



“Ashok Leyland Q4 FY17 Earnings Conference Call”

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Moderator: Good morning, ladies and gentlemen, welcome to the Q4 FY2017 results call of Ashok Leyland, hosted by Emkay Global Financial Services. As a reminder, 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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mihir Jhaveri from Emkay Global. Thank you and over to you Sir!

Mihir Jhaveri: Good morning everyone. I would like to welcome the management and thank them for giving us this opportunity. Today we have with us from the management, Mr. Vinod Dasari, CEO and MD; Mr. Gopal Mahadevan, President Finance and CFO. I would now hand over the call to Mr. Dasari for his opening remarks. Over to you Sir!

Vinod Dasari: Good morning and thank you for joining the Ashok Leyland call, this is Vinod Dasari. We will run through some of the quick highlights of the last fiscal year and then I will hand it over to my colleague Gopal to take you through the details.

First and foremost, last year was a very good year despite the issues in the last three days, which is what everybody tends to focus on, but let us look at the balance of the year. We had all-time high sales of 145,000 units including the LCV, roughly around 113,000 or so for the M&HCV, balance about 32,000 LCV. This translated to the highest turnover ever of Rs. 20,000 Crores and we had a market share of 32.4% and the good part of this market share is that this is a consistent growth that we have had, little over little, for the last five years and the good part about this market share gain is that it is not just in one region or just in one segment, it is across regions and across the segments. As a matter of fact, if you go by SIAM reports it will show something higher than 33%.

The spare parts revenue as I have been telling over the last few calls is that we are trying to make this business, which was predominantly a truck business and domestic truck business and it was prone to cyclical, we have been trying to move this business, to also grow the non-truck business and that too outside India. We have had some very good successes and the first good news is that the spare parts revenue crossed Rs.1,000 Crores while maintaining its margins. Equally, our defence business generated many new orders, we now have 19 tenders, we also started supplying to Ministry of Home Affairs and CRPF and Jammu & Kashmir Police. These are armored vehicles, mine-protected vehicles, missile carriers, rocket launchers, so these are all small, small orders, but as you know in defence these are long gestation businesses and once you get in after a lot of trials it stays with you for a long period of time. So we are quite bullish and excited about the defence business also.

As far as the financial is concerned, this is our longest run of double-digit EBITDA, one more quarter with an EBITDA, which was more than 10%, this is I think now nine quarters in a row. Our return on capital employed was at 30%. I believe it is one of the highest in the industry and starting from where we did about four years ago with nearly Rs.6,500 Crores of debt, we finished the year with a zero net debt, and we finished the year with a negative working capital of eight

days and as a result of the financial performance we achieved the best credit rating in the history of the company I think at least in the last 12 years that we can go back to AA and equally the non-financial highlights is that we got rated in India's top 40 brands, which is very important for us because as we expand outside of South it gives us a visibility across the country. We are very proud of one achievement, our Pantnagar plant, won the prestigious Deming Award or Deming Prize, which is the only truck and bus plant in the world to have won this. We acquired the shares in our LCV joint venture with Nissan and have accelerated that. Now we have turned that business profitable also and it is showing good results and a very good future forecast. We are launching at least one new product every quarter and we are very excited about it.

We merged the Hinduja Foundry business that was not doing well. Now, it is under direct Ashok Leyland management and immediately the foundry business has turned EBITDA positive and I am sure we will be hopeful to see that it will be accretive at net level this year. Couple of other minor points. Yesterday, the JD Power dealer satisfaction report came out and we were rated number two in commercial vehicles and possibly number one in medium and heavy commercial vehicles. In terms of dealer satisfaction, we moved up several notches, so this is very good news for us. Some of the new products that we launched the Sunshine product are doing exceptionally well, it won the School Bus of the Year Award, and it is the only bus that meets both frontal crash as well as rollover compliance. We have bagged orders for that. The Guru vehicle is doing very well; this was based on the Boss platform in a substantially lower cost.

Equally in the international markets, we launched a new bus called the Oyster, very good response from it. It is again the only school bus in Middle East, which meets frontal crash as well as rollover compliance. We are launching the Boss there and the partner vehicle, which is from the LCV range, so there is tremendous excitement in our international markets and lastly we launched the India's first electric vehicle called Circuit. We have a three-pronged electric vehicle strategy; one would be to work on the European level, which is where we are leveraging Optare technology and second is our own Circuit technology and third is working with the government on this battery swapping technology to see if that works. So we are ramping up our electric capabilities and capacities. We are very bullish about this and I think in the near future there will be a lot more enthusiasm towards it.

Lastly, I will comment on this BS-III, BS-IV changeover. I am sure many of you are wondering when this transition happens. Let me not comment on whether I agree with the decision or not, it was what it was. The day we heard about it, we immediately wrote to our dealers and told them not to panic because we knew that there would be very little impact. We stopped production and we stopped invoicing on that same day. There are three things, which helped us, first and foremost our operating principle, which is to sell our vehicles only in cash and carry mode, which results in very low inventories with our dealers and third thing we knew that if the vehicles are with us because we use the unique iEGR technology, which allows me to simply swap the engine, so I take out one engine put another engine in and the engine that I take out I can put into the aftermarket because it is a BS-III engine and for the last seven years we have been selling BS-III. We could not announce this very early on because we had not yet announced a nationwide launch of iEGR, now that it is out there, there is tremendous response to that and

performance is much better than our own BS-III vehicles. So, with very little electronics and very little additional parts, no exhaust after-treatment systems or urea or anything like that. We know how to do that because we own a company that is one of the world's best in terms of SCR technology, but this technology is what is best suited for India and this is truly an Indian innovation, so we are very excited about the opportunities that it presents in the domestic market as well.

