

“Ashok Leyland Limited
Q2 FY2022 Earnings Conference Call”

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Moderator: Good morning ladies and gentlemen. Welcome to the Ashok Leyland Q2 FY2022 Earnings Conference Call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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. Raghunandhan NL from Emkay Global Financial Services. Thank you and over to you Sir!

Raghunandhan NL: Good morning everyone. On behalf of Emkay Global Financial Services we are pleased to invite you for the conference call of Ashok Leyland. We thank the management for providing us this opportunity. From the management team we have with us Mr. Vipin Sondhi – MD & CEO, Mr. Gopal Mahadevan - Director & CFO, Mr. K M Balaji – Senior Vice President (Finance). We request Mr. Vipin Sondhi for opening comments post which we can open the session for Q&A. Over to you Vipin Sir!

Vipin Sondhi: Good morning, Namaste ladies and gentlemen. Thank you, Raghu. It gives me great pleasure to be in touch with you once again through this post result conference call and I thank you very much for the interest shown in Ashok Leyland and I hope all of you and your family members are safe, healthy and it is important that we continue to focus on the vaccination process as well as social distancing.

I will quickly run you through the Q2 and half year performance. Recovery in the M&HCV domestic truck industry volumes, which is started in the second half of FY2021, continued into Q2 of FY2022 after a setback during the second wave of COVID as you would all recall in the Q1 of FY2022. However, despite this setback a significant growth in volumes was registered in Q1 in percentage terms, but due to the low base of last year. The M&HCV domestic truck industry volumes in Q2 were higher than the corresponding quarter of last year by 116%. Historically AL’s market share in higher tonnage vehicles has always been higher than ICVs and AL has a dominant presence in the south as you know. Q2 FY2022 witnessed a 15% shift in volumes from higher tonnage vehicles, vehicles like tippers, tractor trailers and MAVs to ICVs fueled by the increasing adoption of CNG. Volume contribution in the south to the total TIV in Q2 is lower vis-à-vis the same period last year. Both have impacted AL’s truck market share in Q2, but I am happy to share with you that we will be introducing products in the CNG segment in Q4 this year and this should help grow our share of business. Increase in fuel prices added to the challenges, squeezing operators’ profitability; however, volumes are returning to last year’s H2 levels post the opening up of the country and we are seeing demand increasing.

With the economy set to grow to over 9% in FY2022 we are quite positive about demand picking up. Our products and you would remember we launched the AVTR range of trucks and the Bada Dost in the LCV segment. These were launched last year and are delivering excellent performance and have been very well received by our customers and we will continue to launch new variants from these platforms. We are very, very happy and take great pride in the feedback that our customers are giving to us. The passenger segment owing to COVID-19 continues to post lower volumes, as schools, colleges, offices open up and intercity travel increases we should see better volumes. We are a large bus manufacturer and therefore this improvement in the situation will positively impact AL.

LCV volumes for Q2 FY2022 was at 13328 numbers, which was higher than last year 10952 by 22%. Our market share in LCV continues to steadily increase and in Q2 reached an all time high of 23.3%. We will continue to grow this business as we have repeatedly proved our ability to introduce winner and industry leading products. Our M&HCV and LCV exports at 2227 numbers are 49% higher than Q2 of last year, which was 1491 numbers. Revenue for Q2 is at 4458 Crores, which is 57% higher than Q2 last year at 2837 Crores. EBITDA has improved to 135 Crores 3% in Q2 up from -140 Crores -4.7% in Q1. Q2 EBITDA is also higher than Q2 of last year at 80 Crores 2.8%. PAT for the quarter was at -83 Crores in Q2 vis-à-vis a loss of 282 Crores in Q1 FY2022 and a loss of 147 Crores in Q2 FY2021. The company has manufactured 12048 M&HCVs in Q2, 10028 M&HCVs during Q1 and has ended the quarter with an M&HCV inventory of 2958 numbers 4424 numbers in Q1 so inventories are down. Operating working capital for Q2 has significantly improved to approximately 32 Crores from Rs.1130 Crores in Q1 resulting in a generation of cash of over 1000 Crores in Q2. This resulted impairing down of debt. Capital expenditure for first half was contained at just 175 Crores as compared to 290 Crores during the same period last year. Investments in the first half of the current year was just 4 Crores vis-à-vis Rs.109 Crores invested in the same period last year. Net debt as on September 30, 2021 at 3112 Crores gearing of 0.49 times was lower by Rs.1063 Crores when compared with June 30, 2021 a level of 4175 Crores gearing of 0.62 times. Net debt as on March 31, 2021 was at 2607 Crores gearing of 0.37 times.

