



# “Ashok Leyland Conference Call to Discuss the Recent Emission Norm Changes in India”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Ashok Leyland Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an 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. Ashish Nigam, from Axis Capital Limited. Thank you and over to you, Sir!

**Ashish Nigam:** Thanks. Hello everyone. This is Ashish Nigam from Axis Capital. Welcome to this Ashok Leyland conference call to discuss the recent emission norm changes in India. From the management team, we have Mr. Vinod Dasari, Managing Director of Ashok Leyland, Mr. Gopal Mahadevan, CFO, and Mr. K.M. Balaji, General Manager, Corporate Finance. I will hand over the call to Mr. Dasari for his opening remarks, post which we can have a Q&A. Over to you Vinod!

**Vinod K. Dasari:** Thank you, Ashish and thank you all for joining the conference call by Ashok Leyland. Let me just give a very brief preamble since I am also the President of SIAM so I could use this opportunity to also talk about this rather unfortunate decision that has taken for whatever reason. I will just want to make two points here. First and foremost, I strongly believe that environment is very important and if whatever laws and norms are there, the auto industry will always back them. We will always be in full support and in fact the auto industry in India has been incorporating emission and safety norms faster than any other country in the world.

Now if somebody wants to reduce pollution, ideally we should reduce polluting vehicles, we should have reduced I hope the country makes a decision to reduce BS-I and BS-II vehicles, which will not only reduce the pollution, but also provide a great fillip to the industry, tax revenues will go up, fuel efficiency will go up and pollution will come down, but nobody wanted to target. Secondly, just to set the rumours aside and put facts on the table, Ashok Leyland and the other Indian commercial vehicle manufacturers have been manufacturing BS-IV since 2010. Just for the record, Ashok Leyland itself has supplied more than 50000 BS-IV vehicles in the last five to six years, so it is not the lack of capability for BS-IV. We have had that capability since 2010.

Historically, the conversion, the changes always happen from BS-I to BS-II from BS-II to BS-III even the first change to BS-I has always been date of manufacture. So when we that making BS-II for seven years suddenly asking two days before the actual conversion to say that you cannot sell from day after tomorrow. It is rather unfortunate decision. I do not know what prompted it, but I will leave that aside. We will have to abide by the judgement and move forward.

Now let me talk about the impact on Ashok Leyland and what we are doing about it. First and foremost, this was a plan B that we had in mind for quite sometime that incase something bad like this happens because there was a decision earlier some 18 months ago where suddenly some cars more than 2000cc were added and assessed in Delhi, so one of the things that has really helped us was that we historically operate with very tight inventories in our retail network, so the actual numbers was that as we did the analysis over the last one week, we had 10664 vehicles in the total inventory, out of which only a 1000 approx. vehicles were in the dealer pipeline. Now these numbers might go up or down by plus or minus 10 or 20 or 30 numbers but this is the where we

are today. So it is in that same ballpark, 10664 vehicles out of which only about a 1000 are with our dealers so more than 90% of the vehicles are with Ashok Leyland and we purposely made sure that this was happening that we clear inventory of our dealers and historically we keep a very low pipeline with our dealer. We do not believe in push sale. All our sales to our dealers are cash and carry.

The second thing that we did is that out of the 10664 almost 2000 vehicles we will be able to export so that leaves us about 8700 vehicles to deal with. So we have done a complete detailed analysis of what these vehicles are and exactly what needs to be done. Now we did not talk about our strategy before March 31, 2017 because we did not want to let the cat out of the bag about the BS-IV emission strategy that we had for Ashok Leyland. First and foremost, let me say that Indian innovation has always shown through in Ashok Leyland when we were the first and only manufacturer in the world that BS-III vehicles with an in line fuel pump. We had developed and we will now be using a BS-IV vehicle with an EGR system at 160 and 180 horsepower. World over nobody uses or nobody has been able to achieve BS-IV capability with EGR higher than 130 horsepower.

It is a very quick summary for it. There are two ways to achieve a very good emission level either exhaust gas recirculation or selective catalytic reduction. Selective catalytic reduction requires huge changes in the exhaust after treatment including urea and all that whereas exhaust gas recirculation is only putting back some of the bad exhaust into the engine for recirculation. World over nobody is going to be able to achieve that for more than 130 horsepower. We have been able to achieve that for up to 230 horsepower. So as such why I am telling you is that this innovative technology allows us and it is by the way is done on the same exact engine platform as we ran for BS-III.

I can literally slot out the BS-III engine and slot back the BS-IV engine. The only things that we would lose by doing that change, there is some labour involved, which is some cost, anyway I would have used that same labour to make our BS-IV vehicles. We have some transport cost, but like I said majority of the vehicles are with Ashok Leyland, less than 10% of the vehicles are actually with our dealers, so very little transport cost. There are some items like coolant and washers and some brackets, etc., which we will have to possibly throw away and lastly the BS III engines that will come out, so what we do about these engines.

Roughly 8700 BS III engines will come out. Now just to put on record in the last seven years the total number of BS-III vehicles that we have made using these types of engine is 555000, more than 5.5 lakh engines are out there with vehicles on average nearly about 5% to 10% of these engines are replaced or reconditioned every year. As such the annual markets for these types of engine is easily somewhere around 25000 to 60000 engines. Today, in the aftermarket because of the aftermarket distribution costs and all that just an engine block alone costs as much as the total engine as such we are 100% confident that we can take these new engines and give some incentive or even without the incentive also we can easily sell these engines in the aftermarket. So we have these 8800 engines or so we will sell these in the aftermarket in the next few months. We are in no

desperate hurry to suddenly vest this off and do something and we will be able to get this done over the next few months.

