"Ashok Leyland Q4 Financial Year 2015 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Ashok Leyland Q4 FY2015 Results Conference Call, hosted by Religare Capital Markets Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mihir Jhaveri from Religare Capital. Thank you and over to you Sir!

Mihir Jhaveri: Thank you, Margaret. On behalf of Religare Capital Markets, I welcome you all to the Q4 FY2015 conference call of Ashok Leyland. From the management we have Mr. Vinod K. Dasari – MD and Mr. Gopal Madhavan – CFO. With this, I handover the conference to Mr. Dasari for his opening remarks. Over to you Sir!

Vinod K. Dasari: Good afternoon, everybody. Thank you very much for taking the time to participate in the Ashok Leyland analyst call. To open, I will say that it has been a very satisfying year. We have gained market share in our domestic market. We have done very well in our international markets. I think the cost reduction and transformation efforts in terms of cutting our cost, cutting our working capital and making our company leaner are all starting to pay off. It is also very satisfying to see that the transformation was not just about cutting cost; it was also about making the company future ready. We invested a lot of time and effort in launching many new products that are doing extremely well. We put a lot of effort into expanding our network and at the same time we did a massive revamp of the way we sell our products. I think all of this is coming together quite nicely. When we had the slight uptick in volumes in Q4, operating leverage caught on and we were able to show a double-digit operating margin in Q4.

I think a much better future is ahead of us because the company is now transformed into a very lean fighting machine. We have total industry volume growth of about 16%. But to put that in perspective, just three years ago the TIV was about 350,000 vehicles for medium and heavy commercial vehicles in India and despite 16% growth, we are only at about 230,000 – so even to catch up to the previous high, there is a 50% upside. I do not expect all of that to happen in one year, but I think it will happen over the next two to three years. That growth combined with our efforts in our international markets should hopefully sustain us very well in the future.

Equally exciting is some of the defense work that we have done – we used to be only in 4x4 products. We won many new tenders in 6x6, 8x8, 10x10 and so on and we are becoming the first port of call for any foreign bidder who wants to come to India and has products that need to be moved, as they are choosing Ashok Leyland for mobility solutions. So I am fairly upbeat about the future. Hopefully, the market will sustain itself. Infrastructure projects will come. Mining will start and as the economy starts to improve, the medium and heavy commercial vehicle market should also improve. We worked very hard over the last couple of years. It was a very difficult time for us but sometimes a downturn is good because we see an opportunity to transform the company and the results are here to be seen. So while I congratulate my team, I will now hand over to Gopal to take you through some of the details.

Gopal Madhavan: Thank you Vinod. Thank you for the introduction comments. I think they have set the tone for what your expectations are from the market as well as the company. I am very, very happy to share a very good set of results for the current quarter as well as for the full year. The key highlight that I am going to add to what our Managing Director said is that there has been an increase in market share. We have had a significantly higher growth in volumes. As our MD mentioned, 16% was the total industry volume growth for the year whereas Ashok Leyland has posted 28% volume growth.

On the exports front, we have actually grown 32% YoY. Exports, as we have mentioned earlier, are very, very important strategically for us and, in the medium term, we would like to have a stable one-third of our revenues coming in from exports.

On the EBITDA margin for the quarter, we have been able to reach 10%; we had a 10.1% EBITDA margin for Q4 as against 6% in the same quarter last year. So there has been a spurt of about 4.1%. On operating working capital, I am happy to share that we have for the first time possibly reached negative working capital due to the synchronous efforts of the entire team. On our debt situation, again we are at 0.6:1 – we had wanted to be at 1:1 and while we are significantly below that, I must also share with you that this could be a year-end effect. But we are reasonably stable on the debt front and we have generated cash of over 2,000 Crores in the current year which has helped us bring debt levels down significantly.

On the volumes front, Ashok Leyland’s volumes in trucks have been 18,823 numbers for Q4 and for buses 4,454 units. I am talking domestic numbers, so the total numbers were 23,277 units, which resulted in a market share of 32% and represented volume growth of 46% over the same period last year. The market grew by 31% in Q4. For the full year, the domestic truck business volumes were 53,291 units and bus volumes were 13,151 units, leading to total M&HCV volumes of 66,442 units, which resulted in our market share of 28.5% and in the same period last year we were at 25.8%. We have grown for the full year as I had mentioned earlier at 28% as against the market growth of 16%.

I have already shared EBITDA numbers with you: 10.1% for Q4 as against around 6% in the same period last year and for the full year it is 7.6% as opposed to last year’s number of 1.2%. We have also shared the consolidated numbers in the results which you must have seen and with these comments and the opening remarks of our Managing Director, I am now going to throw the floor open for questions.

Moderator: We will now begin with the question and answer session. The first question is from the line of Trilok Agarwal from Birla Sunlife Insurance. Please go ahead.

Trilok Agarwal: Good afternoon. Congratulations on a good set of numbers. I have two questions: one is what is your outlook on the volume front given that we have already outgrown the industry meaningfully last year? Second, in terms of margin, do you foresee further operating leverage playing out in terms of margins going ahead?

Vinod K. Dasari: I believe TIV should grow – it's very difficult to predict but I think the TIV should grow about 10-15%. We gained substantial market share last year and I believe we should be able to sustain that. I think we should be able to show at least 15-20% growth in our export market.

Trilok Agarwal: Okay and what about the other expenditure part and the operating leverage that you foresee?

