



August 2, 2024

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SCRIP CODE: 500477

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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 July 26, 2024 to discuss the audited financial results for the quarter ended June 30, 2024.

Meeting start time - 4.00 p.m. IST

End time – 5.00 p.m. IST

We request you to take the above on record.

Thanking you,

Yours faithfully,
for ASHOK LEYLAND LIMITED

N Ramanathan
Company Secretary

Encl.: a/a

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HINDUJA GROUP



“Ashok Leyland Limited Q1 FY25 Earnings Conference Call”

July 26, 2024



BNP PARIBAS



MANAGEMENT: **MR. DHEERAJ G. HINDUJA – EXECUTIVE CHAIRMAN,
ASHOK LEYLAND LIMITED**
**MR. SHENU AGARWAL – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER, ASHOK LEYLAND
LIMITED**
**MR. KIDAMBI MANI BALAJI – CHIEF FINANCIAL
OFFICER, ASHOK LEYLAND LIMITED**

MODERATOR: **MR. KUMAR RAKESH – BNP PARIBAS SECURITIES
INDIA**

Moderator: Ladies and gentlemen, good day, and welcome to Ashok Leyland Q1 FY '25 Earnings Conference Call, hosted by BNP Paribas Securities.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kumar Rakesh from BNP Paribas. Thank you, and over to you, sir.

Kumar Rakesh: Thank you, Del. Good evening, everyone. On behalf of BNP Paribas Securities India, it is my pleasure to welcome all of you to the Conference Call to discuss the 1st Quarter results of financial year 2025 of Ashok Leyland.

To discuss the results, we are joined today by Mr. Dheeraj G. Hinduja – Executive Chairman, Mr. Shenu Agrawal – MD and CEO, Mr. K. M. Balaji – CFO.

I will now hand over the call to Mr. Hinduja for his "Opening Remarks". Mr. Hinduja, over to you.

Dheeraj G. Hinduja: Thank you. Good afternoon, ladies and gentlemen. Welcome to Ashok Leyland's Q1 FY '25 Earnings Call.

At the beginning of the year, there was widespread anxiety that the CV industry in Q1 and Q2 of the year might be low, owing to the impact of elections and other factors.

On the contrary, the MHCV industry volumes have grown in the 1st Quarter by 10%. The MHCV TIV in Q1 is now very close to the previous peak volume in Q1 FY '19. Ashok Leyland's MHCV volumes in Q1 also grew in line with the industry growth, resulting in retention of our market share at roughly 31%.

While the LCV industry has remained flattish on a year-on-year basis, Ashok Leyland's volumes have grown more than the industry to register an increase in our LCV market share. Our domestic LCV volumes in Q1 stood at 15,345 units, which is 4% higher than the same period last year.

Q1, in fact, has been a record quarter for Ashok Leyland. Our total commercial vehicle volumes in Q1 have hit an all-time high of 43,893 units and are 6% up as compared to the same period last year. Our CV export volumes have also grown by 5% in this quarter.

Our revenues in Q1 have also been ever highest, growing by 5% over last year. Our EBITDA has grown by 11% to reach Rs. 911 crores. Our PBT at Rs. 701 crores is also at the highest so far in Q1 and has grown by 13% over the same period last year. Whether it's your CV volumes or revenues or EBITDA margins or PBT, we have achieved all-time high numbers in Q1.

You may like to note that during Q1 of last financial year, we had to restate the deferred tax liability as per the new tax rate, leading to a one-time reversal of tax liability of Rs. 172 crores. But for this reversal, our PAT for Q1, FY '25 at Rs. 526 crores is also the ever higher.

Our EBITDA margin is at 10.6% in Q1 FY '25, up from 10% in Q1 of the previous year. This reflects our continued focus on better price realization, efficiency in sourcing, and better revenue mix.

Other expenses have gone up due to a one-time expense incurred towards development of Centers of Excellence for battery packs, electric drive units, and software-defined vehicles.

Material costs as a percentage of revenue is now at 72.2%, which is 1.5% lower than Q1 of last fiscal. Steel prices remain softer, and our efforts on cost saving continue with even more vigor.

The growth in defense as well as in spare parts, both of which are higher margin businesses, also contributed to better profitability.

Power Solutions volumes were lower than last year by around 20%, owing to pre-buy that happened in Q1 of last year due to emission change announcements. On a full year basis, we expect this business also to register healthy growth.

Our net debt as of 30th June '24 was at Rs. 1,295 crores. Going forward, we are confident of increasing our market share in both the truck and bus segment. Our product pipeline is very strong. You would see a host of new product launches from our showcase in this year, which shall help us beef up our market and price position.

Some of the export markets, which have been subdued for the last two years, have started showing early signs of growth. This should help us further in growing our international business volumes.

Our focus on profitability remains. 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 our products' superiority and our ability to deliver a delightful after-sales experience to our customers.

The record financial performance of Q1 FY '25 gives us even more strength to move towards our midterm objective of achieving mid-teen EBITDA margin.

