"Ashok Leyland Q3 FY19 Results Conference Call"

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MODERATOR: **MR. ASHISH NIGAM – AXIS CAPITAL**

Moderator: Good morning ladies and gentlemen. Welcome to the Ashok Leyland Q3 FY19 Results 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 '*' and 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. Thank you and over to you sir.

Ashish Nigam: Thank you. Good morning everyone. Welcome to the Q3 FY19 Results Conference Call of Ashok Leyland. From the management team, we have with us Mr. Gopal Mahadevan, President, Customer Solution Business and CFO and Mr. K. M. Balaji, Vice President, Finance. I will now hand over the call to Gopal for his opening remarks after which we can have Q&A. Over to you Gopal.

Gopal Mahadevan: Thank you, Ashish. Good morning to all of you. Thank you very much for logging into the conference call of Ashok Leyland and for your interest in the company. I will first give the overall top-level numbers and then I can possibly take the Q&A. I am going to also answer some of the concerns that I have heard, investors talked to me about. I think at the beginning, I may say so rather humbly is that we did possibly manage to surpass analyst's expectations in terms of EBITDA which was in single digit and lot of friends called up and said that they were pleasantly surprised by 10.3% EBITDA that we posted for the quarter. I think there are concerns on the TIV which has degrown by about 7%, so the total MHCV volume for Q3 FY19 was 87,476 as opposed to 94,156, but one thing I would want to say because at the beginning of the year, I had mentioned that we are expecting that the TIV for the full year would grow at about 10 to 15%, may be bordering on 15% than 10%.

Now, the total industry volume still has grown 25% over the same period last year. We must remember that. The second thing is in this quarter, I am not trying to reason out the performance of the TIV, obviously it has degrown, but we must remember that in the same quarter last year, there was a huge base effect. The industry had grown at 42%, so what is happening this year is you are seeing an inverse where the first two quarters have been pretty good in terms of growth and we are seeing that the third quarter has seen a marginal decline. What is going to happen in the fourth quarter, we will have to see, but January has not been a degrowth, and has been flattish.

I will touch upon January performance also because I wanted to set a perspective of what we see happening from the company side and I know what investors and analysts have been seeing from their side. Ashok Leyland volume, just moving back to the company has been 11% lower. Our market share has marginally dipped by about 1.5% to 31.9%, but on a cumulative basis, if you were to see, we are just about a percent lower. There has been a reason again and this is not to explain a way to reduce market share, but we had deliberately stayed away from the market in first quarter because we didn't want to get into very deep discounting which didn't make sense. We must understand that for us it is important to grow, and it is also important to be profitable. It is not that we don't want to grow. We have our aspiration for growth in market share. This is not there just for the current year, but also for future years. I will share some insights on what

the company is looking at. So, if you look at our volumes for the 3 months, it is 27,943 as supposed to 31,437. Our overall revenues were at 6325 crores and our EBITDA was 650 crores at 10.3%. We also had successful merger of the LCV companies with Ashok Leyland and that has yielded benefits in terms of both cost in terms of operating synergies, greater flexibility in decision making and it makes a lot easier to manage a division than to manage three subsidiaries and you must remember this exactly what happened in HFL. When there were doubts in the investor's mind as to whether this division will make profit, today, they are almost on double-digit EBITDA.

Now, coming back to the LCV merger, there has also been a tax benefit which is not insignificant, has added to EPS as well. Overall for the 9 months, we have had the domestic industry growing at 25% as I had mentioned to you. Our domestic volumes were at 90,417 which is a 20% growth and our market share is 32.5%. Nine month's revenue stood at 20,209 crores and our EBITDA for the 9 months is 10.6%. We continued to be on double digit EBITDA which we have shared with all of you and we have maintained double digit EBITDA for 15 out of last 16 sequential quarters. The only quarter that we missed was the Q1 of FY18 when we saw the industry degrow, by nearly 32%.

From a company's perspective, I wanted to share the following 2-3 things. I thought I should put what are the concerns that some of you may have instead of waiting to be asked because this is an opportunity for us to share the perspective of the company as well. One is on the CEO transition, I think there is absolutely no concern that we have as a management and leadership, it is business as usual. We are getting into our planning cycle and there is no discontinuity, no uncertainty in decision making because the leadership in Leyland is experienced. So right from the vertical heads to the manufacturing, to quality, to finance, to supply chain, everyone is working as though it is business as usual. We are not really kind of looking up for decisions except at strategic level where aside of Vinod, we have Dheeraj who is playing a very active role and he is for all practical purposes full time. So, if there are any strategic decisions to be made, which anyway he used to make in the past as the chairman of the board, I wanted to give clarity that there is absolutely no impact on CEO transitioning. So, this is one thing that I wanted to allay the fears or doubts that some of you may have. It is very much business as usual at Ashok Leyland.

The second thing is on Ashok Leyland's aspiration for growth and that it is a pure play CV manufacturer, so how are we going to manage. Let me tell you that I can't give you numbers. We are aspiring for growth and market share, I am not saying that this will happen quarter-on-quarter, but we are clear that we are not going to cede market share and look at only profitability and we are not going to only look at market share and cede profitability. Full credit for a good management team is when they can walk a tight rope on managing both growth and profitability and that is exactly what we are doing. As I am speaking to you, we have been looking at our operating cost once more, we are putting in a lot of efforts I am personally working on it, is to look what are the desirable spends that we are having in the company and kind of do away with some of this which will actually help us to improve our bottom-line. At the same time, we are investing into our network and we are ensuring that we are defragmenting the network a little

bit more to understand what opportunities there are. Huge amount of analytics is going on in terms of understanding the network, which we call is hub application segment, so we are looking at what products we should be pushing and criticality of financing.

