

November 18, 2022

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

BSE Limited  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai - 400 001

Scrip Code: ASHOKLEY

Stock Symbol: 500477

Through: NEAPS

Through: BSE Listing Centre

Dear Sirs/Madam,

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 transcripts of the Company's Analyst Call held on November 11, 2022 to discuss the financial results for the quarter and half-year ended September 30, 2022.

We request you to take the above on record.

Yours faithfully,  
for ASHOK LEYLAND LIMITED

N Ramanathan  
Company Secretary

Encl :a/a

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“Ashok Leyland Limited  
Q2 FY2023 Earnings Conference Call”

November 11, 2022



**ANALYST: MR. ANNAMALAI JAYARAJ - BATLIVALA & KARANI  
SECURITIES LIMITED**

**MANAGEMENT: MR. DHEERAJ G. HINDUJA – EXECUTIVE CHAIRMAN  
– ASHOK LEYLAND LIMITED  
MR. GOPAL MAHADEVAN – WHOLE TIME DIRECTOR  
& CFO – ASHOK LEYLAND LIMITED  
MR. K.M BALAJI – DEPUTY CHIEF FINANCIAL  
OFFICER – ASHOK LEYLAND LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to Ashok Leyland Limited 2Q FY2023 Post Results Conference Call hosted by Batlivala & Karani Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentations concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities. Thank you, and over to you, Sir.

**Annamalai Jayaraj:** Thanks, Vivian. Good afternoon, everyone. On behalf of B&K Securities, welcome to 2Q FY2023 post results conference call of Ashok Leyland Limited. I also take this opportunity to welcome the senior management team of Ashok Leyland Limited. We have with us today, Mr. Dheeraj G. Hinduja, Executive Chairman; Mr. Gopal Mahadevan, Whole Time Director and Chief Financial Officer; and Mr. K. M. Balaji, Deputy Chief Financial Officer. I will now invite Ashok Leyland management for the opening remarks to be followed by question-answer session. Over to you Sir!

**Dheeraj Hinduja:** Thank you. Good afternoon, ladies and gentlemen. It gives me immense pleasure to be in touch with you, and I thank you very much for the interest shown in Ashok Leyland. I will quickly run through Q2 performance as well as some of the latest developments. I am extremely happy to share that Q2 FY2023 continues to be good, aided by a strong performance in domestic truck sales with a 32% market share. This is almost a 10% increase over our market share during the same period last year. This is the third consecutive quarter of 30-plus % market share for Ashok Leyland.

In Q2, MHCV truck volumes have grown more than 1.5 times of the industry growth. AL growth at 102% versus TIV growth at 39%, resulting in Ashok Leyland market share improving to 32.3% as compared to 22.2% in Q2 of last year. Sequentially also, in Q2, AL’s MHCV truck market share has grown by 1.2%. Our market share has grown to 32.3% in Q2 from 31.1% in Q1. EBITDA for Q2 was at Rs.537 Crores, 6.5% as against Rs.135 Crores, which was 3% in Q2 last year.

LCV, which was on a growth phase, has been marginally impacted by semiconductor shortages, but for Q2 volume were still higher than last year by 28%. International operations sales have registered a 25% year-on-year growth in Q2. Q2 domestic aftermarket sales grew at 26% over the same period last year. The Q2 operating profit was at Rs.303 Crores as against a loss of Rs.116 Crores in Q2 of last year. Working capital has increased by about Rs.650 Crores during the quarter, primarily due to increase in activity levels.

Consequently, our net debt has increased by about Rs.400 Crores in this quarter. Debt equity is at 0.4 times versus 0.5 times during the same period last year. During the

quarter, we have launched 4825 tractors with H6 4 valve engines, AVTR 4220 and 4420 Tractor, 4120, 30 foot and 32-foot, Boss 1920, cargo 6x4 ready-mix concrete, 1920 with G45 FES expanding our range. I am extremely confident that with these launches and the continued expansion of network, we will sustain the market share gains achieved in the last 4 quarters. The growth in MHCV truck TIV and LCV trucks in Q2 is supported by the improved freight availability and growth in end user industries in addition to pent-up replacement demand.

Freight rates have held up, coupled with healthy freight availability supporting the fleet operator viability. Domestic commercial vehicle industry volumes to witness growth in FY2023 in line with economic recovery, post volume recovery in FY2022, FY2023 is set to register 22% to 24% year-on-year growth as per CRISIL though volumes will still be lower than the previous peak of FY2019. MHCV trucks are expected to grow by 21% to 23%, buses by 103% to 105%, and LCV truck by 18% to 20% as per CRISIL.

On a longer term, CRISIL expects commercial vehicle demand to grow at a robust 10% to 12% CAGR for a 5-year period between FY2022 and 2027. Historical data shows a high pace of revival in commercial vehicle demand in the past. Demand for CVs to remain robust in the long run. CRISIL expects bus segment to outperform in the long run over a low base. This will add to our volumes and market share as Ashok Leyland is the leader in buses historically.

With further demand growth, we are expecting pricing to become more rational. The softening of commodity prices, in particular, for steel should impact the margins positively in the coming quarter. Ashok Leyland, even while growing market share sequentially has been rising prices owing to higher input costs. What is good to see is that retention of such price increases is better.

