Ashok Leyland Limited
Q1 FY '10 Earnings Conference Call, Financial Year 2010
July 28, 2009

Moderator: Good afternoon Ladies and Gentlemen. Welcome to Ashok Leyland Conference Call hosted by Kotak Institutional Equities. I am Priyanka, the moderator for this conference. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to handover to Mr. Jairam Nathan. Thank you and over to you sir.

Mr. Jairam Nathan: Thank you Priyanka. We are pleased to have with us today Mr. K. Sridharan, CFO, Ashok Leyland. I will now handover the call to Mr. K. Sridharan. Over to you sir.

Mr. K. Sridharan: Thank you Jairam. Good afternoon to all of you. Let me quickly go over to the results for the first quarter which got approved by the board yesterday. I am not going to go deep into the numbers in terms of the volumes because this is already with you for quite some time. As you would have noticed that we registered almost a 60% drop in the volumes in the domestic market primarily because of the issue that we have been clarifying about the cleaning up of the pipeline stock, so I am not going to go deeper into this aspect unless someone wants to have better understanding further on this. Importantly, I would like to only highlight that even in this downturn, we have been successful in improving our market share in the haulage segment, which is a growing segment. While in the case of the STUs we could not deliver any vehicles under the JNNURM program primarily because of the various specs getting not frozen, and the other delays that happened in the process, and all the participants have been granted time for supplying these vehicles. So, we could not succeed in selling though we have been having order book of almost more than 5,000 vehicles on hand. On the tippers and tractor trailers, the tractor trailer market continued to remain sluggish, while the tipper market and the MAVs have shown signs of recovery, and very importantly we could see a significant pull in the 4x2 haulage vehicle segment during this first quarter. Almost going back on the earlier concept of the hub and spoke, we seem to be revisiting this model and then getting back into the typical 4x2 16-tonner vehicle in the Indian roads. We manage to, as I was mentioning in the May conference call after the year-end results were announced, we managed to secure substantial improvement in our material cost side, we could secure reduction of almost 35,000 rupees. If you recall, at the end of March, we had secured about 25,000. By end of June, we have secured about 35,000 rupees per vehicle. Another 15,000 more is yet to be inked. We are very reasonably confident of securing this reduction in the metal cost side, even though some of the materials like aluminium and rubber have shown signs of increase in costs.

On the export front, we have been receiving favorable demand from the Sri Lankan market. I had predicted that you know once the LTTE problem is over, we should be expecting some revival in the Sri Lankan market and that has happened and it is happening now, and we in the first quarter, while we exported about 900 vehicles, the Sri Lankan market share continued to be only around about 150 inside that 900 vehicles, but we expect this number to grow close to about 2,000 for the full year. Very importantly, the Middle East market is yet to show signs of revival, though we all believe that thanks to the oil prices remaining somewhat reasonably firm, we expect that the market, Middle East market to revive. Apart from the new markets that we entered, namely the Angola and the African markets, we are also getting into few other South East Asian Countries like Vietnam and Thailand, and we hope to make a significant dent in the coming quarters. In terms of the product launches, we are scheduled to launch at least about 4 new models including our 8x2 3116 and 2516 improved version of the mining tippers. All that are likely to hit the market in the August-September. We should be seeing the benefit of it in the coming quarters on this.

On to the capex and capacity additions, we spent about 120 crores in the first quarter. It is in line with our prediction of close to about 700 crores for the current financial year, primarily spending more on the UTK project, which has to be completed and we are very much on track to complete this project by the second half, in fact by the third quarter end we should have commissioned the plant, and rolled out few vehicles out of the plant. We are very much on line in terms of our capex plan containing it within 700 crores. In terms of the capacity addition, obviously it will mean that at the end of this current financial year, our capacity from the current level of about 100,000 will move up to 150,000. In terms of funding, we have not raised any fresh loans. We have been able to manage with whatever short-term funds that we have for financing this 120 crores. Hopefully, during the next quarter, we should be targeting to raise funds. We have secured to shareholders' approval in today's AGM for raising funds through an activity related instruments also, though we have not ruled out the possibility of raising it through rights issue. Those options are there. At the moment, I am not able to say anything further because the board has not decided on what form further equity funds would get raised, but as it stands we are geared up for even raising the funds through the debt route, which in our opinion should not cost much strain because our debt equity levels continue to be below 1:1.