I wanted to just summarize about three points. First and foremost everything that we will be doing will be done inside our plant to ensure two things, one is 100% compliance to CMVR and ARAI. Second every single one of these vehicles will be done with zero compromise on the competitiveness of these vehicles of BS-IV.

The second point that I wanted to make is that we did not panic. There were many who said we are giving huge discounts to sell the vehicle we did not do that. We knew exactly what is going to happen, we knew that all we have to do is to make sure that our dealer pipeline inventory was as low as possible let us set at 1000, which is less than one week worth of inventory by the way, we sold 15000 vehicles and we knew that what we had was a unique BS-IV technology leveraging the fact that we had very little inventory in the pipeline and leveraging the fact that we had BS-IV technology which is unique we knew that we could do this at no cost whatsoever to Ashok Leyland.

In summary, I want to make sure that I pass on that end-to-end when you look at this entire mess that has happened so that there will not be any impact on Ashok Leyland. There might be some accounting things that Gopal can talk about as to what will accrue in March 2017 versus what we will accrue in this quarter or what will be the benefit, but that is only a matter of a time, which we will be able to adjust.

Lastly, I want to remind you about one thing because of this kind of good products and good networks that we have had Ashok Leyland has over the last five years, we have gained market share from about 23% to about 32% when we finished the last fiscal. Not only that people were saying that all of this many people are competing in the market for prices and with discounts, we have not done that. As it is evident from the fact that we had eight consecutive quarters and that was up to last December, I cannot talk about this March as a quarter, but up to December we had eight consecutive quarters of double-digit operating margin that is the highest in the industry and we consistently provide that.

In fact, I should add that in the last fiscal year FY2017, we grew market share in every single segment. It is not like one product alone was selling and we grew market share in every single region and this has been our growth story for the last five years. As such, it is not like just South has done something. In fact, our growth in South has been flat. Everywhere else we have been growing faster. It is not just that one particular model is selling. Our growth rate has been across all the types of trucks and buses we make, so with that kind of focus on the market and customer, I hope that this very short-term distraction that we have for this emission, we are going to get out of it with no impact on Ashok Leyland. Yes it disrupts the manufacturing a little bit, but that is very minor.

We will continue our relentless focus on our customer to make them more profitable and our channel more profitable. We were the first ones to write to our dealers and say do not worry we are with you. In fact the dealers have suggested that they really applaud what Ashok Leyland has

done to remove their fears and they are now saying that we will contribute to the transport cost do not worry about it. So it is like one big family and I am very pleased that they have also come back and offered to take part in this.

Lastly, as far as the market is concerned because of this confusion, there is something good that happened. There was not enough time for prebuy. A lot of motorcycles and others were sold at huge discount, but commercial vehicles cannot be sold at huge discounts like that, but fortunately we have the ability to convert. I do not know about others and I cannot comment about others. So since there was not too much of a prebuy, I expect the markets to rebound again. We were expecting a huge dip in this quarter. There will not be a huge dip. I think overall the growth story of India will continue.

Last year, the overall industry volume was flat, but this year, we are hoping that there will be an upturn in the industry because all the signs are positive. The GDP is growing, the infrastructure is coming up, and the mining is coming up. All three indicators are pointing in a positive direction and many of our other things are doing well whether it is LCV, defense, and others, so we are very bullish about the market upfront.

I was just worried that there was all this concern and confusion in the market, people were making all kinds of statements and analysis about Ashok Leyland's impact. We did not want to react to it. We first wanted to do a full analysis internally to find out exactly what it is and we knew there will not be any impact, but we did not want to make a glib remark till we actually did the full an analysis. We have completed the full analysis. All plants have been told exactly what actions to follow and we can confirm to you now with absolute confidence that there will be no impact on the Ashok Leyland. Thank you. That is all I wanted to share. If there are any questions, we will be happy to take it.

**Moderator:** Thank you very much. We take the first question from the line of Jay Kale from Elara Capital. Please go ahead.

**Jay Kale:** Thanks for taking my question. Sir the first question was regarding the BS-IV engine that you mentioned. Is there is a difference in the cost for producing such an innovative technology for you versus the industry and how are you seeing the market of BS-IV vehicles now in the first eight to 10 days since we hear that one of your competitors has launched a BS-IV vehicle without any price increase, which indirectly means that they have also resorted to discounting in BS-IV vehicles, so how are you seeing the market and what is the cost difference for you versus the industry?

**Vinod K. Dasari:** First of all this is Indian innovation and we are proud that our costs will be lower than what is typically European technology a way of achieving this. we have taken 14% price increase since January, 4% till March and 10% now and we will have our vehicles still priced more competitively than the competition, so I do not know about their cost structure. I know that they are using a technology, which is quite different than ours. It is a European technology, which requires an urea dosing to be done for every 10 liters of diesel you use up about one liter of urea and urea costs more than diesel, so you cannot just look at fuel efficiency of diesel, but you have to also add the

cost of the urea and plus by the way diesel might be available nationwide. Urea is not available nationwide. If urea is not available nationwide and you run out of urea, the truck will come to a stop. I hope people realize that that this can cause serious problems to the vehicle and this is why we designed a vehicle, which is truly Indian. This will be Indian operating condition. So we designed a vehicle for the first time in the world, which does not have a SCR system or selective catalytic reduction system, which is an exhaust after treatment another big box. Then there is a specific electronics that that go into that calculate how much is the nitrous oxide coming out of the exhaust system. Based on that they put in a sufficient amount of urea to counteract that. All that of logic is not required in EGR engine.

