



“Ashok Leyland Q3FY11 Result Conference Call”

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Moderator

Ladies and gentleman, good day and welcome to the Ashok Leyland Q3FY11 Earnings Conference Call hosted by BNP Paribas Securities India. As a reminder for the duration of this conference all participant 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 presentation. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Ms. Joseph George from BNP Paribas Securities India. Thank you and over to you sir.

Joseph George

Thanks Melissa. Good afternoon everyone and thanks for joining in. We have with us Mr. K. Sridharan, CFO of Ashok Leyland. He will give us a brief update on the third quarter results and of course the outlook, post that we will have the Q and A session. Mr. Sridharan, thanks a lot for joining in sir and over to you.

K. Sridharan

Thank you Joseph. Good morning to all of you. Let's then quickly starts off with the numbers more importantly all of you have noted the volume during the third quarter. The volumes for Leyland drops and we also lost few points on the market share side.

Let me prefix it by saying that this has been temporary phenomenon and these things caused mainly due to two major reasons. One, the dislocation in the supply chain post emission change. And for us it also got bit double warming with our launching of the U-Truck a totally relook at vehicle platform along with that. And this resulted in some amount of dislocation for getting the supplies. And added to that we also had one other issue which is on the ability to move the vehicles from the northern part which is the Pantnagar side. There, our focus was to ramp up that production I am glad to say that we are now in the month of January we are running close to about 3000 vehicles per month run rate.

We clocked the 2100 vehicles in December and the ramp up has been pretty fast there. But it also had the associated issues of logistics movement starting with simple things like non availability of drivers to move the vehicles. As

we are also focusing the U-Truck euro 3 higher end vehicles manufactured in Pantnagar which are also wanted in the southern market. till the time that we stabilize the operations in Pantnagar to cover the various other models there would be some amount of a crisscross movement of the vehicles happening. And because of which the vehicle inventory also got increased to almost 9500 at the end of December.

With all these, the positives to be noted is that we could in the process substantially complete our STU supply to the southern pocket particularly the Tamil Nadu side where we had 2500 plus vehicle ordered we could deliver most of it. So there is a bit of a rise in supplies to the state transport undertakings. But on the same time we also managed to clear our BS II vehicles which were in stock. We had stocked about 10,000 vehicles at the end of September. And practically the vehicle stock has been cleared except for a few hundred for the domestic market. Of course we also have about 1500 or so for the export market.

On the export front we succeeded in again maintaining our tempo, we registered 3500 plus vehicle sale in third quarter. Our cumulative exports is significantly up and we should be coming closer to somewhere, we locked in about 3500 vehicles in Q3 and the cumulative export is over 7800 vehicles. And that continued to be very promising and as I have been indicating we should be crossing 10000 vehicles without difficulties in current year. On the engine business the manufactured engine volumes increasing substantially, we have been able to improve our manufactured engines to about 3000 vehicles in third quarter. Overall the total number of engine sale is around 3800 in Q3, which is again a run rate of about 3500 to 4000 engines every quarter. We are currently at 11200 engines cumulative sales that have happened. As I was indicating earlier we have reduced our exposure to the telecom side and consequently doing numbers are in 200 and against some 1000 in past year. And to that extent there has been reduction in overall engines sale.

On the defense side we could supply about 600 sets during Q3 cumulatively we have supplied more than 1000 sets in the first in these nine months. We need to deliver another about 800 to 1000 sets in the fourth quarter which we

are very confident we will be able to do it. In addition to that we also had the benefit of supplying 200 Nos. water bowsers to defense during this quarter. The domestic spare sales have been fairly steady going at about Rs. 160 crores for the third quarter. Cumulatively we have notched about 450 crore for the nine months period and we expect to cross 650 crores for the full year volume.

Before I go on to the financial aspect of it, let me give also a brief outlook on the commercial vehicle market. The understanding that we have on the market is that demand continues to be very bullish. We are currently facing more of production constraints rather than the demand constraint. And production constraint coming primarily again from the supply constraints rather than our capacity constraints but in our assessment we should be able to do at about 10000 vehicles per month between January, February and March. And we continue to give the guidance that the full year volumes would be crossing 95000 definitely it should reach 95000. And Pantnagar side as I have been giving a guidance earlier we should be crossing 15000 vehicles for the current financial year.

Overall the market has been very bullish particularly on the heavy duty segment the tractor trailers and tippers continued to be in great demand. The vehicle utilization levels have also been fairly very high. And we could clearly see a significant preference towards the heavy tonnage vehicles as compared to the normal haulage vehicles. The bus segment also even if I keep the state transport undertaking to one side, the private sector is also fairly in very robust shape, they are very bullish on the bus transportation market. So overall the growth for the current financial year is expected to be around 35% plus taking the total industry volume closer to about 320,000 or with a bit of possibility touching to 325000 vehicles. And our domestic number of about 85000 vehicles if I keep 10000 to be export side should translate to something like 26.5% type of market share for us. We are very hopeful that we should be able to reach these levels and we are very hopeful that the market also for the fourth quarter total industry volume would be somewhere closer to about 95000 vehicles.

