



“Ashok Leyland Limited Q1 FY22 Earnings Conference Call”

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**MODERATOR: MR. JINESH GANDHI– MOTILAL OSWAL FINANCIAL
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Moderator: Ladies and gentlemen, Good day, and welcome to the Ashok Leyland Q1 FY22 Earnings Conference Call, hosted by Motilal Oswal Financial Services Limited. As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jinesh Gandhi from Motilal Oswal Financial Services Limited. Thank you and over to you sir.

Jinesh Gandhi: Thank you, Mallika. Good morning, everyone. On behalf of Motilal Oswal Financial Services, I would like to welcome you all to 1Q FY22 Post-Results Conference Call of Ashok Leyland. Ashok Leyland is represented by Mr. Gopal Mahadevan – Whole time Director and CFO and Mr. K. M. Balaji – Vice President (Corporate Finance). I would like to thank the management for taking time out for the call.

We will start the session with the opening comments from the management following the Q&A. I would hand over the call to Mr. Mahadevan. Over to you, sir.

Gopal Mahadevan: Thank you Jinesh and a very warm, good morning to all of you. Thank you very much for making it for this Investor Call and the continued interest with Ashok Leyland. I will just keep my comments very brief but try to be as pertinent as possible. I think most of you have also attended the Investor Meet that we had just about 10 days ago, on Switch where we discussed about the plans that we have for the electric vehicles.

But coming to the Quarterly Results now:

The industry certainly has grown, but I wouldn't want to quote statistics, because if you compare it to the Q1 of last year, the numbers have been much better. But still things have to kind of get to the, I would say pre-COVID days. So, the total industry volume for Q1 FY22 was 29,158 units. I'm going to keep the numbers round, it's okay. It was just about 4400 units last quarter in Q1, so Q1 of FY21. But we must remember one thing April seemed to be bouncing back pretty well. But then suddenly, we had the lockdown again, in May, and almost part of June almost half the quarter, if not more had, again kind of was a result of shutdown due to which volumes got affected in the total industry.

And the second thing I would also say is that while we can compute market share, market share is a confluence of one mix both geographical and product. So, the lockdown it's an important factor which influences the market share, because for instance the Southern markets are closed more than the Northern or Eastern market, or Western markets, what happens is obviously companies such as Leyland which have greater kind of weight on the Southern market get impacted, this is one.

The second one is of course, what I wanted to say is that the bus industry is still to grow. So, out of total industry volume on 29,000 units, the bus volumes were only about 1086 units for the

quarter and this is TIV. And remember that this is almost a 40,000 per annum unit industry. So, very, very small numbers at the moment. Ashok Leyland had 7816 numbers as opposed to 689 only in 1st Quarter. Last year, 1st Quarter is not a comparison because it was completely shut down for all practical purposes and our market share for Q1 was about 27%.

Our export volumes were about 1190 units for the quarter. Here again, I would just want to mention that still the export markets our addressable markets like Middle East, Bangladesh, Nepal, Sri Lanka, are yet to kind of fully open. In fact, even in the rest of the world we are seeing restrictions on COVID, because of the second wave happening, and then now possible third wave and I will just touch up on it briefly as well.

So, revenues for the month, for the quarter was 2951, the EBITDA was a (-4.7%), and our PAT was (-282) crores.

The net debt was Rs. 4175 crores and our ICDs for the quarter was zero, which means we had no ICDs outstanding.

Now, I'm just going to give a very quick update on what's happening and as I've been doing with Investing Community, I just give a perspective from the management side as to what we are seeing happening:

We believe that if the COVID third wave is not very severe, then we are going to see quite a quite a bit of demand coming up. The reason why it's going to happen is two twofold:

- One is that the economy is set to grow, we are seeing that there is quite a bit of infrastructure spend. On the positive side, again, we're seeing real estate demand going up, interest rates continue to be low. On the flip side, of course, you see diesel prices are at triple digits, and freight rates are yet to firm. But again, on the positive side, we believe that the Axle Load Norms, the additional capacity that was created, possibly has come off now and we could see fresh demand. That's how we are seeing this whole piece.
- The second bit is on the Light Commercial Vehicle front, if you look at the LCV markets, they have been pretty stable, and our market share has actually grown about 20%. We were a 14% player. So, this market is very promising. It's not as volatile as the M&HCV market.

