



November 17 , 2023

National Stock Exchange of India Limited
Exchange Plaza,
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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 November 10, 2023 to discuss the financial results for the quarter and half-year ended September 30, 2023.

Meeting start time - 5.30 p.m. IST

End time – 6.25 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
Q2 FY '24 Post Results Conference Call”
November 10, 2023



MANAGEMENT: **MR. SHENU AGARWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – ASHOK LEYLAND LIMITED**
MR. GOPAL MAHADEVAN – DIRECTOR AND CHIEF FINANCIAL OFFICER – ASHOK LEYLAND LIMITED
MR. K.M. BALAJI – DEPUTY CHIEF FINANCIAL OFFICER – ASHOK LEYLAND LIMITED

MODERATOR: **MR. ANNAMALAI JAYARAJ -- BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Ashok Leyland Limited Q2 FY '24 Post Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities. Thank you, and over to you, sir.

Annamalai Jayaraj: Thank you. I welcome all the participants to Ashok Leyland Limited Q2 FY '24 Post Results Conference Call. From Ashok Leyland management, we have with us today, Mr. Shenu Agarwal, Managing Director and CEO; Mr. Gopal Mahadevan, Director and CFO; and Mr. K.M. Balaji, Deputy CFO. I'll now hand over the call to Ashok Leyland management for opening remarks to be followed by question-and-answer session. Over to you, sir.

Shenu Agarwal: Good evening, ladies and gentlemen. It gives me immense pleasure to be with you today. I also thank you very much for the interest shown in Ashok Leyland. I'm happy to share that Ashok Leyland has crossed the milestone of 75 years on 7th September 2023, and we have celebrated this event with the launch of Switch electric LCVs as well as with the flag-off of Ashok Leyland hydrogen fuel cell bus delivered to NTPC. As an icing on the cake, in this landmark year, what gives us more satisfaction is that our performance has touched a historic high in the first half with respect to not only revenues but also in terms of EBITDA and profits.

As guided by us in our earlier interactions, domestic MHCV segment so far in the year has witnessed a 10% growth backed by a favorable macroeconomic environment and healthy replacement demand. Continuing growth in the end-user industries like cement, steel, coal, iron ore and container movements as well as improvements in general manufacturing activity and consumption trends remain to act in the favor of demand from fleet operators and other customers.

Extraordinary bus demand in all categories, covering tourists and inter-city, private carriage, state transport undertaking as well as school and staff has also augured well for the industry. The growth trajectory is expected to stay strong going forward. Mining, infrastructure execution, especially roads and improving industrial output will be the demand drivers for MHCV trucks going forward. Replacement of existing fleet of buses, public transport impetus and increasing demand for school and staff transportation will drive demand for buses.

For MHCV segment, we stick to our earlier estimates of 8% to 10% industry growth in full year FY '24. While our addressable LCV industry has seen a 3% growth in H1 as against our year beginning estimate of 4% to 5%, we do think that the situation will improve going forward. We have strong beliefs in medium and long-term prospects of the LCV market, healthy growth in agriculture, consumer durables, dairy and e-commerce, and that of private consumption will drive the LCV demand in the future.

Though the steel prices went up marginally in the first 2 months of the current fiscal year, prices have softened since then and are expected to continue to remain soft for a few more months. This is being closely monitored by us.

Ashok Leyland, even while maintaining a steady market share of above 30% in MHCV and close to 20% in LCV segments in which we are in, we have been able to raise prices consistently. We are also putting unprecedented efforts in reducing our costs, both product costs as well as the overheads. All these efforts are visible in our margin improvement.

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 approved an equity investment of Rs. 1,200 crores in Optare, which is the holding company for Switch U.K. and Switch India. We shall be inducting this equity in 1 or more tranches over the next 3 to 6 months.

Ashok Leyland balance sheet is strong enough to support our vision on electrification of buses and LCVs under the Switch brand. I'm happy to share that our Switch products are performing extremely well in the market. We have an order book of more than 1,100 buses and LOIs for electric LCVs for more than 10,000 units. We are very excited about delivering our first batch of electric light commercial vehicles in Q4 of this fiscal. The development work on E1 bus designed for European market is also progressing well.

