Operator

Ladies and gentlemen, good day, and welcome to the Ashok Leyland Q3 FY '14 Earnings Conference Call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Mr. Kaushal Maroo of Emkay Global. Thank you and over to you, sir.

Kaushal Maroo, Research Analyst

Good morning. Thank you for joining us today. We would like to welcome the management of Ashok Leyland and thank them for giving us this opportunity to host this call. I would now like to hand over the call to Mr. Gopal Mahadevan, CFO of Ashok Leyland, for the opening remarks. Over to you, sir.

Gopal Mahadevan, Chief Financial Officer

Thank you, Kaushal, and good morning to all of you and thank you for the interest in Ashok Leyland.

I think you would have seen the results for the quarter as well as for the nine-month period. And the overall numbers as we published is 1,953 crores, and we've had a profit -- loss after tax of 167 crores. And this has been after factoring in exceptional items, which have included profit on sale of long-term investments and also sale of certain immovable properties and also taking into account a charge on account of the VRS scheme that we have announced.

Having said that, I think since the numbers have been -- I don't want to delve too much into the numbers and read out the numbers because I presume they're read. What I thought I will do is to kind of set a perspective about what's happening in the industry and keep it very short so that we can have the call open for questions.

I have with me Mr. Balaji and Vijay Saradhi [ph] who works with me in the Investor Relations team, and let me proceed now. As we're all aware, the macro-economic conditions continue to be sluggish and there was no respite from the declining trend that the commercial vehicle industry has been witnessing.

So we have seen actually now possibly seven quarters of continued decline, and that has been something that this industry has never witnessed. And we are actually hopefully -- we keep saying that every quarter, but hopefully December we hope is the bottom of the barrel. The industry continued to witness a steep decline in SCV [ph] sales for the third quarter as well, with a 31% decline in TIV in Q3 to 39,550 units, I'm just rounding up some of the numbers, from 57,400 units in the same period last year. So, we've had a 31% drop.

The truck segment witnessed a 31.5% decline to about 33,480 units and the bus segment declined about 29% to 6,074 units. In Q3, Ashok Leyland gained market share marginally from 22.6% to 22.7%, that is from Q3 last year to Q3 current year, driven by a 150 basis points in truck, which has increased to 20.5%.

In the bus segment, we had lost some market share from 43.4% to 34.9%, because we did not want to pick up certain unremunerative orders of STUs and more importantly, there have been certain STU orders which we have in hand after the quarter but the off-take has been deferred by a couple of STUs. So, we would see that happening in the current quarter.

Amidst this reduction in TIV and the groom that the industry actually sees through and all of us must be discussing about, we have continuously being stepping up efforts in driving internal performance. I think we have shared in the past about some of the efforts that we are putting in for our "Restructure for Growth" strategy where we are looking at a lot of internal stuff, how to build up operational efficiency even as we prepare the company for growth.

On the growth trajectory, we have actually seen the following launches. Boss was launched in the third quarter, the ICV from between 9 and 12 tons, and the response has been excellent. We have launched Boss in four states -- four of the southern states, and each of them we had actually seen our market share in -- double if not go a little higher from around 12 to 15% to about 30%. Of course it is early days, but the response has been encouraging and the user experience, more importantly, has been -- the feedback

that we have got has been very, very positive.

So I -- we don't believe that this is just an initial response because this is the response that we have got sequentially in four states and not just the response from one grand launch that has happened.

We have in January, which is just after the quarter, launched Captain, it is not -- the commercial launch would happen very shortly. But the product launch has happened and it is -- the Captain is a range of heavy trucks with the option for a Neptune engine which can ultimately get upgradable to even Euro 5, Euro 6 with the proper adjustments. But basically, Neptune is a higher bhp engine which can go above 370 bhp. And the Captain is a very important launch for us because it comes with a completely new cabin and it's a redefined vehicle with 18 variance. And the current launches that have happened have been in the range of 23 and 25 tons.

In LCV, again we would be shortly -- as we have mentioned earlier there will be a launch of Partner, which would be the freight and goods carrier. We launched Stile in the quarter, which is the first commercial multi-purpose vehicle from the Leyland stable. Both Boss and launch [ph] have had recognition bestowed on them, with Boss being adjudged the commercial vehicle of the year of across segments, I repeat across segments, and the ICV carrier cargo of the year at the recently concluded CV Awards.

Similarly Stile has been awarded the NDTV MUV of the year and the DNA MPV of the year. Of course, these are awards and your brain must be saying that's all fine but we need to convert that to hard numbers, and we are pretty confident that this would happen.

We also continue to expand our network which now stands at nearly about 475 touch points. We are continuously having these low-cost touch points, so that the -- in an effort to step up market share hitherto not being available in areas that we have not touched upon, and that is the basic strategy.

So on the growth side, we have been doing all the things that we have been sharing with you as planned for the company.

Despite a very tough Q3 where operating EBITDA had been negative, we have been able to generate positive cash flows for the quarter, and that was approximately about 230 crores of positive flows that has come in for the quarter driven primarily by two factors. One is the reduction in working capital, and when I say working capital let me share with you that this is the operating working capital that we're measuring, which is the receivables plus the inventory and finished goods less the payable for raw materials.

Otherwise, typically accounts would have a lot of current assets and current liability which are not related to operations like the advances for taxes or credits that are receivable, all of which are resultant of various activities and not something that can be controlled by operations.

So, we have actually broken down this whole working capital which is an important piece for us in terms of even debt reduction strategy and cash withdrawal [ph] strategy and we've broken that down only to these factors which are directly dependent on customer, on market and on supplier and on manufacturing.

