



February 9, 2024

National Stock Exchange of India Limited
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Bandra Kurla Complex
Bandra (E), Mumbai - 400 051

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001

SCRIP CODE: 500477

SCRIP CODE: ASHOKLEY

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 February 6, 2024 to discuss the financial results for the quarter and nine months ended December 31, 2023.

Meeting start time - 10.00 a.m. IST

End time – 11.00 a.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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CIN: L34101TN1948PLC000105



HINDUJA GROUP



“Ashok Leyland Limited Q3 & 9M FY24 Earnings Conference Call”

February 06, 2024



MANAGEMENT: **MR. SHENU AGARWAL – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER**
**MR. GOPAL MAHADEVAN – DIRECTOR AND CHIEF
FINANCIAL OFFICER**
**MR. KIDAMBI MANI BALAJI – DEPUTY CHIEF
FINANCIAL OFFICER**

MODERATOR: **MR. BASUDEB BANERJEE – ICICI SECURITIES
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY24 Earnings Conference Call of Ashok Leyland Limited, hosted by ICICI 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Basudeb Banerjee from ICICI Securities. Over to you, sir.

Basudeb Banerjee: A very good morning, good afternoon, good evening to all the participants. Thanks to Ashok Leyland's Management for giving us the opportunity to host the call.

We have with us the Management represented by Mr. Shenu Agarwal – Managing Director and Chief Executive Officer, Mr. Gopal Mahadevan – Director and Chief Financial Officer, and Mr. Balaji – Deputy Chief Financial Officer.

Without wasting any time, I would like to hand it over to MD & CEO sir, Mr. Shenu Agarwal. Over to you, sir.

Shenu Agarwal: Good morning ladies and gentlemen. It gives me immense pleasure to be with you today. I thank you for the interest shown in Ashok Leyland.

I am happy to share that the current year has been a record of all sorts. In the first 9 months of the current financial year, Ashok Leyland has recorded the highest turnover at Rs. 27,100 crores, highest sales volume at 1,38,416 units, highest EBITDA at Rs. 3,014 crores, and the highest PAT at Rs. 1,718 crores.

While at the beginning of the year, we had given a guidance of double-digit EBITDA for the whole year, we could achieve a 10% EBITDA margin in the first quarter of the year itself. Since then, we have moved up sequentially, registering an EBITDA of 11.2% in Q2 and 12.0% in Q3. We are moving well in line with our medium-term target of mid-teen EBITDA margins.

The domestic MHCV industry in the first 3 quarters of the current financial year has grown by 9% over the same period last year. H1 growth was at 10% and Q3 relatively had a lower growth at 7%, affected mainly by elections in several large states of the country. Q4 this year may also see a subdued pattern because of the high base effect of last year as well as some impact of union elections.

Overall, for the year, the MHCV industry would still be short of its peak of FY 2018-19, thereby signaling further room for growth going forward. Industry factors for the medium and long term continue to be favorable. This is backed by a strong macroeconomic environment, healthy replacement demand, good traction on infrastructure projects, and improving freight demand.

Higher allocations in the recent interim budget for the core sectors will help drive the momentum in economic activity, thus helping CV industry growth. The bus demand is well set to move closer to the previous high registered in FY12. Replacement of existing fleets of buses, public transport impetus, and increasing demand for school and staff transportation should continue to drive the bus demand.

On the LCV side, our addressable industry has seen a 3% de-growth this year till December 2023. Our volumes have grown by 2%, which has resulted in our market share improvement of 1%. Though the steel prices went up marginally in the first few months of the current financial year, prices have softened since then and are expected to continue to remain soft for at least a few more months. This is being closely monitored by us. Our cost reduction efforts are in full swing looking beyond direct material costs. This is visible in our margin improvement quarter on quarter.

We are following a very strict pricing discipline. While market share is very important to us, we are clear that it will not come at the cost of margins. Therefore, in the short term, one may see a bit of dip here or there depending on competition action. Our actions are focused on improving our products and differentiating them to command a better price parity and market share.

During the quarter, Ashok Leyland launched several new models and variants with Ecomet 1915 CNG, Boss 1815, AVTR 3525 RMC, Lynx bus chassis, 10x2 STLA haulage with 25 feet loading span, and 222 Viking Air-Air intercity bus with AC, Stallion Water Bowser for defense business, Dost plus CNG, and many more.

While we have started doing very well now in the North and East zones which have been traditionally our weaker markets, there is certainly ample headroom to grow further. We are progressing well on our network expansion plans, especially in the North and East zones. We have tied up with the TVS Group with whom we enjoy a longstanding partnership in Tamil Nadu and Kerala to represent us in the National Capital Region. We hope to start launching several new outlets in this region within the next few months.

In the first 3 quarters of the year, we have added 37 authorized service centers and 44 dealers for the MHCV business. Now we are at a total of 399 authorized service centers and 491 dealers throughout the country. We wish to take this number to 1,000 in times to come. Similarly, for LCV business, we have added 17 dealers and 53 authorized service centers so far this year, making our LCV touchpoint count at 690. I am extremely confident that with the unique strengths of our current and new products, backed by continuous expansion of our sales network and service reach, we will continue to grow our market share in times to come.