One thing I missed to mention in the last quarter which is important for the industry has been quite challenging. One was you had the NBFC crisis that sucked out money from the system and you know this whole industry depends on financing. It doesn't work without financing. The second one was uncertainty of axle load norms that continued into this quarter. We are seeing that axle load norms are putting in higher tonnage on to vehicles, but frankly we are not trying to brush away the concern, but I think that the core demand would continue if the GDP continues to grow.

As we move into the new year, we will see a little bit of political uncertainty and possibly Q1 could be a little uncertain, but after that I believe that whichever government comes in would be having growth in their agenda. I don't think any government is going to say that we will cease to grow. I think there would be again a revival of demand and we are quite positive about the pre-buy that is going to happen in 19-20. We will have to wait and watch, but at the moment, we are readying ourselves. Please understand there is a lot of manufacturing planning that we will have to do internally. We can't just keep waiting for what is going to happen in the market, so I am giving you a flavour of what is exactly happening in the market. So, one was the continuity of leadership, second one is our aspiration for growth as well as profitability. When we are drawing up our plans, we are very clear that we need to grow in the domestic market. Where we have not done so well has been in the export markets. We realize that, but that has again been not because of lack of efforts from our side, but there has again been a little bit of confluence of, I would say, bad news coming in, for example, in Middle East which is an important market for us.

We have seen that we have had uncertainty beginning with oil prices. Similarly, in Sri Lanka, volumes had become sluggish because of geopolitical uncertainty, but I think that if oil prices continue to stabilize at this level and if there is a certainty, we should see the Middle East demand reviving. Sri Lanka should also settle down over the next possibly one or two quarters, but our CEO in Sri Lanka mentions that we should expect a little better fourth quarter as things move on. So as far as our BS-VI initiatives are concerned, very much on track, in fact, we have also mentioned it we have the entire product range ready on our test bed and we have achieved emission norms. In fact, what we are trying to do is to get a little better than the standardized emission norms because on the road when the vehicles ply, we want to ensure that these norms are met. Today, the norms I believe are on test bed results where we want to ensure that may be 1 year later, what happens is the norms must be met on road, but we are very clear that the product we are going to offer is superior to what is available in the market and we have been very good in comparison. You know that as well.

We were the first to offer an inline BS-III engine, we were the first to offer IEGR, which I think competition followed. In fact, some of the STUs have insisted on IEGR which you may not know because they found that the total cost of ownership as well as maintainability of the

vehicles was far lesser than if an SCR solution is there, but if you are aware, we have IEGR solution, we have a SCR solution, we have a dosing company, so we are very well prepared for the BS-VI roll out and of course, we are also doing modularity as we work on it and that is going to achieve, we would say improvements in cost because there is a lot of back-end rationalization that we are doing that will help. Huge amount of effort is actually going on in the company which I can't tell you what is the exact cost reduction that will happen, but as per our estimates, it is going to be more than 150 basis points minimum, now it could be even far superior to that but I am not going to share numbers, but I want to give you some direction as to what could the cost savings be. I think what I would do now is to add couple of more things.

LCV has been doing well, very happy about the acquisition, things have settled down well, must compliment the LCV team that they have been able to take the market share in Q3 to 18% and in the month of January, it has been 19%. I also wanted to share with you the January performance which all of you must have seen. The industry was flat as I mentioned earlier, it has not degrown, but we have grown, and we had record market share in the history of the company, about 37.5% for MHCV and record market share for truck as well. So, I think for some of the efforts that my colleagues are putting in, we are seeing the benefits of all those efforts coming in and you must remember one more thing before I hand it over to Ashish is that all of this was done with a 2% price increase in the month of January. Thank you, Ashish, I am now going to hand it back to you for the questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Gopal, my first question is on the LCV business, we have been talking about how big this opportunity could be, especially with the merger of the subsidiaries, if you can just help us understand how much of the LCV addressable market is covered by you right now as we stick on FY19 and where do you see this kind of ramping up by FY21 in the post BS-VI environment? And, how would you approach the LCV business post BS-VI would be different than competition because it is also primarily a diesel-powered industry with small engines, so where the price destruction could be sharper. So how does exactly LCV help in post BS-VI business environment, if you can share some colour on that?

Gopal Mahadevan: As far as BS-VI is concerned, I think it is going to be as neutral to LCV as it is to MHCV. I mean between MHCV and LCV, there is not going to be significant impact of BS-VI because business must go on and LCV is a completely different segment. In hub and spoke arrangement, it is more intracity and the last mile. From our perspective, the coverage is roughly about 40 to 45%. That is where the opportunity is because we are not still in the full range. We have worked under a joint venture and we must let the business grow, so our main product has been Dost but what we did over the last 2 years was to introduce Dost and then aside of Dost, we also had Dost + and Dost Lite. The trifurcation that has happened in the offering has helped us to gain market share. The second one, of course, we have been putting a lot of efforts in terms of both Partner and MiTR. They average about 500 vehicles a month now, but we are very confident that these two vehicles are going to do very well. Simply because we have got a state of art engine, the

cabin of Partner is again state of the art, I would say it is rated best with some of the vehicles in the world and both these vehicles are going to be super crucial for us on the export strategy.

As I am taking to you, we are carving out an export strategy, we are getting ready for an left hand drive (LHD) and we are also working on another project called Phoenix which is a different vehicle that will be added to the portfolio, possibly in the next 1 to 1-1/2 years. I have just seen the Prototype yesterday. I am excited because now I am half an automobile engineer myself and I am excited by the vehicle that we have. So, to answer your question where we will not be is only on the sub one tonne now. So, we would want to add slots into it and when we start adding slots to it, what is going to happen is we will move to the four tonnes, then we also will look at the 7 tonne and now as I am talking to you, Anuj Kathuria will be launching in Mumbai today Guru 10 tonne. So, what we are doing is from the 12 tonne I am moving down and from my 1.25, 1.5 tonnes I am moving up, so we are going to start covering the whole LCV portfolio and the ICV portfolio with a lot more current and newer products and that is going to be a huge distinct advantage. Why those are doing well is because it is a completely differentiated product. The warranty costs are low, the cost of maintenance is low, the operating cost is low, the driver comfort is high and what product that we are looking to launch is again going to be completely different. For us, this is an opportunity and now we are completely at liberty to run the business ourselves. The second thing is, exports is going to be strategically important because I know I have shared it with all of you is that for us, the initial strategy would be to show an LCV because it is the short-range product, graduate to an ICV and then move to an MHCV. Like I mentioned to you, we are redrawing our export strategy. It does set you back by possibly a year, but I am not too concerned about it, but we are looking at how to do a possibly a slightly faster cluster bombing on the export side.

