"Q 1 FY '11 Ashok Leyland Conference Call"

With **Mr. K. Sridharan**

July 28, 2010

MODERATOR: MR. DEEPAK JAIN

Moderator: Ladies and gentlemen. Good day and welcome to this Q1 FY'11 earnings conference call for Ashok Leyland hosted by Edelweiss Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's opening remarks. If you should need assistance during this conference call please signal and operator by entering "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I now hand the conference over to Mr. Deepak Jain of Edelweiss Securities Limited. Thank you and over you to Mr. Jain.

Deepak Jain: Thank you. Thanks everybody for joining in. We have with us Mr. K. Sridharan, CFO of Ashok Leyland. Sir I now hand over the conference call to you.

K. Sridharan: Thank you Deepak and good morning to all of you and welcome to this first quarter result of this conference of Ashok Leyland. Let me take few minutes to give you a brief update of the business outlook, the actual performance in the Q1 and then the second part of the business outlook as detailed. First and foremost I must say that from AL's point of view the first quarter has been one of the best in terms of the volumes that we achieved and also the market share growth and very importantly the operating margin we have never experienced 10% operating margin in the last few years. So this has been that way very good year for Ashok Leyland.

Let me go over to the broad contours of how the commercial vehicle industry performed in the first quarter and also how Leyland performed in that. I must say that the trend that was set in the second half of last financial year were more of heavy duty vehicles getting sold when I say heavy duty the multiaxle vehicles and tractor trailers that trend continued even in the first quarter and more importantly I must say that the south market started picking up. The south's total share of the total industry volumes, which went down to 22% in the last year has now moved up to 26% in the current year. That is a good sign for us particularly where AL has got a better market share in the south segment.

The third point is that the freight rates outlook continue to be in a mixed fashion with some pockets continue to register negative growth while in other pockets there has been fairly an increase at least in the last one month. I must say that there has been a significant increase in various pockets particularly the pockets from the eastern side, from the northern side to the rest of the country and from the western side to the rest of the country. The tipper segment did see some contraction. There were times of slowdown and maybe because of the monsoon effects that must have made people to avoid the buying. We really have not understood what the reason for the tipper segment to have a contraction but going forward I would expect that these segments with continued buoyancy in the economic indicators particularly the mining and the coal segment continuing to register a growth. I must say that we should see some traction happening in those pockets. For AL the first quarter has been good as we were able to improve our market share over our fourth quarter particularly in the northern segment as well as in the western segment as we could gain about a couple of 100 basis points improvement. We did gain also in the bus segment more particularly on the private sector bus sales rather than on the State Transport Undertakings (STU) side. In the STU side in the Tamil Nadu pocket we did lose some market share. We hope to gain it back going forward in the balance period of the current year. The truck side, we gained substantial market share growth both in the tractor segment and in the multiaxle vehicle segment. Both these pockets contributed to significant improvement in the market share, which moved up from 26.6 % for in the last fourth quarter to 27% in the current quarter.

On the highlights in terms of the apart from the volumes, we also did considerable work in strengthening our network. We added about five dealer outlets taking the total dealer outlets to 183 and the service centers also moved up by 10% to 107 service centers. With all these we will have something like about 1800 workbays with dealers and about 500 with AL operative service centers. Taking the total work base for attending to our after sales support to more than 2300. We also ensured that the product launches take place in the first quarter at the plant. We launched the new vehicle 2516, which is a multiaxle vehicle segment with the 32 feet loading span and we also supplied something like 1700 vehicles to the STU , at least about 500 pertains to JNNURM. We need to supply another balance of about 1000 vehicles under the JNNURM. We have also order position in our hand for another about 1000 vehicles or so from STUs.

On the export front we substantially improvement our presence in Sri Lanka and Bangladesh, where the volumes more than doubled and also in the Middle East segment I am happy to state that there has been a traction coming up not only from the Saudi and the UAE pockets but also from Dubai and hopefully for the balance part of this current financial year we should register significant growth in the exports. On the other noncyclical business pockets I must say that the engine side there was a drop primarily because of the drop in LEYPOWER Gensets. We have sold about 4000 engines in the first quarter of the current financial year as against 4400 in the pervious year's first quarter. The significant drop has been in the LEYPOWER Gensets where we have supplied about 2500 in the previous year first quarter and came down to 500 in the current year first quarter that has been more than offset by the manufacturing engines that we could fill up. Overall the sales revenue from the engine registered a quantum of Rs.74 Crores in the current year first quarter. It is still much lower than what we would have expected to register for the full year on a pro-rata basis but this drop we are hoping that the telecom business will revive and then we should able to supply more of the LEYPOWER Gensets. We also had a drop in our revenues for supplies to defence . The defense supply in the form of the kits we supplied to Vehicle Factory Jabalpur from about 400 sets or so in the previous year fourth quarter we supplied only about 140 sets in the current year first quarter. The revenues dropped from about Rs. 46 Crores in the previous year fourth quarter to Rs. 12 Crores in the current year first quarter with one of the main reason why we also had a sort of a drop in our overall sales realization that you will see from the topline. But we hope that going forward we should be able to secure the orders, which we have been hoping to get from defense both for fully built vehicles as well as for the kits that we need to supply to the Vehicle Factory at Jabalpur. The spare part market registered a decent growth of about 12% over the previous year first quarter. We registered a Rs. 137 Crores of revenue on the spare part side. Going to the margins, as you all know that we effected pricing action in April for Rs.14500, which translated to about 1.5% of the total net revenue that benefited Q1. We also took another pricing action in June end which did not materialize for the first quarter because we continue to sell at the old price during the whole of the first quarter of course for whole of the month of July this new pricing has been made effective and we have taken a pricing action of about 23,500 which will be benefiting the second quarter onwards which translates about 2.5%. In all so far we have taken about 4% pricing action. As against this pricing we also suffered material cost increases primarily coming out of steel and rubber both significantly increased. We need to concede at least about Rs.5 to Rs.6 for per kg in the steel for the cost increases and rubber prices of course went substantially high. Tyre costs went more than 7% to 8%. This all translated to something like 3% to 4% cost increase for the first quarter, is one of the reason for what you will find that the margins the material cost has shot up to something likes 72.2% earlier to 73.9%.