So, we have been able to reduce about 485 crores in this quarter and we have also of course -- we had mentioned in the earlier calls that we would be looking at selling non-core assets and non-core investment as and when necessary, and we have done that through the sale of IBL shares in the current quarter which has resulted in a profit of approximately 100 crores and also one piece of land in Ennore, which has resulted in a profit of about 34 crores.

Our operating working capital, which I mentioned earlier, is receivables, inventory and materials payable, and they have improved. And what we did, what we're sharing with you is that if you were to look at the peak in terms of our overall debt and working capital was achieved -- or was reached, not achieved, in August. From August levels, we have actually reduced our working capital by nearly 800 crores.

The reason we are sharing this is, we thought we will share some of these data points with investors and everyone only after we have been able to achieve some amount of progress in this and not just make it as promises which may not get delivered.

We -- also, as number of days, while I am not sharing the number of days because one is of course the working capital can also come down if there is a decline in activity and if there is a decline in topline but as the number of days also measure, we have actually reduced the number of days by nearly 45 to 50%.

So even as a measure, and I repeat it, form August we have been progressing month on month on month on month to actually ensure that the working capital does not put any more pressure on the cash requirements of the company and in fact helps to release cash.

Our debt levels today stand reduced by about 760 crores again from August levels. And that has been again because of two reasons. One is the working capital, the second one has been that we have sold non-core assets and investments, not only in the current quarter but also in the previous quarter when we had the DTE sale.

We completed our VRS scheme, which has helped us reduce about 500 people in the management staff along with retirements and attrition that have happened. And we have taken an exceptional charge of 43 crores for this for the current year -- in the current quarter.

If you notice, our staff cost in absolute terms has been declining owing to the VRS, as well as reduction in cash flows and executive strength as well as continuation of the pay cut which was implemented in Q1. We of course need to ensure that we retain good talent through good and bad -- good times and bad as we move forward.

Our efforts at controlling cost to help reduce breakeven is bearing fruit, and for the second consecutive quarter you can see that our expenses have been reducing and not just incrementally but in reasonably significant terms. The contribution -- one question that all of you will have which I thought I'll steal from your list and I'll then end this discussion that I'm having, the contribution of our material cost has been lower than the preceding quarter and in the same period last year, and this has been predominantly I would say an account of mix.

While our STU businesses have been lower and this has reduced our market share, which I mentioned earlier, but the share of STU business in the overall pie still continues to be larger and STU businesses are not deeply profitable. The more profitable ones are the defense business, the tipper and tractor volumes, which on an overall mix have been slightly lower than what has happened in the same quarter last year as well as in the previous preceding quarters.

And another important factor, I think that we have gained market share in the east and central zones of India because of the stepped up efforts of -- in points of preference, also the fact that we have a Pantnagar facility up north helps us to gain visibility and service customers faster.

We have seen two things happen in the south. We have marginally reduced market -- we have marginally been affected on the market share in the south and overall pie of south in TIV has also reduced. Typically this happens in the last quarter, because I think there are a lot of sentimental reasons and vehicle purchase has come down not only because of resizing but also because of auspicious dates and stuff like that.

So typically when the south market share in the overall TIV comes down, we also see that -- we being a very high market share player in the south we see that naturally there is a reduction in market share.

Now, the management continues to work on strategies to counter the challenges forced by the economy and external forces, and task forces have been formed which are tackling various aspects of the operations of the company. The industry is witnessing the longest and worst decline in the history and this has resulted in heavy discounting. We will continue to pursue market share only if it is sensible, and more importantly we have effected price increases three times already, in April, in July and in November.

And as I talked to you, we are making price adjustments on discount levels in January as well. So, for us it is very, very important that while we would like to pursue market share because that is important in this industry, we need to ensure that this whole approach to it is financially sensible.

Just to give kind of a quick view, in December 2013, the last month of the quarter, we have witnessed an increase in TIV by about 20% sequentially. And Ashok Leyland's market share has gone up from 19.1% in November to about 24% in December. But we just thought that we should share that with you because it looks like at the moment -- but I don't want to over-promise and under-deliver on this, it looks like the Q4 traction will be better than what was in Q3 and Q3 itself has been better than -- I would say, December month has been better than what has been in November.

Typically, December months are not good because of the rebadging. So, Q4 seems to be slightly better and promising in terms of TIV than Q3. Let us wait and watch. There seems to be some amount of demand that we feel at the retail level in the month of January, but we will know what -- it pans out as we move forward.

So having said this, let me now hand over the mike back to you so that -- I'm ready for the questions.

Questions And Answers

Operator

Thank you very much, sir. Ladies and gentlemen, we'll now begin the question-and-answer session. Our first question is from Binay Singh of Morgan Stanley. Please go ahead.

Binay Singh, Analyst

Hello, sir. Thanks for this opportunity. Sir, in the last call you mentioned that you'll update us in this quarter on the CapEx and investment plan, both for this year and going ahead. Have you frozen the thing?

Gopal Mahadevan, Chief Financial Officer

You are saying CapEx and investment plan for the current year?

Binay Singh, Analyst

And the following -- yeah.

Gopal Mahadevan, Chief Financial Officer

See, for the current year, see, we have -- let me put it this way, I'll -- it should be a little long-winded answer. What we are trying to do is we have been extremely stringent on CapEx for the last two -- I would say definitely for the last two quarters. And we had earlier given a number of around 500 crores as the overall CapEx and investment.

We are trying to reign in the number as we talk, but I do not know at the moment whether it may go up by another 150 crores or so. The reason why I'm not able to is we are really trying to defer some of the CapEx, we are trying to see whether some critical parts of it can be outsourced and whether the demand resurgence that can happen would be required for us to make the spend, because continuously what -- why we are not able to put an absolute number to it saying that it could be 500, it could be 700, is because we are continuously evaluating whether we should actually outsource or insource on various processes.