In terms of the financials, if I can quickly run through the first quarter performance versus the previous year first quarter, in terms of the material cost, we registered 350 basis points reduction in line with what I have been highlighting of the savings that we are securing from the suppliers. It translated to almost realized saving of more than 100 crores to the P&L in the form of reduced material cost. In terms of the staff cost, which registered a reduction of about 18 crores, primarily coming out of almost 20 to 22 crores through the cutting down on the number of working days as well as voluntary wage and salary cuts which the executives contribute to the profitability. Partly offset by of course some of the settlements that we did in our Hosur-1 for which you know we need to have the additional cost incurred, so net-net on an average I would say, we register about 18 to 20 crores per quarter at least for the next quarter. In other words, the savings would be there for the first half compared to the previous year's first half. I am hastening to say this only to point out that one should not expect a continued reduction in the manpower cost in the third and fourth quarter because the third and the fourth quarter base effect will kick in because last year we had registered 20 Crores reduction compared to the previous year.

On the other expenditure which has shown a significant drop, almost 72 crores drop, basically consists of about 30 Crores which is in line with the reduced level of production. In fact, our production levels are almost 50% compared to the previous year's level. One good thing that we have done is of course good and is not partly not good also. One good is that you know we have aligned our production to sales, so we don't add to our inventory. Our sale was 7,693 vehicles including the exports and our production was 7,690, whereby leading to an opening stock the year-end being continued at the quarter end also of about 6,355 vehicles. We expect that this reduction should happen, I will talk about going forward what are all the head room that is available for us.

Moving on to the cost, the 30-crore reduction is in line with the reduction in the production levels. We also reduced about 30 crores charge in the P&L thanks to the new accounting standards that was there on the foreign exchange part of it. So that totals to 60 crores, and balance 12 crores was the reduction that we achieved by way of a cost reduction on travel and other administrative overheads. So, overall, 72-crore reduction was contributed by these three major factors.

Moving on to the income part of it, the other income which has registered a significant jump mainly because we managed to sell and book profits on sale of our shares with IndusInd Bank. Our holding which was earlier about closer to 6% has now come down to about 4.85%, and we could book the profits fairly at good levels, and we registered a 51.5-crore profit this year on account of that. The rest of it is of course is a normal operating other income that we get usually. On the financial expenses, there has been a significant jump mainly because of the loans that we drew and financed for capital expenditure, where we could not capitalize the interest and to commission those assets are very short, and also because the working capital did not substantially come down. In fact, I must say that the working capital on an average is remaining at about the same level like last year. Unlike in last year where the loans are not drawn, this year we have substantial loans drawn and that is the reason why in the interest cost is up by about 15 crores.

On the depreciation front, we maintained the levels like last year, at about the same levels like last year, primarily because whatever was increased in the depreciation due to capitalization in the last quarter of the last financial year was offset by a single shift working during the current quarter. All that resulted in profit of about 2-1/2 crores for the current quarter. Obviously, this led to a reversal of the deferred tax liability provisioning, which gave us 5.3 crores producing a profit of about 7.7 crores compared to 50 crores in the previous quarter.

Moving on to the headroom possibilities and also the outlook as we see it, from our marketing team, I could gather that there is a fair amount of demand pull coming very strongly in the tipper, the haulage, as well as to some extent in the MAV segment. I am still not seeing signs of the tractor trailer pull happening. On the passenger buses also, there is a fairly pick up in the demand. The STU side is more dictated by the JNNURM program. Luckily, all of us including our competition, all have got enough order book on our hand. We have almost close to about more than 5,500 vehicles on order for supplying to various STUs. Hopefully, we should do some 50% of these volumes during the current quarter. Much of it would depend upon our ability to get the body built. The chassis building is not going to be a critical part here. Body building is going to be a limiting factor here, and hopefully, we should be able to invoice and book the revenues in that. We have also secured an order from the defense, I mentioned in the last conference call, during the current financial year for about 2,600 sets to be supplied to defense, and we have started supplying. In this quarter, we have supplied about 450 sets equivalent in first quarter, and second quarter, we should be supplying fairly larger chunk of that.

