"Ashok Leyland Limited Q4 FY19 Post-Results Conference Call"

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MODERATOR: MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI SECURITIES

Moderator: Good day, ladies and gentlemen. And a very warm welcome to the Ashok Leyland Limited Q4 FY19 Post-Results Conference Call, hosted by Batlivala & Karani Securities Pvt. Ltd. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity to ask questions after the initial briefing. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Annamalai Jayaraj: Thanks. Good evening, everyone. On behalf of B&K Securities, welcome to 4Q FY19 Post-Results Conference Call of Ashok Leyland Limited. We are delighted to have with us today Mr. Dheeraj Hinduja – Chairman; Mr. Gopal Mahadevan – President, Customer Solutions Business and CFO; and Mr. Balaji – Vice President.

I will now hand over the call to Mr. Dheeraj Hinduja for the opening remarks, to be followed with a question-and-answer session. Over to you, sir.

Dheeraj Hinduja: Hi, good evening. Thank you all for joining us and your interest in Ashok Leyland. I would like to briefly touch upon the performance for the quarter and the full year. I am happy to say that we have been able to post another quarter of double-digit EBITDA in 15 out of 16 previous quarters. While the TIV has marginally come down, for the quarter we were able to gain market share by 1.8%. The TIV performance was also a factor of the high base effect. This helped to ensure our revenues were marginally higher than last year. The EBITDA for the quarter was 11.1%, which was possible owing to the astute cost management and mix management. Our ICV business and LCV business continued to grow.

On a full year business, our revenues grew 10% and our PAT grew by 15%. The cash as on balance sheet date was nearly Rs. 700 crores. The LCV turnaround has been spectacular, as has been the Hinduja Foundries which has also become PAT positive. We are well on course with our BS-VI readiness and at the test bed level we have performed very well. Our modular business program is also on course.

As you have all witnessed yesterday, with the outcomes of the general elections, the outlook for the current year also looks robust and much more positive than we had expected. We are expecting a TIV growth in the region of 10% to 12% in the coming year. We also believe that with a stable government in place, we should see the economic reforms being pushed through and the continued focus on infrastructure. And as the government has been speaking, a possible scrappage scheme to come into place as well.

As you are all aware, the BS-VI introduction will be happening from April 2020. As a result of that, we foresee a pre-buy that would be happening in this financial year. Before I pass on to Gopal to explain more detailed figures, I also wanted to inform you that at the Board Meeting today, the

Board has decided to appoint Gopal to the Board of Ashok Leyland as well. And so he now becomes a whole-time director of the company.

So, I will pass it to Gopal to take you through in more details on the financials.

Gopal Mahadevan: Thank you, Dheeraj. So, I will just run through the financials very quickly, because I am sure a lot of you will have questions for us, especially Dheeraj.

The total industry volume for Q4 was 112,469 and it was marginally lower versus 117,603. But as our Chairman mentioned, it was also because of the huge base effect that we had last year. Ashok Leyland volume was 1% higher at 41,519, and our market share was 36.9% as opposed to 35.1% in the same period last year. So, we had grown by 1.8%.

Our revenues were marginally higher, in fact, slightly flattish, I would say, at Rs. 8,846 crores. The same number in Q4 was Rs. 8,780 crores. Our EBITDA number percentage was 11.1% as opposed to 12.8%. And here I am just going to pause and let you know the reasons for it. One was, there has been quite a bit of discounting that has happened, and we have seen a pressure, the industry has seen a pressure on the top-line in terms of net realization. The second one is, we must remember that over the last 12 months ending March 2019, steel prices have been consistently increasing. So, we have actually seen a cumulative convergence of cost increase in the fourth quarter. The other reason internally also has been that our defense revenues were lower than the same period last year, as was exports. I am sure Dheeraj would be sharing with you our strategy for export later, but we are retaining our focus on exports. And that has also been an impact on the margin, which is why we have seen this 1.7% reduction. But having said that, I still believe that given the circumstances, a 11.1% EBITDA has been very, very satisfying for the management team.

On a full year basis, I will just give two numbers, the overall revenues for the full year was Rs. 29,055 crores, which was about 10% higher than Rs. 26,356 crores. For the full year, the EBITDA was 10.8%, marginally lower by 0.4% over the previous year. And our market share was almost flattish, it was at 33.8% as opposed to 34.2% in the same period last year.

Having said that, what I would also want to say is that, in Q1 we had deliberately stayed away from some of the low-margin businesses, but we have improved the market share consistently from Q2 onwards. Going forward, we are very clear that we would want to grow our volumes, we would want to grow our market share, and at the same time we will also keep a watchful eye on the bottom-line.

With this, now I am handing it back to Annamalai.

Moderator: Thank you very much. Yes, sir, we will start the Q&A session now. The first question is from the line of Raghunandan from Emkay Global. Please go ahead.

Raghunandan: Sir, two questions. One, can you please throw some color on the dealer inventory days and the balance sheet, there is an increase on inventory and the receivable days. How do you see this panning forward? Second question is, on the CAPEX in FY19 and how do you see this CAPEX panning out for FY20 and 2021?