Pramod Kumar: Gopal, just one number, in FY21, do you see LCV is still delivering a growth for you because you will be ramping up your portfolio and significantly increasing your offering in the market place?

Gopal Mahadevan: I believe so in terms of revenue while I can't immediately share a breakdown, let me tell you LCV is now ranking almost equal to the bus. So, it is no longer a small business, of course truck is like 500-pound gorilla in the room, but what we are trying to do and which we will continue to do is to de-volatise the company, so the LCV business is going to be very important. We are making investments in the business, so the project that I talked about the new vehicle has got investments. We are also augmenting production capacity in Hosur, paint capacity in Hosur and I must also complement our manufacturing guys who were doing some wonderful things, innovative ways of augmenting capacity. For example, what would have taken a new paint booth, which would have cost about 300 crores, the guys have done a double dip and improved the capacity almost twice over with just about 30 to 35 crores and we are looking at innovating further because there is a whole bunch of activity going on the production side also to improve productivity. Why I am taking this as an added information for you is LCV requires a ramp up. Our capacity possibly would be about 70 to 75,000. We need to ramp it up and we are on the process of ramping it up also.

Pramod Kumar: And second question is on Hinduja Leyland Finance, Gopal, as in last quarter was tough for the NBFC space specially vehicle lending companies, so if you can just flag some or highlight some numbers in terms of Hinduja Leyland Finance in terms of operational performance and the financial performance and if any colour on the NPAs during the quarter.

Gopal Mahadevan: All I can tell you is this, there has been no major additional NPAs in the quarter. I am not too sure whether I can share the numbers because I don't think they are published. The NPAs is almost on par with industry. There is nothing that happened unusually in Leyland Finance, it has been very astutely managed, you know why because it has got an extremely diversified portfolio. At the end of the year, it is estimated, now they are at about 20,000 crores, approximately 19,000 and odd. I think at the end of the year, they will possibly add another about 20% to the book. Their growth rate has been very much on track and the book composition is they have 50% MHCV because they are very strategic to Ashok Leyland. The balance 50% is very well diversified, so they have two-wheelers which are highly profitable portfolio, then we have got construction equipment, we have got loan against property and then they also buy out portfolios from other financial institutions including microfinance companies, so the whole business is well diversified and very professionally managed.

Moderator: Thank you. We will move onto the next question that is from the line of Mihir Jhaveri from Avendus Capital. Please go ahead.

Mihir Jhaveri: Just wanted to ask you when we say that lot of pre-buying will be happening in FY20 and earlier Mr. Dasari has also spoken about 30% growth, just wanted to clarify, are we talking about that growth during limited period before the pre-buying sets in, before the BS-VI sets in or how are we looking at from an FY20 perspective in terms of growth?

Gopal Mahadevan: Let me give it this way, I am going to stretch a little beyond FY20-21 also and I know all of you will be interested in the immediate quarter, next quarter in FY19-20 which is fair, I am not saying it is unfair, but let me put it this way, we will wait out for how Q4 is going in the current year, I think like I said January, for Leyland has been good, let us see how February and March goes. I don't see any change in strategy. Point number one. Hopefully, the industry would be flattish, if not grow a little bit, so that it sustains this 25% growth in the next 2 months, but we will have to wait and watch because even if you do the wait, what happens is the weight of fourth quarter is heavier than the first 9 months, so even if it is constant you will see a little bit of degrowth, but that is more a statistic. What I am bothered about is little bit old fashioned saying, is the industry absorbing the same number of vehicles as it was absorbing last year, but then we must also remember that the tonnage to the vehicles are higher, so the revenues will be higher, so the revenue potential and profitability will be slightly higher. I am not unhappy selling smaller trucks, but if somebody were to buy a bigger truck from me, I will be happier because the margins are better. This is one point. As far as FY19-20 is concerned, I know I am going to look into the crystal ball and give the bit, but what it tells me is that possibly the first quarter is not going to be so good because we again have a high base effect of the growth that has happened in the first quarter of the current fiscal, but if pre-buying starts, I think it will happen possibly from the end of the second quarter and the third quarter, more than the fourth quarter because