On the engine side also, we are seeing fairly a steady growth in that during the first quarter. We did not succeed in many of the supplies because many of them were negotiating through e-sourcing and wanting to firm up the full-year contract, which we have not done, and hopefully the supplies will start happening in the second quarter. In fact, in the first quarter, we could register a sale of about 4,446 engines as against about 4,800 engines in the previous year's first quarter. That has been the level of engine sales that we made, and more importantly, as I said, while the freight rates have somewhat softened, the prediction for the industrial growth as well as for the infrastructure growth that we saw in the impetus in the last budget announced by the finance minister, we should expect fairly a single digit, at least a single-digit growth in the total industry volume. We have been predicting earlier a plus or minus type, now we are very confident of saying that you know it will be a plus only, and we expect the total industry volumes to register in single digit growth, and we would love to be registering a market share of back to our 27% level, though in the second quarter our target is closer to about 26%, and we are reasonably confident on getting back to those because our pipeline inventory clearances have all happened. We should be in a position to ink whatever that we deliver as our market share performance. In terms of the margins, I would say that you know barring for, apart from that 15,000 rupees balance to be secured by way of reduction, we have also taken a pricing action in June end, rather in July beginning, which should become more effective from the coming months onwards, that is about 2% pricing action, so by and large our margin should start registering a growth. It will only be impacted only if our volumes continue to be at a subdued levels. Barring for that, our margins to get back to the levels of 10% to 11% operating margin, I don't see a major concern in that particular aspect. On the overall funding that we need to do, as I mentioned, we are still made up our mind. Either way, the total institutional funds should be somewhere closer to about 400 crores, whether it is in the form of a debt or in debt cum equity or whatever be the combination, and that should be sufficient for us to meet our capex as well as finance the other operations. Very importantly, our working capital levels which was standing almost at about the same level at the beginning of the year time, we need to register about 500 crores reduction. What we presented in the investor meet in June, that should continue, that task is yet to be completed. We need to continue that. We need to bring down our finished vehicles from 6,300 to below 4,000. We need to also bring down our production inventory by another about 200. Luckily, our cash and carry system on the debtor levels have dropped back, particularly the private sector debt to nil. The only issue concern is more of the credit to be offered to the state transport undertakings, whether it is under the JNNURM or under any other normal supplies. Those debtors alone will be there, and which in our view is quite manageable, and we expect at least about 500 crores to be released from the working capital system, so within the 500 crores and the 400 crores of the loan or equity cum loan type, we should be in a position to finance our capex and meet the operational requirements. I think with this let me conclude and then you know request if you have got any questions, please shoot.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 or 01 on your telephone keypad. On pressing *1 or 01, participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 or 01 now. First in line, we have Mr. Pramod Kumar from BNK Securities. Over to you sir.

Mr. Pramod Kumar: Yeah, good afternoon sir. Sir, just wanted to know what is our current debt level sir?

Mr. K. Sridharan: The total debts would be closer to about 1,900 crores.

Mr. Pramod Kumar: And so sir, on a quarter-on-quarter basis it has more or less remained the same.

Mr. K. Sridharan: Yeah, that is right.

Mr. Pramod Kumar: Sir, then how come the interest expenses are actually corrected significantly from 44 crores to around 26 crores, though on a y–o-y basis have improved, but on a sequential basis, this is a pretty good drop. So, what is the reason for that sir?

Mr. K. Sridharan: As I mentioned, the working capital levels continue to remain and consequently we need to bear that cost of interest on the working capital. Some of it were earlier through our supplier financing extended credit to our suppliers, so are not being shown even as loan, more at creditor levels, so all that would translate into a higher interest cost plus as I mentioned the loans we drew for financing our capex and where the capex got commissioned, particularly some of the assets that got immediately commissioned, where we need to stop interest capitalization on that, the interest cost has gone up because of that also.

Mr. Pramod Kumar: Sir, that is for the y-o-y, that I understand, but on a sequential basis, it has actually come down. I wanted the reason for that actually.

Mr. K. Sridharan: For the fourth quarter versus the first quarter.

Mr. Pramod Kumar: First quarter, exactly sir, exactly.

Mr. K. Sridharan: Because of the substantial cuts that have happened also on the debtors. As I mentioned, the cash and carry system has enabled us to improve that part.

Mr. Pramod Kumar: So, but we have used, okay, that means our working capital loans should have ideally come down to that extent.

Mr. K. Sridharan: Working capital should have ideally come down but to the extent that you know it has the interest bearing creditors, so obviously the creditor levels have come down but the working capital has gone up by that, but the interest cost seems to be incurred.

