



“Ashok Leyland
Q2 Financial Year 2019 Earnings Conference Call”

November 13, 2018



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Moderator: Good morning, ladies and gentlemen. Welcome to the Q2 FY2019 Earnings Conference Call of Ashok Leyland hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Shah from Edelweiss Securities Limited. Thank you, and over to you, Sir. **Chirag Shah:** Thank you, Stanford and good evening, everyone. On behalf of Edelweiss Securities, I would like to welcome you all to Q2 FY2019 Post Results Conference Call of Ashok Leyland. Ashok Leyland is represented by Mr. Dheeraj Hinduja, Chairman; Mr. Vinod K. Dasari, Managing Director and CEO; and Mr. Gopal Mahadevan, President, Customer Solutions Business and CFO; along with other key members.

I would like to thank the management for giving us the opportunity to host the call and taking out time for the call. We will start the session with opening comments from the management, and then we can start with the Q&A. Over to you, Sir!

Gopal Mahadevan: Thank you. Good evening, everyone. Thank you very much for the interest in Ashok Leyland. I will just announce results very briefly. I'm sure all of you must have seen it on the web.

The total industry volume, and I am giving SIAM numbers. The total industry volume for the quarter was 101768 MHCVs that is trucks and buses put together, and this was a growth of 26% over the same quarter last year. So, the industry continued to grow over the same period last year.

Ashok Leyland grew faster than the industry. Our volumes were 35628 M&HCV, which was a 32% growth over last year. I also wanted to share with you that this quarter again, it is a record Q2 volumes, record Q2 revenues and record Q2 EBITDA and PAT.

Our market share in the truck business was 34.3%, bus was 42%. And overall, our market share as per SIAM was 35.0% as against 33.5% in Q2 of last year, which was an increase of 1.5%.

Overall, revenues were Rs.7608 Crores, which was 25% higher than Q2 last year. Our EBITDA was Rs.806 Crores, 10.6%, and that grew at 32% as against the 25% growth in revenues. Our PAT was Rs.460 Crores, which again grew at 38%. Our overall debt at the moment, we are cash positive of Rs.700 Crores.

I think with that brief introduction, I would now hand it over to our Chairman, Mr. Dheeraj.

Dheeraj G Hinduja: Good evening. Gopal has already announced the results, and I must say that given the challenges of the heavy discounting and increasing raw material prices, the continued double-digit EBITDA in 14 of the 15 sequential quarters exemplifies the operational efficiency drive of the company.

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The growth and market share in Q2 also endorse the reach of our ever-growing network. I must compliment the team for its continued pursuit of disruptive innovation. The InnoLine BS IV engine holds tremendous potential as it reduces operational costs significantly. It is the only BS IV engine with a manual pump.

The team is continually looking at driving operating leverage despite the challenging times, and our plans and tasks are clearly cut for the way forward. The current times are no doubt challenging: Higher oil prices; depreciating rupee; the tightening of the NBFC sector, which is critical to our industry; the uncertainty in economic and political environments as well. But these are transient challenges, and we should not take our eyes off from our larger purpose.

My direction to the team has been that while we will need to counter the short-term challenges, we need to pursue our larger journey of de-volatising Ashok Leyland, drive international revenues, increase new-generation business and work on people, processes and operational efficiency. We will continue to invest in innovation and technology as that is in the grain of Ashok Leyland.

As you must all be aware by now, Mr. Vinod Dasari, our Managing Director and CEO, after a stint of 14 years at Ashok Leyland and 7 years as the Managing Director, has decided to move on and pursue other interests. Together with Vinod and the leadership team, we have transformed Ashok Leyland into a forceful commercial vehicle company today. The strong leadership team today drives the innovation, strategies and operations of the company.

I must acknowledge Vinod's contribution in this transformation and the cultural change that he has enforced into the company. I would like to wish him the very best.

Vinod is here till March 31, 2019, and I will also, on the request of the board, be playing a more active role as an Executive Chairman and on key issues along with Vinod, provide the necessary support during this transition. All organizations go through this transition, and Ashok Leyland is no exception. I believe and, one of the questions you would obviously be having, but the Nomination and Remuneration Committee of the board will meet shortly to decide the future course of action in identifying the next MD and CEO.

I would like to now hand over to Mr. Vinod Dasari.

Vinod K. Dasari:

Good afternoon, everybody. As Chairman has already pointed out, this was an important announcement that was made at Ashok Leyland today. I wanted to state that this was not a decision that was made as a knee-jerk reaction to some issue. There is absolutely no issue. In fact, people often try to find times in their career when they are looking to pursue new or interesting learning's, but there has never a good time. I had considered this about 6 or 7 years ago, but the company was not doing well. And at that point, I did not want to leave. I wanted to make sure the company was

transformed well, and we took a company that was not doing so, well, and we made it into one of the best-performing automobile companies in the world. I had a solid team doing that with me. And when our team was together, we decided that look we made it into a good company. And if we do not continue the path at which we have created, we will again decline. So, we should lay down a platform to make it into a great company.

