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Ladies and gentlemen, good day, and welcome to the Q2 FY '19 Earnings Conference Call of Ashok Leyland, hosted by Edelweiss Securities Limited. (Operator Instructions)

I now hand the conference over to Mr. Chirag Shah from Edelweiss Securities Limited. Thank you, and over to you, sir.

Thank you, Stanford, and good evening, everyone. On behalf of Edelweiss Securities, I would like to welcome you all to Q2 FY '19 Post Results Conference Call of Ashok Leyland. Ashok Leyland is represented by Mr. Dheeraj Hinduja, Chairman; Mr. Vinod K. Dasari, Managing Director and CEO; and Mr. Gopal Mahadevan, President, Customer Solutions Business and CFO; along with other key members.

I would like to thank the management for giving us the opportunity to host the call and also taking out time for the call. We would like -- we will start the session with opening comments from the management, and then we can start with the Q&A. Over to you, sir.

Thank you. Good evening, everyone. Thank you very much for the interest in Ashok Leyland. I'll just announce results very briefly. I'm sure all of you must have seen it in -- on the web.

The total industry volume, and I'm here giving CM numbers. The total industry volume was -- for the quarter was 1,01,768 that is trucks and buses put together, and this was a growth of 26% over the same quarter last year. So the industry continued to grow over the same period last year.

Ashok Leyland still grew faster than the industry. Our volumes were 35,628 MHCV, which was a 32% growth over last year. I also wanted to share with you that this quarter again, it is a record Q2 volumes, record Q2 revenues and record Q2 EBITDAs and PAT.

The same trend have continued in H2 as well. I'll -- our market share in the truck business was 34.3%., bus was 42%. And overall, our market share on CM business was 35% as opposed to 33.5% in Q2 of last year, which was an increase of 1.5%.

Overall, revenues was INR 7,608 crores, which was 25% higher than Q2 last year. Our EBITDA was INR 806 crores, 10.6%, and that grew at 32% as against the 25% growth in revenues. Our PAT was INR 460 crores, which again grew at 38% (sic) [37%]. Our overall debt at the moment, we are cash positive of INR 700 crores.

I think with that brief introduction, I would now hand it over to our Chairman, Mr. Dheeraj.
Dheeraj Gopichand Hinduja, Ashok Leyland Limited - Chairman [4]

Good evening. Gopal has already announced the results, and I must say that given the challenges of the heavy discounting and increasing raw material prices, the continued double-digit EBITDA in 14 of the 15 sequential quarters exemplifies the

operational efficiency drive of the company.

The growth and market share in Q2 also endorses the reach of our ever-growing network. I must compliment the team for its continued pursuit of disruptive innovation. The Innoline BS IV engine holds tremendous potential as it reduces operational costs significantly. It is the only BS IV engine with a manual pump.

The team has continued -- continually looking at driving operating leverage despite the challenging times, and our plans and tasks are clearly cut for the way forward. The current times are no doubt challenging: Higher oil prices; depreciating rupee; the tightening of the NBFC sector, which is critical to our industry; the uncertainty in economic and political environments as well. But these are transient challenges, and we should not take our eyes off our larger purpose.

My direction to the team has been that while we will need to counter the short-term challenges, we need to pursue our larger journey of demonetizing Ashok Leyland, drive international revenues, increase new-generation business and work on people, processes and operational efficiency. We will continue to invest in innovation and technology as that is the grain of Ashok Leyland.

As you must all be aware by now, with Mr. Vinod Dasari, our Managing Director and CEO, after a stint of 14 years at Ashok Leyland and 7 years as the Managing Director, has decided to move on and pursue other interests. Together with Vinod and the leadership team, we have transformed Ashok Leyland into a forceful commercial vehicle company today. The strong leadership team today drives the innovation, strategies and operations of the company. I must acknowledge Vinod's contribution in this transformation and the cultural change that he has enforced into the company. I would like to wish him the very best. Vinod is here till March 2019 -- 31st March 2019, and I will also, on the request of the board, be staying a more active role as an Executive Chairman and on key issues along with Vinod, provide the necessary support during this transition. All organizations go through this transition, and Ashok Leyland is no exception. And the need -- I mean, one of the questions you would obviously having, but the Nomination and Remuneration Committee of the board will need shortly to decide the future course of action in identifying the next MD and CEO.

