November 15, 2024

National Stock Exchange of India Limited
Exchange Plaza,
C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai - 400 051

SCRIP CODE: ASHOKLEY

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

SCRIP CODE: 500477

Dear Sir/Madam,

Concall Transcription

Pursuant to Regulations 30 and 46(2) (oa) (ii) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, we attach herewith the transcript of the Company's Analyst Call held on November 8, 2024 to discuss the un-audited financial results for the quarter and half-year ended September 30, 2024.

Meeting start time - 4.30 p.m. IST
End time – 5.30 p.m. IST

We request you to take the above on record.

Thanking you,

Yours faithfully,
for ASHOK LEYLAND LIMITED

NATARAJAN
RAMANATHAN

Digitally signed by NATARAJAN RAMANATHAN
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N Ramanathan
Company Secretary

Encl.: a/a

"Ashok Leyland Limited
Q2 FY '25 Results Conference Call"
November 08, 2024

MANAGEMENT: **MR. DHEERAJ HINDUJA – EXECUTIVE CHAIRMAN – ASHOK LEYLAND LIMITED**
MR. SHENU AGARWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – ASHOK LEYLAND LIMITED
MR. K M BALAJI – PRESIDENT FINANCE AND CHIEF FINANCIAL OFFICER – ASHOK LEYLAND LIMITED

MODERATOR: **MR. MUKESH SARAF – AVENDUS SPARK**

Moderator: Ladies and gentlemen, good day, and welcome to Ashok Leyland Q2 FY '25 Results Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mukesh Saraf from Avendus Spark. Please go ahead, sir.

Mukesh Saraf: Thank you, Tanmaya. Good evening, everyone. Welcome to the 2Q FY '25 post results conference call of Ashok Leyland. From the management team, we have with us Mr. Dheeraj Hinduja, Executive Chairman; Mr. Shenu Agarwal, Managing Director and CEO; and Mr. K.M. Balaji, CFO. I'll now hand over the call to Mr. Shenu Agarwal for his opening remarks, post which we'll take the Q&A. Over to you, sir.

Shenu Agarwal: Thank you, Mukesh. Good afternoon, ladies and gentlemen. Thank you for joining us today. I am excited to report our Company's performance for quarter ended September 2024, which reflects our commitment to sustainable and profitable growth. The MHCV industry started off on a good note this year with 10% growth in Q1. However, this momentum was dampened in Q2 by seasonal factors like extreme weather conditions, uneven distribution of rainfall and slow take-off in government capex spending, resulting in 12% drop in MHCV industry volume.

We believe these are temporary factors. We remain optimistic about industry prospects for H2 and also for the medium term. While Ashok Leyland's domestic MHCV truck volume was lower by 18%, the MHCV bus volume was higher by 8% Y-o-Y. Overall, domestic MHCV volume was at 25,685 units vis-a-vis 29,947 units in Q2 of last fiscal.

Sequentially, domestic MHCV truck’s TIV was higher by 1%, and Ashok Leyland's domestic MHCV truck volume was higher by 2%. Ashok Leyland's Q2 FY '25 MHCV domestic market share grew sequentially to 31.2% vis-a-vis 30.6% in Q1 of current year. In the bus segment, we continue to maintain leadership position with market share of close to 35%. We remain committed to achieving our medium-term MHCV market share goal of 35%.

LCV domestic volume was at 16,629 units vis-a-vis 16,998 number in Q2 of FY '24. Within our addressable market, while the TIV was lower by 8%, Ashok Leyland volume was lower by 3% Y-o-Y, resulting in an improved market share of 19.8% vis-a-vis 18.9% in the same period last fiscal.

Despite global challenges, our export volume continued to grow in double digits, registering a growth of 14% on Y-o-Y basis and of 42% sequentially. We are intensifying our expansion strategy in our focus markets of SAARC, Middle East, Africa and Asia, aimed at posting the best performance ever during this fiscal.

Engine volumes were also higher by 17%, and spare parts revenue grew by 13% on Y-o-Y basis.

Overall, Ashok Leyland CV volumes were lower by 8% Y-o-Y, in line with industry, but was up 4% sequentially. Non-CV businesses continued to post healthy growth. While Q2 MHCV industry had a 12% drop Y-o-Y, Ashok Leyland's revenue was lower by 9% at INR8,769 crores. EBITDA was lower by only 6% at INR1,017 crores. EBITDA margin for Q2 stands at 11.6%, better than 10.6% in Q1 of current year and also better than 11.2% in Q2 of last year. Operating PBT at INR878 crores was almost same as Q2 of last year. Reported PAT at INR770 crores was higher by 37% vis-a-vis INR561 crores in Q2 last year.

The improvement in profitability reflects our continued focus on profitable growth through better price realization, efficiency in sourcing and streamlining of business operations. Material cost as a percentage of revenue was at 71.2% and 73.5% in Q2 last year and 72.2% in Q1 of current year. This was supported by benign steel prices and our continued focus on material cost savings. Margin improvement was also supported by impressive growth in spare parts, power solutions and international business operations.

