"Ashok Leyland conference call to discuss the recent announcement update"

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Moderator: Ladies and gentlemen, good day and welcome to the Ashok Leylandconference call to discuss the recent announcement update. This call is hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by entering '*' then '0' on your touchtone telephone. I now hand the conference over to Mr. Ashish Nigam from Axis Capital, thank you and over to you Mr. Nigam.

Ashish Nigam: Thank you. Good morning everyone. Welcome to this conference call to discuss yesterday's announcement update of Ashok Leyland. From the management team we have with us Mr. Gopal Mahadevan – CFO and Mr. K. M. Balaji – General Manager, Corporate Finance. Please note the duration of this call would be around 30 minutes only and the agenda is only to discuss yesterday's announcement. I will hand over the call to Mr. Mahadevan for his opening remarks post which we can have Q&A. Over to you Gopal.

Gopal Mahadevan: Thank you very much for the interest inAshok Leyland. I believe there is quite a bit of people who have dialed into the call and are keen to understand the impact of the amalgamation that has been announced, both the Hinduja Foundries and Ashok Leyland Board has approved the merger of HFL into Ashok Leyland subject to statutory approvals. The swap ratio has been registered at 0.4 shares of Ashok Leyland for every share of Hinduja Foundries. The Hinduja Foundries share is at Rs. 10 and Ashok Leyland is Rs. 1 share but of course ultimately what matters is the relative valuation in market cap.

Now why are we doing this? But before that I just wanted to give a quick heads up on what HFL is all about. It was incorporated in 1959. It manufactures cylinder blocks;it's a casting manufacturer, one of India's better manufacturers I would say, one of the larger ones. It manufactures cylinder blocks, cylinder heads and caters to the automotive tractor industrial engine and a little bit to the construction equipment. About a third to 35% of its revenues come from Ashok Leyland. It's a very critical supplier for Ashok Leyland because almost significant portion of the cylinder blocks and heads gets sourced from foundries and these are specialized let me assure you.

The reason why we decided that we will go ahead with the merger or it has been put up to proposal for the approval of the shareholders of each of these companies is that we see significant synergetic benefits once foundries comes under the Ashok Leyland fold. One is that while you folks would have seen the results the last two or three financial years where we have seen significant losses coming in what I am happy to share with you is after Ashok Leyland has started to kind of be associated with the company directly and indirectly over the last 2 to 3 months we have seen significant improvement in the financial performance. We are actually, for the last couple of months, but I don't want to make it sound like a forward-looking statement all of you know under what perspective I share these outlooks, it's more to give an understanding to all of you is that the company has in fact even become EBITDA positive. We hope that this trend will continue because we have done this in Ashok Leyland over the last

3years, there has been a significant turnaround under the leadership of Mr. Dasari when we have actually turned around the company at significantly improved operating performance metrics. We have reduced the debt; we have improved cash flows, etc., so we believe that there is such an opportunity that exists in foundries and being a critical supplier and that it may require some amount of support over the next couple of years before it starts to become accretive to Ashok Leyland performance itself. We thought that a better system of doing it would be to actually merge both these companies. That is the proposal that we have put forth for the shareholders to approve.

The second part of it is that there are accumulated losses over 1000 crores in foundries which is not serving much of any financial purpose and that is again advantage that will benefit Ashok Leyland once the merger happens. So in the medium term what are we looking at? What do we see happening to HFL? We strongly believe that over the next 2 to 3 years and it's not a very significant amount of time given the kind of operating performance that the company has delivered earlier we strongly believe that HFL will become accretive to Ashok Leyland financial performance, that's our plan. I had mentioned it earlier because I don't know whether the phone line got cut off, the management team in HFL foundries has also been changed. We have a new CEO there. The CFO is new. Some of the new existing manufacturing practices are all getting changed and believe that the gross margins of business are sufficient to actually drive a good net margin as well and we see opportunities in synergy that will come in. But more importantly I would also want to say that the trust is going to be there, there will be a certain amount of independence that will be given to the management of the company even when it comes under the Ashok Leyland umbrella we would want to grow the non-Ashok Leyland business as well which is very important for the company and we believe that our customers will support us through this journey as well.