Moving to the outlook, the truck segment is expected to lead the recovery in the coming months. M&HCV truck volumes are likely to draw support from core activities covering construction, mining, not to forget the likely deferred replacement demand supporting the volume growth, increased infrastructure outlay, a conducive financing environment, a scrappage policy in the offing and rebound in economic growth are expected to support growth in industry volumes in the near term. The tipper segment is likely to benefit on the healthy traction in construction activity and mining. The tractor trailer segment has been the worst impacted over the last couple of years. Demand from increased production in core sectors covering cement, steel and auto are expected to support the growth in this very, very important segment. We expect LCV truck

segment volumes to grow further owing to the increasing demand for last mile transportation especially from the e-commerce segment as well as expectations of stable demand from agri and allied sectors. We introduced new products in the M&HCV segment spanning tippers to cement mixers and also in the Ecomet range. We continue to watch the global and Indian semiconductor situation, which has impacted many industries worldwide from mobile phones to PCs to cars to commercial vehicles. With COVID vaccinations gaining pace and the government's focus now on the second vaccine shot we believe the COVID-19 impact should soon wane gradually and people's confidence to restore normalcy in their lives will swiftly increase. Going forward we foresee tremendous opportunities, we will continue to grow exports, defence, PSB, LCV and Parts even as we expand the reach and products of our core M&HCV business. Our focus on digital will help leverage the benefits of efficiency and cost. Customer requirements will be at the core of all our digital initiatives. Our electric vehicle business through Switch mobility is doing well and gaining orders in India and overseas. It has made an impact in COP26 held recently in Glasgow and we are providing a sharp focus to this business, which is the reason we have hived off the EV asset to Switch and OHM. We at Ashok Leyland are rock solid and resilient and are confident and extremely well positioned as a pure play CV player with Newgen products and talented people to deliver profitable growth as the market revives and I thank you very much for the interest shown on Ashok Leyland and with this brief I open the floor to questions my colleague, Director and CFO, Gopal Mahadevan is with me and Senior Vice President, Balaji is also present. Back to you Raghu!

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Hitesh Goel from CLSA. Please go ahead.

Hitesh Goel: Thank you, good morning everyone and thanks for taking my question. My question is basically on the replacement demand, which actually was highlighted in the summary, which was given by the MD, I just wanted to understand what would be the proportion of replacement demand in the next few years because if replacement demand comes back in full in the next few years you could see a very significant growth in the next two years in CV, so how do you track that and what are the indications from the government?

Gopal Mahadevan: This is a very good question; Hitesh and we are also kind of expecting that the replacement demand would also start kicking in for the following reasons. One as we had mentioned previously in the calls we have seen a huge change in technology so we moved very quickly over the last if you look at it from 2017 we have moved to BSIII to BSVI, so as things go forward and with the focus on environment and ESG and pollution lot of corporations are focusing on their supply chain and the pollution reduction possibilities that are there, so we expect that people will start moving to

BSVI much faster than what was happening in the BSII, BSIII and possibly BSIV era, this is point number one. The second point is the replacement demand would also start kicking in because all said and done, vehicle range whether they have run or not and over the last two to three years there has not been much vehicle movement owing to COVID, but as the economy opens up and people see the risk of COVID coming off that is the most important thing I think if you look at it all of us are just waiting for COVID to become a normal kind of a disease that can be cured with pill or something like that and we are seeing that getting better and better, once that happens we would actually see primary and replacement demand going in. We are keeping in touch with key customers, we are looking at their fleet age, we are suggesting to them various options that could be available for them to replace it and they are also saying let the demand pick up fully and then we would want to replace vehicles.

Vipin Sondhi: Just going back to summarize Hitesh what Gopal said in actually under three points is number one economy gaining traction which is positive, number two the consciousness and the need to go green, which will drive towards BSVI vehicles from BSIII and BSIV and as the scrappage policy comes into vogue then again aged fleets will start moving towards better technology and better fuel so these would be the three points for replacement demand in the next few years as articulated by Gopal.

Gopal Mahadevan: I just wanted to add Vipin was that as per ICRA if I am not wrong, the average age of the vehicles is currently at about nine-and-a-half years in FY2021, which is almost like the highest that the average age has been over the past few years, FY2019 for example was 8.7 the report says, but of course these are statistics, but directionally what will happen at some point in time there will be a pressure for us for the industry, the transportation sector to switch over to later generation vehicles especially also because most of them are packed with a lot of technology today for track and trace vehicle performance, driver safety so there is a huge shift that is happening on transportation side.

Hitesh Goel: Thanks, can I ask one more question, just wanted to understand how is the financing situation because under COVID actually banks were very reluctant to finance this truck segment because of obvious reasons, but have you seen the Animal Spirits coming back and people willing to fund the segment now?

Gopal Mahadevan: Yes, I think so you see after the moratorium has come off and then they are seeing that the larger fleet operators and even the smaller fleet operators are actually paying back loans and the collection efficiencies in the finance companies have stepped up quite significantly, so the larger players in the financing side have started to open a financing here because you see you must understand when you look at sector financing especially even in banks other than normal corporate lending where would they go to, they have to go to a real estate, they will have to go to commercial vehicle financing, they will have to go to car financing, motorcycle financing, agri financing, so when you do that

this actually is a very preferred segment of financing because of the ticket size and security is available and the resale value.