Our balance sheet and cash position has grown even stronger in this quarter. Net debt at the end of the quarter was at INR501 crores, much lower than INR1,139 crores at end of Q2 last year and also lower than INR1,295 crores at end of Q1 of current year. Debt equity ratio at the end of the quarter was 0.05.

Courtesy improvement in our operating performance, cost structure and debt metrics, credit rating agencies like ICRA and CARE have upgraded Ashok Leyland rating from AA to AA+ with a stable outlook, reflecting their expectation of a healthy profile going forward.

Capex for the quarter was INR153 crores and INR307 crores cumulatively for the year. AL has not made any investments in any of the subsidiaries and associated companies during the quarter. However, investments may be required to be made in the second half of the year. Q3 FY '25 financial performance.

Q2 FY '25 financial performance reaffirms our commitment to move forward towards our medium-term objective of achieving mid-teen EBITDA. We are clear that we are not going to discount our products to win market share. Our market share wins will come on the back of product superiority, cost leadership, excellence in service delivery and our expanding reach.

Ashok Leyland continues to focus on product and process innovation. We launched new products across segments. We launched our third LCV new product of the year, Bada Dost i5, which has received excellent response from the market. To address white spaces in ICV bus segment, we have launched Oyster ZI AC bus for school and staff applications.

We are also progressing well on development of alternate fuel vehicles. We received a large order of 180 electric trucks in 19- and 55-ton categories. We are also progressing well on creating the new centers of excellence for EVs.

In pursuit of creating a benchmark in service delivery, we launched our Uptime Solution Centre, providing 24/7 support and delivering both diagnostic and prognostic solutions to technicians, drivers and fleet owners.

Switch and OHM are also doing well. OHM, our E-MaaS subsidiary, has now been fully activated. Recently, it has been awarded an order of 500 buses from Chennai MTC. Switch is active in fulfilling DTC order of 1,200 buses, supplies of which would start later this year. This would be a complete, newly developed, low-floor electric bus with very contemporary design and features and is updated with all the recent advancements in technology.

As advised earlier, Switch India is expected to achieve EBITDA breakeven this fiscal. Reverse merger of Hinduja Leyland Finance with NXTDIGITAL is on track and we are in the process of obtaining the necessary approvals from RBI. This is likely to get concluded before end of Q1 FY '26.

Ashok Leyland made significant progress on its long-term ESG commitments towards carbon-neutral operations by 2030, net zero by 2048 and achieving 1 million child coverage by 2028 under our Road to School program, which was recently awarded the distinguished Changemaker Award from Hindu Businessline.

Ashok Leyland has been ranked number 2 among automotive companies and number 34 among India's most sustainable companies at the recent Businessworld's 6th Sustainability World Conclave.

To sum it up, we have made good progress on all our key medium-term goals: mid-teen EBITDA, MHCV market share of 35%, growth in non-CV businesses, leadership in alternate fuel vehicles, value unlocking from subsidiaries and moving steadfastly on our long-term ESG commitments.

The pulse on the ground is quite positive. Festive season has proved that consumption story is intact. Most macroeconomic parameters are favourable. Private capex is on the rise. We expect government spending to also pick up in H2. We hope to see cuts in interest rates in the near term. With all these, we continue to remain optimistic for the CV industry for H2 and for the medium term. I now hand it over to moderator for Q&A. Thank you.

Moderator: Thank you so much sir. We will now begin the question and answer session. The first question is from the line of Gunjan from Bank of America.

Gunjan: My first question is on industry growth. I mean, while I understand there is an expectation on government capex normalization, but I think the prints recently have continued to disappoint, right? I mean October itself was quite weak when I look at the wholesale that came through. So if you can give us more insights on what is really happening on ground in terms of transporter sentiment?

And also the trend across various segments, because when I look at the vehicle segments, intermediate seems to be doing pretty well, while tractor trailers, tippers are languishing a lot.

So some colour on what's really happening on ground and what is driving the optimism that things will come back in the next few months.

Shenu Agarwal: Yes Gunjan, thank you for the question. As I said in my opening statement, I would like to just reemphasize the point that what we have seen in Q2, we believe, is more of a temporary phenomena. When we started the year, we were all saying, and most of the people were saying that H1 would be 15% drop. And eventually, we are at close of H1 now, where we have seen only 2% drop in MHCV industry. Things are moving much better than expected, firstly.

Secondly, I would say that when we look at any of the factors on the ground, like more fundamental factors which are like utilization of fleet rates or anything else, I think those are moving in the right direction. In July and August, I was in the market and especially in the Central and Eastern India, we had a situation because of monsoons and other things, the fleet utilization was as low as 60% to 65%.