LCV, both Dost and Bada Dost are gaining inroads and have been growing stronger by the day and volumes are limited by the availability of semiconductors. Both these products hold immense potential for exports and are a perfect fit in our addressable market.

Aftermarket and international businesses continue to perform well. We are also putting efforts in reducing costs, both product costs as well as overheads.

Switch, which is an important initiative for us, I would like to reiterate our commitments to developing Switch as a global electric vehicle company. So far, we have been successful in establishing a name and a platform as a credible EV manufacturer in the industry. You are already aware that in India, we are growing our sales pipeline quickly and delivering a competitive product range. In the U.K, and Europe, there is headroom for growth. Amidst challenging economic environment, we

are chalking out our plans to utilize these growth opportunities fully by placing higher-quality cost-effective product.

Regarding funding for Switch, we are in active discussions with investors, and it is taking longer than expected as we would like to choose the right partners.

Finally, before I open the floor for questions, let me share the financials in brief. Revenue for Q2 at Rs.8266 Crores, which is 85% higher than Q2 last year, manpower cost in Q2, is higher than previous quarter by Rs.82 Crores due to increment, bonus settlements and performance bonus provisions restatement. EBITDA is at Rs.537 Crores, which is 6.5% in Q2, up from Rs.135 Crores. Profit after tax after exception for the quarter was at Rs.199 Crores versus a loss of Rs.83 Crores in Q2 of FY2022. Operating working capital for Q2 was at Rs.490 Crores as against the negative of Rs.167 Crores as of June 2022. Increased activity levels have necessitated increased working capital during the quarter.

Net debt was at Rs.2677 Crores in September 2022 as against Rs.2281 Crores in June 2022. Debt equity at the end of the quarter was up 0.4 times. Capital expenditure for the quarter was at Rs.103 Crores. Cumulative spend for first half was at Rs.218 Crores. Capex spend for the full year is estimated to be Rs.600 Crores.

I now open the floor for questions. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pramod Kumar from UBS. Kindly proceed.

**Pramod Kumar:** Thanks a lot for the opportunity. Sir, my question is regarding some ICDs, which have cropped up again. Can you please help us understand why we are doing those and the rationale for continuing to lend within the group and we also have debt on the balance sheet. So if you can just explain that bit, please?

**Gopal Mahadevan:** This is actually a short-term loan that has been given to our own subsidiary Switch and nothing more than that. So the entire amount of Rs.200 Crores has been given to help them execute some of the orders that they are getting. Switch has got orders in place, the BMTC, the BEST, double-decker plus the existing orders. So that is what it has been given for. It has not been given for any other group companies. It is to our own subsidiary.

**Pramod Kumar:** But, I am just trying to understand the funding bit here because we have been talking about raising money at Switch for almost a year now. So what is the way out if you are able to find any private equity investor at your terms? I believe it is more about the terms and the restrictions which come with those funding, right? So is there a plan that you may think of eventually funding this yourself by raising equity at Leyland's level?

**Dheeraj Hinduja:** I think like you rightly said, there is interest in electric vehicles from many private equities and sovereign wealth funds as well. We have been delayed, as you point out, but we do feel that this delay one should not affect the long-term potential in this sector, and secondly, I think it is only right that we should get the right terms, conditions, valuations, etc. The EV sector globally, as you would have seen, has taken somewhat of a beating because many companies had raised capital at a substantial valuation. We have taken a very cautious approach. I think our business plan is very credible, and I would say that we do have opportunities of closing the funding, but I think it would be in the interest of all investors, stakeholders to ensure that we do tie up with the right partners.

**Pramod Kumar:** Related to it, and the last question, given the expected price inflation on the diesel vehicles because of Real Drive Emission (RDE) and the fact that CNG demand is now tapering off because of runaway CNG prices, so is there any timeline or thought process on accelerated rollout of EV, especially in the light tonnage categories because that is where the electrification is kind of picking up very rapidly. So Dheeraj, it would be great if you can just share your strategy here, if any timelines on a number of product launches or categories, which you would like to address using the EV format?

**Dheeraj Hinduja:** Yes. Actually, this is something we had spoken of last time as well. We will be launching the electric versions of the Dost and Bada Dost in the middle of 2023, and you are right, we see increased requirements from many courier companies, logistics companies within cities for last-mile delivery, they are asking for electric vehicles. But I do not feel that when you look at the overall volume between where diesel is today, let us say, between 400000 to 500000 LCVs, while the electric vehicles are making a headway, I still believe it is a long way until you really look at affecting the diesel market. So yes, there is growth. There is potential but I do feel that it will be a slow rise and it will be more a B2B business to begin with, rather than retail.

**Gopal Mahadevan:** Just to add to what Chairman said, we will be definitely there in a multi-player approach. So our investments in EV, which is why we are very, very careful about the investor that we want because this is a long-term play, whatever we see in the business today is what we are going to have in the future. So we have decided, like Chairman said that we would want to get the right kind of investors and rest assured that just as we have got on to the EV bus business and have been doing well, we have clear plans for LCV as well.