On that account I am going to now hand it over for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Firstly I just wanted to get this right, so you are saying that company has already turned EBITDA positive in the last 2-3 months, did I hear that right?

Gopal Mahadevan: You are right. But what I want to again clarify is that these are trends at the moment, I don't want to extrapolate it. All I can tell you is that because one of the concerns…..see, let us be very open about that there are concerns by investors that is this going to be a drag on Ashok Leyland P&L. Let me assure you that we don't believe it's going to be a drag on the contrary that the operations can become profitable and we have internally said that lets not try to be having any big heavy audacious goals on this but at the same time fix some time frames on this so I believe that over the next 2-3 years this will start actually returning on Ashok Leyland margins.

Kapil Singh: I also wanted to check there are some preference shares that Ashok Leyland has. So what happens to those?

Gopal Mahadevan: That would get cancelled as part of the merger because in any merger where there is common holding that would get cancelled but at the same time as I mentioned to you there is over 1000 crore of accumulated losses which will hopefully come as a benefit to Ashok Leyland in the form of tax benefits.

Kapil Singh: I was checking because in the contingent liabilities there is some dividend redeemable on preference shares of 120 crores.

Gopal Mahadevan: They are only accumulative but they have not been accrued in the books so there are no financial impairment or write-offs.

Kapil Singh: What is the export obligation that we have of 200 crores?

Gopal Mahadevan: In the overall scheme of things actually that is again a benefit that will….. I should not use the term benefit by that is again…..well, I can't use any other term that is a positive that will gain to Ashok Leyland becauseAshok Leyland has significant exports. For us it's a synergetic plus in this deal.

Kapil Singh: What is this related to?

Gopal Mahadevan: It is related to the imports that they have done of the capital equipment, so this can be done by Ashok Leyland exports also.

Moderator: We have the next question from the line of Govind Chellappa from Jefferies. Please go ahead.

Govind Chellappa: I had two quick questions, first, who are the primary shareholders of Hinduja Foundries. There is a huge GDR holding but we don't know who was behind the GDR holdings.

Gopal Mahadevan: I will only tell you one thing, the largest stock holder is Hinduja Automotive Limited, the Hinduja Group and I did mention it in the earlier part of the call I don't know whether it got cut, these are companies under the same group, so they are called as common control transactions.

Govind Chellappa: I understand that but we don't know the exact shareholding, 65% is GDR and we don't know who is behind the GDRs.

Gopal Mahadevan: GDR is actually a depository so it is under a depository holder so we will share that at the appropriate moment in time but frankly that has no bearing on the transaction whether it is party 'x' or party 'y' let me clarify with you that it has no impact on eitherAshok Leyland performance or on HFL or on the final dilution that will happen to the common shareholders.

Govind Chellappa: I understand that and appreciate that, all that I am trying to understand is in the related party transaction disclosure of Hinduja Foundries there is a mention of 399.84 crores of equity infusion by Hinduja Automotive Limited and the amount is same as the GDR issuance, almost the same. So I am just trying to understand if the entire GDR was subscribed by Hinduja Automotive.

Gopal Mahadevan: At the moment there are some reasons why I am not able to clearly distinguish that is because I believe there are some confidentialityin terms of GDR depository holding. But let's assume for a minute that they are Hinduja Automotive Limited.It has no either positive or negative bearing on the merger.

Govind Chellappa: My second question was Hinduja Foundries has a very patchy track record in terms of its financials. There have been frequent changes in the accounting year, 18 months, 6 months, 18 months, 18 months and then even in the last reporting period 18 months to 18 months comparison, the 18 months to March 2016 has shown a 15% decline over 18 months to September 2014 and this has been a period when CVs has been much better than the previous period. So why has there been such a sharp decline in revenues?