I would like to now hand over to Mr. Vinod Dasari.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [5]

Good afternoon, everybody. As Chairman has already pointed out, this was an important announcement that was made at Ashok Leyland today. I wanted to (inaudible) from me directly that this was not a slip-in decision that was made as a knee-jerk reaction to some issue. There is absolutely no issue. In fact, people often want -- try to find times in their career when they are looking to pursue new or interesting newer learnings, but there's never a good time. I had considered this about 6 or 7 years ago, but the company was not doing well. And at that point, I didn't want to leave. I wanted to make sure the company was transformed well, and we took a company that was not doing so well, and we made it into one of the best-performing automobile companies in the world. I had a solid team doing that with me. And when we -- our team was together, we decided that look, we made it into a good company. And if we don't continue the path at which we have created, we will again decline. So we should lay down a platform to make it into a great company.

And for that, we -- the team worked very hard to put in a solid platform. We have 3 sets of businesses. One is the core business in which we have got a world-class Euro 6 modular vehicles as well as electric vehicles coming. The adjacent businesses, LTV is doing extremely well. The defense is doing extremely well, and power solutions is doing well. We have launched several frontier businesses: the electric vehicles business, the customer solutions business, the digital solutions that we are doing exceptionally well on.

And I have a solid team backing this and an exceptional board and the family support. So I felt this is the right time to do it. Like I said, there's never a right time. But to do it when the company is in a very strong position and leaving me with a team, which is very, very capable. That is what helped me make the decision at this point.

hat's all, I think, from our side. We'll take questions now.	
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Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [6]

I think so. Yes.
Questions and Answers
Operator [1]
(Operator Instructions) The first question is from the line of Binay Singh from Morgan Stanley.
Binay Singh, Morgan Stanley, Research Division - Executive Director [2]
Best wishes to Mr. Dasari. The company has done quite well under your leadership across parameters. Good luck for the future. On to the business alone. The first question I would ask is about something on the demand side. In the opening comments, you talked about NBFC about sort of macro uncertainty. Could you talk a little bit about how the ground level demand environment is? How October has been what sort of inventory levels do you have currently? That's my first question.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [3]
Thank you very much for your compliment, first of all. I appreciate that. As far as the demand is concerned, in the last few weeks, there has been a little bit of a slowdown basically due to the credit crunch and all that, but this is temporary. 40% to 45% of our volumes that we are getting in the industry today is driven by construction segment. It's not driven by automotive segment sorry, market load segment. So as a result, there is a delay but it will catch up because infrastructure projects are going on and even if the market is flat over for rest of the year, the overall growth for the year will be somewhere in the neighborhood of 15% to 20%. So I'm quite bullish. In the next year, we will have a Euro 6 prebuy. So that is going to be extremely good. The year after is when the government is announcing the scrappage policy. Usually the market falls after that, but there is a scrappage policy that is coming up, which will help boost the demand. And equally, as I was mentioning in my earlier comments that our core business is transforming itself to produce vehicles from 2 tonnes all the way up to 65 tonnes, which will be Euro 6 compliant. It will be electric compliant. It will be modular, left-hand drive, right-hand drive. So as a result, it will be a much bigger market that you can address, not just in India. So in that sense, we are fairly bullish about it.
Binay Singh, Morgan Stanley, Research Division - Executive Director [4]
Right, right. That's helpful. Could you talk a little bit more about the NBFC financing? Like, what percentage of your financing will be NBFC? And what percentage is coming from the in-house subsidiary?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [5]
I think our internal subsidiary is less than 15%, somewhere around 10% HLFL.

(Operator Instructions) The next question is from the line of Jinesh Gandhi from Motilal Oswal.
Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [13]
My first question pertains to Mr. Hinduja. You indicated that you'll be playing an active role. So this executive role only during the transition phase? Or this now you'd be more active even when new CEO steps in?
Dheeraj Gopichand Hinduja, Ashok Leyland Limited - Chairman [14]
No. I mean, just to clarify, you might have noticed our group companies as a family policy that family does not take access day-to-day involvement or executive roles in the company. In this instance, the board requested to ensure continuity during this transition phase for me to take on this role. So this would be for that relative period till the new person is appointed, and I will be working with Vinod on the longer-term actions of the company.
Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [15]
Okay. That
Dheeraj Gopichand Hinduja, Ashok Leyland Limited - Chairman [16]
I think our main task is to ensure the continuity of the vision that we have, the targets that we've set and the growth that we've seen over the last few years. We wish to ensure that, that does not get dampened in any manner. We have a very strong team. Along with this, we also have a very strong goal. And I think the combination of this will ensure that what Vinod has put in place will continue.
Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [17]
Understood, understood. And second question pertains to on the financial side to Mr. Gopal. We have seen significant increase in RM cost and on the other side, there has been a substantial decline in other expenses as a percentage of sales. So is there any accounting change? Or how do you explain that?
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [18]