The EV business housed under Switch is crucial for future proofing Ashok Leyland. While we will continue to look at external investors, Ashok Leyland board has earlier approved an equity investment of Rs. 1,200 crores in Optare which is the holding company for Switch UK and Switch India. During Q3, AL has invested Rs. 662 crores in the equity capital of Optare PLC. AL shall be inducting the balance equity in more than 1 tranche over the next few months. Ashok

Leyland balance sheet is strong enough to support our vision on electrification of buses and LCVs under the Switch brand. I am happy to share that Switch products are performing extremely well in the market. We are very excited about starting to deliver our first batch of electric LCVs within the next few months.

On the truck side also, we are happy to share that at the recently concluded Bharat Mobility Global Expo at Delhi, we delivered the keys of our first ever electric truck sold commercially. This was model Boss in 14 tonnes GVW category powered by a 200-kilowatt battery pack. We are also nearing market trials of our fully electric 55 tonne AVTR tractor trailer for long-haul transport. We are proud that within a short span of 1 year from display of some of our alternative fuel vehicles in Auto Expo in January 2023, we are now in a position to commercially bring these vehicles in pilot lots to the market. This goes on to demonstrate our acute focus on alternative fuel technologies.

Now, let me quickly run you through some numbers on Q3 as well as YTD performance:

It might be pertinent to note that this has been our best Q3 ever. Q3 revenues stood at Rs. 9,273 crores, 3% higher than Q3 of last year, which was at Rs. 9,030 crores. EBITDA for Q3 this year was at Rs. 1,114 crores, at 12% as against Rs. 797 crores at 8.8% in Q3 last year. EBITDA for the first 9 months of the year has grown by 82% and is at Rs. 3,014 crores as against Rs. 1,655 crores last year. PAT for Q3 was up more than 1.6x at Rs. 580 crores versus Rs. 361 crores in the previous quarter. For the first 9 months, our PAT was up more than 2.73x at Rs. 1,718 crores. Operating working capital is at Rs. 2,004 crores as of December 2023, primarily supporting the increased activity levels. Sequentially, it has gone up by Rs. 850 crores compared to Rs. 1,138 crores in September 2023. Capital expenditure for the quarter is at Rs. 90 crores. Cumulative CAPEX for the 9-month period is at Rs. 290 crores.

During Q3, AL has invested Rs. 662 crores in the equity capital of Optare PLC. Net debt as of 31st December 2023 was at Rs. 1,747 crores, higher than the previous quarter by Rs. 608 crores. For the first 9 months, our overall MHCV volumes have grown almost in line with the industry growth. AL volume growth is at 7% while industry growth is at 9%.

TIV specifically for bus in this period has outperformed all other segments, growing by 38%. The corresponding growth for AL in buses has been 65%, thus considerably gaining bus market share. Cumulatively, our LCV volumes have grown by 2% from 48,682 this year against 47,829 last year, while the industry in our addressable market in this period has de-grown by 3%. In Q3, LCV volumes have grown by 3% over last year.

IO sales have registered a 7% YoY increase in Q3, despite the continuing meltdown in many economies around the world. We registered export volume of 3,128 numbers in Q3 this year versus 2,936 numbers in Q3 last year. Most of our industry peers have registered a sharp decline in their export volume.

Good performance in the aftermarket sales continued in Q3. Our aftermarket sales at Rs. 658 crores grew by 30% over the same period last year. Volumes under Power Solutions business grew by 24% in Q3 over the same period last year, from 5,902 last year to 7,318 units in Q3 this year. As I said, AL has recorded an historic high on revenue, EBITDA, and PAT in both Q3 and in the first 9 months of the current fiscal year.

With this, I will open the floor for Q&A.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. And the first question is from the line of Chandramouli from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: My first question is on the gross margin level achieved this quarter. In spite of selling 5% fewer volumes of vehicles this quarter, it appears that gross margin has expanded almost 130 basis points quarter on quarter. So, just trying to understand what were some of the key drivers that helped you achieve that.

Shenu Agarwal: I will answer briefly and then I will hand it over to Gopal as well for more details. As I said in my opening statement, our focus is on profitable growth. We are very-very strict on pricing discipline. We are focusing relentlessly on cost reduction. And I think the softening of commodity prices also helped to some extent. But maybe Gopal can give you a broader view.

Gopal Mahadevan: I think, as Shenu had mentioned, we were very clear that we have grown in market share over the last few quarters, if you notice. So, for us, what was important is to ensure that having grown at this level, and I am sure that there is further growth that is going to come based on the product launches, the distribution that we are looking at and Shenu did mention about some of the penetration that we are doing very strategically in the Northern side of the country, we believe that there is enough steam left for us to grow in the market share. But having said that, we also wanted to ensure that we continue to start improving the price realizations because the industry itself has improved its pricing capabilities. One was that. The second one, again, was that consciously, internally, there has been a huge amount of effort on taking cost out of the product, looking at VAVE, looking at alternative suppliers, consolidating buyers, and all of this has started to actually yield results. And for us, this journey will continue. Our improvement in pricing as well as continuous improvement in product cost because that is what OEs do typically. And of course, the third bit of it which was helpful was commodity prices. They continued to decline. And hopefully we will see that happening in the fourth quarter as well.