The overall industry looks poised to grow. I think the first quarter will be a little difficult because of the transition from the BS-III to BS-IV. There were some supply chain issues also for everybody because Bosch could not deliver, but I think given that our industry runs on three leading indicators, GDP, infrastructure and mining, I am hoping that the GST will give a further improvement to GDP, so that would be positive, infrastructure is booming. While the tipper industry is growing at about 30%, we are growing at about 50%. Our range of new tippers is doing exceptionally well. And lastly it is mining, it is a lesser play for us and it is growing slowly, but all three for a change are working well, so I expect 10% to 15% growth in the market this year and I hope we can continue with our growth in market share that we have, but equally I believe that the spare parts business or all the aftermarket services and solutions business that we have launched is doing very well with a 30% year-on-year growth. Our defence business with so many tenders that we have won.

Regarding international growth, the new models are exciting. Our Power Solution business has started for the first time to explore opportunities to sell engines outside India to other automotive OEMs. I am not at liberty to share the name, but we have got a first Proto order to sell to a customer in United States. That shows the capability of our engines to meet even US norms. So the non-truck business is trying to grow faster than the truck business, whereas the truck business itself is very bullish because of the iEGR technology that we have brought. So I am quite excited and bullish about this year. To talk to you about the specifics of Q4 and the financials for last year I will hand it over to Gopal Mahadevan.

Gopal Mahadevan:

Sure, Vinod. Thank you very much. I will just run the numbers very quickly first for the benefit of all of you and then we will get into the call. So the overall numbers the total industry volume for the quarter actually saw a 4% increase. Both truck and buses grew 5% and 1% each, I am talking about the TIV. As far as our performance, Ashok Leyland is concerned, we had a significant growth in trucks at about 20%, while the bus volumes were lower by 24% and that was a planned decrease in the sense that we deliberately did not participate in certain STU orders, which we believe are not accretive to the business.

So, overall, our M&HCV volumes grew at about 11% for the quarter and our market share, as per SIAM reports for truck was 36.3%, our bus was 35.9% and overall was about 36.3%. As compared to Q4 of last year, which was 34%, so that was up by about 2.3%. Happy to say that our network is really humming. We have nearly about 2500, over 2500 points of presence now. If we rewind about six years ago that number would have been something like about 300. So the basic strategy of rolling out a network with sales or sales plus service or sales plus service plus spares or spares or service has actually kind of increased the number of points of presence quite

significantly, this is a low-cost investment and this is actually increasing the presence and that has been very important for us because if you notice we have almost grown in all segments, in all zones as well, I mean, but if you really look at the growth has been a pan India growth and our strategy of defending the leadership in South and challenging the leadership in the rest of the country is actually something we are pursuing.

Overall numbers, I think our revenues, very happy to say it has been a record of sorts, so we have had breached the Rs. 20,000 Crores and one of the highest volumes. I am not going to get with the numbers in the interest of time and despite the challenges that we had last year, which witnessed a steep increase in raw material prices you must remember. Steel prices went through the roof because of coking coal prices and we did not have an opportunity to raise prices in Q3 because of the demonetisation, but then we kind of set it reasonably right in Q4 with the highest increase in the industry for about 4%. Of course, the price increases started to roll out some time in February, but the basic strategy of the company is to chase, you have heard me before, it is to chase only meaningful market share. We are not going to grow the business just for the sake of growth; it has to make sense for us in terms of P&L, profitability and ROCE as well. That is the general plan and of course I think we had also shared with the investors when they had a little bit of concern in September, I remember last year when we had a special call for announcing the merger with HFL that this seemed the most appropriate decision for us given the constraints that we were in and I am happy to state that we have been able to get the Rs.325 Crores tax benefit, it was one of the fastest amalgamation to have happened and I am also happy to state with all of you that the HFL performance for the last six months has been EBITDA positive. For the full year, it has been marginally negative, but the loss for the year in HFL was far, far away from what the markets feared, they had gone by Rs.387 Crores loss, which had happened in the previous 18 months, for the last 12 months the losses have significantly come down to only about Rs.103 Crores and I think the turnaround strategies that we have adopted in Ashok Leyland and which we are deploying now in HFL hopefully will start yielding even better results as we move forward.

So I am going to leave it with this and I think Vinod has already kind of shared the overall growth that has happened. Of course, we have a challenging first quarter as the industry is facing because of the emission norm change to BS-IV that is going to be an industry event and not just for Ashok Leyland, but let us see how the year pans out, seems to be positive in the second half is what I would say. So over to you Mihir for the questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Good morning. My question is on the gross margin. Would it be right for me to assume that the merger with HFL actually is accretive to gross margin because logically if you acquire a supplier there is not too much of an accretion to the revenues, but gross profits go up and we have already seen that in your 3Q restatement. Earlier you had reported a gross margin of 29.3% and the restated number is 30.6%, so that is about 130 bps higher, so is that right that the merger would be accretive to gross margin?

