ASHOK LEYLAND

3rd Quarter results Conference Call
(February 1, 2010)

Moderator: Good morning ladies and gentlemen. Thank you for standing-by. This is Sonia, the moderator for your conference call today. Welcome to the conference call of BNP Paribas Securities India Private Limited. We have with us today Mr. Manish Gupta and Mr. Joseph George from BNP Paribas Securities India Private Limited. At this moment all participants are in a listen-only mode, later we will conduct a question and answer session. At that time if you have a question, please press * and 1. I would now like to turn the conference over to Mr. Manish Gupta. Please go ahead sir.

Joseph George: Good morning everybody this is Joseph George. On behalf of BNP Paribas and Ashok Leyland I welcome you all to Ashok Leyland's 3rd Quarter conference call. We have with us Mr. Sridharan, Chief Financial Officer of Ashok Leyland, assisted by Mr. Ranganathan and Mr. Balaji. To start with, Mr. Sridharan will give his comments on the 3rd Quarter results following which we will open the floor for Q&A. Mr. Sridharan over to you sir.

Sridharan: Good morning to all of you. Let me quickly run through the numbers, I hope you had an occasion to see the financials that we published yesterday.

In terms of the volumes and performance which you would have all noted much earlier, we just wanted to re-cap that in the 3rd Quarter the positive that happened for Ashok Leyland is that we improved our market share by about 100 basis points and this improvement is across all the regions, the south, west, north, central and east. We improved our performance particularly in the truck segments in the tipper and the MAV pockets. Both of them have witnessed a significant improvement in the growth, in the TIV, in the total industry volume as well as in the volumes for Ashok Leyland.

We improved our market share in some of these pockets by more than 200 basis points and in terms of the buses we have been successful in delivering about 2147 vehicles under the JNNURM program up to December 2009. We have got an order for about 5,100 approximately which means that we need to deliver the balance almost closer to about 3000 vehicles in the 4th Quarter.

We have also done well in the private sector buses under regular STU pocket which has also been buying. Cumulatively in the nine months period ending December 2009 we have sold about 10100 buses so far.

On the exports side, that is one pocket where we have dropped compared to the previous year 3rd Quarter where the vehicles volumes stand at 1425 as against 1841 in the previous year 3rd Quarter. The drop is primarily attributed to the sluggishness continued to be prevalent in the Middle East market, the Dubai market. The markets on the Sri Lankan side and Bangladesh side are very robust. The prospects are very bright. I will come to the 4th Quarter forecast a little later but at the moment I just wanted to register that except for the exports side we registered a growth in all the pockets of our revenue streams including on the defense side we sold 1000 kits, to the Jabalpur factory of the defense. We need to supply another about 700 odd so balance to complete the order. We are also hoping that we shall get some additional orders during the 4th Quarter. But at least the 700 numbers would get delivered before March 2010.

On the domestic spare parts side also we registered a significant growth almost 40% growth. We sold in the domestic market about Rs.150 crores as against about Rs.105 crores in the previous 3rd Quarter.