In some areas, we got to hear that fleet utilization was as low as 30%. So now in October, if you have seen the data, recent data that was published on fleet utilization, it is already up to the level of 95% on an average in the country. In some areas, it is slightly lower still, but I think the trend is very, very positive.

Also, if you have seen the recent ICRA report, it has projected a growth of 0% to 3% for the whole year in MHCV trucks. You know what that means, basically, is that the industry in H2 has to grow by about 6% to 10%. So I mean there is a positive narrative building up because I think the acceptance that Q2 was temporary is quite widespread right now. And that is what is building optimism for us as well.

Gunjan: Okay. Got it. That was quite useful. And when you say -- when you look at the 0% to 3%, which you mentioned, I mean are we confident that we'll actually end the year at a low single-digit growth -- is that something...?

Shenu Agarwal: Like I mentioned that is ICRA's estimate, right? So I mean what we are thinking is that we definitely see some positive momentum on the ground. And we'll wait to see how it turns into volumes, positive momentum on volumes. But I think at the worst, we are not seeing any degrowth in H2, I would say.

Gunjan: But degrowth for full year or degrowth in H2?

Shenu Agarwal: Degrowth for H2, we are not seeing. So we are seeing at a minimum, H2 should be kind of flattish, if not positive, like what ICRA is saying.

Gunjan: Which would still mean that on full year basis, we'll be negative, right? Because first half...

Shenu Agarwal: H1 has been only 2% negative, right? So we are talking about like 1% or 2% here or there. And you know that the H2 industry is far more than H1, right? So I mean you can do the math, but we are quite hopeful that H2 would turn out to be good.

Gunjan: Okay. Got it. My second question is on the margins. Clearly, commendable delivery there and consistently for last many quarters now. If you can just share some colour on the gross margin improvement that we've seen in this quarter. What are the key variables driving this in terms of commodities, mix, et cetera? And how should we be thinking about this going into the second half? Are there any tailwinds beyond operating leverage that we should keep in mind for second half?

Shenu Agarwal: So Gunjan, I mean we are not doing anything different really. I mean 1.5 years back, we went to the market and we told that our goal is sustainable profitable growth. And that is what we have been doing all along. There's nothing different we have done. I mean the levers that we had explained in that analyst meet are the same levers we are addressing, whether it is trying to get more realization out of our products on the back of strengths we are building in the product or it is addressing the various cost opportunities that we have inside, whether in terms of product cost or in terms of any of the overhead costs.

We are also trying to grow our non-MHCV businesses, some of these are really very high-margin businesses like defense, aftermarket and even international operations. So that is the focus. I think the team is very, very focused on what has to be done. And this is what the Q2 results are also showing. Despite a 9% drop on the top line, which was driven mainly by the industry drop, we have still been able to post a 12% growth in our PAT even if we exclude the exceptional items.

Gunjan: Sir, can you give a quantum as to how much was the commodity tailwind, metals tailwind per se on a quarter-on-quarter basis and also percentage of non-vehicle business that is high-margin business that you typically call out, some -- how has that moved maybe from last quarter to this quarter?

K. M. Balaji: See, Gunjan. Balaji here. There has been a considerable softening which has happened on the prices of steel flat steel, proprietary steel, all these have gone down by about INR2.5 per kg So all these have got translated to 0.5% margin reduction.

And similarly, on the cost reduction initiatives, just like what we did in last 2 years, as our MD was indicating, we are not doing anything different. The same levers we have used and the cost reduction exercise is continuous. And it has also continued for the current financial year with a higher target. And all these targets are materializing and we have got additional 0.5% from that. So all these are getting translated to a 1% reduction on the material cost, which you are seeing.

Moderator: The next question is from the line of Chandramouli Muthiah from Goldman Sachs.

Chandramouli Muthiah: My first question is just trying to understand the back half of this year and the base effects from last year. I think in the December quarter, we had 4 to 5 state elections last year. This year, it doesn't seem to be recurring.

Also in the March quarter, which is seasonally stronger, I think last year, there was pre-general election sort of factors, which maybe subdued the base. So just trying to understand at the current run rate of demand that we are heading into, maybe the seasonally stronger back half, how do you think about the base effects? And is that supportive for potential outperformance on growth going forward?

Shenu Agarwal: Yes. Chandramouli, thank you for the question. Yes, I agree, we think that base effect is also going to help the industry in some way. Like you rightly said, December, we had some disruptions in some of the markets because of elections, state elections. And then March, quarter 4 was not particularly as good. I mean it had a negative growth, substantial negative growth last year in quarter 4. So we are sitting on a kind of a lower base.

Now in comparison to this, if you look at April-October last year, we had a considerable growth, right, in the MHCV industries. So things turned around like around November because of the reasons that you have stated. And therefore, this base effect should help going forward.