Gopal Mahadevan: See, as far as dealer inventory days, since it's a number I am going to possibly answer the question, the dealer inventories at any point in time are about 20 days, with three, four days more. We always have dealers having about 12-15 days inventory. But like we have shared in the past, we never push inventory into a dealer, because there should be some amount of healthy stock available for him to service the requirements. As far as our own inventory is concerned, as of the end of FY19, our inventory was about 8,900 units, not very, very high as compared to the normal standard, it is clearly about half a month's sale. Having said that, I think as we move forward the whole strategy would be to kind of pick up the demand trends and ensure that we do some astute capacity planning and inventory management.

Raghuunandan: On the CAPEX, sir?

Gopal Mahadevan: Yes, on the CAPEX, we estimate that we should be around Rs. 1,500 crores.

Raghunandan: For FY20?

Gopal Mahadevan: Yes.

Raghunandan: To what, sir?

Gopal Mahadevan: Sorry?

Raghunandan: To what, sir, like projects...

Gopal Mahadevan: The CAPEX is for the following. First, we have our LCV project, which is called as Phoenix, it's not a vehicle, it's a project code name. We also have BS-VI, we have modular business program, and we also have the capacity enhancements that we will have to do, because we have virtually been running without CAPEX, over the last five years. So, we would need to do some capacity. And also I think Balaji also mentions to me here that the other thing I missed out was electric vehicles. See, these are not really huge lumpy CAPEXs that we have to worry, each of these businesses would require certain amount of CAPEX fuel to take care of the growth in the future.

Moderator: Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: I have two questions. Firstly, just a clarification, the CAPEX for FY 2021, like, do you see it tapering down or it will remain around similar levels?

Gopal Mahadevan: See, I think we will have to really peer into the future to see how it will be, but I think it will be about Rs. 1,000 crores to Rs. 1,500 crores, which is not very high for a company of our size because we must understand that we are in six locations. And what we do is we do sufficient injection of CAPEX as we move forward, instead of doing big bang brownfield or very large expansions. So, we keep progressively adding CAPEX. So, if we find the demand for EV is going up, then we may have to infuse further CAPEX, otherwise we will not do it. Similarly, we will have to figure out what is the additional CAPEX, if any, that's required in BS-VI. All of this is going to be a factor of the demand that we have. But I think, at the moment we should plan for at least another Rs. 1,000 crores to Rs. 1,500 crores CAPEX next year, maybe more Rs. 1,000 crores than Rs. 1,500 crores.

Binay Singh: Right. And second question actually, like non-truck segments, could you talk a little bit about how you see growth for them playing out this year in FY20, from buses, exports to defense and all, like if you could also share the numbers for FY19 across segments?

Dheeraj Hinduja: On the exports side, you will have seen that the year was not as bullish as we had planned, specifically because many of our target markets had their own recessionary issues, like the Middle East, also Bangladesh and Sri Lanka. But going forward, we have new range of products that are coming out and that includes the expansion of the LCV, the Partner, which was launched very recently the Middle East. So, we are expecting that this financial year, not only with the lighter vehicle range we will be able to penetrate our existing markets, but we are actually opening up some new markets with entry into the Russian market as well. But going forward, and I think this is something we have stated earlier, all of our products will be coming with the left-hand drive version, which so far, we have predominantly been restricted only to the right-hand driving market. But as we go forward, from our LCV to our medium, heavy truck range and bus range, we will have a full portfolio. So, we feel quite encouraged that this would be big additional volumes for the future. On the defense side also, as we have said, although we have won many tenders, the orders had not come through. But now that the government is back in position, we feel that this would be one of the key priority areas for them as well. So, we are looking for good numbers for the execution of the tenders we have won so far in any case.

Binay Singh: Right. And what would be the number for defense for FY19?

Gopal Mahadevan: Well, our number for defense in FY19 has not been very significant. The defense revenues in terms of the CKD volumes, they have been about Rs. 150 crores as opposed to Rs. 480 crores in the same period last year. But that is not because of any concern, let me just clarify here before everybody concludes on this, there is nothing wrong with the defense business, because there are two things in defense that I would want to add to what our Chairman stated. One is, the defense business is a clear outcome of the orders that are placed by the Ministry of Defense. Last year, the ordering has come down because I think the government was seized with a lot of other issues. So, we have seen the defense ordering, particularly for the vehicles, the Stallion kits that we supply is coming up.

Secondly, I think, what we are doing is the right thing, which is we are building the capability of our defense business. We have put in a lot more people, we have won many tenders, out of which

8 or 9 trial orders have also completed. And we expect that as the defense spending in the country goes up, we are going to start getting annuity orders from these tenders, because in some of the cases we are single suppliers. What we have done is kind of readied the platform for growing the defense business, and that happens by applying for tenders, having the vehicles tested, winning the technical and the commercial bids and readying ourselves for the orders when they come. So, as we move forward, if the defense purse strings are opened, we would see further much higher revenues coming from defense.

Moderator: Thank you. We move to the next question from the line of Pravin Yeolekar from CGS-CIMB. Please go ahead.

Pramod: This is Pramod here. Two questions, one, how is the Hinduja Finance's performance in the last quarter and also the full year in terms of both supporting your business and also in terms of NPA trends?

Gopal Mahadevan: See, all we can tell you is that Hinduja Finance's performance has been satisfactory. They have met their targets, they have consolidated loan book, including Hinduja Housing Finance of Rs. 26,000 crores. But we will have to wait for the results to be published, because at the moment they are not in public domain. But you can be rest assured that the company has been doing exceptionally well. Even in the current circumstances they are achieving all their targets.

Dheeraj Hinduja: And reducing their NPA.