No, the RM cost going up is a confluence of 2, 3 factors. One is, Jinesh, as we mentioned, the industry has its challenge of increasing steel prices that all of you know of. And we possibly were the only players who actually have raised prices even consistently over Q1 and Q2, and we've done that in Q3 also. But the fact is that these prices, while they kind of reduce the impact of the increased raw material prices, they still reflect as a ratio. The raw material prices as a percentage is higher. The second most important thing is this quarter did not have any (inaudible) numbers. So (inaudible) is a very high profit, high

margin, I mean, it's a (inaudible) can impact the overall profitability of the gross margin. So that is another reason why we have seen the numbers slightly higher.
Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [19]
Okay. And other expenses?
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [20]
Nothing significant that have to export. I mean, about except that we have seen that there is a reduced charge and warranty that was taken because you see our entire BS III to BS IV transition that happened. Now you're seeing that things are stabilizing, the EGR engines are working wonderfully well. So we follow a warranty system accounting where we found that the numbers are really dampening. And we are also keeping a tight, strict control on overall expenditure also. So those are the reasons for it and some of them, to be honest, I don't want to bloat over it too much that could be timing, but larger directional issues on the other expenses are one, warranty, the second one is tied to control on expenditure.
Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [21]
Okay. And what kind of price increase has been taken?
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [22]
Well, in November, I think we've again announced a 2% price increase in the truck business. We will have to see how much of it is in the last week and go straight to the bottom line. The team is working on it because the discounting is pretty right in the industry. You know it, and we have to keep base. We have to have a very, very fine balance between our market share and profitability. So that's what our team is working on.
Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [23]
Okay. And then September and October
Operator [24]
Mr. Gandhi, may we request you to come back in the queue for a follow-up, please. The next question is from the line of Jamshed Dadabhoy from Citigroup.
Jamshed Dadabhoy, Citigroup Inc, Research Division - Director [25]

Just a couple of questions. First one, you alluded that construction is 40%, 45% of demand. So could you give us a sense of what tipper sales were for last year for the full fiscal and first half this year and how the growth has been in that segment?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [26]
See, Jamshed, we don't actually give the breakup of the subsegments as you're aware. So we broadly give breakups on the truck and bus business. So it's the tipper sales have grown, that much I can tell you.
Jamshed Dadabhoy, Citigroup Inc, Research Division - Director [27]
Okay. Fair enough. And second question on the Euro 6 prebuy that we are expecting. Do we like, what is the level of conviction that we have? Because even when we had transitioned to BS IV, there was not much of a prebuy. Obviously, it coincided at that time the demonetization. But where I'm coming from is supposed the trucker were to buy next year and by FY '21 when you move to Euro 6, you or BS VI, your residual value will start to fall quite sharply because you're not moving one emission standard, you're moving 2 mission standards. So that's where I was coming from that what's the sense that we really have in terms of and how much discounting what we have to give to convince someone to move to buy a vehicle next year?
Dheeraj Gopichand Hinduja, Ashok Leyland Limited - Chairman [28]
Well, Vinod, do you want to answer it?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [29]
Next year, the demand will be so good I don't think there will be that much discounting because typically, in the world whenever BS VI has come, the or Euro 6 has come, the prebuy has been roughly 30% to 40% increase in TIV. So I expect that to happen. So let's see what it does and as we believe that capacity. So I don't think people will just give discounts like that.
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [30]
And the vehicles will become more expensive as well when you go from BS IV to BS VI. One of the reasons why a prebuy happens is because vehicles will become more expensive to purchase. And in terms of, correct me if I'm wrong, Vinod, but the fuel economy also as you get into higher grades of fuel running standards, the fuel economy of the vehicle in relation to the previous generation would be a little lower. So you could there is no reason why the prebuy would not happen unless, of course, there is an exception with it.

Operator [31]