Chandramouli Muthiah: Got it, that's helpful. My second question is just around the mandatory AC cabin norms. So just trying to understand that slightly better across MHCV and LCV, if you could just give us some colour on presently, what is the share of vehicles, the vehicles that you sell that already is air conditioned on the cabins, LCV and CV? And also, by what time would this potentially become 100%? And if so, what is the kind of ASP delta on non-AC vehicles versus AC vehicles on your fleet?

Shenu Agarwal: Yes, it's not going to be a considerable point as far as the impact is concerned because the additional delta cost that we are looking at is marginal, So it's not going to be anything significant. Yes, it will impact about, I would say, 80% of the new sales because only 10% to 20% depending on the segment of the current sales comes with AC. But since the cost impact is not that high, it should not have any significant impact.

I think as far as I remember, the regulation is becoming effective from June 1st or 2nd week of next year.

Moderator: The next question is from the line of Raghunandhan N. L. from Nuvama Research.

Raghunandhan N. L: Sir, firstly, on the non-vehicle business, power solutions and spares have done well. How do you see the outlook ahead for the non-vehicle business and if you can also talk a bit about the defense outlook?

Shenu Agarwal: Okay. So let me start with defense, and I'll ask Balaji to also pitch in. On the defense side, you know that last year was a damn good year for us. We had more than doubled our top line on defense. And I'm happy to say, even in H1, we have almost doubled our defense top line. So like we had been saying earlier that we have a very strong pipeline of orders and also our future visibility of orders as far as defense is concerned.

So I think we'll be performing quite well, not just this year but also in the years ahead on the defense side. On power solutions, although the H1 has not optically posted, we have posted a huge growth. Actually, the volume growth has been slightly negative. But we were expecting that because last year, you would recall that in H1, there was a lot of pre-buy because of the emission norms. And therefore, we were expecting kind of a slight de-growth in PSB volumes this year.

But H2 outlook is very, very strong on PSB. And overall, for the year, I think we will do very, very well. We have already taken a very aspirational target as far as PSB is concerned and I'm very hopeful that we will be able to deliver on that. On the aftermarket side, we are continuously growing at about 15%. In H1 also, we have grown, I think, by 14% or so. This is a business which has a lot of future potential. And therefore, we will continue to tap that potential as well.

Lastly, on the international business, which is also a higher-margin business for us, we have done fairly good despite all the geopolitical challenges in several parts of the world. Although the SAARC market is way down and continues to be down, but we have done really well in our other markets, which are GCC, Africa.

We have also made an entry into Southeast Asia now, like we told you earlier that this would be our next attempt to expand geographically. So overall, we are doing very well on international operations. And I think I can go ahead and tell you that most probably, this year would be our best year ever as far as the international business is concerned.

Raghunandhan N. L: And on the -- just a clarification. On the export side, you had earlier indicated that efforts will remain that the share will continue to increase in the overall revenues. How do you see it 2, 3 years down the line?

Shenu Agarwal: See, the intention is to substantially grow our export volume. So in the long term, I would say that our aspiration is to deliver more than 50,000 units of exports volume from the company. So, you can do the math and figure out that at that level exports would be substantial. But definitely, we have to build it up. Exports is not that easy as you are all aware, although we have a lot of strengths because Ashok Leyland was one company that created different home bases in different parts of the world.

For example, like in UAE, we have a factory that is there for many, many years, and that gives us a huge advantage in terms of building a local brand that is valued by the customers and also gives us some preference in doing business in those markets. But yes, we are very focused on hitting this long-term target. We are investing a lot in new development of products as well as we are entering into new markets of our choice. So if we continue to do well here on these 2 fronts, I am quite confident that we should be doing well year-on-year on exports.

Raghunandhan N. L: And how do you see the support to electrification from PM E-DRIVE scheme and payment security mechanism? I understand that you have 2,000 pending orders in buses and you also indicated 180 orders for electric trucks.

Shenu Agarwal: Yes. Raghu, that's right. I mean optimism on the EV bus side is building every day. The government also is coming up with a lot of positive statements as far as electrification of public transport is concerned. And Switch is very well-positioned along with OHM to be able to participate and lead this whole journey in the country. Our focus in Switch has been to create the best of the products.

And we have for that have been running this company on a very tight leash. The only money that we were really spending was in product development and the entire focus was there. Like I said in my opening statement, we have come up with a completely new product, which is a 12-

meter ultra-low floor bus, which we will be delivering to Delhi and Bangalore very soon, yes. And so, I mean we are quite happy with the progress actually that Switch and OHM are doing.

And we are also positive that Switch, if not in quarter 4 of this year, by quarter 1 or quarter 2 of next year, should be also EBITDA positive. I'm talking about Switch India. So yes, I mean we have this order book. We are producing. We are ramping up our production of electric buses. We do hope that we will complete this huge order that we have in the next 12 to 15 months.

Raghunandhan N. L: Great, sir. Good to hear that. And lastly, Balaji, sir, if you can share the tax rate we can work for the year? Yes, I'll fall back in the queue.

Moderator: The next question is from the line of Amit Hiranandani from SMIFS Limited.