On coming to the financials part of it we took a pricing action as you all know in October in two parts. Part A was across the board for all the vehicles including the existing BS-II vehicles. We took a pricing action of about 3% which is about Rs. 31000. And we also took similar pricing action for the BS-III version, BS-II to BS-III the emission change meant another about Rs. 31000. So between the two the increase was about Rs. 62000. Again we took a pricing action in January on 10th of January ranging from 1.8% to 2%. I would say on an average I would say come closer to 2% of about say Rs. 20000 on the haulage vehicle it is lower than 20000, on the tractor trailers and actually it is more than 25000. But average pricing would be around Rs. 20000. With that we would have taken almost about 12% increase cumulatively our price increase in this financial year which is a record pricing action I would say for the commercial vehicle industry.

On the same token there has been fairly significant increase happening on the material cost side. More pressure has been on the tyre prices to some extent the casting and forging are pressurizing for increases. And there is also I thought of a muted demand from these steel makers for an increase in the steel prices even though the international steel prices continue to be very ruling favorably compared to the domestic prices. We did suffer cost increase of closer to about 5 to 6% in the cumulative nine months period. And we do expect that the overall cost increases to be contained between 7.5% to 8% for the full year. The further increases may mainly come from the rubber related tyre prices and also in casting forgings by about say less than two rupees per kg. By and large the material cost as the percentage during the third quarters registered a marginal decline compared to the previous quarter, second quarter. But if we compare it with the previous year third quarter there is at least about 200 basis point increase in cost primarily due to the cost increases plus the emission related changes that happened. And I must say that to some extent the third quarter has also been somewhat affected by inferior mix for Leyland because it has been more of the state transport bus passenger vehicle sales which carry a much lower percentage compared to the private sector bus passenger sale. Further, fully built vehicle sales are also higher vis a vis last year where margins are not there on the body portion. So, overall profitability as the percentage drops in that in spite of increase in the prices there.

So get to the pockets of comparison, on the staff cost I must say that these cost increases between the previous year's third quarter versus this year third quarter there has been a onetime charge of about 26 cores which is primarily due to the excess bonus and ex-gratia payment that we made against our previous year provisioning. And in addition to that we also had the settlements happening in all the units plus the executive compensation which accounted for another about 30 crores. Further, marginally there has been an increase in the levels of casuals also. Casuals increase mainly in order to ramp up the finished vehicle production, that's accounted for about Rs. 10 crores. These are the major reasons for the staff cost increase over the previous year third quarter. Similarly over the previous year third quarter the administration expenses have also registered a significant increase primarily because of the higher sales there. And to some extent the new unit, the Pantnagar plant had a running expenditure of about seven to nine crores that also have added to be overall cost of the other expenditure administration and variable expenditure.

If I go on to the finance cost, the reason for the increase in finance cost compared to the last year's third quarter has been primarily due to three reasons. One of course is the accounting part which is that the last year we had the interest capitalization happening for our Pantnagar because we capitalized till February 2010, that meant about 10 crore of interest capitalization not being available this year. And we also had higher working capital mainly because of increase in receivables while the finished vehicle levels almost were hovering around 9000 Nos. in the third quarter. The receivables that to be collected mainly from state transport corporations like Delhi Transport Corporation has been quite high almost 400 to 500 crore of collection needs to be made from these customers. We are putting all our efforts to make the collection and hopefully before 31st March we should be able to realize that which would mean that our working capital will come down significantly in the fourth quarter. We are targeting to bring it down by at least 600 to 700 crores. 400 to 500 crores primarily come out of receivables and about 100 to 200 crores coming from the finished vehicles liquidation.

If I do a quarter over quarter comparison, the same staff cost and administration cost, the onetime charge of 26 crores from the ex-gratia bonus which happened in November 2010 is a major reason for the cost increase apart from a marginal increase in the casuals there. On the other overheads part of it there has been marginal increase primarily coming out of higher R&D expenditure and to some extent some onetime expenditure on travel and maintenance part of it. I don't expect this level of increase to continue in the fourth quarter. Again on the finance cost over the previous quarter there has been an increase of about eight crores. This is primarily due to the increase in working capital that I mentioned of about 400- 500 crores increase in working capital over the second quarter which has been the main reason for the finance cost going up significantly.

On the outlook for the financial margin part of it I continue to believe that we should be able to reach the 10.5% or even marginally exceed the 10.5% guidance that we are giving. Coming primarily out of our understanding as the pricing action which we have now taken would more than offset to be cost increases that are happened or likely to happen in the fourth quarter. And coupled with that the volume growth that is expected in the fourth quarter today truly I must say that I know the interest that we release from my marketing and also from the dealership that have been in touch with all are confirming that the fundamental demands is quite robust. In spite of all the price increases that have happened, there is a substantial utilization expectation by the fleet operators. And hence we should be able to sell more vehicles in fact the volume of Euro-III vehicles that we have sold in the third quarter is closer to about 9000 plus which is almost 50% of the third quarter volume. I'm going to prove the point that our ability to field the vehicles on the market ability to absorb the euro 3 post to the emission changes are quite robust. So, hence I do believe that thanks to the volumes that we are expecting both on the domestic as well as on the export front. And also thanks to the pricing action that we have taken in January which would taken fully in the fourth quarter. We expect the margins to be better or slightly exceeding 10.5% for the full year. With this I would open the floor for questions.