Vipin Sondhi: Just to add Hitesh as we meet heads of banks they are more and more coming forward to financing looking at alternatives and if you remember now as Gopal mentioned the technology which is available for track and trace can actually monitor and secure truck performance at real time basis, so financier knows exactly where and how the truck that is being financed is doing and where it is physically, so there is a lot of security involved in the Newgen trucks, so we see that as a huge positive in the financing situation.

Hitesh Goel: Great, thank you Vipin and Gopal and all the best.

Moderator: Thank you. The next question is from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity. Sir I had one question on the business side before that I just wanted to know more clarity on this transaction with OHM global mobility, so can please throw some light on this and just clarify whether this is a sale to a promoter entity or it is still going to be under the ambit of Ashok Leyland, just clarify and throw some light on this transaction?

Gopal Mahadevan: You see essentially what we are doing Pramod we had mentioned that we would want to focus the EV initiatives outside of Ashok Leyland especially on the LCV and the bus side, so that is how we had formed Switch and I do not know whether you attended the meeting that we had specifically on Switch and EV initiatives earlier this year, so there what we had mentioned was Ashok Leyland had started the EV initiative in a very small way about two to three years ago, we launched circuit and then we got a couple of orders as well and then we were kind of tying up relationships, but we did not go the whole hog because this system requires a lot of capital investment so then what was decided was that before this business starts to acquire significant amount of size and shape and which requires a lot of investment let us transfer it into Switch and Switch is housed in UK, which is held by Optare PLC and Optare PLC holds approximately about 91% to 92% held by Ashok Leyland and another 7.5% is held by Hinduja Automotive Limited and then the balance 0.5% is a very small percentage held by various third party investors and it is an unlisted entity today, Optare Switch has been delisted not Optare PLC, Optare PLC was always unlisted. Now what we did after that if we were to remember what that we said that Switch UK and if I use the term in very simple term these are not exact names of the company but for the purposes of giving time so Switch UK will have a subsidiary in India called Switch India and that would be the, I would say the manufacturer for Switch business, it would be the primary manufacturer and we have the manufacturing locations and this company would also cater to the Indian and SAARC market, which means sales would happen from Switch

India the direct sales will happen from Switch India to the Indian market and SAARC market and Switch India will also supply to the rest of the world under the Switch Umbrella, now parallelly what we did was we wanted to reach the end customer fully right so because not just only to supply and what we decided to do was that we realized that we need to get into the e-mobility as the service space and that would mean that the ownership of assets would be with one of the Switch entities, but this would be a pay-per-use kind of an arrangement with customers where they pay as they use and the market is actually moving towards that so if you look at some of the STU bids, some of the larger e-commerce companies, all of them would actually want to have a pay-per-use and these can become win-win arrangements for the OE as well as for the customer, which is why OHM is being formed, OHM is now held under Hinduja Automotive Limited, but it is going to be transferred, the plan is to transfer it to Switch UK would possibly have HAL holding only about 20%, but the balance / majority to be held by Switch, but this is to be done only after the regulatory approvals are done, so until such time we will have to wait for it, but the larger plan is that so subject to regulatory approvals these are our plans.

Pramod Kumar: Gopal, sorry to interrupt, but ultimately this is going to come back to Switch, but 20% ownership will still remain with the promoters why go through this route Switch mobility is Ashok Leyland's subsidiary the direct transfer could have happened to them, so I am just trying to understand is the regulatory requirement?

Gopal Mahadevan: We will come back with that much later to you but believe me that this is the most appropriate way.

Pramod Kumar: No, I do not doubt that I am just trying to understand the logic here but any which ways you are going to share more details on this at a later stage right?

Gopal Mahadevan: Absolutely, so all I can share with you at the moment is that we are looking at let me add a couple of more things, one is we are looking at raising capital both at Switch UK level as well as in Ohm Mobility there are discussions that the management of Switch is having with the Switch and Ohm are having with various investors and we will keep you posted on that as well, but you can be rest assured one thing that you raise and this is what I think is the most important part of your question, is it going to be majority owned by Ashok Leyland, the answer is yes.

Pramod Kumar: So, we wait for more details on that Gopal and going back to the question on the demand side because the CV cycle was expected to be much, much stronger and I think some of your peers have made statements to the fact that the industry is going to be marginally positive on second half this year versus last year, so I am just trying to understand while the economic activity is looking up all of that is great, but it is not exactly translating into great demand for the CV volume so even in that context is there something which we are missing out in terms of the impact of the GST plus tonnage

increase and consequent drop in utilization rates and if you can help us understand where is utilization rates right now as a fleet and what is the threshold which it needs to be before replacement in the market and also some comments on GST as to how we are tracking it and related to it as a CNG if you can talk about how much is CNG as a percentage of industry volumes and what are Ashok Leyland's plan in more detail? Thank you.

