TRANSCRIPTION REPORT

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Company Ashok Leyland
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Operator: Thank you for standing by and welcome to the earnings call for Ashok Leyland hosted by Nomura Financial Advisory and Securities. At this time, all the participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. I would like to hand the conference over to Mr. Kapil Singh, Nomura auto analyst, over to you sir.

Mr. Kapil Singh: Good morning everyone and welcome to the call on behalf of Nomura Securities. We have with us Mr. K. Sridharan, CFO of Ashok Leyland. Sir, I would like to congratulate you on the good set of numbers. I request you to give a brief overview of Q4 performance which will be followed by Q&A. Over to you, sir.

Mr. K. Sridharan: Thank you Kapil and good morning to all of you. Let me quickly run through the Q4 performance. I would compare it partly with the previous year Q4 as well as the Q3 of the current financial year, and it will be again in two parts focusing first on the volumes the business side of it and then on the financials.

As you would have seen our numbers, the growth has been significant in the fourth quarter compared to the previous year fourth quarter, both for the industry as well as for Ashok Leyland, and the growth has been more pronounced I would say in the heavy duty segment, the multi axle vehicles and tractor trailers, where the growth has been more than 40 to 50% quarter over quarter as well as compared to the previous year it is even much more significant, and more particularly for Ashok Leyland this has helped us in improving our market share considerably, which is one of the reasons why the run rate for Ashok Leyland in terms of its market share which shows around 21 to 22% in the third quarter, I am not going to the first and second quarter because of the reasons of change in our credit policy of cash and carry which did affect the off take by the dealers in the first quarter and second quarter, I am not taking that as a base. This will run through from the third quarter onwards where the run rate has been round 22 to 23%. We have clocked anywhere between 26 to 28% in the last three months. The current run rate I would say is around 27 to 28%. The highlights of this volume growth again if you look deeper into it, I must say that apart from the heavy duty range where we have improved our market share, thanks to the significant growth in the total industry volume, we have been affected by two major factors. One the south where our market share is much above 50%, continued to lag behind compared to the previous year on a full year basis where the growth has been only around 15 to 18% on a full year basis over the previous year, but the good news is that south has been now recovering or shall I say is now picking up. Over the previous third quarter, the south total industry volume has registered almost a 50% jump and in the second half if you compare it over the first half of the current financial year, south is now gaining momentum. So, there is a hope that the south will now dominate and get the due share in the total industry volume and along with that Leyland also should benefit in that process.

The second aspect that did affect our market share, otherwise it would have been much better, has been the growth which is more pronounced on the ICV segment, which is below 16 tonner vehicle between 9 to 16 tonner vehicle, where our presence and our market share is only around 10% or so. The ICV segment registered more than 50% growth over the previous year on a year-to-year basis. So, net result, these two aspects, the southern region and in terms of the product segment the ICV segment did affect our overall market share growth and I am hoping that with the type of improvement that we have come up with our E-comet range, we are now announcing smart and stronger E-comet range, we should be able to gain some market share in the ICV segment, and as I said the southern pockets where the southern region is showing a growth in the coming months we should be gaining our market share thanks to the higher weightage of the southern region in the total industry volume.

To talk a little bit about the outlook for the next financial year, I would expect that the overall industrial growth coupled with the outlay on the road building activity which we have seen in this year's budget, and more importantly which we also saw quite a lot of an outlay happening in the fourth quarter of the last financial year, I would expect that the total industrial volume should register a growth. But this growth may not be as well a performance of 33% growth for the last year. In our assessment, it could be anywhere between 15 to 20% growth and the growth would be more pronounced in the truck segment than in the bus segment. Bus segment had the benefit of the JNNURM in the last year. This year we have not heard anything about JNNURM so far. We do expect that some rethinking and consideration would be there, but I would like to believe that the bus segment may not grow the extent that it grew in the last financial year. We may see more growth happening in the trucks and more particularly inside the truck the multi axle vehicle and the tractor segment. From this I move on to the financials part of it where the fourth quarter margins have been significantly better than the previous year fourth quarter and also better than the third quarter of the current financial year. Primarily this has been due to three reasons. Number one, the material cost reduction that we achieved during the first half of this current financial year, over 50,000 rupees, many of you would recall that, that has enabled us to significantly reduce the material consumption, but in the fourth quarter we need to concede an increase in our prices for the commodity based cost increases that happened for steel, rubber, aluminum, nickel, and so on, and all that went about 1.5 to 2% increase in the material cost in the fourth quarter. Net result on a full year basis over the fourth quarter of the current financial year versus the previous financial year, the material cost registered at least a reduction, but importantly the reduction is likely to be sustained because of the significant reduction we achieved in the first half of the current financial year, but over the previous quarter there has been an increase in metal cost and this again would continue in our assessment. Going forward, we hope that the cost increases in steel should be behind us, whatever has happened has already happened and we do expect that with the restrictions imposed on the export of the iron ore in the recent announcement we do hope that the commodity prices should have some softening going forward. But the material cost reduction has been a major contributing factor for our improvement in margin in this financial year and more particularly for the fourth quarter. The second area where we gained our margin improvement is due to the pricing action that we took during the 12 months period, almost four pricing actions that were coming closer to about to 5% or 50,000 rupees per vehicle, and that enabled us to improve our margins. The last factor but not the least is the cost reductions in our operating cost side where you will find that the other expenditure has not increased in tandem with the volume increase. There has been a less than proportionate increase in the other expenditure part both cost as well as in the other operating cost part of it. The cost reduction measures continue to benefit and we were in a position to improve the margins because of these reasons.