- Moderator** Ladies and gentleman we will now begin with the question and answer session. We have the first question from the line of Srinivas Rao from Deutsche Bank, please go ahead.
- Srinivas Rao** I just wanted to clarify myself on this cost increases which you said, the Ex-gratia and the bonus payments they relate yield, do they relate to the past periods and for this year itself?
- K. Sridharan** It pertains to the 2009-2010 period, for which we had created provision in the books finally we have to pay more and that's the reason why this cost is higher.
- Srinivas Rao** And this entire cost has been taken in third quarter or it has been amortized towards the entire three quarter and this is just one quarter?
- K. Sridharan** We get to know only in the third quarter and it has been fully charged in third quarter. In fact not even in third quarter it is fully charged in the month of November.
- Srinivas Rao** Okay. So I mean if I have to compare cost for this particular quarter then I should deduct 26 crores out of that?
- K. Sridharan** Yeah, it's a onetime charge that's a reason why I have highlighted the part.
- Srinivas Rao** Sir, you also mentioned some executive compensation of around 30 crores, is that also a part of this particular quarter?
- K. Sridharan** No the executive compensation is for the full year, both the settlements for the employees as well as for the executives which happened during the current financial year. When you compare it with the previous year third quarter this increases that and this would continue in the fourth quarter also if you compare it between the fourth quarter and third quarter and this year's fourth quarter. The settlement and the executive compensation you should compare it to the previous year.
- Srinivas Rao** Right.

- K. Sridharan** You will see that increased but if you compare it quarter over quarter this increase will not be there.
- Srinivas Rao** I understood sir. Thank you very much sir. So, I will just wanted so check some other linkage and other expenditure will also more likely to continue at these levels, right?
- K. Sridharan** More like volume related one yes.
- Srinivas Rao** Okay. Thank you sir
- Moderator** Thank you. The next question is from the line of Kapil Singh from Nomura Securities, please go ahead.
- Kapil Singh** Sir, my first question is on raw material to cost sales, will this recent price increase of 2% will we see an improvement in raw material to sales in the Q4 of FY11?
- K. Sridharan** Yeah certainly.
- Kapil Singh** Okay. So that means that cost have risen as much?
- K. Sridharan** Yeah.
- Kapil Singh** Okay. And secondly sir, can you also give us the STU mix for the quarter and what do you expected to be for full year out of the total sales?
- K. Sridharan** The STU sales during this third quarter has been about 3300 vehicles. We can imagine out of that 14000 and odd vehicles in the domestic market, this 3300 vehicle is a significant percentage. Going forward we may not have this level of high state transport undertaking sales as an mix .
- Kapil Singh** Okay. Right sir, thank you.
- Moderator** Thank you. The next question is from the line of Sumantha Khan from ICICI Prudential, please go ahead.

- Sumantha Khan** I just wanted to have an idea how much have you spent on the capital expenditure in the first nine months and how will it going to look at the end of fourth quarter and maybe you can give some light on FY12 expectations?
- K. Sridharan** I can combine both the CapEx as well as the investment side, between the two we have done closer to about 700 crores and going forward we will reach the 1000 crore level that we have been giving as a guidance.
- Sumantha Khan** At FY11 and anything on FY12 numbers you can say?
- K. Sridharan** You mean, FY12?
- Sumantha Khan** Yeah.
- K. Sridharan** Another about 1000 crore we have been saying between this year and the next year which would be spending about 2000 crore, 1200 on CapEx and 800 on investments that may marginally get aligned to 1100 in CapEx and 900 in investment. So but overall the outlay during the current financial year it will be around 1000 crores and the next financial year we will begin another 1000 crores on both CapEx and investments. Investments primarily is a joint venture this thing and also to our finance company.
- Sumantha Khan** Sir, talking about the joint venture by when will the LCV joint venture come in place and will it be in FY12?
- K. Sridharan** No, no it will be in FY okay I don't know it will be in FY12 only. Everything that will done in June 2011 and as I speak we have got all our plans ready to have the vehicles launched in June 2011.
- Sumantha Khan** Sir, how is this JV working I mean, how will it affect your P&L balance sheet?
- K. Sridharan** It will stand on a non-consolidated basis still the IFRS gets into listing. And once the IFRS gets in as we have the 50% equity stake, we will do the equity type of consolidation.
- Sumantha Khan** Okay. Thank you sir.

Moderator Thank you. The next question is from the line of Mahantesh S from Fortune Equity, please go ahead.

Mahantesh S Sir I had a question on your defense supplies you did mention the defense supplies have gone up and there is some 1000 odd vehicles yet to be delivered in this quarter. Are you expecting any new orders from the army next year particularly they have plan of buying howitzers guns means that you will have to supply field artillery trucks to them?