Gopal Madhavan: On the operating leverage front, we would pursue our journey to improve margins. While it is difficult to say at the beginning of the year how the market is going to pan out, as the MD has mentioned, we are expecting 10-15% growth in the total industry volume and Ashok Leyland would certainly be matching the growth in the market, if not exceeding it, given the fact that we have our network in place. On the margins front, we would expect a marginal improvement. It is going to be tough but we will certainly look at about 100 basis points improvement.

Trilok Agarwal: Okay, and one final question; when do you believe the LCVs for the industry will start looking upwards?

Vinod K. Dasari: LCVs or HCVs – I did not get it?

Trilok Agarwal: LCV?

Gopal Madhavan: Normally there is a six-month lag between HCVs and LCVs; HCVs started to come back about October/November last year and LCVs should come back too – as an indication, I think April was the first time the LCV markets were on the uptick, higher than previous year April.

Trilok Agarwal: Do you think the trend is already reversed is what I meant to ask?

Gopal Madhavan: I think so – if the MHCV market continues to grow, I think the LCV market will continue to grow also.

Trilok Agarwal: Thank you very much. I will come back in queue if I have further questions.

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

Raghu Nandan: Congratulations Sir, on a great set of numbers, robust volumes, double-digit EBITDA margins, reducing debt, negative working capital, recommencement of dividend – all these were big positives. I had a question on the debt side. What would be the gross debt in the standalone business including current maturities? Also, when I go towards current investments, I think it is mainly Albonair – any update on the Albonair sales, Sir?

Gopal Madhavan: The net debt is about 2600 Crores that is net of cash that came in the year-end. As far as Albonair is concerned, we are still pursuing a suitable buyer. There are one or two buyers who have evinced interest but at the moment we have to ensure that we are able to get the right strategic buyer for the company. We will provide an update as and when we are able to get further traction on the deal.

Raghu Nandan: Sir, have the discounts come off on a sequential basis? As far as I remember, they were about Rs 170,000 in the December quarter?

Gopal Madhavan: We do not look at discounts per se per vehicle which I have mentioned to you in earlier calls also. What we look at is net realization – our net realizations have been improving which is why the gross margins or the margins even over a material cost have improved. We have actually been adding about a 100 basis points quarter-on-quarter typically, sometimes it is 50, but 50 to 100 basis points. We try to improve on realizations by having price increases at regular intervals and we move these levers between products and geographies to ensure that on a net basis, the company's net realizations improve.

Discounts have come off a little bit because of the demand that has set in, but we will have to wait and watch. We have actually seen that the market has got into growth mode. Typically, till the first quarter of FY 2015 we actually saw the market still falling, but from Q2 of FY 2015 we are actually seeing the market grow and, on a cumulative basis, we had forecasted that the market will grow at about 10% at the beginning of the year which was April 1, 2014. Happy to note that the market has actually grown by 16%.

Raghu Nandan: Sir, on the exceptional items, there was a write-off of over 200 Crores; are there more write-offs likely in this JV going ahead?

Vinod K. Dasari: Just one minor thing – we completed most of the VFJ order in the December quarter itself and very little was left over in Q4. I think that added to the mix also. That is why we probably see differential numbers in Q3 to Q4 in terms of the realization.

Gopal Madhavan: Thanks for asking the question. In fact, we had missed mentioning this. One of the reasons you see the Q4 performance on a PAT basis lower than the same period last year is only on account of the exceptional charge that we have taken and more so because in Q4 of last year, we had a significantly higher exceptional income of about 505 Crores. The exceptional charge in Q4 of the current year is on account of an impairment that we decided to take pertaining to a couple of platforms and this was actually done of our own volition – we estimated the carrying value of the investment and said that it was prudent to take it because in the joint venture also, complete impairment has been taken. At the moment, we do not anticipate any further impairments, we have taken because I think very critical for us and is showing a significant growth, we expect the significant growth.

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

Binay Singh: Congratulations for a very good set of numbers both on the P&L as well as on the balance sheet side. My questions mainly pertain to the ASP. Could you share the mix of CVs and other segments on a QoQ basis just to understand why the ASP did not rise this quarter? What was the M&HCV contribution this quarter and last quarter; what was the engine contribution?

Gopal Madhavan: As the MD mentioned earlier, I know you would have arrived at the average selling price by just dividing the total M&HCV volumes and so very clearly, the mix of businesses has been towards the other businesses and, more importantly, like I think our MD mentioned, we have had a significant portion of the defence billing completed by the third quarter of last year.

Vinod K. Dasari: We had 94 Crores of billing in Q3 of FY 2015 for defence versus 16 Crores in Q4 and that skews the number quite a bit.

Gopal Madhavan: Just to add to what our Managing Director mentioned, business-wise if we were to look at it, the realizations have improved and you also need to look at the mix between the trucks and the buses business and then the M&HCVs and the rest of the businesses. So it's more a reason of the mix, but if you were to look at the contribution over material cost or even material cost as a percentage of sales and also gross margins, we have been improving sequentially.

Vinod K. Dasari: Yes, I think from Q3 last year to Q4, we went from gross margins of 25.5% to 27.2%. The other point I made is that we look at it segment-wise, not necessarily at discounts. We look at the net realizations that we get and if I go back over the last 12 months, there is no segment where our net realization is lower. In fact, at the minimum we would have 1-2% higher net realization for these segments. Also, note that in Q4 we did take a 1% price increase.

Raghu Nandan: Sir, what was your overall M&HCV or CV sales revenues as a percentage of the total net sales and if you could share with us the breakup of engines, spares and vehicle revenue?

Gopal Madhavan: For Q4 for trucks and buses it was 72%.

Raghu Nandan: Other segments, if you could share?

