

Ashok Leyland

Operator: Ladies and gentlemen, good day and welcome to Ashok Leyland Q3 FY26 earnings conference call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Anant Mehta from ICICI Securities Limited. Thank you and over to you, Mr. Anant.

Anant Mehta – ICICI Securities: Thank you. Good evening, everyone. On behalf of ICICI Securities, I welcome you all to the Q3 FY26 earnings conference call of Ashok Leyland Limited. We have with us today Mr. Shenu Agarwal, Managing Director and CEO, Mr. K.M. Balaji, President Finance and CFO, and the Investor Relations team. I will now hand over the call to the management team for their opening remarks. Over to you, sir.

Management: Good evening, ladies and gentlemen. Thank you for joining in and for your trust in Ashok Leyland as always. Q3 was a remarkable quarter for Ashok Leyland, delivering superlative financial performance, setting new benchmarks in manufacturing operations, and pushing boundaries in product innovation. Ashok Leyland achieved its highest ever Q3 volumes, revenue, EBITDA, EBITDA margin, profit before tax, and profit after tax.

Ashok Leyland recently inaugurated one of the most modern electric vehicle manufacturing plants, built from ground zero in just 14 months. Again, Ashok Leyland recently launched the Hippo Tractor and Taurus Tipper range with industry-best power and torque and many other performance and reliability upgrades. The GST reset provided a much-needed trigger for a fresh commercial vehicle replacement cycle to kick in. GST rate rationalization not only lowered the prices of CVs significantly, but also created a major fillip in consumption and therefore in trade demand. It elevated sentiments of both retail and bulk buyers, resulting in strong volume growth in the last three months consecutively.

In Q3, the domestic MHCV industry volume grew 24% with the overall MHCV industry growing by 21%. The LCV industry volume grew by 23%. The momentum has continued in January 2026 which augurs well for a strong FY26 finish. Ashok Leyland's domestic MHCV volume growth for the quarter was at 23.4% year-over-year and was better than the industry growth. On a YTD nine-month period as well, Ashok Leyland's growth at 9.8% year-over-year was better than the industry growth, thus resulting in market share gains. The MHCV domestic market share on a YTD basis was 30.9%, a gain of 60 basis points year-over-year. This is without defense and EVs for buses.

Domestic MHCV truck volume for Q3 was at 27,615 units and MHCV bus volume was at 5,314 units. Ashok Leyland domestic LCV volume for Q3 was at 20,518 units, higher by 30% year-over-year, beating industry growth. LCV Vahan market share for Q3 was at 12.1% with a gain of 70 basis points year-over-year. For the nine-month period, domestic LCV market share stood at 12.7% with a gain of 40 basis points year-over-year. Our exports volume for Q3 at 4,965 units was higher by 20% year-over-year. For the nine-month period, exports volume was higher by 30%. The growth was broad-based with double-digit volume growth across all our home markets outside India, which are GCC, Africa, and SAARC.

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Our non-CV businesses also grew as per plan. Aftermarket revenues for Q3 was higher by 10% year-over-year. Revenue from the power solutions business was higher by 45% year-over-year and revenue from the defense business was higher by 84% year-over-year. The defense order book and tender win pipeline remains strong. We are steadfastly working on product innovation for differentiation and premiumization. Ashok Leyland recently launched the new range of heavy-duty trucks, Hippo Tractors and Taurus Tippers, with industry-best power and torque. These products with superior powertrains of 320 HP and 360 HP and heavy-duty driveline aggregates will deliver industry-best uptime and TCO. In the multi-axle vehicle category, we also launched new trucks with improved powertrains of 280 horsepower along with superior aggregates for better TAT and productivity.

In the LCV segment, we launched the new 4.1 ton Bada Dost with industry-best payload capacity. We also launched a new 100 kmph Bada Dost or Phoenix for our international markets and we extended load span options up to 10 feet 7 inches, thus expanding our product coverage in the LCV segment. Shortly we will enter the growing biofuel segment as well. Our product pipeline remains strong with the launch of many more new products planned in the next 6 months. We continue to leverage our strong non-diesel portfolio. Two models of light electric trucks, three models of MHCV electric trucks, and several models and variants of electric buses are already available commercially. We are also ready with products on other greener technologies such as CNG, LNG, and even hydrogen.