Gopal Mahadevan:

What was the last bit of your question, I did not understand, so essentially let me attempt to give you a broad answer to this and I will then hand it over to our MD. As far as fleet utilization rates are concerned various research report states that the fleet utilization rates are somewhere around anywhere between 70% to 85%, some reports say 85%, some says 70%, but I think there is a much larger demand to come in because what we are seeing happening is most of the industries have started to grow and post very good results and they are actually posting growth, if they are posting growth that would require transportation, right so that is why you are seeing this. The second thing is earlier I think Hitesh had asked about the replacement demand, which is also a very important part that is not yet fully kicked in, but at some point in time it will because as I had shared with you the age of the fleet is one of the highest in recent history that nearly over nine-and-a-half years so we are going to see that kicker also happening. The reason why that TIV has still not picked up fully is because please understand between last year and this year we have had COVID which started suddenly in April and then we had a complete shutdown till maybe July and then things started to thaw a bit and then things started to look like improving fourth quarter of FY2021 was actually kind of a good quarter in relative terms, but then again what happened in April of this year, mid April till June end there was a complete shutdown and then there is a talk about a third wave and then you are seeing that in Europe we are talking about the fifth wave right, China is going through again certain impact of COVID again, now so when all of this is happening India is getting better thankfully, so I think the vaccinations are getting better, now we are talking about the second vaccination to be completed, there are mobile vaccination centers, vaccination centers to be done, vaccination to be done house to house, which are all very innovative in a country of this size. Now having said all that while all this now cinemas are open, restaurants are open so people are going out right, even the work from home situation is getting reversed, people need to come to office last quarter, I took the call from home, this quarter I am actually taking it from office, so what happens is that there is a lot of reversal of things that are happening right, so all of this would need to be converted to demand when confidence build up, so once this third wave people see that it is not really something that is going to impact and then the COVID situation eases out we believe that there will be a huge demand that will come up especially on the commercial vehicle side. The second thing that we are not talking about which is equally important and important for us also from company perspective is the bus demand. Today only now the primary consumers of this bus are STUs, intercity, then you have office and then you have schools, now most of them are shut other than the

STUs which are also operating now, which were operating with very limited passengers, now the passengers are getting more and more into the buses, so you are seeing STU orders also starting to come, so I think we are at the cusp where if the COVID third wave does not happen we are going to see an increase in demand, I hope I will now hand it over to MD.

Vipin Sondhi: I would say two things we move goods and we move people, people movement will begin, schools, colleges will ensure people movement continues and goods it is a core industry as the economy open and we know that the economy is opening if we see that happening definitely goods will move, services will move and trucks will be bought and trucks will move as well, so we are looking at it quite positively, it is just that a little bit of more confidence needs to come back into the market for the ingredients are all in position now.

Pramod Kumar: Gopal on the CNG side?

Gopal Mahadevan: On the CNG side again very quickly and I will hand it to MD is that last year our focus was on launching I think absolutely the state of the art AVTR range of products which are modular and we will see medium term benefits on this because of not only the robustness of the product but the flexibility that it offers customers, the flexibility it offers in manufacturing and also the steep reduction in complexity for us, all of this will obviously result in productivity improvements. The other focus that we had which has also paid off very well is the launch of Bada Dost, which is actually kind of ramped up our market share to about 21% to 22%, so now we are looking at launching CNG, which is important and we should be launching these products in the fourth quarter and that would enhance our presence in the intermediate commercial vehicle space where today I believe that CNG demand out of the total ICV demand business is somewhere around anywhere between 40% to 45%, so MD over to you.

Vipin Sondhi: We are going to go right across quarter-by-quarter we will be launching new CNG products with the first set coming out in Q4 of this year that is in a few months from now and then it will just carry on after that, so we are all set for that after having ensured that the AVTR and the Bada Dost stabilize and settle down.

Pramod Kumar: Thanks a lot, and wish you all the best, thank you.

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

Gunjan Prithyani: Thanks for taking my question. I had two questions, firstly is the extension of this CNG which you mentioned, now if I look at market share there has clearly been slippage for the last few quarters, can you give us some sense is it only CNG, what is the reason for this market share slippage and how are we trying to fix this, also in the same context is

it the rising competitive intensity or discounting that is keeping you away from trying to chase or get the market share back?

Gopal Mahadevan:

I think you have given half the answer in your question itself so there are a confluence of factors, the first one is CNG and sometimes in a couple of quarters or two, three quarters you do see slip ups happening in market share, not slip ups, reductions in market share, the slip up means there is no control, reduction means there is a controlled reason for it right, so we would become competent and competitive on the CNG front as soon as we launch the vehicles right, so where we have actually grown and market share of course in LCV which has been an excellent growth posted because of the product that we have launched and we are still too in the LCV side while I am digressing we are still look at the rest of the country right, we are not fully pan India and once we launch the network on a pan India basis then we would actually enhance our LCV presence even further. Coming back to your question, yes, the CNG and ICV presence, we didn't expect the market to shift so much into ICV now this has happened possibly because of the COVID as well right, so the demand pattern has changed also because of what is happening today and there has been a lot of focus on e-commerce, when you have that ICV caters to e-commerce segment quite significantly, so one of the gainers in all of this COVID has been the e-commerce and I would say e-transaction companies. Now the second reason is also that the demand in the south has not been as heavy as, there are two to three reasons for it, the demand in the south has not been as significant as in the rest of the country and we are weighted to the south this is the second reason. The third reason on overall M&HCV market share we were and hopefully we will be India's top bus manufacturer and when the bus demand comes up so sharply about 40000 units per annum demand is today hardly about 10000 so there again what happens is you need to wait for the market to revive. Having said that we are very clear about two things and you are going to hear it from our MD also, we are very clear that we would want to grow the share of business for the customer and we would want to add customers so that is the primary purpose for which we exist, but at the same time we have to ensure that we are doing it profitable so discounting levels had become quite high, there were a few transactions which we deliberately avoided, but not all we have been very competitive in market with a superior product whose total cost of ownership is much, much better than competition. Now finally the other thing you must remember, and I am going leave it at that for our Managing Director to talk about, this market share number is based on what we kind of sell to the dealers and we would want to ensure that we support the dealers by not pushing significant stock into the pipe. MD would you want to add something please?

Vipin Sondhi:

Yes, so just to summarize that in five points, number one bus, buses will come back our share grows straightaway, number two the south is as Gopal mentioned and we are now expanding our dealership network in areas of the north, the east and the northeast as well, number three the higher tonnage vehicles as the core economy picks up, tippers, tractors, MAVs, we are extremely strong will come back as well, number four,

the AVTR is giving us better fluid economics, which means greater savings and therefore the ability for us to price it better and value sell it, you will find that the total cost of ownership of AVTR is perhaps the lowest, the trucks need to run for some time and that the customers already feeling it and as more and more feel it will be value selling the AVTR and finally CNG there has been a shift we recognize that shift and we are taking action to get that shift and filling up that shift from Q4 onwards.

Gunjan Prithyani: This is helpful, the second question I have is on the margins now clearly there still seems pretty high pressure on the gross margin levels, could you just give us some sense on what is the under covered commodity in terms of pricing action not taken or maybe you can just split it what has been the commodity hit, what is the magnitude of price hikes taken and is there an adverse impact of discounting on a Q-on-Q basis, some sense on how we should be thinking about the margins that will help? Thank you.

Gopal Mahadevan: We have been possibly one of the few players who have been raising prices quarter-on-quarter and we have done that in all the three quarters including the current quarter where we have raised prices both in trucks and buses and in LCVs as well, you do track the steel prices and some of the other commodity, but predominantly steel and you would have seen the run up of steel prices that has happened over the last possibly six to seven quarters, we must also remember that all of this is happening in the backdrop of a switchover from BSIV to BSVI where the cost of the vehicle themselves has gone up for all of us, not just for Ashok Leyland for all the players in the commercial vehicle industry by at least 20% and then on the backdrop of it is COVID situation where demand virtually evaporated so the players are not obviously able to recover the full cost increase of the BSIV to BSVI and also the steel price increase combined together, so we will have the demand pulls up and if it starts go up I am sure that the pricing adjustment will happen and we would see the prices going up, this happened this is what we see from our side, this cannot be guaranteed, but this is a logical outcome of higher demand that we foresee as we go forward.

Gunjan Prithyani: Sir, can you quantify what is the under recovery, if you can give us some sense around that?

Gopal Mahadevan: It is very difficult for me to actually put a number to it because different models have got different rates of steel and while we have some internal numbers it would be very difficult for us to quantify believe me.

Gunjan Prithyani: Okay.

Vipin Sondhi: Just to add to that the pricing adjustment as the demand picks up and then a whole host of cost related activities that the company is undertaking both in terms of value engineering as well as removing any wastages and improving productivity and quality so the whole focus is both internal and external to mitigate any of the commodity.