Mr. Pramod Kumar: Okay, and sir, another aspect was on the RM side. I hope you would have seen how Tata Motors has been able to get a sequential improvement in RM of around 600 odd bps, and we don't see much benefit or there is no benefit at all on a sequential basis, is it because that we are still carrying some old high-cost inventory on our books or what is the reason for that sir, because there is no improvement whatsoever, if I see RM to sales as a percentage, though that might not be the most accurate way to look at things, but given the limited information we have, there has been no improvement at all. If you can just throw some more light on that sir.

Mr. K. Sridharan: Limited, you answered the question. The, A, sequential basis, the cost has not come down because whatever is the cost reduction as I mentioned, we have realized to the extent of about 25,000 rupees. Another 10 more got inked during this quarter, the benefit of it will be seen only in the coming quarters, but very importantly, we also have to reckon with the fact that we carry to some extent few hundred of crores of the old inventory which is at a high cost, so the benefit of this reduction will flow in only once those production inventory levels get reduced, at least by about 200 crores.

Mr. Pramod Kumar: By 200 crores, so we can see this impact of high, the RM actually not reflected in the current position at least on other quarter or part of the quarter, right?

Mr. K. Sridharan: Part of the quarter, yes.

Mr. Pramod Kumar: Yes sir, and sir, in terms of again on the funding side, as in we are looking at probably 400 crores, and can you please just tell us what is the timeline you are looking at by which you would either decide whether it is going to be a rights issue or a GDR or whatever be the nature.

Mr. K. Sridharan: We have to see quite a lot of other developments before we decide on, and frankly, you know, I must share with you today that we have not decided to say whether it will be in the equity form. It may even continue as a debt form also, in which case we can even raise the debts in less than a month's timeframe.

Mr. Pramod Kumar: Okay, fair enough sir, and best of luck for the future. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Chirag Shah from Emkay Global. Over to you sir.

Mr. Chirag Shah: Question on what is the amount of defense sales that is lying in sales?

Mr. K. Sridharan: As I mentioned, we sold about 450 sets.

Mr. Chirag Shah: Okay.

Mr. K. Sridharan: In this first quarter. That would have translated about 45 to 46 crores, and same level as the previous year's first quarter also.

Mr. Chirag Shah: Okay, and what would be engine and spare part sales portion?

Mr. K. Sridharan: I have the numbers with me. The numbers are 4,446 numbers of engine in this quarter versus 4,850 of the previous year.

Mr. Chirag Shah: You don't have the value part of it. Can you share the value part, is it possible?

Mr. K. Sridharan: It will be somewhere closer to about 9% to 10%, the total revenue.

Mr. Chirag Shah: Okay, 9% to 10% total. That would also include spares or spares would be over and above that?

Mr. K. Sridharan: The engines do not include spares.

Mr. Chirag Shah: So, and spares should be another 5% to 6%.

Mr. K. Sridharan: As you know if you factor it will be closer to about 12%.

Mr. Chirag Shah: 12%?

Mr. K. Sridharan: Right.

Mr. Chirag Shah: Okay, and secondly, you indicated that you will be further securing benefits on raw material by way of anther 15 odd thousand, you are in discussion, okay, but you are still running with some high inventory, so benefits of this practically would flow to you only in third quarter.

Mr. K. Sridharan: That is your prediction but my prediction is it will flow in the second quarter also.

Mr. Chirag Shah: Okay, but you are confident of knocking of the additional 2,000 odd inventory that you have as of now.

Mr. K. Sridharan: That is the task for the management.

Mr. Chirag Shah: Fair enough, fair enough sir, thank you.

Mr. K. Sridharan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Pratik Mehta from Bajaj Allianz. Over to you sir.

Mr. Pratik Mehta: Yeah, good afternoon, just wanted to say the pipeline inventory that you said in 2000 number, right?

Mr. K. Sridharan: No, pipeline inventory got cleared up, so we don't have any pipeline inventory now.

Mr. Pratik Mehta: Okay, and just wanted to say this pipeline inventory, does this mean vehicles which are reported as monthly sales and which is say either in transit or at the dealer's level or somewhere lying in the warehouse and all those vehicles.

Mr. K. Sridharan: Yeah, more with the dealers.

Mr. Pratik Mehta: Okay, but some of them would be already reported as monthly sales.