With the inauguration of the new Lucknow plant and continued ramp-up of our other bus plants, we shall soon reach a bus body building capacity of 20,000 units per year. To strengthen our service reach, we added 75 MHCV touchpoints and 77 LCV touchpoints during the nine-month period, with 45% of the MHCV touchpoint additions in the North and Northeast. At the end of Q3 FY26, the Ashok Leyland network has a total of 2,041 touchpoints: 1,126 for MHCV and 915 for LCV. In international markets, we expanded our network to four new territories. Quite recently, Ashok Leyland signed an MoU with PT Pindad of Indonesia, a state-owned entity in the defense sector, for the joint development of electric buses and defense vehicles for the Indonesian market. With distribution partners already lined up in Malaysia and the Philippines, we are in the process of establishing ASEAN as our fourth home market outside India.

Now coming to financials, Ashok Leyland achieved all-time high Q3 revenue, EBITDA, EBITDA margin, PBT, and PAT. Revenue for Q3 was at 11,534 crores, higher by 21.7% on a year-over-year basis. EBITDA was at 1,535 crores, higher by 26.7% year-over-year. EBITDA margin for the quarter was at 13.3%, higher by 50 basis points against Q3 of last year. PBT before exceptional items was at 1,373 crores, higher by 38% on a year-over-year basis. PAT before exceptional items for Q3 was at 1,104 crores, higher by 45% year-over-year. During the quarter, on account of the new labor code, there was a one-time charge of 308 crores. Material cost as a percentage of revenue for Q3 was 72.2%, higher by 70 basis points year-over-year and 100 basis points sequentially. This gross margin compression was on account of product mix and some escalations in non-ferrous commodities with PGM, copper, and aluminum.

Cost-saving efforts continue with the same rigor while we are pushing for improvement in realization for recovering commodity cost increases. Capex for the quarter was at 187 crores and cumulatively 844 crores for the nine-month period. Investments in subsidiaries in Q3 and for the

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nine-month period were 16 crores. Our cash position net of debt has become stronger. We had net cash of 2,690 crores at the end of the quarter, an increase of more than 1,660 crores on a year-over-year basis.

Coming to our subsidiaries, Switch India continues to do well. For the nine-month period, Switch India sold 850 buses and about 1,200 electric LCVs with positive EBITDA and positive PAT. The current order book stands at 1,350 units. Recently, Switch delivered over 240 buses for deployment in the national capital. Switch has now also started exports with the first batch of Eagles supplied to Mauritius and one order of 45 buses obtained from Bhutan. Switch India is progressing well on its target of becoming free cash flow positive by FY27. Our OHM E-mobility subsidiary is now operating more than 1,400 electric buses, adding more than 300 buses to the operating fleet in Q3. All the GCC projects under execution by OHM are at healthy double-digit IRR.

Hinduja Leyland Finance standalone AUM was at 56,470 crores, higher by 18% year-over-year and Hinduja Housing Finance AUM was at 15,454 crores, higher by 16% year-over-year. Total PAT for the finance subsidiary for Q3 was at 220 crores. The reverse merger of HLF with NDL Ventures had some initial delays, but now with all the necessary approvals in place, the process is being followed for a final closure. We remain focused on our ESG commitments. Our Dow Jones Sustainability Indices ESG score has improved significantly and we are now in the global top 2% of the industrial engineering and electrical equipment companies. In our commitment towards RE100, we achieved 80% renewable energy status against 69% in FY25, with our Tamil Nadu plants now at 94%. Our Road to School and Road to Livelihood programs continue to grow, extending their reach to about 6.1 lakh students now.

In summary, we believe we have progressed significantly well in the nine-month period on all our focus areas: MHCV and LCV market share, growth of non-CV and international operations businesses, product innovation, service reach, profitability, and sustainability. We believe that the current environment is extremely conducive to CV volume growth with favorable macros, a pro-growth FY27 Union Budget, the just-concluded India-EU FTA, and the resolution of the India-US trade tariff deadlock. On the back of these, we remain confident of posting good volume growth in the coming quarters. Thank you once again for your continued trust in Ashok Leyland. I now hand it over to the moderator for Q&A;

Operator: Thank you very much. We will now begin the question and answer session.

