



“Ashok Leyland Limited Q3 Financial Year 2015
Results Conference Call”

January 30, 2015



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Moderator: Ladies and gentlemen, good day and welcome to Ashok Leyland Q3 FY 2015 Earnings Conference Call, hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Jain of IDFC Securities. Thank you; and over to you, sir!

Deepak Jain: Thank you. Good morning everybody. Welcome to Ashok Leyland’s Q3 conference call. I welcome you on behalf of IDFC. We have with us Mr. Gopal Mahadevan, CFO, Ashok Leyland. Over to you Sir!

Gopal Mahadevan: Thank you. A very good morning to all of you. Thank you for the interest in Ashok Leyland. Before we start I thought I will introduce my colleagues who have also joined in the call. Mr. K. M. Balaji, who heads the Corporate Planning and works with me on Investor Relations and also with him works Vijay Sarathy, who are in the call.

I think I will just briefly encapsulate the results for everyone’s benefit to kind of set the intro for this call and after that I will await questions from everyone.

Ashok Leyland volumes for the quarter grew by 65% and we saw a revenue growth of about 72% to 3361 Crores. Our operating EBITDA margins moved from -5% in Q3 last year to 7. 1% in the current quarter. On a sequential basis of course it has been almost flattish and I will also explain the reason for it. We have actually gained significantly on the market share as well. Our market share overall has grown from 22. 7% in Q3 in the previous year to 26. 6% in the current quarter.

Our bus market share has improved by 26% to 37. 5%. Our truck market share has improved from 20. 9% to 25. 2%. Operating working capital has come down to nine days to a level close to about 400 Crores. It was about 630 Crores in the same period last year and we have been cash positive. We have generated cash of nearly 318 Crores for the quarter and on a cumulative basis including the QIP we are at about 720 Crores.

Our debt equity we had shared with all of you that we would want to target our debt equities down to about 1:1 by this year end and I am happy to share with you that at current levels our debt equity has come down to 1:1 and our capex, is very much within control. We are for the quarter the capex plus investments is about 23 Crores and on YTD basis we are roughly above 90 Crores.

I think the other positive development that has happened is we have actually seen that the overall TIV has grown. The TIV growth for the quarter has been 41% and I did mention that AL grew at 65%. On a YTD basis the total industry volume has actually grown by 10% and Ashok Leyland has actually doubled that..

Another important factor which actually augers well for the industry has been the steep drop in diesel rates, which had actually improved the profitability of freight operators, so while we have actually seen softening in the overall freight rates in the recent months by about 4% or so, 3% to 4% or so, what we have also seen is that there has been a decline in the diesel prices by about nearly 14% and so that has actually added to the profitability and cash flows of fleet operators and this has also been evidenced by better repayments and servicing of loans to finance companies which is a very, very important.

The other thing that I wanted to mention was overall it appears that there seems to be a revival in the demand. We had forecasted if you remember at the beginning of the year that we expected the total industry volume to grow by about 10% for FY 2015. That is where we are about December 31, 2014 and that is the expectation that we have as we move on to Q4 as well.

On a YTD basis as I had mentioned the total industry volume had grown by 10%. Ashok Leyland has grown by 20%, our revenues grew by 32%, and our operating EBITDA margin was 6.5% as opposed to negative of 0.3% in the same period last year and if we were to look at a PAT basis also, from current quarter we have a profit after tax of 32 Crores as opposed to 167 Crores negative in the same period last year and I am also again happy to share that on an operating basis we have turned profitable and we have had a profit before tax for the first nine months of 45.2 Crores and a profit after tax of 104 Crores as opposed to an operating loss of 580 Crores in the same period last year and loss after tax of 334 Crores for the first nine months in the previous year.

So, overall the performance of the company has been reasonably better, I would say intact with all critical measures and the last point that I wanted to share with you on the export performance of the company. Exports if we were to look at it for the quarter had almost doubled. We have had a 97% growth in exports in the current quarter and for the full nine months the export volumes have grown by about 46%.

So the growth of exports has also been very much in line with the strategic direction that the company is pursuing. This is at the medium term over the next three to five years, the company believes that it would want to have at least the third of its revenues coming in from exports.

So this was the results in brief. The one last point that I also wanted to clarify was on the tax rate. I thought it was important because we have a slightly higher rate of tax in the current quarter. The effective tax rate is around 46% or so. The reason is not because we are having any cash payout. There is no cash payout of tax because we have accumulated losses. The reason why the tax rate is slightly higher in the current quarter is because as we move forward the tax is arrived based on the full year estimate of profits.

So as we move from Q1 to Q2 to Q3 we have actually seen that the scenario, the year end outlook is improving and as we took a pause in Q3 to look at how Q4 and the full year will look and now we expect good performance better than what we had estimated at the beginning of the year and so we had to take a higher tax provision because the first two quarters did not factor in

the higher performance that is expected by the year end and that is purely the reason why there has been a slightly higher tax charge, which we believe at this moment, I cannot guarantee, but we certainly believe that in the fourth quarter would even out.