Coming to the margins we registered a price increase as you all must be aware from the beginning of this year. Almost in July we took a 2% pricing action of about Rs.19000. We took another pricing action on 12th October about Rs.14000. Cumulatively these two have benefitted the 3rd Quarter. Cumulatively it translates to 3.6% over the beginning base line price. Again on 16th of January we have taken a pricing action for Rs. 14500 translating to about 1.5% on an average. Of course, this will benefit to the 4th Quarter. On the material cost side, as I was explaining earlier, we achieved our Rs.50,000 cost reduction whatever was sanctioned earlier we could get it back. We could get all that by July August and we could completely actualize it during the 2rd Quarter as well as in the 3rd Quarter. But during the 3rd Quarter beginning the commodity prices started firming up, particularly steel and rubber registered a significant increase and we have to concede an increase in material prices for steel and rubber. The prices for the rubber went up by more than 70% and the prices for the steel went up by almost 15-16%, Rs. 5/- per kg type, but we could contain the increases to less than about Rs. 3-4/- per kg and in all probability the additional material cost increases that we may have to concede which partly impacted our 3rd Quarter and which will definitely impact our 4th Quarter financials would be close to about 2% or less than 2% of our material cost. On the operating cost side you will find that the manpower cost has been steadily going up quarter over quarter but there has not been a significant jump compared to the previous quarter as against about Rs.168 crores in the 2nd Quarter the manpower cost staff cost has gone up to Rs.174 crores. This has been primarily because of the additional number of working days in the 3rd Quarter because till July'09 we were not working for the full days so that is the main reason for the cost going up. But compared to the previous year 3rd Quarter the significant jump is predominantly due to reduced number of working days in the previous year 3rd Quarter. That's the time you will all recall that we went in for two days, three days a week a type of a working, went on voluntary cut on the wages and complete reduction of almost 2000 casuals and so on, all that definitely got reinstated in the beginning of the 2nd Quarter which is the reason why you will find the 2nd Quarter staff cost and the 3rd Quarter staff cost to be at about the same levels. Similarly in the other expenditure side, between the previous quarter and this quarter the costs have marginally gone up, even though the production levels have gone up by more than 20%, sales levels have gone up by more than 13%. In the 2nd Quarter including the exports we sold about 14300 vehicles whereas in the current 3rd Quarter we had sold about 16100 vehicles, that's the jump but the cost increase could be contained within 4% demonstrating the cost control measures that we have been instituting. We also had significant reduction in the interests costs, primarily coming out of the containment in the working capital side compared to the previous year 3rd Quarter. We knocked off almost 350 crores in the debtor levels.

As you all will recall in May 2009 we switched over our credit policy from one month credit to cash and carry for all the private sectors. Obviously we continued to give credit for the STU and the JNNURM supplies but for all the private sector sales our cash and carry policy continues and that has helped us to reduce our working capital compared to the previous year's 3rd Quarter. But compared to the September 2009 levels our working capital has gone up primarily because of the finished vehicles that we are holding almost closer to about 2000 vehicles which need to be supplied for the JNNURM side and also increased activity levels warranting increased production inventory. But the debtor levels continue to be in control. In terms of the total loans we raised another Rs.300 crores during December; our total loan position excluding the working capital loans stands at about Rs.2200 crores as of December 2009. In terms of the margins, the margin got improved primarily because of three reasons, one, the volume increase that has happened and two, the reduction in the material cost that we could actualize as I mentioned about that Rs. 50,000 fully for the current 3rd Quarter and three, of course there is a price increase that we took in October which also got actualized. So these are the three reasons why the margins got improved.

Coming to the outlook I must say first about the industry, the freight rates have softened, I do not know how many of you may have noticed, that in the last three months freight rates have softened by about 15% across the regions but I must say that the demand for the commercial vehicles has significantly gone up. We need to understand the co-relation between these two, but in our assessment that would be a spurt in demand primarily dictated by the likely threat of the stimulus package getting withdrawn which would mean that the excise duty rates would significantly go up. I do not expect the excise duty rates to completely go up to the earlier levels of 16%. Maybe on a soft landing basis the government may withdraw the excise duty concessions in stages. The second reason why there could be a spurt in demand I am predicting that with the emission standards changed, which still of course there is no clarity as to when this would happen, we have been expecting that this change would happen by April 2010 from whatever indications that we are hearing, there is no clarity in either I can categorically state that it will not happen, nor from the preparedness and the other indications go it will be too difficult for anyone to implement it from 1st April, 2010. So as it stands these two possible threats could also be giving a push to the demand. On top of it of course the road building activity has gained significant momentum. And we see a significant spurt in the tipper demands in the 3rd Quarter. I mentioned in the last conference call when we discussed the 2nd Quarter results that every segment except the tipper registered a growth in the 2nd Quarter. Now in the 3rd Quarter even the tipper segment has registered a significant growth and that could be one of the reasons coming out of the road building activity picking up. We all expect that the overall demand for the commercial vehicles including the intermediate commercial vehicles for the current 4th Quarter could anywhere be in the region of about 85000-90000 vehicles and we should be selling closer to about 23500-24000 vehicles in the domestic market. And in the export market we should do closer to about 3000 vehicles which would take our 4th Quarter volumes to close to about 27000 and added to the cumulative volumes of 38000 with a bit of a luck we should be touching 65000 vehicles.