Gopal Mahadevan: Yes, and reducing their NPA, I think, that's very important, yes.

Pramod: And any update in terms of, Mr. Dasari exited in end of March, any update in terms of the new CEO appointment, where is the progress, what is the thought process there?

Dheeraj Hinduja: The search is on. The Board is very much engaged on this. And as we have said before, the Board is doing a thorough worldwide search, which includes many countries, but the process involves our internal candidates and external. But as I said, there is no date fixed yet. The process is on.

Moderator: Thank you. The next question is from the line of Ameen Pirani from Deutsche Bank. Please go ahead.

Ameen Pirani: So, the debtor days or receivable days has increased quite substantially this year compared to the last two, three years. So, is there something one-off here? Is it something like a year-end thing which has happened? Or should we expect a higher level for the receivable days going forward?

Gopal Mahadevan: Okay. Let me tell you what is happening is, very quickly, and I am taking this question because it's a number question. But basically, what happened is in last year we had, like I mentioned to you in the last year's conference call when we had quite a bit of cash in the balance sheet, I also advised the investing community that we had this because there were sufficient customer advances that had come in, especially from dealers. So, that is why the receivables had been a little lower than what it was. This time the level of advances were significantly lower, so you have seen the receivable days going up. I think, see, in this sector, while we will aspire to be negative and in terms of an operating working capital, if you just take pure receivables plus inventory, minus payables for operations, we still are negative. But I think in the medium-term one should expect that one would be possibly neutral or positive, because that's what is a healthy ratio. We have to manage our cash otherwise, but I think last year was an exception, that you will have to figure out.

See, and I will tell you what happens. I can't give a standard metric. I know you are doing valuation models. The point that comes up is we have been very good in managing our working capital over the last five years. So, we have actually seen negative working capital almost in all the year-ends, and that happens because of a lot of customer advances coming in. Now, can we continue to budget that? Well, if the demand goes up, you can expect that the level of advances will come out even more. But I would say that we will have to wait and watch on this. But I think, we are at a very, very healthy working capital levels in the company.

Ameen Pirani: Okay. And what is the net debt for the company right now or net cash?

Gopal Mahadevan: Rs. 700 crores is the net cash, Rs. 715 crores.

Ameen Pirani: Rs. 715 crores net cash, okay. And just lastly, on this expected pre-buy ahead of BS-VI, are you already getting some indications? Because unlike in the last few emission changes, this time around, it will not happen in 4Q, I am assuming it will happen in 2Q and 3Q. So, are you already getting indications as to what that pre-buy could be?

Dheeraj Hinduja: I think you are right. We are expecting the pre-buys in Q2 and Q3. But I think there was also a wait-and-watch policy in terms of what is happening with the elections and the stability in the economy. So, since this has just transpired yesterday, I will not be able to give you a more precise answer. But the indications from the interactions we have been having with customers indicate that Q2 and Q3 should be much stronger.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: So, could you give us sort of a breakup of the revenue mix like you would give every quarter in terms of trucks, buses, exports, even for this quarter?

Gopal Mahadevan: Can I suggest one thing. In the interest of time, can I ask Balaji to give those broad numbers after the call, is it okay?

Sonal Gupta: Sure, sir. And just on the discounts, like you mentioned in your opening remarks that discounts have been quite high. So, what was the average level of discounts in this quarter?

Gopal Mahadevan: Well, the average level of discounts, they are in the range of nearly 15% upwards, 15% to sometimes 20%. It depends on the type of truck and the type of vehicle so it goes from anywhere between Rs. 2.5 lakhs to Rs. 3 lakhs, Rs. 4 lakhs. Of course, the larger 49 tons also have better realization, but I think that what happens is they are in the range of anywhere between 12% to 15%, which is not small.

Sonal Gupta: So, I mean, because typically you have been saying it's been like around 420,000 was the number for last quarter, so any sort of number in that...

Gopal Mahadevan: They are in almost the same range; they are at 425,000 to 440,000 or so.

Sonal Gupta: Okay, sir. And just lastly, in terms of what was CAPEX for this year?

Gopal Mahadevan: For this year, the CAPEX was Rs. 950 crores.

Sonal Gupta: And just for next year, like FY20, you guided Rs. 1,500 crores. Any investments that you see outside of the CAPEX in other subsidiaries, etc?

Gopal Mahadevan: Well, some investments will happen in Optare, Albonair. And let us see, we made quite some investments in AL UAE also. So, this could be over and above Rs. 1,000 crores. I don't know, see what is the CAPEX capitalization that really happens? In terms of cash flow, I expect it to be between Rs. 1,000 crores to Rs. 1,500 crores and over and above that maybe another Rs. 200 crores of investment that may happen in the subsidiaries.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Reliance Nippon Asset Management. Please go ahead.

Prateek Poddar: In the opening remarks you talked about exports, focusing more on exports. Could you just talk a bit about that? That's question number one. Second is, FY 2021, sorry, that's a bit slightly long-term, but F2021 would be a year wherein you will recover from pre-buy and hence it would be a bit muted. So, in that sense, how is the company gearing up or what steps are you taking to mitigate that impact? Question two. And my third question was on the CAPEX front. I would have thought that in F2021 CAPEX intensity would be lower than F2020, because BS-VI investments are all over. So, I mean, could you just talk a bit about that as to why is that the CAPEX intensity doesn't go down in F2021?