During the quarter, Ashok Leyland has launched several new products namely Ecomet 1915 with wider load body, 1922 CNG, N2825 ED-PTO, Lynx Smart Chassis, 2820 with G45 FES, 13.5meter bus and so on. AL is progressing well on network expansion plans as well. For MHCV, 24 each of authorized service centers and dealers have been added during first half. Now we are at a total of 386 authorized service centers and 471 dealers. We wish to take this number to 1,000 very soon.

Similarly, for LCVs, 8 dealers and 42 authorized service centers have been added in making our LCV touch point count at 670. I am extremely confident that with these launches and the continued focus on network expansion, they will add on to the market share gains achieved in the last few quarters.

I will now quickly run you through our Q2 performance. I'm happy to share that Q2 FY '24 continued to be a very good quarter for us. In Q2, our MHCV volumes grew in line with industry growth resulting in market share stability for AL. However, sequentially, our market share has grown from 31.2% in Q1 to 31.9% in Q2. In the first half, we have grown our market share from 31.0% last year to 31.6% this year. This is on back of more than 5% market share gain in the last fiscal year.

TIV for bus has grown by 46% in the quarter and the corresponding growth for Ashok Leyland was 95%. Bus market share has improved from 28.3% last year to 37.8% now. This is 9.5% increase over market share during the same period last year. Truck volumes for TIV has grown by 15% and AL volumes have also grown, resulting in 31.1% market share for Ashok Leyland. This is the sixth consecutive quarter of 31% plus market share for Ashok Leyland in trucks.

Our Q2 LCV volumes are at the same level of last year. It is noteworthy that in H1, while Ashok Leyland volumes have grown by 1%, this is in line with the growth in the industry. IO sales have registered a 4% increase in Q2 Y-o-Y despite continuing meltdown in many economies around the world. We registered exports volume of 2,901 numbers in Q2 current year versus 2,780 numbers in Q2 in the previous year. Most of our industry peers have registered a sharp decline in their export volume. Good performance in aftermarket sales continued in Q2. Our aftermarket sales at Rs. 655 crores grew by 35% over the same period last year. Volumes under Power Solutions business grew by 15% in Q2 over the same period last year. As I said, AL has recorded an historic high on revenue, EBITDA and PAT in Q2 and H1 of the current financial year.

You would have taken a note of the detailed financial results. So with this, I will open the floor for questions and answers.

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

Gunjan Prityani: I had a couple of questions. Firstly, on the RM side, can you give us a little bit color as to how did the steel price reflect in the P&L this quarter and the comments that they are softening now? So what sort of improvement should we see into the next 2, 3 quarters? And again, similar comments on price. I'm just trying to get the direction on the gross margin over the next 2, 3 quarters.

Shenu Agarwal: Yes, Gunjan, thank you for the question. This is Shenu. Like I said in my opening commentary, there was a slight increase in the commodity prices as we started the year. But since then, it has softened ie., we have seen a softening trend. Now going forward also, we think that this trend of softening in commodity prices will continue and therefore, it will help us improve our margins further. As far as the price recovery is concerned, we have been able to get better price realization on all our business lines, whether it is MHCV, LCV or any other. And that trend, we also hope should continue going forward.

Gunjan Prityani: Sir, is it possible to get a little bit of quantification as to how much sort of a movement that we saw in the steel or commodity impact and discounting into this quarter? Sequentially, Q1 to Q2, how have we seen those sort of metrics changing?

Shenu Agarwal: Yes, Gopal, would you like to answer this question?

Gopal Mahadevan: Happy Diwali to all of you. See, basically, Gunjan, what has been happening is if you look at our material cost as a percentage to sale, we have seen that in Q2 last year, it was about 78%, and now it's at 73.5%. So what you're seeing is that as a percentage to sale, we are really about 4.5% lower. In a ratio like this, of course, predominant part of it is coming in on account of material cost.

But when you look at the improvement in gross margin or over material cost of contributions, right, we will see that there is an impact on account of the realization also. Steel prices between or sequentially, if you look at it from Q1 to Q2, what we have seen happening is that we did factor in a little bit of increase in Q1, but that is kind of rolled back. The typical percentage of

steel and steel accounts for may be 40%, 45%, 50%, depending on the vehicle, right? In between Q1 and Q2, the increase, decreases would be about 8% or so.