I need to highlight only two major aspects rather two significant aspects we noted in the financials. One, of course it is published in the statement itself in the stock exchange format where we have mentioned that there is a change in the depreciation policy which meant that the charge for the full year got reduced by Rs. 20 crores. We decided to fall in line with the accounting standards which say that the depreciation needs to be calculated on a pro rata basis rather than the practice that we have been following earlier that whenever an asset is added whether it is in the first half or in the second half, if it is added in the second half, we charge depreciation for half year, even if it is on 31st of March, and if we add it in the first half any time, for the full year depreciation is charged. So, that practice is not in line with the accounting standards. So, we realized that as we increase our capex and increase our outlay like in our Pantnagar Plant, this issue is becoming more of significant deviation to the accounting policy. So, we decided to correct that part and because of that this has happened. Luckily, the Pantnagar Plant depreciation was only for one month because the plant got commissioned only on 5th of March. The second part of it is a slump sale that we did for one of our units called the Defence Technology Unit which is more a software service provider for engineering design services, that outfit is a division of Ashok Leyland, a small division of Ashok Leyland, and that has been carved out and merged with one of our group company called Defence Technologies Limited which has been recently started and that merger meant a sale of an undertaking on a slump sale basis for 6.8 crores which gave us a profit of about 3 crores. I mean in terms of the significance, it is not very material, but I must say that these two or should I say not normal levels of profits that we need to take note of. Apart from these two, the increase in depreciation has been primarily because of the capital additions that took place in the second half including the Pantnagar Plant capitalization. And in terms of the interest cost, the reduction has been primarily because (a) we had a higher level of interest capitalization. We capitalized interest till February of 2010 for the Pantnagar Plant. It went to 36 crores as against about 16 crores of interest capitalization in the previous year, which meant an increase of 20 crores of interest capitalization for the full year. And more importantly, the working capital reduction, thanks to the change in the credit policy that we followed, enabled us to have a significant reduction in the working capital levels. On an average I would say for the fourth quarter alone we had a lower utilization by about 300 crores, but on a full year basis, I must say that the working capital got reduced by almost 800 crores compared to the previous year. Last year of course we suffered quite a lot of heavy inventory carrying because of the slump in the market condition that was prevailing at that time. So, these are the main reasons for the interest costs being significantly slower compared to the previous year on a full year basis and the reasons for the higher depreciation primarily because of the capitalization in the second half. We also had sale of our shares which we were holding in IndusInd Bank that took place of course in the first quarter of the last financial year. Compared to that, over the previous year we had similar sale that was for about 22 crores. This sale that happened in the first quarter was about 52 crores. So, incrementally we had a 30 crores profit coming out of this sale. So this 30 crores of an incremental profit on sale of shares offset by the depreciation charge and also the marginal income coming out of the slump sale of our engineering services are the somewhat not normal levels of profit in the total situation. The tax position has been finally linear. There has been not much of abnormality in that, except that we need to recognize that some of these additions and etc., would have a different treatment in the tax particularly the deferred tax, and consequently you will not see a significant reduction in the tax liability in the books, but in terms of the actual tax liability, the current tax levels are nil and we have provided only for the deferred tax in our current year P&L.

Going forward, I would expect that you know we should continue to target maintaining our margins above 10%. We will have the benefit of the Uttarakhand plant coming into full stream next year. We are targeting to produce about 20,000 plus vehicles in Uttarakhand, and that coupled with the fact that you know we start the year with better margin levels and increase in volumes likely in high profit margin segments like the MAV and tractor trailer pockets, we expect that we should be in a position to target for an improvement over the 10% margin that we have achieved in the current financial year. I now open the floor for questions.

Operator: Certainly sir. At this time, participants who wish to ask any questions, kindly press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash or the pound key. First in line, we have a question from Mr. Pramod Kumar from B&K Securities. You may go ahead please.

Mr. Pramod Kumar: Yes, good morning sir and thanks a lot for taking my question. Sir, my first question pertains to your ramp up in the Pantnagar capacity because you told you plan to do 20,000 units in FY11. Sir, if you can just break it up because I believe it will happen in a phased manner. So, if you can just help us to give a quarterly breakup as to what is the kind of volume rollout you are looking at from Pantnagar during the year?