**Jay Kale:** Okay and are you the only domestic manufacturer also to use this technology?

**Vinod K. Dasari:** As of now yes beyond 130 horsepower, we are the only ones. World over nobody makes it above 150 horsepower.

**Jay Kale:** Okay and Sir I understand you might have not be dumped inventory to the retail market with huge discounts in the last two days, but if the industry has done that how do you see the resale market going down in the next two to three months? Secondly, with this increased focus of the Supreme Court on the environment, do you think a likelihood of favorable scrappage policy for the industry is small right now than anytime earlier?

**Vinod K. Dasari:** I do not know why you say the industry has dumped vehicles. It is not in commercial vehicles that are the total volume sold in March was less than what was expected. So in fact everybody wanted to clean up the dealer part because unlike a motorcycle, which can be disposed off from a dealer, commercial vehicle cannot be just disposed from a dealer. It has to be brought back for conversion. So hence our focus was on selling it at dealer whatever little inventory that they had. So fortunately for us, we did not carry enough inventory at the dealer anytime. We always believe on cash and carry and we maintained less than five to seven days worth of inventory with our dealers. So that helped us. I do not know about others. Now specifically your second part of the question was on this scrappage policy, this is something that the auto industry has been pushing for the last seven to eight years. I have personally been involved in trying to get this done. I think it is very close to happening. I keep saying that if your want to reduce pollution, reduce polluting vehicles. It is as simple as that. Me and Siam went back to the government and also offered up to 1% to 2% discount on MRP on anybody who brings us a certificate saying that we have scrapped an old vehicle. So we are working with the government. Hopefully, it will be done.

**Jay Kale:** So you mean to say a mandatory scrappage policy or a voluntary kind of a thing?

**Vinod K. Dasari:** There are both. I do not know how you can make it voluntary. Nobody will do it.

**Jay Kale:** Thanks and all the best.

**Moderator:** Thank you. We take the next question from the line of Hardik Doshi from First Voyager. Please go ahead.

- Hardik Doshi:** Thank you for taking the question. I just want to clarify. So with this new EGR technology that you have, does that mean that you do not need change your engine either from maybe mechanical towards inline and you used to be in compliance with Bharat-IV or there are still changes required out there?
- Vinod K. Dasari:** No. Let me take a specific example of a 180 horsepower, which is the most predominantly used horsepower range. Today, we use six cylinder eight engine for BS-III vehicles. All I do is take that same six cylinder B series B platform engine and I add what is called an exhaust gas recirculation to it. So there is exhaust gas 10% of it is captured there is a valve that times it and 10% is put back into the system, so same platform, same overall block, and head and all of that only an additional item is added. Of course there is new wiring harness that is required for an onboard diagnostic, but those are all priced into the BS-IV vehicle anyway.
- Hardik Doshi:** So the engine does not change at all?
- Vinod K. Dasari:** The engine is changed because there are new components added to it. It is not the same engine as BS-III, but the carcass of the engine is the same.
- Hardik Doshi:** And the fuel injection system is not changed?
- Vinod K. Dasari:** Sorry.
- Hardik Doshi:** The fuel injection system is unchanged over there when it comes to installing the EGR.
- Vinod K. Dasari:** No. Fuel injection system is electronic. It has is common rail system that we are using at 180 horsepower. Previously, we were using an inline system.
- Hardik Doshi:** Okay got it. That was just a clarification.
- Moderator:** Thank you. We take the next question from the line of Pramod Amthe from CIMB. Please go ahead.
- Pramod Amthe:** Thanks for this opportunity. First of all can you clarify you are saying you can comply up to 180 BHP am I right?
- Vinod K. Dasari:** No. I can comply with all the engines that are out there. We can make up to 230 horsepower using our Neptune engine through the EGR.
- Pramod Amthe:** So all your 37-tonner even up to the tractor trailers will be covered by this technology?
- Vinod K. Dasari:** Yes.
- Pramod Amthe:** And in the previous question, you said you are moving away from inline to CRDi to comply is that right way to understand?

- Vinod K Dasari:** No, for BS-IV, EGR yes everybody is using a common rail system and we are also using a common rail system because it is required to have an electronic interface to something that is onboard called an onboard diagnostic. Remember unlike in BS-III, in BS-IV, if the vehicle is not meeting emission norms there are sensors, which tell the onboard diagnostics that the emissions are not being met and if no reaction is done then the vehicle comes down to stop. Now if I have an electronic engine, so I can just feed that signal directly to this onboard diagnostics, but for SCR engines you have to have tail pipe sensor post the SCR to make sure that there is no nitrosulf that is emitted and that comes back and that gives the signal and if there is no urea available then the vehicle can come to a stop, which is not the case in actuality.
- Pramod Amthe:** I completely appreciate the details of the technology. Having said that you are saying you will leave apart the inline now for moving to BS-IV is that the fair judgment or you will still try to comply with inline for the BS-IV?
- Vinod K Dasari:** No all our engines are electronics. Nobody is using inline engines for BS-IV.
- Pramod Amthe:** But in that sense it is a big technology upgrade from inline to a CRDi is intuited and hence how are you pricing this to the market price?
- Vinod K Dasari:** This has been built into the BS-IV prices. We have said nearly 10% price increase, so that takes care of the CRDi, that takes care of the wiring, that takes care of the onboard diagnostics, that takes care of all of that and yet our overall system is much cheaper than others, so hence we are able to despite giving a price increase, we will be able to price our vehicles competitively.
- Pramod Amthe:** So have you disclosed the BS-IV prices to the market and what is the extent of hike you have taken for BS-IV versus BS-III?
- Vinod K Dasari:** Yes we have told that we have taken a 10% price increase.
- Pramod Amthe:** So what is your expectations on the market in the sense how will it absorb a 10% type of a spike for BS-IV till September. Will the customers be happy to accept it or will there be inertia you need to support it with incentives or the volumes will collapse what is the feeling?
- Vinod K Dasari:** No. It is not how much percentage I agree. It is whether I am competitive or not and we believe that increase that we have done we will remain competitive, so I do not expect any negative sentiments from this. The market will absorb the price because everybody has to increase price. Some people who are already with very high price, they might not have chosen to increase the prices. That is up to them. That is their strategy.
- Pramod Amthe:** If I understand rightly your differentiation is more on EGR versus SCR whereas the core engine will move along with the industries towards the year?
- Vinod K. Dasari:** Our core differentiation in truck industry is fuel efficiency. I want to make sure that my customers are consistently getting better fuel efficiency and also having a system that continues to perform, I do not want to digress, but I will just say my industry has only two things. I must give a vehicle