But the point is, if you look at it sequentially, right, there was a steep increase in steel prices last year in Q1 and Q2. After that, what we have seen is a deceleration of the price I mean, the increase and it came down in Q3, Q4. Q1 of this year had a marginal increase because the settlement of Q4 prices happens in Q1 and then in Q2, again, it has been soft. To give you an idea about what it will be going forward, I think we'll have to wait and watch, but it looks like the pricing in the industry has been improving typically, pricing improves by about 1.5% to 2% per quarter, and we hope that this trend will continue.

And see, again, these are very general numbers we can share because there is a lot of the actual price increases on each type of variant keeps changing, right? And depending on which market you are and where you're playing, etc. Overall, what we can say is if you look at the results of Ashok Leyland or competition also, all I can tell is that we can share with you is that the general level of profitability of the industry has gone up on account of 3 factors: one is very clearly that steel prices have come off.

Second one, more importantly, price realizations have started to improve, discounts have started to come off, and more importantly, discount, I would say, net realizations have started to improve. And of course, the third one is operating leverage itself. Last year, the industry grew at about 48% or so. This year, we have seen a 10% increase in H1, and that operating leverage benefit is coming in.

In Ashok Leyland, we can't talk about competition, which also Shenu kind of alluded to. And I thought I'll give a slightly longish answer because I'm sure other investors will also have the same question. We have embarked upon a never-before like cost production program. So last year, we possibly did about Rs. 600 to Rs. 675 crores of savings. We are looking at new materials, new vendors, consolidating vendors, changing the design, where we could optimize it, but not reduce the performance of the vehicle, in fact, enhance it.

So there's a huge amount of effort that is happening. So we will pursue with that effort in the current year also. So all of this has resulted in the margin. So 11.2% is actually a very good result. I mean we shouldn't be saying it ourselves. But in Q2, if you would look at it, I think we have achieved 11.2%. And in Q1, when we actually had forecasted that for the full year, we'll be at kind of double-digit EBITDA margin. We started off Q1 itself with a 10% EBITDA. Back to you.

Gunjan Prityani:

Okay. Just last one from my side. If you can talk a little bit about the channel inventory because, I mean, we do start seeing that dealers talking about inventory being a bit higher. So is there any comment to be made on demand being relatively softer than we expected and a little bit of channel build-up that has happened in the last couple of months. Any comments around that?

Gopal Mahadevan:

I'll give a quick comment and then also hand it over to Shenu. But you see this channel inventory, we don't see it as a major concern because what happens is there is a lot of pull that comes also

from the dealers based on the forecast and then you've got Diwali time, so they want to ensure that they are having adequate stocks. But I think if there is any correction that needs to happen, correction is a very significant word. I would say that if that needs to happen, we can do it. But the basic you want to understand that these are all blips that keep happening month-on-month, etc. Some will go high, some will go low I have the current year itself, you have seen where channel inventory has come up very sharply and then it increases.

What we would need to do is to look at the larger picture, which is, is there raw demand for the vehicles and what is it riding on? It is riding on the back of macroeconomic factors, the GDP, India continues to be one of the high-growth GDP. The second one is the spend on infra by the government is actually leading to a lot of demand. That's why you're seeing that the larger vehicles, multi-axle vehicles, tractor trailers and also tippers out growing. But I will now request Shenu also to add.

Shenu Agarwal: No. Gopal has already explained that. I think I can just sum it up by saying that there are no concerns really on the channel inventory as of now.

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

Pramod Kumar: Shenu just for clarification, you've been referring to the market share on the MHCV at 30% plus. But if you look at VAHAN, last in last almost 4 months, the market share is stagnating at around 26% on MHCV between August to October sorry, for the last 3 months. So I'm just trying to understand why is there such a big distance between the SIAM wholesale market share in the retail market share? And that too for almost 4 straight months now. So if you can just help us understand what is missing here? That would be my first question, sir.

Shenu Agarwal: Yes. Pramod, it will be difficult to correlate between the wholesale market share that we report based on SIAM data and the VAHAN because VAHAN is not yet countrywide. There are 3 states and some more districts in some other states that the VAHAN portal does not compile the data with, right? So there will always be a gap. And then you see there is also a reporting gap. Wholesale will happen and the registration will happen subsequently. And therefore, these things they keep on shifting quite a bit, yes? So it will be very difficult to correlate the wholesale and retail data on a month-on-month or a quarter-to-quarter basis.