Mr. K. Sridharan: Quarterly breakup would be a bit difficult from my point of view, but I would say that almost 65% of it would happen in the second half. The ramp up would take that much time to come to that level and I can say that by the time we reach the last quarter, last month, we would have almost come up to the level of producing something like 3500 vehicles per month which will mean that by next year I can target to go up to 35,000 to 40,000 vehicles for the full year.

Mr. Pramod Kumar: Okay, sir. So the next question is related to our pricing action. I believe like other players we have also taken a pricing action in the last month, is that right?

Mr. K. Sridharan: In this month, you know, on 15th of April we took a pricing action of about 1.5%.

Mr. Pramod Kumar: And sir, this leads to the second question in terms of last year has been an amazing year for the industry in terms of the kind of pricing power or the kind of pricing which affected all the players despite commodities being not so strong and the market was able to absorb it because of the demand recovery. But how would you see that going forward, as in 5% is what the price increases were there last year. Can you expect a similar kind of a pricing power getting it to the year ahead, especially given the fact that diesel prices have gone up, the excise rates have gone up which is further adding to the cost of the operator, and on top of that the interest rates are also hardening. So, do you expect the pricing per scenario to remain so buoyant for the industry?

Mr. K. Sridharan: I must say that if the commodity prices were to go up over the current datum line, definitely the market players will be forced to take further pricing action. And to supplement this outlook, I would say that the freight rates instantly, I forgot to mention that, the freight rates have started moving up. Barring for the freight rates originating from north, rest of the country the freight rates have significantly gone up by about 8 to10% in the last three months and certainly this aspect will have to be accepted by the system, the transportation system, and if that were to be the case, if the commodity prices were to go up, we will definitely increase. I fully also agree on the same token that it will be a challenge to see how to pass on this cost given the fact that almost all the manufacturers would have surplus capacity and there will be lot of pressures in trying to push the vehicles as much as possible.

Operator: Thank you sir. I would request the participants to restrict to one question at a time. Next in line, we have a question from Mr. Pratik Mehta from Bajaj Alliance. You may go ahead please.

Mr. Pratik Mehta: Thank you, congratulations Mr. Sridharan for a good performance this quarter. My question is related to margins. Basically, we would be producing close to 20,000 vehicles in next financial year. So, overall blended basis our capacity utilization at a company level would fall significantly, I mean would be falling as per my number close to 55% odd levels. So, would there be operating de-leveraging which can put pressure on the margin and would the 10% margin assumption can be at risk because of this?

Mr. K. Sridharan: No, that will be the challenge for the company and I would expect that you know if the volumes were to grow for the industry above 15%, anywhere between 15 to 20%, and we should be coming closer to even if we do not succeed in few percentage points improvement in our market share and if we were to consolidate our current level of 27 to 28%, we should be targeting volume levels which will be in the region of about 80,000 in the domestic market and with the exports and defence and the light commercial vehicles pocket, we should be well above the 85,000 level, in fact we hope to achieve the highest volumes in this current financial year and that should enable us to have a better capacity utilization. Putting in a different perspective, whatever is the increase in volume that we are wanting to achieve this year would come out of the Uttarakhand plant and to that extent our existing plant will run at the normal level capacity, and I do not expect a significant dent in our bottom line because of that.

Mr. Pratik Mehta: And secondly this depreciation increase that we had in Q4 over Q3, that is largely one month depreciation on Uttarakhand, a large component of that would be, so incrementally Q1 onward depreciation would be higher by say another 15 crores because of this?

Mr. K. Sridharan: That is right.

Mr. Pratik Mehta: All right. That is it from my side. Thank you.

Operator: Thank you sir. Next in line we have a question from Mr. Binay Singh from Morgan Stanley. You may go ahead please.

Mr. Binay Singh: Good morning sir. Sir, I wanted to check with you like we have been saying that demand in south is recovering and thus our market share. On a normalized basis, what will be the contribution from south to pan India sales, and secondly what will be our market share. Just trying to get a sense as to where do we normalize on that. Also, if you can share with us your current market share in south and your normalized market share in south?

Mr. K. Sridharan: Our market share in south has been above 50%. It used to be anywhere between 50 to 60%. I will not be able to put an exact number there, and in terms of the overall volumes, for example if you take the last year, the south accounted for about 59,000 out of the total 245,000 vehicles.

Mr. Binay Singh: And sir, in the 2007 cycle how much would that be, south as a percentage of overall sales?

Mr. K. Sridharan: Sorry, which year?

Mr. Binay Singh: In a normalized year like probably 2007, 2006.

Mr. K. Sridharan: The normalized year in the south would be somewhere closer to about 30%.