On the margin front this quarter we have achieved 11.4% operating margin. Thanks to the significant reduction in the material cost and also the operating leverage, we hope to maintain this margin in the 4th Quarter. I should have generally predicted a significant improvement in the margin in the 4th Quarter but I am cautious in making this point that there will be a significant supply of the fully built buses in the 4th Quarter, thanks to the JNNURM supplies and so even targeting or achieving a 11% margin for the 4th Quarter it is going to be a big task for us. In our assessment we should aim for securing this 11% margin and end the full year at about an average level of about 10% operating margin. The cumulative operating margin as of now stands at 8.9%. On the capital expenditure side we are fairly on track. Our Uttrakhand plant which was to be commissioned in January may get deferred to February or March depending upon the convenient timings as well as the supply scheduling that we need to ensure happening there. There is an all around supply constraint being faced, consequently the supplies to Uttrakhand also would come under pressure, but we are very confident of getting this done certainly in the month of March if not earlier. In terms of the CAPEX this year we should end up closer to about 950 crores of capital expenditure. And going forward I maintain our projection that our capital expenditure will be contained within Rs.2000 crores for the next three years.

The joint venture programs are going intact. The light commercial vehicle joint venture with Nissan is progressing very well. The product portfolio has also been finalized. The manufacturing plant is also getting firmed up. As I mentioned earlier Ashok Leyland Hosur facility will be used for manufacturing the light commercial vehicles and that will get launched in the year 2011. On the construction equipment side the land has been acquired. The joint venture has already been formed. The product plans are in place. Hopefully we should have the test roll out of this by end of this current calendar year. With respect to JV with Alteams for manufacture of high pressure die castings , many of you would have seen the press release; we inaugurated formally this plant in January 2010. The venture is moving in full stream. It is supplying castings to telecom but yet to supply to Ashok Leyland. We need to get the patterns and dies and everything in place to get the supplies begin for Ashok Leyland at which time both Leyland and the joint venture would benefit. The joint venture would benefit in the form of the increased volumes and Leyland should benefit in the form of very competitive pricing for this high pressure die casting. The finance outfit that we have been targeting to get is getting delayed primarily because of the delay in getting the RBI approval for the NBFC license. We expect this to happen any time. We are targeting to do something like Rs.100 crores of business before March 2010 using this outlet. I have mentioned about the total debt position which is around Rs.2200 crores. We expect the year end with the term loans at Rs.2100 crs. and the working capital practically reduced to nil, thanks to a significant reduction in the working capital which we are targeting at the level of about Rs.500 crores reduction in the 4th Quarter. With all that our total borrowing at the end of March 2010 should be closer to Rs.2300 crores. Now it is open to the floor for asking questions.

Moderator: Certainly sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question please press * and 1 on your push button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the # key. We have our first question from Mr. Kapil Singh from Nomura Securities. Please go ahead sir.

Kapil Singh: Morning sir. My first question is on volumes, you have talked about some 27000 in the 4th Quarter. Is there some kind of production constraint that you see because of that because some of the companies have talked about vendors not being able to cope with production? So if you could just share how are we placed on that?

Sridharan: It's true that the supply constraint has come about. This has been a very unique year I must say, where the turnaround in the commercial vehicles industry has happened. While we have witnessed steep fall in commercial vehicle off take in the past during the downward cycle, we have never seen such a vicious move up as we are now seeing in the current financial year which has now led to a fair amount of supply constraint whether it is tyre or whether it is wheels or whether it is any of those host of the proprietary items that get supplied. From our point of view since we are not targeting to produce more than 25000 vehicles in the 4th Quarter and we have built up inventory, and as you know we have got something closer to about 9200 vehicles as of December 2009. We hope to manage and supply and service 27000 vehicles with a just a dip of about 2000 into our stock. And manufacturing 25000 vehicles, of course, is not a cakewalk but definitely it is something which is manageable by us.

Kapil Singh: Right sir thanks. And also wanted to know the engine and spare parts revenue for the quarter and the volumes also for the engine side?

Sridharan: Engine volumes we had sold 3861 engines in the 3rd Quarter in the current financial year and spare parts I did mention Rs.151 crores in the domestic market. In the export market we had about Rs.9 crores. So totaling about Rs.160 crores is the total revenue on the parts. On the engine we do not have the revenues separately set out, it's only the volumes that we share on that.

Kapil Singh: Okay. Sir Spare part revenue is net of excise?

Sridharan: Yeah it is net of excise.