K. Sridharan I mean I won't be able to comment on the next year's order. But what I said about 1000 plus sets that we will be delivering in the fourth quarter is out of the orders that we already have from the defense. So instead I must clarify it is the vehicle sets not the vehicles supplied for the Jabalpur factory. And we also another about couple of 100 vehicles to be supplied on a fully built basis mainly water bowsers to the defense side. We supplied 200 of that in Quarter 3 and few more 100's are to be delivered in Quarter four. But the main revenue comes from the vehicle kits that we supply to Jabalpur factory, we don't supply the fully built vehicle there. And we expect another about this quarter we had 600 sets delivered and next quarter we should have 1000 plus to be delivered which would be part of the order that we already have and I won't able to comment on what would be the order position for 11-12 that's a very too premature to hazard a I guess from that.

Mahantesh S Sir, will the FAT roll trucks be supplied by you or VFJ to the army?

K. Sridharan Which one?

Mahantesh S The artillery trucks that will the drag the howitzers gun?

K. Sridharan Now, we supply the mainly the logistics vehicles to them, to some extent some of the special applications like water bowsers or crash fire tenders part of it.

Mahantesh S Okay sir. Just one question, what is your loan position, gross loan as of December and any cash positions or net debt positions be filled?

- K. Sridharan** As of December including our cash credit we are at 3000 crores, which we expect to bring down to 2600 crores by March. In other words 400 to 500 crore of a cash credit should vanish one side as the working capital coming down and as it stands today long terms is around the same 2600 crore and the balance is the working capital short term funds. If we succeed in the reduction in the working capital in fact we are targeting at 800 crores or reduction in working capital, is that happens we should we staying with the guidance that they have been giving of about 2600 crore total loans.
- Mahantesh S** Any reduction in cost of loans for you into the next, are you planning that kind of work?
- K. Sridharan** We don't expect any reduction in the interest cost given the current scenario of interest rates is going up. But we do believe that the type of the cost increases that we suffered in the third quarter particularly for the working capital loans that should come down substantially.
- Mahantesh S** And you have also tied up for your funding of vehicles through Hinduja-Leyland finance. So what kind of support would you give to them?
- K. Sridharan** No support only the equity contribution. In fact sometimes we even get money in advance because in these days of shortage of vehicles they would like to block the supplies to that customers by paying money in advance. So we don't give and any neither we take any credit exposure nor any other...but we do provide the equity funding for them.
- Mahantesh S** And how many vehicles are there have been financing every month for you?
- K. Sridharan** About 5% of our total vehicles sales, it's a very remarkable this year they will cross easily 5000 vehicle target that we are set they have already crossed about 4000, 3000 odd vehicles by the end of December. So in our view easily they will reach 5% number of the domestic sales.
- Mahantesh S** And that should go up next year FY11 or FY12?
- K. Sridharan** Probably the way they are ramping up they are now increasing their footprint across the country. And our own guess estimate I would say next year they

easily would touch at 10% level. But after that by enlarge many of the finance companies including Sundaram Finance or this thing we have been seeing it over the years. You will be stabilizing at about 15% of our total volumes.

Mahantesh S Okay sir. Thank you very much sir. These are all the questions I have.

Moderator Thank you. The next question is from the line of Pramod Kumar from JM Financial, please go ahead.

Pramod Kumar Sir, on the Pantnagar profitability in terms of the per truck any changes because of the commodity inflation and all that is that does it change we are indicated for 35000 rupees at truck for FY11 and close to 50000 for FY12. Is there any change in that?

K. Sridharan In fact it is even improve post the notification that has come, which would permit higher value addition to be done even post 31st March, 2010. So in our assessment the guidance that we are given definitely would stand there is no change in that. And this 50000 hopefully should also inch up in next financial year, they may not be next financial year the year after that, when we also do some balance in equipments shore up the total without effecting the overall capacity there, which is 50000 on a two shift and 75000 on a three shift basis.

Pramod Kumar And sir in terms of Pantnagar what is the current manpower we have and what will be the incremental requirement to ramp to volumes of 35,000 for next year?

K. Sridharan: We have about 1,400 people in Pantnagar. Some of them on casuals and some of them on permanent employment. I don't think we need to add anything more than may be another about 500 to 600, we have targeted to close the total Pantnagar manning levels to less than 2000 people.

Promod Kumar: So which can even do on a production of around close to 50,000 or 70,000 on a fully scaled up basis?

K. Sridharan: It is a very highly machine dependant plant. All that is needed is ensure that the supply is correctly made without any delay. Once that is done, the plant should be able to ramp up like, they are not coming around 3,000 this...

Promod Kumar: Production yeah. And sir in terms of just in case as in – just in case as a slow down in the sector and you would in that such a scenario further look at ramping up Pantnagar production. If that, to be the case is there a scope for some headcount reduction in our existing facilities by either the JV taking up some of those manpower or some laying off which will be required to be done?