Gopal Mahadevan: There are two things to this; is there a market for this company? I believe so. Is the product is good? I believe so. Are there opportunities in actually improving the profitability? I certainly believe so. What has happened is over the 2015-2016 one step that was taken was that we had the HyderabadDuctron unit shut down because it was actually guzzling a lot of cash. Similarly there was a VRS that was also done to reduce the number of people. There has been a significant overhaul that has happened over the past I would say 6-9 months to actually start making these operations positive. But what happens this takes a little bit of time. Now over the last 4-5 months what has happened is there has also been a significant presence or inputs from Ashok Leyland itself by which time we also took a decision to change the leadership in the company, so we got some people and expertise who will help us in the transformation of HFL. If you ask me the past 2-3 financial years, yes, some of them you are rightly so, 18 months, 18 months and in one case 6 months, the financial performance has been very concerning and more importantly there has been continuous injection of cash that has been needed. Will this trend continue? We believe strongly that this is not so, we are actually going to see a turnaround that should happen over the next couple of years and significant improvement in the operating performance. And hopefully by the third year we should see a performance which is matching Ashok Leyland in terms of at least EBITDA margins and PAT margins.

Govind Chellappa: Lastly, just an observation I am surprised that there is no related party disclosure on some of the things that you mentioned in terms of purchase by Ashok Leyland from Hinduja Foundries. It is a related party but I don't see the disclosure in your Annual Report.

Gopal Mahadevan: That is true but it was not a related party till March 2016.

Govind Chellappa: I will take this debate offline.

Gopal Mahadevan: You can, but just since you raised it online certainly I will take it offline also because I will convince you, we have completely complied with any form of disclosure required. HFL and Ashok Leyland till March 2016 was not a related party so there was no necessity for actually to do a related party disclosure because one shouldn't do it also where it not applicable. But as I mentioned to you now we are under common control from April and that is the GDR issue that you mentioned about and that is coming under IFRS and we will ensure that all compliance and regulatory requirements are complied with in toto 100%.

Govind Chellappa: Thank you. My question about GDR was related to this related party transaction but as I said I don't want to waste others time. Thanks.

Moderator: We have the next question from the line of Pramod Amte from CIMB. Please go ahead.

Pramod Amte: What is the expanded equity of Ashok Leyland post this acquisition?

Gopal Mahadevan: The dilution that is happening that also is another point because I have seen reports earlier which said 6% dilution, 7%; I saw some reports which were going around. The absolute dilution which is the expanded, the new capital that is issued over the expanded capital base would be 2.76% is the dilution that happened. I am telling you the dilution ratio as I have calculated, that is fresh Ashok Leyland stock issued as over the expanded capital base.

Pramod Amte: The absolute number of shares?

Gopal Mahadevan: The number of shares currently we have 284 crore shares and that is going up to 292 crore shares. I have been in touch and I don't want to take the risk. I think when these discussions I don't know they were very premature when it happened but there were a lot of worries that there is going to be a heavy dilution and stuff like that which is not the idea.

Pramod Amte: Second, the page number 69 of the Hinduja Foundries Annual Report shows that 80% is held by promoters in one form or the other in the GDRs. So how does the promoter holding in Ashok Leyland change post this merger?