Kapil Singh: Alright, and sir if you could also share your thoughts, you have already told us about material cost, but if you tell when is it done that we re-negotiate our steel contracts, is it already happening or will it happen at the end of the fiscal year?

Sridharan: It is always a continuous exercise. While I am talking in some pockets people must have concluded the supply. We have distributed our supply base. We have included Jindal Steel also. We are getting supplies from practically half a dozen supply sources including imports. So I would presume that the cost increase is on the steel side, one needs to recognize it for the full 4th Quarter.

Kapil Singh: Okay. Sir last question, on the LCV venture any specific reason that why we are not doing it from the plant in Uttaranchal where we gain significant tax benefits, because your competitors are doing it from there?

Sridharan: The objective of Leyland is to maximize the value addition in Uttrakhand. Given the total capacity limit, we have capacity of 50000 vehicles on a two shift basis; working on a three shift can take it to 70,000. Now it will be in the interest of Leyland to maximize the heavy duty range of vehicles there, so that the value addition is maximum and hence the tax benefit will be maximum. If I substitute part of the heavy duty vehicle volume with the LCV side, definitely the tax benefit will be significantly lower.

Kapil Singh: So we will be fully utilizing that plant?

Sridharan: Yes 100%. We will be fully utilizing to the hilt. Obviously the scaling will have to be factoring the type of issues that one need to face the teething problems in terms of getting the staffing, getting the materials in place and getting the place organized to handle such steep volume ramp up, but as our plan stands we should next year, target to produce something close to 30000 vehicles there and to get to 50000 vehicles the year after that.

Kapil Singh: Alright thanks a lot sir.

Moderator: Thank you for your question sir. We have out next question from Mr. Sahil K from Enam Securities. Please go ahead.

Sahil K: Sir thank you for taking my question. Can you explain to us the other expenses in the P&L. If I look at it on a sequential basis, your revenues have gone up by 15% while your other expenses have largely remained constant?

Sridharan: As I mentioned that the other expenditure not remained largely constant. Between the 1st Quarter and the 2nd Quarter it has significantly jumped because the activity levels have gone up. But between the 2nd Quarter and the 3rd Quarter as I mentioned, as against about Rs.136 crores of other expenditure, the 3rd Quarter is Rs.140 crores, that marginal jump is purely because of the cost control that we exercised on the variable overheads. Even though the production related variable overheads like power, tools, consumables, etc. would register a linear increase, we could contain the consumption levels and also the expenditure on other pockets which enabled us to reduce the overall cost. Had this cost control measures not been there, my cost in the 3rd Quarter would have been at least more by about 10 crores.

Sahil K: Okay sir. And how should we look at this going forward?

Sridharan: We will succeed in maintaining at these levels.

Sahil K: Sir secondly I have another question regarding the volume numbers. Sir did you mention 9000 units, is that the total inventory as of December?

Sridharan: That's right.

Sahil K: And of which you mentioned 2000 is your JNNURM buses inventory?

Sridharan: That's right.

Sahil K: So the balance 7000 is what sir?

Sridharan: Balance 7000 will be partly for the vehicles meant for tipper body building, partly will be for the regular MAV vehicles, partly for exports and so on and so forth.

Sahil K: Okay. So you mentioned that we are doing about 27000 units is what we are targeting. I just wanted to get a check in terms of total capacity. Our capacity currently would be around 85000 units, or has it gone up?

Sridharan: Since Uttrakhand is yet to be commissioned our capacity is 100000 vehicles. Manufacturing at the rate of 8500-9000 vehicles per month is not a difficult task. This is one of the reasons why I am saying on an average we should be producing between January-February-March 25000 vehicles.

Sahil K: Okay and sir what is your view on volumes for next year. Where do we see volumes for the industry and for Ashok Leyland, can you give us some guidance there?

Sridharan: In fact I am enthused by the type of predictions which CMIE (Centre for Monitoring Indian Economy) has done as well as Crisil have done. They are all targeting a significant growth for the commercial vehicle industry. The growth that is being set for the index of industrial production, CMIE is saying the next year will register closer to 9.5% growth as against 8.5% in the current financial year. The overall growth at the current phase, the commercial vehicle industry should register, in my view, not less than 25% growth. I may be wrong significantly but I am just saying that on a consolidated basis at least it should register a 25% growth.