that performs better than the next guy and I must have a vehicle and a network that continues to perform, it should not breakdown, otherwise if I tell them that my vehicle is more fuel efficient but if it is broken down then how do I prove that it gives better fuel efficiency. So we kept this in mind four, five years ago when we are designing our future BS-IV strategy. Every segment we said we will target the lowest cost option to get to the best in class in fuel efficiency that was step one. Then we said let us design the system in such a manner that it is India centric and it make sure that it does not fail despite somebody not having urea, somebody not having some other kind of stuff. We also have urea type of vehicle. We may have running them from 2010, but we said we must, for example in case of monsoon if the water gets into the tail pipe and what backward the switch it could even lead to an explosion whereas not in the case of EGR because it is mounted on the engine.

**Pramod Amthe:** Thanks for the patient explanation. One more add on some of the concerns for EGR has been that as you get into bigger engines, the fuel efficiency drop is much higher because you are after treating the exhaust again into the engine, so how are you trying to address and that is one of the reasons why people are trying to move into SCRs in a bigger engines?

**Vinod K. Dasari:** Absolutely right that is why more than 150 horsepower engines world over they go to SCR, but it is not just after treatment, it is also the combustion management, it also the fuel injection management that we do properly and like I said our primary differentiator is fuel efficiency, after achieving BS-IV norms, look the compliance as to be hygiene. Everybody has to meet that. Once you achieve that the next thing is get the best class in fuel efficiency. After you achieve that get in best in class in terms of reliability this is what our differentiating factor and we try to make sure that we achieve an optimal combination of this. If anybody else has not been able to achieve BS-IV with world-class level of fuel efficiency and we able to do it with the EGR that is their problem.

**Moderator:** Mr. Amthe may be request to come back in the question queue please. Thank you so much. We will take the next question from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

**Sanjay Doshi:** Good afternoon Sir and thanks for the opportunity.

**Moderator:** Mr. Doshi your voice is not audible.

**Sanjay Doshi:** Good afternoon Sir and thanks for taking my question. I just wanted to clarify one thing. You mentioned about 10% to 11% price increase for BS-IV vehicles. This would be good enough for the extra cost that we will have to incur for the BSIII vehicle that we are likely to retrofit?

**Vinod K. Dasari:** Let me separate out the BS-III costs for retrofitting. The engine that I take out from a BS-III engine I was telling you was sold at an aftermarket with the margin which will more than recover the total cost by the way, the total cost of all of this mess for us is roughly about Rs.20 Crores, contrary to the hundreds and thousands of Crores that some people had put out there in the market. So as I had explained to you what we are doing with it. The total cost for us given the analysis that we have done and the strategies that we have put in place will be roughly about Rs.20 Crores. So this Rs.20

Crores I will easily recover by selling engines in the aftermarket that I take out from the vehicles better margin. Let us part that affect, so the BS-III mess that was caused by this decision is resolved and we will get out of it without any impact and possibly something better which I do not want to talk about, but BS-IV vehicles whatever the changes that we are going to put in the new engine, okay that much has been built into the price.

**Sanjay Doshi:** Understood Sir. Other thing what I wanted to clarify you mentioned the opening remarks there could be some timing mismatches in terms of booking of certain line items, can anybody explain that business?

**Gopal Mahadevan:** Just like Vinod mentioned. There are two parts to this. One is when you take BS-III engines out and then fit them with BS-IV vehicle what happens you actually produced a BS-IV vehicle, which has its own pricing and, will be sold as such. As far as BS-III engines and BS-III systems are concerned, once you take them out till such time you sell them, there is an interim period now, fortunately, unfortunately that is you have interim period called March 31, 2017 so in March 31, 2017 what typically we would do and this is done in terms of conservatism also, if you say, when we have taken out the BS-III systems, this is the approximate cost of the systems some of which cannot be sold like what Vinod mentioned there are washers, there are lube, there is coolants, and stuff like that, piping, which may have to be cut etc., so what we plan to do is still April 10 or 11, we are still figuring out how to do this, but that in advance note is what we have shared with you is that we possibly will take a kind of a charge on March 31, 2017 but that charge is an interim period because when you do it on end-to-end basis on a cash and profit basis, whatever we have taken out today, we are going to sell it in the New Year. We are going to sell it engines, we are going to possibly sell it in the aftermarket, we are going to do some of the exports which Vinod mentioned about and there is also the power solution business which makes use of engines, so when we start redeploying these parts back into the business which we are very confident of doing, these sales will start generating margins still more than compensate these small charge that we may have to take at the end of the year, now whether you are going to take the charge and not is the question that we will have to take after factoring in the resalability of these products. I hope I have clarified that.