And for that, the team worked very hard to put in a solid platform. We have three sets of businesses. One is the core business in which we have got world-class Euro 6 modular vehicles as well as electric vehicles coming. The adjacent businesses, LCV is doing extremely well. The defense is doing extremely well, and power solutions, is doing well. We have launched several frontier businesses: the electric vehicles business, the customer solutions business, the digital solutions that we are doing exceptionally well.

And I have a solid team backing this and an exceptional board and family support. So, I felt this is the right time to do it. Like I said, there is never a right time. But to do it when the company is in a very strong position and leaving it with a team, which is very, very capable. That is what helped me make the decision at this point.

That is all, I think, from our side. We will take questions now.

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

Binay Singh: Thanks for the opportunity. Best wishes to Mr. Dasari. The company has done quite well under your leadership across parameters. Good luck for the future. On to the business, the first question I would ask is about something on the demand side. In the opening comments, you talked about NBFC about sort of macro uncertainty. Could you talk a little bit about how the ground level demand environment is? How October has been, what sorts of inventory levels do you have currently? That is my first question.

Vinod K. Dasari: Thank you very much for your compliment. As far as the demand is concerned, in the last few weeks, there has been a little bit of a slowdown basically due to the credit crunch, but this is temporary. 40% to 45% of our volumes that we are getting in the industry today is driven by construction segment. It is not driven by market load segment. So, as a result, there is a delay, but it will catch up because infrastructure projects are going on and even if the market is flat for rest of the year, the overall growth for the year will be in the range of 15% to 20%. So, I am quite bullish. In the next year, we will have a Euro-VI prebuy. So, that is going to be extremely good. The year after is when the government is likely to announce the scrappage policy. Usually the market falls after that, but there is a scrappage policy that is coming up, which will help boost the demand. And equally, as I was mentioning in my earlier comments that our core business is transforming itself to produce vehicles from 2 tonnes all the way up to 65 tonnes, which will be Euro-VI compliant. It will be electric

compliant. It will be modular, left-hand drive, right-hand drive. So, as a result, it will be a much bigger market that you can address, not just in India. So, in that sense, we are fairly bullish about it.

Binay Singh: Right. That is helpful. Could you talk a little bit more about the NBFC financing? Like, what percentage of your financing will be NBFC? And what percentage is coming from the in-house subsidiary?

Vinod K. Dasari: I think our internal subsidiary is less than 15%. We do not like any NBFC or any bank to have more than 15% share of business, So, that we spread. I also remember, you asked a question about inventory. I think it is about 7700 vehicles. It is quite balanced. Even with our dealers, we normally ask them to keep about 2 weeks of inventory and not more, and I think they are somewhere in the 16 to 18. It is not if the dealer has inventory, he would not push inventory into it.

Binay Singh: So, even the dealer inventory is 16 to 18 days, is that now...?

Vinod K. Dasari: Correct, correct. We normally keep 2 weeks because that's the transit time. Mainly because of Diwali and lack of drivers and all, it might have gone up by a couple of days, but we watch it very carefully, and we ensure that the dealer inventory does not spike.

Binay Singh: Just related to this question, with slight slowdown that you've seen, have you seen discounting rise in this environment?

Vinod K. Dasari: Discounting has been rampant, and there are some competitors who are clearly going after market share. We are not going to chase market share like that. We focus on the value that our vehicles provide, and we have increased prices in September. Some are not following the discounting level, or the operating prices continues to be low. But regardless, we have focused on the right segments and the right models, and that's why you see that our EBITDA margins have actually gone up. Plus, please keep in mind 3 years ago, our domestic truck sales used to be 80% to 85% of our total sales revenues. Now it is around 60%.

Binay Singh: Thanks a lot. I will come back in the queue.

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

Jinesh Gandhi: Congrats to Mr. Dasari for a very strong career. My first question pertains to Mr. Hinduja. You indicated that you will be playing an active role. So, this executive role only during the transitory phase or this now you would be more active even when new CEO steps in?

Dheeraj G. Hinduja: No. I mean, just to clarify, you might have noticed our group companies also and as a family policy that family does not take access day-to-day involvement or executive roles in the company. In this instance, the board requested to ensure continuity during this transitional phase for me to take on this role. So, this would be for that relative period till the new person is appointed, and I will be working with Vinod on the longer-term actions of the company. I think our main task is to ensure the continuity of the vision that we have, the targets that we have set and the growth that we have seen over the last few years. We wish to ensure that, that does not get dampened in any manner. We have a very strong team. Along with this, we also have a very strong goal. And I think the combination of this will ensure that what Vinod has put in place will continue.