The next question is from the line of Amyn Pirani from Deutsche Bank.
Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [32]
I just wanted to go back to the issue on the credit availability. I mean, are you already seeing that demand is getting impacted because of credit availability? And is there like a solution in the near term? Or is it just something that you're concerned about?
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [33]
Well, we'll have to wait and watch. It's a very short it's been about 1 month, 1.5 months since it has happened. Obviously, there has been a lot of news on credit squeeze on NBFCs and NBFCs are a very important lifeline for this industry in terms of the funding that happens because the entire industry almost is funded. As far as HLFL goes, our own subsidiary, all I can tell you that from our own in-house experience, I think there has been no impact at all. The funding lines are very much in place, and we haven't seen anything which is, at the moment, negative impacting. I'm sure the larger NBFCs will not be having the issue. The smaller ones could be. They could be facing a crunch, but I think the government is also looking at ensuring that this does not snowball into something which becomes very negative. But short term, yes, there is a little bit of credit squeeze that you can see. We will wait and watch how November and December pans out. But I don't think this is going to be more than a month or 2 effect.
Operator [34]
The next question is from the line of Kapil Singh from Nomura.
Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [35]
Can you update on discounts, how they move between Q1 and Q2? And also some color on exports? We've not seen the kind of traction we were hoping for.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [36]
Well, discounts have been going pretty I mean, the discounting, I would say in the market has been pretty dicey. We've seen that happening because everybody is chasing the same customer, and I mean, we sometimes have to reluctantly follow in this. But otherwise, discounting has continued to be high. I mean, it depends on the type of vehicle, but it can go from anywhere between 2 lakhs to 3 lakhs to over 4 lakhs and 4.5 lakhs also in certain deals. So this is the answer to your first question. What was your second one?

Sir, on discounts, can you share like what is the average in Q1 and Q2? How it has moved?
/inod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [38]
Well, I would say that the average discounting in terms of Q1 and Q2, the numbers have been, I would say that Q1 would have been something like about 3.75% or so on the truck. And Q2 could be something like about 4% to 4.1%. So you see the happening. Now this is very see this is "head in the boiler, feet in the freezer" average. You see it doesn't kind of give an accuracy to the number but gives a direction to the number. As far as exports are concerned, the overall volumes for the quarter was a PAT load. We had numbers of 2,759 for the quarter as opposed to 4,437 in the same quarter last year. So we were down by about 38%. Some of the exports that we had planned for, especially in Africa, did not really happen. We'll have to wait for the customer to indicate the invoicing for us. But all said and done, there's also another challenge that we see in the short term. In the short term, we're seeing that Sri Lanka is a very important market for us. There is a little bit of uncertainty that is developing in that market. We'll have to wait and watch. We hope that will coast out soon. The second one is Middle East. The entire Middle East market has been affected by a confluence of factors. So we have seen a depletion in the Middle Eastern volumes, which, again, hopefully, in the fourth quarter, we hopefully will see a catch-up.
Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [39]
Okay. Okay. And could you also update on the LCV subsidiary merger and any indicative like what is the 1H profitability of hat subsidiary?
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [40]
Well, I think LCV is doing very well. We have seen the overall numbers grow by 42%. The LCV volumes for the quarter were I3,572 as opposed to 9,588. It has been a very profitable. You would have seen the last full year numbers. At the moment, I can't give you the subsidiary numbers. All I can you can all rest assured that combined, Ashok Leyland LCV business as well as the LCV subsidiaries act positive, and they are accretive to Ashok Leyland EBITDA margins.
Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [41]
Dkay. So after the merger
Operator [42]
Mr. Singh, may we request you to come back in the queue for a follow-up, please. (Operator Instructions) The next question s from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.

Shyam Sundar Sriram, Sundaram Asset Management Company Ltd. - Research Analyst [43]

Sir, we had introduced this Innoline engines using inline pumps. Which tonnage segments are we targeting with this engine? I understand while the maintenance cost over the lifetime may be lower for the end customers, does it also lead to a lower upfront cost?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [44]
It is lower upfront cost.
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [45]
It is lower upfront cost. It may or may not be lower upfront price.
Shyam Sundar Sriram, Sundaram Asset Management Company Ltd Research Analyst [46]
Okay. Sir, which tonnage segment are we targeting with this?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [47]
We have gone through 6 x 2 and 8 x 2 vehicles.
Shyam Sundar Sriram, Sundaram Asset Management Company Ltd Research Analyst [48]
Okay. Okay. Just one housekeeping question if you can please share the domestic truck and bus exports and the revenue mix please.
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [49]
You want the volumes?
Shyam Sundar Sriram, Sundaram Asset Management Company Ltd Research Analyst [50]
No, sir. The revenue mix that you usually provide between the domestic trucks, buses, exports and defense.

Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [51]
We normally provide the domestic truck and bus. I'll give you the numbers. The total revenues for trucks for Q2 was INR 5,383 crores. The bus revenues were INR 565 crores. Exports accounted for about INR 454 crores. The overall revenues were INR 7,608 crores.
Operator [52]
The next question is from the line of Pramod Amthe from CGS-CIMB.
Pramod Amthe, CIMB Research - Head of India Research [53]
The first question is considering the humongous amount of challenges the industry faces to move towards BS VI and the safety norms and also the company is also going through substantially gear up for the same. How well you feel you are staffed in different divisions to take care of this challenge? And second, looking at your own internal leadership programs, what is the probability that you will upgrade somebody internally into the CEO post, so that the investors can get more comfort in terms of this transition period?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [54]
The first question, just to clarify, the first question was on the Euro 6 readiness, right? I mean, the BS VI readiness
Pramod Amthe, CIMB Research - Head of India Research [55]
No, across the challenges considering how well you are staffed in different divisions considering that the there is a CEO change expected over next 6 months?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [56]
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [57]
I think as far as BS VI is concerned, and Vinod, you can add here. I think, the company is
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [58]