**Sanjay Doshi:** Last one thing if you can just help us to understand how are we get for BS-IV vehicles in terms of vendor base and what kind of production we can do today of BS-IV entire capacity is moved to BS-IV?

**Vinod K. Dasari:** No problem there like I said for us it was a very simple change because of the technology we chose we adopted.

**Sanjay Doshi:** Great Sir. Thank you very much and all the best.

**Moderator:** Thank you. We will take the next question from the line of Chirag Shah from Edelweiss. Please go ahead.

**Chirag Shah:** Thanks for opportunity and thanks very much for the detailed explanation and clearing our doubts. Vinod, two questions I had. One on price hike, effectively you were indicating 10% is a price hike for transition from BS-III to BS-IV and does this only include the cost element or you are also able to do a mark up on it given the transition phase and the entire confusion at ground level, can you just help us to understand that?

**Vinod K. Dasari:** I do not want to tell you the exact mark ups and all of that, but let me tell me this way Mr. Chirag that we have had eight consecutive quarters of double digit operating margins because we have priced our vehicles properly and that is not included in the March quarter which I cannot talk about and we will continue to focus on ensuring that our operating margins are at towards such levels. So in summary if I say that it would not just be cost-to-cost it will definitely have a mark up.

**Chirag Shah:** It will have a mark up. This is helpful and the 10% hike seems to be slightly on the higher side because in your case 10% for industry other players it would be higher than that, we all were under impression that the increase could be in the range of 5% to 8% as an industry level, so if you can help us to understand which is the biggest element of this jump, is it CRDi technology which is the biggest element or is this is SCR technology which is the biggest element of this jump?

**Vinod K. Dasari:** While the industry expects a cost increase right, because of technology there is an increase because of electronics, there is an increase because of the material cost that has gone up also over the last few couple of months or so, some people had increased their prices in March, they are not increasing their prices now, so we combined all of this and we did make 8% to 10% increase depending on models, some models are high, some models are lower of course.

**Chirag Shah:** It takes care of the of the commodity inflation also now?

**Vinod K. Dasari:** Right.

**Chirag Shah:** This was really helpful and last question on demand side somebody had again asked if you can just summarize your initial views on demand because how things are looking on the demand front, because it is still unclear because quarter back or sometime it was said that things look very unclear as of now.

**Vinod K. Dasari:** So as now when we say last year we thought the market will be up 10% or 15% because of the huge prebuyer for the BS-IV coming in April 1, but as you saw the M&HCV market was flat in 2015-2016 to 2016-2017, there was no growth whatsoever. It was flat. So since there was no prebuy and the demand continues to be good Chirag, there are reasons as to why demand has accelerated viz., one is the GDP, which continues to move well. Second is infrastructure as government is building lots of roads and ports and all of that and third is mining. For once all three, I do not know so much about mining, but at least the two are really happening and rocking, so that boards well for our industry. On top of this our exports market is doing very well. We have got certain large orders in Africa that we are starting to export. Our LCV business is very buoyant. Now that we are free from our joint venture we are really growing our LCV business. We have won some large tenders in our defense business, 12/13 tenders that we have completed in defense is just one.

Aftermarket business grew by 30% last year; it will grow more in this year so I am very bullish this coming year.

**Chirag Shah:** Fair point. Sir if I can squeeze in one last question on the LCV front also is the cost ratio similar or is it lower or higher for the transition?

**Vinod K. Dasari:** LCV is very minor change because they were selling in BS-IV for long time anyway right. Most of their vehicles are sold in the cities, which are anyway BS-IV.

**Chirag Shah:** Thank you Sir. This was helpful. All the best.

**Moderator:** Thank you. We will take the next question from the line of Kaushal Maroo from DSP Blackrock. Please go ahead.

**Kaushal Maroo:** Thanks for taking my question. Sir what is the price gap between SDR and EGR for you and your competitors and how much is the gap between the fuel efficiency of both these technologies, roughly if you can quantify?

**Vinod K. Dasari:** Neither of the questions I can answer you straight because first of all, I do not know the pricing of our competition, but remember we will keep our prices at a level where we will continue to grow our market share and yet continue to have double-digit operating margins. There are two to three key drivers and we will continue to focus on that. So wherever our competition comes in we will act accordingly. As far as SCR versus EGR is concerned there is no thumb rule, but for very large engine you require SCR or small engines you use EGR. It is this transition between EGR and SCR with somewhere around 180 to 230 horsepower. Nobody was ever able to do that in EGR. We were able to do that with EGR and achieve world-class fuel efficiency. So that is Indian innovation and we are proud of it. But SCR in general will cost much more than an EGR system.

**Kaushal Maroo:** This much more in like Rs.30000 to Rs.50000 increase or something, any ballpark there?

**Vinod K. Dasari:** Roughly that.

**Kaushal Maroo:** Thanks a lot.

**Moderator:** Thank you. We will take the next question from the line of Aryn Pirani from Deutsche Bank. Please go ahead.

**Aryn Pirani:** Thanks for doing the call. I just had a few clarifications; you mentioned that as of when the decision was announced you had like a 1000-odd numbers in the dealer pipeline. So are you saying that even for those you did not have to like give any excessive discounts? I mean everything is returning to you? I mean, can you just clarify on that?

**Vinod K. Dasari:** So the 1000 vehicles, which are left with our dealers, which did not get retailed or sold before March 31, 2017 we, did not want them to be desperate and sell them. Do not worry about it. If something is left with you, you send it back to us. We will fix it and we will send it back to you,

but just historically we can produce little inventory with our dealers it was easy for us to dispose off whatever was there with them.