Chandramouli Muthiah: My second question is on the electric bus industry and the sort of announcements we have seen over the past few months from the Government. I think just last month, there was an announcement that about 800,000 diesel buses will be considered for transition to electric powertrain by the central Government. I think before that, there was also the Prime Minister's eBus Sewa, where the Government has announced almost \$7 billion worth of incentives for electrification of 10,000 buses. The interim budget also had some commentary around trying to bolster the payment security mechanism within the electric bus industry. So, just trying to

understand what you make of some of these comments and any negotiations or discussions you have with the Government on the payment security mechanism and how robust it will likely be going forward.

Shenu Agarwal:

Firstly, you are right. There is a lot of positive news about electric buses and the transition from diesel to electric. I think what we have created in Switch is going to really help Ashok Leyland now going forward as this transition happens. We already have some wonderful products, as you know in Switch, and we are developing some more to cater to the entire spectrum of the electric bus market. Yes, announcements are there, big numbers are there for the next 7 to 10 years, which have been announced. So, I think we are seeing execution of that on the ground as well and I am not saying these are just announcements. We had a PM-eBus Sewa tender which is going on right now, and Switch is going to participate in that as well. Now, on the payment security mechanism, I think while the Government has already said that it will come out with a payment security mechanism; in fact, in the latest PM-eBus Sewa tender, it has been specifically mentioned in the tender that the Government would come out with this payment security mechanism by a certain date. We are under discussions with the Government as to exactly how this will work. Those details are still being worked out, but we hope that within the next 2 or 3 months, something more specific the Government will be able to say on this.

Chandramouli Muthiah:

And lastly, just a housekeeping question. I just want to understand what the net debt balance for the auto business and the rest of the business is including financing? If you could just split that out if you have those numbers with you.

Gopal Mahadevan:

We just give the consolidated numbers here. I think Shenu had mentioned that. Our net debt is Rs. 1,747 crores. But I just wanted to add one more bit here. This is after infusing nearly about Rs. 950 crores, both in Switch and in OHM. If you look at it, the cash flow position of the company from the operating side has been very good. We started the year, I think in the first quarter, we had Rs. 750 crores of debt on the 1st of April if my memory serves me right. And then after that, we have seen Rs. 1,400 crores at the end of Q1. But in Q2 and Q3, after investing nearly Rs. 950 crores, our debt position is only Rs. 1,747 crores. And I think as we move forward, in the 4th quarter, if things go well, we should actually see the debt position improve.

Moderator:

The next question is from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar:

Congratulations on good financial performance. Shenu, my question is regarding demand. Because, we have seen a sudden deceleration in demand in MHCV. The industry was optimistic of a high single digit growth. Now, it looks like we are going to be more like low single digit growth for the industry for this year. If you can just help us understand what has led to this sudden demand deceleration at the industry level? And within that, why are we kind of not pursuing market share more aggressively? I am not talking about discounting per se, but our market share numbers have gone in a very different way than what we talked about during our Investor Day. I am just trying to understand the market share in the context of the industry bit; if there is any shift from large B2B fleet owners to the retail market, which is resulting in this

market share. If you can just help us understand the slowdown bit and the market share thinking, sir.

Shenu Agarwal:

Let me first talk about the industry itself. If you see April to December industry, MHCV I am talking about right now, it has grown by roughly 9% which is specifically very much in line with what we had projected in the beginning of the year. January-February-March, I think you are referring to January industry de-growth a little bit. January-February-March what we were already imagining was that since we are sitting on a very-very high base of last year, the industry growth may not be that much. So, we may see some moderation in industry in January-February-March. Now, also, a few months from now, the elections will be announced. Elections normally have some kind of a slowdown effect on the industry. So, I am just saying that January-February-March, because of the high base effect and maybe April, May, and June because of some elections, we might see some moderation in the growth. But all this is not fundamental. This is very temporary in nature. We are very confident that even if there is a moderation of growth in the industry in the next few months, it will recover very-very well and it will recover very sharply. The reason we are confident about that is we don't see any problem with any of the macroeconomic factors that govern our industry. Whichever thing you look at, it is running positive. The overall economic activity is positive. The freight demand is positive. Replacement demand is positive. There are a lot of actions that are kind of happening on scrappage. So, everything that you look at... and we have not even reached the peak of FY2019. So, I think overall very confident there might be a certain dip in the growth levels in the near future but overall very confident about the industry as of now.

Now, coming to the market share, it is right that we have said that in the MHCV, we want to move towards 35% in the mid term. And last year, you know that we clocked a 5% growth. In our market share, we moved up from roughly 25 to roughly 30 in MHCV, right? Now, having done that, we do expect that there will be some kind of intense competition reaction. And at such times, it is very wise of us to kind of hold on to our fort and focus more and more on price discipline. We said in the Investor Meet also that our mantra is profitable growth. And we are not going to sacrifice profits for market share. So, in a quarter or a couple of quarters, you may see all those kinds of actions. But we are very-very focused and confident that market share will not be won through quarterly tactics. It will be won through our product and service differentiation and strength. And that is what we are focused on, whether it is through new products or whether it is through network expansion strategy.

Pramod Kumar:

Before I move to the next question, just a clarification. When you say 4Q soft, are you implying a decline for the industry?