Amit Hiranandani: Congrats, team, for good operational performance in this tough environment. Sir, based on our on-ground checks, the replacement demand is not that significantly growing as per the estimates. So can you please share your findings and views on the same?

Shenu Agarwal: Yes, Amit, thank you for the question. I mean if you are referring to Q2, I would agree with you that there has been a kind of pushback on the replacement demand because of all these factors that I had earlier mentioned about monsoon and the slow takeoff in the government capex, et cetera. But you know and we have discussed this before that we are at the maximum aging of our current fleet in this country, right?

And this number has passed even, I think, 10 or 10.5 years now. And historically, this number has been close to 7, 7.5. So as soon as I think the environment becomes more positive, which we hope it will starting November, I think you will see a lot of that replacement demand coming back.

Amit Hiranandani: All right. And sir, how was the discounting situation in Q2 vis-a-vis Q1? And sir, would you be comfortable in sharing the average discount number for Q1 and Q2?

K. M. Balaji: No. Amit, we don't normally look at the discounts and monitor the discounts per se separately. We look at what we call it as the net sales realization, which is after reducing the discounts. So we don't monitor and we don't share the discount number separately. But generally speaking, the competition intensity, I would say, is similar to what it has been in the past. I wouldn't say it has grown or it has reduced. And you know we do a lot of CV business, especially on the MHCV side, with large fleet buyers. And therefore, the situation may be different from one deal to another.

But as far as Ashok Leyland is concerned, as we have said in the past as well, we have a certain threshold internally, below which we will never go even if we have to lose a deal. So that philosophy is very, very clear. We are not going to use discounts as a tool to gain market share. Market share has to come through our fundamental strengths that we will develop over time. So focus, clearly, is on profitable growth. It's not on buying market share.

Amit Hiranandani: Sir, additionally, have there any -- have you taken any kind of price increases in Q2 and so far in October and November?

K. M. Balaji: See, it is a continuous ongoing process, Amit. Although in a structured way, if you ask me whether we have done it by way of price circular, we have not done that. But if you ask me whether there is an attempt which has been done, we keep attempting by way of reduction of the discounts on every month whereby we increase our average selling price or as we call it net sales realization.

This, we keep doing every month. We look at the opportunities, we look at the geographies, we look at the models. Then we appropriately price and then we try and get the realization. One of the main levers which we have been indicating, which we have indicated about 1.5 years back is also that recovery, higher recovery from the customers, which we keep doing.

Shenu Agarwal: Amit, just to add another element that we are quite focused on is to look at what kind of mix we want to sell because we have a very wide product portfolio starting from -- I'm talking about MHCV -- starting from 19 ton and going up to 55 ton. So we keep a very sharp eye on the mix. Of course, some of it depends on how the industry is moving. But as far as possible, we try to sell higher-margin products.

Another thing is that whenever we launch or we come up with new products or variants, we try to maximize margins on those because they always come up with some new technology or new feature that supposedly customer values more.

Moderator: The next question is from the line of Pramod Kumar from UBS.

Pramod Kumar: Shenu, first question to you, sir, on the demand. We've been optimistic about demand. But hypothetically, let's assume the demand doesn't kind of recover that well. Then what is the plan? Because we are currently prioritizing profitable growth. But in the context where industry starts underperforming expectations, so what will be the -- will we continue to prioritize profitability over market share and at the expense of operating leverage?

So I'm just trying to understand this because the margins ae pretty solid, given the industry performance and what your peers have performed in terms of profitability, no doubt about that. But I just was wondering how long will we kind of prioritize margins over volume? Because at the end of the day, losing a customer is not a great thing and winning them back is normally not that easy either.

So if you can just help us understand this, how long will we kind of continue with the strategy? And if push comes to shove, if volumes don't recover, could there be a rethink? Because that is something which has been in the mind of a lot of investors. And volume is something which is quite important for even investors from -- for the company's growth. So I'm just trying to understand how are you thinking about this from your position, sir?

Shenu Agarwal: Yes. Pramod, just to clarify. I mean while we make that statement, we do realize that we have to participate in the market. We have to participate in all the deals. And therefore, I said there is a threshold that we have, below which we will not go because it just doesn't make sense to get volume at that kind of pricing or that kind of a margin

So that threshold, of course, we do it smartly. I mean it's not like something always fixed. That threshold also is dynamic. We look at other factors, of course, as to how business is doing, other commodities are doing, other businesses are doing, and then we dynamically kind of look at that threshold.

But my point is not to be taken literally, but saying that directionally, that is the thought, that we are not going to sacrifice margin beyond a point to just gain market share because we have always believed and we have always seen that such market share increases are so temporary in nature.

If you want to buy them, it is like super easy to lose it all over again if you just don't stick to the price. And once you drop the price below a certain level, it is almost impossible to raise it back in. So I mean we all know all these things? But the main point is that sticking to some kind of a policy, some kind of a direction I think Ashok Leyland is very, very disciplined on that now.