Gopal Mahadevan: It is a little favorable; we expect it to move from 50.4% to 51.3%. But we must also remember one thing. I want to give a perspective to this because this whole structuring has not been done for shareholding or for the dilution or any other thing attributable to shares. We must understand why we have done this and I am going to take a couple of minutes to actually reiterate why we are doing this. I am being open about it in the sense we have a company which is a critical supplier to Ashok Leyland. Ashok Leyland has put in 321 crores of preference capital. The company was run significantly separately and it will continue to have an independence even under the Ashok Leyland fold because it's a business, it has to be run like a business, it has to service its customers, we have to ensure that we get greater share of customers, we have the confidence of the external customers other than Ashok Leyland. But yes, Ashok Leyland accounts for 35% of the revenues of the company and it is significantly dependent on HFL for its castings and HFL was not performing well. There is also an accumulated loss which was lying and there was money that had been funded. So how do I get this whole structuring done which is more financially efficient, one. Secondly, operationally efficient, if you ask me the first 2-3 requirements are operational efficiency. Can I get the benefit of Ashok Leyland consolidated buying into the HFL operations, now yes. Can I get the benefit of some of the better management practices coming into HFL, now very much yes. Can we actually do what we have done in Leyland, can we replicate that in HFL, we believe so. So what do we see HFL transforming into? We believe that in the next 2-3 years we are going to see a turnaround. There are plans already which have been crystallized as to how to take this forward. But for all of this, running it as a separate entity, as a related party transaction, reporting all that becomes very convoluted and it was not a win-win situation. We wanted to finally see a situation which was optimal to the stakeholders of HFL, to the stakeholders of Ashok Leyland and ensure that we don't keep spending management time in actually reviewing the operations of a critical supplier who is now also a related party and see how we manage this. The best way was to actually collapse this whole thing into a single entity, ensure that HFL is able to draw on the benefits of Ashok Leyland, we are able to draw on some of the financial benefits that will come out of the merger and so that way we are also going to neutralize some of the impact of the preference capital and ensure that over the next 2-3 years we are having a business that is going to be accretive. And frankly when we have nearly a-third of our revenues coming from that the sales side is reasonably assured and we are looking forward to the continued and enhanced support of the existing customers because I am sure that they are going to know that when they have a larger company like Ashok Leyland backing this company they will be more comfortable with this because we are not direct competition with them at all. Even in terms of bankers, what is going to happen in some of the losses one of the larger causes for losses of course is the interest cost. Even if we decide not to repay the debt and we want to keep it what we are going to see a significant reduction in the rates. So if you ask me running it as two separate entities was becoming highly inefficient for all of us.

Pramod Amte: Thanks for the detailed explanation. I think the only concern which comes this when the demandcycle is turning at worse and the raw material pressures are going up, so is the timing appropriate in the short term of things which are coming?

Gopal Mahadevan: Thank you for asking this question because frankly the tougher questions the better for me because I get an opportunity to explain. I am sure that people are not going to like it, but the point is I cannot time this very perfectly. I have to ensure that I have continuity of supplies. That's important for me. First thing is continuity of supplies. I cannot avoid that. But in the same time we feel strongly responsible for the shareholders of Ashok Leyland. We have to ensure that at the end of a given time period, say 2-3 years, we are able to say, hey, the decision that we took in hindsight was also correct, we have been able to do some of the things that we have promised and I would say not more than promised we expected, and that at the end of it we have actually ensured that we have generated value than depleting it between Ashok Leyland and Foundries put together.

Moderator: We have the next question from the line of Kaushal Maru from DSP Blackrock. Please go ahead.

Kaushal Maru: What kind of CAPEX do you envisage Hinduja Foundries it will require over the next 2-3 years to bring up the operations to the kind you require?