I understand the question. What is BS VI has to do with CEO change
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [59]
Yes, exactly. I mean, so
Dheeraj Gopichand Hinduja, Ashok Leyland Limited - Chairman [60]
No, I think, we've plenty of challenges
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [61]
We're ready with BS VI, if that's your question. As far as the leadership change is concerned, as Chairman said, it will be decided by the board and the Remuneration Committee.
Operator [62]
The next question is from the line of Pramod Kumar from Goldman Sachs.
Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [63]
My question is for Dheeraj. Dheeraj, now that we have you on the call, I want to understand how do you think about Leyland from a 5-year perspective because if you look at the last 5 years, you moved transformed literally in terms of both market share, your balance sheet, your product capability, a number of J.D. Power awards under the belt now. So, but how do you see the company transforming in the next 5 years? And I also want to kind of link it to your opening comments where you talked about the entire business as well. So if you can just share your view for the company from a 5-year perspective, that will be really helpful.
Dheeraj Gopichand Hinduja, Ashok Leyland Limited - Chairman [64]

Sure. I think I'm extremely confident because today, the foundation is very strong and specifically, first dealing the international side that you mentioned. You see from many years, Ashok Leyland was primarily exporting buses. Now for the first time going forward, we have a whole range of vehicles that have been ready for left and right countries as well, and especially the MCV range and the new products we have been producing over there. So I firmly believe that the international markets and growth will be quite substantial going forward in that area. From the domestic market itself, of course, it's been a good rise the last 5 years. It's been challenging. And looking at the current market environment, competition is intense in terms of discounting. But according to me, we are in a position to continue this growth. Our network has expanded quite substantially throughout the country. Our market share in the north and east, which are our traditional weaker markets, has

grown very well. So I don't see any reason why we should not be in a position to continue this market share growth as well along with the new product range that we've introduced. We have a number of digital initiatives that have been launched over the last 12 months, 18 months. They are also beginning to contribute meaningfully to the company. So looking ahead across-the-board, the next 5 years, there are, I would say the next 6 months with the elections coming up in India as well, there could be some challenges. But beyond that, I believe we are well positioned to address the international market, our defense efforts, and especially the LCV range that comes in. As you might be fully aware, we started a vision 6 or 7 years ago that we have to be in the top 10 globally in our trucks and top 5 in buses. That was the reason for putting that vision into play, which is to ensure that unless we had volume, it'll be very difficult to compete in the industry. So today, we have, when we started, we were at #19 globally. Today, we're at #12, 13. And I'm very confident that we should be able to get our vision of being in the top 10 very soon as well.

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Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [65]

Sounds great. And my second question is to Vinod. Vinod, you pointed out that normally across the world when Euro 6 transition happens, the prebuys around 30% or so. If you can help us understand what is the aftereffect of the prebuy rather than -- the regulation actually kicks in, in year 1. How does the industry normally fare because that is one question, which you kind of grapple with as we understand this is going to be a solid prebuy. But what happens thereafter? And that's probably part of the reason why the CV NIMs are getting rewarded for the robust demand, what we've seen in the last 7, 8 months, where they've been massive upgrades across the street and knowing that there is a prebuy of 30%, which is going to bump next year. But everyone waits about what happens after that. So if you can help us understand what's the general global read across is?

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Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [66]

Well, the fact that it's called prebuy means that somebody has borrowed next year's demand this year. So that is obvious. The 30% demand is boxed forward then that much would be the demand that would be lower in the year after, but there are 3 things countering it. The demand like I said is 45% to 50% coming from construction and these construction projects are something that are not one-offs. They will continue to be there, and hence, the demand will still continue to come back even if there is Euro 6 or somebody 6 if there is -- if somebody needs a tipper, he means a tipper, doesn't care if that's Euro 6 or Euro 4. The acquisition cost goes up a little bit, but he still need to complete his projects, for which he gets the tender. The second thing that will happen is that there is a scrappage policy that the government has announced that we've entered from April 2020 where all 20-year-old vehicles will go out of stock or will have to be scrapped. That alone is about 200,000 to 300,000 vehicles. Even if you assume that only about 20%, 30% of them will come back -- will be scrapped in the first year, that's good enough to make up the volume drop because of the prebuy. The third thing that from an Ashok Leyland's standpoint as I was mentioning earlier, every single one of our vehicles from Euro -- or from 2 tonne all the way up to 55 tonne is being designed for Euro 6 as well as LHD and our cabs are European crash compliant. So we will have a significantly larger, significantly larger market, where we can play rather than the export markets that we play in today. And that's why I don't think there'll be any downside, if at all, there might be an upside.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [67]
The industry growth is what you mean, right?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [68]