Thank you. Now I am going to leave the floor open for questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Yes. Hi, good morning, Sir. Congrats on a great set of numbers. I just wanted to understand firstly that the Company has been significantly outperforming the industry. How would you break it down? Is it because the segments where Ashok Leyland is strong are growing faster, or it is also because certain actions you have taken, which have helped you gain market share in other segments? So if you can give a color on both of these points.

Gopal Mahadevan: I will tell you one thing. There are three or four reasons why this has happened. First one the trucks segment is doing exceedingly well while the bus is slightly lower in terms of there is a catch up that will happen and is expected to happen in the fourth quarter because it is purely because as the tenders and the deliveries that have to take that has to be made through the STUs. The M&HCV subsegment has been doing exceedingly well. The second reason is of course the export performance has also been kind of intact with what we have kind of set out to do, so we are focusing on exports and we would like to drive up the exports and share of the overall revenues. The third important thing and if you ask me that should have been the first reason to be honest is that the rollout of the network about 620 plus which has nearly doubled over the last three and a half to four years has actually had a deep impact. So if you really look at it, we have been able to maintain predominantly maintain market share or grow it in all regions including in the north, central, south, etc. , in the trucking side, which has actually helped. So that is one of the key reasons why we are actually able to out beat the overall industry performance. The last reason also is that even through tough times, especially last financial year we had been consistently introducing products. We had Dost, we had Boss, then we had Captain. We had also introduced the Neptune Engine. We had also extended the product of Dost into a rigid suspension, we had introduced JAN BUS. So there has been a slew of product introductions which have also helped us to ensure that we are able to get a larger pie of the market.

Kapil Singh: Okay. And sir, this network expansion, is there any plan to continue this going forward, as well any target numbers you can share?

Gopal Mahadevan: I will not be able to share any target numbers, but let me assure you that we will be pursuing network expansion meaningfully and these are not really high cost investments that we expect dealers to do because these are those sales or service outlets and for us what is important is to ensure that we have the reach not only to sell but more importantly also to service our customers and you know we have been focusing especially on the service side to ensure that there is a downtime of the customer side is very low.

- Kapil Singh:** Sir, my second question relates to gross margins. We have seen a drop in gross margins on a quarter-on-quarter basis. So is it related to mix, if you could help us understand that?
- Gopal Mahadevan:** If you really look at it on a quarter-on-quarter basis, of course, if you look at it over the same period last year we are significantly better, but on a sequential basis, we are marginally down purely because of the mix. While our spares, engines businesses have grown, but as a share of the overall pie that has been a slight reduction and most importantly our defence volumes are also marginally lower in the current quarter, all of which has actually resulted in the margins being slightly lower, but let me assure you that in each of these segments, each of these business segments, the trucks, the buses, the spares engines, defense or LCV our margins have been improved. So this quarter performance has predominantly been on mix.
- Kapil Singh:** So you are saying that quarter-on-quarter in all segments margins would have improved?
- Gopal Mahadevan:** Yes. For us actually to see a company of Ashok Leyland size and complexity we see a quarter-on-quarter improvement in margins sometimes does not make sense because sometimes you have larger STU orders. For example, in this quarter we have had slightly higher STU. This segment earns a slightly lower than average margins when compared to the rest of the portfolio and similarly when defence volumes come down ratably, then you would actually see an impact on the gross margins, but if you look at each of these businesses separately we have been actually driving margin improvements in each of these businesses, our material costs are lower, we are having programs, run out, rolled out for reducing material costs as well as other operating costs so overall at each of these business segment levels the margins have improved.
- Kapil Singh:** Sir, what is the cost outlook going forward? Are we seeing declines in the coming quarters?
- Gopal Mahadevan:** Decline against what?
- Kapil Singh:** In the raw material cost?
- Gopal Mahadevan:** That is something that we will have to wait and watch, because there are two parts to it. One is the pure raw material cost and the second one is of course predominant part of the work is done through partners. So at the moment we are not factoring any decline in raw material costs, what we are factoring in is we have certain programs and projects in place, which are continuing as I am speaking to you on first driving down as operating costs and we have also got certain projects in place to see how to actually bring down material cost as well. So those projects will continue, but at the moment we would like to be a little conservative. We would not like to factor in price reductions of the future and plan.
- Kapil Singh:** I will follow up in the queue.
- Moderator:** Thank you. We will take our next question from Basudeb Banerjee of Antique Finance. Please go ahead.

Basudeb Banerjee: Yes, thanks for taking my question. On the lines of the earlier question, if I see your realization on a blended basis is at an all-time high, and if I see the 16-ton and plus products, especially in the month of December, were at much higher levels compared to the remaining months. So just wanted to know about was this December month you executed a higher tonnage of vehicles on a one-off basis, or one can expect similar levels to be sustaining down the line?