On the operating cost, I must say that we could do considerable amount of cost control if you compare it with the first quarter of the previous year the cost increases have substantially contained less than proportionate increase compared to the volume increase. The first quarter of the current financial year staff costs had to go up primarily because of three reasons. The factories worked for the full working days as against the first quarter of the previous year the factories were running only for about two or three days in a week. As you all know we started getting back to normalcy levels around July, August in the previous financial year and we also had to concede increases in the wages to the workers during the last quarter we settled the wage agreement with our Ennore factory with that all units of Ashok Leyland are now completely secured the wage arrangement to the next couple of years. That cost coupled with cost increases on the executive salary where we had to increase by more than 15% for the compensation. All lead to increase in staff costs.

The operating cost side while apparently has almost doubled compared with the previous years first quarter is less than proportionate to the volume increases which is more than 200% so effectively the scales of operation benefited in comparison to the first quarter of the previous financial year but in comparison to the fourth quarter the previous financial year the cost increase in the administration overhead is primarily in fact there has been a reduction in the overall cost, it is primarily because of lower volume compared to the fourth quarter, volumes are lower than about 18% and we also avoided one time expenditure that happened in the last year like inauguration expenditure for our Pant Nagar plant and AUTO EXPO expenditure in January 2010. All this contributed to the Rs. 53 Crore of reduction in the administration cost, but all the staff cost for the reasons I mentioned the executive compensation and the settlement that we effected to our Ennore workers are the main reasons for the increase of about Rs. 22 Crore in the staff cost compared to the fourth quarter of the last financial year. With the Pantnagar plant coming into the operation the depreciation and interest cost had to go up. The depreciation has gone up by about Rs. 11 Crore over the fourth quarter of the previous year purely because of the Pantnagar plant operation. The interest cost also is more by about Rs. 8-9 Crore because of the Pantnagar interest capitalization that was there earlier, which is not there now. Overall the cost efficiency that I mentioned those measures will continue for the current financial year and we hope that we should be in a position to improve on the 10 % operating margin that we reported for the first quarter and my hopes are more based on three factors first and foremost of course will be the volume growth. We have been giving a guidance of about 85,000 vehicles for the full year. This is based on the assumption that the growth would be around 15% to 16 % the total industry volume and we should maintain about 27% to 28 % market share. Now going by the current trend and factoring the buoyancy that we are experiencing I would state that we should have a TIV growth of at least 20% if not 22%, 20% TIV growth would translate to the medium and heavy duty vehicle total industry volume to touch 295000 vehicles and at our current 27% market share assuming on a consolidated basis we maintain our 27% market share. We should have a domestic volume of about 80,000 vehicles, added to that to the LCV which is not part of this on a minuscule level that we are present in the current market about a 1000 vehicles and an export of about 8000 vehicles should take our total full year volumes to 89,000, as against 85000 that I had predicted earlier with a bit of luck we should touch and cross over to 90,000 vehicles, if we could improve our market share going forward. This is one major factor that I am assuming that we should in a position to achieve this volume growth and hence we should able to get a better operating margin.

Second major assumption that I am making is that from October when the Euro-2 emission changes to Euro-3 or Bharath stage-3 we should be able to recover whatever cost that we incur on that changeover which is estimated at about Rs.40, 000 per vehicle. So, we are expecting that we should in the position to pass on this 40,000, which should of course admit will be a challenge given the fact that we have increased the prices by almost 4% between April and July. The third major assumption that I am making and hoping that the margins are to improve will be our production Pantnagar plant. I must say that you know on the first quarter we have not been very successful, we were producing about 800 vehicles in this Pantnagar plant in April, May and June. Going forward we except that at least about 17,000 to 18,000 vehicle should be produced in the nine months that is left over with our focus very clearly on ramping up that production to the full scale of 4000 vehicles per month by March 2011, which plan is very much intact and we have hopeful that we should able to achieve that. On that basis, I would expect that we should get some couple of growth by way of additional realization due to the tax incentives that we have in that pocket, which is currently estimated at around Rs.35, 000 per vehicle. With these I would say that the margin expectations we can reasonably expect and afford prospect over the 10% that we achieved in the first quarter but with the caveat that the assumptions on the pricing for the emission change needs to be factored very clearly in our mind.