Sahil K: Last question if I may, I have just taken forward from the previous question, the Uttaranchal facility is it fair to assume that you will give first priority to the Uttaranchal facility and the balance would be produced at our existing plants, is that the thought process?

Sridharan: That's right.

Sahil K: Alright sir. Thank you so much.

Sridharan: Yeah.

Modeator: Thank you for your question sir. We have out next question from Mr. Alok Rawat from CLSA. Please go ahead.

Alok Rawatfrom CLSA: Good morning sir and congratulations on a good quarter.

Sridharan: Thank you.

Alok Rawat: Sir coming back to Uttrakhand plant, what kind of localization level can we expect in the initial few months or rather in the first year itself?

Sridharan: We should be targeting something like more than 50% of our supplies to get covered in the Uttrakhand exempted area. Not only Uttarakhand, it will be both Himachal as well as Uttarakhand are exempted areas.

Alok Rawat: So it's not going to be all at Pantnagar itself but could be at other facilities as well also. Okay that's it from my side, thanks.

Moderator: Thank you for your question sir. We have our next question from Mr. Jamshed from Citigroup. Please go ahead sir.

Jamshed: Thank you for taking my questions. Two questions from my side, one is could you give us some sense in terms of how material cost per vehicle have moved up sequentially between the second quarter and the third quarter. You mentioned steel was up, you gave a price hike of about Rs 3 a kilo but how much is the tyre cost per vehicle increased. That's my first question, second question sir how would you reconcile the fact that freight rates are falling and you have such a bullish outlook for FY11 for this CV industry as a whole. What are we missing out on sir?

Sridharan: The cost increases will be too difficult for me to say because the understanding yet to be reached fully with them is one of the reasons why there is acute shortage of tyre supply at the moment and I must say that on an average I did mention that we would suffer about 2% increase in the fourth quarter because of these cost increases.

Jamshed: Sir about 20,000 per vehicle is the incremental uptake only on account of tyres?

Sridharan: It will be much less than this. The 2% is on the material cost so the percentage of…

Jamshed: Okay 2% material cost.

Sridharan: And second the third quarter would have suffered only less than 50% of that charge. You wanted to understand the movement between the second quarter and the third quarter. I mentioned to you the fourth quarter increase, the actual increase in the third quarter would have been less than 50% of the 2% cost. On the question of the reconciliation between the freight rate coming down and volumes going up I did mentioned that we are also somewhat perplexed with this and I attributed the spurt could be due to the two reasons of A) The impending withdrawal of the stimulus packages and consequent increase in the acquisition cost of the trucks. And 2) There could be these additional cost coming if the emission standards have to be implemented. Of course I would put the probability of emission standard getting implemented from 1st April at less than 50% and there were quite a bit of debates and lack of clarity on the fuel availability, etc. But if I will say that the fundamentals continue to be very robust whether it is the IIP growth or whether it is the road building activity all that gives us the confidence that 2010-11 level should be significantly up. The 2009-10 suffered in the first two quarters while we are all looking at the industry at the end of third quarter and feeling very comfortable about the growth. The first and the second quarter did have the effect of the down turn. So consequently 2010-11 would be the year where the full blown increase over the period would happen and I feel that 27% growth would not be a mis-placed optimism if I were to say the IIP growth is likely to be close up to 10%.

Jamshed: In the context of freight rates falling do you think the industry can absorb 6% price hike next year, 2% for excise, 2% for material cost, and 2% because of the change in emission standards and the impact on engine cost?

Sridharan: No certainly the emission standards change and the 2% or 4% increase in excise duty has to be passed on. There is no way the industry can absorb that. These are the margins continue to be languishing below the double digit on an accumulative basis to touch the previous year level of 10%, 12% it is always under threat. So consequently the pricing action would certainly take place if that sort of cost increases happen.

Jamshed: Sir if I understand your guidance correctly, you all want sale probably 75-80,000 vehicle in FY11 of which 30,000 will come from the Uttarakhand plant, is that correct? Sir in that scenario what will be your effective tax rate ?

Sridharan: Very difficult for me to answer that.

Jamshed: Okay sir thank you very much.

Moderator: Thank you for your question sir. We have our next question from Mr. Sachin Gupta from HSBC. Please go ahead sir.

Sachin Gupta: Sir, most of my questions have been answered, I am withdrawing thanks.