K. Sridharan: You said it very rightly in fact our Hosur –II, as I mentioned some casual are employed there and once the light commercial vehicle fix up the volumes, we would certainly either divert those casuals for that or we will cut down the casuals. So while Pantnagar ramp up will not be disturbed and we will continue to move on with full speed on Pantnagar ramp up. We will do the alignments mainly first I will touch the Hosur II and then we have the Alwar plant also where we can again cut down on the casuals there. You know, always these things we have with variable manpower and the variability to bring down the production levels. In case the situation warrants. But at the moment, I must hasten to add that, next year we should be running at the rate 10,000 vehicles per month right from day one as the way the demand is still picking up.

Promod Kumar: So you are not so bothered by the interest rate, inflation and increase in fuel prices and everything?

K. Sridharan: We are concerned about the increase in interest rates, but I must say that the way the interest rate increase has affected corporates like the Ashok Leyland it has not affected that much the other end of the truck financing part. Maybe, because it was charged at the very rate and the base rate meant more interest to be collected from the better credit rated companies. So net result to the pressure for the banking system to ask for a higher rate on the high risk end is not been that much which has been witnessed again I would say the whole of third quarter were interest rates did not go up much beyond about 50 basis points for the retail lending to the truck operators. But I must say having said

this I can't make a general statement to say that interest rates will not affect the sentiments of the truck operators. Certainly it will have its impact, may be like common phrase last straw in the camel back if further and further interest rates that keep happening, the sentiments may get affected but as I see it, the truck operators are able to say with full confidence that they will be able to deploy the vehicle at least for a 70% of the time, it can be made available on the road, In other words, they have a visibility for at least 70% of the time for a new truck in terms of its utilization. In that scenario even if it say a 1% in crease in interest, which would translate to may be about Rs. 8000 to Rs. 9000 per month as an EMI. The operators may not mind. They can easily recover such marginal increases, but certainly if diesel prices were to go up, it actually has not gone up. And if it were to go up, I would expect definitely this freight rates to move up. Independent of that I'm very closely watching and in the last three four weeks there has been a significant increase happening on the freight rates already and if any diesel prices increases were to happen definitely the freight rates would flare up.

Promod Kumar: And sir considering that we have done series of wage settlements across all our plant and even salary increases have been done at executive level as well. So how should one look at FY12 in terms of wage inflation because for the first nine months we have done more than 30% salary increases even excluding the 26 crores pay off. So how will next year should be as in, will it be more linked to CPI or you will one have one other series of increases which will happen in FY12.

K. Sridharan: No it will even be lower than CPI. Generally during times and when there are more settlements, our total salary bill has increased by about 6% to 7%. Maybe I would put the trigger to be closer to less than 10% certainly, if some headcounts have to be added on the R&D side or on the Pantnagar side what I was mentioning earlier. But I don't expect this type of an increase happening in the next two years at least.

Promod Kumar: Okay good sir and thanks a ton and best of luck for the future sir. Thank you.

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

Jinesh Gandhi: Sir my question is on Pantnagar. You mentioned that your ramp up is at about 3,000 units in January. What it would be for full third quarter?

K. Sridharan: For the full third quarter it is around 4,000 vehicles.

Jinesh Gandhi: Four thousand vehicles.

K. Sridharan: And cumulatively done 6,000 Jinesh.

Jinesh Gandhi: Okay and sir coming to this new notification by government, what is our target localization by March 2011 which will mean higher fiscal benefits at Pantnagar?

K. Sridharan: As we mentioned in an, independent of the notification we have been asking the suppliers to ramp up the supplies from those locations and that is happening and it will happens also that is why I'm predicting from 35,000 it should move up to 50, 000 once the full production happens in Pantnagar. On top of it, this notification, I would say more than the supplier side, this notification has meant a quite a lot to Leyland where we would revisit some of those investments which we have not done where it is not been that 100% balancing of our capacity levels and once we may have to invest about say 100-150 crores by way of our investment in those facilities. Once that is done our value addition in Pantnagar inside our plant would significantly go up. I would say another about Rs. 5,000 to Rs. 6,000 per vehicle on account of that itself.

Jinesh Gandhi: Okay. And you mentioned about price increase from 1st January....

K. Sridharan: 10th January.

Jinesh Gandhi: This is about 20,000 in total if I am not mistaken.