If this happens, then we have to make some investments in molds, et cetera, which we are trying to defer because of the demand. What we have seen over the last three quarters has been a continuous decline in TIV, and given that we have been actually reigning in CapEx completely. But I would still say that we would be anywhere between the 500 to 700-crore range for CapEx for the current year.

As far as next year is concerned, our annual business plan is not ready and I do not think it's appropriate for me share something as a guesstimate. All I can share with you as the investing community and financial community is that the management is completely committed to ensure that any kind of investment or CapEx which is not core to the existing business of Ashok Leyland or any of the subsidiaries is very highly discouraged.

And we make these investments only -- for example, in CapEx we would make this investment only if we are sure that it is absolutely necessary from a customer perspective or from a market share perspective, or if it is adequately going to give me cash returns which is a payback that will happen, say, in two to three years' time at best. But otherwise, we will not make these investments into CapEx.

And ditto for investments -- but investments in JVs and associates, we will have to see and we kind of are not putting in large sums of money. Let me tell you that we are putting it in small trickles now to ensure that some of these JVs that need to support are doing it. But the target number is at about 500 to 700 crores.

Binay Singh, Analyst

And sir, how much was done in the first nine months?

Gopal Mahadevan, Chief Financial Officer

I'll share the quarter numbers with you. We have now -- in Q3 have done about 87 crores overall in investments and about 35 crores in CapEx. So we have done above the 122 crores, Balaji?

Balaji Srinivasan, Head - IR

Correct.

Gopal Mahadevan, Chief Financial Officer

Yeah, I'll just shortly give you the nine-month number as well.

Binay Singh, Analyst

Okay. And sir, secondly just relating to the working capital cuts that you have done --

Gopal Mahadevan, Chief Financial Officer

Can you speak up a little louder, my friend, I'm not able to hear you?

Balaji Srinivasan, Head - IR

Binay, can you speak louder??

Binay Singh, Analyst

Yes, sir. Sir, secondly we -- you have a controlled working capital and inventory correction is one of the things that you've always been highlighting. So just two question on that. One, can you give us now the inventory number that you have in vehicle terms? And secondly Q3 has been very weak. Is that also representative of your retail sales being equally weak or you get a lot of inventory correction, so your --

Gopal Mahadevan, Chief Financial Officer

What is weak?

Binay Singh, Analyst

Like Q3 sales have been weak, so our retail sales very reflective of what your wholesale data is or you've corrected inventory, so your retail was actually stronger than wholesale?

Gopal Mahadevan, Chief Financial Officer

No, we have been correcting. See, one thing that Ashok Leyland does not do, if you will remember, which you will -which I wanted to share with you is that we don't first of all push vehicles into the system, okay. Can it be -- 100% can you sell it, I can never say that, but the basic -- like for example, last few days, a few 100 vehicles here and there for -but otherwise as a practice we do not push vehicle into the system, into the dealers for us -- for them to sit on inventory.

In fact, we keep track of dealers to ensure whether they are leaden with inventory, and if we find that they are not able to sell it we try to actually shift the inventory out, because we do not want the vehicles to be standing at the dealership levels.

The second thing that we have done three years ago is to convert this whole thing into cash. So, we are not on credit. So, this has been -- believe me, if we had done what is sometimes the practice in industry, first of all, our working capital situation that have been bad position and more importantly, our dealers would have been in a very bad position.

Our inventory levels have come down from something like about 7,500 FG to something like about 4,200 levels -about 4,100 and 4,200. So that is a factor of two things. We are today pursuing manufacturing -- we run an MRP which we were used to run a manufacturing program -- which we used to run maybe once in a month, now we are running it three to four times a week so that our manufacturing guys are able to be actively in touch with the sales forces to ensure that the forecasting is very, very dynamic. And we don't build up on inventories.

Believe me, it's an extremely tough situation because when a situation where the TIV drops and you have to reduce working capital, to do it sympathetically with TIV is one thing, to accelerate it and do it at twice the rate become even more difficult because we really do not know what kind of vehicle a customer is going to buy.

And I also cannot lose the opportunity of a good sale with a customer, because the number of orders that are there in the market are also low. But we have been able to do it. We hope that we are able to perceive -- pursue this. But of course, the better hope is that the market revives and we are able to produce more and sell more.

Operator

Mr. Singh. May we request you to return to the queue, please.

Binay Singh, Analyst

Yes. Thanks a lot.

Operator

Thank you. Our next question is from Pramod Kumar of IDFC Securities. Please go ahead.

Pramod Kumar, Analyst

Yeah. Good morning, sir. Thanks a lot for the opportunity.

Gopal Mahadevan, Chief Financial Officer

Good morning, Pramod.

Pramod Kumar, Analyst

Yes, sir great. Sir, my first question is more structural in a way. Just wanted to, what do you say, this current quarter margin of negative 5% is coming despite all the cost reduction and everything, and at a volume of 10,700. And historically, if I remember in the Lehman Crisis September '09 quarter, with volumes of 7,700 from Ashok Leyland and no Nissan volumes back then to support you, you had a margin of 1.3% positive.

Gopal Mahadevan, Chief Financial Officer

Okay.

Pramod Kumar, Analyst

And between then and now, your volumes are up, your Pantnagar operation is there which is giving you a huge excise benefit which was not there back then.

Gopal Mahadevan, Chief Financial Officer

Yeah.

Pramod Kumar, Analyst

How do you explain this, as in plus 1.3 with probably 35% lower volumes and no Pantnagar benefit --

Gopal Mahadevan, Chief Financial Officer

Yeah.

Pramod Kumar, Analyst

-- and back then it was a cash-and-carry. It was a credit on which you used to sell. So the working capital would have also been much more higher and now you're doing cash-and-carry.