**Pramod Kumar:** Thanks a lot both of you. Best of luck. Thank you.

**Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Kindly proceed.

**Jinesh Gandhi:** My first question pertains to the pricing trend in the market. So you alluded to the fact that prices have been increased and retention has been better. So can you quantify that in terms of what kind of price increases we took in 2Q and 3Q up till date? And how are the trends on discount?

**Gopal Mahadevan:** In Q1, I think, we have been actually raising prices. I just wanted to give, if you look at our EBITDA in relation to the market, you would see improvement even though we are playing in the same field, right? And this has been because of a conscious effort of 2, 3 things. One is price increase, where in Q1, we did about 1.8%, 1.9%. In Q2, we did another 1%, and very recently, we have announced almost another 1.5% price increase. So we have been consistently raising prices, and we will continue to do that, but at the same time, if you notice, we were the only large player to have gained market share in Q2. We were the only player in MHCV to have gained market share. So this has come very, very astutely, and why this has come is also because, as you know, Chairman and I had mentioned in our previous calls, we have been refreshing the network very intelligently, bringing in partners who are confident of actually scaling up in some of the regions up in North, East, Central and West and I do not know whether you have noticed that again, not only have we grown significantly, not only have we raised prices, we have increased market share, and more importantly, we have increased market share in all geographies. North East, West, Central, South, we have actually increased market share all through. So this has been a very planned and systematic approach of growth instead of just looking at either market share or profitability. Like Chairman repeatedly says, we want to grow, certainly, we will grow, but we will grow profitably.

**Jinesh Gandhi:** Got it, and are you seeing discounts coming down or at least stabilizing given the demand environment in the CRM?

**Gopal Mahadevan:** It has been almost stable between Q1 and Q2. Marginal differences have been there. See what we are trying to do is to not participate in increasing it any further because you see one of the other points that I wanted to also share with you, which is another kind of force multiplier for us is the excellent performance of the AVTR range of products. So when we are meeting customers, the feedback on the product is not neutral. It is positive. People are extremely happy with the robustness of the performance of AVTR range of products, the mileage that some of these models are offering and which is why we are also able to get a slightly better realization. We had mentioned in 2020 that we will slowly start seeing the benefit of modularity and the technology that we are offering, and we are seeing that on the ground happening today. Hopefully, discounts will start coming off as the industry realizes that this has been an industry which has seen good cost increases from BS IV to BS VI and the steel price increases which have happened, which are now slowly coming off. So hopefully, we are expecting that discounts should square off now.

**Jinesh Gandhi:** Sure and there was a sharp increase in our staff cost on Y-o-Y and Q2 basis. Is there any one-off or just it is in line with the level of activity, which we had?

**Gopal Mahadevan:** We have internal plans for a bonus, which are performance linked. So we have actually kind of increased those provisions as well in the current quarter, and the second one, that has stepped up. We had taken a view in Q1, but we believe that things are getting better, and we wanted to ensure that we start providing for it in Q2 itself instead of waiting for Q4. We will make any adjustments that are required in Q4 depending on the achievement of the internal targets. The second bit that has happened is, obviously, our teams have been working hard over the last 2 years, even 3 years without any raises. So the leadership team felt strongly that we needed to give salary raises to employees this year because it has been nearly 3 years of hardship. The third one, which Chairman had mentioned in his opening comment, was also on the bonus settlement of workers that we needed to do. So that has also got accrued. One thing that we are very careful about which we are investing heavily in technology as well is improving manpower productivity and ensuring that we are not adding to manpower.

**Jinesh Gandhi:** Sure, and lastly, any indication of raw material cost influence in 2Q and what you expect in 3Q?

**Gopal Mahadevan:** So I will just give you a quick thing and Chairman, you may want to add also about the initiatives that we are doing on the procurement side from the strategic side of it. Steel prices approximately had risen by about Rs.5 a kg in Q1 and we actually saw almost Rs.10/kg decrease in Q2, Rs.5 vis-à-vis what existed on first of April, and then it came down by Rs.10 in Q2. It looks like prices are softening further, which is good for us, and we will continue to monitor this, but we are expecting that steel prices should continue to soften as we move in the second half as well. So now Chairman, would you also want to add about what we are doing on the manufacturing side.

**Dheeraj Hinduja:** I think the key thing is that margins need to keep improving and as Gopal mentioned, products are performing very well, and that is what is leading to the market share gain as well, but there are lot of initiatives internally where we are looking at cost reductions, again, as Gopal mentioned, improving productivity. Naturally, material costs, with the volumes increasing, the economies will start kicking in as well, hopefully, with some of our larger suppliers so we do feel going forward with the softening of some of the commodity prices, this should help as well and of course, with the LCV volumes, we do have an initiative, I mean, on the value engineering of the products itself. So all I can say is that in many, many initiatives going on internally by the senior team to ensure that margins on the product would be much healthier.

**Jinesh Gandhi:** Got it. Thanks, I will fall back in queue.



**Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura. Kindly proceed.

**Kapil Singh:** Thanks. Sir, I have two follow up, small ones. On the employee cost, are you saying that the Q2 level is what will sustain going ahead? Or is it the H1 level?