K. Sridharan: On an average.

- Jinesh Gandhi:** On average right.
- K. Sridharan:** It ranges from Rs. 15,000 Rs. 16,000 for 4x2 vehicle and going up to 25, 26, 27 for a multi-axle vehicle and tractor trailer.
- Jinesh Gandhi:** Okay but can you give indication of what kind of cost increases are you giving from Jan?
- K. Sridharan:** From Jan the cost increases will be few 1000s only. Primarily coming from the tyres' side, in fact I don't expect to the metal cost to go up by more than about 2% in the fourth quarter.
- Jinesh Gandhi:** Okay. Okay so tyre where which can put more pressure.
- K. Sridharan:** Definitely.
- Jinesh Gandhi:** Right and sir lastly on the staff cost increases if I've understood correctly, these 26 crores for exgratia / bonus pertains to current financial year.
- K. Sridharan:** That pertain to the previous financial year. Every time you do the wage negotiation with labor, once the financial year is over like March 2010 the financial year got ended and we have the negotiations done anywhere between June-July and it drags on. Once that is done then the bonus settlement happens for the executives part of it and this generally happens around the Diwali time around say end October or beginning November and this time the amount to be provided on account of the overall understanding of the performance had to be more by 26 crores than what we provided. It is the very unusual additional that has been paid out this time. Of course for the current financial year the provisioning has also been jacked up substantially to cater to that the high level of expectations from the executives and from the workers side. But that has been uniformly provided for right from the second quarter beginning onwards. Till the second quarter beginning we didn't have the feel of this sort of increases are happening. So current year and going forward in the fourth quarter we will not have that sort of a jump over the second or the third quarter if you exclude this 26 cores which is a onetime charge which is, provision versus the actual which needs to be

charged out in the month in which you get to know that and it happened in the month of November.

Jinesh Gandhi: Okay. Okay sir thanks a lot and all the best.

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

Chirag Shah: Sir first is, I just want to understand the volume mix sir, if I look at the volume mix in the trucks, it has been steadily deteriorating. So is there any industry dynamics that we are observing or it is particular to Leyland per se can you throw some light on a sequential basis from 3Q, if I look at 3Q FY10 till now the share of more than 15 ton has gone down significantly. And it is more to do than last two quarter actually 2Q and 3Q. So is there is a shift in product mix that is happening because of monsoon or whatever reason or mining ban. Something you can share on that?

K. Sridharan: Let me say cumulatively, the haulage side 4x2 has gone up by about 11%. As we have also at about the same level grown. I'm comparing the 9 months period of this year versus nine months period of the earlier year. The multi-axle vehicles has jumped by about 35% and we have been able to also marginally improve our market share cumulatively by about 36%. The tractor trailers are also been significantly jumping. What has happened for the quarter, lets say that the total industry volume increased in Q3 by only about the 14% level. If you see the composition, its about 14% of the total volume whereas for Ashok Leyland its actually 1/3 is that the bus volume. And again that 1/3 the bus volume, the share of STU is almost 75% of that 5,000 vehicles I mentioned about 3,300 vehicles of STU sales that took place during the 3rd quarter. So the major reason for Leyland's mix happening is more in the third quarter but cumulatively I would say the growth is happening significantly in the truck segment and more pronounced in the multi-axle and tractor trailer segment.

Chirag Shah: So if there is nothing unusual in terms, I was looking at only truck segment and there is nothing unusual you are observing in last two quarter which

indicates that, there some shift is happening in couple of product nix. It is that nothing unusual is being observed.

K. Sridharan: Unusual, what I would call it unusual or usual the trend is now clearly moving towards the multi-axle vehicles and heavy duty segments.

Chirag Shah: Okay and sir second thing are on the Pantnagar side. If I can just throw some light on this strategy, because you have indicated that you are trying to meet some of the demand requirements of the southern markets also in this quarter and where you say some logistic issues. So is that the same strategy you are going to use or it is more focused with the requirement of the northern and the western market?

K. Sridharan: Obviously I mean, you know, it make lot of sense to avoid the movement of vehicles but we need to really ensure that the Pantnagar plant is capable of producing all types of models I mean it may be very naive on that part just assume that, you know a new plant can produce a varieties of models in the very first year of the full operation. There will always be learning curve that goes in that. So we wanted to first ensure that the tempo of the run rate, what we call as the run rate to be reached about say 4,000 vehicles per month and once that get established which in all probability will get established by March 2011. We would be bringing in more new models coming into that particular basket which would ensure that I need to only cater to the northern side, the eastern and the north western side of the markets. And the rest of it would be served by my existing plants including our Bhandara plant.

Chirag Shah: So when do you think that this stability would be assumed or what is the target on on that?

K. Sridharan: Definitely by first quarter of the next financial year we should be able to achieve it.

Chirag Shah: So till that time there could be some pressure on other expenses and there are still the incremental cost may go down is it a right way of looking at it?

K. Sridharan: Certainly.

- Chirag Shah:** And the last thing if I can ask one more the in the CapEx side, you indicated 2,000 crore spread over this year and next year and this year still now you have spent 700 crores including investment in CapEx right?
- K. Sridharan:** Right.
- Chirag Shah:** Okay thank you, thanks a lot sir.
- Moderator:** Thank you. The next question is from the line of Gourav Aggarwal from CRISIL. Please go ahead.
- Gourav Aggarwal:** My question is related to your realizations you said that your product has deteriorated in third quarter. So what is the outlook for fourth quarter and with this pricing action which you have taken in January, how would you see a realization on sequential basis?
- K. Sridharan:** The realization per vehicle should significantly improve in the fourth quarter for two reasons. One, the pricing action that as you have very rightly mentioned we have taken and second there well the significant mix of the heavy duty vehicle, in truck segment proportionately. Higher number of proportion of truck vehicles happening which have got price tag much higher than the passenger vehicles.
- Gourav Aggarwal:** Any guidance as to the percentage basis?
- K. Sridharan:** It will be too difficult for me to mention, but you have the price range of our truck vehicles and also the passenger, I mean, you can when I say the full year volumes we are likely to touch 95,000 the passenger side is not likely to be - let me give you the guidance as to what the passenger numbers are likely to be for us. It can at best be around 32,000 vehicles out of the total, less than 25,000 vehicles and as I said the domestic market will be around 85,000 so the rest of it will be on the truck side. Cumulatively it is about 16,000 buses and the rest are trucks.
- Gourav Aggarwal:** Right. Thanks a lot sir and is there any volume guidance for the next year?