Dheeraj Hinduja: So, as I was saying on the export side, and more specifically we see a lot more traction happening in the African market. There are about seven to eight markets where we are very active in and they themselves are seeing growth rates where the GDP is growing at over 6% to 8%. And also we do see some signs of recovery in some of our traditional markets of Middle East, Bangladesh. And taking that into account, along with the new products that we have to offer, from our buses through our light vehicles as I mentioned, we have got the Oyster bus, we have got the Partner truck, and of course we have got our traditional Falcon buses as well. This will be supplemented towards the end of the financial year, a new range of LCV products that come in. And in our ICV range, which is categorized between 9 tons to 16 tons, we have our range of E-comet bus and GURU. We feel that taking these products together, we ended the current financial year at around 11000 vehicles.

We should see growth of at least 15%, if not more, in this. But going forward and beyond this, after FY 2020, every single product will be available in LHD and we are looking at expansion into the ASEAN markets as well. So, together, that will have much substantial impact for us. I think in anticipation of a downstream, but I would also like to repeat that if you look at all the empirical evidence, it shows that in every emission year change, there has in fact been growth as well. So, when we have gone from the BS-II to III, III to IV, so we feel that although Q1 of FY20 might have some slowness in Q1, thereafter, we feel that once people get more awareness about the technology that pick up should happen. But irrespective of that, we are preparing with cost reductions. That exercise has already begun and we hope to be able to retain our double-digit margin.

Prateek Poddar: Okay. And the question on CAPEX, in F21 I would have thought that the CAPEX intensity should have gone down further more than what we have seen in F20, that doesn't seem happening. So, any specific reason for that?

Dheeraj Hinduja: I think we do feel that the variants of the products that will be coming and the initiatives on electric vehicles together, so within that band of Rs. 1,000 crores, for the size of the company, as Gopal was saying, is not substantial, and we need to be constantly innovating into the product range. In certain areas, there might be requirement for capacity enhancement as well, but Rs. 750 crores to Rs. 1,000 crores is something which we view is required going forward as well.

Prateek Poddar: And is it fair to say that fiscal year 2021, when you get the LHD capability we could see a substantial growth on the exports front, something which we have been talking about it in the last two, three years. Could it really materialize once we get this LHD capability?

Dheeraj Hinduja: Yes, I think we have discussed this in the past. And due to delay in the introduction of products and unfortunately due to the downturn in the economies in which we work, this ramp up did not happen. But with the expansion that we are looking at, I am quite confident that you will finally see a breakthrough in the international operations activity.

Prateek Poddar: And sir, one last question, if I may squeeze it in. In one of the interviews you talked about the new vision for Ashok Leyland. Could you just highlight about it a bit more?

Dheeraj Hinduja: Well, I can't define the vision in a very short time frame. But all I can tell you is that we had originally set up a vision to be in the global top-10 in trucks and buses on categorized above GVW of 7.5 tons and in buses to be in the top-5. That what is set in 2011, and in this financial year 2018-2019 we were able to achieve that. We are now within the top-10 of our trucks. Anticipating that, we have set up a new vision, which is in fact more challenging and which encompasses the growth that we see in LCV, international operations, and our customer solutions business. So, I think we are happy to share this with you, but possibly require a separate occasion to share the vision for Ashok Leyland.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix Shares & Stocks. Please go ahead.

Ronak Sarda: Two questions. One is on the modular platform, which you spoke about. Can you just highlight some more details there? What's the status and which segments are we targeting?

Dheeraj Hinduja: The modular platform will be introduced along with BS-VI effective April 2020. What we are looking at is not only improvements within our own manufacturing processes as a result of this, but the advantage that it brings is that it allows the customer to really build a product that is for their purpose and their requirement and application. Where this doesn't get effective is in our existing ICV range or the LCV range and it really goes in the product range upwards of 16 tons.

Ronak Sarda: Okay. Sure. And the second question is, again, I mean, today, there was some media news talking about the scrappage scheme. Can you share some insights? If you have discussions with the government officials for the last few months, there were some doubts on the implementation of the scheme. How do you think this can be implemented in a smoother way?

Dheeraj Hinduja: I don't think we have any detailed insight, but the government in the past has spoken on a number of occasions with regard to their policy of having a cleaner environment where they wanted to introduce the scrappage scheme of vehicles. They have looked at over 12 years or 15 years. They haven't classified that yet, but we expect that with the initiatives that they have taken, with the introduction of electric vehicles as well, we anticipate this is something that they would introduce. And if it does, then it would be very beneficial for all the truck companies as the volumes are quite significant, which would require replacement demand.

Ronak Sarda: Okay. And Gopal mentioned something about project Phoenix in the LCV side. Can you share some more details? I mean, obviously, we have our product gaps and is it created more on products or is it something different?

Dheeraj Hinduja: Basically, today, in our LCV range, we have a product called Dost, which is 2 tons upwards and then we have a product called Partner, which is over 5.5 ton to 6 ton classification. So, there is a mid-segment, which total industry volume is high for that as well and that is where the Phoenix project comes in, addressing the 3 ton, 3.5 ton to 5 ton category. And we believe that, that would not only provide us a new opportunity, but it also has a significant volume in the international market. This will come with various variants as well.

Ronak Sarda: And we should expect that in FY20 or 2021?