Shenu Agarwal:

I think there could be either a small decline or there could be small moderation in the growth from what we have seen in Q2 and Q3. Let us see how it happens. But definitely the base is very high. Q4, I think last year was more than 120,000 or something around that. That is the only issue. Let us see how it goes. But there could be a small decline or there could be a moderation in the growth levels.

Pramod Kumar: Gopal, this question is for you, sir. On the cost side, what exactly is driving a deflation in our employee and other expenditure sequentially? Because we generally see that other companies have an uptick even with lower volumes. And how sustainable is that? And the second part is on the investments on the EV side. How should one look at investments going forward? Because, the opportunity is huge. So, it will require a lot of investments upfront to prepare the base, right? So, how should one look at the investment cycle, specifically for Switch mobility and also outside of that in the other subsidiaries as well?

Gopal Mahadevan: As we have shared with you folks earlier itself, while we will continue to pursue investors from outside and which is something that we will welcome, we will continue to invest into the business. We are doing the initial Rs. 1,200 crores this year. We will come back as to what the status will be for the next year. But there are some very exciting products that are going to get launched. And slowly, we are going to see the cash flows of Switch India actually standing on its own legs. This is the initial product introduction phase. So, there are some investments being made in products. We are going to launch a light commercial vehicle. We have also formed OHM separately because that's going to be a separate e-mobility as a service company. It's very **(Inaudible) 24:17** and leading in the market. And that's exactly what we are doing. A lot of people are waiting for our light commercial vehicle ELCVs to be launched in Q4 and that will continue. We aren't too concerned about.... From an analyst perspective or from a financial analyst perspective, you may be looking at how much of cash and how much of investment is required. Let me assure you that, I think, with the profitability of the core business, we are very-very well placed for funding the requirements of Switch if necessary. But I think in the medium term, we will get some good investors whom we can partner with. Money is available. It's not that. But I think it's important to get the right kind of investors to partner in a long-term business like this.

As far as your other question on employee cost is concerned, I think these are very marginal adjustments. And the trend predominantly will continue. I think we have come down from very high percentage levels because of the operating leverage kicking into about 5% to 5.5% to 6%. I think as the industry continues to grow and Leyland certainly grow, we would see these percentages to be maintained or come off in the future as well.

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

Gunjan: I had a followup on the margin roadmap again. If you can share with us as to what were the sort of price hikes taken in the quarter, the absorption around those, because I recall last quarter, you did mention that the market absorption of those price hikes hasn't been that great. So, a little bit of color on what was the pricing improvement, how much really came from commodity tailwind, and are there more price hikes which are being taken in quarter 4.

Shenu Agarwal: Gunjan, thank you for the question. First of all, let me clarify that when we made a comment last time or previously that the absorption of the pricing has not been that high, we were referring specifically to Q1 when the industry had tried to take a 3% price hike which was quite aggressive, but that whole thing could not be absorbed. Yes, but that was like in Q1, mainly April one. As I

said, our focus is profitable growth and we have said this before that we are not going to sacrifice margins for the sake of market share. Market share we will always focus on differentiating our products and differentiating our service and our reach to the customer. Now, 3 things, again. One is our price discipline, our intense focus on how much we can do better realization. Second is our cost program, actually cost compression optimization program, is actually working really really well. Last year in FY23, the team did a great job and we thought we have probably done our best in cost optimization. But this year, again, we thought let us just find more opportunities, and to our own surprise, we are actually doing better in cost optimization in FY24 than in FY23, and that is on top of whatever we have done in FY23. I personally believe this is a very continuous story. Companies like us, especially in the automotive sector, have this huge potential, especially when some technology changes. In our industry and BS6, the technology changed quite a bit with the new emission norms and also moving to the modular platform. So, we have a huge potential to look at cost again. That was the second. And third was, of course, softening of the commodity prices, which as I said, has helped and will continue to help for at least a few more months.

Gunjan: Is it possible to just get a number on what has been the price hike taken in 9 months overall, if not broken up into quarters? And maybe also get the revenue from the other businesses there, power solutions, is there anything we have seen any meaningful change in those other segments?

Gopal Mahadevan: I think we have shared it. We don't have that number readily available. We will take it offline, Gunjan. But rest assured that quarter on quarter, Q1-Q2-Q3 we have actually been raising prices across businesses, both in trucks as well as in light commercial vehicles and of course in all the other businesses. And also, the other important bit I think what Shenu had also mentioned was that the bus business is doing very well, and we have actually seen the profitability of the bus business scaling up very-very quickly. This has been a confluence of factors which has actually resulted on the pricing front. But we don't have that exact number for the 9 months that you are asking for.

Gunjan: Other segments like spares, power solutions, and defense, anything on the revenue to call out?

Shenu Agarwal: Gunjan, I gave out the numbers in my opening remarks. Maybe after the call, we can give you more specific numbers if you like. But I would just like to mention that we are actually very happy with all the non-auto businesses because we are doing really well this year whether it is spare parts or defense or the power solutions business. I think we will have a record year on all these 3 businesses this year. Actually, the defense business we are gunning to achieve roughly between Rs. 900 crores and Rs. 1,000 crores of turnover this year, which will be an all time high for us. That is the kind of positive momentum we have been able to generate on the defense side. Even in the power solutions business, already our 9-month volumes are record volumes. And I think this business will continue to perform like this in quarter 4 as well.