Moderator: Thank you Mr. Gupta. We have our next question from Mr. Chirag Shah from MK Global. Please go ahead sir.

Chirag Shah: Sir just you indicated price hike, I just missed out that point. 16th January you did Rs 14000 of price hike and earlier you did indicate some more price hikes in earlier. Can you just repeat that for me please?

Sridharan: We increased the prices on 4th July by Rs 19000 we increased the price again on 12th Oct by Rs 14000. The two as percentage of sale revenue translates to 3.6%. On 16th of January 2010 we increased the prices 1.4% on an average. What all I am now indicating are all average so it will range between the multi axle vehicle and the 4 X 2 vehicles. The 16th January we are increasing by Rs 14500 which translates another about 1.5%

Chirag Shah: Second I was just trying to understand the inventory that you indicated of 9200 units. How much would be there with dealers in pipeline because you indicated cash and carry system for private segment so what…

Sridharan: Practically that has been eliminated. Obviously there will be a few hundred vehicles the dealers may have to carry it to ensure that the delivery pipelines are not choked and they can continue to do the business with us. Dealer cannot just operate on when he sees the customer and then makes the order on Ashok Leyland to get it delivered, which stocks which we don't wanted as a….

Chirag Shah: Just some update on this Unitruck, if you can help us understand the latest status on that?

Sridharan: It has been launched and we expect that this to be fully all India level by next year. At the moment it carries the H series engine. It will also carry the new Neptune engine; two years down the line it will carry the next generation cab also along with that. It has been based on a modular fashion by which it can address any wheel base length variants which customers prefer. Somebody ask for 210 wheel base, somebody ask for 205 wheel base, somebody ask for 220 wheel base 12 m bus and so on and so on forth all that could get easily accommodated in this Unitruck platform.

Chirag Shah: I was trying to understand what should be the price difference between the existing truck and Unitruck platform model of the same range? How different the pricing gap between these two products would be?

Sridharan: Whatever has been planned in initial there won't be any price difference. When we introduce some of the upgrades on that like Neptune engine and the next generation cab, there will be price increase that will happen. But it will be too early for me to say how much that price will be.

Chirag Shah: So whatever offerings we roll out from the Unitruck platform any target number you have decided for next year from this platform or how should one look at this opportunity for you?

Sridharan: Too early for me to predict any number. All that I can say on a Pan India level we will be launching it in next financial year. And based on the response and that is the scale of the activity. Capacity is not going to be a constraint for us at all in the coming years.

Chirag Shah: Why I asked this because Tata Motors Prima has been doing good The reviews are good. Probably you are slightly behind them in terms of market share. You would be losing some market share because of this that was the precise reason of just understanding how you are placed on this.

Sridharan: Obviously our objective would be to maximize the offering of the Unitruck to the market.

Chirag Shah: Fair enough sir, thank you very much.

Moderator: Thank you for your question sir. We have our next question from Ms. Sai Anjali from capital Market. Please go ahead.

Sai Anjali: The numbers are extremely good but the effective taxes are pretty high this time. It has pull down the profit so why would the rates really be high? The numbers have been good except that the tax rate has been pretty high.

Sridharan: All this happens when we try and revise our volumes as the run rate has significantly gone up in the third quarter. And naturally the tax effect of it also would go up with that and in the first quarter we had tax free income on sale of our IBL shares that is about Rs.50 crore. That has depressed the cumulative tax rate upto first of Aug which is one of the main reason why you find that the third quarter which doesn't have the benefit of that is significantly up otherwise if you look at between the second and third quarter it had about the same.

Sai Anjali: Alright and also regarding cash and carry system, you have actually implemented it last year in the midst of all this recession and all that but…….

Sridharan: We implemented it only in May 2009.

Sai Anjali: Post that is there any plan that you will return back to the credit base or is it going to be there?

Sridharan: On seeing the benefits of this, hopefully we will retain this.

Sai Anjali: Thank you Mr. Sridharan.

Moderator: Thank you for your question ma'am. We have our next question from Mr. Jatin Chawla from IIFL. Please go ahead.

Jatin Chawla: I joined a bit late sir; I don't know whether you talked about the regional break down of CV volumes. In earlier quarters you mentioned that the revival in Southern India was yet to take off. How has that trend been in the last quarter?