**Amyr Pirani:** Okay. Just again on the technology, just wanted to understand between a BS-III and BS-IV is there a significant change in the drive train also or is it more or less the same?

**Vinod K. Dasari:** For us it is more or less the same.

**Amyr Pirani:** Okay, so you do not have to incur any extra cost in dismantling that?

**Vinod K. Dasari:** It is just like our engine is a slot out like changing a battery. Take out one battery and put another on it without one type of battery you put in a different type of battery and that is all.

**Amyr Pirani:** That is very impressive.

**Vinod K. Dasari:** Some people will say that is jugaad but I look at it saying that that is Indian innovation.

**Amyr Pirani:** Just lastly on the accounting thing, you mentioned that you may have some charge on March 31, 2017 so just for our understanding so basically since you will take some time to dispose off either in exports or in the aftermarket in the interim the way I look at it your profit and loss may not get impacted that much, but may be your balance sheet, inventory and assets could go up. Is that the correct way to look at it?

**Gopal Mahadevan:** What will happen is we will have our inventory going up. It is not inventory is going up. Frankly, I just wanted to set up a perspective in addition to what Vinod said very quickly. This is very exceptional circumstance. This was not envisaged by the industry at all even if you were to look at what happened in Europe where there was more than a year that was given for Euro-V to Euro-VI transition. Now having said that what we tried to do was two things, one is we did not want to devalue the inventory that we have through panic selling. We did not want to push thing nor take it by one get one free kind of stuff which possibly what all industry is expected to do. What we said is we have got good inventory. The inventory is due. This inventory can be sold so the first logical thing to do is to see how much of this inventory can we export. So we have identified approximately about 2000 to 3000 vehicles to be exported. So now the balance that we have we take out the BS-III systems and then replace them with BS-IV systems and we sell them as brand new BS-IV vehicles because that is what they are. Now we have brand new BS-III systems with us and they have a great use for us either in the aftermarket or in the power solutions business or we can do exporting of that as well. So it is not these is history. These are not vinyl records. They are absolutely current systems, which have to be deployed appropriately. So once these are all in inventory as of now. So the point that comes up is when we take out a BS-III system and switch over to a BS-IV system there is some bit of stuff, which we cannot use. Some wiring harness where we have to be clipped, some tail pipes, I know, some exhaust systems may have to be clipped and etc., and the new parts in the system which have to be taken out radiator coolant have to be taken out, and stuffs like that, nuts, brackets, etc. So the team has been actually burning the midnight oil because we already had a plan B, but when we got into part number one, we did look at what is the

implication and the impact on a temporary basis because it is going to be that it could be about 20 to 30 Crores maybe 20 Crores now we have to decide whether we are going to take an impact because what is going to happen is once we have this BS-III parts with us we are going to sell them and when we sell them we are going to make margins out of it. And those margins are going to be significantly higher than the impact that we have to take, so contrary to expectations which was there in the market what we actually see is going to be that this entire exercise from a BS-III to BS-IV is not going to have a negative impact on the P&L or balance sheet of Ashok Leyland but there is a timing issue as on March 31, 2017, so we may have to take a bit of a charge and we may have to reduce the cost to the inventory but then we carry the inventory for the next six months and close the matter out. That is how we see the profit.

- Gopal Mahadevan:** But if we have to take a charge, it will be to the tune of 20 to 30 Crores max.
- Vinod K. Dasari:** Absolutely which we will recover through the margins.
- Amyr Pirani:** That is very exhaustive and very helpful. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Pratik Poddar from ICICI Prudential Asset Management. Please go ahead.
- Pratik Poddar:** Sir just one small clarification, I am just thinking if this allowed as you said the vendor base is extremely geared up, it is also not that bad is what I could gather from your commentary, the production number should not be that much impacted right?
- Vinod K. Dasari:** No, the good thing about all of this is I do not have to produce a lot right, if I have a demand of 10000 vehicles and sitting on 8000 right now on inventory, I will use half of these vehicles for conversion and produce the balance half, so remember I was saying that in the vehicle I do not have to change the frame, I do not have to change the axles, I do not have to change the wheels, I do not have to change the driveline nothing, I simply take out an engine and put a new engine in. I have a BS-IV vehicle, which is brand new, which complies to all the ARAI norms or CRDi norms it is outstanding in terms of the BS-IV vehicle performance in terms of fuel, so I do not even as the vendor base is not ready let us say, and we can only deliver for our associates the thing that changes in Ashok Leyland is only the engine and its peripherals, rest of it stays the same.
- Pratik Poddar:** Sure, so second question would be, do you generally carry such high inventory or this inventory was, generally as you just said you had?
- Vinod K. Dasari:** I do not carry inventory, we only carry raw material of two to three days inventory, I am sorry may be I was not able to clearly communicate, if I have a production plan of let us say 10000 vehicles, which I would have normally produce and I had a vendor base geared up to make those 10000 vehicles, your question was what if the vendor base is not geared up. I was trying to explain that even first of all I believe the vendor base is geared up and if in case the vendor base was not geared up my production has not required to be that high because I will start to convert some of these vehicles, which I have already made 95% to be as force anyway, I only need to replace the engine.