Jinesh Gandhi: Understood. And second question pertains is on the financial side to Mr. Gopal. We have seen significant increase in RM cost and on the other side, there has been a substantial decline in other expenses as a percentage of sales. So, is there any accounting change? Or how do you explain that?

Gopal Mahadevan: No, the RM cost going up is a confluence of two, three factors. One is, Jinesh, as we mentioned, the industry has its challenge of increasing steel prices that all of you know of. And we possibly were the only players who have raised prices even consistently over Q1 and Q2. But the fact is that these prices, while they kind of reduce the impact of the increased raw material prices, they still reflect as a ratio. The raw material prices, as a percentage is higher. The second most important this is this quarter did not have any defence sales which has decent margin. I mean, there can be impact on the overall profitability as well as gross margin. So that is another reason why we have seen the material cost numbers slightly higher.

Jinesh Gandhi: Okay. And other expenses?

Gopal Mahadevan: Nothing significant that have to be explained. I mean, except that we have seen that there is a reduced warranty charge because the BS-III to BS-IV transition that happened. Now you are seeing that things are stabilizing, the iEGR engines are working well. So, we follow a warranty system accounting where we found that the numbers are really dampening. And we are also keeping a tight, strict control on overall expenditure also. So, those are the reasons for it and some of them, to be honest, I do not want to talk over it too much that could be timing, but larger directional issues on the other expenses are one, warranty, the second one is tight control on expenditure.

Jinesh Gandhi: What kind of price increases we have taken?

Gopal Mahadevan: Well, in September, we have again announced a 2% price increase in the truck business. We will have to see how much of it will go straight to the bottomline. The team is working on it because the discounting is rife in the industry. You know it, and we have to keep pace. We have to keep a fine balance between our market share and profitability. So, that is what our team is working on.

- Jamshed Dadabhoy:** Thanks for the opportunity. Just a couple of questions. First one, you alluded that construction is 40%, 45% of demand. So, could you give us a sense of what tipper sales were for last year for the full fiscal and first half this year and how the growth has been in that segment?
- Vinod K. Dasari:** See, Jamshed, we do not actually give the breakup of the subsegments as you are aware. So, we broadly give breakups on the truck and bus business. The tipper sales have grown, that much I can tell you.
- Jamshed Dadabhoy:** Okay. Fair enough. And second question on the Euro-VI prebuy that we are expecting. Like, what is the level of conviction that we have, because even when we had transitioned to BS-IV, there was not much of a prebuy. Obviously, it coincided at that time the demonetization. But where I am coming from is supposed the trucker were to buy next year and by FY2021 when you move to Euro-VI, or BS-VI, your residual value will start to fall quite sharply because you are not moving one emission standard, you are moving 2 emission standards. So, that is where I was coming from that what is the sense that we really have in terms of and how much discounting what we have to give to convince someone to move to buy a vehicle next year?
- Dheeraj G Hinduja:** Well, Vinod, do you want to answer it?
- Vinod K. Dasari:** Next year, the demand will be good I do not think there will be that much discounting because typically, in the world whenever BS-VI has come, or Euro-VI has come, the prebuy has been roughly 30% to 40% increase in TIV. So, I expect that to happen. So, let us see what it does and so I do not think people will just give discounts like that.
- Gopal Mahadevan:** And the vehicles will become more expensive as well when you go from BS-IV to BS-VI. One of the reasons why a prebuy happens is because vehicles will become more expensive to purchase. So, there is no reason why the prebuy would not happen unless, of course, there is an exception with it.
- Jamshed Dadabhoy:** Thank you. All the best for the future. I will come back for more questions.
- Moderator:** Thank you. The next question is from the line of Aryn Pirani of Deutsche Bank. Please go ahead.
- Aryn Pirani:** Thanks for the opportunity. I just wanted to go back to the issue on the credit availability. I mean, are you already seeing that demand is getting impacted because of credit availability? And is there like a solution in the near term? Or is it just something that you are concerned about?
- Gopal Mahadevan:** Well, we will have to wait and watch. It has been about a month since it has happened. Obviously, there has been a lot of news on credit squeeze on NBFCs and NBFCs are a very important lifeline for this industry in terms of the funding that happens because the entire industry almost is funded. As far as HFL goes, our own subsidiary, all I can tell you that from our own in-house experience, I think

there has been no impact at all. The funding lines are very much in place, and we have not seen anything which is, at the moment, negative impacting. I am sure the larger NBFCs will not be having the issue. The smaller ones could be. They could be facing a crunch, but I think the government is also looking at ensuring that this does not snowball into something, which becomes very negative. But short term, yes, there is a little bit of credit squeeze that you can see. We will wait and watch how November and December pans out.