what is going to happen is people would want to have certainty of delivery because they wouldn't want to push their vehicle delivery risk to the fourth quarter entirely. If I were a buyer, if I was a fleet operator, what would I want to do, I would say let me buy vehicles in the third quarter instead of waiting for the fourth quarter where there could be a huge last-minute rush for the vehicles because the vehicles cost will certainly go up. The cost up again, it is a fact of life because you are going into a different emission norm, so if that happens, obviously the cost of vehicle will go up, so people would want to pre-buy which is why you would see 20-21 being a flattish year. Now if it is a flattish year, the favourable lining that appears is that of the phasing out of old vehicles and whether that would add numbers to the TIV. If it adds, it is good. We have to prepare ourselves for it because that number according to the people we speak, more from anywhere between 100 to 150,000 to possibly 275 to 300 on the TIV side, but after 20-21 if all of us believe that there is a growth story in India and there is an infrastructure story that will continue and we must remember that government is putting in a lot of investments into roads. They are not putting these investments for passenger car, they are putting these investments for commercial vehicles and to ensure that there is connect between metro cities and even B and C category cities. So if we are going to do that what we see happening is the turnaround time of deliveries in the vehicles will come down, productivity of vehicles will go up and just as all of us feared, well I didn't, when we said that GST will be implemented, there will be 15% productivity improvement, so people will stop buying trucks did not happen, there will be more capital flowing into this industry. And more important, the fourth point that I would want to say is that if you look at the statistics, is that the total supply chain cost to GDP I am told about 13 to 14%. If we must be competitive as a nation both internally and externally, we must bring that cost down amongst a lot of transportation and supply chain logistics companies, warehousing etc., to somewhere around 10% which means I see more investments coming in, so when we are doing our planning, we are keeping all of this in mind because we can't run for our lunch. This is something that we will have to run for life. For more than 8 quarters, what we are doing internally as a company is to say, we need to see the de-volatisation happening, which is why LCV is a very important addition than an exciting addition to our portfolio. We are relooking at the way buses being sold, we are looking at more fully built vehicles, we are getting into fully built capabilities as also with our subsidiary GTVS and we are also making vehicles for their export markets. Yes, the exports have come off a bit but not too worried, unless things are in a glut continuously and all the markets we go to fail, I don't think so, we are readying ourselves for the South East Asian markets also and hopefully the Middle Eastern markets will also revive and so should the SAARC markets. Bangladesh is doing very well, we have won some tenders and it will become a high-volume market for us, so that is the second piece. The third one is aftermarket. Aftermarket has reached 1000 crore revenue in the first 9 months, something that has never happened. You know last full year, if my memory serves me right, 1100, they are growing at about 25 to 28% and I have a huge opportunity there where my penetration levels in terms of aftermarket parts, post warranty is only at about 30%, I can take it up to about 60% and we have got plans for it. So, wherever I am, my cup is half full, I see that as a huge opportunity for us to take it forward and we are working on these levers. Where I have a problem is to put it into a quarter saying exactly which it will happen because these are more directional in strategic and lastly, we are again redrawing our operating cost, so we are looking at it hard. We have been doing it for the past few years, but I think the initial two years, 13-14,

14-15 were like extreme, but after that we did let go because we also must plan for growth. You can't do things which will affect your capability or capacity, so we did let us go a bit because there were new businesses, we have got investments into EV, we are into solutions business, we are into whole bunch of electronic businesses, all of which will start. We expect it to start paying dividends after about 4 to 5 years and the markets will need to be patient about it because some of these things I am told, and these are coming from big research houses. It is that in the decade between 2020 to 2030, it is believed that solutions will form about the third of the revenues of global commercial vehicles, so we must make those investments, so it is a much larger palate of initiatives that the company is taking. Even while, we ensure that we improved our market share in January.

Mihir Jhaveri: Gopal and just one more thing, in terms of the channel inventory, how is it looking like, so if I missed that but how is that looking right now?

Gopal Mahadevan: Channel inventory is not anything of concern, it is at the same level it was last year, and I think it has even come down, it is about 5000 vehicles or even lower now. We don't keep on pushing into the channel because for us we offer very marginal credit, otherwise it is all on cash and carry. I can't force the channel to say, borrow from the bank and please take my inventory, doesn't happen, so we are not putting 45 days credit or 60 days credit, like it happens elsewhere in the market, so my channel inventory is reasonably very well in control and believe me, that is the only reason why we were the only company in India, even across industries who have had very limited impact on the BS-III to BS-IV transition which all of you know, otherwise we would have had a huge hit.

Moderator: Thank you. We will move onto the next question that is from the line of Kapil Singh from Nomura.

Kapil Singh: Firstly, I wanted to check this one on the financials, we saw very good improvement in raw material to sales, so any colour you can give there because for most of the companies we have seen sharp inflation in raw material to sales?

Gopal Mahadevan: Yeah, one of the main reasons has also been the mix of the products. What we have been trying to do astutely is to manage the mix, right, so for us we know consciously that we are trying to grow our ICV business, but sometimes we have to hold it back to grow our MHCV, so we have actually done well in the multi-axle vehicle and in the tippers where the margins have been better, we have been able to get some slightly better deals. Also like I mentioned to you Kapil, we are trying to avoid this heavy discounting bit quite a lot, so even in January when we had our market share growing, we were the only manufacturer who have raised prices, but still we were able to grow our market share. We are ensuring that we are growing the company holistically, so we are not offering too much credit in the market. We in fact offer nothing, we don't want to push our sales, at the same time, we want to grow our share and we are astutely managing the mix and the other thing is of course, bus profitability while I can't share the details as we improved dramatically. The Bus head has had some strategies in taking out cost. We have taken our cost in logistics and in certain parts of material, we have been doing quite a bit of

benchmarking, so that has helped. The third thing is of course has been that like I mentioned to you, Aftermarket has grown, and the Aftermarket mix has also resulted in the margins getting better and fourthly, LCV gross margins are pretty good. When we had the merged accounts coming in, it has got the effects of the LCV also, so combined you can see that the company has been able to improve on the GMs.

Mihir Jhaveri: So, this should be sustainable, right?

Gopal Mahadevan: Yes, hopefully yes. I can't unfortunately on a lighter note I know it is an investor call, but you folks know me I am very informal on these things, I can't really put a stamp paper to it, but believe me, huge amount of effort is going on material and on cost.

Mihir Jhaveri: Can you also talk about, you talked about the modular platform and the savings you are looking at over there and on the operational cost side, how much cost can you take out over the next few years, next 2 to 3 years and just one housekeeping one. What is the current gross and net debt position?

Gopal Mahadevan: I will ask Balaji to give the gross and net debt position. 1300 crores net of cash is the debt level predominantly driven by the working capital. We did build up a little bit of inventory to service the January volume because we got a feel that our January volumes are going to be higher which is why we took a conscious decision to increase our inventory.

Mihir Jhaveri: I think Gopal you are mentioning on the debt, was it as of March of as of December?