Gopal Mahadevan: I am not able to really answer that but I don't think in the overall scheme of things is going to be significantly huge that you guys have to get worried about. You know how tight we are on CAPEX over the last 3 years. There will be some additional CAPEX that will be required but let me tell you what our strategy is along with the team in HFL we have a new management team there, the basic idea is to make the operations as efficient as possible and improve the turnaroundtime on the line, reduce the rejects in the line disruptively because the gross margin in the business is good. It's not a bad gross margin business. So there are things that we need to fix which we are trying to fix and which already has started. The Ductron Unit has been shut down. That was guzzling cash. We have also done one stage of VRS which is again brought down. The productivity has started to improve. So we are actually putting in what we call as mission Gemba projects already inside the company. Projects have started to yield results. That's why I said as a trend. I don't want to say, Oh Gopal has said two months, it is now EBITDA marginpositive so now for the next 12 months it may be…..no, there maybe a couple of blips there may be a couple of highs but what we are trying to do is change the trajectory of the performance, so even if there are some sinusoidal waves that happen on ups and downs we want to ensure that the trajectory of the performance is such that we start continue to improve the performance otherwise we would not be doing what we are proposing as approval for the shareholders. That's why even earlier when some people did discuss one month back and at that point in time there was nothing to disclose because no decisions were taken. So at that point in time there was discussion is about 5%, 6% dilution and all that so I said there is no decision that is taken but whatever decision that we take if the Board does approve for any part of Ashok Leyland, let it not be just only this, any business decision that will be taken will be taken with prudency, will be ensured that in the medium term and when I say it is not general medium term in the next 2-3 years we have a defined path to improve the performance of Ashok Leyland. Yes, the predecessor did ask about the commercial vehicle cycle, is this time? I really don't know the cycle. There are so many imponderables that the industry has grown over the last two years phenomenally, we have had a 16% in FY15, we have had a 28-30% in FY16, Ashok Leyland during that time had grown at 28% and 50%, believe me three or three-and-a-half years back nobody would have forecasted that Ashok Leyland, when the stock price was at Rs. 11 and nobody would have even said that Ashok Leyland can make this performance. That it will be delivering the highest EBITDA margins in the MHCV industry. So when we are doing this today it is exactly how we did it 3 years back. We are saying that this is possible, these are the plans we will do, these are logical plans not only because it's Hinduja Foundries but also because this is a very financially prudent decision that we are taking given the overall scenario under which we are taking this decision of the merger.

Moderator: We have the next question from the line of Aditya Ahluwalia from Invesco. Please go ahead.

Aditya Ahluwalia: At what valuation did the promoters put in money and the GDR and at what valuation have we purchased the company?

Gopal Mahadevan: I can't share the valuation details at this moment in time because there are certain reasons why we can't because there is a regulatory process through which it has to be followed, so my apologies about it. But let me tell you again the focus needs to be on promoters and the focus is not on promoters. Let me complete a clarification that you have, the support that has been provided by the promoter groups over the last 3-4 years has not been with an intention of merging the company 4 years hence or anything of that sort. Huge turnaround initiatives have been done. The 3 management changes have happened earlier itself. It has been driven purely by those managements, huge hammer and tongs plans had been put in to see how to revive this company. But then when the final GDR issue was also done what really happened was that we realized that this is possibly not the best method of actually turning the company's operations around. So I am not able to actually share the exact mechanics of the valuation. We will certainly share it at an appropriate moment in time but this is not about promoter acquiring shares in the company and then moving into Ashok Leyland as a perception will be there, this is purely promoters had to put in because there was nobody else who was willing to put in money at that point in time and then we had to actually take the decision, then either Ashok Leyland has also been kind of providing supplier advances, ensuring that things are coming on time and there was a lot of financial tension that was happening. And if HFL was any entity where we were not significantly dependent on for the castings believe me then we could have switched but HFL has become a critical an integral supplier so we had to ensure that we have a solution that is optimal.

Aditya Ahluwalia: At the current swap ratio the enterprise value works out to be somewhere about 1000 crores for Hinduja Foundries.

Gopal Mahadevan: Which is I think whatis market cap of the company today but there are multiple methods of doing it. This value swap ratio is determinant of Ashok Leyland's stock price which has seen ups and downs and HFL stock price has ran up a little bit and then come down. So the swap ratio has been determined independently also by different bankers using their various methods.

Moderator: We have the next question from the line of KunalMehra from MSD Partners. Please go ahead.