Dheeraj Hinduja: Introduction from April 2020 onwards.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity and congrats for good set of numbers. And also Gopal, congratulations for the elevation. Sir, two questions, first on capacity. So, based on your current investment program that you are running, what is the kind of peak production that you could achieve, if you can just share like...

Gopal Mahadevan: What is the peak production?

Chirag Shah: Yes

Gopal Mahadevan: We can touch a capacity of upwards of 180,000, I am talking about MHCV.

Dheeraj Hinduja: And I would also say it's not simple because it's dependent on the various aggregates as well. The requirement of cab vehicles. But as we foresee and with the growth aspirations we have in our market share as well, we don't see a capacity constraint coming in, in the new financial year.

Chirag Shah: Okay. And when would you need to really step up the CAPEX? At some point of time, you will need a brownfield. I understand that you had some spare capacity because of the LCV project also, so can we make an assumption that at least for two-odd years, you don't need to look at a major brownfield or a greenfield?

Dheeraj Hinduja: Actually, as you would have seen, we have been trying to optimize all of our facilities. We already have six facilities available. And rather than growing into a new one, at the moment we are trying to see how we can best optimize further even with the expansion for LCV as well. And that is what will allow us to retain our operating margins. So, at this point of time, in the immediate future, we don't need to move into a new facility. We are going to maximize with what we have.

Chirag Shah: Yes. And the second question was a housekeeping one. If I look at the Q4 results now, Gopal, there seems to be a sharp reduction in other expenditure as a percentage of sales. And on a YoY basis also, it is down by almost 10%.

Balaji KM: Chirag, if I can take your question. The main reason for that is that the regional sales offices have been closed down after the introduction of the GST. So, consequently, the vehicle movement which was happening quite frequently in the last year is not there in this year. That's the reason why you are seeing a drop. Apart from that, there has also been a stringent control on the cost incurrence inside the company. So, these two are the reasons why the other expenditure is lower.

Chirag Shah: And on the raw material side is what you indicated earlier, the discounting pressure because RM to sales has seen a big jump. And I presume the commodity cost pressure is behind and if there would be any tailwind that would start flowing in the P&L?

Gopal Mahadevan: We have to see about the commodity cost pressure because, while it is still favorable now in April, May, and hopefully, it will so as we move forward, we have to wait and watch, Chirag. I mean it's a little too early because predicting these numbers, let me share with you and I will also ask Chairman to share his views. I think basically what we are doing in the company is the following. We want to see how to grow our market share further, how do we grow higher than industry. It's not easy, but that's our broad plan for the year. The second thing that we have to do is to figure out that all our costs are intact. So, we are getting into what we did about three, four years ago as a program, a specific program is being done to take out all overhead as much as possible. That is being done as a methodical program, and I think there is opportunity for us to reduce our cost there. While these two activities are going on, the other thing is we are redrawing our strategy for exports. I think Dheeraj has brought in certain perspectives, which we find exciting and the whole export strategy is being reworked, including the organization and where should people be operating from, how do we improve the effectiveness, etc.

As we are doing this on the product side also, the capabilities are built in. Today, we are much fuller and maybe in six months time, even more so, because we have both the combination of LHD and RHD in the LCV and also getting ourselves ready on the ICV side, which is going to be crucial. And finally, I think, where Dheeraj is spending a lot of time and focus aside of the normal thing is also to ensure that we are passing all the gates of BS-VI and MBP methodically without a miss, so that we are completely ready for the BS-VI transition when it happens. So, this year is quite a full year. So, we are taking cost out, we are look at redrawing our strategy for domestic growth. We are also redrawing our strategy for exports. But of course, the effect of exports will come in, in the medium term and also looking at BS-VI and MBP. Well, Dheeraj, would you want to add anything more?

Dheeraj Hinduja: No, I think I will just stress what Gopal has said. We want to continue this growth. We have tried to break up the market, try and identify where we need to put extra focus. We want to grow the market share, but we will not buy market share, I think, that's important to stress.

Gopal Mahadevan: Yes.

Dheeraj Hinduja: So, this has to be done on a profitable basis.

Chirag Shah: And one last thing on the tax rate, if you can indicate, so are the losses of the LCV business been absorbed fully or we have some favorable losses left for the next year. So, what does the tax rate look for next year?

Gopal Mahadevan: Listen, I think, you should just take a normal effective tax rate.

Chirag Shah: Okay, for next year, because this year, it's on the lower side because of the merger also, I presume.

Gopal Mahadevan: Yes, that's true, but then it gets compensated also with the deferred tax. But yes, there is some advantage. I don't want to say it's not there, of course. But next year, I think, you should have a standard effective tax rate.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JPMorgan. Please go ahead.

Gunjan Prithyani: I have two follow-ups. Firstly, on the industry growth, now for the last couple of years, we have been seeing that the tonnage growth has been far higher for you versus the volume growth, but this year has been different from that perspective that tonnage growth has been relatively more modest. So, what is driving this change? And does this mean anything in terms of margin profile for you?

Gopal Mahadevan: I am sorry, but the line is a little bad. There's a lot of disturbance from our side. So, the tonnage growth seems to be high and whether it affects the margin profile of the...

Gunjan Prithyani: Yes. So, within the MHCV, I think for the last two years at least we saw that HCVs were growing much faster, so the tonnage growth was much higher than the volume growth. But this year, from that perspective, the tonnage growth has been relatively muted compared to the volume growth. So, what is the kind of shift you are seeing within the industry? Is it people buying smaller tonnage vehicles because of the outlook on the freight front? Or is there some other change that you are seeing within the history? And in the past, you have mentioned that higher tonnage is better on the margin. So, give this shift, do you think this has anything to read from the margin perspective?