Pramod Kumar: Fair enough. Second question is on the demand trends. If you can just help us understand the product categories in terms of use case, how they're doing. Because what we learned is that Tipper continues to be strong, but Haulage has started to see some weakness. Even fleet owners have started to talk about weakening trends on the both freight demand and freight rates as well. So if you can just help understand what categories outside of buses, of course, which you've talked about, within the trucking segment, what are the segments which are doing well or which are kind of currently driving demand for you?

Shenu Agarwal: So the truck industry has grown in Q2 by 15%. So I think the demand is very strong. I mean, when we speak to the fleet operators and other customers, we don't hear any negative sentiments around the demand. Actually, most of what we hear is that the demand is going to be strong not

just for the balance of this year, but also going into next year. Now in terms of product segments, definitely tractor is one segment which has outgrown everything else.

While the overall growth in H1 in the industry of trucks or total MHCV is 10%, but the tractor demand has grown by roughly 50%. So there is a large shift and we have been talking about this in our previous calls also, there is a large shift from MAV and haulage-type of rigid vehicles to tractor trailer-type of vehicles. So that is one segment, we think we will continue to grow. And Ashok Leyland, of course, in terms of product and in terms of even the numbers that we are reporting. Ashok Leyland is very strong. So actually, that is one thing that is helping us quite a lot.

Yes, the other product segment that is growing, what you also, I think, alluded to was on the Tippers. So overall, while MHCV has grown by 10%, Tipper is growing by roughly, let's say, double of the overall MHCV growth, which is about 20%. So these 2 segments stand out, and it is not surprising because like I said in my commentary, the basic movement that is positive movement that is happening in the core sectors of coal, steel, iron ore, etc, or in terms of containerized movement of goods. That is really moving very, very well. And I think that is going to be the trend in future also. So we can expect that tractors and tippers would continue to grow in the future as well.

Pramod Kumar:

And finally, sir, on Switch Mobility. We've the Rs.1200 crores investment, how do you see that in context of what else would or how much more would be needed over the course of the remainder of the year and also for FY '25? Because as we said, you clearly have a strong order book here. So what could be the kind of investment commitments what Ashok Leyland may have to make here?

And also on the funding environment, given where interest rates are and the entire private equity scenario, is it fair that we should not be pencilling in any transaction in terms of the equity inflation from outside for this? And it will be incrementally at least in the near medium term, Ashok Leyland, which will be leading those initiatives in terms of investment? Is the understanding right?

Shenu Agarwal:

Yes. We are very keen on getting external investments also but we want to make sure that we have the right strategic partner with us. I mean and we do it at the right valuation. So right now, the focus is to get Switch into a very, very strong mode by developing products, by maturing our technology on both the bus side and the LCV side.

So whenever we get a good offer from an external investor, we'll certainly look at that. But until then, we won't shy from investing on our own from the Ashok Leyland side. The balance sheet of Ashok Leyland is pretty strong right now. So we have no concerns as to whether or not we can fund this growth in Switch for the future.

On investment itself, we are putting in Rs. 1,200 crores right now into Switch through Optare. And we think that Switch India going forward on an operating level at least, would be cash

neutral or cash positive. If there is any other investment required in Switch India, that would be more or less some smaller amounts that would be required for product development, etc.

On the Switch U.K. side, the European markets are still not going that strong or the U.K. market is still not going that strong. Some more investments may be required into FY '25. It would be hard to quantify that at this moment of time. But we think that Switch India is more or less self-sufficient if any investment has to be made, that would be for some kind of product development or capex, but Switch U.K. might need some more help going into next year.

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

Chandramouli Muthiah: My first question is just on the pricing comments that you alluded to earlier in the call 1.5% to 2% per quarter sort of price benefit that we've seen in the recent past. Just trying to understand, this quarter, I think starting October, one of our competitors had taken or announced up to a 3% price hike. So just trying to see if we see opportunity to sort of follow. And just in terms of net price realization, net of whatever discounting activity has been happening in the recent past, what the price retention could be there?

Shenu Agarwal: Yes. Thank you for that question. So yes, you are right, there was an announcement of a significant price increase by one of our peers for quarter 3. On the ground, we don't see that kind of a price increase happening actually in October, at least. But I think what Gopal said, 1% may be for the quarter, especially for quarter 3 is feasible. So that is our goal. And of course, we are in the beginning of the quarter right now, but we will see if we can make it happen.