On the joint ventures, I must say that we are moving as per the plans that we set earlier. We expect the LCV joint ventures to get the vehicles launched by mid 2011 calendar year. We also expect the John Deere Construction Equipment to commence production by end of this calendar year and launch the product by beginning of next calendar year. As I had already mentioned our high-pressure die-casting joint venture with Alteams of England is moving as per schedule and more and more components are getting covered by the joint venture through high pressure die casting, it is a high-pressured aluminium die-casting facility and our gearbox casing is now getting sourced from this particular joint venture now. And this certainly gives a reduction of cost of about 5% and top of it also enables the joint venture to make better utilization of its facility. With this now, I will open the floor for question.

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

Kapil Singh: Hi sir, just on the tax rate if you could also give some guidance there that do we expect to remain under MAT for this fiscal year and beyond?

K. Sridharan: We expect to be under MAT for the current financial year and our tax rate is you would have noticed is marginally low compared to the previous year's levels primarily because of a very high level of R&D expenditure both CapEx and revenue with a higher weighted deduction that is being offered now which is 200% compared to the earlier 150%. So R&D pocket has been the major reason for lower tax rates for us and going forward we expect that we would be under the MAT.

Kapil Singh: Also on the CapEx side if you can just give us the details, I know it will be about Rs. 600 Crores but if you can share some breakdown on that and also on the investment side how much have we done in what is the plan?

K. Sridharan: We have about $300 million which translates at the current exchange rate of around Rs. 1400 Crores and the rest of it is in rupee loan. We have about Rs. 2600 Crore of total debt. We raised Rs. 300 Crores in the first quarter, all rupee loans and we do not expect any major exchange exposure coming out because of the fact that our normal levels of exports is anywhere between $175-$200 million and we should be able to have a natural hedge for meeting these loans which are coming up for repayment in 2013, 2014, and 2015 and on the CapEx breakup as I have been saying it in the past, our capital expenditure will be around Rs. 1200 Crores between this year and next year. This year it will be around Rs. 700 Crores, next year it will be Rs. 750 Crores, next year will be the balance and the investments in the various joint ventures would be around Rs. 800 Crores between the two years of which there is something close to about Rs. 500 Crores will happen this year predominantly it will be on the LCV side. The CapEx is predominantly for three pockets one for the Neptune engine that we need to manufacture. We have to put a facility for manufacture in Ennore, we have already done it in Pantnagar. Two we need to put up the facility for the next generation Newgen cab that is a Newgen cab that we are coming out with that we need to productionize it and three, we would be spending money on R&D which is what I mentioned on the tax rate part, where we are migrating from our current vehicle platform to the U-truck platform as we have been paying are more than 25 to 50 models will get launched in the next 18 months.

Kapil Singh: So is it fair to assume that I mean these may be in fiscal 11 and 12 is when you have slightly higher CapEx because you are investing into facilities for Neptune engine and Newgen Cab and new facility at Uttaranchal which will ramp up and going forward we can expect beyond the next two years that CapEx will come down slightly and also if you can tell me what is the maintenance CapEx that we have?

K. Sridharan: Significantly the CapEx will come down in fact the maintenance CapEx would not be more than Rs. 25 to 30 Crores.

Kapil Singh: I missed out on the cash balance that we have what is the cash?

K. Sridharan: I do not have the figures readily with me but the cash balance at any point of time would be from Rs. 150 to Rs. 200 Crores.

Kapil Singh: Net debt is 2600 Crores at this point?

K. Sridharan: Rs. 2600 Crore is the total debt, in fact if I missed the cash balance, the net balance will be only around Rs. 2300 Crores.

Kapil Singh: Lastly, on the interest cost, should we expect some increase from here on or do we expect that it should remain here. I mean, in terms of borrowing are we looking for more rupee loans or will we look at ECBs, etc. also?

K. Sridharan: That is not yet decided, but I do not expect a major increase in the loan portfolio having already incurred this much cost but I am nascent to add that we raised Rs. 200 Crores only in the last week of June so the full interest in fact of that would come in the second quarter onwards.

Kapil Singh: Thank you.

Moderator: Thank you Mr. Singh. Ladies and gentlemen, before we take the next question, we would have to request participant to please limit their question during the initial rounds, as there are several participants in the question queue. Our next question is from the line of Binay Singh from Morgan Stanley. Please go ahead,

Binay Singh: Good morning sir, I have two questions, firstly on the staff cost if you could tell us will it remain at these levels as we ramp up at Uttarakhand it will go up and secondly if on our John Deere JV if you could tell us something about the first initial products that are coming up what is the strategy in terms of are we going to use the same dealerships and all on that JV side? Thank you.

K. Sridharan: On the staff cost side, it will at about these levels because at Uttarakhand we do not expect a significant increase in the manpower cost. Incidentally in Uttarakhand, I do not know whether you must be aware of, we have got a modest team by which the current work is handled by what you can call it as trainees more of people who are undergoing the technical education and as part of their education they are also undergoing the shop floor experience and we pay salary to the institution not even to the individual workers there. That is where we have started this process. We do not expect the salary or wage cost in Uttarakhand to significantly go up, it will be a marginal increase going forward in the third and fourth quarter, second quarter, certainly will be at about this levels that we have seen in the first quarter for the current year.