Gunjan: Last question. Any thoughts on scrappage? Anything you are hearing in terms of the Government looking to accelerate this or relook at the incentive levels? And how should we think about this

whole scrappage policy? Maybe not from a near-term perspective, but is there a thought process to revisit the incentives and drive this replacement?

Shenu Agarwal: Yes, definitely Gunjan. There has been a lot of discussion even in the last few months on scrappage. The Government is very-very keen to find ways so that this whole thing can be pushed really well. As you know, Government vehicles now mandatorily have to be replaced after the useful life, but such condition is not enforced for the private vehicles so far. Right now, the Government and industry are looking at various options. First, the Government really wants people like us and other companies to invest into these facilities – the scrappage and refurbishment facilities – and also, there has been some dialogue going on between SIAM and the Government to see how we can incentivize customers to come forward voluntarily and scrap their vehicles after the end of useful life. And these incentives would be coming both from the Government side as well as from the industry side. A lot of discussions are happening. I think it is moving in the right way. The Government, of course, cannot immediately make it mandatory for obvious reasons. But yes, I think at some point in time if the Government starts enforcing it, it can really happen very-very fast.

Moderator: The next question is from the line of Pramod Amte from InCred. Please go ahead.

Pramod Amte: Thanks for taking my questions. The first one is with regard to the EV trucks which you have launched. Congrats for that. Can you just specify, we can understand the ICV one, but it's interesting to see the tractor trailer being launched or being tested. What are operator economics? Why you selected this? How are you planning to develop a supply chain and when we expect it to hit the market?

Shenu Agarwal: We are actually very-very proud of achieving this milestone in our electric truck journey. You know we have lots of buses on the roads already. Very-very soon, we will have some light commercial vehicles on the road. But what we have delivered in Bharat Mobility Expo is the Boss 14-tonne electric truck for mid mile transportation and we have actually got more orders and we are going to deliver a few more in the coming months. Also, as I said, we are nearing market trials or the launch of 55-tonne tractor trailer as well. Right now, our focus is on 2 things. We are not running behind volumes here when it comes to electric trucks. Our focus is to make these machines more and more efficient. And the other thing is to bring the TCO down. Roughly at the industry level, I can tell you that the TCO equivalent of diesel is coming in roughly about 5 to 7 years right now on the electric trucks. I think if we can bring it down below 5 years, then it will start making much more sense. That is the whole intention. Right now, what we are doing is not really launching it in a massive way, but with very selective customers and selective geographies and selective applications, we are doing a lot of customer trials or market trials. There are many customers in the market right now who want to actually get into electric trucks for various reasons. And we are partnering with these customers to see if we can try these trucks out in the real life, in the real conditions, and then prove the various benefits of the electric powertrain.

- Pramod Amte:** And the second related to that is since you started delivering these trucks, will these be part of the standalone entity or will they be part of the Switch?
- Shenu Agarwal:** Electric trucks would always be part of Ashok Leyland. Switch is focusing only on electric buses and on electric light commercial vehicles.
- Moderator:** The next question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.
- Mumuksh Mandlesha:** Congratulations on the solid margins. Sir, just to understand more in terms of demand perspective on the recent slowdown, is it that the demand was weaker in the new demand where the expansion of fleet has slowed down or is it the replacement demand where there is a slow growth we are seeing in the recent months? This is basically to understand if it is a new project slowdown which is impacting the demand or there has been an absorption of pent-up demand, hence the things have slowed down?
- Shenu Agarwal:** I think it's a combination of both. Because, last year, there was a huge pent-up demand that was there, especially in the second half of the last year. Of course, that with the volumes growing like this – last year, we had a mammoth growth in the industry – some of that pent-up demand has also diffused now. That is one, of course. And the other thing is that, not right now, but what we are expecting in the next 2 to 3 months is that projects may slow down a little bit because of the code of conduct or other effects of the elections. And therefore, we are saying that the growth may moderate down in the next 3 to 4 or 5 months. So, it will be a combination of both the factors. But right now, it is just the high base effect in this quarter.
- Mumuksh Mandlesha:** And considering this near-term demand slowness, do you see the path of further improvement in margins to continue led by a better price realization? Or do you see there would be some temporary pause in the price increases?
- Shenu Agarwal:** That is very hard to say. It depends a lot on the competition action. But what I can say for Ashok Leyland is that we will be very much focused on increasing our margins, not just from the pricing side but also from the cost side. Price discipline is something that we do want to maintain. That will really help. We are finding more and more avenues for how we can increase our price realization, especially with the better network and the better service reach we are creating in the North and East zones and to some extent in the central zone. That is also giving us some of the pricing power. We are picking our battles. I am not saying that we are totally aloof as to what is happening in the market, but we are picking our battles very-very wisely. But, as I have said, I will repeat for the third time, we will not sacrifice margins for market share. Market share is a medium- to long-term story for us. We will achieve that as well; not on a quarter-to-quarter basis, but we will achieve it through the strength of our products and our network and service.
- Gopal Mahadevan:** Just to add here, even in the month of January, we have raised prices. Our NSRs have improved. So, this is completely 2 different tracks that we are looking at. As Shenu mentioned, you will see a traction happening on the market share. That is independent, i.e., distribution, products, new customers, better way of selling, using digital. That track will continue irrespective of...