KunalMehra: Two quick ones here, I obviously have the same question the previous caller had as everyone on this call has about the value at which the promoters acquired the GDR shares with respect to whether there was an alternate funding source. And the second is as things stand in the procedure do the minority shareholders have any say in the transaction going through. And if you have answered this I apologize because I have just joined.

Gopal Mahadevan: As far as the promoter shareholding is concerned I am given to understand that we are not supposed to exactly give the swap ratio has been mentioned at a suitable moment in time we will share it. The point is we are going to follow a process which is as per law. So if there is anything that minorities would need to see certainly they should and the news will be welcome

KunalMehra: Pardon the interruption. It's not about news. It's not about opinions. It's actually about value accretion. Vinod has led the management team that's entirely to the delivered returns on a very low CAPEX model whether you have extracted that CAPEX from the working capital timelines, from receivable ratios, from investments. You have spent the entire time telling us how you are going to diversify as divest and here is something else that is going to the other direction, I just want to know if all the people and investors like ourselves in this call also have a say in this or is it a pre-decided outcome?

Gopal Mahadevan: I mean a say can be had, I am not clear.

KunalMehra: A minority holder is going to get to vote on this or not?

Gopal Mahadevan: Of course. Why not? It's a standard court approved procedure. I am sure you are aware of that.

KunalMehra: And prior to that you will share the GDR price that the promoters acquired at?

Gopal Mahadevan: See, whatever information is required by statutory rest assured that we will share that. We have nothing to hide or anything of that sort. I thought I should clarify it I see an undercurrent of concern in your question. In the event of the current scenario we could not have had a better or more optimal solution for this and we have to look at it from the perspective or also the minority shareholders, the pricing has to pass the test of the investment bankers and we also have to see to it that we don't have a financially depletive transaction for Ashok Leyland. If you really look at it, yes, the 324 crores of preference capital has been invested. But has it returned anything? No. Will it return if we were to keep it separate? My answer is no. Now is there some other way I can optimize my cash flows? Yes. How do I do that? I have got 1100 crore of tax losses that is there. I can take advantage of that. So the decision for merger is not at what price the promoter invested and what price they are getting into Ashok Leyland that is not the point because the same promoter, let me clarify, I am not holding a candle for the promoters. We are a professional management. Vinod and I and the entire management team have been working to ensure that Ashok Leyland continues to deliver results. But the point is that this is not the way and frankly I will tell you the promoter's stake increase is incremental. So the dilution itself while I appreciate the dilution of any sort is the concern for investors please look at the absolute dilution against what the perception was. So possibly we are discussing what are we discussing, we are discussing with respect to and that is absolutely right, I am not belittling, I respect your views. Yes, there is a performance of Foundries has not been great over the last so many years. So now we are saying that we have to fix. So before we decided to do this merger we also asked ourselves what do we believe, at the moment I can't give a forward-looking statement and put a nail or a stake on the ground stating that this is exactly the number that will be delivered in year 2 or year 3, I could not have done it for Ashok Leyland as well. I could not have told that we could have reduced working capital by 1200 crores or so in the first 7 months. People would have been surprised that we could have gone for a QIP at 36 when the stock price was at 11. So there are certain imponderables. But overall if you look at it when we have done an analysis between the Hinduja Foundries new management and the Ashok Leyland existing management we believe that there is a good trajectory for the upward performance of the company. And we believe that the company's last year was possibly rock bottom and we are going ahead and we are moving towards an upward trajectory. The second thing was we needed to ensure that financially we get an optimal result out of this. Otherwise between the promoter and Ashok Leyland we would continue to have supported because there would be no other alternative. So we had no choice but to look at a most optimal solution which was why I said that this merger we are expecting it to be win-win for all entities, the stakeholders of HFL, the stakeholders of AL. I appreciate that there are some concerns as stakeholders of AL saying that are we taking over something which is going to be depleted. I don't believe so. The management believes very clearly that what we are doing is possibly the most optimal given the situation and possibly will deliver better returns over the next 2-3 years.