On the John Deere, our plan is to come up with few products, one of it is of course is the backhoe loaders and our strategy also is to marry the existing dealership wherever it is advantageous to both and where we find that we have gaps we need to fill up with the new dealership which has also been done, work has already happened in those pockets.

Binay Singh: Similarly for Nissan one also, the dealerships will remain the same?

K. Sridharan: In the case of Nissan, it is even more in an advanced stage where apparently the dealership identification process is almost getting completed now.

Binay Singh: Sir, lastly on the finance subsidiary any progress on that?

K. Sridharan: I must say that the finance outlet Hinduja Leyland Finance has commenced its operations in the month of March. They have got the RBI approval. The initial capital base is about 100 Crores. Ashok Leyland will contribute 50% or may be 51% to retain the maximum control not only through Leyland but also through its investment arms and the balance would be held by strategic investors, and already it has done 200 vehicles financing in the first quarter particularly in markets in the eastern side and the other markets it has significantly ramped up its presence and going forward I expect they should raise about 400 to 600 Crores of debt and ramp up the volumes to about 4000 vehicles in the current financial year.

Binay Singh: Thank you sir.

Moderator: Thank you Mr. Singh. Our next question is from the line of Chirag Shah of Emkay Global. Please go ahead.

Chirag Shah: Sir, I must say first of all this annual report is very nice, it indicates everything in terms of strategy. Second thing again if I can just deviate from this call and focus on annual report if you can just update on what is happening at the Albonair India Private Limited, because you are ready with SCR and what kind of opportunity you are looking and what exactly is this business about?

K. Sridharan: The Albonair business model is for developing the Euro-5 emission standard products in the SCR route and we expect to supply to the international customers first before coming to the Indian markets and I would expect that once the product gets accepted internationally we will have a much easier acceptance in the domestic market, so at this juncture we are now moving forward to having the product launch done very shortly in the international market.

Chirag Shah: You also mentioned something on China, how big is the opportunity and what kind of revenue are you looking at from this particular venture?

K. Sridharan: The revenue of potential of course is significant, at this juncture it would be too premature for me to comment on that. It will be some hundreds of million dollars business potential possible there, but China market is phenomenally big and the product acceptance tests are going on and we expect that market to also make a breakthrough in the coming months.

Chirag Shah: Okay and second thing is that most of these JV would you be consolidating them in your numbers going ahead or they would not be a part of your consolidated numbers, you have less than 50% or less than 50% stake in all this JV?

K. Sridharan: That is right, going forward once the IFRS gets implemented all these consolidations also would take place. At this juncture because it is below 50% we do not have to do any consolidation.

Chirag Shah: Second thing if I come back on the results is that margins if I read correctly you are indicating that the price increases that you took in this particular quarter, end of the quarter can actually translate to incremental margins. Is this how one should read, because your costs are more or less fixed at raw materials hike (ph)?

K. Sridharan: No the material cost increase also has been at about that level, so the increase in margins should come more out of our Uttarakhand plant operations contribution and through sales of the volumes going up.

Chirag Shah: It is not necessary that the price increase that you took recently the last price increase would help you to increase your margins vis-à-vis what we have done in Q1?

K. Sridharan: Yes, it will only help in avoiding its reduction due to the cost increases.

Chirag Shah: Okay fair enough. Lastly if I can just take one more, your tax rate is actually lower than the MAT rate also, it is a trend that will continue, 16.5% is the effective tax rate in the quarter?

K. Sridharan: No the MAT rate I do not think you can compare the MAT rate, because we have not put the MAT tax, we have given only the deferred tax charge provisioning there, which is based on the normal tax rate. Normal tax rate factors in the R&D expenses.

Chirag Shah: So for our estimate what is the kind of tax rate that we should go about, should we do with this rate or it should be higher?

K. Sridharan: This current first quarter rate could be an indicator.

Moderator: Our next question is from the line of Pramod Kumar of JM Financial. Please go ahead.

Pramod Kumar: Sir my question pertains to the cost disadvantage, if you can throw some light as to what is the kind of cost disadvantage we would be compared to be a player like TATA Motors in the Northern part of the market, because given the fact that till Pantnagar came in most of our manufacturing has been down South, so what is the kind of logistical cost involved in moving a truck say from our plants in South to a market somewhere around Delhi which could be a big saving for us incrementally once the truck starts rolling out from Pantnagar and service the northern market; if you can just throw some more light on that sir?

K. Sridharan: That will be around Rs. 5000-7000 per vehicle in terms of the logistics cost moving from South to the North market.

Pramod Kumar: That includes even the driver salary, which you need to pay for?

K. Sridharan: That is the cost of moving the vehicle on the wheel. That covers everything.

Pramod Kumar: In terms of Chinese import as in Chinese import of tyre what is the kind of savings of tax what is kind of savings do we expect because of this or is it going to be purely to overcome the bottleneck in the domestic capacity on the tyre industry side?