Gopal Mahadevan, Chief Financial Officer

Okay.

Pramod Kumar, Analyst

That also has gone haywire.

Gopal Mahadevan, Chief Financial Officer

Right.

Pramod Kumar, Analyst

But operationally if you can just explain, what has gone wrong?

Gopal Mahadevan, Chief Financial Officer

Okay, I will -- let me tell you. First of all, I would only say that it has not gone haywire but it can be better, because haywire reflects a situation where we are not in control of things. Let me tell you that the difference, as -- unfortunately I was not there in the period of 2009 and I have a little bit of limited view, but the point is, first of all 2009 Lehman crisis recovered in first two quarters but let us assume that we are discussing about the quarter, because I don't know whether the number that you're sharing with me --

Pramod Kumar, Analyst

Yeah, I'm talking about the quarter. I can -- I think 1.3% was the margin and volumes were 70 --

Gopal Mahadevan, Chief Financial Officer

Net margin which is the PAT?

Pramod Kumar, Analyst

No. I'm talking about operating margins, EBITDA margin of 1.3 versus minus 5 currently and volumes of 7,700.

Gopal Mahadevan, Chief Financial Officer

Yeah. See, what would happen, there are two, three things, Pramod. One is I would need to see first -- I'm sure that the realizations that was there was much better in terms of pre-inflated numbers than what it is today. The industry, you must understand, was not at the current levels of discounting which are there. The current levels of discounting are pretty huge. I know that when I was tracking discounting, discounting rates have doubled if not more over the past, I would say, from June of last year to December of this year.

Pramod Kumar, Analyst

Yeah.

Gopal Mahadevan, Chief Financial Officer

And so, we are talking about a period in 2009 when what happened was there was a contraction in demand just over a quarter because almost all industries including India revived.

The second thing which was there is that the scale of operations was -- it is not an apple-to-apple comparison because over the period our investments have also grown, okay. So when we do that, it does not only have an effect on interest and depreciation, but also on the large size of operations that we have. So to that extent we have a situation where the margins have become negative. And this quarter of course, it is a much larger company than what it was in 2009.

Pramod Kumar, Analyst

Correct.

Gopal Mahadevan, Chief Financial Officer

If you put it in perspective, see, the company has -- in hindsight I would say that, yeah, we would not have done some of the things that we may have wanted to do. But again in hindsight, we presuming that things were going as a growth path, we were in an economy which was at about 8%, 8.5% and threatening to go to 10, would we have done all the things to maintain our growth, yes, we would have done it. But unfortunately, the culmination of all our investments and CapEx program and the -- I would say, the downslide of the economy while kind of -- could not have been a worst time and which is resulted in the pressure on operating margins, the pressure on interest and of course the discussion I emphasized on cash flows, are all resultant about that. And that is what we're now trying to kind of modify so that we become more stronger financially as we move forward.

Pramod Kumar, Analyst

And sir, I stand corrected, it was June on '09 quarter, the quarter of FY '10 and not --

Gopal Mahadevan, Chief Financial Officer

It doesn't matter. See, your question is right, I am not going to dispute it. Let us understand this. We are in a situation -you're trying to ask me why is it that you have an EBITDA negative quarter? That's why I started with my thing itself saying that we have had an EBITDA negative quarter and that has been due to a confluence of reasons, because one is my volumes are lower in relation to my expansion and breadth of operation if I were to compare with 2009. The second one is that, my mix of products have been adverse in the quarter. The third thing is, yes, the level of discounting continues to be high. A discount is nothing but a value that goes on to the customer from the manufacturer.

Pramod Kumar, Analyst

And sir, taking that point forward on discounts, given the fact that back than it was 2-player markets; now it's a fiercely competitive 4-player market. So, is it fair to assume that even if industry demand were to revive, those good old margins of 10% for the industry may actually not happen?

Gopal Mahadevan, Chief Financial Officer

Okay, I'll tell you -- if you look at it, two questions, and I'll use this opportunity also to say what we have been doing. And very quickly, I know because other people will be asking for -- waiting to ask questions. One is that despite addition of people over the players and over the period, if you were to look at the Ashok Leyland market shares, it has not dropped down drastically. You have a 200 basis points there on -- if you take a kind of a trend line, and basically what we've been able to do is to retain our market share on a steady state basis.

Now having said this, with more players in the market, yes, more competition, but I do believe that there is a revival, the practices that the industry currently is following of discounting heavily will certainly come down. Whether it'll completely vanish, will it go back to 20, INR30,000 a vehicle or INR40,000 a vehicle, I am not able to gauge at this moment. But there is a huge demand. I think there are sufficient players because we have to also separate the men from the boys in the players. There would be players and there would be players, but there are men and there are boys. And I don't want to take names at the moment.

So very clearly, we will have a situation where the real activity will happen possibly between three or maybe four players. And Amidst this, I think there is -- the capacity is not going to be sufficient to release the -- to take care of the pent-up demand, because when the pent-up demand does come in we expect it to be pretty significant than a bullwhip, because this is an industry, you must remember, not survived by capital investment. I'm not talking about capital investment from the transporter side, this is an industry which is going to get with actually transport goods that are produced. This is not a capital goods industry where investments have to be made. If mining is recovered, I'm going to start transporting more stuff.

If cement starts to manufacture more, I will start -- so these things are going to be like lead indicating industries who starts contributing to the GDP, and if that happens, which we hope will happen because a lot of it has got nothing to do with macroeconomic factors of our country but more to do with quality decisions, then we will see a quick and swift revival in the transportation business.

Pramod Kumar, Analyst

And sir, my second question would refer to the mix problem in this quarter.

Gopal Mahadevan, Chief Financial Officer

Well.