Gopal Mahadevan: Right Joseph! Thank you because that helps. HFL is a positive gross margin company there is no doubt about it and that is why I said even at EBITDA level for the full year it is a small point 0.15% or 0.20% depletion that has happened for the full year. So if you were to really look at it, the gross margins of HFL are pretty decent and we expect that in the current year, I am not going to say that there is an outlook I would prefer, as I share with you folks, I share more intention than outcomes. The intention is to see that at EBITDA level HFL becomes accretive, not only in this gross margin and then in the medium term make it even profit accretive. It will also happen.

Joseph George: So when I look at the 4Q gross margin in that context, the 28.1%, I am sure that would also have some benefit of the merger and when I compare that 28.1% including some benefit of the merger to the previous six or seven quarters, where you have reported consistently north of 30% gross margin, it sounded kind of a disappointment and taking into account the fact that you have taken a 4% price increase, so could you just explain why the fourth quarter gross profit margin is so low, is it a function of discounts or market conditions or are there any one-offs?

Gopal Mahadevan: No, no, actually, let me clarify. While you mentioned it is disappointing, actually the main problem is the mix and if you look at it, our export strategy is well on time, but there are timing issues in export, so for example we were forecasting that there will be this supply of shipments for the Ivory Coast would start in Q4 of current year, but unfortunately there are some technical snags I would say, nothing more than that, and that shipment did not happen in Q4, but in Q2 of next financial year. Similarly, lower VFJ Kits supplies, so these are the couple of reasons why you have actually seen the gross margin a little depleting, but we must also remember another thing. I would need to clarify that while we did take a 4% increase that I mentioned to you that the recovery happened some time in mid February. The second thing is steel prices have been going through the roof, so it has been while, I would say our marketing team has actually been fending off any kind of additional discounting, which the market is indulging in because we sincerely do not believe in discounting and getting market share, so we have actually tried to keep the price increases intact, but some times you had to give some to critical customers, so that is why you have actually seen a slight depletion in the gross margin. There is a raw material price increase, which we cannot walk away from. As far as HFL is concerned, I would say that there is an accretion to gross margin. The size of the operations is not so significant that they will make a huge dent or huge upside to Ashok Leyland. What I wanted to, impress upon all of you is that HFL operations are not going to deplete Ashok Leyland anytime in the medium term. So we have actually brought down the level of losses, we have been EBITDA positive in the last six months; we expect that this trajectory will continue in the current year as well, there are lot of changes that are happening in HFL. So the fear that markets had when we had acquired the company, I would say that they would all be allayed as we move forward plus we have also got the Rs.325 Crores of tax benefit.

Joseph George: Thank you.

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

Pramod Kumar: Thanks a lot for the opportunity and congratulations on the dealer satisfaction ranking. My first question pertains to the industry growth outlook Vinod, as in, SIAM has forecasted a fairly mid-single-digit kind of a growth for the industry both M&HCV and LCV put together, so I just wanted to check with you as to how do you see the segmental growth between M&HCV and LCV for FY18, and how would you see in the context of your market share gain aspirations how should we expect Leyland to kind of perform in FY18? That would be my first question.

Vinod Dasari: Well, I think, as I already mentioned to you about the M&HCV growth happening about 10% to 15%, again it depends on three factors, the GDP, the infrastructure and mining. So last year, while the growth was not there, it was flat, if you look at in terms of the number of axles, I think the growth was still about 6% to 8%, and on top of it we gained market share also. This year, to answer your question about LCV participation, I think the more highways come up the more hub and spoke model will come up and that would give a boost to the LCV business. World over, LCVs are typically between 75% to 80% of the total commercial vehicle segment. In India, it used to be at that level and it had fallen, but now we see an uptake in that and I think not only because of the overall economic growth, but also because of the growth of this percentage LCV should come back stronger this coming year.

Pramod Kumar: And the second question pertains to Hinduja Leyland Finance. It will be great if you can just share some key highlights of that particular business in terms of where the loan book stands, what has been the growth, any colour on profitability and where does our shareholding stand at the end of the year because that is going to be a fairly big piece of the value as the industry grows and I believe it is still ramping up in terms of the financing contribution to Leyland's portfolio right?

Gopal Mahadevan: That was four questions in one, but I will answer them. At the loan book, I am very happy to say Hinduja Leyland Finance, I must compliment the team are doing a wonderful job, their loan book has grown by 40% and their book stands at about Rs. 14,000 Crores, it is no longer a small company. The second one is their revenues approximately are about Rs. 1,550 Crores and they have got a PAT of about Rs.150 Crores. so they are doing very well. They have a growth target for this year as well and just to kind of share with you the level of governance that we have in a company like HLFL it is actually truly professionally managed in the sense that they do not go more than 50% as far as Ashok Leyland truck financing is concerned and the rest of the portfolio is widely diversified including three wheeler loans, auto loans, loans against property and portfolio buyouts, etc. So it is a truly derisked kind of a portfolio that they have and within Ashok Leyland we also ensure that we do not have the HLFL financing more than 15% of our sales, so that we keep that distance away and grow HLFL the way it is supposed to be grown, which is a finance company. Very clearly, we have about 57% investment in the HLFL and I think that is valued approximately at about Rs.700 Crores or so. Of course, the valuation of that company is significantly higher. So, what we have done Pramod, just to kind of share with you is on one side we are actually impairing a lot of assets, which are not showing realistic cash, in our perception is not showing the cash generation values, but on the other side we do have investment in Hinduja Leyland Finance, which has actually reflected at cash generated value and of course they have also forayed into housing as a subsidiary, which is a subsidiary of HLFL itself and that is

low cost housing, which is again completely derisked within the community and it is actually becoming very synergistic with the truck portfolio itself and the profitability is very high, I mean, the profitability promises to be pretty good and the housing book itself I am happy to say in the first year is somewhere close to about Rs.700 Crores, the disbursements, so that company is doing very well and it is one of the most profitable companies in the finance sector today.