But the other thing that I would also want to say pertinent to M&HCV is that we have almost seen eight quarters of degrowth, let's leave out this quarter, because that growth is on a very low base. But even before COVID, if I would look at it, the demand had actually come off quite sharply. And we've seen eight quarters of degrowth. And at some point in time, we will see a pullback happening. And we are planning ourselves for that, in terms of the demand growth happening. Of course, if COVID third wave comes severe then that's a completely different scenario. But we, at the moment, believe that with the vaccinations going on and the familiarity that we as a country have on the lockdown and the opening up, we believe that we should be able to cope much better.

So, this is where we are. I would also want to add one more perspective, we have seen that the growth businesses have played a very important role in bringing stability to the Company. So, LCV business has been doing well it has been growing, it has contributed to the bottom line. Similarly, aftermarket and parts, defense, as well as power solutions business have actually kind of helped to bring in revenues and also improve the margins because these are much higher margins than the traditional M&HCV business.

As the export market start to grow, or open up, we believe that we will see a growth in exports as well. And we are much more ready today to kind of serve these markets with both LHD and RHD, variants of LCV, variants of M&HCV.

So, I think we are quite positive that if the COVID scenario were to come off, we could see quite a bit of growth happening. I'm now going to hand it over. I know I promised I'll keep it short, but I have not. But two things that I would say is one steel prices seem to be very firm. And we've seen two quarters, three quarters of extreme steel price growth. We are expecting that in the second half steel prices should go up. But then there are multiple reports. So, I wouldn't want to get into that.

The second one is of course; we are keeping a very close watch on semiconductor availability. But I think our team has been managing pretty well. Overall, we have also been keeping our costs very tight, as has been the practice. There are special initiatives going in the Company to neutralize some of the effects of inflationary pricing on commodities. We have a special value engineering project which has been kicked off, last year we had a project for taking out costs across the Company, this year, there is another project to take out cost out of the material, which is alternative material, alternative design. We are looking at vital essential parts in vehicle, but nothing that will impact the performance of the Company. There is a whole bunch of people who are working on that.

The second one is of course; something that we have been doing consistently is middle line management. So, every item of cost is being looked at, but at the same time, we also need to ensure that we don't do anything which is very short term and very myopic in nature and we need to ensure that we are planning for the growth of the Company itself. So, with these words, I would only say that we are hopeful that you know the second half should be better. And things look to be easing out. And we are readying ourselves for some amount of growth in this industry. So, Jinesh, over to you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh:

Yes. So, firstly, I wanted to check we have seen a drop in raw material to sales ratio, given your commentary on steel prices. If you could talk us through, how is the truck profitability looking like, purely from a gross margin perspective, I understand there will be operating effects there. And how much price increase you took in Q4. And in Q1, how's the discounting trend? Yes, firstly, on that.

Gopal Mahadevan:

Okay, you have almost covered, on a lighter note almost 80% to 82% of the P&L. Now, basically, I will tell you, why, see the demand has not come in full-fledged. But on the positive side, we have seen that in the month of April, when things were opened up, we did see a sudden spurt in demand. Pricing continues to be a challenge, because you know, the industry unfortunately seems to be using pricing as a method of acquiring customers. We Ashok Leyland, will continue to grow its share of business, and that's what is one of the most important, I would say target that it has, but at the same time, we just need to ensure that we are doing it profitably.

We have taken price increases both in the 4th Quarter and in the 1st Quarter, I think approximately of about 2% each. And the second one is, that's not sufficient for the material cost increase that has happened. But at the same time, we must understand one thing, see this is we need to wait for things to kind of pan out all of this will dramatically change, once that demand picks up. You know, and this is not like other businesses where it's there's a personal ownership. This is essentially commercial vehicles used for commercial purposes.

So, I think the underlying economy growth is what will spur the demand and we are seeing that happening because people want to have the latest generation trucks when they are bidding for tenders. As we move forward, if the steel prices were to soften, and we see the demand going up, we believe that the M&HCV profitability will kind of tail off, this is the second part of your question.

The third part is with respect to material cost production, as I had mentioned earlier, we continue you see we continue to look at providing increasingly better-quality vehicles, not that our quality is bad, but we are continuously raising the bar on quality, our warranty rates have come off quite sharply in the current year post BS-VI. Even in the second half of the BS-IV deployment, the vehicle performance was far, far superior than what was in the industry. So, we have actually seen warranty cost coming off sharply which means that the quality of the vehicles have been further enhanced.

While we are doing this and while we will pursue this as a differentiator, we also are looking at opportunities to take out costs in the product. You know cost for which, there are two ways to look at it, one is to look at cost for which the customer believes that it doesn't make sense to pay or costs that which a customer is willing to pay, which can be an add on to the vehicle. So, we're looking at both of them. The second one is we're also looking at alternative materials we have looked, our team, we have a very large team that's working both on the manufacturing and product development, to look at every aspect of the vehicle to see what more can be done to make the vehicle more efficient, but also less costly.