Switch and OHM are progressing well. We have started delivering our first eLCV, the IeV 4 in the market, and are receiving an excellent customer response. A few days ago, we launched our second offering in the eLCV space named IeV 3. Both of these vehicles are segment first and have the potential to transform the last mile mobility in the country. OHM, our E-Maas subsidiary, is fully activated and is now managing electric bus operations in Bangalore, Ahmedabad, Bihar, and Chandigarh.

Ashok Leyland's balance sheet is strong enough to support funds requirements of both Switch and OHM. Ashok Leyland's strategy is fully aligned with its sustainability commitment, Net Zero by 2048 and Carbon Neutral by 2030, as well as touching 1 million lives through our Road to School and Road to Livelihood programs.

We have made good progress on the battery electric vehicle, alternate fuel vehicles, both in MHCV and LCV segments to push the overall decarbonization agenda and are running several customer pilots with leading industry participants.

In FY '25, Ashok Leyland is pushing ahead on its sustainability journey across operation, product development, dealers, and supply chain partners. Our ESG initiatives have been recognized by international ESG rating agencies as best-in-class at 13.4, which is considered low risk.

We continue to remain optimistic about the CV industry prospects. Most macroeconomic parameters are favorable. Monsoon is likely to be good. The recent budget has provided for a flurry of robust economic measures. All this augurs well for the future of the CV industry.

I now hand it over to the moderator for your questions and answers. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead, sir.

Chandramouli Muthiah: My first question is related to some of the product pipeline commentary that was given by Mr. Hinduja. Just trying to understand, I think this year, I mean last year this time, you mentioned that you are working on a 0-to-2-ton LCV launch. And I think last quarter you also had mentioned that back half of this year, the company expects to launch more LCV products. So just keeping those two comments in mind, just trying to understand how the LCV product launch pipeline looks and then potentially when you think you can enter the 0-to-2-ton category in LCVs.

Shenu Agarwal: Hi, Chandramouli, thank you for that question. Yes, we have been saying that on LCV business, we see a very high headroom for growth in future because you all know that we are covering only 50% of the market right now. And our intention is to grow to 80% addressable market in the near future. So, this year we have lined up six launches in the LCV segment. Couple of those have already been launched in Q1 although the impact of those launches is yet to be seen, because they have just recently been launched. We will be launching four more LCV products in the next few quarters within the year.

As far as the sub-2-ton segment is concerned, that is a bit more medium-term project. So, it is not going to be launched this year, but we are finalizing our approach on the sub-2 ton as to what kind of product we would like to launch. So, as and when that is clear, we would come back to you on that.

But other than LCV also, there are a host of product launches that we will do. Specifically on the bus side, as we have been saying that while we are the leader in the overall bus market, our bus market share on the ICV bus side is not as high as we would like it to be. So, we are still kind of under 20% on the ICV buses. And therefore, in that segment, both covering the school segment as well as the staff segment, we will be launching some new products this year.

Of course, other than this also, there are some other products that could get launched, but yes, as Dheeraj said, we have a very strong pipeline of new products that market would see in the coming quarters.

Chandramouli Muthiah: My second question is just around the age of the fleet of CVs in the market. We have had a lot of news flow over the past five years around potential scrappage policy implementation. During Covid, pace of replacement demand slowed a little bit. So just trying to understand roughly where you see the current age of the fleet versus long-term averages and how you think about replacement demand in the CV industry going forward.

Shenu Agarwal: You know, Chandramouli, as we have all seen that the aging of fleet is at its peak right now. We have never seen such a kind of aging happening in the CV industry. I think the number is close to 10 to 11 years. I think average aging in the industry has always been seven to eight years. Yes, so there is this huge replacement demand potential that is available. Now, how that will unlock of course depends on a lot of factors, but yes, I would say that in the next two to three years, they should unlock. And therefore, we are very positive, not just for this year's industry growth, but also for FY '26 and FY '27.

Chandramouli Muthiah: And lastly, just a clarification on the HLFL potential reverse merger into NXTDigital. Just trying to understand, you have spoken in the past about Hinduja Housing Finance and Hinduja Leyland Finance. Just trying to understand in this reverse merger, do we expect the housing finance entity and the Hinduja Leyland Finance entity to be reverse merged? Or is it just Hinduja Leyland Finance that we are looking at sort of reverse merging into NXTDigital?

Dheeraj G. Hinduja: Well, the housing finance is a 100% subsidiary of Leyland Finance. And Leyland Finance is the one that I think will reverse merge into NXTDigital. So, from a holding perspective, the new entity will be holding housing finance as well.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: I just wanted to ask your thought on growth rate that you expect or the output that you expect for both MHCV and LCV for this year. Now, some of the headwinds which were there, as you mentioned, are out of the way. So, has the demand environment improved? And also how is the pricing environment? So, that was the first question.