Sridharan: In the last quarter as I said across the regions there has been a significant growth including in the south where we also significantly improved. In fact our improvement is more pronounced in the western region and in the northern region. Particularly on the MAV and tippers both these segments have registered a significant growth. The 4X2 volumes are somewhat compared to the MAV growth have not been that bright. MAV growth for the county as a whole in the third quarter for the tippers, for the MAV it has been more than 160% and the tippers have been more than 70% and we could register improvement in our market share. We registered an improvement of almost 294% in MAV and about 40 % in tippers segment.

Jatin Chawla: How do you see the market share going because in the first half you lost bit of market share. Not been able to recoup major part of it, how do you see your market share moving in the fourth quarter in FY11?

Sridharan: I must correct your impression, while we lost our market share in the first quarter primarily because of the change in the system that we did on a cash and carry by which the pipeline stocks got liquidated. We have been consistently improving our market share month over month and again in December'09 we improved our market share by more than 100 basis points. And going forward I would expect that our market share levels of something closer to about 26-28% we should target to gaining back.

Jatin Chawla: Thanks, that's all form my side.

Moderator: Thank you for your question Mr. Chawla. We have our next question from Mr. Mahantesh from Centrum. Please go ahead sir.

Mahantesh: Good morning Mr. Sridhar. You have so many subsidiaries and JVs now, is there a chance that you will be announcing your consolidated results going into the next year?

Sridharan: We have mostly important joint ventures that we are doing like with Nissan and John Deer, etc., which will not allow us to take the subsidiary holding company status and joint ventures subsidiary status because the joint venture partner also would be insisting for a 50-50. Other than that there is no compelling reason for getting into a consolidated result. But if it required to be done definitely we should be in the position to do it also. That's not an issue.

Mahantesh: You do have an associate company in Czechoslovakia; Avia Motors. Can you tell us how has the calendar year been for Avia.

Sridharan: It has been a challenging year but Avia is able to reduce cash loss significantly in 2009. They have also done quite a bit of cost reduction measures in substituting the prime mover, in getting the gearbox sourced from the Indian manufacturing base and also by reduction in the manufacturing in the cab, we have moved the press tools from Avia to India. And we will supply the press panels, the cost of pressing the panels abroad is quite expensive being labor intensive there and after even after factoring the cost of transportation it is much cheaper. Those measures have all been done and we expect and we also significant order for supply of the chassis to one of the US companies actually electric vehicles so taking all these into account in the coming year we should see the numbers going in 2200. At the moment they have done only about less than 600 and they are been significantly affected by the downturn in the European market on the auto sector.

Mahantesh: And secondly on your JV on the construction equipment side what kind of numbers, what kind of value of turnover are we looking at in the next year?

Sridharan: I don't have the numbers about the turnover but the total project cost is less than Rs. 140 crore and the share for each partner will be proportionately much lower. And they hold 50%, we hold 50%.

Mahantesh: And then final question, this pertains to your next year's volume numbers and the outlook. Now that we have new emission norms, entire country actually upgrading to new emission control norms there would be a significant fuel efficiency difference that arises between the newer set of trucks and the older set of trucks. Will that drive faster replacement demand going into the next year?

Sridharan: I was clarifying that the emissions standards will not necessarily lead to fuel efficiency part of it. But certainly emission change would translate to better power-to-engine ratio being delivered and one should be able to technically say that we can have more overloading if it is permitted and so on. So the cost of transportation could significantly come down but it also comes with an additional cost. It could be anywhere between Rs 75,000 to Rs 80,000 per vehicle. Obviously, the initial capital cost going up is something always resisted may be customers. So, we need to really wait and see how this change in the emission standard is implemented by the government and how effective it would be. But for us the change is more pronounced to be between the Euro II to Euro III because trucks are generally lagging compared to the latest emission standard which is the Euro IV or Bharat Stage 3. The Bharat Stage 3 is what will be more relevant for the truck segment and there the cost difference will be around Rs 35,000 to Rs 40,000 per vehicle.

Mahantesh: And there be FI pump changes to a rotary.

Sridharan: No the rotary pump or common base system all are independent of that. There is quite a lot of engineering that goes into that. Definitely rotary pump will not be relevant. It will be the common rail injection system for that. .

Mahantesh: That's for Euro IV if I am right.