So, we will see the benefits of all of this as we move forward. And finally, one more thing that I would say is we possibly are the only player in India to have launched a completely modular vehicle. We will get to see the benefits of modularity when the volumes start to chug-in. I've been mentioning that over the last few quarters, unfortunately, the volumes are very low. But once the throughput starts to kind of scale up you will see the benefits of modularity, because the actual number of parts are lower, it becomes easy on the production line, it comes up easy on inventory

management, on vendor management, improves the quality of the vehicle at the same time, gives rich-choice of product portfolio for the customer to choose from. So, I think there's a lot of benefits that we'll see aggregating but we'll have to also wait for the volumes to scale up.

Kapil Singh: Sure sir. So, sir overall, how much is the commodity inflation we have seen in 1Q and what are we expecting in 2Q? And also on the other expenses side, it seems to be on the higher side, is there anything to call out over there?

Gopal Mahadevan: No, I will, see the other expenses there have been some one-off expenditures that we have provided for these are more like kind of arrangement that we have with the parties, you're not going to see that happening in the 2nd Quarter. We would be buttoning down on other expenses there's a team that's working on buttoning down the whole expenditure. And you know how decentralized Ashok Leyland is and everybody, every business had, and some business owns P&L and monitors it very vigorously. We also keep redrawing our plans as the volumes keep changing and we see that we work our way through overheads, as the volumes are oscillating, this is the second thing that we're looking at.

Kapil Singh: For the other expenses that you think is one-off and what is the nature?

Gopal Mahadevan: I would say that about maybe about 40 to 45 crores should be a one off. But let's see, let's wait for Q2, because you see some of them are R&D related, some of them are CSR related, some is foreign currency fluctuation. Foreign currency fluctuation on loans is not very significant, I mean, has no cash impact because once the loans, these are MTMs which actually get neutralized when the loan gets repaid. So, there's a timing difference that comes in.

The second part of it is we have seen approximately about; I would say about 13% to 15% increase in steel prices in the quarter. So, we hopefully will see that things stabilize as we move forward. And let's hope that happens.

Moderator: Thank you. The next question is from the line of Gunjan Pritiyani from Bank of America. Please go ahead.

Gunjan Pritiyani: Firstly, I was just trying to get a little bit more color on the demand side. Is there something that you can share in terms of how are we seeing the trucker sentiment, fleet utilization post the reopening or inquiries that you are seeing at your dealership, just gives us some perspective how should we look at the recovery, if there were to be keeping the third wave's risk aside?

Gopal Mahadevan: Well, I think that's a very interesting question Gunjan. You see, there are two, three parts to this. One is from the inside, the truckers are facing two challenges, but they are also having a lot of opportunities. The two challenges that all of us know, one is the fuel prices and the second one is freight rates. The freight rates have not really gone up in proportion to the diesel prices. But this is also because there is no real demand that has really come out. Once the demand comes in and truck availability becomes an important criteria for supply chain management, you will see the freight rates coming back up. We have seen that happening. I mean, I'm not giving this as a

forward-looking forecast. Over the last seven, eight years, you have seen that whenever demand goes up, the freight rates also kind of naturally adjust and that happens because the underlying industry have goods to be transported. So, I think what the truckers are doing now is keeping themselves ready for an upside and keeping themselves ready for procuring trucks. There's a lot of inquiries on the ground today, there were a lot of inquiries in April, there were a lot of inquiries in July. So, we are seeing a lot of traction on the ground.

At the same time, what we have been doing is to ensure that we don't pump the dealerships with inventory; there was some amount of inventory that happened in the month of May, because suddenly, things are closed down, right. So, we have been consciously working with our dealers to ensure that they don't bear the burden of this. And I think by August and September, things would be pretty much normal as far as the dealers are concerned. Finance companies have been a little wary earlier about financing this sector. But you know, there have been a lot of reports about potential challenges for financing trucks, etc. But I think again, once the demand starts to pick up, all of these concerns will start to evaporate. You see, there is nothing as good as demand. And there is nothing as good as growth.

And I have been saying this almost each and every investor call, I keep things pretty simple. If we look at M&HCV trucks, there's nothing but transporting. If we believe that you know the GDP is going to grow as we move forward, you are going to see the growth in trucks as well. Buses, again while we don't talk much about it, there have been impact because of people and also because of COVID. So, practically if you look at it schools were shut, most of the offices were shut so and state transport undertakings are only predominantly operating within the city. Intercity transportation is not huge today, because of either from migration of labor side or even for white collar jobs. People are working from home, as white-collar jobs that has been done so you are not seeing those demand, which was earlier there.