Mr. K. Sridharan: Yeah, that is how this got cleared now. We could not equate the retailing with the sale or invoicing to the dealers. Retails vehicles from his stock, we have supplying and recouping that for him, which we stop from doing because you know we wanted to go through cash and carry system by cutting down with 30-day credit period for him, and that meant that you know we had to wait for he booking a fresh sale for us to do a fresh invoicing on him.

Mr. Pratik Mehta: Right, right, and if you can share, if you have the number available with you of the retail sales, compared to say 7,690 volume that we…

Mr. K. Sridharan: Around about 3,000 more vehicles.

Mr. Pratik Mehta: Okay, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Paresh Jain from India Infoline. Over to you sir.

Mr. Paresh Jain: Hello. Sir, this is Paresh Jain from India Infoline. Wanted to understand what was the reason for the sequential increase in personnel cost?

Mr. K. Sridharan: The increase compared to the last quarter was this quarter, it may not be right to compare. As you see, in absolute sense, between the previous year's first quarter, and this year's first quarter, there has been a reduction of about 18 crores.

Mr. Paresh Jain: Okay, sir, and one more thing which I wanted to understand was the way that you are saying, would the production be lower as compared to what your sales estimates for this quarter.

Mr. K. Sridharan: Only then we can succeed in reducing the finished vehicles inventory, but we need to do the balancing act of trying to produce those vehicles which are needed, and if for some reason we are having vehicles which are needed by the market immediately, then we have to hold on to those inventory. So, it is a tight rope walking, balancing act that we need to do.

Mr. Paresh Jain: Okay sir, in that case, even there is scope of margin expansion in terms of over it on that front as well and the production is lower.

Mr. K. Sridharan: Yeah.

Mr. Paresh Jain: Alright sir, thank you.

Mr. K. Sridharan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Aditya from JP Morgan. Over to you sir.

Mr. Aditya: Hello sir.

Mr. K. Sridharan: Yes, Aditya.

Mr. Aditya: Yeah, just wanted to understand the other expenditure component, you said there is 30 crores due to reduction on new accounting norms, I just missed that part.

Mr. K. Sridharan: Basically that AS-11 which got amended last year. Because of which any exchange difference we can capitalize it as part of the cost of fixed assets and amortize it by way of depreciation. We have continued that practice for the first quarter of this year also, and compared to that, the last year's first quarter had a charge of about close to 30 crores, and because of that, the charge was there in the P&L in the first quarter of that previous year.

Mr. Aditya: Yeah.

Mr. K. Sridharan: Two first quarters if you compare, you will find a 30-crore reduction of cost, obviously I wanted to clarify it that you know this 30 crores is purely the accounting treatment that got reflected in the current quarter versus the accounting treatment of the earlier practice that was reflected in the first quarter of 2008-2009, so that 30 crores is on account of that. Where as the balance 42 crores, 30 crores was on account of reduced activity levels, obviously you will have less power, less tools, less consumables to be expended for a lower production. We cut down the production by more than 50%, and the another about 12 crores was the absolute cost reduction that we could achieve by way of tightening the belt further.

Mr. Aditya: Sure, just a followup to the previous question, the 6,300 units, just to clarify, is what is lying with Ashok Leyland and not with the dealers, is that correct?

Mr. K. Sridharan: Yeah, that is right.

Mr. Aditya: Okay, thank you.

Mr. K. Sridharan: Welcome.

Moderator: Thank you very much sir. Next in line, we have Mr. Ajay from Tata Securities. Over to you sir.

Mr. Ajay: Yeah, good afternoon sir. This was more on M&HCV industry side. For the Quarter One FY '10, we saw that the recovery in the M&HCV was much more region specific and not broad based, whereas Northern market was much better as compared to the rest of the regions. Now, given the fact that Ashok Leyland is pretty strong in Southern market, are you getting any feelers in terms of any improvement happening either in South, East, or West regions?

Mr. K. Sridharan: Very good question, you know, basically what we saw in the first quarter was continued pull coming from the Northern and the Eastern sectors where we are less significantly present, and the Southern was not reviving. The good news now is that, you know, we are now seeing signs of recovery in the Southern market, so both Southern and Western markets should start reporting significant demand pull. One of the reasons why my marketing team also is feeling comfortable in predicting that you know we should be significantly increasing the run rate.