Chandramouli Muthiah: Got it. That's helpful. Just related to the pricing topic, I had a follow-up. I think the past 6 successive quarters; we have seen Q-o-Q improvement in realization per vehicle. But this quarter, you've seen a slight decline. So just trying to understand what the factors there could be? Is it to do with product mix? Or are we passing on some of the commodity benefits that we've been realizing back to customers? Just trying to understand the rationale behind the realization per vehicle...

Shenu Agarwal: Chandramouli, the industry, I think, went a bit aggressive in Q1 on price realization. Starting April, we were all hoping that we can probably take about 3% price hike in Q1. So which we could not kind of sustain because, normally, quarter-by-quarter, you can expect like 1% to maybe 1.5%. But because of that price hike that we took in quarter 1, which we could not sustain. So therefore, you would see some balancing out that has happened in Q2. But going forward, the intent, at least for us, is to take at least 1% price hike in each of the quarters. Of course, it depends a lot on other factors as well. But that is at least the intent.

Chandramouli Muthiah: Got it. That's helpful. And my last question is just a quick clarification on tax rate. So this quarter, we seem to have had sort of 35% to 36% tax rate. So just trying to understand how we should think about tax rate for the full year coming up?

Gopal Mahadevan: Yes, I'll take that one Shenu. See, basically what we did in the last quarter was there is this adjustment of deferred tax that we'll have to do because we plan to, at the moment if things go right, our intention is to go in for a lower tax rate from next year, which means from next year,

you would possibly plan for an approximately 25% tax rate, which is an advantage on the PAT and EPS.

This year, since we would continue with the 35% tax rate for Q2, Q3, Q4. The adjustment that happened in Q1 was because of the credit that we had to take on deferred tax which was Rs. 172 crores. So that is what we have done. And so that is why we have seen that reduction in the absolute tax rate. I hope that kind of clarifies, yes.

Moderator: The next question is from the line of Siddhartha Bera from Nomura.

Siddhartha Bera: Sir, one clarification on the Switch investment. So we have another subsidiary OHM, which operates the buses. So do you think there will be any further investment required in the OHM entity as well?

Shenu Agarwal: Yes. The OHM is on the E-MaaS side. So investments in equity would really depend on the kind of the order pipeline that we are able to generate. But right now, we are well funded in OHM as well because recently we had put an equity of Rs. 300 crores. And you are also aware that OHM had been moved directly under Ashok Leyland. I can't give you a number right now. It really depends on how and what kind of an order pipeline we can build over the next few quarters.

Siddhartha Bera: Got it. And sir, what should be the stand-alone capex we should assume in the stand-alone entity? And second is on the Hinduja Leyland Finance, can you give us some numbers on what is book size and what would be any more investment if it will be required by us in the current year?

Shenu Agarwal: Gopal, would you take that, both of those queries?

Gopal Mahadevan: You are talking in terms of the investment in OHM, right? Because there was a call drop.

Shenu Agarwal: No, no. The capex, the capex and the stand-alone entity.

Gopal Mahadevan: Capex. You see capex, we have been efficient for the first half. We have had a capex of about Rs. 200 crores, approximately Rs. 100 crores each, Rs. 95 crores and Rs. 104 crores. I think we are reasonably ensuring two three things at the same time. We want to ensure that we invest in capex incrementally, but ensuring that there is a consistent debottlenecking of facility that happens. At the same time, at Leyland, what is happening is the manufacturing teams are looking at how do you keep revisiting the manufacturing footprint to get greater efficiency, productivity and driving out cost also out of distribution.

So when we are doing these exercises, we are doing it in a very wholesome way. And that's also one of the reasons why we're seeing that the operating costs are coming off because we have to continuously keep reinventing ourselves.

The manufacturing teams have started initiative, one part, which is called on automation, etc, which is happening through Industry 2.0 and we also see productivity happening there. To answer your question specifically, it would be anywhere, I think it should be around maybe

about Rs. 600 crores or so for the year. Nothing major. And I think our debt position in the balance sheet, debt equity is extremely comfortable.

Siddhartha Bera: Got it. The second question was on the Hinduja Finance. What will be the investment and if you can share the loan book and the details?