This is not a price versus volume war that we are having in the market today. It is very important to have value selling that's happening and that we believe is what is going to be the very stable medium-term strategy.

Shenu Agarwal:

And one thing you should keep in mind is that it's not just Ashok Leyland, but the entire industry realizes that the margins of the industry have to come up. I think we have seen statements from other industry peers as well. And the reason I have been saying.... This reason is very-very simple. Our industry is going to go through a huge transition. We have already put electric buses on the road. Now we are putting some electric trucks on the road. We are about to launch electric light commercial vehicles. Then we may launch hydrogen powered vehicles in some more time. And all these, they need a lot of investment. They need a lot of resources. And therefore, if the industry is going to go through such a transition, we have to generate more cash to be able to help this transition rather than resisting the transition. I think that whole notion is very well understood by our peers also to some extent. And that also helps in maintaining the overall pricing discipline.

Moderator:

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

Jinesh Gandhi:

Sir, congrats on a good set of numbers. Quickly, a question on the pricing in the market. We have seen a quite substantial increase in the cost of trucks, say pre-COVID versus now. Almost 20% increase in cost of trucks. Is that a factor which will also play part on the demand side? As I have seen in other segments, obviously on the B2C side where demand has been materially impacted because of higher cost. Obviously, trucks have different dynamics, but how do you see the dynamics of price versus cost inflation versus demand from a medium-term perspective?

Shenu Agarwal:

No, I don't think so, Jinesh. I think this was like long ago when the cost increases because of the emission norms or other changes. Of late, we didn't have any major regulations that have an effect on the overall cost of the vehicle. That period is long past us. That was about like 4 years ago when we switched on to BS-VI. That is long. Whatever shock that increase in cost or increase in price created in the market, that is gone. Right now, we are not in a scenario where demand is getting affected through the prices.

Jinesh Gandhi:

And secondly, with respect to the replacement demand, I remember we had been talking about the average age of the fleet. It is at a decadal or multi-decade high. Have we started to see that demand coming in and the average age of the fleet started to moderate? And if not, what are the reasons why replacement demand has not been coming back?

Shenu Agarwal:

No, the average age won't get affected that soon. It will take several years for the average age to come down. You are right; the average age is closer to 10 years now, which used to be, I think, about 8 or less than 8 earlier. But it will take many good years of industry growth to be able to bring the average age down back to 8 or lower than 8. That is why I think in the medium term, we are very-very confident about the performance of the industry as a whole because most of the factors are going well. You know the CV industry is very well linked to the overall economic activity or the GDP growth of the country. And the country is doing very well and is

expected to do well going forward as well. A lot of focus the Government has put on infrastructure projects. You can see in the interim budget also, and we expect to see similar focus and similar consistency of the Government approach even in the main budget that will come in July. I think all those factors are pointing to positive confidence.

Jinesh Gandhi: And lastly, if we can talk about the performance of HLFL. How are they performing probably in 3Q and for the 9 months in terms of AUM growth and profitability and NPAs?

Gopal Mahadevan: I think HLFL is doing very well here. If you look at the size of the book now, it is almost Rs. 45,000 crores. I am talking about consolidated numbers. They have had disbursement of nearly Rs. 17,890 crores. And their PAT percentage is 13%. Their NPA isn't too high. It's been very well controlled. I think it's at about 2.6% or 2.8%. And the NIMs have also improved. Overall, I think, HLFL and there is this subsidiary called HHF which is a 100% subsidiary of HLFL, which is also doing very well. The portfolios are good. And the other bit is that exciting company called as Gro which is equally held between HLFL and Ashok Leyland. And I think that this is the company that is to watch out for because this is into solutions and using technology for enabling the whole ecosystem around our customers – and not just customers, our partners. That's also I think very much on track.

Moderator: The next question is from the line of Raghunandhan NL from Nuvama Research. Please go ahead.

Raghunandhan NL: Congratulations on a strong margin performance and recent EV unveilings. A couple of questions. Firstly, when we look at history, say the 30-year history shows that whenever there is an upcycle, the new peak surpasses the previous peak by at least 10% even in tonnage terms. So, there is still some room to go ahead. How do you expect various categories within MHCVs to perform going ahead versus tractor trailers and ICVs? Which category do you expect to do better?

Shenu Agarwal: Yes, it is true. Like I said also in my opening statement that the previous peak was in FY19 and although we were hoping we will cross that peak this year or get close to it, it seems we will fall short of that. There is still very high room for growth left in the industry. As far as segmental growth is concerned, we think there is a lot of steam left in buses even now. You know that we have received a huge number of orders and our peers have also received some orders. That will be executed over the next 6 to 8 months or 9 months. That will keep the bus industry going really really well. Then the second, I think, would be the tractor trailer segment which has already shown considerable shift from multi axle to tractor trailer because of many many reasons. This started happening, I think, even in FY22, but FY23 was a great shift towards tractor trailers. And even this year, we are seeing that tractor trailer is leading the growth of the tractor industry. I think the second segment in the trucks would be the tipper. I think with all the infrastructure projects, all the mining projects going on in the country, and there has been some talk about privatization of mines going into at a higher pace, if all that happens, the tipper industry should also look.... It is looking very promising right now. I think those are the 3 stars as far as the segments are concerned – the buses, tractor trailers, and the tippers.