Gopal Mahadevan: As we see the demand especially on the trucking side on the domestic side we have actually seen growth in the tractor segment and the multi-axle vehicle and then the other vehicles have followed. We expect this trend to continue as we move forward. At the moment, when you see it we seem to see that there is a certain amount of demand for Q4 also. We could also possibly see an improvement in the tipper segment from where it is now, but we will have to wait and watch. Because we must understand that this industry for the last two and a half years has seen almost a 50% reduction in the total industry volume and we have seen two or three things happening. One is that diesel prices have come off, the economics of freight operators have become better and so we have seen some demand coming in because people want to go in for a certain amount of replacement demand. The second thing is the government has also been announcing making some positive announcements on revival of infrastructure projects, funding of new ones, people have also expectations on the mining side and generally the economy is expected to start to grow from where it is, a lot of macroeconomic factors seem to be falling in place. If these things happen it is quite natural that there will be a revival in the commercial vehicle industry and that is possibly what we are experiencing currently, but yes we would like to wait and watch but at the moment we are reasonably optimistic that the current trend of TIV growth will continue into the fourth quarter as well.

Basudeb Banerjee: But would it be right to think that it was a precursor to this excise duty hike led demand coming in December? And how do you see the demand in those segments post the duty hike as such, or do you see the need for incremental discounts because of this hike in duty?

Gopal Mahadevan: I will answer it in three parts. First one, yes thank you for pointing it out. One of the reasons for the December volumes to be slightly higher was also because that there was a prebooking of vehicles for anticipating excise duty increase. So there was a general increase. Typically the December quarter is not the best quarter but for us if you really look at it in terms of revenues it has been the highest revenue quarter in the current financial year.

The second thing is I believe that especially for the commercial vehicle industries, increase in excise duty is not going to impact demand very significantly at all because ultimately what fleet operator looks at is the economics of getting a return on the investment, so a 4% increase in excise duty is not going to deter anyone from making investments and that is not what we are feeling as I am speaking to you, we are certainly seeing a certain positive pull from the market and we hope it will continue into the fourth quarter.

The third most important thing I thought I should have shared even at the introduction when I was speaking about the results was that for Ashok Leyland the 4% increase or I would say the reinstatement, it is not an increase, it was at 12%, it was brought down to 8% and now got

reinstated back to 12% would have positive impact because of its facility in Pantnagar, and so any increase in excise duty would actually add to neutralization. Let us see, I expect that in the fourth quarter we should see an improvement in the margin itself because of this factor in addition to the growth that we expect.

Basudeb Banerjee:

Sure, thanks.

Moderator:

Thank you. The next question is from the line of Mr. Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi:

Congratulations, Gopal, for a very good set of numbers. I have two questions basically, one relating to the entire cost rationalization. So your numbers do not come as a surprise to us because the entire team has been working very hard for the last many quarters to rationalize cost. So can you tell us where are you in this journey and how much more to go in the long term? And my second question will relate to the scope of business, because we believe that defense will be a very big business for you in the next three years. So can you throw a little more light on these two things? Thank you very much.

Gopal Mahadevan:

Thank you Jiten. Like you mentioned we are working on the cost side. What we said initially was if you remember in 2013-2014 when I was sharing the strategy and MD was also sharing the strategy with investors, we did talk about the restructured for growth strategy where we did embark on reduction of working capital, reducing operating cost, selling noncore assets, improving quality and also reducing manpower, and all of this was in we kind of rolled out methodically month-on-month, quarter-on-quarter to actually improve on the cost side, even when demand was not reviving, and of course at the same period we also introduced new products to ensure that we are ready when the market size to starts to come up and silently of course at the back end we were also improving our network and the reach, which is actually helping us now as I am talking to you. That strategy continues, which means we will continue to restructure for growth, the only thing that we are doing is we are improving for growth month-on-month, quarter-on-quarter, of course you know the rates become harder as we have the quick wins coming out, and then continuously are identifying the opportunities to drive the cost on the operating side. Second thing is of course on the material cost side where I broadly shared with you that we are looking at improving our material costs through a slew of efforts. We are seeking external help also on this to see how to improve the overall material cost for the company even as we improve the designs and durability of our vehicles. As we move forward, while I cannot give you, I specifically do not give any forecast on numbers, but rest assured that the management is working at driving costs on both these levers. Even as we expect that the revenues will start growing and that the industry has actually come off from its very close phase and should see growth in the coming years.

The second part of your question was, can you repeat that?