- Pratik Poddar:** No, my question was, I think in the initial remarks you mentioned that the vendors are quite geared up, so my only limited point is the 9000 kind of inventory is it that you would have this year after year after year or this was a one off evident wherein such kind of high inventory was build up? The closing inventory would be closed to 10% or say 7%, 8% of whatever your standing volumes are?
- Vinod K. Dasari:** Always the entire pipeline if you take is roughly four to six weeks, always any given time regardless BS-III, BS-IV March 31, nothing, always at any even time the entire pipeline of inventory is about four to six weeks including our dealers and we do not treat our dealer inventory like somebody else's inventory, we take full responsibility for it also, so since it was four to six weeks and so that about where we are 8700 vehicles is what I build up with, which is about four to six weeks anyway.
- Pratik Poddar:** That is very helpful, how much of this is currently with the dealer Sir?
- Vinod K. Dasari:** Less than a 1000.
- Pratik Poddar:** Okay. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Manish Bhandari from Vallum Capital. Please go ahead.
- Manish Bhandari:** Sir, is this IPR of your new BS is shared by the vendors, how does the IPR is working?
- Vinod K. Dasari:** It is your IPR.
- Manish Bhandari:** It is your IPR?
- Vinod K. Dasari:** Yes.
- Manish Bhandari:** So in your vendor base are you working with the MNC's to support you on this endeavor because I was under impression that these usually BS norms changing IPRs at the MNC only?
- Vinod K. Dasari:** IPRs is with us; we make 100% of our engines.
- Manish Bhandari:** Okay. Thank you.
- Vinod K. Dasari:** Unlike some others we make all our engines.
- Manish Bhandari:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Thanks for this call Sir. Most of my questions have been answered, but just to understand a bit better because I mean clearly there is a wide range of trucks, but there are two main engine families

that you use so like just to take an example versus 25 tonner and 37 tonner and the prices are quite different, but we should see a lower price hike as a percentage on 37 tonner right?

**Vinod K. Dasari:** It is an average that I want to say. I think the price list are already out in the market, I am not personally privy to that, businesses control that, they are all measured on margins and they would have increased the prices whatever the market can absorb regardless of what is the cost change.

**Gopal Mahadevan:** I think there is a lot of concern about, I keep on getting this question that seems to be coming about this price increase, believe me we are not going to do anything, which is unreasonable, which is going to shoot ourselves in the foot we need to grow profitably I think Vinod has been stating that in the past calls also we need to pursue meaningful market share at the same time we need to ensure that our P&L is profitable, our ROCEs are there, so please be rest assured that we need to do the price increases when we believe that they needed.

**Vinod K. Dasari:** That is why I pointed out earlier that we have gained market share for five years in a row and at the same time had shown eight quarters a double digit earning cannot happen if I price it wrong.

**Sonal Gupta:** But just the other followup, like you mentioned I understand you have taken like you mentioned roughly a 12%, 14% price hike in January and I appreciate the fact that you are still competitive versus competitors in terms of pricing, but for the industry as a whole do you see the industry sort of slowing down because of this thing or you think that this is something that the fleet operations can absorb?

**Vinod K. Dasari:** No I think, you know, in our industry, people will continue buy a vehicle regardless of changes due to regulation or taxes or anything so long as we have work to do, he does not buy a vehicle just because he likes the look of it, he wants to buy a vehicle because he wants to do business with it. Now today the demand is high for new vehicles and by the way BS-IV vehicles at least in our case, in most cases, in most of our models they are more fuel efficient than BS-III, so he has a chance to make more money if he buys BS-IV vehicles of Ashok Leyland, so if he wants to increase his profitability maybe they will buy more vehicles but there is so much demand of just regular goods movement, there is so much demand of road construction equipment, our tipper sales are up like 40%, 50%.

**Sonal Gupta:** Right, just on the EGR thing that you mentioned like because the typical thing is that because you are re-circulating I mean there is a drop in fuel efficiency, but you are saying that your BS-IV is more fuel efficient than your BS-III?

**Vinod K. Dasari:** Not necessarily, look all the small vehicles are always with EGR. They do not have a drop in fuel efficiency. It is how you control it. It is how to inject fuel. There is an EGR cooling that happens. There is an EGR valve that controls. It is not simply just plug in all the exhaust back into the system. It is a complex technology that has to be mapped with the combustion, which has to be mapped in the fuel injection, so there is multiple things working. It is not just a plug and play thing that others have not tried. Nobody in the world was able to achieve it. We were able to achieve it and we might sound like we are bragging how Ashok Leyland can achieve it, just to give you

credibility, nobody in the world had achieved BS-III using a mechanical fuel pump, okay, we are now selling vehicles, our engines to the very people who had given us the original engine technology. This is, we have 300+ engineers working only on engines, so we know how to make engines, we are very proud of the engine technology that we have and this is the result of the investments that we have done over the last several years.

- Sonal Gupta:** Okay. Great. Thank you so much Sir.
- Moderator:** Thank you. We will take the next question from the line of Raghu Nandan from Quant Capital. Please go ahead.
- Raghu Nandan:** Thank you Sir for the opportunity. Just one query, what would be the BS-IV inventory in the system with company and dealers. Thanks.
- Vinod K. Dasari:** Negligible.
- Raghu Nandan:** I mean, the full-fledged production for BS-IV started only from April right Sir?
- Vinod K. Dasari:** Yes.
- Raghu Nandan:** So would there be a possibility that the demand could outpace the production, you sense any such scenario?
- Vinod K. Dasari:** No because like I said not only we are geared up for the vehicle production, I also have the additional vehicles, which I can convert quite fast. One way or the another we will meet the demand and please remember I told the earlier question that was asked that we have no change in frame, we have no change in axles, we have change in driveline, the only thing that I have to change is an engine, so we already know how to make this.
- Raghu Nandan:** Understood Sir. Thank you and just last one question, would there be any hope that the government could approach for the Supreme Court for a legal recourse and OEMs would be allowed to sell the BS-III inventory is there any hope?
- Gopal Mahadevan:** Well, we always hope for miracles, but we do not plan for them, let us see the government does something great whatever is leftover inventory I will sell it, but meanwhile we will continue, we have found the way and we knew that we had a way to not lose money because of this decision and so we never panicked and if something better comes up we will be happy to do.
- Raghu Nandan:** Understood Sir. Thank you very much Sir.
- Moderator:** Thank you. We will take the next question from the line of Basudeb Banerjee from Antique Finance. Please go ahead.
- Basudeb Banerjee:** Thanks. Most of the questions have been answered; couple of things and any changes to your blended discounts now over and above now this increase pricing?