Raghunandhan NL: Thank you for indicating a much better product mix. Sir, my second question; over the medium term, how do you see the powertrain mix shaping up, considering the efforts on EVs and recently also on the hydrogen side, how do you see the EV share increasing for buses and CVs over the medium term? And also, for near-term visibility, if you can indicate interest level or order books that the company currently has for LCVs and buses?

Shenu Agarwal: For buses, we have orders of roughly about 1,000 buses as of now and then we are participating in some new tenders this month and next month. That will probably help us bring in more orders. For the LCVs, we have MoU signed with various customers, and that number is roughly 12,000 to 13,000 units. That is where we are on LCV and buses. Of course, on the truck side, we are not yet signing any MoU. As I said, we are being very-very selective for next few months in choosing our customers, our applications, and geographies. And our first intention is to mature the technology and make the trucks very-very efficient, bring the TCO down before we kind of start running for the numbers.

Raghunandhan NL: And how do you see the medium term panning out in terms of penetration?

Shenu Agarwal: Penetration of EV, Raghu, it is very hard to say. There is so much data floating around in the industry. Some people tend to believe that LCV and buses would cross roughly something between 20% to 40% penetration as soon as 2030 or 2032. But it is very hard to say, Raghu, because it's not just us but a lot of ecosystem factors have to be in line. I always say I don't get worried about these trends too much. I am more worried about what Ashok Leyland should do. And our focus is to mature the technology, mature the product, make it more efficient, and bring the TCO down. I think if we can do that, we will do our job in pushing this transition and it is very important for Ashok Leyland to participate and lead this transition because we are a challenger. And for a challenger, it is very important that these disruptions happen in the market because if something changes, only then do we have a chance to disrupt the pecking order. We are loving it, we are very focused on it, and hopefully we will have the best product in the market.

Raghunandhan NL: Just continuing with another question on the Switch Mobility side. Now that you are investing Rs. 1,200 crores, there is a good set of orders for buses and LCVs, how do you see the growth shaping up? And as Gopal sir earlier mentioned that the focus will be to make it self-sufficient in future, how do you see those trends shaping up? And, relating to stake sale, any thoughts or any progress there?

Shenu Agarwal: Raghu, it's true that more action is happening in Switch India than in the UK or the European markets right now because the growth in the EV adoption in the UK or in Europe is not to the extent that we had earlier imagined or even the market had imagined. Even we are highly highly focused on Switch India operations right now. And we are very confident that by the end of the next fiscal year or during sometime in the next fiscal year, Switch India should be cash neutral. At least, that is the goal that by the end of next fiscal year, which is the last quarter of the next fiscal year, we should make Switch India cash neutral which is self-sustaining, which is not very far off. Like Gopal said, in the meanwhile, if there is further requirement, then Ashok Leyland's balance sheet is very strong to be able to support Switch. But, yes, very focused on Switch

business, very happy actually the way it is shaping up, not just what we are doing currently but all the R&D and the product development that is happening in Switch right now.

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

Mukesh Saraf: My first question is on the mix of vehicles. Like you mentioned, we have seen a significant increase in tractor trailers and probably more 40-tonner vehicles. We have looked at previous cycles. We have not seen this kind of a steep shift towards these high tonnage vehicles. What exactly has driven this time around this kind of steep shift? And can this continue a bit longer according to you?

Shenu Agarwal: Mukesh, yes, it's true that we haven't seen this kind of a steep shift to higher tonnage or even from multi axles to tractor trailers, etc., but we are seeing a lot of things that are happening for the first time in the country. I get asked a lot by the media also about the cyclicity of the truck industry. And they say, see, this is how history has behaved. And my answer normally is, it will not be very prudent in our country today to look at history and project the future. A lot of things are changing. The kind of highways, the kind of infrastructure that is getting built in the country, the quadrilateral, the national highways, the state highways, it is a direct effect of that because vehicles can cruise at higher speed, they are more comfortable, drivers can work more hours without getting fatigued out. A lot of things are changing in the sector, both in terms of product technology and in terms of the infrastructure. I think that is the reason. And when these things happen, you always tend to see a hawkish shift kind of demand curve because there are a few adopters in the early part of it, but when people start seeing the benefits, then more and more people start adopting it. I think this trend will continue. Actually, we will continue to move towards a better product mix, a higher tonnage, and more tractor trailers because tractor trailers, I think 80% of the market is 55 tonnes. So, more and more volume is shifting to tractor trailers. That is good for the customers, good for the industry.

Mukesh Saraf: The reason I asked the question was we are getting into the 3rd and 4th year of the upcycle and say if there is some kind of a deceleration, would you again see a very quick shift back to say 25 tonne vehicles which can again impact our realizations, margins, discounting trends, etc.? You don't see that in the near future is what you said?

Shenu Agarwal: I don't think so. If you look at any international market and you look at tractor trailers, their share in the mix is very-very heavy. India tractor trailer has not even reached 20% I think right now or maybe just 20%. I think there is like although we are all surprised by the speed of the shift, but I think at the same time we should also be looking at the headroom available.