Shenu Agarwal: Yes, Kapil, thank you for that question. You know, before the year started, as we all know, most of the research agencies were forecasting a very grim scenario for the CV industry, especially

for H1. And I think it was more coming from the fear of the impact elections would have. And also there was some unpredictability about the monsoon at that time.

You know, some of the research agencies even said that the industry might de-grow by 10% to 15%. But now I think quarter 1, where MHCV has grown by 10%, has negated that philosophy. I think there is a positive narrative that is building up. I think some of our peers have also come out who were earlier quite conservative about the industry, but now they have come out and they are also saying that there are good prospects of CV industry for the year.

So, if Q1 is good, I think Q2, we are already seeing good momentum on the ground. In any case, I think the general consensus was that H2 would be a positive growth. So, given all this, we are quite optimistic. We think at worst, industry would be flattish, but we can also expect some kind of growth in the overall CV industry as well for the whole year.

As far as pricing is concerned, I think we have been very consistent in our approach on pricing. You know, we are very clear that we are not going to discount our products to win market share. Our market share will have to come on the back of the strength of our products and our ability to provide a good experience to our customers.

So, I think that kind of, again, that kind of a narrative is building up in the whole industry. I think everyone is realizing that any gain in market share due to any short-term measure is only temporary. So, I think it is helping the whole industry and we would at least like to continue with the same approach even in the future.

Dheeraj G. Hinduja:

Just adding on to what Shenu said on your first question, as you are all aware, Q1 generally is the slower quarter for this sector. And considering that shown growth on the on-ground demand still seems to show good signs of growth. It does seem the next three quarters should continue the momentum.

Kapil Singh:

That's great to hear. Second, I just wanted to also check on electric vehicles. You mentioned there is a strong response to the new launch. So, if you could elaborate a little bit like what is the viability of electric vehicles in LCVs that you are observing, what type of customers, what are the customers saying on adoption of electric vehicles in LCVs. Also, if you can talk of some roadmap of approval under PLI and what is the profitability of electric vehicles at this point of time.

Dheeraj G. Hinduja:

In terms of the LCV, we launched the IeV4, it's been close to three months. As you are aware, throughout the country, there is no clear infrastructure that has been set up. So, at the moment, the sales are happening more on a B2B basis for e-commerce companies and logistic companies and many multinationals who have their own commitment to Net Zero are insisting that even the last mile delivery should be on an electric product.

So, numbers are very small. So far, only one of our peer groups has introduced one product. We have now introduced two. And we do feel that the numbers will start picking up. Of course, what

will help is if in the FAME-III commercial vehicles are included as well, that should add additional momentum to this. But irrespective of that, there is a slow transition happening towards the eLCV segment.

As far as your second question was...

Shenu Agarwal: Adoption and PLI.

Dheeraj G. Hinduja: Adoption and PLI. Well, AL has been part of the PLI and we are working towards through the investments that they are making. It is a five-year process that we are going through. So, as of date, there is not much further detail that I can provide to you, except that yes, like some of the other OEMs as well, we are very much part of this PLI scheme.

Kapil Singh: Sir, my question was more on product approval under the PLI, the certification, where are we in that process?

Shenu Agarwal: Yes, Kapil, that is not a problem. So, we are meeting all the requirements of the PLI as well as for the FAME-III whenever it is announced. So, that's the approval process is already under control.

Dheeraj G. Hinduja: I think if you are asking whether in terms of the localization requirements, then yes, we are meeting those.

Kapil Singh: So, we are hoping to get the certification and be eligible for PLI incentives sometime this year.

Shenu Agarwal: No. So, see, FAME-III is something that we would be eligible for right away. As soon as the scheme is announced, we would be participating in the FAME-III scheme. PLI, as you know, is based on a five-year horizon of investments, right? So, that would take, like, that is the more of a medium-term kind of a program, right? But in the short run, definitely we would be ready for FAME-III as and when it is announced.

Kapil Singh: Sir, just one last thing on EVs while we are at it. On electric buses, if you could also share your outlook.

Dheeraj G. Hinduja: So, we are definitely seeing more and more orders coming and during this financial year, Switch has an order book of 560 for Delhi up to March 31st, 300 plus for Bangalore and another 100 for UP. And after April, we have an order for another 400 for Delhi as well and we are participating as new products in production we are having in new 9 meter etc. So, we are participating in more tenders as well. So, generally we are seeing more and more states shifting towards electric buses. The speed seems to be much faster than we had originally planned for.

Kapil Singh: That's great to hear.