- Gunjan Prithyani:** I will join back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** Firstly I wanted to check on demand side two segments, one is exports we used to sell about 15000 a year we are currently running much below that run rate so some colour as to how do you expect outlook for that, second is on electric products, how many products are we targeting and how much capex is required for us to achieve our ambition on Switch mobility and what is the overall capex target, thirdly Gopal to you, on the operating leverage side currently volumes are nearly half of where they used to be and you have been talking about a lot of cost reduction that company has achieved, so if volumes were to double from here what is the kind operating leverage broad range that one could expect from current levels?
- Gopal Mahadevan:** Now as far as I will take it from the last one, obviously if you look at our expenditures and we have been taking action on almost all key buckets of expenditure including on material where there are special teams setup for taking out cost through alternative design or alternative materials, which will not have an impact on the vehicle performance or efficiency or sturdiness, there are ways to take cost out of vehicles continuously that is what all automotive companies do. The second one is on all the other costs we have been running programs continuously and there is always opportunity for us to take cost out, now when the volumes double obviously you will see a much better operating leverage coming in, again you will see it is very difficult to kind of give a number in an open call like this because one needs to be very, very careful and measured when setting expectations, but all you can tell is that let me put it in this way, once the company starts to keep focusing on costs and working capital and cash flow continuously and assiduously when the revenue start to go up and the realization start to improve, a predominant part of that realization would fall straight to the bottom and you can do your calculations yourself. As far a Switch and Ohm is concerned I think the investments that will be required for this will be, we will share more details about Switch and Ohm separately, but all we can tell you is that at the moment the plan is to look at raising capital and debt independently on these companies by the management of these companies and to manage it so this would not be something that at the moment at least we are not foreseeing any major equity investments from Ashok Leyland into this company. The first question was on exports, I think I am going to let Vipin talk about it as well and the initiatives that we are taking, over to you!
- Vipin Sondhi:** So, exports pick up as these markets pickup, so if you look at market share which is important during the COVID period or during a low period we have gained everywhere, but wanted to just mention to you the initiatives we are taking especially in Africa, of course Bangladesh we have a huge presence as well as in Sri Lanka and

Nepal, but in Africa we are appointing and continue to appoint distributors who are sons of the soil, who have large businesses, who know their businesses, who have done automobiles, were not competitive, but done two wheelers and passenger vehicles with Indian companies, we have appointed about 8 or 10 as far as I remember in Clusters in Africa, at the moment we have already started taking orders from some of these, but otherwise testing of vehicles is on and these will be very predominant in the retail market, we were very strong in the project markets those will continue, but the retail segment is going to pick up, you mentioned a figure of 15000 at some point in time yes, those were heavy days especially for Bangladesh, but we are back to over 1000 vehicles a month now from October and we will be taking it forward from there to 1250 and then on. What is important is that the base has been laid in Africa and in the middle east while strengthening our position in the SAARC countries and final point we have a much larger bouquet of products now with the AVTR and the Dost family that is both packaged for left and right hand drive as well as the buses the Gazl especially which was launched in the middle east very well received, so today we have a much larger presence in terms of the bouquet of products and we see this as a huge positive in the next six months you will see a substantial difference in the numbers.

Kapil Singh: Thank you Sir, great to hear that. That is all from my side.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Sir, most of my questions have been answered just few of remaining questions, on the Switch Mobility side we have talked about order wins in India so can you talk about which products are we referring to I believe electric LCVs as well in India so can you throw some light on that and secondly if you can talk about HLFL's second quarter performance or first half performance?

Gopal Mahadevan: Sure, as far as Switch facility is concerned I think you will hear about the order that have been received shortly so I do not want to steal the thunder from the Switch management on that so they have been doing a good job in kind of getting orders from various STUs and this build up has been built steadily and methodically let me put it in that way right. The second part of it is on HLFL, the question on HLFL, the revenues for half year the company has been doing exceedingly well and the ratios are improving significantly and the overall revenues were 1320 Crores, the PAT was 10% and 135, there is sufficient provisioning at the moment in the balance sheet so it is an independently managed company, we have provisions for nearly 323 Crores and the key ratios they yield on advances are about 13.2% and NNPA is at about 2.7%, so I would say that the company is doing very well and it has got diversified portfolio maybe about 35% to 40% of its portfolio is trucks of Ashok Leyland trucks and buses, but the rest of it is quite well spread with three wheelers, two wheelers, offload application and then loan against property and also buying off various asset classes.

- Jinesh Gandhi:** Ok. Can you talk about electric LCVs of Switch mobility are we also getting orders on that side?
- Gopal Mahadevan:** Well we have got a lot of expression of interest and the products are on the verge of final releases, we will share more with you, but very clearly one thing I can share with you is that you will hear a lot more from Switch on both e-buses and e-LCVs.
- Jinesh Gandhi:** Got it. Thanks, and all the best.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** Hi team thanks for the opportunity. I will just go back to mobility as a service business Ohm for you, so we talked about it as one of the pillars for Switch mobility, so after all the transaction is over what will be Ashok Leyland's stake in Ohm?
- Gopal Mahadevan:** See, we will share all the details with you, all I can tell you at the moment, we are focused more on the building of the business and the capability you have seen that we have made some recent tie ups, there is a lot of business development activities that are going on, there are a lot of synergies also which Ashok Leyland will bring to the table in terms of the network and mark relationships that we have, all I can tell you at the moment instead of getting into specific stake holding, shareholding in fact I will possibly put it in this way, very clearly the idea is to ensure that Ashok Leyland is the majority owner in that company, okay, and I would actually look at that at this stage. The reason why we do not want to share all of this at the moment is because we have to get regulatory approvals so until we get it I would not want to share any statistics here because it would be inappropriate on our part to do that.
- Vipin Sondhi:** Just to add Binay we are very optimistic about this business and what we will do for the electrification on the country. The second is this EMAAS as a business which is Ohm is a unique business model developed which is very, very unique and which is going to be a business model that we can take outside the country as well. Increasingly as yourself mentioned we are moving into service, pay, drive, all as you use so it is a kind of payment as you use, so I think Ohm is a very well positioned so it is quite a unique business.
- Binay Singh:** That I agree in fact even when we look at financial year 2021 revenues of Ohm versus the EV business they are significantly higher that is why I asked you the question was that as we are shareholders of Leyland we are owning 100% in Ohm today what will be the stake after the entire transaction is done, but anyway we will wait for more details on this side.