Sridharan: Bharat stage 3 also would need common rail system. You can have VP 27 rotary pumps being used but it will have its own efficiency.

Mahantesh: And just one final question since the tightening of monetary policy stance taken by the RBI and the cash and carry system that you are attempting to implement in a full fledged manner will that mean your March month will see a significant slow down in sales because wholesale finances after all required for pushing sales in the month of March. So will that be an issue in March?

Sridharan: Today finance availability is not a constraint. I must say that thanks to the type of measures the government has taken. All the banks are more than willing to do the financing. In fact the share of the public sector bank financing in our vehicle sale has significantly gone up to almost 20%.

Mahantesh: But they are not into wholesale financing. Your dealers will need to adhere to cash and carry system, your dealers need to have money to be able to purchase vehicles in March. Will they have sufficient money to do that that was my question sir?

Sridharan: All the public sector banks have offered what we call as channel financing. All the dealers of Ashok Leyland I can say with confidence are not into any disadvantageous in terms of securing funding facilities to buy the vehicles and hold it for sale. But I must reason to say that on the contrary to what you predicted. I would predict that in the month of March there will be a significant jump happening. If for any reason the budget doesn't talk of any withdrawal of the stimulus package. Because certainly our country cannot afford to have this concessional rate of 8% excess duty going fully forward. Obviously we also cannot afford to have a 16% sudden jump. This industry as I mentioned in a beginning is a more sentiment driven industry. Already one part of the sentiment has been affected in the form of tightening of the CRR and hence the interest rate outlook is very hawkish. On the other side the material and commodity prices going up the manufacturers are put to increase in the prices. The third of it is the government is also going to add to that by adding to the withdrawing the excise duty concessions, etc. There is a threat that these sentiments can get affected in this quarter.

Mahantesh: And that threat could translate into a very weak March sales atleast.

Sridharan: Not March. Going forward, it is more important in fact I keep repeating that March would be much better because of all these reasons. Because all these reductions and increase in interest, etc., is going to be more pronounced going forward in 2010-11.

Mahantesh: Thank you for answering the questions.

Moderator: Thank you for your question sir. We have our next question from Ms. Sapna Shah from NS Global. Please go ahead sir.

Ambrish: This is Ambrish sir. I just wanted to get an idea about the CAPEX that you are planning in Uttarakhand for FY10 then what has been the CAPEX year-to-date.

Sridharan: The cumulative CAPEX is closer to about 1100 crore in Uttarakhand and we would still may need to do some few hundred crores going forward in 2010-11 and 2011-12, but not very significant amounts. But the major amount (99%) of the expenditure all have been incurred committed and some of it is getting incurred in this month also. Practically, the commissioning of these would all get completed by this month end.

Ambrish: Which means the plant not being operational; can you share the kind of interest that we have capitalised for the year-to-date period?

Sridharan: The interest capitalisation will be about closer to about 20-25 crore.

Ambrish: For the first 9 months?

Sridharan: That's right.

Ambrish: And sir finally can you share some outlook on the engines and the export business going into FY11?

Sridharan: Engine side we need to wait and watch how the payment track record for the ley power engine, the genset engines improves. There has been quite a sluggishness in the payment and there has been increased demand for credit period because of which we have somewhat curtailed our sales though the demands are there for that. But we will be focusing more on the manufactured engines of the higher horsepower range so the outlook that I would say is that we would maintain the current levels of about 2000 engines per month type of sale going forward also. On the export side certainly the 2010-2011 will witness significant jump happening on the Srilankan side. Thanks to the complete changed ground realities there including the changed post-elections there and also the type of support which the government of India is extending for the Bangladesh pocket and hopefully the Dubai market getting revived or rather the worst should be behind them and they should be coming back we expect growth of about at least 20% over the 7,000 vehicle volume that we are targeting for this current year.

Ambrish: Thanks a lot. That answers my question sir.

Moderator: Thank you for your question sir. Ladies and gentlemen to ask any further question please press * and 1.

Sridharan: I think we can wind this.

Moderator: Certainly sir.

Joseph George: Thanks a lot Mr. Sridharan for taking out time for this call. Thank you participants.

Sridharan: Thank you.

Moderator: Ladies and gentlemen this concludes your conference for today. We thank you for your participation and for using Tata Indicom conferencing services. You may please disconnect your lines now. Thank you and have a great day.