Gopal Madhavan: We normally do not give out a break up of each of the segments, but predominantly if you look at trucks, it is 60% for Q4 and the balance buses were 12%, so 72% for trucks and buses and the rest is comprising of LCV, defence, spares and the power solution.

Raghu Nandan: Sir, just a second question on the raw material side. Have we started seeing the benefit of lower commodity prices because we have seen raw material cost per unit drop in this quarter, so is it mostly coming in from that?

Vinod K. Dasari: No, actually much of the raw material cost improvement that you have seen is coming from the value engineering and effort that we have done. The real commodity price reduction has still not happened and I am hoping that it happens this year.

Raghu Nandan: But in your contracts that you are entering into, you are already seeing that happen?

Vinod K. Dasari: We are seeing that the steel prices are coming down – not across the board but only in steel; in castings and forgings it has still not come down as much as we would like and tires are still holding where they are.

Raghu Nandan: Okay, great Sir, I will follow on later with more details on this question. Thank you.

Moderator: The next question is from the line of Shrinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Shrinath Krishnan: In terms of the demand scenario for commercial vehicles, could you give us some more colour in terms of customer segments on the mining side – where are you seeing a good amount of traction coming through at this point in time?

Vinod K. Dasari: As of now, the mining sector has not picked up yet. I think it will pick up in the near future. I am starting to see some infrastructure growth because there is cement movement happening and quite a bit of oil movement also.

Shrinath Krishnan: Okay. So it is on the tanker side you are again seeing some improvement in oil. As regards the write-downs you have taken, I think Raghu was mentioning a 600 Crores write-off on the vehicles and also a 225 Crores provisioning on the investment. So could you just explain the connect there; are they both the same?

Gopal Madhavan: Yes, they are actually the same but it is not 600 plus 200; it is actually two impairments that we have taken factoring in the carrying value of our investment – we have made an internal estimate and based on a reasonably conservative estimate, we decided to take that. This followed out of the 600 Crores impairment that has been taken at the joint venture level where there has been a step-down of the investment and that has also been shown as an exceptional item – which is why I had it mentioned earlier because it also helps to clarify to investors a couple of things: one is that we are not putting cash for this impairment. It is an impairment that has happened and more importantly that is the reason why the profit after tax is actually lower. When you look at the profit before tax, there is a huge jump in the performance for the quarter – whereas in comparison to the same quarter last year we had an 8 Crores exceptional item as an expenditure as opposed to a 376 Crores exceptional income in the same quarter last year. I think in the earlier part of the conversation, I had mentioned it as 505; that is for the full year so when you have a 376 Crores exceptional income which was the sale of long-term assets and some of the investments in the same period last year as opposed to a sale of some assets but also a 200 Crores plus impairment that we have taken as an exceptional item in the standalone, that has actually resulted in the profit after tax coming down for the quarter ratably in comparison to the same period last year.

Shrinath Krishnan: Sir, in terms of truck capacity, would it be possible to tell us how much we have at this point of time and if we were to add capacity would it be more of brownfield expansion in the space that we have?

Vinod K. Dasari: I think we are still far from full capacity utilization.

Shrinath Krishnan: No, in terms of maybe two to three years down the line, if you were to add capacity, would you be having space in Pantnagar or Hosur to add incremental capacity?

Gopal Madhavan: Yes, I do not think we would need to add any more greenfield facilities in the next five to ten years.

Shrinath Krishnan: Sir, what would be your consolidated level of net debt, automotive net debt?

Gopal Madhavan: Total consolidated net debt, I will just give it to you in a moment. I will share it a little later in the call.

Shrinath Krishnan: Similar number to last year. Thank you.

Moderator: The next question is from the line of Nishit Jalan from Nomura Securities. Please go ahead.

Nishit Jalan: Congrats on a good set of results and thanks for taking my question. As you have highlighted in your opening remarks, the company has generated cash flow of around 2000 Crores that has been quite a positive surprise from our estimates, so what has led to this strong improvement – you mentioned some year-end impact in terms of working capital. Is it sustainable? Secondly, if I look at your net block, there has been a big decline this year, so what has been our capex or have we sold any assets which has also led to our cash flows?

Gopal Madhavan: As far as the cash flows are concerned, we have done 2000 plus numbers for the full year on account of three factors. On the operating side, there has been a significant improvement in terms of operations, which have added to the cash. The second thing is our working capital has turned negative as at the end of the year, probably for the first time. The reason this may not be completely sustainable is because we had a huge amount of collections at the end of the year because of the orders that came out on the truck side. While we will pursue a very low level of working capital, there could be a marginal uptick. The third reason of course is that we have sold non-core assets during the year, which has actually resulted in the cash augmentation – so it is a factor of all three, which has resulted in the cash generation.

Nishit Jalan: Sir, my second question would be, if I look at the interest expense of your consolidated entity and the standalone entity, the difference which I believe would be for other subsidiaries has increased to 480 Crores in FY 2015 from 350 Crores in FY 2014. What is the key reason for this and which subsidiaries have seen such increase?

Gopal Madhavan: Actually if you look at it, overall consolidated debt is about 9000 Crores as opposed to 8500 Crores – that is a marginal increase of about 500 Crores. Of course, Ashok Leyland has reduced debt but one of our more profitable subsidiaries, which is Hinduja Leyland Finance, has a higher debt content being the NBFC that it is. Its operations are improving and debt is an essential component of that – that is one of the significant reasons for the debt to go up.