K. Sridharan: Purely on the supply side only.

Pramod Kumar: So there would not be much on savings in terms of the cost right?

Pramod Kumar: Lastly on IFRS if you can just throw some light as to what could be the positive or the negative outcomes because of IFRS getting implemented for Ashok Leyland in terms of our huge capacity which we have already put in place, will that help us to reduce our deposition to an extent once IFRS comes in, will there be any positive impact because of IFRS coming in now from FY'12?

K. Sridharan: Going forward I would say the IFRS consolidation process would enable Leyland to report a very strong consolidated balance sheet for various ventures we have been carrying on like say Albonair or even for that matter LCV projects etc. I do not expect any major changes in the depreciation rates because it will be a futile exercise to keep on revisiting the life of the assets and as you would have known by now many of the corporates are now going through the practical route of adopting their existing historical cost as a base for the depreciation provisioning and the convergence first time adoption also permits the existing cost as the deemed cost, so I would not expect any major surprises to come on the depreciation front or for that matter even in Forex, because even in Forex we have all moved to the way international standards would require now. The only benefit that I would foresee is with many of these joint ventures coming into operations in the next one or two years the benefit of that will flow to the bottom line for Leyland.

Moderator: Our next question is from the line of Chetan Shah of Rare Enterprises, please go ahead.

Chetan Shah: Just one small question, in your assumption which you talked about could you just tell us what exactly is our current production ramp up from Pantnagar, you said that first quarter was roughly about 800 for the full three months and remaining you are expecting between 17 to 18 and eventually per month this will go to about 4000 per month by March, April next year, so how is the ramp up at this juncture and how you see this happening in the second half?

K. Sridharan: See ramp up will have to happen something like 1200 to 1500 vehicles between August and September, already it is getting manned for and scheduling etc., are all happening for those levels, the third quarter I would expect it to touch something like 3000. There would not be any linear growth in this because as you know once the learning curve is through the challenges coming out of teething problems are solved then one should be moving to fairly a speed up ramp up in those pockets. Incidentally I must also mention that we got affected by power cuts in Pantnagar, we never expected power cuts to be of that magnitude, now we have completely the backup power availability through genset applications, so going forward we should not be interrupted by the nonavailability of power in this thing in Pantnagar so I would expect the ramp up to almost double up as we move long between the third and fourth quarter.

Chetan Shah: Sir, you said in terms of our price hike which we did between April to July almost to the tune of 3-4% and you said that the tax benefit which we will get for vehicle produced from Pantnagar factory is about 35,000 per unit, if one assumes the current raw material cost remains intact most of that got passed on to the consumer for the remaining nine months so do we assume that there can be a good amount of margin increases possibly if I take your 89,000 number of which 21,000 has already been done in the first quarter and remaining 15,000-17,000 if you do from Pantnagar so in terms of the sales mix coming from two different locations can help you to increase your margin provided the current situation remains intact as what was there in the first quarter?

K. Sridharan: Yes, I cautioned and I also explained very clearly that there is every said possibility for the 10% margin we achieved in the first quarter primarily because of the volume ramp up which now against 85, 000 and now estimating that it can cross 87,000 and with a bit of a luck we will touch 90, 000 vehicles. The contribution coming from Uttarakhand which was not there I would not say completely not bad, about 800 vehicles are there produced in the first quarter but definitely going forward the share of Uttarakhand would be significantly up, so these two factors should enable us to register a growth in the operating margins.

Chetan Shah: Sir in terms of the cost and mainly from the raw material point of view in the first quarter our cost was roughly about 73.9% do you see this can be kind of a peak if we assume the kind of volume which we are talking about in the reminder period of the year or is it something too tough to take a call?

K. Sridharan: I tend to agree with you, it will be on the peak side. Given the fact that the commodity prices are softening, I would expect the cost to come down not go up.

Chetan Shah: Sir very specific to the tyre availability how is the situation as of now on the ground level because we hear lot of different things from actual tyre manufacturers and suppliers vis-à-vis the user like you or the secondary user who are the fleet operator themselves so if you can just throw some specific light, what in the current actual situation on the ground?

K. Sridharan: The tyre availability continues to be a problem. At any point of time 20,000 to 30,000 tyres would be needed to meet up our yearly requirements which we are now trying to bridge it through various means one of which is the imports from China and we also expect the domestic supply to also augment the supply position, so going forward I would say though we have been hoping that it is only a very, very temporary phenomenon, it has been affecting us in the last three months, going forward I would expect this to be resolved definitely before September and may be in July, August we should find some solutions in this.

Chetan Shah: Sir one last question this is too premature but assuming if we achieve the current year's full industry growth will we cross between 295 to 300,000 commercial vehicles sales as industry as a whole which you mentioned in your opening remark, what kind of a growth if monsoon is good and if economy keeps growing upwards of 7.5 to 8% plus in the country, can we see again the next year can have a two digit growth number possible?