Pramod Kumar, Analyst

And I think looking at the way you've priced Boss, for example, I think the ex-showroom Pune price is around 10.5 lakhs and currently there are no discounts in the first month of the launch in Pune at least.

Gopal Mahadevan, Chief Financial Officer

-- give any discount number.

Operator

Mr. Kumar, may we request you to return to the queue?

Pramod Kumar, Analyst

This is the second question.

Operator

After this question is answered.

Pramod Kumar, Analyst

Yeah, fair.

Operator

Thank you.

Pramod Kumar, Analyst

Thanks. And I believe Eicher post discount the same product is available at INR12 lakhs.

Gopal Mahadevan, Chief Financial Officer

Okay.

Pramod Kumar, Analyst

So there is a substantial price gap, so I'm wondering whether aggressive prices like this is part of the reason why the margins have collapsed and in a way do you expect a price correction in terms of Boss prices being taken up after the introductory phase because INR1.5 lakhs price gap on a INR12 lakhs product is like -- and honestly I don't know whether there would be any money to be made?

Gopal Mahadevan, Chief Financial Officer

Okay. Now I'm not going to discuss about the pricing comparison with competition for us. I think each company has its strategy. But let me tell you one thing, the Boss -- today the volumes of Boss, while I did mention that we have done -you must realize that it has been launched only in four states. And in each of these four states, we've been heartened to note that the performance of the vehicle has been appreciated and we have actually had an -- almost a doubling of market share directionally.

While this has happened, what I will also say to your question, Pramod, is that the sale of Boss, even assuming that it has had a negative margin, assuming that would not have contributed to the EBITDA because the sale as a percentage to the overall thing has been insignificant.

Pramod Kumar, Analyst

That I agree. Yeah.

Gopal Mahadevan, Chief Financial Officer

Please, when you ask that question, and I know that you are asking it out of concern and I respect the question of yours, but it is not that we are telling everything in a negative margin for gaining. That's why I said -- I am repeating again, the company is endeavoring to ensure that it will pursue only sensible market share, which means I am in business, I've got to be in business, I have to ensure that I have a share. But at the same time, I have to ensure that it makes meaning for the entire portfolio of business.

Now, am I saying by that that every single truck and bus that I sell or ICV that I sell will make profit? Certainly not. Sometimes there are customers with whom relationships have to be established, so I have to look at the portfolio of the product and ensure that we are doing it. But let me tell you, we are reading out -- we are trying to -- on a platform by platform by platform we are continuously -- even as I'm taking to you, there is a team that is working to see how can I shore up my gross margin to ease off this.

Gross margins are going to come out of two factors, one is on price and discounts; the second one is on cost. So, we are continuously actually working on a design-to-cost principle to see how much can I actually improve by -- either on a material side, on the design side or on the overhead side. Yes, it is a tough -- it's an extremely tough situation that the industry is in and more so in Ashok Leyland, but we are very clearly determining our path to profitability.

Pramod Kumar, Analyst

And sir, finally, debt number as of the quarter?

Gopal Mahadevan, Chief Financial Officer

Debt number as of the quarter -- Balaji, would you want to say the number?

Balaji Srinivasan, Head - IR

Yeah, 5,400 crores.

Pramod Kumar, Analyst

5,400? And what is the cash against this, is this the net debt number?

Balaji Srinivasan, Head - IR

Yeah, it is.

Gopal Mahadevan, Chief Financial Officer

There is no major cash.

Balaji Srinivasan, Head - IR

There is no major cash with this, Pramod.

Gopal Mahadevan, Chief Financial Officer

This is the pure debt number that we are sharing with you. It was -- I think the peak debt in August was something like about 6,153, if my memory serves me right. I remember that as 6,153, that's why.

Operator

Thank you. Our next question is from Pramod Amthe of CIMB. Please go ahead.

Pramod Amthe, Analyst

Hi, sir. This is with regard to the Boss experience. Considering your Dost experience which didn't give any benefit at all, how do you see the Boss playing out in terms of your financial breakeven point to be improved or the market share game plan in the medium term point of view?

Gopal Mahadevan, Chief Financial Officer

Okay. See I'm going to -- and let me tell you, I'm not being defensive because I'm just trying to rephrase your question, because what you have said is that Dost has not given any benefit at all. What you should understand is that Dost was an excellent product which also gained a very quick market share in the first year of launch. What has happened after that has been that the benefit you can't say has not come, the market has resized its pricing to bring in other variance inside the Dost range, okay.

And at the moment, we had only one product which was the Dost. Now what we are doing is we have also -- as a strategy we have to launch the product, see how it is getting absorbed and from there on we start to move to variance. So we are actually launching a Dost Refresh which is a slightly higher tonnage vehicle and we are -- also on the same platform, you see, the chassis is almost the same, right, and there are certain other bells and whistles into cabin, et cetera, which can get changed. But using the same platform, like I mentioned to you, we are also launching another version called partner. So we will see these launches coming and it has been important for us because the whole transportation industry has been going through a sort of change. 10, 15 years ago I think it was only the trucks and the heavy duty trucks which were plying. We really did not have the smaller trucks or the local LCV markets developing. Then we suddenly saw that the whole transportation industry started to function on a hub-and-spoke arrangement.

And when that happened, you really had the LCV market going in and competition -- we had definitely a great first-mover advantage in terms of launching those products. And we decided that as a commercial vehicle manufacturer we needed to be in that space as well and that is where Dost is coming.

So, we are going to see, without any significant CapEx investments, on the same platform certain variance of those coming in and also certain smaller range of buses coming in, including school or -- you should say that transportation buses which are for commercial purposes, like offices, et cetera.