Mr. Binay Singh: Okay. And in that we had a 50% market share earlier?

Mr. K. Sridharan: More than 50% market share. **Mr. Binay Singh:** Okay sir. I will come back with the other questions.

Operator: Thank you sir. Next in line we have a question from Mr. Mithul Shah from First Global Securities. You may go ahead please.

Mr. Mithul Shah: Sir, good morning, and congratulations for the good set of numbers. Sir, my question is under JNNURM how many buses we sold in FY10 and how many expected current order position in for FY11?

Mr. K. Sridharan: We sold something closer to about 3800 vehicles in JNNURM and we have something slightly above 1200 vehicles to be delivered now

Mr. Mithul Shah: At present, 1200 to be delivered. Sir, when these deliveries is expected?

Mr. K. Sridharan: Hopefully, before the firs quarter end.

Mr. Mithul Shah: Okay, sir. Thanks a lot, sir.

Operator: Thank you sir. Next in line we have a question from Mr. Jayaram Nathan from Kotak. You may go ahead please.

Mr. Jayaram Nathan: Hello sir. Thanks for taking my question. On the margins you know if I break up year into first half and second half, in the second half, when the volume run rates have really picked up, your average was close to 12%. So, why would not like, I am wondering why should not it be in that similar rate if volumes continue to stay robust?

Operator: Hello, it appears the speaker's line is disconnected. We would request year-old to please press *1 again. I will be connecting him shortly, okay.

Mr. Jayaram Nathan: Okay.

Operator: We have the speaker back.

Mr. K. Sridharan: Jayaram, are you back?

Mr. Jayaram Nathan: I wonder if you heard my question fully. What I was, you know if I break the fiscal year 10 into two halves, your second half margins were close to 12%, average 12% and given the volumes are going to continue to be on around those levels on an average basis, I was wondering if there is upside to that, is that a fair margin to assume for the full year?

Mr. K. Sridharan: I mean I would like to comment that you know with the commodity prices increase, you heard the earlier questions of the consent on how to pass it on. I would on a conservative basis say that it should definitely be better than 10%, definitely better because of the Uttarakhand benefit also likely to flow in. I may not be in a position to fully share your view about maintaining it around 12%.

Mr. Jayaram Nathan: And my second question is on the other expenditure side. You know your other expenditure grew sequentially at the same rate as the volumes and given that 70% of your other expense is historically been ZNA, I was wondering why we did not get that leverage benefits?

Mr. K. Sridharan:
That has been some amount of should I say one time expenditure as well as expenditure on account of the forex differences. If you take the fourth quarter of this year versus the fourth quarter of the earlier year, we had somewhere closer to about 38 crores on account of the exchange difference where in the previous year fourth quarter the exchange gain of

35 crores was recorded, versus about 3 crores of one realize losses that we need to record in the fourth quarter. This is one major pocket. In addition, we also have one time expenditure somewhere closer to about 10 crores due to the auto expo and the Pantnagar inauguration, etc., which is not likely to happen going forward.

Mr. Jayaram Nathan: Okay. Thank you.

Operator: Thank you sir. Next in line we have a question from Mr. Saurabh Das from Sundaram BNP. You may go ahead please.

Mr. Saurabh Das: Good morning everybody. Thanks for the opportunity, sir. Sir, this is regarding our two subsidiaries, the Nissan JV as well as the one with John DeereDeere. So, if you can give us an update as to what is the likely production schedule and what would be the investment from our side and the total capex for them. Thanks.

Mr. K. Sridharan: As we have shared in our press release, the total investments in the various JVs would be closer to 800 crores between this current financial year 2010-11 and 2011-12, and the JVs are expected to go into production in 2011. The Nissan JV is expected to go into production in early 2011, may not be able to say the exact month and the John Deere JV is expected to get a trial production in October 2010 and hopefully in the regular production in the next financial year.

Mr. Saurabh Das: And our investments in that would be roughly 25% of 800 crores assuming a one to one debt equity?

Mr. K. Sridharan: The 800 crores itself is the total investment from our side towards the equity part of it.

Mr. Saurabh Das: And the capex for the non-subsidiary part, the stand alone business for next two years?

Mr. K. Sridharan: Sorry, I must clarify. This is not just only for these two JVs, we have the finance company coming into operation. We have also got Alteams which is a high pressure testing joint venture. We also have two-three other ventures like the Infotronics, etc. All these would call for an outlay from our side. Not all of this is relating to the Nissan JV or for that matter John JV.

Mr. Saurabh Das: Sure. And the capex on the standalone business?

Mr. K. Sridharan: Capex on standalone would be around 1200 crores which would be primarily deployed for our Neptune engine manufacture where we have launched it and you know which needs to be Euro4 or Bharath stage 4 emission standards, and also for many of the transition or migration that we need to do for our products to the U-truck platform.