Gopal Mahadevan: As of December, it is Rs. 1295 crores net debt.

Mihir Jhaveri: And the other thing I had asked was how much cost reduction are we looking at including the modular platform and other cost reduction initiatives over the next 2 to 3 years?

Gopal Mahadevan: See, I don't want to sound crazy or mysterious, but let me give a view possibly at the end of the year because we are drawing up lot of plans. Even there, I wouldn't possibly give the entire number because then you tend to over promise and underdeliver, but all I can tell you is that these numbers will not be insignificant. It will make us more competitive. How will I use the cost, one way to use the cost is to see that I gain more share in the market because I am going to have a more cost competitive product. The second one I will also use as the finance person is to ensure that the company delivers better results on the bottom-line and continues to deliver the ROCE that it has been doing.

Moderator: Thank you. The next question is from the line of Ameen Pirani from Deutsche Bank. Please go ahead.

Kapil Singh: My first question is on the pre-buy and you like you mentioned most of the pre-buy would likely happen end of 2Q and 3Q, I just had a question on what it means for pricing, for the simple reason that historically as you know, the emission norm changes were manufacturing date based and not sales based and because every manufacturer needs to clear the inventory by 31st March,

how do you think pricing will play out, customer's expectation of pricing also, how will it play out next year?

Gopal Mahadevan: Unlike, the previous case where it was a surprise, where you could say that we needed to ensure that we cleared the inventory, this time it is going to be planned, so to that extent to answer your question, we are not expecting any heavy discounting on that. What we had seen is more demand. Even last time, it was not something that industry was ready for, right, so suddenly if you say that it is going to happen, even at that point in time, let me tell you what happened is we didn't have heavy discounting. In that quarter, the profitability was good because the demand was high where the challenge was in getting the vehicles registered. Now this is not manufacturing based, now it is sales based, which means after 1st of April 2020, you need to sell only BS-VI vehicles, so we will have to plan our manufacturing, so to ensure that we are not left with any inventory.

Kapil Singh: And one thing in this quarter which is quite interesting, I don't know if you can comment on that is that both the leaders have actually reported very robust and similar margins on the CV business, whereas the third and fourth players has actually given bad performance, so are we seeing that because there is a decline in the market, the top players are becoming stronger and how is the pricing environment, because both you and the market leader has reported very strong margin in this quarter which was expected to be a difficult quarter?

Gopal Mahadevan: I think the whole thing about the CV business is to manage your cost because there is an inherent demand, it is not there, so when people start comparing quarter to quarter, it becomes very difficult, that is why I said you will have a high quarter and a low quarter because this is not like a passenger car, this is not like two-wheeler and it is an impulse purchase or you can say that there is a trending. Here, this is more capital equipment and people will have to see demand, they will have to participate in tenders, they will have to see freight rate improvement and interest cost etc., before they factor in all of this. Now coming to the top two players doing well, you can conclude, may be on a lighter note that the commercial vehicle industry is a good business to be in and since we have got pure play commercial vehicle manufacturing, even LCV is getting better, but jokes apart, we are seeing this trend very unfortunately. This is an industry that has been growing well. Why do you have to choose the path of discounting to sell is something that beats us, otherwise this can be like supernormal profit industry if we choose to. I am saying you don't really have to go and chase customers with the level of discounting which seems unreasonable, but, what can we do as a company? We must participate in the market, so we do take decisions to go after certain customers, geographies, but at the same time, we must take cost out of the product continuously and manage operating cost. That is the only thing you can do, and you need to get better and better at this, so that there are separate initiatives for driving market share and there are separate initiatives for driving down cost.

Moderator: Thank you. We will move onto the next question that is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: My question pertains to LCV business merger, so you indicated there is a tax benefit coming in this quarter due to LCV merger and secondly there is margin accretion also happening, can you indicate on both these things?

Gopal Mahadevan: As far as the LCV merger is concerned, the tax benefit that is coming for the quarter is about 84 crores because there is an accounting method to it, so lot of tax benefit has also gone on the YTD side and we expect the overall tax benefit to be something around the range of upwards of 250 crores.

Jinesh Gandhi: Balance.

Gopal Mahadevan: For the full year, may be three fourth of it is already accounted in the current quarter because it goes in YTD. You can't accrue everything in the current quarter. Then, the PAT would have even been better. So, we must follow accounting standard, so we have taken I think about 84 crores. It is what we have taken in the current quarter and as far as operating margins are concerned I will only tell you one thing that the operating margins of the LCV business are higher than Ashok Leyland standalone, so we are going to see the benefit of LCV operating margins accreting to the business.

Jinesh Gandhi: And secondly with respect to inventory as of December 18 at company level and CAPEX expected for 19 and 20?

K. M. Balaji: 12,763 vehicles as of December. This 12763 has come down by 3500 vehicles in January.

Jinesh Gandhi: And CAPEX?

Gopal Mahadevan: CAPEX for the next year, we will have to come back after our budgets, but let us see whether we can restrict it into about 1000 crores and odd, but this will be into EV, this will be into new manufacturing. This of course includes LCV and some new initiatives of the company, but I think I will get a sharper number for 19-20 by end of March because our guys are all putting the numbers here.

Jinesh Gandhi: And for FY19?

Gopal Mahadevan: FY19, I think the number, Balaji what is the CAPEX till date?

K. M. Balaji: Till date the Capex is about Rs. 800 crores.

Gopal Mahadevan: 800 crores, we may add another, may be 200 to 300 crores. What we had told you in the beginning of the year we stand by it, about 1000 crores and we are now doing it on capacity, remember that. We have been very astute in our CAPEX planning and believe me I don't want to be in my manufacturing head shoes. He is really sweating and is sweating the assets also, so we are actually ensuring that we are putting in the CAPEX at the right moment because it is not that we are not aware of what can happen, but I think we have to plan for growth, but also ready

for some flattishness if that is there, but my take at the moment is that while 20-21 may be flattish, there is growth in 19-20 and there is certainly growth after 20-21 also.