The second thing I would say is that what we have done over the last few years, not just recently, is also we had looked at lowering our breakeven. So if you just, you have the numbers, compare Ashok Leyland of 5 or 7 years back and you compare it with Ashok Leyland of today, you will see that the breakeven has really, really been lowered to very low numbers now.

One proof of that is in Q2, you would have seen that our top line has degrown by 9%, but our PAT has still grown by 12% even if I exclude all the exceptional items. So this is a proof of the pudding that what we are saying.

So on one side, we want to make us foolproof against any downturns in the market. But on the other side, we are very hopeful that the market has -- still has a lot of steam in it and markets should continue to grow.

Pramod Kumar: Okay. And on that note, Shenu, I think I have to compliment Balaji and the team and yourself for the kind of cost control. I think it's unprecedented the kind of cost controls what we've seen here over the years, actually. And in that sense, is it true for you and the industry also that even in a not-so-great volume scenario, the industry profitability has clearly moved to a higher trajectory?

And also, at the same time, has the volatility or the up cycle, down cycle, the fluctuations have also kind of moderated reasonably? Is that a fair assessment? Or it's still too early to call, Shenu, for the -- as an industry?

Shenu Agarwal: Yes, that is what we tend to believe. We believe even if there would be downturns in future at any given point in time, I think the extent of the fall or the extent of the rise would not be as steep as it has been there historically.

I mean the country is much more better in all different ways now. Country is much more stable. I mean gone are those days where something would happen globally and India would be just reeling and there are lots of pressures.

So we all understand that. And that phenomena is a direct impact on how CV industry should behave in the future. I mean nothing can be said with certainty, but at least that is what our assessment is right now.

Pramod Kumar: And sir, final question on LCV as a category. Some of your peers have called out the reasonable recovery what they see in the CV category. So what are you seeing, especially in the last-mile mobility segment? And how are our launch plans there? Because that is one segment where we are underrepresented.

So -- and then there's potential for market share. So if you can just talk more about the LCV categories, what's happening on the ground, like what you talked about there MHCV utilization rates and others and also your plans for this particular segment, sir.

Shenu Agarwal: See, Pramod, we don't want to -- we don't like to talk so much about the LCV industry as I think you should ask our peers more about it. And the reason, I'll tell you why. Because see, one thing is that we are addressing only 50% of the LCV market right now. We have already stated many times publicly as well that we want to achieve about 80%, 85% participation of the LCV industry. So all these product launches that you see, they are actually a step in that direction.

Of course, this will happen over a few years, not immediately. But not just this year, even in the next few years, you will continue to see a lot of launches from Ashok Leyland in the LCV. The only reason is because we think there is quite a headroom there for us to grow. So that is one. The other thing is although we are now number 2 player in 2 to 3.5-ton category, we are the newest entrant in this LCV business. We started only 11, 12 years ago and now being number 2 is a moment of pride for us.

But also if you look at that 20% market share, actually, we are quite lopsided in our presence. South, if you see, we have many markets, many states, many regions where our market share is as high as 35%, 40%. And if you look at some of the regions in the north or the east or the center, we still have single digit. Yes, so we are not too much concerned about the market movement.

Although we are very optimistic that this LCV has even a higher potential to grow in future than MHCV in terms of volume growth because of last mile, because of rural penetration and all that. But our focus is just to get a better share of this market, both on the geographical expansion side and also how we can come up with a more wider and better product portfolio.

Moderator: The next question is from the line of Amyn Pirani from JPMorgan.

Amyn Pirani: Actually, the first question is on the point that you mentioned about Hinduja Leyland Finance. You mentioned that you expect it to complete by 1H of FY -- 1Q FY '26. Now I just wanted to understand if this process has been delayed quite a bit. So is there anything which is delaying the process specifically? Also, since you had tried to do an IPO several years back, but then you changed your plan, given the kind of market that we've had in terms of new issues being subscribed, is there a rethink that you can have?

Or now you are sticking to that original plan? And if yes, then what is causing these significant delays in the process?

Dheeraj Hinduja: If I can answer that, Dheeraj here. The delays have really predominantly been in just the normal regulatory approvals and nothing more than that. There is no change in the plan. We will go ahead with this. We have -- we are going by based on the indications that have been given. So there are regulatory approvals coming from RBI on, of course, the listing as well. But nothing more than that.

I think we are quite optimistic in terms of the company, its performance. We don't feel that the true value of the company is captured today in Ashok Leyland. And I think once this does get listed through the reverse merger route, there will be a better appreciation of the company and its performance.

Amyn Pirani: That's good to know. So is there any broad update that we can have on a first half basis with respect to maybe what is the book size? What's the PBT? Is there any asset quality? And you also mentioned that you haven't invested any money in the subsidiary in first half, but some investments would be required in the second half. So any broad indication as to what that investment could be for Hinduja Leyland Finance and probably for the other businesses?