Mr. Saurabh Das: Sure. And just one small clarification regarding the H-series engines, are those engines also being upgraded to the Euro4 or it would be only the Neptune engines?

Mr. K. Sridharan: H-series engine at the moment is Euro3 compliant. We do not have an answer whether it will be also Euro4 compliant. So, as a commercial vehicle manufacturer we do not have an issue in fitting Euro3 vehicle for pan India supply which will be the major chunk and if it were to be Euro4 requirement or a Bharath stage 4 requirement today, our Neptune engine alone will be able to meet up with that.

Mr. Saurabh Das: Which essentially means the Neptune engine will be also for the sub 180 horse power category as well?

Mr. K. Sridharan: Yes, the 4 cylinder engine will provide for that.

Mr. Saurabh Das: Okay, great. Thanks a lot, sir.

Operator: Thank you sir. Our next question comes from Mr. Arvind Sharma from Citi Group. You may go ahead, please.

Mr. Arvind Sharma: Good morning sir. Thank you for taking my question. Can you tell us about your debt end cash positions for FY10-11?

Mr. K. Sridharan: Our debt solution is for the gross debt is round 2200 crores. We have been fairly successful in mobilizing money from our customers from our dealer's side, so we are actually sitting on something closer to about 300 to 400 crores of cash deposits as of 31st March. We have not done any bill discounting or anything because the dealers do not have any credit period, it is all cash and carry system. Partly of course the pricing action that we took in April also made many people to pay in advance to block at the old price. So, to a great extent, the debt position, the debt equity levels if you go on the gross basis, is on a 0.9 is to 1, below 1 is to 1 level.

Mr. Arvind Sharma: Thank you sir. Thanks a lot.

Operator: Thank you sir. Next in line we have a question from Mr. Prathik Mehta from Bajaj Alliance. You may go ahead please.

Mr. Prathik Mehta: Yes, thank you. The increase in interest cost, Q4 increase over Q3, the increase is close to 6 crores. Is this pertaining to one month interest cost for the debt taken for the Uttarakhand plant?

Mr. K. Sridharan: Not necessarily that. We also had fresh loan rates. The rate is about 500 crores in the fourth quarter. Practically, the total debt funding happened only in the fourth quarter and because of that the incremental cost is on account of that.

Mr. Prathik Mehta: Okay. Apart from that would there be any increase because of expensing out interest on the loan for Uttarakhand plant?

Mr. K. Sridharan: Yes, obviously we will not be in a position to capitalize. Like we capitalized 36 crores in 2009-10, going forward we may not be able to capitalize any interest on that. So, you would see increase happening on account of the non-capitalization of interest.

Mr. Prathik Mehta: Sure, thank you.

Mr. K. Sridharan: Thank you.

Operator: Thank you sir. Next in line we have a question from Mr. Govind Challappa from Credit Suisse. You may go ahead please.

Mr. Govind Challappa: Yes, good morning. A couple of questions. One you had mentioned you would be producing 20000 units in Uttaranchal. Could you also tell us about how prepared your vendors are, what kind of ancillarization or local supplies you are looking at?

Mr. K. Sridharan:
The level of preparedness is fairly high in the sense that you know practically all the suppliers somewhere closer to about 70 suppliers, who have committed for putting up the facility there, have all have done their part and there is fair amount of readiness on their part to achieve the levels of localization if I may use the word. In terms of the percentage is too early for us because we are yet to ramp up the supply from them, but I would expect that you know more than 50% of our material consumption should come from the exempted pockets.

Mr. Govind Challappa: Okay. And what kind of production are you looking at in FY12?

Mr. K. Sridharan: Closer to 35000.

Mr. Govind Challappa: Can you also give us what was the total defence kits you sold in FY10, I think it was about a little over 2000 the previous year.

Mr. K. Sridharan: That is right. In fact we sold very little over our previous year number. It was about 2300 kits is what we have sold.

Mr. Govind Challappa: 2300 kits.

Mr. K. Sridharan: That is right.

Mr. Govind Challappa: And what is the kind of order book we have now, what is the visibility we have for the current year?

Mr. K. Sridharan: Both that you know we should you know this is something very difficult to predict, but we do hope that you know we should be able to get some order on the same lines may not for big numbers like 4000 to 5000, but definitely well above the 2200 numbers. We also are targeting to get orders for fully built vehicles from defence. The internal target is around 1000 vehicles we supply to defence whether it is water bowsers or some of the largest vehicles like Topchi, Stallion and so on.

Mr. Govind Challappa: And this will be part of the reported volume numbers, the fully built vehicles. Okay, last question. What was the spare parts sales last year, it think previous year it was 510 crores.

Mr. K. Sridharan: Last year spare parts sales, the domestic we sold 600 crores, exports we did about 43 crores; all put together is about 643 crores.

Mr. Govind Challappa: Okay. I will come back later for more questions. Thank you sir.