Amyr Pirani: Thank you.

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

Kapil Singh: Can you update on discounts, how they move between Q1 and Q2? And also, some color on exports? We have not seen the kind of traction we were hoping for.

Vinod K. Dasari: Well, discounts have been going pretty I mean, the discounting, I would say in the market has been dicey. We have seen that happening because everybody is chasing the same customer, and I mean, we sometimes have to reluctantly follow in this. But otherwise, discounting has continued to be high. I mean, it depends on the type of vehicle, but it can go from anywhere between 2 lakhs to 3 lakhs to over 4 lakhs and 4.5 lakhs also in certain deals. So, this is the answer to your first question. What was your second one?

Kapil Singh: Sir, on discounts, can you share like what is the average in Q1 and Q2? How it has moved?

Gopal Mahadevan: Well, I would say that the average discounting in terms of Q1 and Q2, the numbers have been, I would say that Q1 would have been something like about 3.75 lakhs or So, on the truck. And Q2 could be something like about 4 to 4.1 lakhs. So, you see that happening. You see it doesn't kind of give an accuracy to the number but gives a direction to the number. As far as exports are concerned, the overall volumes for the quarter were a tad low. We had numbers of 2759 for the quarter as opposed to 4437 in the same quarter last year. So, we were down by about 38%. Some of the exports that we had planned for, especially in Africa, did not happen. We will have to wait for the customer to indicate the invoicing for us. But all said and done, there's also another challenge that we see in the short term. In the short term, we are seeing that Sri Lanka is a very important market for us. The second one is Middle East. The entire Middle East market has been affected by a confluence of factors. So, we have seen a depletion in the Middle Eastern volumes, which, again, hopefully, in the fourth quarter, we hopefully will see a catch-up.

Kapil Singh: Okay. And could you also update on the LCV subsidiary merger and any indicative like what is the 1H profitability of that subsidiary?

- Gopal Mahadevan:** Well, I think LCV is doing very well. We have seen the overall numbers grow by 42%. The LCV volumes for the quarter were 13572 as opposed to 9588. It has been a very profitable. You would have seen the last full year numbers. At the moment, I can't give you the subsidiary numbers. All I can say is that, you can all be rest assured that combined, Ashok Leyland's LCV business as well as the LCV subsidiaries are PAT positive, and they are accretive to Ashok Leyland EBITDA margins.
- Moderator:** Mr. Singh, may we request you to come back in the queue for a follow-up, please. Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.
- Shyam Sundar Sriram:** Thanks for the opportunity. Sir, we had introduced this Innoline engines using inline pumps. Which tonnage segments are we targeting with this engine? I understand while the maintenance cost over the lifetime may be lower for the end customers, does it also lead to a lower upfront cost?
- Vinod K. Dasari:** It is lower upfront cost.
- Gopal Mahadevan:** It is lower maintenance cost. It may or may not be lower upfront price.
- Shyam Sundar Sriram:** Okay. Sir, which tonnage segment are we targeting with this?
- Vinod K. Dasari:** We have launched with 6 x 2 and 8 x 2 vehicles.
- Shyam Sundar Sriram:** Okay. Just one housekeeping question if you can please share the domestic truck and bus exports and the revenue mix, please.
- Gopal Mahadevan:** You want the volumes?
- Shyam Sundar Sriram:** No, Sir. The revenue mix that you usually provide between the domestic trucks, buses, exports and defense?
- Gopal Mahadevan:** We normally provide the domestic truck and bus. I will give you the numbers. The total revenues for trucks for Q2 were Rs.5383 Crores. The bus revenues were Rs.565 Crores. Exports accounted for about Rs.454 Crores. The overall revenues were Rs.7608 Crores.
- Shyam Sundar Sriram:** Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Pramod Amte. Please go ahead.
- Pramod Amte:** The first question is considering the humongous amount of challenges the industry faces to move towards BS-VI and the safety norms and also the company is also going through substantially gear up for the same. How well you feel you are staffed in different divisions to take care of this challenge?

And second, looking at your own internal leadership programs, what is the probability that you will upgrade somebody internally into the CEO post, So, that the investors can get more comfort in terms of this transition period?

Vinod K. Dasari: The first question, just to clarify, the first question was on the Euro-VI readiness, right? I mean, the BS-VI readiness?

Pramod Amte: No, across the challenges considering how well you are staffed in different divisions considering that there is a CEO change expected over next 6 months?