- Moderator:** Thank you. The next question is from the line of Vinay Singh from Morgan Stanley. Please go ahead.
- Vinay Singh:** Three questions. Firstly, in the opening remark, we talked about one-time expense and other expenditure relating battery pack software. Could you quantify that and is that sitting under the standalone financials?
- K M Balaji:** Yes, it is sitting in the standalone financials, Vinay. Quantification, I think it will be a bit difficult because these are all one-off expense towards advanced engineering, towards setting up of the Center of Excellence for the battery pack, electric drive unit and the software-defined vehicles and these are all of revenue nature.
- Vinay Singh:** So, in a way, some of the EV investment is sitting under standalone also, right? So, it's not entirely going into, not the expenses done by Switch.
- K M Balaji:** No, no, no. See, you should understand these are all related to the truck side. If it is for the bus and for the light commercial vehicles, then it will go to the respective companies. If it is for the truck side, then it will be with the Ashok Leyland.
- Shenu Agarwal:** Yes, let me just explain this a little bit more. So, so far, our journey on the electrification of vehicles, whether it is the medium and heavy-duty trucks in Ashok Leyland or it is buses or electric or light commercial vehicles on the Switch side has been mainly focused on integration of the products and building a good product for the market.
- But you are all aware that Ashok Leyland or for that matter, most of the other players are right now just focusing on integration of the product, which means that we are relying a lot on our supplier partners on their designs and buying sub-assemblies or components from them to build this product.
- Now, since we have a very good range of electric products, both for Ashok Leyland and Switch side, now in the second phase, what we want to do is we want to go deeper into our technology capability. And that is why we are now setting up these three Centers of Excellence, like Dheeraj said, one of these would be on battery pack and modules.
- The other would be on the electric drive unit and the third would be on software-defined vehicles. So, software, EDU and battery pack, these are the three main ingredients of any electric vehicle. And now we are setting up these Centers of Excellence so we can get deeper capability into the technology behind the electric vehicle.
- So, that is basically the intent going forward, like for internal combustion engines, one would kind of invest in the capability of designing engines in-house. So, this is on a similar nature, what we want to start now for electric vehicles.

- Vinay Singh:** And the reason we called it one time is because it's only coming in this quarter and won't repeat, right? Because this sounds like an operational expense. That's why you called it out.
- Shenu Agarwal:** Yes. This is kind of an operational expense. We would be investing more that would be in the nature of CAPEX. So, CAPEX of course would be, if it is for buses and electric light commercial vehicles, that would be under Switch. And if it is for trucks, that would be under Ashok Leyland.
- Vinay Singh:** Team, secondly, like last year, in fact, in your opening comment also, you added that defense and spares, high margin businesses, we had a very good FY '24. Could you give a little bit some color on the number for 1st Quarter and the outlook for FY '25 in particular for defense and spares?
- K M Balaji:** Defense revenues have been quite good in the 1st Quarter of the current financial year, especially the number of defense vehicles which we have sold in this quarter is quite high. It is at a record of, it has crossed 1,000 vehicles, I would put it that way in this quarter compared to 250 vehicles last year, and the revenue has also gone up accordingly. Revenue has gone up almost 3 times compared to the same period of last financial year. And on the spare parts business, the revenue has gone up quite significantly. It has gone up by about 10% overall.
- Vinay Singh:** In defense last year the numbers had almost doubled. So, this year also you are expecting in that sense, looking at these numbers a 30%, 40% kind of a growth at least on annual basis.
- Shenu Agarwal:** Yes, so our defense as we have been saying in the past, not only that we could double or more than double our defense business last year in FY '24, but our overall pipeline is also very, very strong. And this has been the result of lot of effort on the product side that we have made over the last several years. So, now our intention is to double the defense business again in the next 2 to 2.5 years.
- Vinay Singh:** And sir, lastly, any number on investments for the year? Like in the last call, we had given a number on CAPEX for FY '25 in the range of 500 to 600 crores. But any view on investment number for FY '25? That's it from my side.
- K M Balaji:** Investments, in the past quarter we have not done any major investments. On the CAPEX side, I would say that we have retained our earlier estimates as Shenu had indicated earlier. It could be around 750 crores. On the investment side, In case there is anything, we will let you know. As of now, there does not seem to be any major investment. Maybe for the full year, it might happen, but we do not know the quantum now. It could be around another 500 to 750 crores of the investments in the associate companies, primarily, Switch and OHM. But we will let you know in case if that happens.
- Moderator:** Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: Sir, in the month of July, as per VAHAN we have seen good growth in the MHCV segment. And in the last quarter, we have seen a good demand from buses also. Just want to understand how do you see the recovery of the cargo segments? And also, if possible, can you provide some updates on the sub-segment growth like the ILCV and heavy commercial vehicle?

Shenu Agarwal: So, just on the medium and heavy commercial vehicle side, you know, it is true that while the overall industry has grown by 10%, the contribution of buses has been the maximum. I think buses have grown by 50% or so. The truck growth has been a little bit muted in quarter one. I think we have witnessed 2% or 3% growth in the overall truck segment.

But that muted growth was mainly because of a downfall in the Tipper segment. And as you know, the Tipper segment really got affected because of the elections, because a lot of projects kind of got stalled and infrastructure projects got stalled. Even the new projects were not coming up because of the code of conduct and all that. Yes, but that was a very temporary phenomenon. So, from July or August onwards, we think even the tipper segment would start improving.