Pramod Kumar:

Thanks a lot and best of luck gentlemen. Thank you.

Moderator:

Thank you. We will take the next question from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam:

Hi, congrats on a strong quarter and year. My first question was on market share. Tata Motors has recently chalked out a very aggressive plan to regain market share, targeting almost 500 bps regain. For us are there any low hanging fruits in terms of untapped geographies or products that are still there, which makes us confident of gaining market share given the aggressive plans that the competitors have?

Vinod Dasari:

Ashish, there are no low hanging fruits ever in the truck industry, so I do not want to make it sound like it was very easy to get to this level. In our business, nobody buys our vehicle because the way it looks, it is very simple. I need to make a vehicle that is better than my competitor and I need to have a network that backs them up. So only when my customer's wheels are rotating he is making money. So our business is simple, it is not complex and we need to execute these two things well. So as far as the products are concerned, as you know, we just launched the iEGR, which is the only company in the world, which EGR-based BS-IV, and showing very good results, they are very easy to maintain, very little electronics and so on. So we are very bullish about that. As far as the network is concerned, back in 2011-2012 we had 500 touch points; at the end of 2016-2017 we had 2,700 touch points. We are the only ones who have offered four hours service and response in 48 hours uptime across the country for any vehicle or we pay a penalty and that is the confidence we have on our products and our service. These are the things that help us get the market share. We focus very, very acutely on our brand tagline, which is to say Aapki Jeet Hamari Jeet. We want to make sure that our customers win, and only if our customers win we will win. They will reward us with business because it helps them improve their business. So I do not know what Tata Motors is doing or whoever else is doing. We will focus on making sure our customers are profitable and hopefully that will translate into better business for us.

Ashish Nigam:

So just on a related note, this price increase that we would have taken post the BS-IV implementation, is it lower than the industry because of EGR versus SCR for the other players?

Vinod Dasari:

No, not necessarily. I mean, price increase is not an average thing we do it by market, by region, by segment, by sub-segment, by application and several times by customer, so it is not one price that fits all. Prices are higher. What we focus on is overall average net realization by model and by region. Every regional manager is measured on profitability as one of his key metrics, not just on market share. He is also measured on the dealer profitability. So they will try to maximize the prices in the field.

- Ashish Nigam:** Second question was on electric buses. So let us assume this government's aggressive 2030 plan goes through, what will be the capex that you will have to do and also since it is some strange battery swapping plan will your realization of profitability per week will be compromised?
- Vinod Dasari:** No, I think in an electric vehicle the batteries and the motor are the predominant cost and we have three different strategies as I had mentioned in the meeting yesterday that one is that the European style of electric vehicles, which is what will be, based on our Optare products. Second is our own Circuit series of vehicles that we have in India, and third is this battery swapping. The vehicle will still give us the margins that we want; we are only replacing the powertrain. So if the margins will remain about this, may come down because the value of the vehicle will go up substantially, but if the value of the vehicle goes up our gross profits go up because we will still have to make the whole vehicle anyway.
- Ashish Nigam:** Just lastly on LCVs, can you talk about the level of profitability and what is the margin ramp up plan for LCVs?
- Vinod Dasari:** Well, it is making very good gross margins similar to M&HCV and it is growing up one new model every quarter, so we are very bullish about that.
- Ashish Nigam:** Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. Sir, on this LCV business on JV, any thoughts of merging it into Ashok Leyland at some point of time because it avoids the complexity of two ways of accounting, distribution profits and something like that any thoughts over there?
- Gopal Mahadevan:** No, nothing immediate at the moment. We will have to figure out because it is not just about merger we will have to look at, the much larger operations and how we want to do it, so if we do it we will let you know, but nothing at the moment.
- Chirag Shah:** But, the arrangement with Nissan, in the sense the technology arrangement that we have with Nissan, does not restrict us from this kind of a strategy, right?
- Gopal Mahadevan:** No, no we are completely free. Yes, it is a technology license that we have.
- Chirag Shah:** This is helpful Sir! Second question was on the defence side, you indicated 19 orders you have, can you indicate the approximate size of those orders over a period of time, you know when it materializes it is difficult to take a call, but how big are these orders for you and slightly details on what type of products they are, which you were not earlier supplying?
- Vinod Dasari:** None of these products are something that we were earlier supplying. What we have is a continued order of the 4x4 logistics vehicle, but there are several variants of it. For example, there is a mine protected vehicle, there is an armor protected vehicle, which is bulletproof, then there is a 6x6 mine protected vehicle, 8x8, which is a gun tower, 8x8, which is a gun carrier,

10x10 bridge launchers, 12x12 missile carriers, none of this is in hundreds of Crores as of now, but they will become sometime in future. The way the army works is that they will give you an order for one vehicle, two vehicles, 40 vehicles, in some cases it is 100 vehicles and so on, but once you are in after the trials and everything and you become in service then your business stays for a long period of time.