The second thing is as far as Dost is concerned, Dost had been launched very clearly to address a gap that was there in our product portfolio. I'm not saying that Ecomet was not serving the purpose, but Ecomet did not in the medium term -- these things, you must remember, take some time. This is not like a car where today the flavor of the season is one particular brand, one particular model, and after that it falls by the wayside in 12 months' time and then we go for another car, et cetera.

This is a commercial vehicle which -- on which a person is looking at earning profits. So, he would actually look at the performance of that suite of products and how it has been performing before they start investing more and more into that.

Ecomet at some of time had peaked off and we realize that in the 9 to 12 we were launching those which was sub-7 and above 15 tons as well we had a slew of products, but in the 7 to 15 and 9 to 15 on truck levels, which was called the intermediate commercial vehicle, we were -- we found that we had a gap in the product.

So when we had that, we decided that we will bring in those but we wanted to launch a state-of-the-art vehicle which has to address the needs of the customer in terms of mileage, in terms of turnaround time, in terms of capability -weight-bearing capability and driver comfort as well.

And we decided that we'll launch it with latest generation cap and also make improvements on the chassis as well. And so, we'll have to wait and watch how Dost demands pick up, but Dost is a very, very important platform for us at the moment.

Pramod Amthe, Analyst

And sir, the -- it sees like you see the improvement in working capital and the inventory, which was long demanded. But at the same time, considering the slowdown, do you think it's the appropriate time to re-look at your entire investment book and the expansions which you made into the Nissan and where the structure is being, and also the John Deere and all these things, is it the appropriate time?

Gopal Mahadevan, Chief Financial Officer

Hey, let me put it this way. Again I will rephrase the question a little bit. What we are doing at the moment is -- we had made these investments at a point in time when we were -- the economy was gearing for growth. And genuinely, that was the philosophy on which we did it. And at that point in time, the company was generating about 800 to 1,000 crores of EBITDA. Am I correct?

Balaji Srinivasan, Head - IR

Correct.

Gopal Mahadevan, Chief Financial Officer

And when that was happening, the whole basis on which investments are made and the investments are funded were completely different. Now even if you take Nissan for instance, this growth platform, we -- while I can't share the details of the original project cost, let me share with you that we have not put up a separate plant. We bought the land, but we have still not put up a separate manufacturing facility for it. We are running it on a manufacturing -- on a contract manufacturing basis with our existing facility in Hosur.

So to that extent, we can say that we have been nimble footed. The fact that the industry has kind of caved in and there is -- so what happens is when you have an economy that caves in and an industry that caves in, then what happens is you have a situation where there is a huge demand -- I mean there is a huge push by various competitors to get that customer. And that is what we are witnessing today, getting the customer at any cause.

Once the market revives, then we have to believe at some point in time, whether it's going to be three months, six months, nine months I don't know. Because I think today it has not developed -- like I mentioned to you it is not based on macro-economic factors. If that revival happens, we are in an extremely fit position to capture the upside.

We are -- of course we are getting better and better at it. We are trimming ourselves. We are cutting down the fat. We are -- also you are rightfully saying, but we are looking at the portfolios of investments that we have, and we are looking at how to fund them in the future and what is the best method of running them also.

But I won't use terms as exiting, et cetera, because I don't think that we would take drastic decisions just on the flight [ph]. We have to of course study the long-term impact of these investments from the company, but we are -- let me assure you that all of this is what we are doing currently.

Operator

Thank you. Our next question is from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivasa Rao, Analyst

Yeah, sir, thank you very much for taking the call -- the question. I -- just two questions. First, given that in the next up-cycle, as and when it happens, do you expect profitability to be lower than comparable periods in the past, given you will probably have higher comparative intensity? Is that something the company has thought about and positioned itself for?

Gopal Mahadevan, Chief Financial Officer

Okay. Yes, please?

Srinivasa Rao, Analyst

And the second question of course again, and just that on the Ecomet versus the fact that you've launched Boss. Just want to understand exactly where -- what was the reason for Ecomet not taking off, if I may say, or was it launched at a time when the market itself was decelerating?

Gopal Mahadevan, Chief Financial Officer

No. You see, I think -- I'll answer the second question first. In terms of Ecomet launch, I think there was -- the market perceived -- there were no products issues but the market perceived that there were some product issues when compared to competition and they possibly felt that it would have -- in terms of turnaround time and certain other driving experiences, they felt that it could have been better.

I'm not too sure. The only thing that I can say is that generally there was a slackness in the vehicles and that is when we decided that we needed to get a better version inside because the whole market has now gone into this long-haul, medium-haul and short-haul.

And we are expanding the portfolio in the short-haul, which is why you would see introductions of products coming in and we are not making good investments in comparison to what we have been doing over the last five years, because those investments are and hopefully will bear fruit by product launches and gaining market share and growth when the industry also starts to revive.

Your -- as regarding your first question, I'm very happy to note that you're asking a question about the revival of the industry instead of just discussing about the global doom, because ultimately we are all looking forward to that, is that one -- there are two factors. I think that's return in the profitability.

One is how is the industry going to be in terms of pricing, and this was asked by my friend even earlier, are we going to see the pricing going back to that level or are we going to see a little bit of challenges that -- given that there are more players in the market? I would say that if there are more players in the market and the demand that is there is not sufficient to meet up the capacity, obviously logic says that there could be some challenges in pricing. But I'm sure that the entire industry including our competition would be looking at using an upside to turn profitable, right. So I presume logic will prevail.

Assuming that even if there is a certain amount of stress, I'm just saying assuming, that price recovery doesn't happened to full 100% as it was five years ago, we as a company are ensuring that we are becoming operationally efficient and cutting down costs, and that is also evidenced by our P&A. Even if you had to factoring the de-growth that has happened on sales, you'll see that some of the cost have been higher than -- reduced at a higher rate than what was the topline.