- Jiten Doshi:** Yes. Basically, we believe that the scope of the defense business is very large over the next three years as India more moves towards indigenization and recognizing that Indian vendors are capable of delivering. And I think you have a major role to play out there.
- Gopal Mahadevan:** I think the Prime Minister's drive to as make in India is something which augers well for companies such as ours and there are multiple layers of vehicles that we are working on. I am at the moment cannot and I am constraint not to share but rest assured that on my defense logistics we are one of the largest players and our strategies to improve our share of business in that and there is a lot of alternatives that the government is looking at in terms of logistics business as well as armored carriers; of course, we will not manufacture arms, , but we would have carriers, which would or a vehicle which would look at carrying which would carry these armaments or artilleries. So for us, defense is a very, very important piece. It accounts for about 5% of our revenues and we would certainly like to increase the share of revenues from that business as well in the medium term, very, very important, as important as exports is.
- Jiten Doshi:** Sure, Sir. You see the scope will be very big over the next three years?
- Gopal Mahadevan:** I believe so, while I do not say big, what I would say is that there is a good scope for players like us to actually penetrate further in this and I think the quality players are the ones who would actually have a larger share of the business and no reason why Ashok Leyland will not have one because it is has a 50% share in defense logistics.
- Jiten Doshi:** Sure. So wish you all the very best for the next couple of years. Thank you so much.
- Moderator:** Thank you. The next question is from Ashish Nigam of Axis Capital. Please go ahead.
- Ashish Nigam:** Hi, Gopal. Congrats on a good quarter. My question was on capex and investment. What has it been for the quarter and the nine months?
- Gopal Mahadevan:** For the quarter as I had mentioned to you we had a total number of around 23 Crores, it was around 23 Crores and for the quarter it was about 90 Crores.
- Ashish Nigam:** For the nine month, you mean?
- Gopal Mahadevan:** The YTD number it was 90 Crores.
- Ashish Nigam:** This is capex plus investments?
- Gopal Mahadevan:** Capex plus investments. I repeat it because there is sometimes a confusion. We have been very tight on it. Let me assure, we have been very cautiousbefore any capex is made or any investments are made, we do examine the necessities for it. We had forecasted at the beginning of the year that we would keep capex and investments less than 500 Crores for the current fiscal. I am talking about new capex and investments, new purchase orders or new commitments through capex. We are well within track for that as far as we are concerned.

Ashish Nigam: No, because if you're INR90 crores in nine months, we should be substantially lower than Rs. 500 Crores for the full year. So is there a number you can share on how we will end this year?

Gopal Mahadevan: No, I would not want to give a forecast on that because I can only tell you that we will be substantially lower, but beyond that I would prefer not to make any commitment on this not because I do not know the numbers, but it is there are certain forecasts we do not deem effective. Rest assured that we are far, far different from what we were two years ago when that was major capex and to be honest I think, Ashok Leyland has predominantly invested in capex. It has invested in the new facility it has got this the three critical components of a vehicle which are the engine, chassis, and cabin are fully invested, there might be some improvement or variants that are required but our new vehicle program is reasonably on track, so we do not actually foresee any major capital investments at least in the medium term for Ashok Leyland. As far as investments in subsidiaries are concerned, I would certainly like to share that they do require certain amount of injection because they have to some of these subsidiaries that are very nascent levels and they have also been invested too in the past when the overall industry has come off and you know the demand when the economy had actually come down pretty significantly. The GDP growth had come down and now we are actually looking at driving the performance in certain subsidiaries which were promised and also reviewed certain other subsidiaries on how to take them forward.

Ashish Nigam: My second question was on discounts. What are discounts at the moment and have there been any price hikes recently?

Gopal Mahadevan: I will tell you at Ashok Leyland one thing that we look at is the net realization more than the discounts because the discounts are a factor of market sentiments. Fortunately or unfortunately the industry had moved to a high discount levels, so if you ask me discount levels are stable, they are about 1.7 to 1.8 lakhs per vehicle. They are predominantly in the same level as the previous quarter or from the beginning of the year but in certain segments, discounts have gone up, but what we have been doing is two things. One is we have been raising prices consistently. I think we have raised prices in select models even on January. We did that by about a percent. We did that in September. We did that in July. We did that in April. We have had multiple number of price increase that is coming in because we want to ensure that on a net realization in each of these products we are not incrementally losing money, In fact we want to improve the margins and that is one of the reasons also you will see that my overall EBITDA margins and my profit before tax has improve significantly and we will do that. The second thing that I mentioned was I said there are two things one is of course the pricing and the discount strategy. The second one is of course we do a portfolio strategy to see which are the products which are giving us high end margins, which are the ones which are not what is the penetration that is required for the products which are not giving us the margins, how do we drive up margins either through a cost reduction program or through a price increase program. So overall if you look at it we have been improving our net realizations quarter-on-quarter and certainly over the same period last year.

Ashish Nigam: Yes, okay. Just on a related note on margins, I mean we are currently doing a healthy 7% margin. Even though you have not seen a major recovery, utilization levels are still pretty low and

discounts are still near all-time high. So when the cycle recovers over the next two, three years and we see operating leverage and hopefully much lower discounts, net discounts, where do you then see margins stabilizing? What sort of figure you would be happy with?

Gopal Mahadevan: Let us put it this way. In the medium term I think what we had mentioned that I am not going to say this is what we will do but this is what we aspire for it. It is better to share aspirations and perform because a lot of thing depends on number of external factors. So we would certainly look at the company moving to double-digit EBITDA margins and possibly move towards in the medium term to about 12% EBITDA that is what I would say instead of going through product margin specifically because ultimately what matter is how much am I able to sell, where am I able to sell, at what price am I able to sell, what is the margin I am able to make on my sale and most importantly how am I managing my costs and working capital. So there is a confluence of factors, ultimately that is what matters.

Ashish Nigam: Yes, that is it from my side. Thank you.

Moderator: Thank you. Our next question is from Ambrish Mishra of JM Financials. Please go ahead.