Actually, I was in the market, and I met several customers in the construction and mining segments, some of the larger operators. And I think there is a very positive pulse on the ground as far as tipper segment is concerned. So, with the tipper segment coming up, the cargo segment also should start growing, we think, maybe August onwards.

Mumuksh Mandlesha: And just on the sub-segment, in the heavy commercial vehicle and how do you see the heavy commercial and the ICV growth, sir?

Shenu Agarwal: Listen, see, tractor and ICV has been growing pretty well. You know, even in quarter 1, tractor has outgrown every other segment. You know, we have seen this trend from multi-axle vehicles, that market, the demand is shifting to tractors. And there are a lot of reasons that we all know behind this. And this has to continue. Even if you look at some of the markets outside India, whether it is Europe or any other market in fact, tractor-trailer demand is up to the level of 60% to 70%. In India only it is still at 20% after having grown so rapidly in the last couple of years.

So, tractor trailer demand will definitely continue to increase in the future. Construction and mining, as I said, would also increase and ICV should also increase. I think the only segment that could show some kind of a de-growth will be multi-axle products. Because that demand is continuing to shift to tractor-trailer as I just explained.

Mumuksh Mandlesha: So, on the margin side, is there any impact of the commodity prices in this quarter? And in this quarter slightly the gross margin has come down. Is it minimum due to the adverse mix?

K M Balaji: Actually margins, we normally what we do is that we make necessary provisions on the commodity cost based on the trends and the trends are basically the ones which are known from the market and our sourcing head, he recommends. And what happens is that we settle this after a lag of a quarter. We cannot book this amount in the accounts at the time of settlement. So, we take provision in the books of account for certain quantum as recommended by our sourcing

head. So, we go in that and that will also be offset by the savings which you get by way of lot of internal cross-functional initiatives covering value engineering, resourcing, turnover discounts, commercial negotiations and share of businesses.

So, all these put together, it is a regular ongoing process, which will continuously occur every quarter. And we do provide, depending on the situation, we do provide, and it goes commodity wise covering steel, spring steel, aluminum, then castings, forgings as well as rubber. So, all these are factored.

Mumuksh Mandlesha: Lastly, sir, on the other expenses, as per the annual report, this category line for service and product warranties have seen a notable increase in FY '24. Can you explain the reason for the increase, sir?

K M Balaji: Warranty expense increase in FY '24.

Shenu Agarwal: Warranty expense you mean?

Mumuksh Mandlesha: Yes, service and product warranty line items there, sir, in the part of other expenses.

Shenu Agarwal: So, we had last couple of years, I don't remember the exact date, but we had extended our warranty period itself. So, I think earlier we were three years or one plus two, maybe.

K M Balaji: Two plus two years.

Shenu Agarwal: Two plus two, and then we extended it to three plus three. So, some of the vehicles are now getting into that third-year category, which earlier we did not have. So, warranty expense has kind of increased a little bit because of the warranty policy. But yes, as you know, the extra cost of a warranty is being kind of nullified through various price increases, etc.

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

Pramod Kumar: This is for Balaji. You talked about the Center for Excellence and the EV related investments. I just want to clarify, would you call it a material expense this quarter because your other expenses have shot up like 17%, 18%, which is typically very high given that volumes have not been much of a change. So, would you call the expenses provision or expense expense, sorry, as a material number?

K M Balaji: No, no, no, Pramod. These are all the expenditure relating to R&D. R&D materials are also booked under R&D expenditure only, which will form part of other expenditure.

Pramod Kumar: Yes, that's what I am asking. No, then I say, sorry Balaji, just to clarify, I am saying, is this a meaningful expense? I use the word material in that context. Is it a immaterial small expense or is it a meaningful expense what you have accounted for this quarter?

K M Balaji: No, it is a meaningful expense. It is a meaningful expense. That's why it is also been stated by our Chairman and in his opening remarks.

Pramod Kumar: And following up on the expense line items, given that the mix has generally been good, your non-vehicle revenues have also done well, defense is high margin, the sequential movement in commodity prices or RM2 sales is slightly as in it's kind of adverse. So, is it fair to assume that you are being conservative here as a management on the provisioning for raw material as you were talking about in answering the previous question? Because key prices have generally started to see some cool off. Even other commodity prices are not hardening. In fact, there is some correction only. So, I am just trying to understand by when do you take a call on the actuals and if any excess provision done, when does it reverse out?

K M Balaji: See, if you look at it sequentially now you get a lot of, as I indicated, we use a lot of leavers in bringing down the costs by way of value engineering and resourcing. In Q4, we got a lot of turnover discounts and then we got a lot of savings by commercial negotiations which will not be available in this quarter. So, consequently, this adding to the provision as I had answered in one of the earlier queries, all this will make appear as if the material cost is slightly higher compared to the last quarter. Of course, mix also plays a very important role.

Pramod Kumar: And we are still kind of optimistic on having a fuller margin which is reasonably higher than the previous year towards our journey towards the mid-teen margin.