Vinod K. Dasari: I did not understand the question. What does BS VI have to do with CEO change?

Gopal Mahadevan: Yes, exactly.

Vinod K. Dasari: We are ready with BS-VI, if that is your question. As far as the leadership change is concerned, as Chairman said, it will be decided by the board and the Remuneration Committee.

Pramod Amte: Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity. Congratulations to the team led by Vinod. My question is for Dheeraj. Dheeraj, now that we have you on the call, I want to understand how you think about Leyland from a 5-year perspective because if you look at the last 5 years, you transformed literally in terms of both market share, your balance sheet, your product capability, a number of J.D. Power awards under the belt now. So, but how do you see the company transforming in the next 5 years? And I also want to kind of link it to your opening comments where you talked about the entire business as well. So, if you can just share your view for the company from a 5-year perspective that will be really helpful.

Dheeraj G Hinduja: Sure. I think I am extremely confident because today, the foundation is very strong and specifically, first dealing the international side that you mentioned. You see from many years, Ashok Leyland was primarily exporting buses. Now for the first time going forward, we have a whole range of vehicles that have been ready for left and right-hand drive countries as well, and especially the LCV range and the new products we have been producing over there. So, I firmly believe that the international markets and growth will be quite substantial going forward in that area. From the domestic market itself, of course, it has been a good rise the last 5 years. It has been challenging. And looking at the current market environment, competition is intense in terms of discounting. But according to me, we are in a position to continue this growth. Our network has expanded quite substantially throughout the

country. Our market share in the north and east, which are our traditional weaker markets, has grown very well. So, I do not see any reason why we should not be in a position to continue this market share growth as well along with the new product range that we have introduced. We have a number of digital initiatives that have been launched over the last 12 months, 18 months. They are also beginning to contribute meaningfully to the company. So, looking ahead across-the-board, the next 5 years, there are, I would say the next 6 months with the elections coming up in India as well, there could be some challenges. But beyond that, I believe we are well positioned to address the international market, our defense efforts, and especially the LCV range that comes in. As you might be fully aware, we started a vision 6 or 7 years ago that we have to be in the top 10 globally in our trucks and top 5 in buses. That was the reason for putting that vision into play, which is to ensure that unless we had volume, it will be very difficult to compete in the industry. So, when we started, we were at #19 globally. Today, we are at #12, 13. And I am very confident that we should be able to get our vision of being in the top 10 very soon as well.

Pramod Kumar:

Sounds great. And my second question is to Vinod. Vinod, you pointed out that normally across the world when Euro-VI transition happens, the prebuy is around 30%. If you can help us understand what is the after effect of the prebuy when the regulation kicks in, in year 1. How does the industry normally fare because that is one question, which you kind of grapple with as we understand this is going to be a solid pre-buy? But what happens thereafter? And that is probably part of the reason why the CV Companies are getting rewarded for the robust demand, what we have seen in the last 7, 8 months, where they have been massive upgrades across the street and knowing that there is a prebuy of 30%, which is going to bump next year. But everyone waits about what happens after that. So, if you can help us understand what's the general global read across is?

Vinod K. Dasari:

Well, the fact that it is called prebuy means that somebody has borrowed next year's demand this year. So, that is obvious. The 30% demand is boxed forward then that much would be the demand that would be lower in the year after, but there are 3 things countering it. The demand like I said is 45% to 50% coming from construction and these construction projects are something that is not one-offs. They will continue to be there, and hence, the demand will still continue to come back even if there is Euro-VI or if somebody needs a tipper, he needs a tipper, does not care if that is Euro-VI or Euro IV. The acquisition cost goes up a little bit, but he still needs to complete his projects, for which he gets the tender. The second thing that will happen is that there is a scrappage policy that the government has announced that we have entered from April 2020 where all 20-year-old vehicles will go out of stock or will have to be scrapped. That alone is about 200000 to 300000 vehicles even if you assume that only about 20%, 30% of them will be scrapped in the first year, that's good enough to make up the volume drop because of the prebuy. The third thing that from an Ashok Leyland's standpoint as I was mentioning earlier, every single one of our vehicles from 2 tonne all the way up to 55 tonne is being designed for Euro-VI as well as LHD and our cabs are European crash compliant. So, we will have a significantly larger, significantly larger market, where we can play rather than the

export markets that we play in today. And that is why I do not think there will be any downside, if at all, there might be an upside.

Pramod Kumar: The industry growth is what you mean, right?

Vinod K. Dasari: No. The third one is not for the industry. I cannot talk about other competitors. But we are certainly going to be the first movers in the industry.