tools for industry.
Operator [69]
The next question is from the line of Ronak Sarda from Systematix.
Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [70]
Sir, just to follow up on the NBFC and freight crunch, which you highlighted. Can you share how the situation in the used truck market and LCVs as well, because LCVs more of single driver, a single employed people and they might not they might be more dependent on the NBFC funding.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [71]
LCVs, not only the TIV has grown quite substantially, we have also grown. Our volumes have gone up about 40%.
Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [72]
Right, sir. I was asking the impact of NBFC for the liquidity crisis. Do you
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [73]
Short-term thing, most of it is by driven by owner-operators. So I don't think it was that big an impact.
Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [74]
Okay. And any impact on the secondhand trucks or the used truck market?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [75]
No, I don't think so. Secondhand market is there. It doesn't it has always been there. Every vehicle is sold at least 2 or 3 times in the lifetime of it.
Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [76]

So there is no, I mean, slow down in the face of used scrapped market due to financing?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [77]
No, no.
Ronak Sarda, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [78]
Sure. And sir, second thing was on the prebuy. I mean, do you think there's a possibility that given no OEM has announced a major capacity announcement, there is some prebuy happening today as well? I mean, in the current year as well? Or do you think the customer won't take the risk of paying EMI for a year in advance because given the higher discount and as you said, next year these discounts might go away. Do you think there's any given your interactions with customers, do you think there's a chance that some prebuy happening today as well?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [79]
It is starting to happen prebuy because what's happened on the BS III prebuy happened for BS IV. The prices went up. We know that when BS VI prebuy happens, and everybody can start to hit capacity towards the end of FY '20, there will be again price increases, right? Because the supplies will increase the prices and OEMs will increase prices, discounts will come down. So some people are thinking if I have some demand, I might as well buy now. But I don't think in our industry anybody buys vehicle if he doesn't have demand. He you must have something, and he may only say, making advanced decision rather than delayed.
Operator [80]
The next question is from the line of Gunjan Prithyani from JPMorgan. (Operator Instructions)
Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [81]
I had 2 questions. Firstly, on this axle load now. A lot of industry feedback is coming that there has been some incremental capacity creation, which is happening with the lag and which is reflected in freight reduction in certain industries or in terms of some freight operators talking about cutting their truck ordering. What is your reading of the axle load norms? Do you think - have you seen that there is a capacity creation, which is starting to reflect in the market now?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [82]

The axle load norm was a big red herring to me. I had said during that time also that 65% of the market doesn't even get affected because it's volumetric, right? And the balance of the places where people were saying they are anyway loading, so

TIV. So whatever was to be done is done. I don't think there will be any impact of that.
Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [83]
You haven't seen anything with the lag because there was clearly feedback from some of the industries coming that this freight reduction because of axle load nonrelaxation. So I'm just trying to gauge is there something that we see with the lag? Or you still think that there is going to be no impact at all?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [84]
No, I don't think so.
Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [85]
Okay. And this the second question I had was on the realizations. They seem to be a bit down. Is this because of discounting levels being high? Or is it more to do with the mix of the revenues. If you can provide some color on this.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [86]
So I think as I mentioned earlier, there has been an increase in the discounts. And I think that has impacted the realizations. Course, from my hope that's been an industry phenomenon. Q2 realizations, net realizations have been worse. I mean, a little lower than 200 realizations. As far as Ashok Leyland is concerned, there was also a confluence of mix like I mentioned that our BS III volumes were lower in Q1 and also the same period last year. So we had seen that absolute realization getting actually divided by the total volume. It would actually reflect that the realizations have dropped, but these are the 2 major reasons why we'll actually see the realizations come off.
Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [87]
And in the truck business, the 22% growth MHCV, the tonnage growth would you be able to give any sense? Would it be significantly higher than this number? Or it's broadly aligned to this number?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [88]