**Gopal Mahadevan:** I think what will happen is that it will be somewhere between Q1 and Q2. The reason is we did a catch-up in Q2, right? So Q2 has taken possibly the full impact of the catch-up that needed to be done. So we will see some softening in Q3. So the numbers will be somewhere in between Q1 and Q2.

**Kapil Singh:** Yes, and second, on the commodity costs, because the RM to sales have seen an improvement of about 100 bps or so, right?

**Gopal Mahadevan:** Yes. just wanted to say that the manpower cost absolute is what you look at it. The other thing is we are also expecting the growth in the industry, right? So we possibly will see growth in the top line as we move forward into Q3 and Q4. So when you look at a percentage to revenue, we believe that, that will actually likely be lower. I thought I would clarify that. Otherwise, absolute manpower cost is one part. Yes. Okay. Back to you!

**Kapil Singh:** Yes. So when I look at the raw material to sales, it has seen some drop nearly 100 bps, but you took our prices by 100 bps and you also mentioned that the steel price during the quarter came down by Rs.10, so I imagine the benefit should have been larger? Or are you carrying inventory, and therefore, you have not got the full benefit of that drop in steel price?

**Gopal Mahadevan:** I would have been disappointed if an intelligent person like you did not ask that question, but the point of view also has the answer for it. We have inventory of raw material, Work in Progress (WIP) and Finished Goods (FG). So that needs to be sold out, and that is one of the reasons why we have not seen, and see you must also remember another thing. While the team is pushing to a favorable mix, which is, you know this business the larger the vehicles we sell, the more is the margins, right? But as an industry, you will also see that ICV is catching up quite a bit. So we need to ensure 2, 3 things. We need to ensure that we are serving our customers for the entire suite of products they want. We have to ensure we are gaining market share equitably in all the regions. The third one is we also have to ensure improved profitability. So what has happened is the opening stock, which was there, obviously had to be sold out, and our guys in procurement side have to continue to peer into the future to see whether we need to buy more, should we defer purchases, etc. But at the end of it, in this quarter, you are not seeing the full benefit of it because of the opening stock. Possibly things will look better in Q3 and Q4, definitely.

**Kapil Singh:** Great, and sir, one question I had on the debt as well and Capex actually has along with that. So earlier, we used to talk about Capex being somewhere around Rs.1500 Crores and some investments of Rs.300 Crores, Rs.400 Crores as well. So when we look at the business going forward, what is the steady state of Capex and investment that we should look at, say, next 1 or 2 years? And also from a debt level perspective, there is some increase in working capital as well. How much of it do you think you could realize by reward by end of the year? And by when do you see yourself turning debt free?

**Dheeraj Hinduja:** We have never had Capex levels of Rs.1500 Crores, and I think going forward as well, as I mentioned, Rs.600 Crores is what we foresee for this year. Majority of the Capex that we have envisaged happened already with the AVTR, the BS VI, and so going forward, I would expect our Capex to be in that range of Rs.500 Crores to Rs.700 Crores because the product range is already in position and the incremental Capex that we move forward with will hold us well for the future product ranges as well. On the working capital, Gopal, would you like to comment.

**Gopal Mahadevan:** Yes. I would only mention one thing. While we will continue to endeavor to improve our working capital and the debt level positions, I think our working capital situation is not at all bad. The working capital situation is actually decent for the industry that we are in. What happens is when the market is growing like this, we need to keep some ammunition ready. So we keep our inventory levels slightly higher because if there is an upside in sale, we need to be able to kind of provide those volumes to the sales and marketing team, if there is a quick upside that comes in. The second is, as we mentioned, as the revenue numbers actually start going up, you will see that the receivables start to go up a bit because we are not getting back into cash and carry immediately. At the same time, I just want to kind of assure you at the senior leadership level, one, I mean, among the various metrics that we keep almost looking at on a daily basis, receivables and inventory is one of them, and we are ensuring that receivables are monitored efficiently. We have no concerns on that, but we need to ensure that we are paying out the rope to our dealer partners to actually make the sales in the market, and that has also helped. It has been a positive effect. The working capital that you are seeing has also been one of the reasons that has helped us in actually enhancing our market share. Having said that, we keep a close watch on cash, our debt, as Chairman had mentioned and Balaji had mentioned, our debt to equity is just 0.4 times and possibly by the end of the year if things go as planned. we would see a significant reduction in the debt levels. All of it, by the way, is only short term. We do not have any long and short-term mismatch as we keep our long-term funding separate and the short-term funding separate but you would see possibly that our debt levels will come off quite sharply by the end of the year if things go as planned.

**Kapil Singh:** Sir, this Rs.600 Crores includes the electrification Capex also? And what is the investment plan for next 1 or 2 years?

**Gopal Mahadevan:** Yes, I will just quickly share it and hand it over to the Chairman. As far as electrification Capex is concerned on the buses and the light commercial vehicles, all of that is housed under Switch. So this Rs.600 Crores does not include that. We have, as Chairman had mentioned, we are actively pursuing capital raise and possibly will share some news. But we are not factoring in any further support to Switch. But as far as Capex is concerned, we are now actually pared it down. If you remember, we had started the year with Rs.750 Crores. I think the team has come back and said that possibly, it is more a realistic number of Rs.600 Crores, but as on date, in the midpoint of the year, we are at Rs.214 Crores.

