST is implemented, what is the market opportunity for you in terms of capturing value inside? Today you do not do much of body building I guess trailers are also bought outside, but once the tax advantage for unorganized comes down and if it is on equal footing, what is the expansion in market opportunity for you?

Vinod K. Dasari: I will answer it three ways. First and foremost, if the GST comes in, it will give a general improvement to the economy, I believe at least 1% or so on GDP, and our industry is so tightly linked to GDP that it will probably help us. The second benefit is that if there is GST, then you do not have to worry about each state tax and then hence you can remove all the regional sales offices and all that where you keep regional sales yard so that you could reduce your costs even more. Third is as far as doing the bodybuilding inside and all that we probably would not make all of these things ourselves but we will probably do the final assembly ourselves which will help our revenue, but I do not think it will certainly have impact on increasing the number of vehicles. Vehicles are still the same, bodies are being built by somebody else, it is just from whom it is being built will have a difference in future.

Govind Chellapa: Sure. If my understanding is right for the end customer, about 10% - 15% of his cost is body and maybe if it is a tractor trailer, it is probably a higher number and that is the revenue that you lose today because somebody else does it? Is that the right way of thinking that? I mean today you are not doing it because the unorganized is a lot more competitive.

Vinod K. Dasari: Yes. So like I said, the revenue will go up but not the number of trucks sold.

Govind Chellapa: Sure. Just the revenue opportunity goes up, that was my question. Is it even significant for me to ask this question? That is what I am trying to figure out. Can your revenue opportunity go up for the same number of trucks, can it go by 10% - 20%? We don't know what it is, that is what Iam trying to understand?

Vinod K. Dasari: So I mean per vehicle if you say it will go up by Rs. 1 lakh to Rs. 2 lakhs, which is not that significant. It will certainly help let us just put it that way.

Govind Chellapa: Okay. My second question was on Hinduja Leyland Finance. Now I have a question both from Ashok Leyland's perspective as well as HLFL's. In the last shareholding disclosure was I think you have 57% in HLFL. Now, three sub questions. One, what proportion of Ashok Leyland vehicles are financed by HLFL? Second, what proportion of HLFL's business is Ashok Leyland vehicles and what accounts for the rest? And third, there have been talks intermittently in the press about an IPO, would you consider selling down part of your stake? Would there be an offer for sale from you or would it just be an infusion into HLFL?

Management: Very quickly, we have roughly about 50% of the revenues of HLFL coming in from commercial vehicles of Ashok Leyland, they do only commercial vehicle financing of Ashok Leyland, but they do have other businesses like two wheeler financing. They have also branched off into small housing, etc., and then they have other multiple finance businesses, but roughly 50% of the portfolio is from Leyland. To also…

Management: Just want to add.

Management: Go ahead, please go ahead.

Management: There are two guidelines that they operate under. One is that you should not have less than 50% or more than 50% of your business coming from Ashok Leyland so that reduces their dependency on Ashok Leyland per say or our dependency on them. The reverse of it we say is that we should target to have 15% or so of our vehicles being financed by HLFL and not more. So, that way our dependence on HLFL also goes down. All the credit calls are taken by HLFL, we do not influence that at all. And to answer your question specifically, as of now we own about 57% of HLFL and we do not intend to dilute it.

Govind Chellapa: Okay. And lastly, do you provide any delinquency support?

Management: We do not provide any delinquency support…

Management: The credit call is theirs.. So if there is a specific customer that is strategic and we need to invest into it, I would give a subvention to that financier whether it is HLFL or somebody else. It has nothing to do with HLFL per se.

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

Jinesh Gandhi: A couple of questions, First is with respect to price increases, can you throw light on what kind of price increases you have taken either in fourth quarter or in April - May this year?

Vinod K. Dasari: It is a good question. We had every quarter about 1% to 1.25% price increase, that is why you see that reflected in our margins. And going forward, I was saying that as we reduce our costs or as the commodity costs go up, we will add that with our margin and pass it on in price increases. So, I expect maybe 1% to 3% price increases this year also.