Once you know, again, the COVID kind of lifts off, the people double vaccinated, and then we are comfortable moving out, you are going to see the demand for buses actually, coming up again. You know, so this is again, another opportunity. I mean, I personally don't expect that we are going to be same like that at some point in time whether it is one quarter, two quarter I don't know. But I think we would actually see that you know, the demand for bus is also coming.

A lot of truck demand would center around infrastructure, this is another point. And the second one would be e-Commerce and light loads. So, you know, the whole industry has been bifurcated after the launch of GST. We are seeing demand actually in you know tippers, we are seeing demand in you know, multi axle vehicles, and also in ICV. ICV composition of the overall TIV is quite significant today, ICVs account for nearly 25% of the overall industry in trucks. Tippers accounts for about 25%.

So, you know this is where we are and I don't know whether that has helped to answer you, but answer your question, but very clearly, let me share with you that the level of inquiries on the ground is significantly higher than what it was earlier. And if we see August month also growing I think July has been good, August if it starts to grow and if we kind of skirt the third wave. Now,

the discussion is that maybe the third wave is not as severe as we thought it will be. So, once a month of August is over, we possibly will see demand coming back

Gunjan Pritiyani:

No, this is certainly very helpful sir. Just then, the second question I had you kind of touched upon the financing bit in your remarks. If you can just give us you know the operating trends for Leyland Finance as to where you know the asset quality and what is the other you know in terms of profitability, what are you picking up from there? You know just the financial and the operating trends on Leyland Financial will help.

Gopal Mahadevan:

Sure, Leyland Finance has been doing very well. I must compliment the management team to have a kind of ridden through this whole COVID wave very, very accurately. So, their results, last year which I shared was pretty good. In the current quarter Their AUM is at about 25,850 crores. Their Net NPA is at about 2.6%. And you know the collection efficiency has been high month-on-month. For the month of June, it was almost at 85% and I think July has even been better than that.

So, we don't see any concerns on the collection efficiency. There has been adequate provisioning that the Company has also done in terms of COVID provisioning, that has happened in March, it happened for the March 20 results, and then in June 20, and then in September. So, it has been kind of adequately provided for. I think the team has also cleaned up a lot of you know, kind of suppose that was any vehicles which had been repossessed, a lot of repossessed stock has also been sold in the previous year itself and when the pricing was good. And I think overall the revenues were 751 crores and the PAT was 86 crores, so, a 11% margin.

So, overall, the Company has been doing exceptionally well. And one of the reasons for HLFL to be doing well is that it has got a very diversified portfolio, while it continues to support Ashok Leyland for its M&HCV business and it is a crucial partner and I'm not only talking about M&HCV, but also for LCV it's a crucial partner for us. It doesn't cross-subsidized. HLFL are taken independently of Ashok Leyland we are not passing on any of the burden to HLFL where you know, there are any exceptional or additional provisions that are taken even for the acquisition of Ashok Leyland market share. They run the business independently.

The second one is the portfolio is pretty diversified. So, you have a loan against property, you have two-wheeler financing, three-wheeler financing, off-road vehicles financing, and also buyout of portfolios. So, when you look at the whole mix of portfolios, they have got a good mix of you know, portfolios, and a good mix of portfolios with different NIMs, which helps them to actually post the results that way.

Gunjan Pritiyani:

How much of AL's book is financed by Leyland Finance and is there a need for capital infusion if you can just answer that I will just join back the queue.

Gopal Mahadevan:

I think their book is about 40% is commercial vehicle and, the rest is diversified 40% to 45%. The second one is you know what I would say is that, as far as capital infusion is concerned, I'm not too concerned at all with respect to capital infusion in HLFL. I mean in Ashok Leyland; we are not concerned about it. Because what happens is it's a multiplier that business has been growing

consistently. I know that in 2013-2014 the overall book size, if my memory serves me right was something like about 12,000 to 13,000 crores and today we are at almost 26,000 crores. So, the Company has been posting excellent growth and profitability. And if there is a requirement for capital, we are happy to provide that. Last year was not very significant, this year again if we have to provide a capital infusion that would be about maybe about 100 to 150 crores. But we will keep you posted, it is to support growth, please understand one thing, if we were to infuse capital into HLFL it is for supporting growth.