So we are making ourselves ready to cut the fact and turn that into a little bit of muscle so that we are ready to make the upside, and hopefully we should be able to go up to profit -- go back to the profitable base that we've had about three, four years back, at least internally that is our strategy.

Operator

Thank you. Your next question is from Sonal Gupta of UBS Securities. Please go ahead.

Sonal Gupta, Analyst

Hi, good morning, sir -- good afternoon, sir. Just a couple of questions from my side. One, I mean any plans in terms of -- any targets in terms of where you want to be in -- I mean you are saying net debt of 5,400 crores right now by the end of this year. And -- I mean beginning of this year we talked about -- I mean some -- raising some amount of almost 5 billion through divestment of certain associates and subsidiaries. So, any plans there? I mean we -- you have done defense technologies, but other than that anything else in the offing?

And also just wanted -- my second question was really on the export outlook; I mean what are we seeing there and I mean how do you see that side of the business doing in the next 6 to 12 months?

Gopal Mahadevan, Chief Financial Officer

Yeah, okay. Let me -- see, let me tell you on the -- as far as our outlook is concerned, like I mentioned in the past and I think Vinod has also shared, we are targeting -- and it's an extremely difficult thing to do, let me assure you that, yes, we are targeting -- because we thought we'll share the experience instead of just making some very large statements. From the August levels of peak debt, we are targeting to shave off about 1,000 crores by March.

First we want to attain that and that is going to be attained, but by a confluence of two things; one is working capital; the second one is -- to be a sale of non-core assets. So these are the two factors that we are looking at.

It would be helpful if the market revives a little better, because even whilst we announce these things in the last quarter or the quarter before that, one thing that we have been witnessing is that there has been this TIV decline. So, while we have -- one thing that you would have noticed and which I shared in the beginning was the evidence that despite an EBITDA negative quarter, we have been able to generate about 230 crores of cash.

So that has been to two things, I mean the sale of both IVL and the land, but even if we were to factor that, still our working capital detectors help us to augment cash and also help to take care of the negative EBITDA. So to answer your question, 1,000 crores of cash augmentation from August to March is what we are looking at and hopefully that will depress the debt.

As far as exports are concerned, we are actively pursuing an export strategy where we want to ensure that in the medium term our exports will account for at least a third of our revenues. Now, today we are at about 10% of our revenues and we want to get back to a third and basically the areas where we are looking at to grow is actually in Middle East, South East Asia, Africa and Latin America. This of course, we have a cars business which goes on, but very clearly we are putting in plans so that we are putting in people there and I would say redeploying people more than putting in it, because you people get some worries that we have started to increase our cost. But very big -- we are actually putting some teams there to have a quick launch of things.

We're also developing a launch strategy for it where we say that we will actually come out to the smaller range of vehicles where the radius of operations are smaller and from there we move on to the larger range of vehicles. And just to give an idea, I think if you were to look at Q1, Q2 and Q3, for the current year our exports but -- as a percentage of sales have improved that is because of overall reduction.

Today, we possibly are in Q3 about 15%, but that doesn't speak much because absolute numbers are still low. But our target is to make sure that we see this from the Indian side and move towards having exports in the medium term to account for at least about a third of our revenues.

Operator

Thank you. We'll take a next question from Jamshed Dadabhoy of Citigroup. Please go ahead.

Jamshed Dadabhoy, Analyst

Yeah, hi, thank you for the opportunity. Quick question on the -- on -- you alluded to trimming costs, but could you give any specific target in terms of how much you all intend to cut cost by which you would reduce the breakeven point to a certain level where the business becomes operational -- viable?

Gopal Mahadevan, Chief Financial Officer

See, let me put it this way. We must understand -- see, again I have to -- what we can do is we can reduce the breakeven point. The basic point that we're trying to do -- because when we started the business planning for the year, at the beginning of the year we must remember that all of us including myself for that matter while I was not there in the company, were anticipating that the economy would revise either by end of first quarter or latest by second quarter. Now -- not full steam but definite recovery. When we started the year, so there we were planning for in fact some marginal growth which unfortunately the economy tanked even further and the industry also, specifically the TIV, started to go down further. So, the strategy of coming in was when we saw that the first quarter was not actually performing the way we were expecting and the whole thing seemed to be going contra to general expectations, we decided that it is important that from 70,000 or so level we need to have a company which can breakeven at 25 to 30% lower breakeven point. And that is exactly what we're working on.

See, while I -- we have the internal numbers, I'll be lying if I say that I don't have the targeted amount, but I don't think it's an appropriate time to share that number with you saying we are targeting X 100 crores of reduction.

All you can see is two things, the amount is quite significant and at the moment we are -- possibly as of December we have reached in terms of clock rate, run rate on an annualized basis, we have reached about 40% of that amount and we are confident that between Q2 and Q3 of next year we will be able to achieve that number.

We have an internal target which is slightly -- earlier but for the investing community we are mentioning that will be between Q2 and Q3 of financial year FY '14, '15 where on an annualized basis the company would have a significant chunk of its expenditure -- fixed expenditure, which is -- it could be in manufacturing fixed expenditure, it could be in selling fixed expenditure, it could be G&A, it could be manpower cost, it could be also in interest. All of this bunched together, we have to look at a very sizable amount of expenditure to be brought down.

And we are reasonably on codes, but let me tell you, it is like running the final lap of -- or 4x400 meters. It gets tougher and tougher with each lap. But we have got our plan. There are a huge amount of teams that are working on it. This is a very core activity that is happening in the company today with dedicated teams and senior leaderships who are working on this. Let's hope that this strategy helps us to become more efficient.