Operator: Thank you sir. Next in line we have a question from Mr. Srinivas Rao from Deutsche Bank. You may go ahead please.

Mr. Srinivas Rao: Thank you sir, Mr. Sridharan, for taking time out. My question is on sir, the Uttaranchal plant can you quantify the excise benefit on a per truck basis, would that be possible for you to . . . given that just at 50% will now be sourced locally.

Mr. K. Sridharan: No, it is slightly bit difficult to put a number, but it should be anywhere ranging between 40,000 and 50,000 per vehicle. As we do go through a full blast supplies coming from them. At the moment, it will be below 40000 because we have not fully secured the supplies from all the people.

Mr. Srinivas Rao: And sir just if I may add one more question. Any number you would like to give for the engine business, you know sales.

Mr. K. Sridharan: We did sell of course slightly lesser number of engines last year. We sold about 19,388 engines as against 21,740 we did in the previous financial year. The good news is that the manufactured engines, what we manufacture our Leyland brand engine, touched about 10,000 engines as against about 9000 in the previous year. The drop has been primarily on the gensets that we supply to the telecom sector where you know for various reasons including the problems the telecom companies are facing in meeting up with the dues, you know many of them have blocked their funds in the 3G bidding process. So, we find that the cash flows are not happening as we would have desired, and hence we also went on a slow mode in terms of supply to the telecom sector. So, the drop has been significant in that pocket.

Mr. Srinivas Rao: Thank you, sir. Thank you very much, sir.

Operator: Thank you sir. Next in line we have a question from Ms. Supriya from ICICI Securities. You may go ahead please.

Ms. Supriya: How the industry is going? How is our presence? What market share we do have?

Mr. K. Sridharan: Sorry, I am not able to hear your voice clearly.

Ms. Supriya: What is your tipper market size in India? Who are the major players? What is our market share and what is the outlook, you would like to give for tipper segment considering the infrastructure and mining sector?

Mr. K. Sridharan: The tipper segment used to be somewhere closer to about 15 to 20% of the total TIV volume, or it would be around 25 to 30% of the truck segment alone if you go on a truck segment pocket alone. We have a better market share than the overall truck market share levels and we enjoy anywhere between 24 to 27% market in the tipper segment.

Ms. Supriya: Okay. And what is the outlook you see going forward? How is the demand going to shape up?

Mr. K. Sridharan: The tipper market, a very nice question that you asked. You know while every other segment did set a significant growth, tipper did not grow until the second half or rather I would say until the third quarter end. Until third quarter end the cumulative tipper volume for the total industry was lagging the previous financial year. and in the fourth quarter of course it has really showed a significant growth and I would expect that you know the coming months the mining activity will increase substantially and also the road building activity, both should give fill up to this particular product segment.

Ms. Supriya: Sir, can you assess the total size of the market would have been round close to 40 to 42000 per FY10 and what we can expect at the same season or time going forward, the demand.

Mr. K. Sridharan: If you want me to put a number, but I can definitely say that you know 15 to 20% growth is easily possible.

Ms. Supriya: Will be easily possible. Sir, would you be having more focus in the segment, and regarding there is a better scope coming from this market. This is the margin that sends on trucks unit.

Mr. K. Sridharan:
Definitely the margins on the tippers are better than the haulage, but it is not that better compared to the multi axle vehicle and tractor trailers, but definitely Leyland has lot of product plans to introduce. In fact in our U-truck one of the few early models that are going to be launched are the multi axle mining tippers. Though we would be aggressively focusing on product positioning in this tipper market in the current financial year.

Operator: Thank you madam. Next in line we have a question from Mr. Paras Nagda from Enam Holdings. You may go ahead please.

Mr Paras Nagda: Yes, sir, congratulations on good set of numbers. I wanted to know what is happening at our LCV Platform and what is the way forward?

Mr. K. Sridharan: The LCV platform is being pursued with the joint venture partner Nissan and as I mentioned earlier, the plans are very much in track and we expect to have the product launches happening in 2011, early part of 2011.

Mr. Paras Nagda: Okay. And sir, just, what is the volume. You gave the volume of engines. What is the total amount of engines?

Mr. K. Sridharan: You mean, you want to know what is the revenue part of the engines?

Mr. Paras Nagda: Yes.

Mr. K. Sridharan: That will be below, it should be around 370 crores.

Mr. Paras Nagda: Okay, got it. Thank you sir.

Operator: Thank you sir. Next in line we have a question from Mr. Sachin Gupta from HSBC. You may go ahead please.

Mr. Sachin Gupta: Hi, sir. Just a couple of things. How our market would have been, let us say north and eastern market vis-à-vis that we just mentioned?

Mr. K. Sridharan: See, we have improved our market share in the north and the north market share would anywhere be in the region of around 22 to 25%. The eastern market, this thing would be below 15%.