Chirag Shah: So we have also one order, the trial orders for this 10x10 type of vehicles also, that is what you are indicating, right?

Vinod Dasari: Yes, correct.

Chirag Shah: And Sir just a clarification on the tax rate. So this Rs.325 Crores tax saving is accounted in this year itself or it is going to get spread over two years, how it is, Gopal, if you can, the Hinduja Foundry tax benefit that you are highlighting earlier?

Gopal Mahadevan: It has actually come in, in the fourth quarter if you noticed the provision for tax is negative.

Chirag Shah: So all the benefits have come or there is some spillover left for next year?

Gopal Mahadevan: No, there is no spillover. What we have done is we have accounted for the tax benefit because there are accumulated losses and made provision for the tax.

Chirag Shah: So there are no accumulated losses left fair point. This was very helpful and all the best Sir!

Moderator: Thank you. The next question is from the line of Pramod Amte from CIMB. Please go ahead.

Pramod Amte: Congrats on good set of numbers in spite of tough times. One, with two months being on with BS-IV, how many of your 10,000 vehicles you have been able to convert to BS-IV and what timeline we should look for these conversions to happen?

Vinod Dasari: I think, I do not have the exact tally on it, but roughly 2,000 is what we have already converted and it will take about I think four to five months maximum. We are also making current production and some vehicles we are exporting also, about 1,000, to 2,000 vehicles will get exported also.

Pramod Amte: And second with regard to the price list being out for your, and the competition BS-IV vehicles. On a like-to-like tonnage and horsepower, it looks like the printed prices of EGR are higher than the competitor SCR. So does it all boil down to now the type of discounts you will offer versus the peers, any comments on the same?

Vinod Dasari: Can you repeat that question please?

Pramod Amte: With the price list for BS-IV vehicles being out for all the makers, the EGR prices looks to be higher than in some of the cases the SCR prices on the listed price list, so is it all going to be

again a discounting war, which will determine who will win the orders or how do you comment or your observation for the same?

Vinod Dasari: As the old saying goes, the pricing is a policy, cost is a fact, so we will price, if our product is good, our network is strong we will price it higher. If somebody else wants to discount it to try and win the business let them try, but in the end while everybody makes a big deal about these discounts, two things I should say, one is that our operating price or net sales realization is continuing to grow. The second thing is that in an operator's overall cost the EMI is less than 10% or 12%, so our focus is be competitive on that portion. Do not have to be way out or way better on that, but focus more on fuel and maintenance and tyres and those kind of things, which add up to nearly 80% of its cost.

Pramod Amte: Thanks and all the best.

Moderator: Thank you. Next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: Congrats Sir for decent set of numbers. Only one question Sir. As we have been highlighting about the defence and exports mix to improve to reduce cyclicity in your business, but largely Sir if one sees in FY12 your exports used to be 13,000 odd and even today it is some 13,000, going nowhere per se in the longer run, so how to visualize that down the line and what specific orders should give us the confidence that you are going to move up significantly from these levels?

Vinod Dasari: A very good question I think historically we depended only on project orders, one large lump of order from somewhere and we were not doing retail sales. In fact, on retail sales we were only selling one vehicle called the Falcon and that too predominantly in Middle East market. Now, two or three things have happened. First and foremost, we started investing in local plants, which has made us look more local, so our penetration is going up. Middle East, one market Saudi has collapsed from about 200 vehicles a month it has come down to 200 vehicles a year, but nevertheless the other markets are starting to improve. Now, the third thing that we have done is added substantial new number of products, which are truly world class. Oyster for example is a school bus. Typically, Indian products are priced at least 30% to 40% lower than the Japanese products. Oyster is priced at par with the Japanese products because it has truly got world-class quality. Similarly, for Boss, similarly for Partner, so we have got a range of products that are coming. We are investing in network, same things that we have done in India, create world-class products and add to the network. I mean, yes, our export strategy was very slow and delayed because we were always wrestling with the internal stuff here, restructuring our internal growth opportunities in India. Now, we have built a plant in Bangladesh, we are doubling our capacity in RAK plant, we are building a plant in Kenya, in Ivory Coast. After 35 years of partnership with our dealer in Dubai we just inaugurated a huge dealership and four new outlets. It would not have an overnight impact, but I can certainly see upward trend very quickly.