**Dheeraj Hinduja:** Yes. Just to add on. As we have said for Switch, the requirement over the next 2, 3 years is close to \$200 million to \$250 million and this would be for a range of buses and LCVs, and within the overall Capex since you asked about electric vehicles, Ashok Leyland would be looking at electrification of its truck range over the LCV range so the ICV and upward products that would fall within Ashok Leyland.

**Kapil Singh:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Amyn Pirani from JPMorgan. Kindly proceed.

**Amyn Pirani:** My first question was a clarification on the upcoming BS VI Phase 2 norm. So a, what is the kind of cost inflation you are anticipating? And b) is the implementation similar to what happened during BS IV to BS VI in the sense that will you have to clear all the inventory at the dealer end, which could lead to a few months of destocking and wholesale coming down? So if you can clarify that first?

**Gopal Mahadevan:** Let me clarify the latter part of it first. I will say one thing here, this is not stuffing the pipeline, and we have said that in the past. So we never stuffed the pipeline. Stuffing the pipeline happens when your wholesale inventory is more, where the retail sales are lower than the wholesale sales, right? In our case, the retail sales will be equal to wholesale sales. In sum, really, the retail sales are more than the wholesale sales, which causes a concern for us. Because then what happens is there is no sufficient inventory in the pipe and you see the other thing that has happened, while we are looking at this, the working capital has also gone up, why because earlier, we used to have regional centers for distribution. So suppose a dealer wants a vehicle, all you had to do was to ask the regional center and then the vehicle will be shipped almost overnight to him for him to make the sale. We used to carry the inventory not on their behalf, but we had a distribution which was different pre-GST. Post-GST, what has happened is, if you look at the overall cost benefit analysis, we, at some point in time, had said that no, we will

actually close most of the regional centers and actually start selling to the dealers from the factory, which means there is almost at any point in time, there is an 8- to 10-day of vehicles in transit to the dealers, which is to the account because you are cutting an invoice, right? That adds to the inventory, which is shown as receivable, actually, it goes to receivable part. The second part of it is the dealer also stocks up a bit because he is not sure about the immediate serving of the requirement given the distance that is there. What we are doing now is having seen the efficiencies that GST has brought in, we are really looking at whether we should have central distribution point. So that will help to keep the working capital more in inventory than receivable because once you cut an invoice, then it goes into the dealer receivable. To answer your question, there is nothing that we have to worry about de-stuffing at the moment because our retail sales are same, if not higher than wholesale, and your first question was on the OBD2 requirement. We are working on this, but I think we will have to come back to you a little later on exactly what the cost impact is because we are working on options on this.

**Amyr Pirani:** And my second question is that the feedback that we are getting from the ground regarding, one of the reasons why our markets share has improved over the last 2 to 3 quarters, is that as your BS VI offering has ramped up and I think partly you answered it in the AVTR question also, it seems that you are able to offer a lower cost solution on the BS VI side. So first of all, I just wanted to get your sense, is that correct, and b, how have you been able to achieve that and how sustainable that is?

**Dheeraj Hinduja:** You are right. As customers increase the use of the AVTR product, they are recognizing that the total cost of ownership and the mileage that they are getting is much better than competitor products, and I think this is a result of the overall development that happened during the BS VI process itself, and you look at the consumption of not only the diesel, but the ad blue as well. So combined together, we are seeing much better economies of fluid consumption than the competitor products.

**Amyr Pirani:** Thanks for that I will come back in the queue.

**Moderator:** Thank you. The next question is from the line of Chirag Shah from Nuvama. Kindly proceed.

**Chirag Shah:** Sir, I have joined slightly late, so apology if I am repeating the question. Sir, anything on the defense revenue plus engine driven in the quarter and how it has moved sequentially Q1 versus Q2?

**K. M Balaji:** Defence revenue is around Rs.50 Crores per quarter.

**Gopal Mahadevan:** But just to share with you, the reason why it is happening is not because of any concern, this is a very government Ministry of Defense offtake driven business. So we

are expecting that the offtake will start in the second, third and fourth quarter, See, what we will do from the defense side, we are far more well positioned than we were 2 or 3 years ago because 3, 4 years ago, we had only the VFJ kits or the Stallion kits which were there. Now today, we have multiple products available, including the medium bullet-proof vehicles, light bullet-proof vehicles. We have got vehicles which will transport missiles. We have got vehicles where two of the large infrastructure providers, I cannot name them, have chosen Ashok Leyland as the vehicle which will carry the transportable bridges, the retractable bridges. So there is a lot of technology that has come in and both in armored and non-armored trucks. So once the government starts to make these orders, we believe that we are going to be pretty well positioned to serve it, and you will see a defense revenue actually getting better. Chairman, would you want to comment.

**Dheeraj Hinduja:** Yes, I was just going to add, as Gopal said, we do have a good order book, and the indications are that effective Q3 onwards, we should be able to start delivering. So you will see by the year-end, the defense volumes and revenues would be much, much higher.