Gopal Mahadevan: No, we will not have any investment in Hinduja Leyland Finance. I think Hinduja Leyland Finance is adequately funded. Their capital adequacy, I think about 21% or so. So they are growing their loan book handsomely. I don't have the exact number with me, but between Hinduja Leyland Finance and Hinduja Housing Finance, which is another excellent company, I think one of the fastest-growing housing finance companies that we have, I think the overall book is around Rs. 36,000 crores.

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

Pramod Amthe: So this is with regard to the strong growth which you have alluded to for tractor trailers. Just curious to know, considering that exports are weak and also the fact that GST is coming up in has already kick started in the last 6 months. So where is this usage of tippers happening per se? Because when the GST started, there was a fear that it might be hitting the tractor trailer guys more than anybody else. So I wanted to know the customer behavior, what is it driving?

Shenu Agarwal: No. So the drive behind both tractor trailers and tippers is coming mainly from the positive movement that we are seeing in the core sectors of coal, steel and iron ore, also from a very positive movement in the containerized movement of the goods. Yes. So that is, I think, what is driving it, really.

I mean, this trend is not new. I mean the same thing we witnessed in the last year, especially in the last half and more so in quarter 4 of last year when we saw the tractor trailers and tippers, I mean, going really well as compared to the rest of the segments.

So as I said, we think that this trend will continue because tractor trailers, they provide much more flexibility to the fleet operators in carrying different types of goods and different types of routes. So yes, so that is visible and I think for the future also quite inevitably.

Pramod Amthe: And any first half update on your defense business in terms of order wins or any execution plan for the full year?

Shenu Agarwal: Yes, defense business actually has been one of the highlights of our performance this year. I mean the kind of pipeline that we have on defense actually is at a historic high. We were actually hoping for last 2, 3 years, if not more, to get into a 4-digit top line on defense. I think this year, we have a very strong chance of doing that. Even if we missed this, I mean, we would be, I think, very positive at looking at about Rs. 800-odd crores, if not more, right? So this will be a very good year for defense. Even for the future, for next couple of years, the pipeline seems to be strong.

Moderator: The next question is from the line of Mukesh Saraf from Aventus Spark.

Mukesh Saraf: My first question is pertaining to some of this regulatory changes that we're seeing. Like now we have the electronic stability control mandatory and I guess the expectations of how a few more regulations coming in, which can probably lead to the price of the vehicle going up. So first, can you kind of give us a sense of do you expect even such regulatory changes coming in, in the near term? And secondly, how will that kind of impact your power to price better?

Shenu Agarwal: Yes. Mukesh, I mean, regulatory changes are not new to our industry. We are actually one of the industries which are, I think, more regulated. But we are used to it. Even our customers are used to it. And in a lot of ways, these regulations, although they increase the cost in the price of vehicles, but they are very useful overall at least in the medium term for the industry.

I'm not just saying from a price cost point of view, but I'm also saying from a customer point of view because, whether it is safety or whether it is comfort or whether it is something else, these are helping raise the standards of the Indian automotive industry or the Indian fleet industry, which is very much needed also, right?

So we do welcome actually most of these regulations. Even our customers are looking forward to it. Even our customers have matured quite a lot when it comes to actions or initiatives around safety, comfort and others, whether they are coming out of regulations or they are just coming out of initiatives from OEMs. So for example, like very soon we are going to introduce kind of first-level ADAS systems in our trucks.

And this is mainly on the basis that there is actually a keenness on the part of the customers to make sure that their drivers and their vehicles are much safer. So I mean, my answer is like this is good for the industry. This is good for OEMs. This is good for customers. And we should all welcome these changes.

Mukesh Saraf: Right. But you still kind of feel that you can take that 1.5% kind of net realization increase over, say...

Shenu Agarwal: Yes. Gopal had said 1% to 1.5%; he was like giving you a general scenario. I'm not saying that it can happen every quarter. But I mean in the medium to long run, I think that is at least our intent. I mean, sometimes it will happen, sometimes it may not. Like, I mean, sometimes, some extraordinary costs may come in, which may not be able to pass on. Sometimes we may be able to realize better than the cost increases. But overall, on a medium- to long-term basis and even if you look historically in the last 6 or 8 or 10 quarters, that is kind of what the industry is aiming at.