Nishit Jalan: Sir, if I may just squeeze in one more question. If I look at the operating leverage, although volumes have gone up significantly this quarter, we have seen almost a 20% increase in employee cost on sequential basis and almost 30% increase in other expenses. Any expenses which have got bunched up in this quarter, like for example bonus provisioning or something in the employee cost?

Gopal Madhavan: Well, the basic reason as far as the employee cost going up is because for the past two years, the organization has had a flat if not lower number, so we have actually had pay cuts coming in and there had also been downsizing last year and it was only fit and proper that we compensate employees or raise their salaries, because retention of key employees was becoming critical. That is the reason why we see employee cost going up. The second reason, of course, which also contributed to this is that we have had settlements with the labour force in all our manufacturing facilities and the annualized effect of that, the full impact of that has actually come into the current fiscal. But I do not see any reason for alarm here at all because I think in overall terms the numbers are well within control. What was the second question that you asked?

Nishit Jalan: The main question was the employee cost. What I am trying to understand is, is there any cost which should have been spread over all the four quarters but has just come in, in the fourth quarter itself? Is there any such component in employee cost or other expenses?

Vinod K. Dasari: Annual bonuses which are hinging on the total company's performance – there is nothing that actually got bunched up; that would happen even in the future because we cannot approve bonuses until such time the performance is almost inked, because they are based on certain matrices and only then can we approve.

Nishit Jalan: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Kaushal Maroo from Emkay Global. Please go ahead.

Kaushal Maroo: Could you share the defence engine and spare revenue for the full year FY15 at this time?

Vinod K. Dasari: The engines and spare revenues – actually we do not give a breakdown of all the revenues for strategic reasons. That is why we shared the percentage of truck and bus revenue which was 60% and 12% which is 72% of our overall revenues.

Kaushal Maroo: Sir, in terms of the investments required in a subsidiary for FY 2016 and FY 2017 and whatever nominal capex we are going to do for the next two years?

Vinod K. Dasari: Well, we have already mentioned that this is nominal capex so we will live up to that. Broadly the capex that we are looking at for FY 2015-2016 is about 150 Crores and the investments should be in the range of, at the moment we do not anticipate the investments separately, but that should be about an additional 150 – 200 Crores. So we are going to keep a tight leash on both capex and investments.

Kaushal Maroo: Right Sir. The last question, if you could share the regional market share which we had for the full year and whether we have gained market share in all territories or is it just a couple of geographies?

Vinod K. Dasari: We have gained market share in all territories.

Kaushal Maroo: Possible to share the market share number, Sir?

Vinod K. Dasari: You want the region wise market share?

Kaushal Maroo: Yes.

Vinod K. Dasari: We will share that number later.

Kaushal Maroo: Thanks a lot and all the best.

Moderator: Thank you. Our next question is from the line of Basudev Banerjee from Antique Finance. Please go ahead.

Basudev Banerjee: Thanks Sir for taking my question. Great set of numbers. A couple of questions, one, if I see for this year FY 2015, your export volume been close to 12,500 out of core volumes of 80,000. So it is almost one-sixth and as in your early comments, you said you are targeting to reach one-third of your overall core volumes through exports. So that means a huge increase in export volume per se. So what strategic markets and products are you targeting to see that kind of a three-fold jump?

Vinod K. Dasari: We had said that we will focus our export growth in areas where we believe our products are going to be successful and we have an ability to execute export growth. Historically our exports used to be only spot deals, but rather than doing that we said we will invest in some chosen markets and make sure that we put in the network, if necessary, we put in our assembly facilities and so on.

So originally we used to predominantly export to the SAARC region, Bangladesh and Sri Lanka. We expanded a lot in the Middle East. We built a plant in Ras Al-Khaimah as you know with the capacity of about 2 to 4 buses per day; now it is producing 10 buses a day. We have got substantial market share in the Middle East and have sold about 3500 vehicles just in this area. We are doing well in Africa. We were doing well in CIS till the market there collapsed, so all-in-all our exports growth is I feel sustainable because unlike where we used to just do spot orders, we are actually building our business there rather than just waiting for large orders to come.

Basudev Banerjee: So will it be right to assume the 30% CAGR as a sustainable phenomenon for export volumes?

Vinod K. Dasari: Yes, I had said earlier it should be about 20%. We will definitely try to push for 30% but sometimes when the SAARC market slows down or something affects our execution, it might become difficult. Sri Lanka is going for elections and last year we did about 3500 vehicles or 4000 vehicles in Sri Lanka alone. If that collapses then it will be difficult to sustain this kind of 30% growth, but all-in-all in the new markets that we are focused on, excluding the SAARC, we will certainly grow by 30%.

Basudev Banerjee: Sir, second thing, as you said TIV growth this year is at around 16%. From FY 2016 where the estimates across Ministry of Finance or World Bank for real GDP growth are expected to be better than last fiscal, you are expecting TIV growth of 10-15%, which is in fact lower than the past year's TIV growth. So can you throw some color on that aspect, how to look at that angle?

Vinod K. Dasari: Well, I think the TIV growth predictions have been made by many people – some have said that it will be as high as 20%, some are saying as low as negative growth. So somewhere in the middle at 10% to 15% is a conservative figure. Now let me put it this way, if the market grows faster than this, we will be able to respond. We have sufficient capacities – even if it grows by 20-30%, we will be able to respond. If the market does not grow at all and remains at this level, we will still make money. We have protected against this downside risks with growth in our export markets, growth in defense business, growth in the after market – all the other businesses will kick in and start to deliver. There is a huge backlog of orders for JNNURM II that we had from last year; it is carried forward for this year. So it is very difficult to predict what this market will do.