Pramod Kumar: Thanks a lot. Best of luck gentlemen. Thank you.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Thanks for the opportunity. Sir, just to follow up on the NBFC and credit crunch, which you highlighted. Can you share how the situation in the used truck market and LCVs as well, because LCVs more of single driver, a single employed people and they might be more dependent on the NBFC funding?

Vinod K. Dasari: LCVs, not only the TIV has grown quite substantially, we have also grown. Our volumes have gone up about 40%.

Ronak Sarda: Right, Sir. I was asking the impact of NBFC for the liquidity crisis?

Vinod K. Dasari: Short-term thing, most of it is by driven by owner-operators. So, I do not think it was that big an impact.

Ronak Sarda: Okay. And any impact on the secondhand trucks or the used truck market?

Vinod K. Dasari: No, I don't think so. Secondhand market is there. It has always been there. Every vehicle is sold at least 2 or 3 times in the lifetime of it.

Ronak Sarda: So, there is no, I mean, slow down in the face of used/scrapped market due to financing?

Vinod K. Dasari: No, no.

Ronak Sarda: Sure. And Sir, second thing was on the prebuy. I mean, do you think there is a possibility that given no OEM has announced a major capacity announcement, there is some prebuying happening today as well? I mean, in the current year as well? Or do you think the customer won't take the risk of paying EMI for a year in advance because given the higher discount and as you said, next year these discounts might go away. Given your interactions with customers, do you think there's a chance that some prebuy happening today as well?

Vinod K. Dasari: It is starting to happen prebuy because what has happened on the BS-III prebuy happened for BS-IV. The prices went up. We know that when BS-VI prebuy happens, and everybody can start to hit capacity towards the end of FY2020, there will be again price increases, right? Because the suppliers will increase the prices and OEMs will increase prices, discounts will come down. So, some people are thinking if I have some demand, I might as well buy now. But I do not think in our industry anybody buys vehicle if he does not have demand. You must have something, and he may only say, making advanced decision rather than delay it.

Ronak Sarda: Great Sir. Thanks for the clarity and all the best for your future endeavors.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JPMorgan. Please go ahead.

Gunjan Prithyani: Thanks for taking my questions. I have 2 questions. Firstly, on this axle load now. A lot of industry feedback is coming that there has been some incremental capacity creation, which is happening with the lag and which is reflected in freight reduction in certain industries or in terms of some freight operators talking about cutting their truck ordering. What is your reading of the axle load norms? Do you think have you seen that there is a capacity creation, which is starting to reflect in the market now?

Vinod K. Dasari: The axle load norm was a big red herring to me. I had said during that time also that 65% of the market doesn't even get affected because it's volumetric, right? And the balance, there was anyway over-loading. So, how should that have an impact? In July, this was announced. In July, August and September, we saw nearly 30% increase in TIV. So, whatever was to be done is done. I don't think there will be any impact of that.

Gunjan Prithyani: You have not seen anything with the lag because there was clearly feedback from some of the industries coming that this freight reduction because of axle load non-relaxation. So, I am just trying to gauge is there something that we see with the lag? Or you still think that there is going to be no impact at all?

Vinod K. Dasari: No, I do not think so.

Gunjan Prithyani: Okay. And the second question I had was on the realizations. They seem to be a bit down. Is this because of discounting levels being high? Or is it more to do with the mix of the revenues. If you can provide some color on this.

Vinod K. Dasari: So, I think as I mentioned earlier, there has been an increase in the discounts. And I think that has impacted the realizations. Of course, from my hope, that has been the industry phenomenon. Q2 net realizations have been worse. As far as Ashok Leyland is concerned, there was also a confluence of mix like I mentioned that our BS-III volumes were lower in Q1 and also the same period last year. So,

we had seen that absolute realization getting actually divided by the total volume. It would actually reflect that the realizations have dropped, but these are the 2 major reasons why we will actually see the realizations come off.

Gunjan Prithyani: And in the truck business, the 22% growth MHCV, the tonnage growth would you be able to give any sense? Would it be significantly higher than this number? Or it is broadly aligned to this number?

Vinod K. Dasari: No. It would be higher because very clearly over the last 12 to 18 months, we have been seeing the industry actually grow to the higher tonnage. And So, we will actually see that number. We do not have that number readily, but the other thing that we are doing in Leyland, which is very important for us, we are trying to de-risk this company. So, consistently over the last 4 to 5 years, we have been also increasing the size of our ICV portfolio. So, our ICV market share would have been something like about 12% to 14%, 4 years ago. Today is about somewhere around 25%. So, that's another way of derisking the company, you keep filling in slots into the product portfolio and you also increased your distribution by which you actually ensure that you are far, far more stable than you were 4 to 5 years ago.