- Moderator:** Thank you. The next question is from the line of Aryn Pirani from JP Morgan. Please go ahead.
- Aryn Pirani:** Thanks for the opportunity. Just some clarifications on the EV business transfer to Switch, so you have transferred this business to Switch India or Switch UK?
- Gopal Mahadevan:** We have transferred the assets through slump sale to Switch India and we are also looking at transferring it to Ohm can you get me the exact name because we are on a conference call, at present you will tell me the name because it is longest name, so Switch India is not the right name, so since we are on a call, so we are transferring the EMAAS, there are a couple of contracts we are transferring to Ohm, all the other EV assets have been transferred to Switch because Switch is the manufacturer and the OE which will manufacture itself and Ohm would be actually the EMAAS company and all I can tell you at this moment is that we will share the details of the structure, the holding and all that once we receive the regulatory approvals from the authorities as far as Ohm is concerned, so I would request you to bear with us on that, all I can tell the investors that Ashok Leyland through Switch UK will actually be a majority owner.
- Aryn Pirani:** I appreciate that, and I do not want to ask about Ohm right now, but you also mentioned in the press release that the EV business of Ashok Leyland which has been transferred to Switch has been done for consideration of 240 Crores, so is it cash and if that is the case how is your subsidiary paying you cash just want to understand that?
- Gopal Mahadevan:** So, that is why we have, as a term there are some terms of the business transfer agreement which I possibly will not be able to share, it will be in cash, but there is a period that has been given for which is again done on arm's length basis so which will give the flexibility for Switch to kind of repay the amount, so it has been done in a very I would say clear manner with arm's length being captured, but it will be done in cash, we are not taking any stake into Switch for the assets transfer.
- Aryn Pirani:** Just lastly Optare PLC is a subsidiary of Ashok Leyland switch UK it is not the legal name, but Switch UK is a subsidiary of Optare PLC and Switch India is a subsidiary of Switch UK it that understanding broadly correct?
- Gopal Mahadevan:** Switch India is a 100% subsidiary of Switch UK and Switch UK is 100% subsidiary of Optare PLC and in Optare PLC we have about 91.8%, 92%.
- Aryn Pirani:** That is helpful, thank you. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Pramod Amte from Incred Wealth. Please go ahead.

- Pramod Amthe:** Gopal, this is with regard to the Switch India transactions which you discussed considering the value creation which is happening in the EV space would it has been right to swap this amount for a stake instead of getting the cash in hand?
- Gopal Mahadevan:** That is again we will come back to you once we are kind of you will understand the structuring because you see the point is like this, we need to ensure that the right value creation happens to the right structure, right so if you have a simpler cleaner structure which I just shared with you earlier then what happens is when you are inviting investments into the company, investors also have a much clearer picture instead of having a lot of cross holdings.
- Pramod Amthe:** Second one is on core business of CVs considering the amount of headwinds on product mix and the cost structure how do you see the margin recovery profile in this upcycle you look large substantially as compared to historical cycles is that is the case how you plan to address it better so that you remain ahead of peers in terms of margin management?
- Gopal Mahadevan:** I would only give it with very simple statement you see, where we are at the moment or where we are even couple of months ago I think our aspiration is to very clearly grow market share month-on-month this is one part. The second part is to build in operational efficiency, digital, cost reductions, etc., to make the company as efficient as possible, now when the markets comeback in which we are expecting the markets to come back no reason they should not if kind of COVID three goes behind us and the transportation sector both trucks and buses gets fully kind of revived and the replacement demand kicks in I believe that Ashok Leyland would actually be very well poised to capture the upside because it has got the right range of products both in LCV and in M&HCV and the second one is it would have had much leaner and efficient cost structure due to which you would see operating leverage is kicking in. Pricing logically the old school of economics teaches that as demand goes up prices also kind of move northwards hopefully that is also expected to happen, we are at the company level of course are continuously trying to raise prices and we do it in a way where it could be for a certain set of products, it could be in a certain geography so this is done very, very astutely, but at the end of it we must also ensure and this is very important that we continuously gain the customers share, MD would you want to add something here?
- Vipin Sondhi:** Pramod the focus and the obsession is with the customer and to ensure that the value that the AVTR and the Bada Dost and both are giving are properly priced in and this is a process that will happen and also remember that some of our adjacent businesses and we have not spoken about that aftermarket is doing exceedingly well which means our service and parts is reaching the customer at the time that it needs to and we continue to do that and we continue to focus on that so that we service the customers during the entire life cycle of the customer not of the product but of the customer so there were a whole set of activities which will ensure that we get value for our products and just the

impact of the commodity cycle, but what Gopal said is that we are making ourselves lean, continually making ourselves fit and that will add to the operating leverage as demand comes back increasingly so we are very, very positive about our profitability structure as we move forward.