Last year, at the beginning of the year, people were saying it will grow by 30%. It did not grow at all but towards the end of Q4, it actually grew by 30%. For the full year, it grew by 16% but in Q4 it grew by 31% I think, so it is difficult to predict what this market will do. I would only like to leave you with two messages: one is that if the market grows much faster, we have a capacity to achieve our market share numbers. That is not a problem – we can easily respond to it. We have a robust supply chain to do that and two if the market collapses, God forbid, we have sufficiently derisked ourselves from the domestic truck market with back orders in buses, with the growth in exports, growth in after market and defense, so that we should be able to tackle any potential unforeseen downturn.

Basudev Banerjee: Sir, last question. Any update on the John Deere JV? How is it panning out as such?

Vinod K. Dasari: The construction equipment market is down because the infrastructure segment has not picked up. So, as of now, it is still quite down, but we are reviewing what we need to do with this JV.

Basudev Banerjee: So any chances of exiting the JV as such down the line?

Vinod K. Dasari: I would not like to comment on Joint venture without my partner being here; like I said, we will review the whole thing and take appropriate calls as necessary.

Basudev Banerjee: Thanks, that is all from my side.

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

Aditya Makharia: Sir, you did mention something about defense orders expected to go up. Now, can this be meaningful over the next one to two years or is this more of a medium-term initiative?

Vinod K. Dasari: It will definitely be meaningful in the next one to two years, and there are some tenders which go out for as much as three to five years plus there are many more tenders – the new ones that we are coming up with – which take longer test cycles. For example, gun systems that somebody wants to sell, mounted gun systems. For example, there are four bidders – three of them have chosen our vehicles, so whoever gets it, I will definitely have a three-fourths chance of getting that business for Ashok Leyland, for the trucks that carry the mounted gun system. But the guns have to be tested and it will take time, so I am not including those in the immediate term. Immediate term is 11 out of the 12 tenders we have won and completed in the last 12 months and we will get volume benefits from those.

Aditya Makharia: So what is defense as a percentage of sales for us right now and any targets you would like to put?

Gopal Mahadevan: No, defense is as of now about a $100 million business, but I think there is substantial upside to it over the next few years.

Aditya Makharia: Okay, fair point. Just one housekeeping question; what is Uttarakhand's contribution in terms of units to our production for this quarter?

Gopal Mahadevan: We target to have about 35% to 40% of our production in Uttarakhand and that is about where we were.

Aditya Makharia: Thank you.

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

Chirag Shah: Thanks for the opportunity. Sir, first question is on the consolidated numbers. Can you just explain the exceptional item that we have booked – something like 295 Crores? In notes to account, we have maintained a total number of something like 600 Crores. So where is the difference lying? Second, if I look at minority interest, it is a big number – a large part of loss seems to be attributed to minorities. So how should one look at these three numbers, please?

Gopal Mahadevan: I think I had mentioned earlier also that we and one of the joint ventures have taken a decision between both partners to provide for about 600 plus Crores as an exceptional item in the books which is relating to provision of a couple of vehicles, all assets relating to that. So that is at 100% level of course, not our stake and what we have done in Ashok Leyland, in the standalone, is to also test for the carrying value of that very same investment and we decided prudently to take about 214 Crores on that which is coming as 224 Crores as a result for the same investment. So that is what we have done and those are the numbers that are reflected in the notes to accounts.

Chirag Shah: Fair point. And Sir, on the consolidated debt side, while in standalone we have seen a sharp reduction and improvement in our debt profile, on consolidated side it seems to have gone up by something like 900 Crores.

Gopal Mahadevan: Yes, there are companies where the debt levels have gone up for business purposes – some of them are working capital related like in HLFL and so also in ALUAE, with some marginal increase in a couple of other subsidiaries. At the moment I would not have anything to worry about because these are required for operations, while in the main company, we have been actually reducing the operating working capital very significantly.

Chirag Shah: But is it possible for you to share by how much Hinduja Leyland Finance has increased. Because that is a financing business, your book would have gone up and that would also be reflecting over here?

Gopal Mahadevan: I will just share this number a little later.

Chirag Shah: Yes, later on. So, that gives a fair idea and in some presentation if you can actually just highlight this number so the question does not come to you.

Gopal Mahadevan: Hinduja Leyland Finance actually increased it by about 1800 Crores from the previous year and this is absolutely in line with their level of operation. They are a very healthy company and doing very well and a strategic asset for Leyland also, so that is one of the reasons why the debt levels have gone up.

Chirag Shah: Sir, if I look at the difference between standalone and consolidated revenues, I presume a large part of that would be Hinduja Leyland Finance. For example, in FY 2015, something like 1700 Crores would be our revenue coming excluding the standalone. If I subtract standalone from consolidated, almost 1800 Crores is the revenue?

Gopal Mahadevan: From 2013 I think the revenue is up from 13000 to 15000 – there are two companies that shared this, one is Hinduja Leyland Finance and the second one is the joint venture with Nissan for vehicles, the LCV business.

Chirag Shah: But a large part would be Hinduja Leyland Finance, like 90% of the revenue would be Leyland Finance?

Gopal Mahadevan: 90% will be predominantly equally split between these two and then after that comes in the Hinduja Tech and AL JD and all that.

Moderator: The next question is from the line of Govind Chellappa from Jefferies. Please go ahead.

Govind Chellappa: Good afternoon. I have two questions; one, do we have any update on the new emission norms? There is this thought that we might leapfrog from BS-IV to BS-VI. If that were to be the case, what would be the cost increase for us and how prepared are we? That is question number one and two, what is your current employee strength and to go to full production or 100% utilization, how much would we have to increase our employee strength?