Gunjan Prithyani: There was product launches, which were planned around the LCV. What is the update on that? And anything we can hear in the next couple of quarters?

Vinod K. Dasari: Yes, I think it has been pretty much on track. I think as far as we had the upgrade of DOST being launched. And that is doing very, very well. The LCV team is also working on the LHD variant for export markets, and you should be hearing some announcements in the later part of the year on that. And, of course, we are also on a special project internally for over the next possibly 12, 18 months. You would also see a completely new vehicle coming from the LCV platform. Very clearly, again, the strategy in the LCV is we had only one vehicle called DOST. Now we have now accelerated the penetration of both the PARTNER and MiTR, which is the higher tonnage vehicle. PARTNER is the 4-ton vehicle and then MiTR is the 27- to 30-seater bus, which is on the LCV platform. We are looking at filling in the slots between the LCV and Boss. Boss is the 9 and 12-tonne ICV. So, you would see a lot more action coming in there as well.

Gunjan Prithyani: Thank you So, much.

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

Hitesh Goel: Thanks a lot for taking my question. Congratulations to Mr. Dasari for a successful career in Ashok Leyland and also best wishes for the future. Sir, just wanted to get some sense on your outlook because last quarter, you had said that you were talking about 10% to 12% industry growth in FY2019. Can you share your revised outlook? Because I think you said - you shared that it would be 15% to 20% growth. Any revisions on that?

- Vinod K. Dasari:** When we last spoke, I said 10% assuming that the balance of the year will be flat. But last quarter the TIV has grown up by 30%. So, I would say that now if I say it will be flat, it will still 15% to 20% growth. And October was higher than last year October. So, I do not know how but I think it is still strong.
- Hitesh Goel:** Okay. And Sir, second question is that on the freight rate outlook. So, basically, now that oil prices have declined, have you saw freight rate increase in September. Are you seeing freight rates stabilizing now or coming down with diesel cost? How should we see the freight rates because that gives an indication of the truck utilization level side of the fleet?
- Vinod K. Dasari:** I think the freight rates will come down a little bit because of the diesel cost. And when the diesel costs go up, the freight rates go up. So, many of our customers have indexed to fuel cost.
- Hitesh Goel:** Yes, but the fleet utilization levels are quite high. Is that what should read from your comment?
- Vinod K. Dasari:** Utilization levels are quite high. And what I am saying is that the market will continue to remain strong.
- Hitesh Goel:** Great Sir. All the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Priya Ranjan from Antique Stock. Please go ahead.
- Priya Ranjan:** Thanks for taking my question. First of all, best wishes to Mr. Dasari for his future endeavor, really remarkable career for the last 14, 15 years with Ashok Leyland. And coming back about to question. One is on the construction side. When we are saying that it is around 40%, 45% market is from the construction. So, typically, construction side, the lifecycle of truck is also very, very short. So, is this an indication that probably the cycle may not be So, low, probably when the next cycle turns down for the industry? And the second part is on the overall strategy of the company. I mean, we have talked about one-third from truck and bus and one-third from export market and all, plus defense, etc. So, can we see some Alliance or JV in the future to achieve that strategy?
- Vinod K. Dasari:** That is the vision that was set by the Chairman and the board sometime ago. And as Dheeraj mentioned earlier, there is no change in strategy. If that implementation of that strategy requires us to continue some alliances, we would be happy to look at it. But like I was telling earlier, the product portfolio that we have been is so, strong that we are confident of expansion growth ourselves.
- Priya Ranjan:** And on the construction side, I mean, because the life cycle of the construction trucks is typically much, much shorter?

- Vinod K. Dasari:** Correct. So, what we look at as a lead indicator the number of construction projects that are being awarded by the government. So, the more construction projects are there, the bigger our market becomes.
- Priya Ranjan:** Okay. And Sir, on the ICV side. I mean, ICV, typically, now the markets there has been in and around that period for last, I mean, for many months or So, and some of the regions we have done well, but some of the regions we are not able to deeply penetrate yet. So, what kind of regional strategy we can think of from the ICV rates?
- Vinod K. Dasari:** There is no regional strategy per se. I mean, if you put a regional strategy, there would clearly be a pricing game. And we do not want to play that game. So, ICV, we are launching a new product in the 10 tonnes, which is going to be the market leader in terms of the efficiency. We are not going to launch way too many projects. And we have several new ones in high horsepower tipper and high horsepower tractor trailer, ICV segment, new buses coming, but beyond that, we will focus more on Euro-VI and So, on.
- Priya Ranjan:** Okay. And lastly, on the Euro-VI engine-related thing. So, we are now developing in-house. We're also looking at HINO and Cummins, if I am not wrong.
- Vinod K. Dasari:** We are not looking at Cummins.
- Priya Ranjan:** Okay. So, I mean, HINO plus in-house development?
- Vinod K. Dasari:** Actually in-house. But it is a joint development.
- Priya Ranjan:** Okay. So, I mean, it will be, I mean, it will be a mix of both launches in terms of engine or it will be either of the 2?
- Vinod K. Dasari:** We will see whichever one performs better.
- Priya Ranjan:** Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Two questions on my side. One on this new axle load norms. So, are the newly designed trucks now available in the system from Ashok Leyland as well as from peers in general? Or they are rollout is still yet to happen?
- Vinod K. Dasari:** No, they are all available.