**Chirag Shah:** Actually you answered second part of my question. Sir, my question also was that for the specialist products now as an industry, everybody has been waiting. Any update or clarity that is emerging that now these revenues will start flowing in? Our earlier expectation was somewhere in 2022 or 2023, the revenue from defense wherever you have seen technical approvals and trial runs have been done would start slowing in. Is it on course or there is any delay, any update if you can share, it would be helpful.

**Gopal Mahadevan:** I mean security across the parameter of the country is actually needed. The second bit of it is that the government has been tackling COVID and its aftermath over the last 2 years. So while they have been actually looking at defense, the procurement has not really started. Now what we have seen the recent announcements also is that the government has been talking about the defense preparedness of the country. But I mean, as a normal strategic initiative, I am not saying that there is anything to get worried about. But we believe that the procurement will start as Chairman has mentioned, we are expecting that the procurement will start happening. But these things are not something that we can predict so accurately. We can only predict a trend and we can continue to invest in the business, which investments are not very high, by the way. So what we are doing is we are offering various vehicles for applications and we are keeping it ready. We are getting it certified by the Ministry of Defense, and we are keeping our offerings ready. We have won the tenders also, but now we will have to wait for the offers to come. Obviously, the government will place these orders because otherwise, they would not have been floating these tenders in specs.

**Chirag Shah:** Yes, that is what we are trying to understand when can we expect that? Because I understand that it is to government and beyond the point, even you cannot guide on that. I believe that, Sir. Sir, second question just was on commodity, if I can just squeeze in. So if you look at our gross margin, and we saw synthetic raw material, if I use that, we are back to where we were in Q3. Now is commodity basket similar to Q3 levels for us, Q3 FY2022, I am referring to. Or it is more driven by mix? If you can help us understand that.

**Gopal Mahadevan:** So what do you mean by commodity basket?

**Chirag Shah:** The entire commodity, steel, aluminum plus some precious metals, whatever goes in making the vehicle. Because our gross margin as a percentage, Q3 was around 22%, and we are again at around 20% in Q2.

So what is driving this? Is it because commodity basket has gone back to the level or it is more of revenue mix, which is right?

**Gopal Mahadevan:** It is a mix of 3. There are 3 factors which actually will determine our margins, or maybe 4 factors. The first factor is commodity prices. If they are coming off sharply, then you will see the benefit of it coming in. But then the second thing is what is the level of inventory we carry not only in raw materials but also in WIP and FG. So in this industry, you will carry at least one or one and half months of inventory, not in absolute inventory, not in finished goods, but in various forms, including potential orders that we have placed with vendors, right? So that will happen, and in times of inflation, this also helps, right, we have seen that there is a lag in our commodity price increase. So this is the second factor. The third is, as Chairman had mentioned, the various initiatives that we are taking on value engineering (VE) across products to ensure that we are taking cost out of alternative material or design, etc. with a continued improvement initiative that happens, right? The fourth one, which you rightly said is mix. So there is a confluence of factors that determine the commodity cost. As I had mentioned earlier, we are looking at it on a vehicle wise basis. Are we improving the raw material cost? We are looking on a vehicle invoice basis, are we improving the net realization after discount. So while discount is one factor, we are saying, are we raising prices higher than the discounts to ensure that the net realization improves. While we are doing that, so on a vehicle platform basis, we are actually improving. What happens is if there is a mix change. I suppose we sell a little more ICV in a particular quarter. Obviously, the mix will have an effect, it is a confluence of all 4 factors.

**Chirag Shah:** Sir, lastly, on the industry volume growth, according to you, when does the base effect start kicking in? And what is the normalized kind of volume for industry you would be happy with for 2024?

**Gopal Mahadevan:** Sorry, can you repeat what did you say?

**Chirag Shah:** Base effect because as of now, we also had a favorable base for volumes. Hence, we are seeing a very accelerated volume growth. So from when the base effect of volumes starts ticking, especially for medium and heavy vehicles, and FY2024, what is the kind of volume growth that you would be happy with as of date? I know that number could change from here on. But as of date, what kind of volume growth is what you would be looking at for 2024 for industry?

**K. M. Balaji:** If you look at, if I may take that question, if you look at the last year, only Q1 was affected by the COVID, and Q2, there was a gradual increase in the total industry volume. In Q1, if I recall, TIV was around 30000 vehicles. In Q2, it was around 53000, and Q3 was 64000, and currently now, in the first two quarters, TIV has been at around 75000 to 80000 vehicles per quarter. This is the situation, then you can judge where we are with reference to the numbers which we have talked in the last year. So the base effect going forward may not be impacting in a bigger way. So the last year volumes, especially in Q4 was 94000, in Q3, it was 64000. So you will not see the base impact going forward in a big way. Over to you.