Moderator: Thank you. We will move onto the next question that is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Just wanted to get a sense on the discounts in this quarter for you?

Gopal Mahadevan: The average discounts, they have gone up, they are at about 4 to 4.2 lakhs per vehicle, but it is average. The tonnage of the vehicles has also gone up, but the discounts are huge, so what I look at is the net price realization that I keep sharing with you because absolute discount mean nothing, so we did take a bit of price increase in November, we did that earlier also and we opened with the higher price base also at the beginning of the year if you remember because we were the only players who have taken a huge increase in March of the previous year. So, for us, we have been able to get the pretty flattish net price realization in the third quarter, otherwise the net price realization could have gone down even further. Hopefully the January realizations have been marginally better because we again took a price increase, so what we do is we don't announce the price increase across all models saying all, everything is good. We ensure that we do a proper mix study and say which are the ones there is a demand, so how much elasticity on the price do they have and then certain things where we need to actually gain our presence on our vehicles and we don't increase prices there, but overall we also monitor the gross margin to see that they make reasonably sensible gross margins and we are not giving away trucks and also some money. So essentially, this is a very astute exercise that happens, I would say every week in the company, if not every day to ensure that we protect our net price realizations, but to answer your question, very high discounting, rather unfortunate.

Hitesh Goel: And just want to get a sense on raw material pricing, it started to come off in December and you guys have taken price increase and there is a fear in the industry that CV cycle is going to be a very tough patch, so can you just talk about that how you guys are able to take price increase despite raw material price coming down and streaming under pressure?

Gopal Mahadevan: Well, I think that if the raw material price increases, what happens in the industry also the whole thing is on an accrual basis. It is not like every day the purchase order is chased, so we will possibly have, but at the moment it is a little early, but I think that we would see better margins in the fourth quarter yearly because the raw material price increases will come off, but we must also remember that it is important to ensure that we keep rationalized pricing and while the CV market is tough and I believe that just see January, I am not saying that is the evidence for all the quarters or all the months to come, but we increase prices and we gained share. The industry was flat, and we grew volumes. It is all about as a proposition that you have on your vehicles also.

Hitesh Goel: Just wanted to get some sense that in January when you are talking about the numbers are flat that is retail or that is wholesale number?

Gopal Mahadevan: Wholesale.

Hitesh Goel: So how was the retail side?

Gopal Mahadevan: We are talking about wholesale because we only report wholesale.

Hitesh Goel: But any idea on the retail side, what is happening here on January?

Gopal Mahadevan: I think retail was good. I don't have industry retail details.

Hitesh Goel: But for you, generally if you can give a sense?

Gopal Mahadevan: It was good. Better.

Hitesh Goel: It was growing, or it will grow also in retail?

Gopal Mahadevan: Yeah, it grew.

Moderator: Thank you. The next question is from the line of Raghu Nandan from Emkay Global. Please go ahead.

Raghu Nandan: Just wanted to understand that 150 bps cost savings you alluded to, it is over which period?

Gopal Mahadevan: This is for our modular business program when we start launching it in 2021. That is the base case that I am looking at to be honest with you. This is purely because you are bringing in modularity. Just to add, this is a strategy to neutralize any pressures that we possibly can also have during that year because of BS-VI, so we have figure out ways and means to see that we keep maintaining profitability.

Moderator: Thank you. We will go onto the next question that is from the line of Ronak Sarda from Systematix Group. Please go ahead.

Ronak Sarda: My question on your LCV portfolio, the LCVs have been resilient despite the other auto segments feeling the pressure and this month, Tata motor has also reported the decline. How do you see LCVs in near term, as in Q4 and FY20 and a clarification on the earlier question, raw materials have started to soften, do we see any benefits accruing in Q4 and Q1?

Gopal Mahadevan: I think so, we should see benefits of raw material price softening, we are in discussions with all the major suppliers, so if that happens you are going to see the benefit coming in both Q4 and Q1, if not even Q2 of next year, let us see unless again steel prices start to swing up. LCV, I think we are very positive about the growth because for us as a company, we are not yet fully matured in the industry in the sense we still have lot of offerings to make in the product portfolio. So, when I start making and adding to the product portfolio, like the Guru 10 tonne, it is not an LCV, it is an ICV, but our share in ICV business has gone up. I remember when I joined the company 5 years ago, our ICV market share was 10 to 12% and today we are at about 20 to 22%,

so you are adding products continuously. So, when that keeps happening, my share of the LCV market will start going up which will help me shore up the business and secondly, I think this is going to be very important as an international export initiative, huge market. So it takes time to convert, it is not easy, but to convert the right hand side vehicle to a left hand drive, it takes time, it is actually like redesigning the vehicle, so we are almost ready with our LHD variations which will happen now during the next 6 to 12 months and then we are also going to have the new vehicle coming in which will complement the existing DOST and what we have seen now is for example in DOST, when we had only single DOST we were doing possibly about 3000, now that number has grown significantly, for example, in the last quarter, if you look at LCV, we have done nearly about 14,000 units and that is because we then added Dost Strong and which is Rigid Front Suspension and then Dost Plus which is higher end offering. So when I now start offering the new Dost Plus, if I am going to have some other variant in the existing modules itself plus I am going to put in initiative to drive the volumes of Partner which is again a superior vehicle and I am also going to get my portfolio of ICV up , I am going to fill in a lot of slots which hitherto I have not and that should help us to scale up volumes also.

Moderator: Thank you. We will move onto the next question that is from the line of Jamshed Dadaboi from Citigroup. Please go ahead.

Jamshed Dadaboi: Two questions, first is year to date, could you give us a revenue split across some segments like MHCV, LCV, exports, defence, buses, I know you mentioned aftermarket is 1000 odd crores and second question, could you give us a sense of how the balance sheet has changed post-merger of the businesses? What has happened to your net block? What has happened to total capital employed?