Ambrish Mishra: Congratulations on good numbers. Sir, there are two questions. One, this year, we have really done extraordinarily well and gained market share and hopefully should end the year with a growth of more than maybe 20% in volume terms in the medium and heavy commercial vehicles. Sir, how do you see the outlook for industry over next two years? And given where we are in terms of market share, what would be the aspirational numbers that you would be looking forward to in terms of market share? That is number one. Number two on capacity, how is the capacity going to split between the medium, heavy commercial vehicles and the LCVs that we have been doing for our joint venture partners? So I mean, can you just guide us through how the capacity would move, because if I am not wrong, we have spoken about LCV being produced at maybe the JVs facility sometime in future? So if you can give some idea on these two things.

Gopal Mahadevan: I will go from the end. First of all I do not think we had indicated that the LCV business will be manufactured from the JV's facility because the JV does not have a facility. We are extremely prudent in our investment when we announced the JV. Both partners ensure that we have an asset like strategy for the joint venture and that has helped to actually reduce the impact. So the current Dost, which is the flagship for LCV product is actually getting manufactured in Ashok Leyland's Hosur facility. Now coming to the capacity I think Ashok Leyland is reasonably well placed to cater to the growth of the next few years. We have more than 150000 units of annual capacity for M&HCV and over and above that we have about 55000 to 60000 capacities of LCVs which would be sufficient for us to cater to the requirement. There maybe some balancing what we were making investment that may be required. I am not too sure, but none of it is going to be very significant. On the capacity side, we are reasonably well placed. As regards the growth rates, I think I keep repeating it in every investor call and I think I would reiterate that here as well. I think if we are reasonably convinced that the economy is going to start growing and move away from the lows of 4. 5% and it starts moving up then it is natural that the commercial vehicle industry would be one of the first to be favorably impacted by this growth and if this were to

happen Ashok Leyland with its network, its products, its rationalization, its restructuring certainly would benefit. Now as far as the industry growth is concerned, very difficult to state at this moment, but for MHCV industry we expected FY 2015 to have a 10% growth. We think we are pretty much on track on that. We expect the year to possibly be at 10% industry growth and Ashok Leyland has been beating the industry growth at YTD you are right, we have a 20% growth. We expect to do the same in the fourth quarter, let us wait and watch. As far as the next year is concerned, I think, one should plan that if everything goes well with the economy, the industry should at least have a minimum growth of about 15% or 20%, but that is the broad tracks that we have to work on and if that happens Ashok Leyland certainly would like to maintain its market share. We will not grow it incrementally, so we would also need to work towards plan for growth in the TIV.

Ambrish Mishra: Sir, just this is to your earlier question. You just mentioned that the fourth quarter tax rate would get to normal. So for the full year, what kind of tax rate we should go ahead with for this year and next year?

Gopal Mahadevan: I mentioned and let me clarify that I expect the fourth quarter tax rate to even out, because there are a multiple factors in this and it is very difficult to quote. There are components of capital gains, there are components of minimum alternate tax, there is component of deferred tax, all of which actually comes to place. One thing that I can reasonably assure you that we expect the fourth quarter tax rate to come down a little bit, let us wait and watch, but what we are not going to do, we are not going to have any cash out on the tax because these are components of deferred tax and unabsorbed depreciation that is actually getting into the P&L, but I would not be able to share exactly what the tax rate is typical. We have seen a little bit of a change in the tax rate between Q1, Q2 and Q3, if you look at it because in Q2 there was a capital gain of one of the properties getting sold and that needed to be adjusted for tax so in a situation where you have multiple plays on tax, to forecast an effective tax rate becomes very, very difficult. So let us wait and watch, but hopefully there should be things should be better in the Q4.

Ambrish Mishra: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Jatin Chawla of Credit Suisse. Please go ahead.

Jatin Chawla: Yes. Hi, good morning, Sir. The question was on your realizations. See, you mentioned that the mix was poor because your spares and other engine business share of the overall pie has fallen. But despite that, I see there is a sharp QoQ pickup on your average realization. Normally, we kind of attribute that to higher share from the other businesses, but since that share was lower, what is really driving that increase on ASPs?

Gopal Mahadevan: Let us put it this way, instead of putting it as a share of other business has fallen, what has actually happened is the share of possibly the trucks business has increased, because there has been I would say a significant increase in the domestic truck business as also exports. Now you are right the realizations have been maintained at business segment level that each of these businesses are also profitable and in the individual segment actually improve the profits are

maintained profits over the sequential quarters. Now when the mix changes obviously when you have defense or for instance spares, as you know, higher than the average profitability levels and that mix changes then the overall impact on the margins is coming, but what we look at is while we do appreciate what the investor community looks at which is the overall profitability level and the overall EBITDA level what we are driving is each of my business is doing well. Are they getting better, are they getting better with the realizations, are they doing better in terms of volumes, are they getting better in terms of their costs is what we are looking at. The outcome of all this comes a mix and the overall gross margin, which hopefully the fourth quarter, we would actually see an improvement. You must understand that the bus segment has also grown; for the first time, TIV in bus has actually become positive and there has been and overall when you look at it and when you service the state transport undertakings and certain JNNURM models you would see that these slightly below average margins also impact the overall gross margin levels. I hope that I have been able to give you an answer for the question you asked?