Mukesh Saraf: Right. Got that. And my second question is looking slightly beyond this year for the industry next year with elections, I mean, State elections as well as the Central elections there, do you think that could have some kind of an impact on, say, government spending on infrastructure, etc. And to your past experience, if at all, could you give some sense on if that could have an impact on, say, temporary pause on some growth there, on CVs?

Shenu Agarwal: I think the fundamentally, the way the macroeconomic factors are moving in favor of this CV industry, I think even if there is an impact of elections or any other geopolitical issues, it would

be temporary in nature. There could be an impact. I'm not denying that there won't be any impact, but the way the market is really moving and the way the sentiment is we are seeing on the ground, I think the impact, if at all any, it will be temporary in nature.

Mukesh Saraf: Right. Any growth estimate you want to kind of give us for next year for the industry?

Shenu Agarwal: For next year, I think it will be too soon. But as I said, for the current year, for the balance half and for the whole of the current year, we are sticking to our guidance for MHCV between 8% to 10% at the industry level. And on the LCV, at the beginning of the year, we gave an estimate of 4% to 5% on the industry. So far, our industry has grown by 2.5%, which is slightly lower than what we had predicted in the beginning of the year. But we think there also, we are seeing some green shoots in terms of e-commerce demand and in terms of overall uptick, etc. So we are very hopeful that even for LCV, we will see a better growth trends in H2 as compared to H1.

Moderator: The next question is from the line of Raghunandhan from Nuvama Institutional Equities.

Raghunandhan: Congratulations, sir, on another set of strong numbers and festive season greeting. Sir, firstly, for Q2, can you indicate how was the performance in the non-vehicle revenues, especially if you can highlight how is the performance of defense? Would it be tracking that Rs.200 crores kind of quarterly run rate to Rs.800 crores for the full year?

Shenu Agarwal: Yes, Raghu, firstly thank you for your kind words. Like I already said on the defense side, we think that this year would be a historic year on our defense business performance. The order pipeline is very strong. We are aiming at a 4-digit revenue this year. But even if we missed it, we are very positive about touching about Rs. 800 crores. Maybe Gopal can let you know more in detail what we have done in H1 exactly on defense. But yes, going forward, like I said, not just for this year, but for the next year as well, the pipeline is very strong. So we are very optimistic about the defense business.

Gopal Mahadevan: Yes, domestic defense revenue. Normally, we don't actually give breakdowns, but since you specifically asked this for H1 is about Rs. 300 crores. And like Shenu mentioned, there's a lot of revenues that are expected, especially in Q4. So I think we're very positive that the defense revenues are going to be very satisfactory this year. We're going to have very good defense revenue this year. That's our forecast at the moment.

Raghunandhan: Secondly, on the electric side, firstly, touching on the electric LCVs and now that you have more than 10,000 bookings, how are you seeing the customer interactions, acceptance? And how do you see the potential for ramp-up ahead?

Shenu Agarwal: Yes. See, I think we would be the first in the industry to launch electric LCV in the segment where we operate. So I mean, while the LOIs that we have received, these are not booking, by the way, these are Letter of Intent, right? So the LOIs we have received encourages us a lot because like we were not really expecting to receive 10,000 or more LOIs for these kind of vehicles. But as we all know, I mean, while we are very positive about the electric LCVs, which would be launched in Q4 of the year.

But you know that a lot of other ecosystem challenges are there in terms of adoption, right? So we are not just looking at creating a product or maturing our technology as far as the LCVs are concerned, but we are also trying to partner with lot many other players, including the governments in creating the right ecosystem because a good product, a mature product is one side of the story, but then the ecosystem also has to drive adoption.

But we are very optimistic. We are very encouraged by these more than 10,000 LOIs we have received from many customers. And I think there are several reports in the market on ELCV adoption. And I think we would be pleasantly surprised because I really think it will move faster than anyone is expecting.

Raghunandhan: On the electric structure side, there is a hope that one of your peers also mentioned that government will include payment security mechanism in the upcoming tender. Are you expecting the same? And if this happens, that should lead to better profitability, better working capital cycle for Switch Mobility? And eventually, that should also lead to value unlocking or divestments there?