Gopal Mahadevan: I will give you the broad revenue split that we have happened, so we have roughly for Q3 of FY19 if you were to look at the total revenues of 6300 and odd crores, we have had about 4300 coming from trucks and buses was about 439, LCV was 572, so these are the three large numbers that I thought are very pertinent for you guys. As far as the balance sheet is concerned, Balaji do you have the breakdown, or I will give it you later, I don't have the number readily, the addition, gross block, net block. We will do that. It is not very significant numbers for the LCV business. Let me tell you that because our overall gross block, I think is roughly about 6000 crores, so the addition will be marginal. I believe if you were looking at the ROCE, let me answer the question to you Jamshed that the incremental ROCE will only improve the total consolidated ROC.

Jamshed Dadaboi: And could you share the number for exports and defence for the 9 months?

Gopal Mahadevan: Defence has not been very high because there were no kits, but again we had export volumes of about 1800 units on about 27,900 units excluding exports. It has been a tad slow, but I will tell you the thing about exports is there are two parts to exports. I know that we have been saying that we will grow our exports to a fourth of our revenues or so, but it is taking a little bit of time, but the opportunity very clearly exists, it is not that the opportunity does not exist. We are putting in more resources there, the only thing is sometimes there is one timing mismatch, sometimes the markets have not been great, for example, in the entire UAE market and Saudi market and

then you had Qatar problem, so I don't want to sound giving it as an excuse but these are facts, so you can't push vehicles in a market where there is no demand and then you had the oil pricing uncertainty and you know the fact that was happening with US. Sri Lanka is a steady market, but the level of political uncertainty, it is so huge that there has been continuous change in the leadership and that has created a problem. Bangladesh is doing reasonably well. I think there are tenders coming in. This is one part, so we must grow in the African market and retail. We will also have to grow in the South East Asian markets in the retail, so we will be seeing something happening in the forthcoming year also where we will be seeding some of the vehicles in these markets. The products also must be ready. We were possibly a tad slow in the product readiness because we possibly overestimated this period in which we can do. We need left hand drive products which we are getting ready now, so most of the products which are critical for our export strategy are ready for launch over the next 6 months, so then we will have the left-hand drive products that we can go for these markets.

The second one is the project orders. Project orders are taking a lot more time and there basically the project orders that come from Africa and within the various countries and Africa is not one large country, but we are discussing something in Senegal. It is now going on, I thought this deal will get signed off two months ago, but this not yet happened. When will it happen, I don't know, but similarly we are doing it for couple of other countries also. When these things happen, then suddenly you will see the exports spurting out. So, for us, when we must measure exports also, I would want to see it on a slightly larger framework of not a quarter, possibly over 6 months, what are we doing, and we are trying to build consistency in export revenues. That will happen only through retail which means I have to build my network there for which we are getting the product study.

Moderator: Thank you. We will move onto the next question that is from the line of Jatin Chawla from Credit Suisse. Please go ahead.

Jatin Chawla: My question is on the cost increase post BS-VI, now we managed the BS-III to BS-IV transition with lower cost because we had a different solution compared to a competition. Now with BS-VI, everyone will be moving to SCR, so will your cost increase be higher than your competition because you will not have the advantage that you had in the BS-III to BS-IV transition?

Gopal Mahadevan: I don't believe so even if it is there because there are certain parts of the BS-VI which will have to be put in by competition also. The delta differential movement upwards is not going to be very significant per vehicle and we are figuring out a fix for that, so I have had multiple discussions with our head of product development and engineering and we are trying to look at this now it is not a major issue for us. Let me put it this way. I understand the logic of your question. I don't want to brush it aside, but I don't see that as a big negative for us at all in terms of the market, in fact, hopefully, let us see how our solutions are going to be different from competition and whether we can make an advantage in that.

Moderator: Thank you. We will move onto the next question that is from the line of Aditya Makharia from HDFC Securities. Please go ahead.

Aditya Makharia: I just had one question with BS-VI coming in, this will be a nationwide rollout, right, it won't be staggered like how we had BS-III and BS-IV?

Gopal Mahadevan: No, it will be a nationwide rollout.

Aditya Makharia: But this should be pan India from the first day, right?

Gopal Mahadevan: That is the expectation. The government has not come out with any clarity, so we are readying ourselves for Pan India. We are readying ourselves for the larger of the challenge, let me put in that way, if it is saying of course there is a complexity in terms of manufacturing which can be handled there is no issue, but the inventory management on a pan-India basis is what we are readying ourselves for.

Moderator: Thank you. The next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal: Just one question Gopal, initially in your comments, you mentioned the recent slowdown is because of the base effect and the axle norms and some finance availability. I just wanted to ask you two things around that. One, you think the full impact of axle norms is behind because I am assuming most of the transporters are still re-registering their trucks. That is one and secondly, is there no impact on the demand, per say, is it as good as it used to be last full year or there has been some slowdown in demand as well?

Gopal Mahadevan: I will put it this way, very difficult question to answer and we first clarify that I didn't mention a slowdown, what I mentioned was that you saw a marginal degrowth that has happened. The reason that is happening is because of three factors. One is the base effect itself because last year, the growth was 42%, so you know the industry had grown 42% in the same quarter last year, so you wouldn't see a base effect. The second one was of course I mentioned about the financing and the third one was axle norms. January has been flattish, so to a certain extent, I am satisfied because there is no degrowth.

Yogesh Agarwal: So, the underlying freight movement?