Shenu Agarwal: Yes, definitely I think we should expect that because we think the industry is going to actually do better than even our expectations. So, if that momentum continues in Q2 and then H2 in many cases has always been optimistic. So, we will have that operating leverage. Even on the cost side, you know, we still think we have a lot of headroom.

So, there is a quite of rigor that is inside Ashok Leyland to attack the cost in several different ways. And on the commodity side also, we are not expecting any hardening really, at least in the next two quarters, yes. So, we think we should be able to do better on the margin front.

And lastly, I would also say that our intention is to kind of get better realization on our products. So, some of these new products which will get launched will also help in our pricing equation in the market.

Pramod Kumar: And Shenu, just on the industry side, you talked about the average life already stretching so much. I just want to understand when you talk to fleet owners and people in the industry, what is kind of holding them back? Because a big part of this fleet is really aged, has lower tonnage, lower fuel economy. Even it's kind of difficult in terms of tracking and monitoring movement and fuel usage, everything. So, what is holding them back from replacing at least those seventh and the eighth year trucks?

I can understand the BS6 trucks not getting replaced in a hurry because you are extending AMCs, which are like five, six years. So, till that, I don't think they should kick in. But what about the

earlier trucks, especially the used trucks, which kind of came into the industry post-COVID, which were bought by last fleet owners? So, what's the feedback, what do you get or what is holding them back from purchase? Is it like interest rate cycle, where we are, or utilization rates are not that great? And also, if you can talk about industry wide utilization, where do you see them?

Shenu Agarwal:

Yes, Pramod, very good question. So see, we are in touch with, of course, most of the fleet operators in the country. I think there is nothing really holding back other than the fact that the prices of commercial vehicles have really jumped in the last three to four years. So that mental shock that happened in like, when we transitioned from BS4 to BS6 is kind of taking time for people to kind of take a decision on replacement of their fleet.

So, the way it happens is, although the retail value is also quite upbeat, the retail demand is also very positive for commercial vehicles. But then still, if somebody has a fleet of BS3 or BS4, and at the price which they bought versus the price they are getting now in the secondary market, and when we compare it with the price of BS6, so that is that difference is, you know, just needs to be absorbed over a period of time.

I think there is nothing else. If you look at the freight movement, we look at the billion ton kilometers, we look at the freight demand in absolute sense, or we also when we look at the freight rates, I think all those parameters are good. I think as the country progresses, as the economy grows, all this replacement demand will have to happen. We will have to convert into new sales because I mean, some of these products are already into like 12, 13, 14, 15 years, right? I mean, they can't hold up forever. So, that decisions will have to be taken by most of us.

K M Balaji:

Just to give a perspective on the volumes as per SIAM sales data for last 15 years, roughly on the MHCV truck side, there are about 37 lakh vehicles which are there on the road. This is from BS VI, BS IV and below. And in this, if you look at the vehicles which have been sold in the last four years, entirely BS VI, that constitutes 10 lakh vehicles and that roughly constitutes 27% of the total fleet size. And the vehicles which are sold between 2017 and 2020, which are BSIV roughly that constitutes 8.5 lakh vehicles. That is around 23%. So, which means that BS III and below constitute 50% of the total vehicle population of 37 lakh. And the average age of that between 8 and 15 years, that roughly constitutes 11.2 years. And as Shenu explained, all these vehicles will have to gradually come for replacement in the time to come.

Moderator:

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

Gunjan Prithyani:

Most of my questions have been answered. Just quick follow-ups on the Hinduja Leyland Finance. Can you sort of give us an update on the timelines? When do we expect the restructuring to conclude and what are the pending processes? And also, if you can sort of give an update on where things stand from an operational perspective, how should we think about the value of that business?

- K M Balaji:** From the operations side, I will tell you, Gunjan, the asset under management for HLF is 40,000 crores and for the HHF Housing Finance division, it is about 11,500 crores. So, both these put together, it is around 51,500 crores. That's the size. And if you look at the revenue and profit, it is 1,377 crores of revenue with a 10% profit.
- Gunjan Prithyani:** And net worth if I recall is close to about 6,000-7,000 crores in the business, right?
- K M Balaji:** Yes, this is for 1st Quarter.
- Shenu Agarwal:** These numbers of revenue and profit are for the 1st Quarter just to clarify.
- Gunjan Prithyani:** And timelines for the restructuring, where are we there on that?
- Dheeraj G. Hinduja:** They have been going through all the necessary approvals and at the moment, it is indicated that it should happen before the end of March. So, before the end of this financial year is what is the indication given.
- Gunjan Prithyani:** And just from a business concentration perspective, now Leyland vehicles would account for how much percentage of AUM or any color you can say would give on the business diversification on the NBFC?
- Dheeraj G. Hinduja:** Yes, I mean, the business has now become fairly diversified. It's operating across all vehicle categories, including used vehicles as well. The Ashok Leyland business today would cater to less than 25%.
- Gunjan Prithyani:** This is useful. The other two things which I just wanted to get your thoughts on, was the DFC. I think you do call out that this is now close to commissioning in Fiscal '25 in the annual report. So, just trying to get your thoughts, how should we think about the impact of that in the next two or three years? That's one. And secondly, sorry, go ahead.
- Dheeraj G. Hinduja:** No, sorry, go ahead. Go ahead with your question.
- Gunjan Prithyani:** No, no, it's okay. That's another topic. So, maybe we get this paused.
- Shenu Agarwal:** Okay, Gunjan, yes. So, DFC, so far it has not really impacted a lot, although we are hearing about it in the news quite often. Now we have ourselves done quite a deep study as to how it will operate and it will impact. I think it is a more medium-term phenomenon because I think DFC is a good concept, but a lot needs to be done around it in terms of looking at the whole logistics ecosystem that needs to be developed around, around DFC.
- So, to that extent, I think it will take more time, although it might in the long term it might impact the medium-heavy duty or largely heavy-duty trucks, but it will also give up to the medium-duty and light commercial vehicles. A lot remains to be seen, but we don't think there will be a major significant impact in the next couple of years.