Moderator: Thank you. Next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Is there a case of production being significantly higher than sales in this quarter, because of it the fixed costs are sitting in the ending inventory and that is driving the gross margin improvement Q-on-Q?

Gopal Mahadevan: See that is I would say that that is not going to be significant in terms of the gross margin maybe about .3%, to .5%. Yes, the production was higher than sales, because suddenly when you have a COVID lockdown in May and June, what do you do? I mean, you will have a certain amount of inventory, right. But I think that's not just the reason. I think the reason has also been the mix. You see what the M&HCV team has been doing has been to continuously work on the mix to see how do you improve the margins, right, this is one part. The second part is between, if you look at M&HCV and non-M&HCV business again in the current quarter, we have approximately trucks and buses accounting for about 52% and the rest of the businesses accounting for 48%. So, the rest of the businesses accounting for 48% has actually helped in the margins being better, because light commercial vehicles, spares, engines, exports, defense, are all higher margin businesses. So, that has also helped in the overall margins.

Hitesh Goel: And what was this number in 4th Quarter sir, non-truck revenues, as a percentage of revenues in 4th Quarter?

Gopal Mahadevan: Fourth Quarter, I will tell you, it was about truck revenues, trucks and buses, Balaji, Correct me if I am wrong, was about 65%.

K. M. Balaji: Non-truck roughly 30%, 35% Hitesh.

Hitesh Goel: Okay. And my final question is, can you also give us some color on the financing situation, because we have heard from banks that they are pretty careful on the commercial vehicle portfolio. What are you seeing right now on the ground?

Gopal Mahadevan: See, I think there are two things they are a little careful. And I can't say they are not careful so the lending is becoming a little cautionary if I may say so and especially so with first times buyers, and first-time users. The large fleet operators are not, let me tell you, the large fleet operators and some of the medium fleet operators, okay, they are getting rates, which are unbelievable, it's unbelievable, right. So, if you look at the larger lenders, they are very keen to chase them, right. It's the first-time buyers and first-time users who need to be who people are watching out for a

person who has bought a one or two truck or three trucks and then is going full. And then they look at the moratorium record of the person. And you see moratorium is nothing wrong, I mean, the government had given the opportunity for a moratorium, they keep shut them all. When they were sitting through a situation where, see we must understand this in perspective. Imagine, put yourself in a trucker position and put yourself in a first-time buyer, first time user position. You know he just come in, he has bought two, three trucks and suddenly you have COVID. And you are sitting on an asset, right. So, there is nothing wrong if a moratorium comes in and if there is an intention to pay, and the ability to pay has been affected. I think that will come out when the moratorium gets lifted. And we have also seen and we have seen that in almost all finance companies save one or two, that once the economy started to open up, especially in the second half of last year, some of the guys actually started to payback very, very quickly.

But the point that comes up is almost all the commercial vehicle lenders including two or three banks who have large portfolios, they just want to be careful that they are not getting into a COVID wave three. I am not too worried about a large delinquency situation at the moment, but I'm not an expert on I am not an expert NBFC or a banker, but I think what they are looking for is what happens in the event that there is a COVID wave three. If that does not happen, nobody is going to turn in a truck after paying the installment. So, we must also understand the other thing. See at some point in time, it becomes extremely difficult for a trucker having paid say 48 month or a 60 month loan to have paid about 12 or 24 months, and then walk away from it. He will suffer a huge loss, right. So, what is happening is guys who are possibly having small truck operators, who are actually having the smaller contracts, who are now looking at saying okay, if those contracts are not coming in, let me deploy in market loads.

So, again, I will tell you that if the demand were to go up, a lot of these fears will come off. You know I have seen this, we have seen this as an industry, we have seen this as the Company in 2013/2014, right. When the same situation happened, when in two sequential years, we saw the demand coming off by 25% and the industry vis-à-vis had come up off by 50%. But that was more a cycle. This is more, where I am a little more hopeful is because this is because of COVID, right. So, once the COVID situation lifts out, there is going to be a bounce back.

You know you and I are going to, starting point is you and I will start visiting restaurants, cinemas, go to shopping malls, buy products, right and then we are going to see the industry coming back. Once industries start to come back, they will have their own demand and then you will again see transportation kind of going up, then truck demand should come up. And then you will have tenders from oil companies. There will be, even now there are tenders from oil companies. Even now there are tenders from infrastructure companies. So, there is a lot and then real estate has started to revive as back up. There will be quite a bit of optimism that will happen and then you will see the demand coming up.