Mr. Ajay: Sir, if I can just have your contribution on a region-wise, would it be possible to share that data?

Mr. K. Sridharan: That would be very, you know, it is not an official data, so it is one of the reasons why we don't do it, but I can say that you know we would almost to closer to about 65% would be coming from our South and the Western regions. The balance 35% would come from North and the Eastern regions.

Mr. Ajay: Okay, and sir, my second question was on fleet operator's profitability. On ground, are you seeing the fleeter stabilizing or any view on that if you can probably share with us?

Mr. K. Sridharan: I must confess that you know with surplus on the freight rate movements, you know, with a demand pull that I hear from my marketing team versus the somewhat softening of the freight rates, throughout the regions I find in the last two months, the freight rates have fallen. It could be that…sorry not two months, last one month. It could be that the monsoon season has an effect of that freight rates softening, but I would expect that with the positive sentiments and the growth happening, we should still in good shape in spite of our freight increase that we all saw few days prior to the budget.

Mr. Ajay: Okay, fair enough, thank you so much sir, and all the best for the coming quarters.

Mr. K. Sridharan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Ameen Tirani from Deutsche Bank. Over to you sir.

Mr. Ameen Tirani: Hi sir, thanks for taking my question. Sir, I had a question on your engine sales. Could you share with us what proportion of the engines are the imported ones and what is your own produced ones?

Mr. K. Sridharan: Almost 50-50.

Mr. Ameen Tirani: 50-50, and do we expect this proportion to like change going forward?

Mr. K. Sridharan: No, I don't expect this proportion to change because there is a defined market for the higher horsepower range.

Mr. Ameen Tirani: Okay.

Mr. K. Sridharan: For which we supply our constructed engines, and the lower ranges are supplied by engines that we import and then convert it into leypower gensets and supplies. This trend will continue.

Mr. Ameen Tirani: Okay, but the profitability on your own manufactured engines would be higher. Is that a fair assumption?

Mr. K. Sridharan: Yeah, yeah, definitely.

Mr. Ameen Tirani: Okay sir, and just one question on employee costs. On a run rate basis, should we assume that this 144 crores would come down over the next 3 quarters or will it remain at this level broadly on a run-rate basis?

Mr. K. Sridharan: I won't expect this 144 crores to come down.

Mr. Ameen Tirani: Okay.

Mr. K. Sridharan: Compared to the previous year's second quarter, we can expect about 18 to 20 crores reduction.

Mr. Ameen Tirani: Okay, okay sir. Thanks a lot sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Ambrish from MF Global. Over to you sir.

Mr. Ambrish: Hi sir, this is Ambrish. Just wanted to get an idea about the order from JNNRUM because you mentioned a figure of 5,500 units, and in the press release which I have just gone through it, it mentions a figure of about 10,000, so can you just correct me what we are missing sir?

Mr. K. Sridharan: No, that 10,000 is for the industry.

Mr. Ambrish: Okay.

Mr. K. Sridharan: 5,000 is the volume for Leyland.

Mr. Ambrish: Okay, and sir, how are the realizations, just brief about the realizations and the profitability that we are making in this order?

Mr. K. Sridharan: Realizations may not be that robust compared to the realizations we get in the truck segment or in the private passenger segment because this is a very, very competitive bidding process that has gone through, so the profitability per se may not be very good, but certainly the volumes mean additional profits to us.

Mr. Ambrish: Okay, and this entire order book would be completed in fiscal FY'10?

Mr. K. Sridharan: No, no, before December certainly.

Mr. Ambrish: Okay, right.

Mr. K. Sridharan: So, I would expect major part of it will be done before September, but as I said it is subject to our bodybuilding consigns possibility.

Mr. Ambrish: Sir, if you can just give a flavor about how our realizations would move with this change in product mix and the price increase that we have taken over the next say 2 to 3 quarters?

Mr. K. Sridharan: The realizations should now start moving favorably once the JNNURM side is completed. Primarily because I expect the tractor trailer market to revive in the end of third quarter or the beginning of the fourth quarter, and I would also expect that the truck portion would be improving in terms of its share of the total industry volume. All that would mean that there is an improved realization possibility. On the net operating margin realization possibility also, you will see an improvement happening for the reasons I mentioned. A, because of our further reduction in material cost that we need to secure, and B, because of the pricing action that we took in July.