Dheeraj Hinduja: Balaji, you have the details with you?

K. M. Balaji: Yes. I have the details and I'll share. The assets under management for Hinduja Leyland Finance alone is about INR42,000 crores. And the housing finance is around INR12,500 crores. So both put together, the size is INR54,500 crores. That's the size. And we are talking about the profitability. Revenue is about INR2,900 crores, INR3,000 crores, and profit is around INR350 crores for H1 FY25.

Dheeraj Hinduja: Investment in H2.

K. M. Balaji: And regarding the investments in H2, we might have to invest some towards the share capital of Hinduja Leyland Finance. We will know as we progress during the financial year depending on their requirement as well as on the capital adequacy ratio. We may have to fund, but it will not be very substantial amount. It could be around -- in my estimate, it could be around INR200 crores to INR250 crores equity inclusion, which may happen.

Amyn Pirani: Okay. And any broad number for either Switch or OHM?

Dheeraj Hinduja: You mean in terms of investment?

Amyn Pirani: Yes, in terms of investments in the second half.

K. M. Balaji: Okay. So that number, we are still trying to see how it pans out, but rough estimates would be about below INR500 crores.

Shenu Agarwal: 350 to 500.

K. M. Balaji: Yes, below 500.

Moderator: The next question is from the line of Pramod Amthe from InCred Equities.

Pramod Amthe: So this is with regard to the EV trucks, which you have launched. Wanted to know what use cases you are trying to target? And what's the IRR and the customers looking at per se? First. And second, if you have to look at it in the medium term, 3 to 5 years, in those subsegments where you're trying user case, whatever penetrations you are looking from your product?

Shenu Agarwal: Yes. So see, one thing we have to just keep in mind that these are very initial stage for electrification of trucks. So we are also, like many others, we are also exploring all these issues that you have been asking. Of course, the TCO right now of the electric truck is not so favourable as compared to diesel. But in future, we all hope that this will not be the case.

Now as far as the real application is concerned, other data that is important for the customer to understand, I think the whole industry is kind of in the same boat. So it would be difficult to answer that question. I would just say that this is very initial stage, and we are all kind of trying to understand this whole ecosystem of electrification of trucks.

Pramod Amthe: And the second question is with regard to the LCV portfolio expansion. In the last analyst meet, you had talked about a smaller LCV to come through. Any timelines for the same?

Shenu Agarwal: No, no. We don't have any timelines right now. We are still working on the proposal. It's not an easy one, as I have always been saying. We have an established competitor in that space, which have been there for more than 2 decades. And therefore, for us to find the right differentiation and to find the right commercial value proposition for the market is going to take some time. But we are actively working on it.

Moderator: The next question is from the line of Kumar Rakesh from BNP.

Kumar Rakesh: My first question was on the second half demand outlook, which you spoke about, that you are hopeful that we should see a better growth. But you talked about multiple drivers which you think could play out, but have you started seeing on the ground any of those drivers to start changing?

Because in the first half as the utilization seems to be reasonably okay although the government spending was not there, which you spoke about, and also the cash outflow from the government was restricted. So have you started any movement to happen in any of those fronts between last month to this month?

Shenu Agarwal: Yes, Kumar, like I said, the biggest indicator of the on-ground sentiment or on-ground development is the fleet utilization. If the fleet utilization gets above 85%, 90%, that triggers a lot of people to go for new vehicles. So if you read the October data, it also -- it already indicates that at a country average level, the fleet utilization is quite high, right? So that is the biggest positive that we can see.

Kumar Rakesh: Great. My second question was on the bus segment. So that is one segment which has definitely been seeing much stronger growth while other segments have been struggling. So what is driving that growth? Is it STAs upgrading their buses across the state and you see that to continue in the second half or beyond that as well? And we have also gained market share in the bus segment. So what is helping us to gain market share? What is different that we are doing in the bus now?

Shenu Agarwal: Listen, I mean bus is going to be, I think, more longer story. Yes, there was a lot of pent-up demand in the market and also lot of governments want to provide really better services as far as public transport is concerned. So all that is really going to drive, and many state governments are now finding ways to raise the right kind of money to be investing in this. So all that is coming together.

And even on the private side after COVID, there is a lot of pent-up demand in both school staff and even in intercity kind of applications. So this bus story is going to be there for more time. Now coming to Ashok Leyland, we have always been considered the best in the buses, MHCV buses, because of our long solid reputation, not just on the side of building good, affordable products, but also the way we can service these.

So of course, that is there. But recently, if you see, we have put out some fantastic models in the market. Last year, we launched a 13.5-meter bus and we were the first one to do so in the country. And now we are readying to launch another bus where we'll be the first one again, which will be a 15-meter front engine bus competing in the high end of intercity movement. So that would be also something which we are looking forward to, although the launch will not be this year, it will be next year.