But I wouldn't find fault with NBFCs or banks to be kind of cautious when they are lending, because they have a portfolio to manage. I am sure HLFL does the same thing. But they are not going to let a good customer go. And it's same with dealers, when they are doing dealer financing,

there are dealers whom we are supporting, and there are dealers who don't require our support where they have solid businesses. So, but at the end of it, we are keeping a close watch to ensure that we are able to kind of chain through this whole challenging phase from the dealer side and from the vendor side as one large family. And I am sure that we are going to do that.

Moderator: Thank you. The next question is from the line of Sachin Trivedi from UTI. Please go ahead.

Sachin Trivedi: Sir, just one or two questions from my side, just to understand some color on the market share side of it, so leave apart current quarter, but when I see our market share, let's say in 30 to 40 tonner or 40 tonner trucks, it has been steadily coming down. So, just trying to understand what's happening in the market on growth side, if you can explain that a bit.

Gopal Mahadevan: Yes, I can explain that you see, what is happening is, like I mentioned to you the market share is a confluence of two things one is product mix, and more important, the second one is geography to mix, okay. This is not in defense, but this is more to give an understanding. Let's assume that the demand in South is low, my market share on a national basis will come off. If the demand in South is very robust, I will add you know, percentage points to my market share, one cut. So, what is happening is even in last time, when the COVID happened, actually South was slow to recover, we have seen that happening. And the same situation actually persisted even in the current year. This is one part.

And the other part of it is in terms of the product mix itself. So, there are certain times when certain maybe one large deal happens and we are not able to serve that particular customer, let's assume for a minute. So, we are not, while we are watching this, I could have actually kind of, when I have shared it with, we could have said you know last year market share was this, this year, we have added nearly about 10% points, not 10 basis points, I think 10% points to the market share.

But let me tell you one thing, we are extremely focused on growth. We are extremely focused on share of business. We are extremely focused on customer acquisition. There is no doubt about it, because this is super crucial for us to be a global Top 10 commercial vehicle manufacturer. And we are going to achieve that we plan to achieve that through growth of M&HCV in domestic, through growth of LCV in domestic, and through growth of both M&HCV and LCV products in the international market. And that is why you are seeing that we have been consistently coming out with product launches, which are making us more and more capable to address the goal that we have set for ourselves. Yes, this quarter, maybe our market share was I know you are talking about the market share that we had posted for the current quarter. But I think as we move forward, and I would not see this on a quarter-on-quarter basis, I would see it on how are we doing this and how much are we doing it quarter-on-quarter, we would see that the situation will improve.

Sachin Trivedi: Sure sir taken. My observation was more from annual perspective, but anyways, you have given the answer for that. Sir, my next question is more about the CAPEX part of it. So, I know the EV side of the CAPEX that you have, has been explained in the previous analyst meet. But let's say for this entity, the listed entity, how do you see the CAPEX and if you can, and this is largely not for the next year per se, and I don't want a specific number also, but what's the area where this

CAPEX is going to be? Is the CAPEX going to be higher than the last three year or if you can give us some color in terms of us to understand the CAPEX intensity of the business let's say in the next three to five years? And which all area it's going to be? Thank you.

Gopal Mahadevan:

Okay. It's a good question and I like it when you ask more for a trend than for specific numbers. You know, the reason I am mentioning this is, see we are very, I think look at it in a larger perspective, okay, first let me start with the EV business. The reason why we have set the EV business separately is because it should have its own and this is in the medium term, because every business may require some amount of support but at the moment, we are looking at Switch and its entities to raise capital by themselves and raise debt by themselves and manage their CAPEX. So, you heard our Chairman say, we are not looking at infusing capital in the short-term into the business, even in the long term. But if the situation demands it at an exceptions than we may, but it's not going to be a huge amount of money, that's for sure. There is a lot of investor interest in the Company and Switch management team is in discussions with investors and we will have more to discuss. But at the moment I wouldn't want to give any forward-looking statement. We will announce them as the news gets ready to announce.

So, but I think there is a lot of good work that is happening and the strategy for us to have moved into EV is the right one, because that will future proof Ashok Leyland, even while its internal combustion engine will continue to serve the transportation requirements of various economies. Our electric vehicle is actually gaining momentum and we as an important commercial vehicle manufacturer not just in India, but also as global the fourth or fifth largest global bus manufacturer, need to invest into it. And that's why we said, let's not do it in the main Company, let us do it separately so that there is a separate management team and a separate focus on this business, right.