No. It would be higher because very clearly over the last 12 to 18 months, we've been seeing the industry actually grow to the higher tonnage. And so we will actually see that number. We don't have that number readily open, but the other thing that we are doing in Leyland, which is very important for us, we are trying to derisk this company and not just habit as only a heavy vehicle company. So consistently over the last 4 to 5 years, we have been also increasing the size of our ICV portfolio. So our ICV market share, which would have been possible. Something like about 12% to 14% 4 years ago. Today is about

somewhere around 25%. So that's another way of derisking the company, yoi keep filling in slots into the product portfolio and you also increased your distribution by which you actually ensure that you're far, far more stable than you were 4 to 5 years ago.
Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [89]
There was product launches, which were planned around the LCV. What is the update on that? And anything we can hear in the next couple of quarters?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [90]
Yes, I think it has been pretty much on track. I think as far as we had the upgrade of those are being launched. And that is doing very, very well. We will also be I think the LCV team is also working on the LST variance for export markets, and you should be hearing some announcements in the later part of the year on that. And, of course, we are also on a special project internally for over the next possibly 12, 18 months. You would also see a completely new vehicle coming from the LCV platform. Very clearly, again, the strategy in the LCV is we had only one vehicle called Dost. Now we have now accelerated the penetration of both the Partner and MiTR, which is the higher tonnage vehicle. Partner is the photon vehicle and then MiTR is the 27- to 30-seater bus, which is on the LCV platform. We are looking at filling in the slots between the LCV and Boss. Boss is the 9- and 12-tonne ICV. So you would see a lot more action coming in there as well.
Operator [91]
The next question is from the line of Hitesh Goel from Kotak Securities.
Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [92]
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Sir, just wanted to get some sense on your outlook because last quarter, you had said that you're talking about 10% to 12% industry growth in FY '19. Can you share your revised outlook? Because on the I think you said you shared that it would be 15% to 20% growth. Any revisions on that?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [93]
I would actually say it's one-off because when we last talked, I said 10% and assuming that the balance of the year will be flat, but last quarter the TIV has grown up by 30%. So I would say that now if I say it will flat, it'll still 15% to 20% growth. And October was higher than last year October. So I don't know how (inaudible) but I think it's still strong.
Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [94]

Okay. And sir, second question is that on the freight rate outlook. So basically, now that oil prices have declined, have you saw freight rate increase in September. Are you seeing freight rates stabilizing now or coming down with diesel cost? How should we see the freight rates? Because that gives an indication of the truck utilization level side of the fleet.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [95]
I think the freight rates will come down a little bit because of the diesel cost. And when they go up, the diesel costs go up, the freight rates go up. So many of them are indexed to their customers.
Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [96]
Yes, but the fleet utilization levels are quite high. Is that what should we we should read from your comment?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [97]
Utilization levels are quite high. And that is what is giving us YMCA saying that the market will continue to remain strong.
Operator [98]
The next question is from the line of Priya Ranjan from Antique Stock.
Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [99]
Best wishes to Mr. Dasari for his future endeavor, really remarkable career for the last 14, 15 years with Ashok Leyland. And coming back about on question. One is on the construction side. When we are saying that it's around 40%, 45% market is from the construction. So typically, construction side, the life cycle of truck is also very, very short. So is this an indication that probably the cycle may not be so low, probably when the next cycle turns down for the industry? And the second part is on the overall strategy of the company. I mean, we have talked about 1/3 from truck and bus radial, and 1/3 from export market and all, plus defense, et cetera. So can we see more of an alliance more a JV kind of situation in future to achieve all those kind of?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [100]
That is the vision that was set by the Chairman and the board sometime ago. And as Dheeraj mentioned earlier, there is no change in strategy. If that implementation of that strategy requires us to continue some alliances, we'd be happy to look at it. But like I was telling earlier, the product portfolio that we have been is so strong that we are confident of expansion growth ourselves.

Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [101]
And on the construction side, I mean, because the life cycle of the construction trucks are typically much, much shorter than what it is used in the
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [102]
Correct. So what we look at as a lead indicator the number of construction projects that are being awarded by the government. So the more construction projects are there, the bigger our market becomes.
Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [103]
Okay. And sir, on the ICV side. I mean, ICV, typically, now the markets there has been in and around that period for last, I mean, for many months or so. So and some of the reasons we have done pretty well, but some of the reasons we are not able to deeply penetrate yet. So what kind of regional strategy we can think of from the ICV rates?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [104]
There is no regional strategy per se that I mean, if you put a regional strategy, there would clearly be a pricing game. And we don't want to play that game. So ICV, we are launching a new product in the 10 tonnes, which is going to be the market leader in terms of the inefficiency and all that. We are not going to launch way too many projects. And we have several new ones in high horsepower tipper and high horsepower tractor trailer, ICV segment, new buses coming, but beyond that, we will focus more on Euro 6 and so on.
Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [105]
Okay. And lastly, on the Euro 6 engine-related thing. So we are now developing in-house. We're also looking at Inno as well as Cummins, if I'm not wrong. So
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [106]
We're not looking at Cummins.
Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [107]
Okay. So I mean, Inno plus in-house development?

Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [108]
Actually in-house. Inno came to us. We didn't go to Inno. But it's a joint development.
Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [109]
Okay. So I mean, it will be, I mean, it will be a mix of both launches in terms of engine or it will be either of the 2?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [110]
We'll see whichever one performs better.
Operator [111]
The next question is from the line of Chirag Shah from Edelweiss.
Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [112]
Yes, sir. Two questions on my side. One on this new axle load norms. So are the newly designed trucks now available in the system from Ashok Leyland as well as from peers in general? Or they're rollout is still yet to happen?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [113]
No, they're all available.
Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [114]
The rollout has happened completely.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [115]

Yes, yes. Some customers want the old version. Some customers want the new version. It's very interesting to see how this is playing out, Chirag. But like I said, in many cases, it doesn't matter, right? it's volumetric. 2/3 of the market it doesn't matter.

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Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [116]
No. I was more trying to understand from consumer behavior perspective that are they still preferring the older versions or they're looking to buy newer ones?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [117]
No, no. Most of them are trying to buy the newer ones.
Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [118]
Most of them are trying to buy the newer ones.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [119]
Most are wanting the higher axle load. They are wanting the new ones.
Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [120]
Yes. And second question on was on the 43-tonner that we had showcased. Any update when can we expect? Because when we check at ground level, there seems to be a good amount of interest on that product. I would guess there was at the time when you launched the 37 left axle.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [121]
I think it will come this quarter.
Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [122]
It will come. Again, some guys were showing some kind of frustration. It's not getting launched earlier.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [123]

That's good, no? Maybe we should create a prebuy for that, start taking bookings.
Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [124]
Yes, and just one clarification on the commodity side. Gopal, if you can highlight. So most of the pressures are there in the quarter or how should we look at the cost pressures and which are the areas that we see the cost pressures?
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [125]
No, you asked commodity. Commodity sale prices are certainly going northwards. Expect that in the second half. It is an expectation, it's not an outlook because you looked that fast car volumes are actually coming off a bit, and they are one of the largest consumers of steel. So that's going to happen. And then if that is dental softening of steel, which is actually benchmarked from predominantly from China, if you see that happening and if the rupee were also to kind of appreciate a bit, all of this should [indiscernible] well for softening of steel prices in India. But at the moment, quarter-on-quarter, we've actually seen steel prices going up, which is which has been having a cost push effect on in the industry such as ours.
Operator [126]
Ladies and gentlemen, we'll take the last question from the line of Mukesh Saraf from Spark Capital.
Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [127]
Firstly, again on the prebuy itself. There is a slight change in that in the sense that we can't sell I mean, we can't sell any vehicle also after March 31. Earlier we only couldn't produce. Does that change anything for us in terms of the prebuy expectations? Would we have to start planning well in advance and the prebuy periods have shortened? How do you see tackling that issue?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [128]
I think by another couple of months
Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [129]
Sir, I couldn't hear you. Sorry.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [130]

All that would do to not have pain from April 1 or not have registration from April 1.
Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [131]
l'm sorry, sir. I think l'm not able to hear you.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [132]
We'll advance the prebuy by about 2 months.
Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [133]
Okay, okay. Yes no. I mean, in the sense does it affect us in terms of production planning? And if we're left with any inventory, would we be able to kind of manage it just exporting that BS IV vehicle?
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [134]
Yes, yes, we should be able to. I mean, our technology as you know, even when the BS III BS IV happened is very modular, and we were able to just simply to the engine. The day we start to make BS VI, and that operates in a different fuel grade completely.
Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [135]
Right, right.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [136]
Yes. Leftover BS IV engines/vehicle, we'll sell them outside.
Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [137]
Okay. So it doesn't really affect us much.
Vinod Kumar Dasari, Ashok Leyland Limited - CEO, MD & Wholetime Director [138]

Yes. If necessary, if I want the BS IV vehicle, I can convert it to a BS III vehicle also.
Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [139]
Right, right, right. And sir, secondly is on the scrappage policy that you mentioned. As of now, isn't that voluntary scrappage sir? Or is it mandatory scrappage? For 20 year and above?
Gopal Mahadevan, Ashok Leyland Limited - President of Finance & CFO [140]
Mandatory.
Mukesh Saraf, Spark Capital Advisors (India) Private Limited, Research Division - VP of Equity Research [141]
Okay. It's mandatory. Okay, okay. That clarifies.
Operator [142]

Ladies and gentlemen, that was the last question. On behalf of Edelweiss Securities Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.