- Basudeb Banerjee:** That is great Sir! One question, which might be repetitive. Gross margins like or into sales have moved up like multi-quarter high levels, so as you said that steel prices have been going through the roof so do you see the impact of raw mat inflation to be at its high this quarter or there can be some further pressure down the line?
- Gopal Mahadevan:** Raw material prices are; we actually go by commodity prices to see what they are. Last year, part of the reason the prices went up was because suddenly the government imposed this minimum import price, MIP for steel. I do not expect raw material prices to go up because globally they are not that strong, but sometimes the commodity fluctuation can happen. Last year, suddenly I think the coking coal price had gone up through the roof and that caused the steel price to go up. It is now softening a bit. The China market is softening a bit. So, if China starts to consume lesser I am sure this will have a better impact on Ashok Leyland.
- Basudeb Banerjee:** But at status quo present levels of...
- Moderator:** The line for the current participant seems to have dropped out. We will move on to the next participant that is from the line of Kapil Agarwal from Max Life Insurance. Please go ahead.
- Kapil Agarwal:** Good morning Sir! First of all, congratulations. Sir, if you talk something on the EGR technology adoption by the competition when is that likely to happen and is Ashok Leyland likely to have a freeze until then and also if you could comment on the availability of AdBlue in the system?
- Moderator:** Sorry to interrupt Sir! Mr. Agarwal can you speak a bit louder we are not able to hear you.
- Kapil Agarwal:** Sir, my question is on the EGR technology adoption by the competition, when is that likely to happen and is Ashok Leyland likely to have kind of a freeze until then and second is the availability of AdBlue in the system?
- Vinod Dasari:** I do not know what the competition is going to do. We are the only ones in the world who have an EGR that goes up to 400 horsepower. Some others are trying to get it to about 180 horsepower, I do not know how successful they will be, some are not even trying, and they are trying to only leverage their European technology, which may or may not work in India. Ashok Leyland is the only company in the world that made BS-III with a mechanical fuel pump and people call it juggad. I call it purely Indian innovation. I think people who are afraid of Indian innovation call it juggad instead of belittling India's innovation, I think we should celebrate it and I am very proud of the fact that we came up with this technology and I do not know how long I will have, what you say as a free run, but it will certainly give us a leg up and this combined with our network that we have developed hopefully it will give us a boost.
- Kapil Agarwal:** And Sir second question on defence.
- Moderator:** Sorry to interrupt Sir! Sir may we request that you return to the question queue there are participants waiting for their turn.
- Kapil Agarwal:** Sure thanks.

- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi:** Sir, couple of questions from my side. One is, can you indicate the performance improvement or mileage improvement on your iEGR product versus competitor's EGR and SCR? That was one. Second is you indicated we have a limited play on mining, what initiatives are we taking there to improve our positioning in the mining segment and third is can you indicate about how Sunshine is doing now and the ongoing season for school buses?
- Vinod Dasari:** That is three questions, but I will try. iEGR, as of now, we do not have comparisons with the competition because nobody sold vehicles, but we tested it on similar routes with our own BS-III vehicles and we got up to 10% improvement in fuel efficiency because of iEGR.
- Jinesh Gandhi:** Versus SCR sir?
- Vinod Dasari:** Versus our BS-III.
- Jinesh Gandhi:** And versus SCR, would it be similar?
- Vinod Dasari:** No, we are yet to see, but I am fairly confident it should perform well. By the way, do not forget we also have SCR technology. We were the first to launch SCR in India. We also own one of the world's four companies that make SCR. So if I have to go to SCR I will, but I know that EGR is better both from fuel efficiency and maintenance standpoint, so I will continue to stick to that. Second when I said mining is a marginal play I only meant that if it is shallow mining like cement and limestone and all of that we are certainly in the play. If it gets into deep open pit mining like coal and all that, which is for very high horsepower vehicles we are not in that, but if you draw pyramid of mining we are in maybe 70%, 75% of the mining, but not in the top 25%. Lastly on Sunshine, it is doing exceptionally well we have for the first time I think as far as I can remember Ashok Leyland vehicle has got a wait list.
- Jinesh Gandhi:** That is really commendable. Thank you Sir!
- Moderator:** Thank you. The next question is from the line of Ameen Pirani from Deutsche Bank. Please go ahead.
- Ameen Pirani:** Thanks for the opportunity. My first question is on, now you have launched EGR, which is an innovation that you have come up for BS-IV, but as we look into BS-VI, which is broadly two-and-a-half years down the line, what are your thoughts I mean, are there possibilities of taking this to BS-VI as well or for BS-VI you will have to go the way the world does, which is SCR, any initial thought would be helpful because it is just two, two-and-a-half years down the line?
- Vinod Dasari:** We showcased the first Euro 6 vehicle at the previous auto expo. We are exporting our engines now to United States, which got a Tier 4 final, which is higher than Euro 6. So we have the capability. We will work on multiple options. We will not simply do what Europeans are doing. So I cannot tell you our exact strategy of whether we will go. As of now our technology has

SCR, but I would not say whether we will or we will not have it at BS-VI. We will continue to innovate.

Gopal Mahadevan: Just to add here, I think, what MD said, the BS-VI solutions that have been given by the aftertreatment solution that has been given by Albonair, actually we are supplying to one of the leading automobile manufacturer in the world. Last year the total supplies that Albonair had done is about 127,000 units. So we know how to do this and we have been supplying SCR technology to buses since 2010 in India.

Ameen Pirani: So, my question was more about for BS-IV you have taken a very different route for India and we hope that this is successful. My thoughts are more on, you have a SCR, but for BS-VI, which is just two years down the line, instead of the BS-III to BS-IV, which took seven, eight years to come in, BS-IV to BS-VI is like two, two-and-a-half-year journey only...

Vinod Dasari: We already know the technology. So there is a base technology, which everybody else in the world uses we also know that technology, we have already made vehicles with that, do better than that. Try and apply Indian innovation and see how we can do better.