Gopal Mahadevan: Yes, I think that there are two things that are happening parallelly and that's why I think there is an astute mix that we have to do. One is, we are seeing higher tonnage vehicle demand going up. So, you now looked at the 47 tonners, 49 tonners coming in, 4123s, etc. So, the margins on those vehicles are definitely better than the smaller vehicles. But having said that, we are also seeing that there is a potential for us to grow in the ICV segment. So, when I am looking at it, what we do internally is we are looking at how do I fill the slots in vehicles and also in the market demand, because if I start pushing the ICV business, I would want to grow it higher than the rate at which the ICV market is growing. If that happens, then I will get an operating leverage benefit because it will take out some of my fixed expenses. So, we need to ensure that even if we were to push some of the ratably lower-margin business because obviously, the larger vehicles will be highest margins, how do I get the benefit of the volume to get an operating leverage benefit on the EBITDA? This is one part. The second part that we are doing is also, see, even in the ICV business, how do I improve the margins in the ICV business because there are multiple variants. If you notice, we have E-comet, we had BOSS, then we bought GURU, which is slated to have slightly better margins and then we also now bought GURU 1010. So, what is happening is, I am also trying to slot the vehicles internally as to what we call it as hub application segment and then trying to see how do I improve the overall mix margin within a segment like ICV, how do I improve the volumes in ICV, which we will give me operating leverage, and how do I also astutely get capabilities to score higher in my MHCV, I mean the heavy trucks, which will definitely improve my margins.

Gunjan Prithyani: Okay. And the second question I had was on the scrappage policy. Is there any engagement with the government that you have any sense on what could be the cutoff period, 15 years or higher than that? And any potential size opportunity that you would have assessed internally, if you can share with us?

Gopal Mahadevan: I think that it is a little too early, but I think SIAM is working on that because, I think, that's where the engagement with the government would be more than at the company level. But having said that, we are hopeful that the scrappage policy would come through because there is a continuity in the government and hopefully that will translate into the scrappage policy being implemented, because if it was a different government, we should have had some concerns on whether this will happen or not, but let's hope the scrappage policy comes in. That's all we can say at the moment here.

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

Basudeb Banerjee: A couple of questions. One, continuing with the scrappage policy. So, how much time it will take for you to suddenly add up capacity if that gets announced because as you said in the call, your peak production is around 180,000 and taking a 10%, 12% growth, you will be almost at 160,000 MHCV in fiscal 2020. So, not much headroom left. So, how much lag period you will need to cruise up your capacity all of a sudden?

Gopal Mahadevan: Let me clarify actually my sentence. What happened was I think I didn't finish my sentence. What I said is, at base, I can actually do a 180,000 and scale up further because there is a very simple debottlenecking that we can do to get it done. So, then Dheeraj did mention that we are not facing a capacity constraint at the moment. So, please understand here, capacity is not just here at our factory because there it's not like I have to build… let me clarify, we don't have to build a very large brownfield or a greenfield venture to augment capacity. We keep on slotting the capacity to see where the bottleneck is and keep on debottlenecking it, continuously this happens, okay. That is why our strategy has been not to put big bang CAPEX except when we get into specific programs like a Phoenix or there is a modular vehicle program or there is an electrical vehicle or if there is a BS-VI. But other than that, believe me, our manufacturing head and team have been continuously improving capacity at various locations and throughput and productivity. This is one part. And whatever numbers I am saying is without, and don't hold me to it because it's a conference call, but the basic point is, we are not talking in three shifts at all. So, I have other bankable capacities, which we have not used fully, okay. So, we don't have a major concern on capacity at all. If we need to augment capacity, and, if I may, in a lighter way say, if we have a problem of plenty in terms of demand, not to worry, we won't lose that demand.

Basudeb Banerjee: Sure, sure. And second thing, sir, do you think government will allow manufacturers to take benefit of operating leverage by executing scrappage policy orders or that will be passed on to the buyers?

Gopal Mahadevan: Yes. See, I don't know about operating leverage with respect to scrappage. I think just as SIAM has mentioned, I think we will have to wait and watch for the announcement of the policy. We are waiting for it; we have been hoping that the policy will get done. Because you see, I mean, logic tells us that if we are going to a sophisticated emission norms, such as BS-VI, because we are very particular about the environment, pollution and all that, I think, then it is also important for them to ensure that the emission at the bottom of the pyramid is also removed like BS 0, BS I, BS II, BS III, that has to happen. Otherwise, actually, this has new BS, only having better emission vehicles only on new vehicle sales. So, the existing vehicles should also have to happen. And frankly, I think as the technology improves, I don't have statistics to prove it and maybe it's difficult to prove it, but I always keep telling people, as I said, look at some of the vehicles we had 10, 15 years ago, where are they? I mean, if you look at pass cars, for example, they are not there. Some of the models that we are running around as famous 6 are not there after 10 years. So, similarly, if you take trucks, there is a naturally phasing out that is happening, that will get accelerated if the scrappage policy is around because there is an incentive to scrap.

Moderator: Thank you. The next question is from the line of Sandeep Manam from Franklin Templeton. Please go ahead.