Ashok Leyland EV has not been very significant so that's why at the right appropriate moment, we will transfer the small investment that we have made into that entity, and because this require this business of EV will require much larger capital investment, no doubt about it. But it is going to be self-served by the Switch entities. This is one. The second one is on the Ashok Leyland piece. Let us look at it this way, we have already, we have Hosur, we have Ennore, we have Pantnagar, right and then we have Alwar and Bhandara. All of these plants have been setup for almost all completeness. What we may have to do in these plants is called debottlenecking. So, when we will do a debottlenecking? We will take up a debottlenecking only when we see demand coming up. Otherwise we will not do a debottlenecking, right. We are not going to setup another Greenfield or a brownfield venture somewhere and open up another edifice, that has stopped, I mean that has been completed, let me put it that way with the setup of Pantnagar facility.

Today what the management team is looking at, is to see how do we consolidate this and have a much larger, but I mean I would say a more efficient, not much larger, a more efficient manufacturing equipment. You know we are putting our heads together; we are looking at product portfolio, reallocation, reducing supply-chain cost. There is a lot of work that's going on saying that how do we reduce interplant transfers? How do we get plants to actually serve their local market so that the outbound logistics cost is coming off? How do we have vendors to develop

closer to our facilities so that inbound logistics is also coming off? So, there is a huge amount of work that's going on this front.

Now so where do we have CAPEX coming in? Certainly, we will put in further CAPEX in LCV. We are today our LCV is by doing a two, two and a half kind of shift stretch, our manufacturing teams are really serving the demand and we can go up to maybe about 6,000 units a month. But I think there is further demand with the launch of 'Bada Dost' they account into a completely new segment with 'Bada Dost'. It's not just the Dost that is getting linear. As we have mentioned in the past, we will continuously keep slotting, putting in slots in the product portfolio to address and taking the large share of addressable market, that's another way of growing the market share, right, because somebody asked me about the question about market share. How do you grow market share? The first one is built product which will convince customers to say that "Hey, come and buy this product more than the other product because on quality cost delivery and total cost of ownership this product is better." And that is why we have AVTR range, that is why we have 'Bada Dost', right that is why we have Mid-NOx strategy. And we proved that BS-IV as well when we had completed different exhaust system than competition which proved us, which helped us to grow the share. So, we will continue on that.

The second way to grow market share is geographical expansion. We have been continuously kind of growing our network, continuously working on dealer profitability. Of course, now today we are in a different challenging situation, but the next way to look at this is geographical expansion, right, so that you actually reach out to customers and not only sales point but also service points. So, there is a whole bunch of digital that is getting driven today, to service customers, to ensure that uptime of vehicles happens. And the iALERT system that we have is by far one of the best in the industry which gives a whole amount of rich data to the customer.

The third way of doing this is actually fill in the product portfolios. So, we have Dost, Dost was addressing a set of customers. When we had Bada Dost, suddenly we are addressing a different set of customer. So, that's another way of growing portfolios, right. And when I say market, I missed to mention, export markets are also equally important. So, when we are doing market expansion, market share while it's in India, volume expansion happens when you grow new market beyond your geographical territory and that is why we have our export strategy. And our export strategy is quite different from what it was over the last three, four years. We found that we needed to course correct there because our earlier strategy was not working, but the good side is we have a much richer product portfolio today both in LHD, RHD, ICV, LCV, M&HCV and even in spares. So, for us the international expansion is going to be crucial.

Why I am talking all of this is, so if you look at CAPEX, we will make investments in LCV because we see a growing demand there, right. In M&HCV if there is a debottlenecking required or some new product development for a new variant, certainly we will invest there, but we are not seeing big bang investments of any facilities coming up. We wanted to kind of relay that we are with you. And would the CAPEX be in the same range as the previous three, four years, I think if we believe so, we have not been very heavy on CAPEX at all, after 2012-2013, if you remember every year

it has been less than four figures and we will continue to be doing that. In fact, we are far more efficient today in terms of CAPEX productivity than we were in the past. I hope this answers your question.

Moderator: The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: My first question is, it is very good to hear about the high-levels of inquiries that we are seeing in demand in August per se. Just from an M&HCV goods industry given that now we are in mid-August and you are already seeing good levels of inquiries, can we share your expectation of any range of growth for the industry per se or absolute volumes from a perspective for the M&HCV goods, therein for this year FY22, just a range would help sir. Assuming there is no third waves, etc., that is the caveat there, if that is the case what would be your expectation for the industry growth per se?