Ameen Pirani: And just second question was more of an accounting thing. We have taken two impairments for subsidiaries in the standalone accounts. I am guessing that is related to the LCV joint ventures and I think Optare, but there is a gain on some business combination in the consolidated accounts, so maybe if you can just help us understand what are these two different things?

Gopal Mahadevan: No, I will put it this way. Instead of giving the consolidated, let me tell you what we have done in the standalone so that people understand. We have actually impaired about Rs.526 Crores for the entire loans. We have already impaired last year Rs.150 Crores of Optare. What we have done is we have impaired Rs.526 Crores of the balance loan and guarantee that we have given. So kind of Optare has been completely impaired. If we make some marginal investment in equity further in Optare, of course that will also get impaired, but that is not going to be really huge. Second one that we have done is, last year we took 25% impairment in Albonair. We have done another 25% this year. The reason is not because we do not believe in the technology, we believe that Albonair offers a fantastic pipeline to us, but there were certain accounting reasons why we said, we will do it. This has been, I would say, partially set off with Rs.296 Crores impairment that we had taken in the LCV joint venture last year, which was again a technical accounting reason in the previous year, but in the interest of good governance we had in the last year actually taken a Rs.296 Crores impairment, which has been reinstated in the current year. So the net impairment that has actually come into the current quarter is about Rs.350 Crores. So we must remember that the results that we have posted as PAT have been after taking into account this impairment of Rs.350 Crores.

Ameen Pirani: Fair enough. Understood. Thanks for the opportunity.

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

Kapil Singh: Sir, you have talked about a pretty strong growth for the industry 10% to 15%. We have started on a slow note. So just wanted to understand, you expect this to be more back ended and because this would imply, 10% to 15% growth implies somewhere between 15% to 20% growth for remaining months of the year.

Vinod Dasari: I am looking at the lead indicators for our business. Like I said there are three, GDP, everybody is saying that post GST hopefully the GDP will do well. It is already strong and hopefully it will go up even more, people are quoting as much as 1% to 2%. Second is infrastructure. There is tremendous infrastructure happening and the government is actually investing more and more. All of you know that. And some of this infrastructure requires limestone and cement and all of that, which requires quarry. Steel industry is growing, which requires iron ore and all of this type of mining requires Ashok Leyland vehicles. So, I am bullish about the M&HCV demand coming this year. Let's see what happens in the end. I mean, last year also we would have had a gain if it was not for the sudden drop in the last three, four days.

Kapil Singh: And Sir we have had pretty strong growth in certain segments, spares and also overall revenue has seen some growth, but EBITDA has not grown this year because for the reasons mentioned that profitability came under pressure from material costs, etc., but when we look at next year do you think profitability will be under pressure or you think it will stay around the same levels, we do not want a number kind of guidance, but just some thoughts?

Vinod Dasari: I think profitability should be at least hopefully at the same level. We will try to do better. I cannot give too much guidance on that.

Kapil Singh: And lastly some thoughts on exports and LCV, any targets you would like to share there for near-term, next couple of years?

Vinod Dasari: Over three to five years, I have said we will be at 2:1 ratio is what we are pushing our exports team. We have chosen the markets where we do want to compete. So 2:1 means for every two vehicles we sell in India, we want to sell one outside India. We also target another thing that every region or every segment that we compete regardless of whether it is in India or anywhere else in the world, we should target a minimum market share of 30%. So, the markets where we have chosen to compete because we have also said some markets we will not compete there whether it is US or Europe or China or so on and in the markets where we have chosen to compete, is about 500,000 to 600,000 volume. So if my team achieves 30% of that, that will be 200,000, so that is huge growth from where we are about 10,000 to 12,000. So I am very bullish on this because not only it is required for growth, it is required for the company that we are trying to set up, which is not subject to cyclicity. The cyclicity in our business comes from two words, domestic and trucks. So as I mentioned earlier, we are trying to develop other non-truck businesses to grow faster than trucks. Equally, we are trying to grow our export, so that it is not focused only on the domestic.

Kapil Singh: Thank you and all the best.

- Moderator:** Thank you. We will take the next question from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Good morning everyone. Thanks for taking my question. Gopal just wanted to, if you could give the breakup for trucks, buses, exports as a percentage of revenue for this quarter and...
- Gopal Mahadevan:** You want the volumes or the revenues?
- Sonal Gupta:** Revenue percentage.
- Gopal Mahadevan:** Can I do one thing in the interest of time, can I ask Balaji to just share the numbers with you offline, is that okay?
- Sonal Gupta:** Sure and can I get full year, what share of revenues coming from defence and spares?
- K.M. Balaji:** I will share the numbers, Sonal.
- Gopal Mahadevan:** No worries at all.
- Sonal Gupta:** And just on that tipper side could you tell us how much was the full year what is the market size for tippers and what sort of growth I think you mentioned 30%, right?
- Gopal Mahadevan:** Yes. You are right.
- Sonal Gupta:** And what would be the total industry volumes?
- K.M. Balaji:** Remember, you can check it on SIAM website. I do not have it off hand, I think the industry volumes of tipper was 51,000.
- Sonal Gupta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** Thank you for taking my questions. Vinod, I just wanted to get more sense on the export business I mean your targets are quite aggressive. Just wanted to understand that what is your penetration level in the market that you are present, what I meant is, in terms of product reach, which all segments and what portion of the market are you addressing with your products?
- Vinod Dasari:** If I just take an example of the Middle East market, about 50% of the market is roughly the LCV segment, which is Partner like market, then there is the power segment, which is 8-tonne and 12-tonne, and at the very top end is the Captain, with high horsepower. On the bus side, we are the market leaders on the 12-meter bus, labour transport and then the next big market is the school bus segment and the third market, large market is the LCV bus segment. The LCV bus segment is a new product that will come in six months' time or eight months' time, but the school bus