Gunjan Prithyani: And last question was on defense. I know Vinay asked earlier, but if you can spell out what's the order book in terms of value, if at all you can share that and also the revenue for last year in terms of, you know, what I see is the vehicle, but if you can share the value of defense contribution for Fiscal '24?

Shenu Agarwal: Gunjan, I am sorry, but we don't. We have never revealed that number of defense, but we can assure you again that, like I said earlier, that we could double our top line on defense last year in FY '24, actually more than double. And now going forward, based on a very strong pipeline of orders and visibility of orders that can come in, we hope to double that number again in the next two years or so.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: My question is on your engines. What I notice is that most of the vehicles come with a 250-horsepower engine and obviously we are seeing a clear shift towards higher tonnage vehicles and also your commentary suggested that we will see more and more shift towards tractor-trailers and larger vehicles. So, how do we place in the future, say we require 350 or 400 horsepower engines, how we place there? Have we started doing some work towards developing those products? Because we do have one 300 engine, if I am not wrong. So, are we looking at some tie-ups in the future or we kind of can develop these on our own?

Shenu Agarwal: Yes, Mukesh, you know, the capability of Ashok Leyland on the engine side is really very, very strong. You know, we have more than three or four different families of engines. So, it is not that we do not have technology to go beyond 250 horsepower where we are today. Definitely, we have the technology and the capability to produce those engines. So, there are programs running to extend the higher horsepower range in our products through our own engine. So, there is no need of any tie-up as such right now. We can easily go up to, I mean, we can go easily up to 350, but we can go even beyond that whenever the market requires.

But your observation is right, and I think the requirement of the market in some of the segments, which is at 200 or 250 right now, should continue to move upwards. And I think the next requirement especially in the tractor-trailer segment, would be around 280 or 300 horsepower. But we would be ready with it. We have programs going on. Even within our current engine families, we have the capability to go much beyond where we are today right now.

Mukesh Saraf: Would this require large investments from our side, or this is like an ongoing thing that we have anyway been doing?

Shenu Agarwal: No, there would be some investments required, but nothing of a large nature. Because as I said, you know, we already have a platform, engine platform. We call it internally A6 platform, which is a six cylinder, very modern engine. So, that platform already has capability to go up, go much over 300. 350 also we can go easily. So, we are running those programs depending on the need

of the market, but no large, very large investments. Of course, some investment will be there, but nothing of a significant nature.

Mukesh Saraf: And the second one is, on your employee cost this quarter, it's been flattish now. The average numbers are being maintained at around this 550 crores that we were even last year. So, any settlements or anything coming up, which would kind of lead to this going up significantly? Or should we kind of assume it will remain at this ballpark?

K M Balaji: Mukesh, actually, it is the manpower contains both the wages for the associates as well as the salaries for the executives. Between Q4 and Q1, that's not much of movement. See, our increments and our promotions are effective 1st of July. You will see an increase happening in the coming quarter. And the increments given in Q1 will be there for the next one year, till the 1st Quarter of the next financial year. So, we haven't assumed any of those increases in this 1st Quarter and provisioned accordingly.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: My question pertains to; one is the commodity side. So, you alluded to the fact that you are not expecting a material increase in commodity prices, but we have provided for some increases in 1Q. So, from the provisioning in 1Q, we should not see a material increase going forward. Is that the correct understanding?

K M Balaji: Jinesh, again, this depends on a case-to-case basis. That is, for each commodity, the stand would vary, and it will also depend on the outlook for the commodity as well as the status of the discussion with the vendors. So, there are a lot of combination of factors involved in it. But as of now, it appears, as Shenu indicated, it appears that we may not go for any provision in the next quarter.

Jinesh Gandhi: And secondly, what kind of price increases we took in 1Q and in July so far?

K M Balaji: We have not taken any price increase in the 1st Quarter. But in July also, we have not taken anything so far. So far, that's the status.