Gopal Mahadevan: On BS-IV to BS-VI, first of all BS-IV itself will take about two years to come in – from 2015 onwards, it is north then west, south and so on. By 2017 it will be all across the country. We are fully geared up to come to BS-IV. Normally in Europe to go from BS-IV to BS-VI or Euro-IV to Euro-VI, they went from Euro-IV to Euro-V to Euro-VI and it took about nine years. In India, I think if you just jump, it will still take about seven years – a lot of people are saying that we should jump but it is not just slipping up a switch and saying let's go to Euro-VI from Euro-V.

I think we can get to it in three years, but I think it will take at least three to four years from Euro-V to Euro-VI as there is a substantial difference in technology between Euro-V and Euro-VI and especially in India given the monsoon conditions, if we are not careful it can cause problems. Further, if we have any poor fuel today at BS-III level it does not matter, but if there is poor fuel in BS-V engines and BS-VI engines, then it can cause problems to the vehicle. So I do not think the country should move directly from BS-IV to BS-VI because it will take seven years and in the meanwhile we will miss better emission norms at BS-V in three years. So we should do the steps that have been done everywhere else in the world, but I cannot control what the NGOs and others are telling the media. The government seems to understand the industry position and this is not just us – everybody else in the supplier industry has been saying the same thing. Now as far as Ashok Leyland is concerned, if BS-VI even comes in, let us say, by 2020, we should have no problem in achieving the performance of BS-VI for our engines. We are already ready for BS-IV, we have the Neptune engine that we launched a few years ago package protected for Euro-VI and we will be able to launch that into Euro-VI.

Govind Chellappa: I know you would not share exact numbers, but if you could just give a sense of what would be the cost increase from, say, III to IV, IV to V and V to VI, just approx numbers?

Gopal Mahadevan: III to IV would probably be 50,000 to 1 lakh, IV to V maybe a lakh, and V to VI could be 2 to 3 lakh.

Govind Chellappa: The second question was on employees: what is your employee strength if you were to achieve 100% utilization; can you do it with the current employee strength?

Gopal Mahadevan: I would say that our executives and workers together must be somewhere around 11200 people and if at all we have to go to peak utilization, we will add temporary workers wherever necessary, probably another 500–600 people at best.

Govind Chellappa: So you can roughly double production with the same employee strength?

Gopal Mahadevan: Yes, not double it, but from double it from April yes, in March we did 10000 vehicles, so I do not think we will make.

Govind Chellappa: On a full year basis, I am saying.

Gopal Mahadevan: Right.

Govind Chellappa: Thank you Sir.

Moderator: Thank you. The next question is from the line of Monica Joshi from Bajaj Allianz. Please go ahead.

Monica Joshi: Thank you. Sincere apologies, Sir, for taking this question up again. Could you really give us some understanding on what these write-downs are about, the 600 Crores, they pertain to which subsidiary and what exactly does this relate to, when you say product write-down and also if you could elaborate why only 224 Crores of this has been taken and how will the balance be accounted for at any point in the future?

Vinod K. Dasari: First, to clarify, this is pertaining to a joint venture, the Nissan joint venture, and these are a couple of platforms that we decided we will take a write-down or a provision as an exceptional item in the joint venture books, which is about 600 plus Crores. So our share, Ashok Leyland's share, technically should be about 300 Crores. Now in Ashok Leyland, when we take a write-down, it has to be based on the investment that Ashok Leyland has made in the joint venture – we have taken an estimate of the value of the investment and the numbers that we need to write-down came to about 200 to 215 Crores, because the joint venture has got other businesses also – those businesses include the LCV business which is doing pretty well, we have got the Dost, the PARTNER, the MiTR, and these investments are expected to generate cash in the future and this would depend on the plan that the joint venture has for this business for its growth and development.

So having these factors in mind, when we have done the impairment or the write-down or the provision in Ashok Leyland's books, the value that was decided to be impaired came to about 214 Crores. In the joint venture books it was 600 Crores because it is 100% and so our share of the impairment would be roughly half of it. So that is the difference that you have – so it is not, I again repeat for the benefit of all investors, it is not 600 plus 200. The standalone has a 214 Crores impairment and on the consolidated, our share of the results would be about 300 Crores because one of the JV's is 51:49. So our share of the 600 Crores impairment would be roughly 300 Crores. I hope that clarifies.

Monica Joshi: Partly. So this leaves us with another 85 crores to come at some point in the future?

Gopal Mahadevan: No it would not. Your question actually provides me an opportunity to clarify this, because this is an accounting issue. When an asset in a joint venture or a subsidiary gets impaired, that is a write-down that happens in that subsidiary or joint venture. What is impaired or provided for in Ashok Leyland's standalone books is the carrying value of the investment, so that investment is not relating to the specific asset, that investment relates to what we feel is the value of the investment as on date. Our investment in all three joint ventures put together is approximately 500 Crores. We believe that we needed to impair about 38% to 40% of it, which is not a small amount, and we have done that conservatively and the carrying value after the provision of 214 Crores is 500 less 214, but that is an investment accounting.

As far as the impairment that has happened or the write-down that has happened in the joint venture books, that is pertaining to specific assets of two platforms. So it does not mean that if I write-down, for instance, Rs.10 in one joint venture in which I hold say 51% that I have to write-down Rs.5.1 in the main company. Similarly it is possible that nothing is written-down in the joint venture, but in the main company there could be an estimate that we want to write-down or provide for carrying cost, so that is exactly what we have done.