Pramod Amthe: Thanks a lot, and all the best.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India. Please go ahead.

Prateek Poddar: Sir, I just wanted to check whether the agreement with Ohm has the blessings of the Board so all the questions which we are asking should have been deliberated in the board meeting itself, so any specific reason why you want to take some time and get back to us as to why this transaction is done or what is the thought process that is question number one and second is just wanted to check if this will come for shareholder approval?

Gopal Mahadevan: First of all let me take the last one, it is not a material transaction so it does not require shareholder approval, the reason why we would want to share all the specifics of the transaction is because we are waiting for statutory approvals, the Board has certainly approved it and that is why we are even making the announcement, actually technically if you ask first whether we need to make the announcement I do not know, but we thought we should make the announcement once the Board has approved the transaction and the business transfer agreements have been entered into, but it is not appropriate for us to keep sharing too much of information on the Ohm side till such time we get the statutory approvals for which applications are being made, that is all, Prateek there is nothing more to it.

Prateek Poddar: Got it, thanks.

Gopal Mahadevan: It is like when you talk to in business I am not telling this an ideal example, but we have to comply with a lot of aspects before we share the details that is why I have stopped myself at some point in time because it is appropriate for me to then give the exact details of it once the approval comes in.

Prateek Poddar: The value creation of this entity is quite substantial maybe not today, today I think as you said it is not a material transaction but maybe I do not know it could be a big material driver for Ashok Leyland in the future and the word majority means anything above 51% right, so just trying to think about what does majority mean and some clarity over there would help us that is the only limited point

Gopal Mahadevan: Do not worry about it we will share it once the approvals are through because we are at the cusp where we have to receive the approvals and we also believe more than just

value in terms of valuation for Ashok Leyland its aspirations to be a global top ten in commercial vehicles and it is doing everything that is necessary today and it is making all those necessary investments to do that, the first step was LCV where we are expanding the LCV portfolio because globally the LCV to M&HCV ratio is anywhere between four to four-and-a-half times, so we need to have a larger presence not only in India but also in the globe. The second one is international where you heard our MD say that we will continue to grow and pursue new avenues for international operations and with the much larger suite of products both in LHD and RHD we believe we are well poised to make further penetration in the addressable markets that we are looking at. The third one is the business of the future which is EV and we consciously decided that it is better it is housed in a separate entity than in Ashok Leyland because Ashok Leyland is today currently an ICE player and of course there are other initiatives happening in Ashok Leyland also which we will share at a pertinent moment in time, but there is some bit of work that is getting done even on fuel cell and on other forms of energy because I think the whole thing about green energy and net zero carbon, ESG is all now kind of converging today and organizations are realizing that they also need to invest into the energy forms of future including in water power, so which is why we said have this entity as separate with a separate management, separate capabilities, separate teams and have even a separate set of investors into it, so regarding your question as I had mentioned we are looking at having strategic and financial partners in these companies and we would want to see that there is a lot of things happening currently on this, we would not want to share details more than what we can at the moment even though we would love to, so kindly I request you to be just patient with us and you would see that the value accretion is very clearly coming into Ashok Leyland.

Prateek Poddar: Sure, this is really helpful. Thank you so much and all the best.

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

Vipin Sondhi: Well first thank you very much for being with us. Ashok Leyland is proceeding on multifarious fronts I saw a lot of interests that were shown in Switch alone and you will hear a lot from us about it as soon as we have regulatory approval, we are getting orders, and this is a big play not for us India alone but for global as well. Ohm is a very, very unique business model and this is going to play well in the future, I think we will be the first that should be very good. Now on the Ashok Leyland side we are coming now into an upcycle, we got the products as I mentioned CNG, yes, we need to move fast forward which we are doing, launching from Q4 onwards, but interestingly as Gopal mentioned there are going to be several fuels that Ashok Leyland is working on simultaneously, so we have diesel, CNG, we are building on LNG and we are working also on fuel cells, so all in all I think a good position to be in to take advantage of the fact that the AVTR and the Bada Dost have been very well received by the

customer and I am sure this will play out very favorably for us to give us a premium position as we move forward. Operating leverage has a huge focus on value engineering, value analysis as well as productivity improvement and there are hundreds of our colleagues working on that as well as on service aspects and aftermarket aspects. We mentioned about international operations, we have created a footprint now and that footprint is ready to fire in Africa and GCC apart from our traditional markets in the SAARC region and we did not talk about defence, we have interesting orders with the Indian Air Force and we will continue to play in the defence space with great pride, so back to you and that is it from me.

Moderator:

Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. We thank you for joining us. You may now disconnect your lines.