Jatin Chawla: No, my question was more on see, because the way we calculate average realization is just the net sales by whatever vehicles you have sold. And typically, what happens is that when we get a surprise on the realization or the ASP, it is because of the fact that your share of other businesses has gone up. Now, this time around, despite that share coming down because trucks have done and buses have done well, we are still seeing a 5% quarter-on-quarter ASP increase. So that is something that I was not able to comprehend as to what is really driving that? Is it that the mix between on the trucks and buses side has really improved towards the higher-end, the heavier vehicles?

Gopal Mahadevan: Let me tell you there are mixes and I will keep it very simple. One is mix between the trucks and buses services itself and the second one is the mix between these segments itself. Now you know the larger vehicles being sold obviously the average realization will go up. So that happens typically. So that is the reason for your thing. So your simple calculator is saying is that I have got a 5% increase if the average realization and that should translate into a 5% gross margin, typically will not work because it is some large trucks have been sold so the mix goes up and the realization on a per unit basis becomes favorable.

Jatin Chawla: That is all. Thanks.

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

Jinesh Gandhi: Congratulations on good set of numbers. Sir, a couple of questions. One is, we have seen a reduction in our staff cost on Q-o-Q basis. Is there any one-off in that or this is a normal run rate now?

Gopal Mahadevan: I think what has happened is two things. I think there has been a slight decline at the ratable dealer point increase and the second one is the organization is pretty tight on headcount and some of the attritions that needed to be filled in we are possibly reviewing them and deferring them. So, but we also need to plan for the growth. So we are really looking at our manpower and the

headcount that we have and see whether there is a further optimization that can be done. I am not talking about rationalization, but optimization, so that is the reason why we are actually seeing this manpower cost being marginally down. So you can be rest assured that we are tight on all costs.

Jinesh Gandhi: Sure. Sir, what would be our inventory now?

Gopal Mahadevan: Balaji what is our inventory currently as on December?

Balaji: 3700.

Gopal Mahadevan: It is about 3800 numbers.

Jinesh Gandhi: Okay. And can you spell out your gross debt?

Gopal Mahadevan: Very, very low. Let me assure you that is one of the reasons. We have had two reasons for the OWC, the operating working capital also to come down. One was we have brought down our inventory levels. We had moved it up in the second quarter, if you remember, I had mentioned that our inventory levels are planned to be higher because we expected that there could be certain demands in the third quarter, which we need to be doing service and we are doing that and of course we are setting up production for the fourth quarter as well, but the inventory levels are at pretty low levels. The second reason of course was there will be certain amount of advances that we received because of the excise duty hike that was anticipated, so there was a certain amount of prebooking and you know that we do not do any credit on sales. It is all on immediate payment basis.

Jinesh Gandhi: Right. Sir, couple of other data points. Your gross and net debt and Pantnagar contribution?

Gopal Mahadevan: See my overall debt, I will just put it this way instead of putting gross and net because that is the element of cash and investments are not very significant. My overall debt excluding the useful bill discounting and all that is 4000 Crores and my debt equity is 1:1.

Jinesh Gandhi: Okay. And Pantnagar contribution?

Gopal Mahadevan: Pantnagar contribution as in?

Jinesh Gandhi: No, in terms of volume contribution?

Gopal Mahadevan: As we move forward, let me tell you that we will look at roughly about 40% to 50% of the volumes coming in from Pantnagar. The reason why I am saying that is one of course is the excise duty benefit that will come in from Pantnagar, which is very, very important, but the second thing that we also have to see is the logistics and we have to ensure that the Pantnagar predominantly services the north, west, central and east side and not move to the south side, but we have sufficient capacity both at Ennore and Pantnagar and we would define our productions based on the economics and the capability of each of these locations to manufacture