- Vinod K. Dasari:** I do not know about discounts and all of that. We always look at only market operating prices, so there is no such thing that so much as discount, it is high or low, it does not matter. We actually look at what is the net selling price and we make sure that that is enough to get us the market share as well as our operating margins.
- Basudeb Banerjee:** The second things like because 14% capital cost increase in a span of three months is too significant, so may be say five, six, seven months down the line when this new models will constitute say 5% of the truck population, so how as a fleet owner how will they price their freight rate for that specific new truck because there is a huge difference in the capital cost, so you cannot differentiate between the freight rate of these thing that this is the higher capital cost truck or this is the lower, cheaper older truck so, how do you see that situation panning out?
- Vinod K. Dasari:** We will still be very competitive in the market.
- Basudeb Banerjee:** Pardon.
- Vinod K. Dasari:** We will still be very competitive in the market.
- Basudeb Banerjee:** I am just trying to understand from our fleet owner's perspective that has bought your trucks at a 15% higher capital cost compared to November and in his own same fleet with older trucks how we can manage with the same freight rate but using those 15% costlier trucks?
- Vinod K. Dasari:** First of all these costlier trucks have mandated so it is not like he has a relative cost disadvantage compared to the next transporter sitting in his area. Anybody else who has to buy has to go to this level and if he has load he has to buy the vehicle so he can choose between us and other manufacturers and I am saying that my vehicle will be competitive but he has to increase the price take a higher cost for acquisition regardless of who he buys it from and second thing is this higher cost acquisition will partly be offset by him getting a higher freight rate, remember ultimately while we talk about all of this environment ultimately the cost is borne by the consumer. Whether we increase cost for the vehicle, which is passed on to the transporter, who passes it on to the freight rate, and that is how it eventually comes down to the material goods that are transported. Secondly at least in our case we know that for BS-IV vehicles there is much better fuel efficiency then BS-III so he will actually make more money.
- Basudeb Banerjee:** Surely Sir. Do you see the system presently taking care of this required freight rate increase to combat this regulated price increases?
- Vinod K. Dasari:** Yes has been always the case.
- Basudeb Banerjee:** Sure Sir. Thanks.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the conference over to Mr. Ashish Nigam from Axis Capital for closing comments.
- Ashish Nigam:** Thank you. Any closing comments from your side, Vinod or Gopal?

**Vinod K. Dasari:**

I would just like to have two comments, which I was saying in summary. We have for the last five years gained market share in every single segments and every single region while consistently maintaining over the last couple of years a double digit operating margin and this has come about because we have continued focus on our customers and very disciplined approach to how we deal with our dealers and that discipline allowed us to keep a very little inventory with our dealers and along with that we will always focused on developing a BS-IV technology, which is very unique and very Indian in its nature which allows us to not have huge cost increase and yet provide a fuel efficient product in the market and because of that investment in technology and because of the fact that we are very disciplined in our pipeline inventory, we are able to very confidently state that we will have no impact on P&L because of this. That is all I would like to say and Gopal as mentioned that there might be some carrying over between March 31 and you want to add something.

**Gopal Mahadevan:**

Just to add Vinod mentioned is that there would be an accounting kind of a gate as of March 31, so will have to see accounting but overall I think what we should look is always in the medium term what is the kind of an impact in relation to what was possibly I think being analysed so, I believe that Leyland will not be affected by this in the medium term of the next 5 and not even in the medium term in the next four to six months we should be out of this. As we have already planned for avenues for the BS-III inventory but more important I just wanted to touch upon one more thing I think please understand that we are raising prices at most appropriate time and this is not to be seen at the capital cost increase of 14% over what was the last year because frankly material prices have gone up and we have been working consistently internally on saving material cost, optimizing design, giving different skews to customers and that is one of the reasons why we are actually seeing this growth and the market share aside of the fact that we have been disruptive growing our network and providing service solutions, which have reduced the total cost of ownership. So when a customer buys he chooses between Ashok Leyland vehicle and competition vehicle and let us assure that between Vinod and me would like to assure you that even today with all of this we could actually be offering much more competitive solution to our customers then we do not believe that this is something that anybody needs to get too worried about, not increasing prices and selling the BS-IV vehicles at BS-III prices is not I believe the most appropriate thing because there are cost increases.

Any mature industry would ensure that if there are jumps in costs up to a certain point they can be absorbed by volume trade-offs but after a certain point of time it becomes prudent and more importantly financially prudent to keep passing on costs to the customers after seeing how much you can actually take it off internally. So be rest assured that these price increases that have been done after a lot of deliberation and we did the same thing in January when 4% price increased was taken and we did not see any impact of volumes because we are more I would say that we are very well placed in terms of competition as far as total cost of ownership of the products is concerned. Thank you.

**Ashish Nigam:**

Excellent. Thanks again Vinod and Gopal and Balaji for giving Axis Capital opportunity to host the conference. Thank you. Have a good day everyone.



*Ashok Leyland Limited*  
*April 10, 2017*

**Vinod K. Dasari:** Thank you.

**Moderator:** Thank you very much. On behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.