Shenu Agarwal: Definitely. I mean this has been one of the demands of the industry for a long time because these are long period contracts, running into 10, 12 years. And one thing that industry was very worried was about the payment security mechanism. Given the financial state of many of the STUs that we have in the country. So if you would have noticed in the PM eBus Sewa scheme, the government has specifically stated that they would come up with the payment security mechanism of some sort.

Now those discussions are still going on between the industry and the government. But I think the intent of the government is very clear, that if this is something that is hindering the adoption of electric buses in the country, government is seriously willing to take a look at this. So we are hoping that some more details will come out. But yes, the government has really stated their intent very clearly that they would address this issue.

Raghunandhan: Sir lastly, in terms of the listing of HLF, any time line? When do we expect that to happen?

Gopal Mahadevan: Well, I think we are expecting the management, I had a discussion with them as well, and I think they are expecting this to happen sometime in Q4. Some it's a reverse merger, there are a lot of compliance that are to be done additionally other than a standard DRHP. But I think there are certain approvals that they've just received very recently. So they are reasonably confident that the listing will happen in Q4. And I also wanted to just make one correction. I have not told consolidated number, even though I used the term. The total book, both on book and off book for HLFL today is about Rs. 42,000 crores.

Raghunandhan: And how would be the H1 profit, sir, if you have it handy?

Gopal Mahadevan: I'll share that with you separately because we don't give those segments at the moment. So we'll have to wait.

Moderator: The next question is from the line of Nirav from Living Root Analytics.

- Nirav:** So I just wanted to know the outlook for buses in H2.
- Shenu Agarwal:** The outlook for buses for H2, you said?
- Nirav:** Yes.
- Shenu Agarwal:** Yes. So I see the bus order pipeline itself is strong as far as H2 is concerned. As you would have noticed in many announcements that we have made, we have won some really large tenders from STUs on the diesel bus side. So our order pipeline is so strong that we won't be able to execute even all the orders in H2, right?
- And therefore, some of these will definitely spill into FY '25 first half. So we're assured, both on the industry side and definitely from Ashok Leyland side, since Ashok Leyland is the leader in the buses right now, you will see a marked improvement in our numbers in buses in H2.
- Nirav:** So if I'm not wrong, the current existing order book for buses was 1,100, right?
- Shenu Agarwal:** No, no, no. That is for electric buses, that is for Switch. I think your question was more on the diesel buses. So my response was for the diesel buses on the Ashok Leyland side.
- Nirav:** So what's the order book for diesel bus?
- Shenu Agarwal:** I'm sorry?
- Nirav:** What's the order book for diesel bus?
- Shenu Agarwal:** Order book, we don't give away. But what I can tell you is the order book is very strong and H2 volumes would be significantly better than H1 volumes as far as diesel buses are concerned.
- Nirav:** So if possible, you could also shed some light on the industry outlook on all 3 segments from a 12-month perspective for FY '25, if possible?
- Shenu Agarwal:** No. As I said, FY '25 would be too soon. You give us a quarter or something like that in probably around January or February, we would come up with the guidance on FY '25.
- Nirav:** And just try to rephrase my question. So where do you see the CV cycle peaking out since we are already in the middle of it?
- Shenu Agarwal:** Yes. So as I said, what we are seeing on the ground is a very, very positive sentiment when we are talking to our fleet operators and other customers. They are of the view that the cycle is going to continue not just this year, but even into the next year. And that is our view as well. So definitely, we think that there would be a growth trend in FY '25. But as I said, more precise guidance, we'll be able to give you around January or February.
- Moderator:** As there are no further questions from the participants, I now hand the conference over to the management for the closing comments.

Shenu Agarwal: Yes. Thank you very much again. The first half has been very good for Ashok Leyland in terms of MHCV market share gains as well as the margins. Overall, good run continued in Q2. Contribution from Defense, LCV, Aftermarket and Power Solutions was also very supportive in our overall performance. Revenue mix was good. Price recovery and cost savings went as per our plans and were satisfactory.

With the robust economic growth outlook as well as the increased outlay on infrastructure, we expect a good demand situation going forward as well. Softness in commodity costs and our relentless focus on driving operational efficiency should also help us further going forward. Given this backdrop, we hope to steadily improve our market share in all the segments and continue with a good margin run as well. Thank you once again for the interest shown in Ashok Leyland.

Moderator: On behalf of B&K Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.