Sandeep Manam: I have two questions, actually. First is, in your export markets, let's say, Africa, Middle East, ASEAN, who would you be the key competitors and what would be your differentiated value proposition? Would it be mainly price or some other attributes? And second question is, for the BS-VI transition, what is Albonair's role? Will it be the main system integrator or will you be dependent on other entities, I mean, mainly outside entities?

Dheeraj Hinduja: In the international market, every market really has a different competitor varying from Japanese, Korean. In some of the African markets, it's the Chinese. And I would say, while price could be one differentiator, but one of the main areas where people are preferring to buy Ashok Leyland vehicles is the robustness and it's known to be durable and rugged. And so areas where the road conditions are not good, it, of course, performs well, but also countries which have a good infrastructure, our products do well, and there we compete not only in terms of the pricing, but also the service and after sales support that we can provide. That I would say are really the main ingredients we have. As you know, the motto of the company as well, Aapki Jeet, Hamari Jeet, is to make sure that how can we provide the customer the best service because these products, you need to ensure very high uptime for them. And that, along with the distributors we work with, is one of the main areas of focus in all of the markets. With regard to Albonair, I mean, they are working with other OEMs as well in the exhaust after-treatment. And that's where they've got a lot of experience with the SCR solutions and that's where they will be coming into play for Ashok Leyland as well.

Sandeep Manam: Okay. Just one follow-up question related to Albonair. So, will Albonair be the main system integrator for all the after-treatment activities? Or there will be some other vendors and Albonair, some of the parts go into that. How should we think about that?

Gopal Mahadevan: See, I just want to clarify the role of Albonair. Like our Chairman mentioned, they are there in the aftertreatment systems. What they do is, they produce what is called as urea dosing systems. So, the urea dosing system actually uses urea to be dosed as an atomized mixture into the air and when the exhaust comes in, then what happens is it gets split into nitrogen and H2O. Now so before that, there are various other processes that have to happen from the manifest to the urea dosing system, you have DOC, DPF, etc. There's a lot of technical aspects. So, that anyway is getting done from other players. So, there are multiple players, there are multiple vendors that a BS-VI system involves. It's not a single solution, and there is also technology involved. Where we have an advantage and where we would use it as an advantage is to use Albonair in the urea dosing system, which comes in at the end of the process, and we are looking at other players also. We wouldn't want to put all our eggs into 1 technology because we want to ensure that we take advantage of Albonair's presence and also see other players so that we have multiple solutions for the BS-VI.

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

Mukesh Saraf: First question is on the mix of vehicles that we have sold in terms of tippers and, say, haulage. Could you give us some sense how FY19 was for tippers specifically, and how do we see this going forward?

Gopal Mahadevan: Well, I think that basically what we have done is we have done well in terms of tippers, where there has been a little bit of ceding has been on multi-axle vehicles and tractor trailers, but even tippers form a sizable part of the market, and ICVs we have grown well. And what was your question? You wanted the exact numbers, is it?

Mukesh Saraf: If you could just give the broad of the market and probably of Ashok Leyland, tippers would constitute to what proportion of the volumes that we are selling?

Gopal Mahadevan: Tippers would constitute roughly about, I would say, 20% of our volumes.

Mukesh Saraf: Right. And is it fair to say that this was probably growing much higher than the overall average growth in FY19? Or how was the growth?

Gopal Mahadevan: I would say that even ICV has grown very well. Intermediate commercial vehicles, I think, our share has been very good and we have been growing in ICVs also. It's not that we have been growing, I mean it's not that our volumes have not grown, but our market share has been a tad flattish in tractor trailers and multi-axle vehicles.

Mukesh Saraf: Right. And second question is on the modular platform. I think last quarter you had mentioned that you will see cost reductions and probably up to 150 basis points of margins coming in just on that platform. Could you give us some more sense on that, how that would come in and any more update on that?

Dheeraj Hinduja: Well, I think, that's a development product. I mean, we have got the prototypes running and it's made. But the first part is always to make sure that the product comes out as well and it meets all the testing and all the parameters that we have set out to achieve. Now as we still have another 10 months before introduction, we are now working on the cost reduction aspects, value engineering aspects. So, I would not like to state a number right now, but all I can tell you is that it will be a very competitive product against competition.

Mukesh Saraf: All right. And just lastly, on LCVs business, are you also working on alternative fuel there because we are seeing some other players working on alternative fuel for LCVs, especially under BS-VI, as the small diesel vehicles might get a bit too expensive?

Dheeraj Hinduja: As we look at the change in the transportation segment, the hub and spoke, we are working on the development of the electric version of the light vehicles as well. But whilst we are doing that development, I think, we are quite conversant that India taking up electric vehicles for the distributions within city, although desirable, it's very expensive and it will take time for this to be widely accepted. So, unless there is some subsidy that the government introduces, I think, till the battery costs come down, it will be difficult for the consumers to justify the cost of it. But we will be ready, as and when the market requires it, we will be ready with the product.

Moderator: Thank you. Due to time constraints, we will take the last question from the line of Priya Ranjan from Antique Stockbroking. Please go ahead.

Priya Ranjan: Just on the demand side, last year, our growth was primarily driven by the tippers. And now the election has gone over, so typically during the election period, the growth in the tipper has been lower because of the ordering, etc. So, how do you see now that segment because apart from that, the monsoon is also coming.