K. Sridharan: Next year we do hope that the total industry volume will grow by 15% if not more. And our Leyland we are hopeful of gaining about few basis points to increase the sales. So we are targeting 18% increase in the domestic volumes.

Gourav Aggarwal: Thanks a lot sir.

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

Sahil Kedia: I have two question sir, can you A) comment on your tax percentage because it seems to be fairly low despite us getting limited benefits from Pantnagar? So how it is likely to shape up as Pantnagar ramps up and Second question is sir what is the current inventory level that we are carrying? I think you said 9,500 is that correct?

K. Sridharan: Yeah the second question is simple it is simple its 9,500.

Sahil Kedia: Okay.

K. Sridharan: On the first question part it's very difficult for me to answer this. Cumulatively the tax percentage has been if I look at the nine months apart, it's about 1% of revenue and in my view it will hover around that number. It is difficult for me to comment at the moment.

Sahil Kedia: Okay. So it is at 21% right sir?

K. Sridharan: Let me clarify. The Pantnagar part of it will not have reflected in the tax rate because in our assessment we may not be making taxable profits coming out of the Pantnagar in this pocket which will be exempted and only income tax is what is reflected in the tax rate. The excise benefit is part and parcel of the sales revenue.

Sahil Kedia: Correct.

K. Sridharan: So whatever is the benefit that will all flow into the operating margin for us.

Sahil Kedia: Sir this is for this year but is it true for FY12 as well as volumes ramp up.

- K. Sridharan:** For FY12 we have not done the numbers to say whether the tax route unit is making profits or not. In all probability once it crosses the 40,000 level, it should be making profit but it may not be that significant to alter the company total effective tax rate. Definitely 2012-13 you will find significant improvement.
- Sahil Kedia:** So sir the reason for the lower tax rate this year has been what primarily then sir?
- K. Sridharan:** Mainly the R&D related expenditure.
- Sahil Kedia:** Okay. Sir another question on the Pantnagar plant, today as far as all the plant expenses are concerned, are we capitalizing anything or everything is being currently expensed as it is?
- K. Sridharan:** We stopped capitalization in March 2010.
- Sahil Kedia:** Fine so all the costs related to Pantnagar are being expensed in the P&L as is.
- K. Sridharan:** Fully.
- Sahil Kedia:** Sir lastly, a quick comment on how the U-truck is doing in what response you are seeing from the market in that?
- K. Sridharan:** It is being doing very well in the southern market because we launched only in south. We couldn't produce that many numbers for the all India level part. So we are now truly collecting our total resource to put together both on the engineering side as well as on the supply side and would make a full launch only in the coming year. So at the moment we are not even wanting to dissipate our energies into the U-truck part of if it, whatever has been produced whatever has been done, we continue with that. But more importantly we are focusing on the emission change and the consequent launch of such related vehicles now.
- Sahil Kedia:** All right sir. Thank you and best of luck sir.

- Moderator:** Thank you. The next question is from the line of Shweta Pandey from Ananlec Infotech, please go ahead.
- Shweta Pandey:** Sir I would like to just get an idea of how do revenue from engines for the nine months period is coming in.
- K. Sridharan:** The revenue for the full year is likely to be around 400 crores for the reduced volumes. The cumulative revenue is about 200 crores.
- Shweta Pandey:** Two hundred crores for the whole year sir?
- K. Sridharan:** Sorry?
- Shweta Pandey:** Sir 200 crores for the whole year?
- K. Sridharan:** Two hundred crores for the nine months.
- Shweta Pandey:** For the nine months. Sir one more thing how do you expecting the joint venture from John Deere through come up in this quarter?
- K. Sridharan:** The John Deere vehicle launch would happen in the first quarter of the next financial year.
- Shweta Pandey:** First quarter because actually it was written that the product will also is expected in the early 2011?
- K. Sridharan:** Yeah it was supposed to be March 2011. Couple of months it gets deferred now.
- Shweta Pandey:** Okay sir. Sir one more question would be on the capacity utilization of both the plants like the Chennai Plant as well as the Pantnagar plant.
- K. Sridharan:** I don't know how do you that the capacity utilization? The run rate now is coming closer to 100% in the Pantnagar. The full capacity for us is 150,000 and in this year if I can take it round it to the 100,000 from the 95,000 volume guidance if we are saying, we should be at about 2/3rds of our capacity utilization.