Mr. Ambrish: Sir, finally can you just correct me if the Uttarakhand plant operationalization would be from Q3 FY'10, I just missed that.

Mr. K. Sridharan: It will start commissioning or it will start producing by Q3 of this current financial year, but I would say for your working purposes, you can assume the fourth quarter to be the period when the volumes will start kicking in, and we don't expect to produce anything more than about say 2,000 to 3,000 vehicles there in the fourth quarter.

Mr. Ambrish: And can you just give an idea about the tax rate that would be applicable to us for FY '10?

Mr. K. Sridharan: The overall tax rate will be very difficult for me to comment. I can only say that you know if sufficient profits are made, we should be into the government taxation regime.

Mr. Ambrish: Okay, thanks a lot sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Ankur from Principal Mutual Fund. Over to you sir.

Mr. Gurvinder: Sir, this is Gurvinder from Principal Mutual Fund. Hello?

Mr. K. Sridharan: Yeah.

Mr. Gurvinder: Yeah, I just missed on the initial information you gave on your debt side. I believe the overall debt now is around 1,900 crores.

Mr. K. Sridharan: Right.

Mr. Gurvinder: How much is repayable in this one year out of this?

Mr. K. Sridharan: That will be less than 200 crores.

Mr. Gurvinder: This is less than 200 crores. You mentioned that overall capex is around 700 crores for this year, and you will be raising more debt or equity to meet that. How much is the working capital requirement now?

Mr. K. Sridharan: The working capital should, you know, we should be knocking out at least about 500 crores.

Mr. Gurvinder: So, that would mean it was around 1,000 crores as on March, it will come down to 500 crores.

Mr. K. Sridharan: That is right.

Mr. Gurvinder: Okay. Do you think now if you raise more debt and you have mentioned in your presentation that your overall debt can go up to 1.3 times your equity in the next 3 years.

Mr. K. Sridharan: Three years, yes.

Mr. Gurvinder: Yeah, for the next 3 years. You think any concern from the rating agencies to downgrade your ratings?

Mr. K. Sridharan: I don't expect that, but nonetheless I don't rule out that possibility also because, you know, lot of ifs and buts in that. Market might revive substantially, then a debt equity of 1.3:1 also should not matter much because our repayments are not going to be coming immediately. They are all mostly dictated by the ECB borrowings which come only in the year 2013-2014.

Mr. Gurvinder: No, the reason I asked you because all the three rating agencies have kept a negative outlook on the AA- long-term rating which you carry. I thought I just wanted to know your view whether there is a chance that you will be okay with the rating below AA- also.

Mr. K. Sridharan: Rating agencies may take a view to say that in spite of any revival happening. The company is going in for more debt and hence it has to be rated down. I can't rule out that possibility, but I would expect that you know the positive side of the business must also be factored in in that because many of these downgradings are also linked to that, so much about the ratios.

Mr. Gurvinder: Okay, we will keep an eye on this. Thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Govind from Credit Suisse. Over to you sir.

Mr. Govind: Hi, two questions, could you tell us how discounting was during the quarter, did your dealers have to discount to clear the 3,000 stock that was lying with them before you switched to cash and carry. Second question was on the volume outlook. You had said that you expect the industry to grow and I just deduced from your market share ambitions that you expect yourselves to grow as well, which would require you to grow at nearly 30% for the rest of the year. Just wanted to check if that is the outlook that you have as of now?

Mr. K. Sridharan: The discounts levels, Govind, I must say that you know it was very subdued in the sense we never had much pressure on the discount. Partly, I must also hasten up to say that it could be because the pricing action coming forward and with the levels of price. So, on a relative scale, there were discounts. Discounts are ranging anywhere between 20 to 25,000 rupees and that were very normal compared to the earlier periods, and there are no special discounts that we need to offer to clear the stocks. Either the dealer also need not have to offer special discounts to clear the stock. In fact, the dealers have been very insistent on not doing desperate sale and holding on to the inventory and then you know, which also in a way led to that profitability being affected, which is one of the reasons why we moved in for a cash and carry system, so discount levels are not impacted in that, and in terms of the outlook for this, yes, you are right. Our belief is that some of the speeds in which the order book positions would get serviced, particularly the JNNURM and the STU orders. So, expected revival happening on the MAV and the tractor trailer part of it, you know, because of hope of increasing our volumes, and all that I would say is that you know one can expect a 40:60 type of a ratio happening, 40% the full year volume to happen in the first half, 60% of the volume is to happen in the second half. Thus to reasonably expect growth to go above 60,000 is not something impossible.