Monica Joshi: Are you sharing details about what products these pertain to and what led the joint venture to take this decision in the first place?

Gopal Mahadevan: I will tell you this happens in all automotive companies because it is a very standard thing. This is pertaining to STiLE and Evalia which we believe are not performing to expectations and it is through conservatism that we have provided for this while a final decision on what we will do these with products needs to be taken. Evalia is sold by our joint venture partner, so I will not comment on that, but on the STiLE portion of it which is marketed by Ashok Leyland, when we found that the performance of this vehicle was significantly lower than what was planned, we thought prudency demanded that we take an impairment.

Now you must remember that in the automotive side, Ashok Leyland has hundreds of models, so if you look at it between Ashok Leyland and the joint venture, this is just one model that is not performing and we decided to take an impairment. That happens with other automotive vehicle manufacturers including passenger cars; there are models that perform, there are models that do not perform. So in such an event, the good thing to do is not to keep dragging it on, but if the investment is dedicated to a particular vehicle model, the good thing to do is to take a provision for it, which is what we have done.

Monica Joshi: Thank you Sir.

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

Hitesh Goel: Congratulations on a very good set of results. Sir, just wanted to get your view: in this year you have not seen much IIP growth, so this means not much growth in the manufacturing sector and you indicated that in the mining sector also there is not much growth. So most of the growth is coming from replacement, is that your view? Second question also pertains to mix of the industry. The heavier tonnage segment has grown significantly this year. If you look at five, six years of data, I mean this is the best mix we have seen for the industry for the last five, six years. So what is your sense on how the mix will evolve in the next two, three years?

Gopal Mahadevan: I think when sentiments are bad, people generally buy smaller trucks because it is easier to find the load, and when sentiments are positive, they all go for larger trucks which are more application specific. The other thing that I am seeing is fleet owners are coming back to buy, so that shows that across the industry, whether it is market load or parcel carriers or tankers or in bulkers, there is replacement demand. They are not only doing the replacement faster, but they are also doing it with larger vehicles, because these larger vehicles and the newer vehicles have a better fuel economy and better profit per tonne kilometer for operators.

Hitesh Goel: Yes, Sir, that I understand, but what I was alluding to is the fact that there is no growth in IIP and manufacturing – only 2%, 3% growth. And tonnage growth is significantly higher. Then why are we optimistic on 15%, 20% volume growth?

Gopal Mahadevan: The direct correlation between GDP and IIP to the TIV is not quite relevant. It is, but there is a lag and a lead; what we look at internally is how many billion tonne kilometers are being carried and we see that when the GDP falls, it falls about twice the rate and when the GDP starts to come back up, it goes up to twice the rate also.

Hitesh Goel: Okay, Sir, in your case you have also gained significant market share in the heavier tonnage segment. So is that across markets, across geographies or is it only a South phenomenon? My point is, is the South mix significantly superior in FY 2015 versus other markets or has the mix been almost similar?

Gopal Mahadevan: Our market share growth has been across all regions, not just the south. We have gained a lot in the south, but in all regions we gained market share.

Hitesh Goel: But the mix part is also quite similar across markets – would that be the right assumption or is it higher in the south and a heavier tonnage mix in overall sales?

Gopal Mahadevan: No, mix is pretty similar across the markets.

Hitesh Goel: Thank you very much.

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

Sunil Gupta: Thanks for taking my question. Congrats on a good set of numbers. Sir, just wanted to get a sense on the freight rates. How are you seeing those really trending at this point in time?

Gopal Mahadevan: Freight rates are firming up. Now that there is freight availability, the freight rates are also firming up. Despite diesel prices coming down, I do not think any drop in freight rates should happen.

Sunil Gupta: Any price increases you have taken this quarter?

Gopal Mahadevan: We have taken it in last year Q4 and again in Q1 this year.

Sunil Gupta: What was the quantum in Q1 if you could quantify?

Gopal Mahadevan: It depends on each segment but it would not be unilaterally saying everything goes up by x%, but it was somewhere around 1%.

Sunil Gupta: Thank you.

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

Amyn Pirani: Thank for the opportunity. I would just want to go back to the question on growth. While at this stage of the cycle it is difficult to precisely point out what kind of growth we can have, it would be helpful for us if you could explain. Last year most of the growth I guess came from fleet operators who were expecting that the ground reality or industrial activity would improve and hence there was a lot of replacement demand. Has that outlook improved or deteriorated, or has there been no change in your conversations with your customers?

Gopal Mahadevan: No, there is no change; the sentiment continues to be positive. Think about it – just three years ago the market was at 350,000 TIV. Even though we had an uptick of 16% last year, we are still only at 230,000. If the market goes up by 50%, we will still only achieve the previous hike. So there is certainly upside potential. I do not think all 50% will happen in one year; it will happen over a period of the next two to three years.

Amyn Pirani: Fair enough. But you are not seeing any deterioration in the sentiment because industrial activity does not seem to be picking up?

Gopal Mahadevan: Not really. You saw April figures – the TIV we were also up as high as in the TIV again.

Amyn Pirani: Fair enough, Sir. Just one clarification about the DOST, which is bought out from the JV and marketed by you. Are the PARTNER and MiTR also bought out and marketed or is the production done at your end?

Gopal Mahadevan: What do you mean bought out? They are bought from a JV scaled as the marketing.

Amyn Pirani: So that is the same for the PARTNER and the MiTR as well, right?

Gopal Mahadevan: Exactly.

Amyn Pirani: Thank you Sir.

Moderator: Thank you. The next question is from the line of Amresh Mishra from JM Financial. Please go ahead.