Gopal Mahadevan: No, there has not been any slowdown on freight movement at all. See that is what I am saying. If there is an underlying freight movement slowdown that is not because of the industry, it is because of the economy. So I am just telling you, if the economy were to slow down and I keep repeating, I mean the commercial vehicle truck industry does nothing but move GDP, so if the GDP were to slowdown that will have an effect on all industries including commercial vehicle industry, but if all of us decide that India is going to grow at a pretty decent space over the next few years and then I think it is a reasonably good prospect for commercial vehicle industry, 20-21 could be a little flattish, 19-20 will be a growth year because of pre-buy and the growth should happen in Q2, Q3, and possibly Q4 of FY19-20 and 20-21, how much of the incentive that the government is going to give because they keep announcing and then there is no clarity on whether the incentive will come in, but if there is an incentivization for scrapping the older vehicles, some of the fleet operators will make sense for them to trade it in because especially

the medium freight operators. The fellows who will get affected are the one or two truck operators because they may be running extremely old vehicles and they must be moving sand and other kind of stuff. So, for them to invest into a new vehicle can be prohibitary, whereas somebody who is in this business and who is carrying a reasonable inventory of vehicles would want to say this is a good window for me to trade in. If that happens, then that can possibly neutralize because I think that is what SIAM had also mentioned to the government that it would be a good time to introduce the scrappage policy. If that happens, again going forward, it looks reasonable provided GDP is going to grow because the base is going to get larger and larger and we would need more efficiencies in transport system and trucks are getting better. Trucks are getting more connected. It is becoming more efficient.

Moderator: Thank you. We will move onto the next question that is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Sir, just wanted to get your sense on the defence thing because in your press release you also say that we have won these many tenders, we hope that there will be some orders around that, so just wanted to get your sense on that side, how do you see that scaling up in the next couple of years? What is the visibility we have on the defence?

Gopal Mahadevan: The challenge I have is, my visibility is a little low on this. My capability is high, so it is like we were in 31 tenders out of which we have executed some of them. Pilot tenders have been done, they are happy with the products. They do an initial trial order of 5 vehicles or 6 vehicles which have been done, they have been deployed, we have done multi-barrel rocket launchers, we have got mine-protected vehicles, we have got medium bulletproof vehicles, we have done a whole bunch of stuff. Unfortunately, or fortunately, what is happening is the tendering and then the second part is kits, so the kit ordering from vehicle factory, Jabalpur has also been negligible over the last 2 quarters, so if that happens, the previous year we had about 3500 kits. If that happens, that improves my EBITDA quite significantly because of the mix. Now we are hoping that the reordering will start from the new year. I think now, the government is putting, I don't want to, it is an open call, but we all know why there is an uncertainty on the defence ordering. I think hopefully if that happens, then I am better positioned than anyone else because I won the tenders, I have enabled myself, now I will have to wait for the orders. So, if the orders start coming in, logic tells us that at some point in time, they will have to stop the ordering because they have approved different kinds of vehicles both armoured and non-armoured and if that has happened, why have they done that obviously, because they want them including revamping of tanks. There is work going on, the potential is pretty huge, but I presume all of this has been done because the government wants to augment its defence preparedness and if that has to be so especially on land systems, of course, then there is artillery and then there is aircraft, there is naval, etc., but we are not at that space, but on the land systems, if they want to augment their capabilities, we will be an important player, but I can't tell you whether they will order next year because we are internally preparing ourselves for that. Let me be candid, but if I say so and that if it doesn't happen, it doesn't look very fair for all of us, which is why what we are saying is we are prepared, we are waiting for the orders. If they come in, it will be very positive for the company and this is not like we have to participate in the tender, we are talking about things we

have won, so there is a slight difference between the artillery players, for example, who have created capabilities but are waiting for tenders to happen. In our case, we have won the tenders.

Sonal Gupta: So we have won the tenders, it is just that when the orders come in?

Gopal Mahadevan: Exactly.

Sonal Gupta: And as of now, there is no value attached to these orders, I mean order size?

Gopal Mahadevan: I can't because it depends. Suppose I say, I will estimate that they will say do 100 and if they order 50 the number changes or they can have to 120 also. Just look at vehicle factory Jabalpur, it was a steady state, but suddenly this year it has come off, I don't know what the constraints are. Hopefully, they will start ordering again next year. So we are preparing ourselves because finally it is all about capacity planning also.

Moderator: Thank you. Ladies and gentlemen that is the last question. I now hand the conference over to the management for their closing comments.

Gopal Mahadevan: I think lot of interesting questions and I hope that we have been able to answer some of the questions and more importantly the uncertainty that some of you people may have had in your mind, but I think that we are getting very well prepared for the future and we are excited also by the prospects that the future hold for us because we have only been getting better over the past few years, if you really look at it. It is not just about operating performance, we have added market share over the last 5 to 6 years. Our operating margins have been getting stable. It has not been oscillating very wildly, but we are now continuously on the double digits. We have done couple of turnarounds very well. Both HFL and LCV has been beautifully turned around and if you refer to the subsidiary balance sheets about 3 years ago, they will tell you a completely different story. We have cleaned up our balance sheet to the best of our abilities. We have been sharing all the developments of the company with you. We have been consistently launching products and more importantly we have been pushing the needle in terms of even the technology offerings that we have including the IEGR which now competition is following or the earlier BS-III vehicle and then we have launched the latest 4123 which I failed to mention, it is again a first of its kind. It is the world's first 16-wheeler truck with the patented parallelogram dual tire lift axle, which means the way it lifts because it makes a whale of difference in terms of wheelbase and wheelbase has an impact on load, load has an impact on material cost, you can put more material and get a larger vehicle for larger tonnage or you do it lot more intelligently because the whole load bearing thing is depending on the wheelbase, so we have been displaying our engineering capabilities also, so I would only want to leave this perspective with you that I keep getting asked continuously and none of you asked it, but what about technology, I am telling you we are very well positioned to serve the Indian market. We have been proving ourselves consistently and we are also well positioned to serve certain addressable markets in the globe and we are getting better at this in terms of product capabilities. Some of this will start converging in the near future and hopefully will see all of them happening.

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