- Chirag Shah:** The rollout has happened completely?
- Vinod K. Dasari:** Yes, yes, yes. Some customers want the old version. Some customers want the new version. It is very interesting to see how this is playing out, Chirag. But like I said, in many cases, it does not matter, right? It is volumetric. Two-thirds of the market it does not matter.
- Chirag Shah:** No. I was more trying to understand from consumer behavior perspective that are they still preferring the older versions, or they are looking to buy newer ones?
- Vinod K. Dasari:** No, no. Most of them are trying to buy the newer ones.
- Chirag Shah:** Most of them are trying to buy the newer ones?
- Vinod K. Dasari:** Most are wanting the higher axle load. They are wanting the new ones.
- Chirag Shah:** Yes. And second question was on the 43-tonner that we had showcased. Any update when can we expect? Because when we check at ground level, there seems to be a good amount of interest on that product. I would guess there was at the time when you launched the 37T lift axle.
- Vinod K. Dasari:** I think it will come this quarter.
- Chirag Shah:** In fact, some guys were showing some kind of frustration. It is not getting launched earlier.
- Vinod K. Dasari:** That is good, no? Maybe we should create a prebuy for that, start taking bookings.
- Chirag Shah:** Yes, and just one clarification on the commodity side. Gopal, if you can highlight. So, most of the pressures are there in the quarter or how should we look at the cost pressures and which are the areas that we see the cost pressures?
- Gopal Mahadevan:** No, you asked commodity. Commodity steel prices are certainly going northwards. We expect that in the second half. It is an expectation, it is not an outlook because you see that passenger car volumes are actually coming off a bit, and they are one of the largest consumers of steel. So, that is going to happen. And if there is softening of steel, which is actually benchmarked predominantly from China, if you see that happening and if the rupee were also to kind of appreciate a bit, all of this should augur well for softening of steel prices in India. But at the moment, quarter-on-quarter, we've actually seen steel prices going up, which has been having a cost push effect on in the industry such as ours.
- Chirag Shah:** Thank you.

- Moderator:** Thank you. Ladies and gentlemen, we will take the last question from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Thank you for the opportunity. Firstly, again on the prebuy itself. There is a slight change in that in the sense that we cannot sell I mean, we cannot sell any vehicle also after March 31. Earlier we only could not produce. Does that change anything for us in terms of the prebuy expectations? Would we have to start planning well in advance and the prebuy periods have shortened? How do you see tackling that issue?
- Vinod K. Dasari:** I think by another couple of months...
- Mukesh Saraf:** Sir, I couldn't hear you. Sorry.
- Vinod K. Dasari:** All that would do to not have pain from April 1 or not have registration from April 1.
- Mukesh Saraf:** I am sorry, Sir. I think I am not able to hear you.
- Vinod K. Dasari:** We will advance the prebuy by about 2 months.
- Mukesh Saraf:** Okay, okay. I mean, in the sense does it affect us in terms of production planning? And if we're left with any inventory, would we be able to kind of manage it just exporting that BS IV vehicle?
- Vinod K. Dasari:** Yes, yes, we should be able to. I mean, our technology as you know, even when the BS-III BS-IV happened is very modular, and we were able to just simply change the engine. The day we start to make BS VI, and that operates in a different fuel grade completely.
- Mukesh Saraf:** Right, right.
- Vinod K. Dasari:** Yes. Leftover BS IV engines/vehicle, we will sell them outside.
- Mukesh Saraf:** Okay. So, it does not really affect us much.
- Vinod K. Dasari:** Yes. If necessary, if I want the BS IV vehicle, I can convert it to a BS III vehicle also.
- Mukesh Saraf:** Right, right, right. And Sir, secondly is on the scrappage policy that you mentioned. As of now, isn't that voluntary scrappage, sir? Or is it mandatory scrappage? For 20 year and above?
- Vinod K. Dasari:** Mandatory.
- Mukesh Saraf:** Okay. It's mandatory. Okay, okay. That clarifies. Thank you, Sir. That is it from my side.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of Edelweiss Securities Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.