And then on the ICV bus side where we have a relatively lower market share, that also we are transforming our entire product portfolio. In some of the products there, we had an issue of performance. And in some other segments, we had an issue on the way the buses were built in terms of their commercial proposition. So we have been able to address all of that mostly, I would say.

The rest will continue. And therefore, we do expect to actually retain, I would say, market share on the bigger buses, but gain market share on the smaller buses now going forward.

Moderator: The next question is from the line of Kapil Singh from Nomura.

Kapil Singh: I had a question on Switch. We have an order book of about 2,000. Over what period are we expecting to deliver this? And when you talk of EBITDA breakeven, what kind of volume levels will the company need to do for that EBITDA breakeven on a quarterly basis or annual basis? Also, does the breakeven include the PLI benefit or it doesn't?

Shenu Agarwal: Yes, Kapil. So this order book of 2,000 that we have in hand, we hope that we will be able to complete in about 15 months of time. We are trying for earlier, but I think at the current visibility level, it looks like it will take 15 months or so. So that is one. The other thing is that breakeven that we are trying to establish would actually -- should actually happen at the current level of volumes, yes? With the higher volumes, we will be looking forward to have even a PAT-level breakeven.

And ultimately, our aim is to create self-sufficient Switch, Switch India over next 2 to 3 years. So that it does not have to depend or need any external investments. So yes, we are -- like I said, we are reasonably happy with the way Switch is progressing. And financial numbers is one thing, but also what is, I think, more important for a medium and long term is the investments we are making in the product development on Switch. I mean we have heard a lot of good things about Switch buses.

I mean today, also I met somebody from Bombay and they were really praising the fit and finish and the overall styling and comfort of the Switch double-decker bus in Mumbai. So that is what makes us happy more than the numbers.

Kapil Singh: And sir the...

Shenu Agarwal: As far as PLI is concerned, we have not taken care -- we have not taken any benefits of PLI scheme in account yet.

Kapil Singh: Okay. So that will be over and above this EBITDA breakeven?

Shenu Agarwal: Yes.

Kapil Singh: Okay. And does Ashok Leyland standalone have any revenues from Switch or it doesn't?

Shenu Agarwal: Revenues from Switch? No, nothing.

Kapil Singh: Okay. All right. The second question is on OHM. Do you see this as a new revenue stream? And what kind of profitability in a steady state can this business generate? And also in terms of funding requirements, what are your thoughts here? Just some broad thoughts here will help.

Shenu Agarwal: Yes, just to clarify on your previous point, we do some work for Switch, because we don't want to kind of duplicate some of the investments we have made, we don't want to create some of the facilities. So there is some revenue, yes, but very small right now and that is insignificant. It's basically the conversion cost of some of the buses and LCVs that we are building for them.

As far as OHM is concerned, this is a relatively new company. In last year, we had put in an equity of INR300 crores and basis that, we have a potential to raise, let us say, about INR900 crores to INR1,000 crores of debt in that company. So that makes it about INR1,200 crores to INR1,300 crores in terms of capital available to invest in E-MaaS business.

So right now, we are fine. I mean they have just won an order of 300 buses from Bangalore, which we are in the process of developing and delivering. They have also recently won an order of 500 buses from MTC, yes. So right now, I think the capital is enough. I mean if some more capital required, we will put in some more money.

But at the same time, as far as OHM is concerned, we will also look at any external investments when required.

Kapil Singh: Sir, is it a profitable business? Or any colour on ROCEs or margins in steady state for this kind of business that you may have with that?

K. M. Balaji: Kapil, it is too early to talk about the ROCE about this business. That is slowly evolving, and it will take time for us to give you the numbers on the ROCE and the profitability.

Kapil Singh: Understood. Sir, just a last housekeeping question. If you could give overall targets for both capex and investments for full year FY '25, that will be great.

K. M. Balaji: Our capex, we would like to stick to that INR750 crores of capex, which we have indicated earlier, INR800 crores max, which we'll be sticking to those numbers. And on the investment side, we have spoken about it. As of now, there's not much of a requirement of investments in associated companies. But in the second half, at the various points of time in this call, we have indicated. One is on the Hinduja Leyland Finance side, we said that we may have to invest INR200 crores, INR250 crores. And if need be, we may have to make necessary investments in associate / subsidiaries to the extent of INR500 crores to INR750 crores in the maximum situation.

Moderator: Thank you very much. Due to time constraints, we will take that as the last question. I now hand the conference over to the management for closing comments.

Shenu Agarwal: So thank you, everyone, for joining us on this call. The only thing in the closing comments I would like to say is that we are very, very focused and very disciplined on our path that we had chosen and that we had shared with you about 1.5 years back. And we will put -- we are putting in all the efforts to reach those mid-term goals that we have set for ourselves. Thank you very much for supporting Ashok.

Moderator: Thank you very much, sir. On behalf of Avendus Spark, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Shenu Agarwal: Thank you.

Moderator: Thank you.