- Jinesh Gandhi:** Okay. But the contribution in third quarter would be roughly one-third or lower than that?
- Gopal Mahadevan:** It would be about 35% to 40%.
- Jinesh Gandhi:** Okay, sir. Thanks, and all the best.
- Moderator:** Thank you. The next question is from Pramod Amte of CIMB. Please go ahead.
- Pramod Amte:** I want to know what are your raw material contracts are currently and when we can expect the softening raw materials to flow through in terms of profitability?
- Gopal Mahadevan:** I will tell you what I mentioned earlier also, I am not going to plan for raw materials softening as a strategy. What I have been doing is of course we are negotiating with our vendors and vendor partners. We do not have any long-term contracts At the moment we are very much within control and prices have come off and that is helpful for the company, but I think what we are focusing more on is to see how do I get my overall raw material cost down, not in terms of input prices, but as a strategy. So for us we are planning, we are taking some initiatives. We have already had certain benefits coming in the current quarter which has helped us. If you looked at the raw material cost as a percentage of sales we expect that benefit to come off in the fourth quarter as well and that is why we are here.
- Pramod Amte:** Any thoughts in terms of discounts, when you expect them to ease down drastically one? Second do you see in any select pockets within the entire M&HCV space where the discounts have already started coming down?
- Gopal Mahadevan:** I think as far as discounts continue to be at slightly higher levels but for Ashok Leyland, I can speak only for us. Our net realizations have been improving. The reason for the discounts to be at slightly higher levels because that has been the practice over the last two and a half years. But for Ashok Leyland what s important is if I am having a discount at a particular level, as I increase prices to ensure my net realization is improving quarter-on-quarter let me assure that predominant part of the portfolio is actually seen in net realization. That is as the demand starts to increase it is logical to assume that the discount levels will come down. So that there is demand pull from the market, certainly I expect the discount levels will come down, it is very difficult to state. It is kind of 170 to 175 per vehicle, how much will it come down to I do not know because five years back if you had looked at discounts they were 20000 or 25000 per vehicle. If the demand is going to come back to what it was five years ago, will it go back to the levels. The logic tells me that but we will have to wait and watch. But what we will be watching on clearly is to see that the net realization improves.
- Pramod Amte:** Are you seeing variation in discounts in the goods versus tippers versus the tractor trailers and any trend there to be seen?
- Gopal Mahadevan:** We are actually seeing discounts coming off, but we will have to wait and watch especially because this quarter we have had tractor trailers and may be doing pretty well. We have actually seen some reductions in discounts, but we will have to watch, because frankly to me is what

matters is the net realization. As long as my net realizations are going up, it is good, now if the discounts come up drastically from the current levels I think there should be some summing up of the discounts over the next couple of years then obviously it will start improving the EBITDA margins specifically.

Pramod Amte: Just to related to that because of excise duty hike have you have power to take price hikes has reduced or have we taken any hikes in January or any plans for the March quarter?

Gopal Mahadevan: We have taken price hike probably in January as well.

Pramod Amte: Along with excise duty.

Gopal Mahadevan: Yes we are very clear about it because and of course in certain pockets the excise duty in certain products, the excise duty is increased, our reinstatement of 12% has benefited the company and we expect possibly a 50 to 100 basis on excise duty increase.

Pramod Amte: Thank you.

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

Srinath Krishnan: Good morning, and thanks for the opportunity. Sir, management has mentioned in the past how the Company has been able to provide inline pumps so that even road-side mechanics could repair the vehicles if there were any issues. If BS-IV emission norms were to be implemented by 2017, do you think current technology could be stretched to meet the same?

Gopal Mahadevan: We are very much on track to make the technology requirement to BS-IV. I think the government is planning to do in sections, first is north and then is south and then they are looking at I think rest of India to happen by 2017. We are very much on track.

Srinath Krishnan: You have been speaking about your export strategy. If I look the truck manufacturers in India mostly exporting to Asia, non-China markets like Middle East and African countries. So, which would approximately be about 14% of global truck market? With Neptune engine coming and incrementally which would be the newer markets you will be looking at to enter?

Gopal Mahadevan: Our focus is not new. Actually being a traditionally seen 80% to 85% of our exports revenues come in from Middle East, Sri Lanka and Bangladesh. So for us the new markets are very clearly Africa, we have already taken steps towards that, we have already signed a couple of contracts, which you are well aware off for into certain African countries where our negotiations for a couple of more contracts as well. So, for us Africa is a very, very important market, it has good a product mix as well and the margins are pretty good. The second one is of course South East Asia where again we are taking steps to make an entry into those markets and have already started executing our plans. Maybe at a much later date, we would also look at South America, but first we would look at these two markets in addition to our current market that we have which is Middle East, Sri Lanka and Bangladesh. And of course Russia is another market that is

important to us because there are certain segments which can be addressed. So broadly if you ask me if we are able to do that and we have our own asset life strategy of entering these markets and that is what we are rolling out. Currently, the management team is putting together a full strategy for that. Some of which has already started to get implemented and we would get deeper into the Middle East markets, certainly Bangladesh and Sri Lanka will continue but we would certainly take and we are accepting some significant volumes from the Africa foray as well.

Srinath Krishnan: Fine, Sir. Thanks. Thanks a lot.

Moderator: Thank you. The next question is from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao: Gopal, thank you very much and congratulations on strong results. Gopal, first question just on the continuation of Srinath's questions, if you can throw some more light on your exports, because you said it will be one-third of your volumes in three years and we anyway expect the Indian volumes also to dramatically increase. So do the markets which you have suggested, particularly Bangladesh, Sri Lanka and Middle East, do they have that business opportunity large enough for you to actually export so many trucks? That would be my first question. Second, you have gained market share and it seems that despite the entry of some newer players, the Indian market doesn't seem to have not fragmented, what are your thoughts on the active competition activity as the cycle improves and even smaller players tend to gain some scale?