Jinesh Gandhi: Okay. But in fourth quarter we would have taken 1% to 1.25% and so would be the case in 1Q FY'17?

Vinod K. Dasari: About to 1% to 1.5% depending on the model.

Jinesh Gandhi: Okay. And sir, second question pertains to your comments on working capital. You indicated we ended the year with minus one day of working capital, but if I look at the reported numbers it works out to plus five days what is the anomaly there?

Vinod K. Dasari: Okay, let me clarify. We look at working capital when we measure it internally; we look at what is called as operating working capital which is inventory plus receivables minus payables very simply. That is how the operations work and that is at minus one day. That is what we predominantly control. The plus five days it goes into is because we have some loans to our subsidiaries.

Management: And then after that; advance taxes, then VAT credits, and all that.

Vinod K. Dasari: So those are not related to day-to-day operations, we do not call it. So what I was talking to you about minus one days is what we call as operating working capital that is the metric we use internally.

Jinesh Gandhi: Even I am looking at that, sir.

Management: You are looking at net working capital reported.

Jinesh Gandhi: Inventory plus debtor's minus creditors so, would creditors or debtors include some?

Management: We will have to exclude creditors which are not pertaining to operations, that is why. Because what happens is there could be some capital creditors and then there are normal expenditures and stuff like that which we pull out. See, this metric is actually for operations. Basically between sales, manufacturing, and vendors, the guys who are handling vendors are we doing this efficiently to make the terms that is required, Jinesh. It is a good thing you asked this question so you also gave us an opportunity to clarify what it is.

Jinesh Gandhi: Sure. And with respect to sustainability of this kind of working capital levels, what is your take on this? Do we expect to remain largely neutral in terms of working capital or it will start increasing as volume picks up?

Management: Let me put it this way. I think both MD and I, we did mention to some of the stakeholders and press yesterday that this number of 0.24% is not kind of etched in stone. But what we would want to be is roughly in the range of maybe about maybe about 0.5% or so, which is a very, very good ratio to have. 0.24% is also common because year-end you had a lot of money coming in because of the invoicing that happened at the month-end. And as you know this very well, Jinesh, that we do not sell inventory unless we have the money in hand. So, that is the reason why we also saw a depression in the working capital. But overall I think we should get debt to equity of 0.5%, which is a very comfortable one.

Jinesh Gandhi: Sorry, sir, my question was on working capital, sustainability of this negative working capital.

Management: If you ask me your question on working capital why is it minus one days or two days, I think we may go to about seven days - eight days that is it max.

Jinesh Gandhi: Eight days, okay, understood. And lastly, clarification on in this quarter we had profit on sale of investment of Rs. 40 odd crores. Is this full reflection of our IndusInd Bank sale which happened towards end of the quarter or some part will come towards in 1Q?

Vinod K. Dasari: No, the IndusInd Bank was more like Rs. 250 odd crores.

Jinesh Gandhi: Right, that is what even I thought.

Vinod K. Dasari: Was it net of something else?

Management: No, no. This was net of the transfer of subsidiarization that we did of the construction and mining equipment. So the overall IndusInd Bank shares have all been sold now to answer your question.

Jinesh Gandhi: Yes, because if I look at the exhibit, it is saying Rs. 4,168 lakh on net profit on sale of long-term investments.

Management: Yes, that is net of the transfer of the John Deere investment into a subsidiary. That is we have provided for it and then kind of transferred it for other reasons.

Management: Yes, so, that is the amount. So if you look at the overall IndusInd Bank share profit, that was about Rs. 274 crores.

Jinesh Gandhi: Okay. And what is this write-off pertaining to Rs. 420 crores diminish in value of investments?