Mukesh Saraf: And my second question is on defense business. I think last quarter you had mentioned targeting Rs. 800 crores this year. And I think in the first half, you were at Rs. 300 crores. Any update on that? Where are we in the 9 months and how are we looking at this year and the next year?

Shenu Agarwal: We are still targeting Rs. 800+ crores. We have actually gained some confidence that we might even touch Rs. 900 crores. I don't want to project numbers ahead of time, but yes, what I am

trying to say is that the defense business has really worked very-very well for us. And same is the situation for Power Solutions business. I think we have done more than 22,000 numbers in the first 9 months, and we are gunning for even better numbers to close the year. And third business is spare parts business which we are very keen on because it's a high-margin business. And there also, we are growing considerably well.

Moderator: The next question is from the line of Mihir Jhaveri from ASK Group. Please go ahead.

Mihir Kumar Jhaveri: Just one question is, on the demand side. Given that the biggest competitor has also called out for the first half being weak next year, not only Q4. Anything you want to call out in terms of how much growth you are looking at for next year? And my second question is that has discounting inched up a bit given that Q4 we are seeing that moderation coming in. On discounting – if I missed out, sorry – but is the discounting inched up? Have you seen that in the industry?

Shenu Agarwal: Let me start with the second one because I was not clear about the first one. Maybe I will have to ask you to repeat the first one. But the second one on the discounting, I will not say it has gone up or gone down. These are very tactical situations where people would discount a little bit on something in one quarter and then shift to something else in the other quarter. And we don't worry about this too much. As I said, we are very-very focused on maintaining a price discipline on seeing how we can get a better NSR, how we can play on the strengths of our products wherever we are strong and improve on our weaknesses. In a nutshell, I would say discounting is there. It hasn't gone down or gone up substantially. But Ashok Leyland is very-very focused on picking our own battles and focusing on profitable growth.

On the first one, we have not issued a formal forecast as of now. I think we will just wait for a few more weeks before we do that because we are just waiting for some announcements from the Government on elections, etc. and also just see how this quarter 4 pans out a little bit more. But very soon, we will make an announcement on that. But Gopal, I think, has something to add.

Gopal Mahadevan: I think all the questions are based only on market share and pricing repeatedly. And I don't blame it because that's where the whole thing is. What you have to see is the trend that has happened over the years. Now, it is not only for us. We have actually, I think, if I may say so, Ashok Leyland has been reporting best-in-class numbers for CV performance consistently. But, overall if you look at all the players also, they have actually moved their margins up from Q1 to Q2 to Q3. The highest growths have been from Q1, Q2, and Q3 because of the base effect. So, we are actually seeing that there is a lot of rationality that is coming in. It is not like we are not anticipating that in the interest. If suppose the markets were to be a little flattish and there is nothing wrong with the market being a little flattish. Sometimes, it has to catch up a breath. You must understand that this industry has grown fantastically over the last 8 quarters. So, there will be a certain amount of catch-up. What we have to look for is the mega trends. You have seen that even in the latest budget; we have had nearly Rs. 11 lakh crores being used for infra. All of that investment, if it is going to come in, will start to have a direct and an indirect benefit on the commercial vehicle industry. You have seen huge growth in buses. We are now the second

largest road network in the world today. And the Government has got a policy to ensure that the supply chain costs start coming down, which means turnaround times have to improve. If turnaround times improve, then you are going to see more investments coming in. There was this question about moving into higher tonnage. That's happening because post GST and post efficiency of road network, people are seeing that ROIs are coming on larger trucks. That is the trifurcation that has happened on heavies, i.e., intermediate commercial vehicle and light commercial vehicle. If you really ask me, while we don't want to sound overtly exciting about a statement that we make, I think there is a lot of steam left in transportation, both for haulage and for people. And that is how we are planning the whole thing. Quarter here Quarter there is not what we are looking at. Are we seeing a trajectory of growth? Yes. Are we significantly better than where we were 12 months back? Yes. Are we looking at margin improvement? Yes. Are we becoming more pan-India or our presence getting more and more? Are we acquiring customers in new geographies? Have we got strategies and product development in place? Are we monetizing the company by investments in hydrogen fuel cells, hydrogen ICE, EVs? Yes. So, this thing about a huge cycle coming off and then we are slugfest on price, I think we possibly will not see that happen. That's what I just wanted to share with you very quickly.

Moderator: Ladies and gentlemen, due to time constraints, we will take this as the last question. As that was the last question, I would now like to hand the conference over to the management for closing comments.

Shenu Agarwal: Thank you once again. This has been a record quarter and a record year so far, as I said. While we continue to gain ground in MHCV as well as LCV, contributions from defense, aftermarket, and Power Solutions businesses supported the overall performance. Revenue mix was also positive. Price recovery and cost savings went as per our plans. With the robust economic growth outlook as well as the increased outlay on infrastructure, we expect a good demand situation going forward. Softness in commodity cost and our relentless focus on driving operational efficiency should also help us further. Given this backdrop, we hope to steadily improve our margins as well as gain market share penetration in all the segments we operate in. Ladies and gentlemen, thank you once again for the interest shown in Ashok Leyland.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.