Gopal Mahadevan: I will answer the first one. I think what I had mentioned was that we would like to have third of our revenue coming in from exports in three to five year timeframe whether if we see four or five we will have to come but we are really aspiring for it. The purpose of sharing it is not to actually excite people it is more to also share what we want to do with and what are the strategy that the company is embarking on to ensure growth and profitable growth. Yes this is going to ride on the back of the M&HCV domestic volumes going up as well. You are absolutely right and that is the challenge, but it is not going to be purely from the existing market of Sri Lanka or Bangladesh. It is going to be coming from Middle East as well as from Africa and South East Asia. These are the areas where you would actually ramp up over the existing base because we believe that Middle East itself, there are opportunities to go across. We might have been in one of those countries and we believe that this is something that there is definitely a ramp up from our side. As far as the second part of your question is concerned, that is what is the next source, so we are very clear that we would like to have a third of our revenues coming from exports over and above the M&HCV domestic growth as it is to happen and that should happen in three to five year timeframe. Believe me it will be on an asset like strategy. We have broad strategies to go about it as well we are on the execution mode. As far as the new players are concerned, I will not be able to get the names specifically, but I think we do keep while we do a lot of windshield driving, because we know exactly that we want to be and what are our returns, targets and aspirations in terms of market shares, customers, products, service, network and where we want to be, we also of course keep track on what is happening on competition and I think there are two or three of them who would certainly benefit from the revival in the geography but Ashok Leyland has been the number two player and this is doing very well for the last one year or so in comparison to competition. We are not elated about it. We are very careful about it, but we have our strategies

in place, we need to two or three strategies in place, which is already there. One is to defend and build our market share in segment, in geographies where we have high market share and also to increase our market share where we see opportunities. So it is a mix of both strategies that we are doing and the organization itself has actually structured itself in a way that we want to ensure that we are able to at least retain and build market share. So the earlier Ashok Leyland which was there predominantly, which was a horizontal kind of a company with all functions reporting to the Managing Director individually has been restructured into and you know we have structured ourselves into strategic business units. They have specific targets for themselves, which is also linked to to variable pay of these employees. And these businesses, these verticals which are actually headed by Executive Directors of vast experience, these themselves have also been broken down into zones and each one of them have target themselves. So the way we are tackling this is slightly different from saying that we will do the vehicles which will help us to get market share alone. We are looking at which are the businesses which we need to do to drive market share, which are the geographies which are to drive the market share, which are the geographies in which we have to defend our market share and that is overall strategy is resolving. All I can tell you is that we expect that the market we have been in the past shows that we have been growing relatively higher than market. So if in future we see that the market requiring the sales, which I think is a reasonable expectation to have at this moment given the macroeconomic factors, Ashok Leyland should certainly benefit from us.

Srinivas Rao: Sir, this is really helpful, thank you so much.

Moderator: Thank you. Our next question is from Apurva Kumar of Jefferies. Please go ahead.

Apurva Kumar: Hi, sir. I just wanted to understand couple of things regarding the regulatory norms, sir, we are seeing in the sector. Firstly, do you see safety norms regarding trucks getting tightened and what kind of incremental cost you will have to bear if that happens? Secondly, on the unified bus body specification regulation, how do you see that impacting the industry and as well as Ashok Leyland?

Gopal Mahadevan: There are two parts to the unified bus body code that is there and then a part of it is also got the ABS and the requirement of both trucks and buses and we have also on the other side, we also have BS-IV regulation that has to be rolled and then there are couple of other requirements which the government is trying to rollout. Now for us it is very clear as a strategy it will not be possible for us to absorb these costs. Obviously there would be certain additional costs that will be granted and this I think all players have concluded that this is something that has to be passed on to the customer because these are additional safety norms, so these are additional requirements required by legislation and I presume that this has to be passed on to the customer and that is our strategy at the moment. As far as the unified bus body code is concerned, I would say that Ashok Leyland predominantly is on track to meet most of these regulatory requirements. Some of them are going to be from 2015 April, some of them has to go through in 2016, some of them are beyond that but we are reasonably on track.

Apurva Kumar: Would you know the exact timelines? For example, I think the bus body code is supposed to be implemented from April 2015 itself?

Gopal Mahadevan: Yes, but I am not able to comment on that because there are lot of developments with regard to that as to how to comply with it and we are in discussions with various authorities and I cannot give you specifics of what we are doing on the unified bus body code and a couple of that now, but all we can say is that we have to as ready as competition to make up for this.

Apurva Kumar: Sure. And on the safety norms, once the ABS comes up, what kind of an incremental cost, maybe as a percentage of your realizations do you think it will lead to?

Gopal Mahadevan: I think as far as ABS is concerned, I believe that what the regulations have mentioned is that on all existing models they have to become a success and for new models with effective from April 15 onwards but we have not got clarity on that yet and also I cannot really give you not because of anything, but there are various solutions for this and it becomes very difficult for us to actually say this is Rs. 60000, Rs. 50000, Rs. 100000. It really depends on the vehicles, the weightbearing, what we need to be implementing in per vehicle. The only thing that we know is there is a cost price attributed to this. We are reasonably sure that we will be passing it on. So it is not going to impact our margins.

Apurva Kumar: Okay sir thanks sir. Thanks for taking my question.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was our last question. I now hand the floor back to Mr. Deepak Jain for closing comments.

Deepak Jain: I would like to thank the management for Ashok Leyland, particularly Mr. Mahadevan for being on the call. Thank you, everybody, for being us with. Have a nice day.

Moderator: Thank you very much. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.