KunalMehra: One final question, you contrast this with a lot of the other assets if you were to get rid of and while everything is obviously connected with making an engine or a truck there are certain activities which you can fundamentally do better inside the organization there are certain activities which business fund doesn't require along with the organization. On the strategic parameter which the leadership has always been clear about, how do you rationalize this decision?

Gopal Mahadevan: Are you talking about some of the divestments that we have done what we had communicated and this acquisition what we have done? What has happened is you must understand there are 2-3 things, Ashok Leyland strategy as we move forward is to stick to its core. And the core is that we have said that there are 2-3 things that we wanted to. The management has been able to turn around the company, we have been able to improve all the ratios, we have been able to improve the debt equity, etc., and we believe at the moment and it is like continuously running on a treadmill so you need to get better and better and better at this, so we are operationally efficient and we believe that we will have to put in efforts to continue to improve our operational efficiency, this is as far as Ashok Leyland is concerned. But for example, when we decided that we will exit the joint venture on John Deere, which was a mutual decision, we said that this business does not seem to have a growth potential unless that you shoot significant capital investment into it. In hindsight possibly we should not have gone into the investment but at that point in time the forecast was that it's great, it looks like it's a good investment, it is going to hold good potential and the infrastructure industry will grow, etc. But then once we realized that there is no traction the best solution was to actually exit. Now which is exactly what we have done in Optare as well because we did buy the company becauseit's a fine bus making company with a fine product but we decided to take an impairment on the equity, there are still loans on the Balance Sheet but we said am I going to put more Dollars into the company when I know that the returns are not coming through, I don't have a visibility. Now there is a vast difference between the decision that has been taken there as opposed to decision taken in HFL because, one, HFL is very core to our business. It's a critical supplier to us. Now am I going to plan and take all the critical supplies of Ashok Leyland, I don't believe so. But here was a company where we had not only invested in terms of developing the requirements of castings for the business we also had a financial stake in the company. So we had to ensure that in one way or the other we have to minimize risk of the financial stake we have already put in. So this decision is slightly different and the most important thing is that the management team of HFL and the management team of Ashok

Leyland believe at this point in time when the decision has been made that there is a very strong upward path that is possible in the operational performance whereas in the divestments that we are making we are actually seeing that, no, I can't see a traction happening. So the best decision is to shut down. Sometimes decisions go wrong. Be open about it, disclose it and ensure that you are taking the right and appropriate decisions. So I believe that whatever investments that Ashok Leyland will put in in terms of time and effort into the operations of HFL which will again be handled independently by a management that possibly overseeing by an internal corporate board, we are still working out the details of this, all of this is of course subject to statutory approvals, is that whatever I am going to put inside this company as time and effort is actually going to start yielding the results over the next 2-3 years and if I don't do that I have got a lot to lose today. So I have to ensure that we take a decision which is appropriate for all stakeholders.

Moderator: We have the next question from the line of Pratik Poddar from ICICI Prudential Asset Management. Please go ahead.

Pratik Poddar: You mentioned that in the last three months HFL has turned EBITDA positive.

Gopal Mahadevan: Yes last 2-3 months.

Pratik Poddar: Because of our direct intervention or indirect intervention. What have we done differently from the last 3 managements? That is last 3 months only that we could see…..