segment is very large. For example, Dubai has the world's largest school bus customers and majority of them are Ashok Leyland vehicles. So, we have now launched the Oyster, and it is doing very well. So, we are only focused on four or five products. We said we will not do a whole plethora of products, we will do four or five products, but we will make them at world-class levels, compete head-to-head with Japanese, head-to-head with Europeans and proof of that is that I will not price it at cost plus or an India plus pricing, I will price it at them minus, so I will take their pricing and maybe knock off \$1,000 or something like that, so versus take our vehicle and mark up a little bit. So our four main categories are the Falcon, the Oyster school bus, the Boss intermediate commercial vehicle, the Partner vehicle and then another Partner for LCV truck and then another LCV bus that we will be launching soon.

Hitesh Goel: Just a followup on that. So, basically, it is very encouraging that you are competing directly with Japanese manufacturers, so does that mean that as the share of the new products keep on going up in exports, export profitability will go up massively, right?

Vinod Dasari: Yes, sure. Exports are profitable.

Hitesh Goel: Yes, I know that is profitable. What I am saying is traditional exports versus a new product that you are launching the new product's margins would be very high, right, as compared to the traditional products and exports?

Vinod Dasari: Correct.

Hitesh Goel: So, how should we look at that, so, what is, in say five years' time what are these new products in your view could be part of your exports?

Gopal Mahadevan: The new products will be predominantly larger portion of the exports.

Hitesh Goel: Your traditional exports will keep on coming down or be flattish and new products will gain share, what I meant is basically your current export business versus the new product that you are launching, how should we look at the profitability of exports in four to five years' time?

Gopal Mahadevan: Profitability of exports will continue to grow. If I may just add very quickly, I think what you are asking is, is there going to be a depletion in profitability because of new products?

Hitesh Goel: No, Gopal, I was saying that new products, because your pricing is significantly higher will be significantly profitable, so as the proportion of that number goes up in exports your profitability will improve massively in exports, so can you give us some sense saying five years, right now, say it is 5%, 10% of exports.

Gopal Mahadevan: Instead of actually saying we know – how we look at it is, we have portfolios right. So what we would want to do is, is to do two things. like Vinod mentioned, one is to look at domestic truck and if you split it, we want to ensure that we have to devolatilize the company from the domestic truck volume. That does not mean that we are not going to grow the domestic truck business. We would of course be pursuing our growth strategy in domestic truck business very fervently, but

what we would also want to do is to see how we are going to devolotize that. The second thing is, as far as truck is concerned, the second part of it, we want to see how to grow all the other businesses including bus, LCV, defence, aftermarket and power solutions also. So when we are going to do that, each of these products has got a different portfolio in terms of geography and product scope. So export truck, export buses would certainly be more profitable because the market that we are addressing is Middle East, Africa and other parts of SAARC, as well as, as we move forward we will go into Southeast Asia. So that will happen from our existing portfolio products as well as new products. So, we are going to build products and systems according to the market that is required. For example, in Sri Lanka there is no BS or equivalent emission standard at the moment. In Africa, some of the countries are in equivalent of BS-I or BS-II. So there could be more, if you go to the Far East there could be BS-IV and BS-V, and currently we are supplying BS-V vehicles in Ukraine and Russia.

- Hitesh Goel:** So, it depends on the mix of the market as well, how the profit will move?
- Gopal Mahadevan:** What I can tell you is that the strategy is to devolotize from domestic truck, but not to let it go, but pursue domestic truck growth aggressively and profitably and at the same time kind of rejig the whole product portfolio, so the concentration risk comes down.
- Hitesh Goel:** And last question if I can...
- Moderator:** Sorry to interrupt Mr. Goel. There are participants who are waiting for their turn, may I request you to return to the question queue.
- Hitesh Goel:** Okay fine thank you.
- Moderator:** Thank you. We will take the next question from the line of Kapil Agarwal from Max Life Insurance. Please go ahead.
- Kapil Agarwal:** My followup question is on defence. Government recently kind of approved the strategic partnership model, where armored vehicle is also part of it. So if you could comment on that, whom do we partner with or how do we work on that?
- Vinod Dasari:** We are already having the capability of making armored vehicles.
- Kapil Agarwal:** No, Sir, what I mean is that has become a separate platform under strategic partnership. So then probably all the armored vehicle sourcing will happen from that platform only.
- Vinod Dasari:** So, we will participate in that. I mean, we are tracking that closely, we do not see any change happening because of that, but still whatever has come out is still in tenders.
- Kapil Agarwal:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Mihir Jhaveri for his closing comments.



Ashok Leyland Limited

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Mihir Jhaveri: Yes, I would like to thank the management once again on behalf of Emkay Global for giving us the opportunity. Thank you Sir!

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global that concludes today's conference. Thank you for joining us. You may now disconnect your lines.