Gopal Mahadevan: No, that is what we had actually, I think the notes mentions it. It is the provisioning that we have made, its not a write-off, it is an impairment that we have made. We have made an impairment for Optare, we have written off 100% of the equity in Optare, we have provided for it not written-off. The reason being that we took a view at this moment that the business is going through some challenges and we wanted to be fair in our accounting. The second one is of course the joint venture with Nissan where we thought that it is appropriate for us to take an impairment, we already had taken the impairment last year for about Rs. 214 crore so the total equity investment has been impaired. John Deere, you folks already know about it, we did an impairment in September and then the balance impairment has been completed. Like so MD says, a predominant part of the clean-up, the basic thing that we have been doing is to completely rationalize this whole portfolio to ensure that we are trying to bring the investments down to the level that is expected and John Deere was the last one. And Albonair we have taken. Albonair, which is the company which is producing Exhaust Systems in Europe, which is our 100% subsidiary, we decided to actually bring down the investments value by about 25% purely after looking at the valuations. But if you were to ask us at this point in time where we are this is a very promising company in the portfolio because of the Euro 6 emission norms which are going to be advanced to 2020 to 2021. So, Albonair, is definitely a company that we believe will start to scale up.

Vinod K. Dasari: In fact we decided to take it off the block, it was for sale and we are not going to put it on the block. And just to add to what Gopal said. So 100% of the equity in Optare, 100% of the equity in the joint venture with John Deere and 100% of the equity in the joint venture with Nissan has been provided for.

Jinesh Gandhi: Okay. So, what would be left in terms of provisionings now?

Gopal Mahadevan: No, just to kind of add to this. On the other flip side, what I wanted to add that that was not the purpose of doing this, but one thing that all investors should note that there was no cash charge on this. It was a complete non-cash charge, it was a non-cash event. It was only to rationalize and make it to the level that we thought we should bring it. And of course now the good part of it is that the outcome of this exercise is also that the balance sheet size starts to shrink a little bit appropriately so and we expect that one of the positive outcomes that should come out in the medium term is that the ROCEs will start looking a little better.

Jinesh Gandhi: Sure, what are we left with in terms of rationalization now after all these things?

Gopal Mahadevan: The reason why we put this, I know everybody if I may take the liberty of stating because I know most of you guys and so does Vinod, I think we were always looking at something where a small part of the entire spectacular result if I may say we have had was this impairment and everybody seem to be going after that. We had Rs. 18,800 crores of revenue, the highest. I think Vinod, has been leading the team to one of the best margins that has happened we have had the debt equity coming down to 0.24%, we have had our market shares going up all through so, all of this has happened and then the best product launches have happened and two more exciting launches coming in the ICV segment but we still discuss about impairment. But nonetheless, the reason why we wanted to do that is we want to make the company a little more predictable to investors. So, we are saying that there is maybe a little bit left in the kitty which may have to be done, which we may not do at all but the reason why we wanted to share it is if there is any further the equity suppose I have to put in Optare for sustenance that may have to be impaired. So what we are saying is a predominant part of the impairment has been done and we have actually done that over the last two years if you were to notice so that we kind of rationalize the overall investment, we bring the investments down to the value that we want to get it, and focus on the core business, that is the most important thing.

Jinesh Gandhi: Okay. And one clarification with respect to our CAPEX guidance of under Rs. 500 crores, this includes investments in subsidiaries slash JVs?

Gopal Mahadevan: Yes. As usual, yes.

Moderator: Thank you. Next question is from the line of Akshay Saxena from Credit Suisse. Please go ahead.

Jatin Chawla: Hi, good afternoon, sir. This is Jatin Chawla from Credit Suisse. Most of the questions have been answered, just kind of industry numbers. You had mentioned tippers was 45,000. What were multi-axle vehicles and haulage in FY'16 and their respective growth rate, please?

Management: As President of SIAM, I will just do a little advertisement here. Please log on to the website and you will get all the details there.

Jatin Chawla: Sir, SIAM classification does not have the details in terms of MAV and haulages.