Amresh Mishra: Congrats on good numbers. Sir, can you just share some thoughts or some details on the captive financing and how it has moved in the last two to three quarters?

Gopal Mahadevan: HLFL is our captive finance company, but we run a very broad spectrum in terms of our financing. We do not like to have one financing company do all our financing, so even with HLFL, we target that they should do not more than 15-20% of our financing. If I look at overall financing, I would say 80% of our financing would be done by five or six people at least.

Amresh Mishra: So if I look at last quarter or let us say last six months, is it safe to assume that 20% of our financing is done by HLFL?

Gopal Mahadevan: Less than that, I would say it is about 13-14%.

Amresh Mishra: There is room to take it to 20% and which is the threshold you do not want to cross?

Gopal Mahadevan: Well, there will be spikes here and there if there is one large order or something. They do not do large orders as you know, they are more into targeting customers where there is high return. So there might be a spike in a month or so. It is not like we will curtail their growth but I would not want it to be the broad strategy. We at Ashok Leyland do not want to be overly dependent on one finance company whether it is internal or external.

Amresh Mishra: Okay. And Sir, what was this number last year, this 13%/14%, what was this last year?

Gopal Mahadevan: About the same.

Amresh Mishra: About the same, okay. Sir, just one last question. Sir, GST is hopefully becoming a reality; there are concerns about how it could impact fleet utilization given that the bottlenecks will move out. Do you see some stress on heavy commercial vehicles during the transition period in the first 6 to 12 months of GST?

Gopal Mahadevan: I think I see three effects – I am very optimistic – first and foremost I think GST itself will give one or two points uptick in GDP and when GDP goes up the overall demand goes up. Second, when I look at my customers, they will have a lot less of extra cost, as you know what I mean, in terms of doing business and their profitability will go up, and if their profitability goes up, they will buy more trucks. Lastly, when it comes to Ashok Leyland, we will no longer be required to keep regional sales and all of that and we will probably be able to reduce some of our costs also. So on all three fronts, I see that GST will make life a whole lot simpler.

Amresh Mishra: Sir, that is true. In the long term it is definitely better, but what I was talking about is during the transition, when GST really comes in and the same trucks can now move more freight in the same timeframe because the bottlenecks move out – do you see that having an impact on new CV demand?

Gopal Mahadevan: I do not think so. Let me put it this way: just because of GST, it does not mean the trucks can carry more weight nor does it mean that the trucks go much faster; those come under central motor vehicle regulation so they can only carry the prescribed weight. The government is becoming very strict on weighted load and I think the more they cover overload, the better the markets for us. Yes, they might have to stand for less time in state borders, but I do not think that will significantly change the game.

Amresh Mishra: Thanks a lot and all the best.

Moderator: Thank you. We will take a last question, which is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: Couple of questions, one is, what would be our gross debt at the end of the year?

Gopal Mahadevan: I had mentioned that 2600 Crores is the net debt standalone.

Jinesh Gandhi: Right, gross debt would be?

Gopal Mahadevan: Jinesh, what do you want? I had given the net debt, which is 2600 after setting off cash.

Jinesh Gandhi: Yes, what would be the cash number then?

Gopal Mahadevan: It is around 700 Crores, but you see when I say cash, people may misunderstand that I am sitting on the cash; it is actually the cheques that are being deposited and realized as on March 31, 2015, so if we neutralize that, the net debt is 2600. Frankly that is because we were not able to pay off certain debts because they will fall due in a particular time period. That is the reason; otherwise if you really look at it, the amount of debt that we will have is 2600 Crores only. Suppose I had an installment due on a debt on March 31, 2015, I would have used this 700 Crores only to pay down the debt.

Jinesh Gandhi: Sure. That is understandable and Sir, what was the capex and investment for FY15?

Gopal Mahadevan: The total capex and investment both put together was about 300 Crores, so we had capex of possibly about 200 Crores and overall investments about 100 Crores.

Vinod K. Dasari: I think it will be the same next year.

Gopal Mahadevan: Yes, we have actually been pretty much on line with the numbers that we have projected and as our Managing Director mentioned, it would be pretty much the same kind of numbers that we are looking at targeting for next year.

Jinesh Gandhi: Okay. And Sir, last question pertains to the truck and bus number, where you mentioned revenues of about 72% contribution in this quarter. How would it be for 3Q FY 2015 and 4Q FY 2014?

Gopal Mahadevan: Jinesh just wanted to clarify, that was not 72% contribution – I think you are talking about the volume numbers.

Jinesh Gandhi: Revenue contribution?

Gopal Mahadevan: For Q4.

Jinesh Gandhi: Yes. How would it be for 3Q FY 2015 and for 4Q FY 2014?

Gopal Mahadevan: Well it would be, if you look at, FY14 is it?

Jinesh Gandhi: 4Q FY, same quarter last year and previous quarter?

Gopal Mahadevan: FY 2014 Q4 was 64% and you wanted Q3 right.

Jinesh Gandhi: Q3 right.

Gopal Mahadevan: It is about the same at 64% .

Jinesh Gandhi: Okay, understood. So, Sir, effectively quarter-on-quarter there was an improvement in mix, which was visible because of higher contribution of trucks and buses. So the decline in realization as we calculated was just because of defence?

Gopal Mahadevan: Predominantly yes.

Jinesh Gandhi: Understood sir, thanks and all the best.

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. Mihir Jhaveri for closing comments.

Mihir Jhaveri: Thank you very much management for the call and also thank you very much to the participants for attending the call. Thanks.

Moderator: Thank you. On behalf of Religare Capital Markets Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.