And the viability of the business, let me tell you. The viability of any business when it is built for growth will come in when the market also starts to rebound. Otherwise with this kind of an industry volume where we had a 25% reduction last year and 25% this year, when the market has vaporized, no business is viable. I don't think any commercial vehicle manufacturer purely by the commercial play is actually making any profits.

There are other avenues through which some of the companies are able to post profits, but in pure commercial vehicle operations which are of a reasonable scale, I don't think one can be profitable at this kind of levels. But yes, we are targeting internally that if this continues and the market remains flat, can Ashok Leyland become profitable at the current levels, and that is the target that we're looking at.

Operator

Thank you very much, sir. Our next question is from Pratik Mehta of Bajaj Allianz Life Insurance. Please go ahead.

Pratik Mehta, Analyst

My question is relating to LCV Market. What we're observing is that or last 8, 10 months or so--

Gopal Mahadevan, Chief Financial Officer

Yeah.

Pratik Mehta, Analyst

-- what is the divergent trends between the growth rates, or maybe the rate of de-growth across different companies? So while Ashok Leyland and Tata Motors have de-grown more or less in line with the LCV market de-growth, the M&M and particularly -- probably the pickup segment of there seem to have grown really well within the LCV category. So if you can help us understand what is happening there, which segment within LCVs are doing better and what are the reasons for that?

Gopal Mahadevan, Chief Financial Officer

Yeah. I think within the addressable segment that Dost -- today we have only one comparable thing which is Dost, because if you look at competition, what they claim -- what they have positioned as LCVs are -- because our LCV today in Dost is about a 1.25-ton truck vehicle, okay. And when you look at competition, I cannot talk about various brands, M&M for instance has got a number of SKUs including the Bolero Maxi Truck, their single cab, et cetera,

and similarly you have other competitors also.

In the addressable segment that LCV that I have launched, which is Dost which is 1.25, I'm now trying to upgrade it to 2 tonner, and then we may come out with a slightly longer vehicle also, all at the same platform without any significant investments at all. We are at -- in the range of something like about 15% today, okay. And we have to grow that faster. Now having said that, so what we are doing for countering this whole thing is being that we are trying to introduce more SKUs also so that we are able to match competition portfolio.

As far as the LCV, the 2-ton segment is concerned, which is what is positioned, what we see is actually that there has been a de-growth. On a sequential basis, I think the markets have declined by something like about 25 to 30%. So what you see as competition offering as growth segments, which is correct, because they have those product portfolios, they have the various offerings that they have, so when they munch it up together, they have numbers which are slightly different from what we have to report.

But we are getting there. Let me assure you that we are building up the portfolio slowly and that is why I said, in our "Restructure for Growth" strategy, we are doing a lot of the restructuring which is cutting down cost, operating working capital, cash release, targeting for debt reduction and all that even amidst tough times. But the second thing that we are doing is also we are putting the

growth strategy, we are looking at network expansion, product introduction, new engine, new products in both LCV and in ICV, and in heavy commercial vehicle.

Operator

Thank you so much, sir. Our next question is from Govind Chellappa of Jefferies. Please go ahead.

Govind Chellappa, Analyst

Yeah, hi. Could you quickly update me on what is your both machined and manned capacity across various ranges of products and engines at this moment?

Gopal Mahadevan, Chief Financial Officer

Machines and manned capacities, which means -- see, that's a very difficult question to answer first of all because our manufacturing capacities are located across multiple plants and the engines are various types of engines. We have our H-series of engines, we have our Neptune series of engines and then we have the LCV series of engines as well. So, it becomes very difficult because I will actually be totaling up apples and oranges effective -- which may not be appropriate.

All I can say is that our company today across -- predominant part of the manufacturing facilities are in Hosur, in Ennore and Pantnagar. I think our overall capacity for manufacturing vehicles is in the range of approximately 1 lakh 40 to 1,50,000 vehicles. Of course, we are far, far away from utilizing that capacity, because the industry is very far away. But I'm not too sure why you asked engine specifically. Is there a particular reason?

Govind Chellappa, Analyst

No, I just wanted to understand if your assembly capacity is matched with your aggregates capacity?

Gopal Mahadevan, Chief Financial Officer

Yes, it is. When we talk about this, capacities are reasonably balanced in manned capacities.

Govind Chellappa, Analyst

Okay. And of this, how much is for LCVs per what you outsource to Nissan [ph]?

Gopal Mahadevan, Chief Financial Officer

See, the LCV capacity could be something like -- because there are again various, I would say, SKUs in LCV, this is done out of Hosur, but we could go something like -- purely on those sides, we can possibly go for about 60,000 vehicles.

Govind Chellappa, Analyst

Okay, 60,000 between those and its variants including Partner and --

Gopal Mahadevan, Chief Financial Officer

Yeah, in fact we can go -- see, that's why I said, I cannot give you a specific thing because if there is some modification on the manufacturing line which has to be done, I can then increase it very quickly. See, because what happens, it is not just about -- because what happens in manufacturing, it is not that only Dost will run and then after that we will just keep running Dost. So then I can switch it to Partner, then I can go back to Dost, there is back processing that happens.

So I'm in a position to actually increase my manufacturing capabilities on those events like is required.

Govind Chellappa, Analyst

Okay, thank you sir.

Gopal Mahadevan, Chief Financial Officer

Thank you.

Operator

Thank you. Ladies and gentlemen, that was our last question. I now, hand the floor back to Mr. Kaushal Maroo of Emkay Global for closing comments.

Kaushal Maroo, Research Analyst

Hi, on behalf of Emkay Global, I would once again like to thank you all for joining the call today. Have a great day. Thank you.

Gopal Mahadevan, Chief Financial Officer

Thank you. Thank you, Kaushal.

Kaushal Maroo, Research Analyst

Thank you.

Operator

Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.