Management: It has not only overall industry numbers, it has by segment, by SIAM member also. I do not have it in front of me. I would say the total number of trucks was 270,000 trucks sold, multi-axle vehicles was about 105,000.

Jatin Chawla: Okay. Tipper was 45,000 so the rest was on the haulage side.

Management: No. There is haulage, there is ICV and then there is tractor trailers.

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

Kapil Singh: Just wanted to check on the subsidiaries that we have written down, what would be the debt on the books of these subsidiaries together?

Gopal Mahadevan: The joint venture has a debt of approximately Rs.500 crores, the Nissan joint venture; the JD joint has none, I think everything has been paid back; and then the other large one is Optare, which has got about Rs. 370 crores.

Kapil Singh: Okay. And secondly, I wanted to check regarding BS-IV emission norms. As we move to that, there will be a price increase so any indication like what kind of price increase would be there and would you expect to maintain margin on that price increase as well?

Management: I do not want to give you exactly what will be the price increase because that will sort of show off our strategy, but let me assure you that the margins will be maintained.

Kapil Singh: Okay, sir. And lastly on the defense side we have won some big orders so if you could give some indications that when do they start flowing in and how much was defense contribution for this year and for the quarter?

Management: This year, well defense is a slow gestation or a long gestation business as you know so it will take some time before it fully kicks in. We have focused ourselves on defense mobility. Rather than just say that we will focus on every single aspect of defense, we said, we will look at everything that the Army needs to move so rather than just make a logistics vehicle we are going to make all kinds of vehicles for the Armed Forces. And I must say, that in the last 12 tenders, I believe we have won 11 tenders of them and some of those will start flowing not this quarter, but this year for sure.

Kapil Singh: For FY'16, what was the contribution from defense?

Management: Must be some out of Rs. 18,000 crore, Rs. 400 crores - Rs. 500 crores.

Management: Yes.

Kapil Singh: And what kind of growth would you look at in this thing given the orders that you have won?

Management: We are targeting this to be a significant portion of our business. So, next five years to ten years we are looking at growing this by an order of magnitude.

Kapil Singh: But any near-term targets?

Kapil Singh: I do not want to specify near-term targets because based on the orders that we have won, this Rs. 500 crore business will be at least somewhere in the north of Rs. 2,000 crores.

Kapil Singh: On an annualized basis?

Kapil Singh: Yes.

Moderator: Thank you. Ladies and gentlemen, due to the paucity of time, that was the last question. I now hand the conference over to Mr. Ashish Nigam for his closing comments.

Ashish Nigam: Thank you. Any closing comments, Vinod or Gopal?

Vinod K. Dasari: Gopal, please go ahead.

Gopal Mahadevan: Yes, I think, thank you very much for the interest in Ashok Leyland, I think it has been a very good quarter for us and we are very excited at where we are at the moment. We are looking forward to a couple of product launches in two months to three months' time which is in the ICV space which we believe will also help us gain further share in the market especially because ICV is a place where we have great opportunity to grow as a company.

We have been the best performing Auto Company in India for two years in a row, in terms of stock price movement and also in terms of other matrices so, I am sure you folks know that very well. And we are very excited at where we are, we are on track I think on our network development initiatives, on our product launches, our growth aspirations, on our export and international revenue target that we are planning to roll out over the next four years to five years.

And if you look at the quality of our balance sheet today, we are far, far stronger. I think we have one of the strongest balance sheets also in the industry I think, so this is going to help us to fuel our growth. And we are very excited about the opportunity that international revenues are going to bring in, Defense, spares are also going to be other key drivers for us which is going to improve hopefully our profitability as we move forward.

The focus of course would be on operational efficiency as well. The whole team is in no mood to sit back and relax on the achievement that it has done. We are very clearly focused that we need to drive the operational performance in the company and we have become a EBITDA margin, OWC and operational efficiency and an ROCE company. So, hopefully we would see the benefits of all this as we move forward. Thank you very much, gentlemen and ladies, and have a good day.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.