- Shweta Pandey:** Okay sir. Thank you sir and best of luck for the future.
- Moderator:** Thank you. The next question is from the line of Arvind Sharma from Citigroup, please go ahead.
- Arvind Sharma:** What is the revenue from the defense kit supply in this quarter?
- K. Sridharan:** We don't have separately that. We have the numbers alone.
- Arvind Sharma:** Okay fine. And sir just to clarify the tax pay that you did was around 21% right sir?
- K. Sridharan:** One percent of the total sale revenue.
- Arvind Sharma:** Okay. Fine sir. Thank you sir.
- K. Sridharan:** Can we have the last couple of questions?
- Moderator:** Thank you. The next question is from the line of Saurabh Das from Sundaram Mutual Fund, please go ahead.
- Saurabh Das:** Sir my first question is regarding the Neptune engines. If you can just broadly give us an idea of what portion of the total sales right now Neptune comprises and what is the outlook going forward? What is the initial response regarding customer feedback and mileage?
- K. Sridharan:** The customer feedback mileage in terms of test done is what is happening now. Because at the moment, because Euro-IV is not or BS-IV is not needed for commercial vehicles thought it is there in major cities. And the Neptune engine is more apt for that high horse power and fast. Practically, the current portfolio sales that are happened at all without the Neptune engines and here we are ramping up to the facility creation itself only now between our Pantnagar plant and this thing. Of course some of the machines can machine both Neptune engine as well as our H-series engine. The total sales barring for 200, total sale is purely the H-series engine.
- Saurabh Das:** Right. So which means that its fair to assume even for next year H-series will largely dominate the portfolio?

- K. Sridharan:** It may be between the M4, which is the four-cylinder Neptune engine versus the six-cylinder H-series engine will be the one. But we need to really see how we could bring down the cost. At the moment the cost is at least the Rs. 30,000 to Rs. 40,000 more. We need to bring down the cost before the full scale launch of that particular engine.
- Saurabh Das:** Okay. In terms of the U-trucks you have mentioned that it is only launched in south but broadly in terms of number if you can give us the trends what was the sales in the quarter?
- K. Sridharan:** We don't have that number, I mean, its - it would be in few 100 only.
- Saurabh Das:** Okay got it. And are there any pending JNNURM orders for the last quarter?
- K. Sridharan:** No.
- Saurabh Das:** Okay. Finally on the supply chain issues if you can just, you know, specify which parts of the supply chain were you facing a problem? Was it only in FIP castings or was there any axle related problems as well?
- K. Sridharan:** No this sort of a thing is there in all places.
- Saurabh Das:** Okay.
- K. Sridharan:** If we talk of FIPs and we have the propeller shafts, we have the radiators. Every aspect of the supply chain has to because overall the capacity constraints being placed by the supply is what's we are experiencing now.
- Saurabh Das:** Okay but give that fourth quarter volumes are expected to be significantly higher than 3Q. Are our suppliers geared for that kind of a production number?
- K. Sridharan:** Yeah. In fact some of the working capital build-up also has been on account of that.
- Saurabh Das:** Okay great. Thanks sir and all the very best.
- Moderator:** Thank you. Sir would you like to go ahead with any more questions?

- K. Sridharan:** I'm fine thank you I mean, you know, we will have last question in case.
- Moderator:** The last question is from the line of Pramod Amte from RBS, please go ahead.
- Pramod Amte:** Sir this is in regard to again U-truck platform. What was a broadly the cost of producing set of a platform and have you taken all of that's impact already in the December quarter or it will be differed over as you increase the production.
- K. Sridharan:** U-truck platform more of that in terms of the R&D design and developmental work of it is all happened not jut in third quarter but over the last I would say even one year or more than one year. So those developmental costs, nothing is capitalized everything is charged and everything is there. The supply chain side, the people who have to alter and then supply part of it and to some extent there would be some tooling advances to be given, etc., those are the once which are currently going through. I don't expect any further cost of capital expenditure to be incurred on that other than tooling advances to be given for some dedicated changes that are unique to us and naturally the supply would need funding support from us.
- Pramod Amte:** But for dedicated capacities which you have to create, is it a part of a CapEx program is that right?
- K. Sridharan:** You can put it in this way, practically the investments have happened. The internal developmental work has fairly happened. We need to now ensure that the supply chain is fully geared to meet this requirement which is what we will collect our efforts to make that happen in the coming financial year.
- Pramod Amte:** Sure sir thanks and all the best.
- Moderator:** Ladies and gentlemen that was the last question. I would now like to hand the call back to Mr. Joseph George for closing comments. Please go ahead sir.
- Joseph George:** Mr. Sridharan, thanks a lot for taking out time for this call. Thanks everyone for joining in. Have a good day.

K. Sridharan: Thank you very much bye.

Joseph George: Bye-bye.

Moderator: Thank you. Ladies and gentlemen on behalf of BNP Paribas Securities India, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.