**Gopal Mahadevan:** The only thing that we are saying in reports here were in that at the end of this year as per forecast, the industry would be close to the previous peak, which was about 390000 or 395000, right? And it would not be at 395000. That is not what I am saying. But somewhere, maybe close to that, what it actually means is the demand maturity curve is actually catching up quite fast. The second one, we must remember is that the size of vehicles has also gone up in comparison to what it was in the past. We have a lot more 49 tonners, 40-plus tonners, etc., which is coming into the overall industry. I think we must also remember this is happening. You are right, and so is Balaji. That is a base effect in Q1 because last year, Q1 was very low. So we have seen that happening. You are also seeing that this quarter, again, the growth has been there, but not at the same high level in the Q1 period. So we should also be kind of clear that in the medium term, this industry is set to grow if the Indian economy is going to grow because there is a multiplier effect vis-à-vis the GDP growth that we are expecting in the country to happen, and that is how we should actually plan our model.

**Chirag Shah:** Thanks a lot sir and all the best.

**Moderator:** Thank you. The next question is from the line of Pramod Amthe from InCred Capital. Kindly proceed.

**Pramod Amthe:** This is with regard to working capital, sorry to repeat this considering that interest costs are going up. So it seems like almost like you added Rs.2000 Crores seem to the working capital side. How much of that is towards the raw material inventory and how much is towards finished goods.

**Gopal Mahadevan:** It is reasonably spread out between raw material, FG and receivables. The point is we do not provide that level of granular details. All we can tell you is that our working capital situation is very much under control. We have given you two data points. One is we are ensuring and we have always ensured that in Leyland is that our retail must be equal to wholesale or retail should be higher than wholesale. Maybe a one-off month may happen where we have kind of wholesaled a bit in the last day and the retail has not happened. But we keep track that we are not pushing vehicles into the dealership pipe. That is very important, right? The second thing is we also are ensuring that our receivables position is strong. We review the receivable position. We ensure that the collectability of the receivables is fine and the aging is fine, and of course, as we mentioned, we are keeping a little bit of inventory to ensure that we are ready to serve the market, because there can also miss sales, which is awful to have just because we did not have the inventory. But I do not think there is any concern on the inventory side that you should get worried about. Balaji, how many days of sales is a net working capital?

**K M Balaji:** Roughly 5 days of sales are in working capital

**Gopal Mahadevan:** It is not significant at all. It is just 5 days, yes. The networking capital.

**Pramod Amthe:** Yes. Gopal, I appreciate, especially you have been managing and year-end, you bring it back to literally a cash situation. The reason to ask is once you launch the AVTR platform, right, so there was supposed to be a lot of commonality of components and hence, mix and match can be much easily done and catered to the marketplace. That was supposed to be one of the key reason to go for a modular, and hence, the expectation that your working capital intensity should go down and whatever Rs.300 Crores, Rs.400 Crores you pay off in a year, should also come in as a handy for you to fight out in the marketplace. So has it been achieved? Or you feel there is still a long way to go?

**Gopal Mahadevan:** No, no, it is being achieved. It is not a long way to go. See, these things take time. It is a good question. AVTR was launched on April 2020. April 2021 was nothing. It was a complete washout. 2021-2022 first half was a total washout. So only now 2022-2023 second half, are we, see this also takes a little bit of time. So if you really look at the launch of AVTR and the fantastic performance that the range of products are having in the market, the real play on the ground has been less than a year. If you really look at it, that has been the thing when the volumes have started to be kind of flow down into the market. The second thing is you see AVTR brings in not only the raw material, you are right, we will have fewer number of vendors, which is happening. We will have fewer number of parts, which is definitely happening, and let me tell you this, while you have not asked it, the modularity will be a strategic advantage for us when we are actually looking at even alternative fuels like hydrogen. Because what happens is the basic



structure of the vehicle is, it is adaptable, without a cost or a significant cost. So you will see those benefits coming on the RM side or on the WIP side. But you cannot say that AVTR will result in lower FG or lower dealer stock because that is sales strategy. It is not a manufacturing strategy. So modularity is more manufacturing, quality and serving the customer with various options that are available and which is why, again, AVTR is doing well because today, we are able to offer vehicles that the customer needs more than what he wants. We tell him his needs on a hub application segment basis, and they are very happy with the solution that we are able to provide. Balaji, do you want to say something?

**K. Balaji:** Yes. On the working capital side, we also have to take a look at the falling material cost scenario. We cannot stock high, but at the same time, we cannot also run on a depleted stock levels. Depleted stock level will lead to loss of sales. At the same time, now, if we do a high stocking, then it becomes an issue, especially in the falling raw material price scenario. So we will have to be extremely careful, and it is being managed very well.

**Pramod Amthe:** Thanks for the detailed answer. Second one is with regard to the demand front. Considering that you are a very strong player in the tractor trailer segment, which caters specifically to the export import segment. There seems to be some weakness on the export front and that things are changing much faster on the weakness there. So how are you seeing the demand specifically to that segment and does have an implication for your product mix and profitability?

**Dheeraj Hinduja:** In the export market, as you correctly point out, there are certain challenges as a result of the global theme. But we are seeing, in fact, many of the Middle Eastern markets continues to report exceptionally well, and that is a segment that we are stronger, and we are also introducing new products into those markets. We have extended the network throughout the African continent as well. Over the last 6, 9 months, 15 new distributors have been appointed. So overall, we feel that we will end the year much better on the exports front than last year and volumes will continue to grow as a result of enhanced network and new distributors and many more products getting introduced for the export market as well.