Mr. Sachin Gupta: Okay, why is that we had lower market share? Was it the different product profile or was it the presence itself was not that much there?

Mr. K. Sridharan: You know the eastern market traditionally has been more in favor of semi forwards whether it is in tippers or in other vehicles. We do not have semi-forward in our profile. So, because of that very reason a portion of the market would not get addressed by yield, that has been one reason and traditionally Tata Motors presence in the eastern region also adds rates like the way we have southern region market presence and higher market share here.

Mr. Sachin Gupta: And was the reason same for lower market share comparatively in north?

Mr. K. Sridharan: Yes, traditionally, if you look at it, we never had any necessity to go to the north or the east because whatever we could produce we could sell it you know until I would say mid 80s, that has been the situation. The situation got changed only in the last say two decades where you know the capacity got perfectly added up and we also now made our presence felt in the north with putting up Pantnagar plant. So, no longer we would like to be considered as plants based in south. So, our all India presence if you look at it would be almost 50:50 between the north and the south for capacity.

Operator: Thank you sir. Next in line we have a question from Mr. Hitesh Goyal from Daiwa Securities. You may go ahead please.

Mr. Hitesh Goyal: Thank you sir for taking my question. Sir, just wanted to get a much more sense on the raw material side. Basically, can you give us you know a breakup on what kind of increase you are looking at in steel and above cost and from the machine norms because I mean if you as you said in your speech that you are not seeing much pressures from steel going forward. An secondly, can you give us a sense on how tax rate will look for the next two years?

Mr. K. Sridharan: The commodity prices, it will be very difficult for me to predict you know what will be the increase in steel or what will be the increase in tyre I can say that we are suffering from lack of availability of tyres. The supply constraint is significantly felt there. But luckily, we do not have such supply constraint from the steel side, but the pressure for the commodity based price-based cost increases would continue to happen. It will be very difficult to put any breakup between that but by and large as I said we should be in a position to contain it within the 2 to 3% for the overall selling price.

Mr. Hitesh Goyal: Okay. And sir so we are more worried on the basically the cost related to BS4 and BS3 upgradation because I mean margins should sustain at these levels if we are only looking a 2 to 3% price increase to offset the raw material cost.

Mr. K. Sridharan: The emissions standards are going up which will be affected, which will be more relevant to commercial vehicle manufacturers and Ashok Leyland only in October 2010 because the BS3 is coming into operation only by that time and I would say that whatever is the cost increase, we would expect that you know that to be passed on to the end customer which would be in the region of around 40,000 rupees per vehicle.

Mr. Hitesh Goyal: So sir, then how are we talking about only 10% margins for next year, that is the question I had, I mean only part of this 40,000 rupees per vehicle will be passed on and that is it?

Mr. K. Sridharan: No, the full 40,000 has to be passed on to the end customer while we may not be in a position to have margins on that 40,000 cost, to that extent profitability in the form of a percentage would get affected and that is where I was trying to ply for it to the earlier question where I said, you know would not your margins be round 12%, I said my margins could take a beating because of these recovering only the cost in the price and hence our belief is that you know if the sales are going to be of the order of about you know for Leyland producing something like 80 to 90,000 vehicles per annum, we should be in a position to get to the levels of the margins as we experienced in the third and the fourth quarter but for this aberration likely to happen. So, these two put together, will mean that you know our margin should stay well above 10%.

Operator: Thank you sir. Our next question comes from Mr. Chirag Shah from Emkay Global. You may go ahead please.

Mr. Chirag Shah: Good morning sir. Sir, I have one question on your Northern markets. How have you over the last year or so or one and half years increased your distribution reach and your direction and awareness in that market, then as well as steel markets. How well are you positioned?

Mr. K. Sridharan: We have sizably increased our dealership presence in the north. In fact we have added a couple of dealers in the northern region and they are doing very well because of which we have registered at least 200 basis points improvement in our market share in 2009-10. and going forward I expect that this position will be consolidated, because these dealers got added only in the last year and I would expect their performance and their ability to make much better penetration going forward, and as product to that we have the Uttarakhand facility where the supplies could also be reached much faster, you know currently every vehicle has to travel all the way from south to the north. Now we should be in a position to supply vehicles straight from Uttarakhand also.

Mr. Chirag Shah: Okay. Secondly, if you can just show some update on your product, you know, what long plays, what products you have introduced in the market in the last three months, and is there any product gap between you and competition which you are likely to bridge up and that could also boost up your volumes?