Gopal Mahadevan: Yes. So, you are concerned about the growth in tippers, if I may ask?

Priya Ranjan: Yes, correct.

Gopal Mahadevan: Well, we will have to figure out because, see, if the mining activity… see, let me put it this way, see, frankly, where we find it difficult actually to respond and we appreciate your concern, I mean, because you have to look at performance and project performance as we move forward. But yes, I mean, if monsoon comes in and if the tipper demand goes up a little bit, yes, it will affect the entire industry. So, we will have to become more and more competent, as you know, address our volumes at that stage. But I think, overall if the mining sector has to be opened up and then if the infrastructure gets opened up again, then what we are going to see is, I believe that for every backhoe loader, technically or a digger, there are 4 tippers that are required, that's roughly the ratio at which the industry operates. And then, when that happens, the demand for tippers would come in. I think the larger issue is whether we are going to have a GDP growth because I have been sharing it with all you folks, in some of the things, my philosophy is very simple. I think commercial vehicle, especially trucks, does nothing but transport GDP. So, if that GDP were to grow, I believe that the commercial vehicle industry should do well. But if we see a recessionary trend in terms of growth, then I think then the people will not want to buy trucks, that is the larger question. I believe that is the elephant in the room. So, if we are confident that with the new government, the stability that it's bringing in and the stability of policies, if you believe that India is going to be a high-growth economy for the next 10 years and that there are improvements in supply chain and, etc, then I think in the medium term, the commercial vehicle industry will do well and which we believe is going to happen. I think the medium-term prospects of this industry are very, very good and that the best days are yet to come. In terms of capability of vehicles, in terms of the way the vehicles are going to be used, in terms of the coexistence of a railway freight corridor and the on-road trucks, in the way the roads are getting laid, I mean who are the roads getting laid at 25 kilometers or 21 kilometers a day, it's all for trucks and maybe possibly for buses, it's not for pass cars. So, I think there is a larger infra play that is happening at the country level. And if there is a larger infra spend that is going to happen, all of this is going to have a positive impact. But at the same time, we will assure you that we are looking at how to take a cost out, how to improve our operational efficiency, how do we get new products inside, how do we export better. So, I think there is a lot of work that's going on and we feel pretty positive even though in the short-term things look, not very clear. But I think in the medium term, we strongly believe that I think the commercial vehicle industry is going to grow well.

Priya Ranjan: And just related to that one, I mean whatever the adjustment was supposed to happen related to the axle load norms in terms of the mix of the vehicle, etc, so that period you see that, that is over now or you see still there is some late to it?

Gopal Mahadevan: I don't know. To be honest with you, I don't want to because this is a call, but somebody told me that again in Rajasthan, that the axle load norms are being implemented, I mean the rated load norms are being implemented, I have no idea, rated load, not axle load. Will the country continue, I think they will also weigh the impact of the higher axle load norms on things like safety and on the roads on infra because what happens is, if you overload a truck, the first impact that happens is the safety, the second one is on the road. Having said that, we also need to realize, as we have mentioned in the past, that we are also studying. There is some impact on account of axle load. I cannot deny that, so there's more that can be put on to the back of a truck. But at the same time, if you were to start excluding tippers, axle load norms will not be impacted, similarly ICV business or LCV. Then if you look at other types of vehicles, like scooter carriers, car carriers, oil tankers, cement mixers, the chances of axle load coming on to these kinds of vehicles are not really high. So, there is a residual impact which happens on the balance trucks. How long this will happen? Whether the larger players will continue to implement the revised axle load? What does it translate into in terms of more maintenance, running cost, tire wear, oil change, wheel balancing? We really don't know. This is a little too early for us to estimate. But what we are planning is, see, axle load norms could continue. If that happens, how do I drive profitability in Leyland? That's exactly what I think Dheeraj and the entire A-team are working on.

Priya Ranjan: And just on the parts business side, how has been the growth for the quarter and the full year?

Gopal Mahadevan: Parts, I think if you look at the parts revenue, I think, we have actually grown by roughly about 20%, 25%.

Priya Ranjan: And this has been the trend for the full year or is this for the...

Gopal Mahadevan: Yes, it's almost predominantly the same trend.

Moderator: Due to time constraint, that was the last question. I now hand the conference over to the management for their closing comments.

Dheeraj Hinduja: Thank you all for participating. I would say that the financial year 2018-2019 was a good one for Ashok Leyland. We were able to portray and maintain our market share and at the same time, keep our operating margins, as we have said, at the double-digit level. We're looking at coming year to begin with this election results, I think it sends a much more positive result for us. And Q2, Q3 are looking to be very strong with the possible pre-buy as well. And our outlook at the moment looks to be in the range of 10% to 12%. So, Gopal, anything you'd like to add?

Gopal Mahadevan: No. I think, you summarized it, Dheeraj. I don't believe that there's anything additional. But very clearly, the focus is, I think as the Chairman mentioned and as I also mentioned, I think the focus of the company and hopefully all of this will happen because we are very clear about our growth, we are very clear that while we grow, we will also be profitable, so we are trying to see how to take cost out of the company. There's a lot of operational initiative programs that are also running in the company. And of course, the BS-VI and MBP are very critical and crucial programs for us, which is also being reviewed consistently, and we are happy with the progress that's happening. So, hopefully, with the new government, like Dheeraj mentioned that, we would see a revival of the demand happening. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities Limited, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.