K. Sridharan: Yes, definitely 10% to 12% growth in the next financial year is possible provided we are very clear about the way some of the underlying things span out like particularly the infrastructure build up, the positive sentiments on the industry side. If for any reason I shudder to think but I would mention that if for any reason the emission change were to really affect and that becomes sort of a challenge given the fact that the prices of vehicles have already gone up, price rates have not moved up, there is an inflation, there is an interest rate hike, you got to list down all these negatives one may start doubting to say whether at all the industry will be just at this 20% growth which alone will take us to 295,000. If that is under question obviously next year also can be into a problem.

Chetan Shah: Sir one last question, yesterday some truckers association has announced that from August 6 they are going for indefinite strike due to the toll related issue, do you think if that actually gets happened might impact our supplies in terms of the key components and stuff like that. One should take that a bit seriously or we are ramping up our supply side from a raw material point of view?

K. Sridharan: No while we take all precautionary efforts obviously the timeframe available for meeting of that challenge will be very short, so definitely we will be affected if it were to happen, but I would expect the government and the truckers association to come to an understanding on the time bound plan which the government has been promising to implement on many of these toll related subjects, the check posts and those points particularly with the GST coming into action I would expect many of these problems to be also resolved.

Moderator: Our next question is from the line of Saurabh Das of Sundaram BNP Paribas. Please go ahead.

Saurabh Das: Thanks for the opportunity sir, just a few follow-ups and a couple of questions on your JV, to start with the Neptune engine production when are we likely to see the first product from the Neptune platform?

K. Sridharan: Some of them are already running

Saurabh Das: These will be in the more than 25 tonnes segment?

K. Sridharan: That is right.

Saurabh Das: Which all products have we launched from this sir?

K. Sridharan: Mainly on the tractor-trailers.

Saurabh Das: All above 40 tonnes?

K. Sridharan: Above 30 tonnes.

Saurabh Das: The next question is on our regional market share, if you can just give us a flavor of North and West market share and how it has changed in the last one quarter?

K. Sridharan: No we do not have the SIAM based market share part, we do have our own estimate of the market share on the heavy duty vehicles alone, I must caution that the market share numbers that we see internally is based on the heavy duty vehicle which is 16 tonnes and above not the 9 tonnes to 16 tonnes pocket and from that point of view our market share in north has moved up to 26% our market share in West has moved up to almost 17-18%, our market share in East has moved up to almost 10%, our market share in South is closer to about 45-46%.

Saurabh Das: Specific to North how have you seen it in the last one quarter change?

K. Sridharan: Significantly we have improved the market share and we have also seen the TIV also significantly has gone up. From the TIV share of 23% in the fourth quarter for the north it has now moved up to 26%.

Saurabh Das: Okay great. Sir we also hear there is a mining ban especially in the Bellary belt in Karnataka. Do you have any specific inputs on that and are they impacting the tipper numbers, which you also indicated in the opening remarks?

K. Sridharan: I do not have any specific inputs on that.

Saurabh Das: Sir, in terms of our defence sales numbers what is the outlook because there has been a sharp fall but is it because of the lumpy nature of the business or we see that coming back?

K. Sridharan: As I said we do hope I would not able to predict anything on the numbers, but I would only say that we have been having a steady flow of business particularly in the kit supply to vehicles factory Jabalpur and also on the fully built vehicles position, so couple of 100 vehicles on the fully-built solution and something like 2500 to 3000 vehicle kit supply should be possible but I must hasten to add that these are all our hopes and targets and not something that one can certainly say that we will secure it, we were hoping to get that in the first quarter, we could not succeed in doing it so hopefully going forward we should be able to secure these orders.

Saurabh Das: Sir on the JV with Nissan, the portfolio I guess starts from 5 tonne and above, are we also looking at the 7-11 tonne segment primarily dominated by Eicher right now, are we looking at that segment as well very strongly?

K. Sridharan: I must correct your impression it is not on the 5 tonnes we are launching the vehicle in the 2.5-3 tonne segment and focus would be between 2.5-3 tonnes to 5 tonnes and we will not be focusing on vehicles above the 6-7 tonnes segment.

Saurabh Das: Any particular reason that you are not focusing on that?

K. Sridharan: Product range that we are now currently believing would be right thing to launch in the current market.

Saurabh Das: Sir could you talk a bit about volume plans in the JV for FY'11, FY'12 ?

K. Sridharan: It is now too premature now at this juncture.

Saurabh Das: Finally sir on our commodity contracts these are half yearly contract if I am not wrong?

K. Sridharan: Again we keep saying there is nothing like contract, contracts are only for supplies not for the price. The price always gets negotiated and always either it is an upward or a downward duration we continue to exert the pressure for securing the best terms for Leyland, if the prices were to soften we should be able to secure that reduction going forward.

Saurabh Das: In that particular quarter itself? Sir could you give some understanding on the Detroit auto that we have, Detroit Technologies, their subsidiary, what is the plan for that, some colour on the outlook.

K. Sridharan: They are a subsidiary, it is part of the group, and it continues to provide testing services part of it. It moves on a steady flow of about 2-3 million dollars of revenue per month.

Saurabh Das: What would be Ashok Leyland's stake in the company?

K. Sridharan: About 40%.

Moderator: Our next question is from the line of Mitul Shah of First Global. Please go ahead.

Mitul Shah: My question is what was the volume from the South in this quarter?

K. Sridharan: I do not have the exact numbers.

Mitul Shah: Approximately and how far it is away from peak volume during the previous hike?