Jinesh Gandhi: Because your peers have taken price increases in July and April as well. So, how do we think about the price increases in the current environment?

K M Balaji: Jinesh, we can only talk about ourselves and clarify that we have not taken any price increase. Sometimes what happens is we might take a price increase and to that extent, there could also be an increase in the discount resulting in the net sales revenue being same at the same level. So, we will never know that, but I can only clarify from our side that we have not taken any price increases, either in Q1 or in Q2 till now.

Moderator: I think Mr. Jinesh has lost his connection. We will move on to the next question. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: I have a couple of follow-up questions. One is on the industry, you mentioned that we saw about 10% kind of growth at the TIV level. That obviously was on a low base because last year, we had the negative impact of the pre-buy. So, I wanted to just get a clarification. I thought you also mentioned that you expect the MHCV industry to be flat or see a small growth this year. Is that right?

Dheeraj G. Hinduja: No, on the MHCV industry, what we said is that in the worst case, we might see a flattish year. But going by Q1 and considering Q1 is normally the slowest of the quarters, we do feel that the growth momentum should continue this year.

Joseph George: And the second follow-up that I had was in response to the question on pricing discipline, you mentioned that you are not looking to gain market share with pricing. But could you also talk about the behavior of your peers? Because I understand that last quarter, there was some disruption by one of the players by cutting list prices, etc. So, can you just give some color on the pricing discipline by peers?

Shenu Agarwal: Yes, Joseph, we don't want to comment on the peers, but we are very clear as Dheeraj also said in his opening statement, we are clear that we are not going to cut prices to win market share. We know very well by now that these short-term measures don't last much and don't give a permanent impact.

So, we are very, very focused on building the strength in our product portfolio and expanding our reach. I mean, there are normally various kinds of announcements in the market. I think some of those are also of a practical nature. So, I would suggest you take a deeper look into those announcements.

Moderator: Thank you. The next question is from the line of Aditya from Sowilo Investments. Please go ahead.

Aditya: My question was, I mean, on part of the DFC that was answered, but what about this mandatory AC which is under a peak in, say, in the future? How do you see that impacting, like, would people preempt the purchases before the norms kick in or what kind of effect that is going to have?

And the second question is on, I mean, there have been reports of increasing profitability in the fleet operators and that has helped pricing discipline in the industry. But any, like, adverse effect over there, how do you see that affecting volumes as well?

Shenu Agarwal: Yes, Aditya, so on the mandatory air-conditioning for commercial vehicles, I think that is not going to impact much in terms of pre-buy because the cost increase would not be very high. In any case, our guess is, like, about 20% of the trucks getting sold have already AC in them, right?

So, the balance, 70% to 80%, there would be some cost impact, but it would not be of significant nature. And I think there is a clearly good understanding in the customer's mind also about that.

Now, profitability of fleet operators, yes, it is on a rise and we have all seen the data coming out on that front. It is helping pricing discipline and the way the country is growing, the way economy is growing, you know, the way budget has been with higher allocations on roads, highways, infrastructure, et cetera, I mean, we don't think that it should in any way affect the profitability of the fleets even going forward.

Moderator: Ladies and gentlemen, that was the last question for today. We have reached the end of the question-and-answer session. I would now like to hand the conference over to the Chairman, Mr. Dheeraj G. Hinduja for closing comments.

Dheeraj G. Hinduja: Thank you so much for your questions and I hope we have been able to provide better clarity. I would just like to sum up on the basis that there were, I think, quite a lot of questions with regard to how we are seeing the market and I would just emphasize once again, Q1 has been a good surprise for all of us.

We on the ground do see the demand to continue to be quite positive and barring any exceptional things that might happen, I think this year will continue to show us to be a good growth year and even on the products and we are seeing very good growth in the passenger ICV and tractors and we are going to be introducing many products across the range. And I think a lot of questions were asked with regard to the market share as well.

So, just to clarify that during the course of the last 18 months, we have been expanding our network and especially in our weaker areas in the North and the East and so the foundation and our network is now coming very close to about a thousand customer touch points for MHCV and with this foundation that has been set, this in itself should allow us to penetrate into areas of the country that we have not been present and increasing our market share and our service along with the product. So, discounting is not an area that we are going to be focusing upon. We do believe that we can gain market share through the areas that just mentioned.

On the cost side, we continue to remain continuously going after wherever cost reductions are possible, value engineering possibilities and the one area that we did not speak much about is on international markets. We are seeing the revival of some of our traditional markets. The Middle East continues to be strong. African markets, we are gaining greater traction, and we are looking at new markets where more products are also going to be entering into many of our existing markets as well. We have delivered on margins over the last few quarters. Our aspiration is to continue the growth both in our sales, our margins and our bottom line as well.

So, that's how we would like to conclude. Thank you very much for your interest.

Moderator: Thank you. On behalf of Ashok Leyland, that concludes this conference. Thank you for joining us. You may now disconnect your lines.