Gopal Mahadevan: It is a very difficult question to answer. It's like asking what did we do differently in July to March 2014 which produced the working capital and reduced the debt. Now the point is we are doing it, we are seeing opportunities possibly which the earlier management has not seen. We are doing it in a slightly different style, then there is also a new management in HFL which is coming from outside so there is a whole bunch of fresh ideas that is coming in. I did mention about some of the **changes** that we have actually introduced onto the manufacturing process. So Ashok Leyland today is pretty inclusive in some of the initiatives which improve operational efficiency. We are trying to follow the same style there. I am telling it with all humility because today is as good as today, tomorrow is a new day and tomorrow again we have to perform, so day after tomorrow is the same question. So what we have done in the past is good track record. What we have to do in the future is what we need to perform on. So I am mentioning it on that basis. What I am saying is we believe that what the team has been able to achieve in Ashok Leyland is something that can also be replicated in Foundries and we have the support of the management there. They are also excited about it and it is not just on overheads, there are overheads, there are manufacturing costs, there is failure rates, production planning, shift planning, line planning, how much do I produce in one particular factory, how much should I not produce in another factory, what lines of things can I shift into. So there is a whole bunch of change that is happening in the company.

Moderator: We have the next question from the line of Jatin Chawla from Credit Suisse. Please go ahead.

Jatin Chawla: Does this classify under the related party transactions the Corporate Law changes that were made whereby only the minority shareholders vote on this or will the promoters also vote on this proposal?

Gopal Mahadevan: There are 2-3 things. It is not minority. There are promoter and non-promoter shareholders so I think there is one case where the non-promoter shareholders have to vote that's through a postal ballot and then the court will also refer it to the overall shareholders. But I hope to get the support of both the promoters and the non-promoter shareholders. In the sense that's what the management is looking at because we strongly believe when we say this is that we believe that this is the most optimal solution.

Jatin Chawla: In a way it will lead majority of minority to clear it for this to go through?

Gopal Mahadevan: Yes of course. I hope that our shareholders support this; I am saying the non-promoter shareholders support this thing.

Jatin Chawla: AL apart from this 7.5% holding there is no equity holding through any of the holding companies or any other entity that's the direct holding that AL has right now.

Gopal Mahadevan: AL has nothing more than that, 7.5%.

Jatin Chawla: That will be converted into treasury stock.

Gopal Mahadevan: It will get cancelled. The merger, it just gets cancelled.

Moderator: Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor back to the management for closing comments. Please go ahead.

Gopal Mahadevan: Thank you very much. I hope that the procedure forward, all the approvals are received, we are confident that we will have the support of all the shareholders. All I would like to say is that I would like to allay the fears if there are any even after this call that the primary purpose of taking this decision itself is in the interest of Foundries, is in the interest of Ashok Leyland given the fact that it has exposure to Foundries, given the fact that Foundries is a very critical supplier for its castings. See, in this business you can't have 20 casting suppliers. In this business what happens is as we move forward you are actually trying to reduce complexity. I wanted to share that also with you because somebody may say why are you putting all your eggs in one basket, we are not putting all our eggs in one basket but the business is such that you can't have 3-4 suppliers doing this. The second one is that we had an odd choice. What did the Board deliberate? The Board deliberated, should we just leave it like this and continue and let's see how HFL performs but then the downside of that seemed a lot more than the upside that can happen if it were to come under the same wing as Ashok Leyland. And we believe that the Foundries business itself can grow with the support of the non-Ashok Leyland customers because almost 85-90% of them they are not a direct competition at all. They are either tractor manufactures or other equipment manufacturers and I am sure that they are going to see that they have a much stronger company supported by a much larger management pool in addition to the management talent which will be there in Foundries and I am sure this confidence is also going to stem growth. And we must remember that some of the bitter decisions have already been taken. The Ductron plant has been shut down; the cost has been absorbed by the earlier investing community. Similarly the VRS has already been done. And so as we move forward I believe that we should be able to achieve what we have set out to ourselves on the Foundries business in the near future. So on that count thank you very much, I know we had an half hour call but we decided to also extend it to almost an hour so that we are able to answer as many questions as possible and thank you very much for all the questions and insights of analysis that you shared with us. We hope to stay in touch with you in future as well. Thank you very much.

Moderator: Thank you gentlemen. Ladies and gentlemen, on behalf ofAxis Capital Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.