K. Sridharan: The south volumes have been marginally going up for us and I must say that the vehicle demand, the total industry volume has moved up to 26% as I mentioned earlier.

Mitul Shah: Because Sir last year we reported a huge decline in South and as you are saying it is moving up.

K. Sridharan: That is the point. It is a very important point of change that we would like to share with you that from a downward trend in South, we are now seeing traction happening in South, so that is why I highlighted the event happening in the first quarter and said that the good news to share with you.

Mitul Shah: Sir my point is that how far we are away from the peak volume in the south prior to two years?

K. Sridharan: May be off line I can clarify this; I do not have the numbers really with me.

Moderator: Thank you Mr. Shah. Our next question is from the line of Joseph George of BNP Paribas. Please go ahead.

Joseph George: My question is in relation to your comment in the last earnings call regarding the breakup between the first half and second half in terms of the total industry volumes in this fiscal year. I remember your comment wherein you mentioned that because of the emission changes and the resultant price increases in October, it is possible that the breakup between the first half and the second half in terms of industry volumes would be about 50:50, but whereas historically what we have seen is the second half tends to be about 25% higher than the first half, do you stick with those comments or is there any change given the volume that we have seen over the last three months?

K. Sridharan: I am sticking to that comment and very importantly I believe that the third quarter will be significantly lower than the second quarter. Second quarter seeing the traction coming due to the emission change and also the current buoyancy sentiments, the only thing that can spoil the whole sport will be the interest rate outlook, if it were to go beyond the manageable levels or affordable levels then you will have some negative impact, on top of it if for any reason the cost increase due to the emission change if the market is not able to absorb and pass it on in its pricing for its services then there will be a significant drop in Q3, but I would say that we all should be prepared for looking at a drop in Q3 with significant jump in Q2; Q2 generally used to be low, which this time it will be significantly up. It will be even better than Q1 in my view and overall the fourth quarter will do the balancing act and I believe that the first half versus second half will be around 50:50 this year.

Joseph George: My second question was in relation to the tax rate, going into FY '12 because of the benefits that will come in from Uttarakhand my math tells me that the effective tax rate can be lower than the MAT rate but from an accounting perspective how do you see it, would the effective tax rate reported by the company can it get lower than the MAT rate because of deferred tax asset being held up.

K. Sridharan: One question I answered earlier, even in this first quarter, the effective tax rate is lower than the MAT rate purely because we do not have to charge the MAT tax in the P&L. MAT is always tax credit available going forward. I can set it off like an advance tax payment and hence what you will see and you will continue to see till the time we are under the MAT regime, you will see that the effective tax rate could even be lower than the MAT rate.

Moderator: The next question is from the line of Sahil Kedia of Enam Securities. Please go ahead.

Sahil Kedia: Sir I have a question A, you have mentioned that you have taken a price increase in April of 1.5% so then sir can you also explain how our net realization, which is essentially the revenue divided by the volumes are actually down both on a quarter-on-quarter by about 4% and is actually one of the lowest in the last five quarters, so can you explain in terms of what are your thoughts there and secondly sir, you mentioned that there will be 40,000 increase because of the BS III upgrade, so how many of our products or what percentage of our portfolio has already seen this price increase and how much is yet to see this price increase?

K. Sridharan: The first point on the revenue top line drop comes primarily from two factors, one the supply of VFJ kits the vehicles at Jabalpur has significantly dropped compared to the last year's fourth quarter as well as the last year's first quarter and on top of it, we also had a significant drop in the engines revenue, which I read out, so when you divide the top line with the vehicles number obviously you will see a lower revenue coming in the first quarter and as I explained in terms of profitability engine drop should not be a matter of concern, but we hope that the defence business would be able to give us the upside of opportunity in the next quarters, because we do hope that the normal levels of business to come from defence will happen going forward. The other question, sorry I forgot the other question what did you mention?

Sahil Kedia: Sir my other question was on the BS III, how much of our products are today ready BS III, because you mentioned that there is a 40,000 price increase because of the BS upgradation, so how much or what percentage of our portfolio is already ready in terms of BS IV and BS III.

K. Sridharan: Less than 2% would be the BS III type of vehicles or BS IV type of vehicles, but BS III is not relevant.

Sahil Kedia: Sorry BS IV.

K. Sridharan: Only the BS IV in the metros and there it is more supplies to the State Transport undertakings based on the tender part of it that may not be the right basis for judging how the market will accept pan India for BS III, so at the moment I must say that we have already produced and have a stock something like 1200 vehicles of the BS III as of now, so in fact our readiness to launch the BS III is very much there, come October we should be able to offer such vehicles to the customers, but we need to really test the price acceptability point going forward in October.

Sahil Kedia: Sir one more question, you mentioned that there has been a cost increase over 3% to 4% because of steel and rubber, but if I look at the quarterly numbers essentially there has been an increase but it is not as significant as you have pointed out, so while you are mentioning that the raw material side is easing out is there a sense that some part of this 3% to 4% cost increase is yet to come into the numbers?