Mr. K. Sridharan: No, we have launched quite a few products in the last to financial year. To name a few we showcased the U-truck in the auto expo which is getting rolled out now. The mining tipper version and also the tractor trailer version. We launched the 2516 super which is the 8x4 vehicle, 8 wheels 4-axle type of a vehicle. We also launched the 2518 tipper which is a very large cubic capacity tipper body. We also launched the E-Comet smart and E-Comet strong. Under the bus segment, we showcased the hybus which is the first CNG plug in hybrid bus which runs both on the electric power as well as on the CNG. We also launched the ibus-2 which is you know in support with Cisco we made it completely an intelligent product completely wide to get the best of the communication facilities in there. And going forward, we expect quite a few of the products to be launched. One on the bus segment, we expect to launch new luxury bus in collaboration with ETZAR TVS. We also expect to launch a few of the new products for the BS3 and BS4 emission standard meeting vehicles.

Mr. Chirag Shah: Madam, I have answered you fully.

Operator: Thank you sir. Can we take up the next question sir?

Mr. K. Sridharan: Yes.

Operator: Next in line we have a question from Mr. Shiv Chennani from Reliance Mutual Funds. You may go ahead please.

Mr. Shiv Chennani: Good morning sir.

Mr. K. Sridharan: Good morning.

Mr. Shiv Chennani: Yes sir. Sir, more on a industry aspect, given that we will have the BS3 norms getting implemented only by let us say some time in October, do we think that the first half is going to be a little bit unnaturally you know higher than it is traditionally?

Mr. K. Sridharan: You are very right. What all pressures that you see on 31st March and 1st April would be the introduction of a new emission change. All those pressures would be seen in September also. To that extent, the traditional 40:60 type of volume distribution may come closer to 50:50 this year.

Mr. Shiv Chennani: And are we saying a little bit of demand already taking place in that respect or people are still waiting for September?

Mr. K. Sridharan: September is well known now or rather the introduction by October is well know now. I would expect people to be slowly building up their requirement to buy the vehicles. As I see, for the month of April, the demand has been fairly robust, many a times we have a problem of meeting the demand because of the supply hiccups we are not able to meet all the demand requirements. And going forward given the fact that you know emission change would mean an increase in the price of the vehicle, many people would like to prepone their purchases in September.

Mr. Shiv Chennani: Sure. And secondly sir, just wanted an update on your financial arm. What is happening?

Mr. K. Sridharan: That is a good point. I forgot to mention. We have secured the RBI approval for the starting that NBFC. It has already started before 31st March 2010. We have already put in about 15 crores toward its equity. Balance another about 85 crores would also be pumped in during the course of this financial year which is part of the 800 crores of investment that we are talking of.

Mr. Shiv Chennani: Sir, this is your 100% subsidiary?

Mr. K. Sridharan: It will be a part of the group company where some of our group companies will also be holding shares in that. We do not intend to make it a 100% subsidiary of Ashok Leyland. We do not want to be burdened with the funding requirements for that business.

Mr. Shiv Chennani: Right. So, this will be an associate where you are not going to . . . consolidate.

Mr. K. Sridharan: That is right.

Mr. Shiv Chennani: Right. And sir, lastly, just wanted to clarify your stand. You know like given that we will have a good advantage on the Uttarakhand plant in terms of fiscal benefits which none of the competition will have, do you think that you can utilize that particular advantage to gain a little bit of more market share?

Mr. K. Sridharan: Yes, it depends on this thing, you know we would in the first place like to retain the total gains to ourselves and play the market share game more by the product strengths and this, but definitely this would be an added strength to our ability to find the market place for gaining market share.

Mr. Shiv Chennani: Thanks a lot sir.

Mr. K. Sridharan: Thank you.

Operator: Thank you sir. Next in line we have a question from Mr. Alok Rawath from CLSA India. You may go ahead please.

Mr. Alok Rawath: Good morning sir. Congratulations for the quarter. Sir, you talked about your market share in the various regions, south and north. Is there also a corresponding difference in terms of the bus segment and especially the STU segment?

Mr. K. Sridharan: Yes, there has been a significant difference in the bus segment part of it, particularly the STU side where because of various reasons including the prices becoming very-very unattractive particularly in the last few of the tenders. hawse have decided not to opt for securing those orders which meant that there is a drop in our market share in the STU segment part, but I would expect that you know given a somewhat stable level of public transportation system in a country, when I say it is stable in terms of the numbers that these people operate, what is not ordered this year would get ordered next year type and what is not ordered in the last quarter will get ordered this quarter. So, you will, we expect that you know we expect to get back to our normal levels of market share there. but you are right, vis-à-vis the truck segment on the STU bus segment, we have lost market share, but luckily we could maintain our market share on the private sector of bus segment.

Operator: Thank you sir. I would like to hand the conference over to Mr. Kapil Singh for final remarks, over to you sir.

Mr. Kapil Singh: On behalf of Nomura Securities, I would like to thank Mr. Sridharan and all the participants for attending the call. We can now close the call.

Mr. K. Sridharan: Thank you.

Operator: Thank you sir. That does conclude our conference for today. Thank you for participating. You may all disconnect now.