Gopal Mahadevan: I have just taken my second shot of COVID so let it settle down and then possibly once its settles down, we will give you a forecast. Let second quarter go through we will understand how the industry demand patterns are going. At the moment it is going by logic, if the economy is going to revive, we are going to see demand in M&HCV. We are seeing LCV not doing badly at all, in fact it seems that in the second half also LCV will be firm. And that has happened also because of the growth in e-Commerce. Today all of us who are attending this call are ordering a lot of stuff through e-Commerce websites than we were doing two years back. So, we believe that this trend will continue as a habit and it will not fall off and we possibly would see the last mile delivery becoming very important. And even for physical when things become physical, last mile delivery becomes super crucial and that's where LCV demand will be seen, even when the economy growth and the physical economy if I may say so, also starts to grow.

M&HCV, we believe will kind of the demand will come on when we see the stability in the outcome or stability in the strategy to react to COVID. If people, you, I and the trucker are worried that you know suddenly there could be a lockdown after 20 days or one month, nobody would want to invest capital into a truck. And that is why I am saying that when we do a call for the September quarter, we could be in a much better position to say, this is how we expect the year to finish up. And hopefully we will be coming up with kind of decent numbers in that quarter, in terms of a forecast I am talking about, not about Q2 Results.

Shyam Sundar Sriram: Sure sir, that's helpful. Sir and the other question is going to be market operating price for truck per se, I mean you did talk about significant steel inflation that has happened. From an under recovery of the steel prices from the customers per se, how are we placed at this point of times per se from a market operating price perspective?

Gopal Mahadevan: We need to balance volume growth with pricing, because this business still, because of the low-level of volumes, and I repeat it, things change dramatically when there is a demand. If I may joggle your memory a bit, when we went from BS-III to BS-IV and Balaji correct me if I am wrong, this was in April 17, right, 2017?

K. M. Balaji: Yes.

Gopal Mahadevan: Ashok Leyland raised its prices by 12% to 14% and all of us when we went into a call, were concerned, why is it that you folks are raising prices by 14% and how sustainable is that for the growth. And 2017-2018 and 2018-2019 were two of our best years. Why was it so? It was because there was a demand; there was an inherent demand that was running this. Today for us to take a 2% price increase we need to be kind of gauging the market and taking decision because this is not, today this is not a cost-plus industry. But when the demand comes back, believe me it can become cost-plus.

So, again I am telling you, all of this is a factor of the demand. What we have been doing is, we have not been just fighting the skirmishes on pricing, because that will take you with the customer only up to the signing of the invoice. After that there is a commitment that Ashok Leyland brings in which is possibly far superior in terms of service, in terms of product quality, in terms of AMCs, right so and in terms of being there when if something is wrong in terms of digital support that we are giving with our sophisticated system. So, there is a lot more that we would be possibly bring to the table when we are serving our customer. But having said that to answer your questions, we took a price increase and correct me if I am wrong, Balaji because I don't have that statistic with me readily, but I think we took a price increase in March and then we took a price increase in the 1st Quarter also of 2% each.

K. M. Balaji: Correct, you are right, taken price increase in April we have taken a price increase and in July also we've taken a price increase.

Gopal Mahadevan: That's right. So, we're doing all that we can to improve our penetration with the customer, grow our share of business and at the same time, increase prices and improve the product mix and improve the geographical base, this is what we are doing.

Shyam Sundar Sriram: So, is it then fair to assume that we have yet to recover the steel inflation scene so far, is that a fair assumption, sir.

Gopal Mahadevan: Yes, because at the level of volume, it is becoming difficult. See, understand one thing, inflation recovery can happen through multiple ways, it can be done on product-to-product basis, it can be done through a mix, it can be done through a larger aggregation of absolute gross profit which can give us operating leverage to the bottom-line, right. So, there are a multiple ways to do this. And at the current levels of volume, absolute 100% recovery does not happen but I would also want to complement our sourcing team and our supply chain team who had kind of had the force to bulk up a little bit on steel in the 4th Quarter of the last year. I mean it won't serve us through the whole year, but that has actually helped us. That's another reason why we have actually seen that our material cost percentages have been slightly better.

Now I need to leave gentleman, because I have got the next call for, the next meeting. So, if I may take that as the last question. Again, thank you very much for the interest in Ashok Leyland. I think there is a lot of **interest** that we have in the investor call and this is sincerely appreciated, and we

would continue to encourage you to ask us, your perceptive questions. And all we can say at the moment from management side and from the whole team, is that we are doing all that we can and it takes, to make ourselves more efficient even through this challenging times, and given where we are today, we possibly would see a recovery happening, once the fear of the third wave goes away. And with those words I will now hand it over back to the moderator.

Moderator:

Thank you. On behalf of Motilal Oswal Financial Services Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.