K. Sridharan: No, the 3-4% has happened in the first quarter, but I must say that the top line also increased, when I say 3% to 4% it is 3-4% of the material cost. In terms of the sale revenue, it will be much less than 3% and the top line growth also has contributed to blunt the impact of the material cost increase that is why you see only less percentage in terms of percentage points a lesser number on material cost increase.

Sahil Kedia: So from your incremental you do not expect further increases on the raw material side or whatever increases are there have already been taken into.

K. Sridharan: That is right.

Moderator: Our next question is from the line of Amin Pirani of Deutsche Bank. Please go ahead.

Amin Pirani: Sir, just a followup on the raw material question. If I just report a purchase of traded goods number then the raw material sale has actually trended down on a percentage basis as well as on a per vehicle basis, could you please clarify on that or am I seeing it wrongly?

K. Sridharan: The purchase of trading goods and this thing I would say that you do not have to look at it in isolation. I request you to look at the three lines the increase or decrease in finished goods, trading goods, consumption of raw material and purchase of trading goods all put together because what we call as trading goods is basically coming out for the spare parts sale and parcel of the top line thing for us, so it would be right if you can combine the three lines and then look at as one total. That total has gone up by about compared to the first quarter of the previous year it has gone up by about 1.6% and compared to the previous year, the fourth quarter it has gone up by about 0.7%, so those who are in line, with the cost increases that I was saying which is more than proportionate to the price increase that we have effected.

Amin Pirani: Sir, on your interest cost and on interest rate, can you just clarify if there has been a change after the banks have moved to base rate as in like you raise some money in the first quarter have the bank started quoting rates differently or has there been a movement in the rate of interest for you because of that?

K. Sridharan: Yes, I think it is a good question. In terms of the interest rates, I should have cautioned that the short-term borrowings, which we used to do at around 6% in the past, we all would now get affected by at least 100 basis points because we wont be able to borrow anything less than 7% practically almost all banks in the band of about 7% constantly look at various other products including commercial paper for reducing our interest cost, but I would say that we need to be prepared for accepting 1% increase in our overall borrowing, which should be anywhere between 300 Crores to 500 Crores in working capital terms, but on the term loan side, I must say that we have been a bit lucky to get the interests firmed up at less than 8.5% for the loans that we raised during first quarter, so it was sort of firm rate so practically there are no downside to those interest rate benefits and consequently, the term loans part of it would be at that lower rate whereas the working capital loans would be more affected by at least 100 basis points.

Moderator: Ladies and gentlemen due to time constraints we will take one last question from the line of Mr. Kunal Bhatia of Dalal & Broacha. Please go ahead.

Thank you. My question has already been answered.

Moderator: The next question is from the line of Shweta Pande of Infotech Private Limited. Please go ahead.

Shweta Pande: Sir I just want you to put light on the revenue part from the MDV passenger goods on the domestic front as well as the export front and the same way the LCV also.

K. Sridharan: LCVs we have not barring for 1000 vehicles. I do not have the breakup of the revenues between the buses and trucks. I have given the breakup for the engines, the kit supplies, beyond that the total balance would then comprise of both exports and domestic side.

Shweta Pande: Sir we have also seen a dip in the LCV segment, the exports part. The LCV exports have not shown a very good number, so what was the basic problem with that or rather, is it a concern from the export side from the LCV segment?

K. Sridharan: We have very minimal exports on the LCV segment. It is more I would say the Sri Lankan market, which is now moving towards importing more MDV vehicles consequently instead of looking it as a lost to sale, look at it as a substitution by the heavy duty vehicles exports to Sri Lanka and Bangladesh.

Shweta Pande: Okay and sir there is one more thing that the Chinese companies are coming into the Indian markets for the buses and the trucks, what do you feel would be the impact on your company sales?

K. Sridharan: The classic answer I would say is look at the way the JNNURM tender process went and where the Chinese also participated. At the end of the day after all that again the market was predominantly dominated between Ashok Leyland and Tata.

Shweta Pande: That has to happen about it.

K. Sridharan: Going forward I would expect that we should be improving on our product offerings, we should be improving on the terms that we offer, some of the buses if you see the Delhi ultra low floor bus you will realize that the Indian scope of supply, the Indian standards of the bus suppliers have significantly improved, all that would mean that we should be able to hold on to our fort, but I concede that going forward the challenges will be more and one needs to put in extra efforts to come up with new products. I must say that our Alwar plant where we have been manufacturing these ultra low floor buses to supply to DTC, we are now augmenting the capacity there, by few thousand more vehicles of course less than 40 Crores or 50 Crores of CapEx in that and with that process we should be able to offer something like 5,000 to 6,000 state-of-art buses to be supplied to any part of the country from our Alwar unit, so bus strategy has been a very focused pocket for Ashok Leyland and I can assure you that we would not let our market share to be lost because of these competition.

Moderator: Ladies and gentlemen due to time constraints that was the last question and I hand the conference over to Mr. Deepak Jain of Edelweiss Securities Limited for closing comments.

Deepak Jain: Thank you Mr. Sridharan for being on the call. Thanks everybody for participating.

Moderator: Thank you Mr. Sridharan and thank you Mr. Jain. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this afternoon's conference call. Thank you for joining us and you may now disconnect your lines. Thank you.