Mr. Govind: Okay, and one followup question, last year you did 21,000 buses, how are you looking at it in the current year?

Mr. K. Sridharan: At least, we will do some 3000 to 4000 vehicles more in that.

Mr. Govind: Okay sir, around 24,000 to 25,000, and exports compared to 7000 that you did last year?

Mr. K. Sridharan: You know, thanks to the Sri Lankan market revival, if it happens, we should cross 9000 vehicles with a bit of a luck. Otherwise, it could be around 8500.

Mr. Govind: Okay. Okay sir, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Amol from Edelweiss Securities. Over to you sir.

Mr. Amol: Hello?

Mr. K. Sridharan: Yes.

Mr. Amol: Yes sir, I just wanted to understand from the cash flow perspective. We will be releasing close to 500 crores through the decreasing working capital.

Mr. K. Sridharan: Yeah.

Mr. Amol: And another 500 to 600 crores from the say operational cash flow, so where is the funding gap sir. Our capex plans are somewhere around 700 to 800 crores a year for the next 3 years, so why are we raising additional funds here?

Mr. K. Sridharan: Yeah, the timing part of it, you know, Amol, not all funds get released at a time when we need to money to be funded for our capex. For example, I could not succeed in reducing our working capital in the first quarter. I need to spend 120 crores by way of a capex, so this mismatch in the timing would make me to also raise that much money, and we also need to factor in that once the activity levels pick up substantially, my working capital has to go up again. You know, whatever reduction that I am talking of is only to bring it down to the levels as I see it currently.

Mr. Amol: Okay.

Mr. K. Sridharan: So, I don't expect any major funding gap immediately to be funded by this debt, which is one of the reasons why I am not in a hurry to raise the funds, but certainly we need to factor in the timing differences for raising debt.

Mr. Amol: Okay, so if I have look over a period of say 3 years, we will be raising you know operational cash flow itself will be in the range of say 2,000 crores, so we won't be needing any additional funds there, if I were to look at it from that perspective.

Mr. K. Sridharan: Basically, your view of the internal generations and this, and in our own assessment, we need to have not only money for this capex, I must have mentioned which I forgot to mention, I must say that you know we also need money to be invested for many of our joint ventures that go.

Mr. Amol: But this 2,000 includes those JV investments?

Mr. K. Sridharan: No, no. This 2,000 is excluding those JV investments.

Mr. Amol: And sir, how much would be additional investments there in the JVs.

Mr. K. Sridharan: 400 to 500 crores.

Mr. Amol: Okay fine, okay, and this includes the investments in the financing business around 150 crores.

Mr. K. Sridharan: Yeah, that is right.

Mr. Amol: Okay sir, thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Sachin Gupta from HSBC Securities. Over to you sir.

Mr. K. Sridharan: If you will have it this as a last but one question if you don't mind.

Moderator: Sure sir.

Mr. Sachin Gupta: Hello Sridharan sir.

Mr. K. Sridharan: Hi Sachin.

Mr. Sachin Gupta: I have one question on if I look at, I remember in one of the calls you have mentioned that buses have higher realization because of the bodybuilding work that you do, and in this quarter if I am not wrong, bus contribution is compared with Q4 has declined significantly from 44% to 32%, still your net realization is going up by 5%, where is the disconnect?

Mr. K. Sridharan: It could be that you know you need to factor in the defense sales that we made, export sales, the defense parts that we supplied to VFJ Factory, Jabalpur, that is included as part of our spare parts' revenue and comes in under the total revenue. That is one factor which would significantly boost compared to the last year's last quarter, we did not have any revenue flowing to VFJ.

Mr. Sachin Gupta: Okay sir, and then, defense revenue was around 45 crores you said, hello?

Mr. K. Sridharan: That is right.

Mr. Sachin Gupta: Okay, okay, thanks sir.

Moderator: Thank you very much sir. At this moment, I would like to handover the floor back to Mr. Jairam Nathan for final remarks. Over to you sir.

Mr. Jairam Nathan: Hi, thanks everybody for joining in on the call, and special thanks to Mr. Sridharan for being on the call as well. Thank you.

Moderator: Thank you very much sir. Ladies and Gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.