**Pramod Amthe:** I was also looking for your tractor trailer segment, which has exposure to more of export goods or import goods to that extent.

**Dheeraj Hinduja:** Tractor trailer. You mean the demand for the track trailer in India?

**Pramod Amthe:** Yes, exactly because it caters to a lot of port traffic and export import traffic.

**Gopal Mahadevan:** It has been growing well, yes. I mean, that is why I said, we have been looking at it geographically and product-wise, also. So if you look at our tractor trailer segment, we

have actually looked at our market share there in that segment, approximately, I am giving you some numbers, has been about 10% percentage points more. We moved from somewhere around 18% to about 26%. We have been doing well, I mean across geographies.

**K. M. Balaji:** In fact, the overall share of tractor trailers in the overall MHCV segment, that has also gone up from 9% in 2021 to 13% now.

**Pramod Amthe:** Thanks and all the best.

**Moderator:** Thank you. The next question is from the line of Vipulkumar Shah from Sumangal Investments. Kindly proceed.

**Vipulkumar Shah:** Sir, what is the share of spares business in our revenue?

**K. M. Balaji:** Yes, spare parts revenue will be around 7% to 8%.

**Vipulkumar Shah:** 7% to 8%.

**K. M. Balaji:** 8% of the overall revenue.

**Vipulkumar Shah:** Thank you.

**Moderator:** Thank you. Due to time constraints, we will be taking the last question. It is from the line of Raghunandhan from Emkay Global. Kindly proceed.

**Raghunandhan NL:** Thank you sir for the opportunity. My first question was on tractor trailers. As you indicated that the company has been successful in gaining market share and slowly inching towards the 30% mark. Dealers indicate that Ashok's 4-cylinder vehicle has done well versus competitors' 6-cylinder vehicle. So just want to understand how do you see this market share gain trajectory because we used to have more than 40% share in FY2019. Do you see the recovery towards those levels?

**Gopal Mahadevan:** Yes, we will see. I mean, I am not too sure about the 4-cylinder, 6-cylinder that you mentioned. But certainly, all I can tell you is this predominantly across the spectrum of products. but certainly across all zones, we have been gaining market share in the current quarter, and we will continue to pursue that growth as we move forward. It is very difficult to say one segment one particular thing, whether we will continue to get a particular target like 40%. But certainly, we want to ensure that we are getting into a higher and higher presence in the market, which means we have to enhance, our broad strategy is this, instead of just talking about purely MHCV market share. Our broad strategy is to pursue domestic growth and share of business, but profitably. The second one is to grow our LCV business because LCV is a very, important across the world.

The third I mean, for export numbers elsewhere because globally, for every MHCV sold, we have about 3.5 to 4 light commercial vehicles sold. So it is a very important thing for us. The third one is also to ensure that we grow our international business. That is going to be very, very important. So we will pursue all 3 strategies.

**Raghunandhan NL:** On Hinduja Leyland Finance, so basically, the segmental results have been improving quarter-on-quarter and year-on-year. Can you talk about the trend in collection NPA, also the timeline for listing?

**Gopal Mahadevan:** Yes. You see as far as the listing is concerned, maybe I will ask...

**Dheeraj G Hinduja** Listing is expected, of course, based on all the regulatory approvals, probably around June of 2023.

**Gopal Mahadevan:** As far as Hinduja Leyland Finance is concerned, it is continuing to perform well. Its total AUM is around Rs.31700 Crores. It posted an income of Rs.1620 Crores and a PAT of Rs.215 Crores, approximately about 13%, and its GNPA is at about 6.3% and an NPA of about 4.4%. Numbers are pretty good and just as what the Chairman had mentioned about the IPO that we are looking at post the merger with the NXTDigital, which the company is looking at. The company has also already raised capital of nearly Rs.910 Crores from qualified institutional buyers. So there is no capital request now that will come up from HLFL to us. Secondly, they have sufficient capital for that growth, and you must remember that is another subsidiary called Hinduja Housing Finance, which is doing exceedingly well, growing very fast, and we also have another joint venture between both Ashok Leyland and Hinduja Leyland Finance, which is called as Gro where it is looking at solutions, both digital and financial, which we believe will be a multiplier effect for both our businesses, both for Hinduja Leyland Finance as a finance company and Ashok Leyland as OE. So the erstwhile solutions business of Ashok Leyland has been transferred to grow, and we have actually added some of the financial solutions, including freight financing, etc., into that, and you are going to hear a little more about that in the future.

**Raghunandhan NL:** Thank you Sir. Thanks for the detailed answer. That is all from my side.

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

**Dheeraj Hinduja:** I would like to thank everyone once again for your interest. As we said, we are very much on an upward trend in this industry. Our products continue to perform well across all segments. The market share has grown in each and every zone and new products will be introduced on a quarterly basis, and we do feel that the growth that we have seen in the first two quarters will continue going forward as well. Thank you very much.



*Ashok Leyland Limited*  
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**Gopal Mahadevan:** Thank you.

**Moderator:** Thank you. On behalf of Batlivala & Karani Securities, that concludes this conference.  
Thank you for joining us. You may now disconnect your lines.