Operator: The first question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani - Bank of America: My first question is on the industry growth outlook. I think we did sound pretty confident and positive on the growth outlook. Can you just share more insights on how we should think about sustainable growth getting into FY27? I am sure there is an element of bunching up that is happening post-GST. Maybe you could elaborate on your point that you are seeing replacement demand come through to the industry from both small and bulk buyers. Are we starting to see the larger set of truck operators also come back to the market after the GST clarity has settled in as to which road they will go forward with?

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Management: Thank you very much for the question. When GST was announced, the first movers in the industry were actually the retail buyers, not the bulk buyers. Bulk buyers have a slightly more complex equation to understand because of the GST reduction. Therefore, in November and December, we saw the growth coming largely from retail buyers more than bulk buyers. Now, in January, we have seen that even many bulk buyers are coming forward and they are not just buying for their current needs, but are even projecting their purchases for the next several quarters, like three or four quarters.

We think that sentiment is very strong right now. People are seeing the value and we are seeing that freight demand is going up. It is not just about the lowering of prices because of the tax cut; it is also because of the growth in the consumption economy and more freight demand. We are also seeing a slight increase in freight rates. It is a unique situation when both the demand and the rates are going up in the market, which is building quite a positive sentiment. Initially, we were a little apprehensive whether the bulk buyers would move forward because of complications relating to ITCs and cash flows. But now in January, we are much more optimistic about the future prospect, having seen the bulk buyers moving out and projecting their demand for the next many months. We are very confident at this point that this could be the start of a new replacement cycle in the CV industry. We had always been talking about the aging fleet and how the average age has gone up from 7.5 to 10.5 years. We were waiting for a trigger that could provide the replacement cycle to kick in, and we think this could be it.

Gunjan Prithyani – Bank of America: That is actually quite encouraging to hear. A quick follow-up on that: given that we did not see sharp volatility in the cycle this time around—the down cycle wasn't steep—how should we think about the growth for the next year or two? Should we assume the upcycle will be modest? Recent numbers do not suggest it is modest. Can we extrapolate this number or do we temper it down going into FY27 given the down cycle was not that steep?

Management: We have to consider this in two different ways. For the automotive industry, this is a year of two halves: April to October, the first seven months, and the remaining five. For next year, we have to keep in mind that April to October will have a low base from last year, and we should see phenomenal growth, although I do not have specific numbers to give you right now. In the second half, which is November to March, there will be a high base. Overall, we still believe that the industry is going to stay strong next year.

Management: Gunjan, although the past appeared stable, there was still a huge movement between truck and bus. On the truck side, there was a lull for 2 or 3 years. It was about 3,20,000 units and last year it came down to 3,13,000 units. There was a fall, but it was more than compensated by the surge in volume on the bus side. The fluctuation was not as apparent because increase on one side matched decrease on the other.

Gunjan Prithyani – Bank of America: Got it. Since I have you, on the commodity side, can you share what the headwinds were in this quarter? How should we think about metal inflation, particularly on the precious metal side? What was the impact in Q3 and what do we see for Q4? What pricing action have we taken to mitigate that?

Management: In Q3, we saw an increase in PGM, copper, and aluminum. Although steel prices were stable, these other commodities contributed to a sizable increase. Adding to this was the change in

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the mix. The truck revenue went from about 50% to 55% overall, which also added to the drop in gross profit. We saw the APC going up and these factors contributed to the drop in gross profit. Regarding the metal cost side, we see this trend happening and we have started increasing recovery from the customer. This is not by way of a circular price increase, but by way of reduction in discounts. We have been successful in getting some price increases in January.

Gunjan Prithyani – Bank of America: Can you quantify the commodity impact reflected in Q3 and any calculations you have for Q4?

Management: It was roughly 50 basis points on Q3. We are trying to recover it from the customer by way of price increases of more than 60 basis points, including the margins.

Management: Just to add to that, we have been facing a challenge for the last 3 months. Like it was mentioned, the mix was slightly unfavorable in Q3. Initially, the post-GST momentum from the industry was on the retail side, and there is more retail participation in the ICV and LCV segments than in the heavy-duty side. When that growth started appearing, the ICV contribution really went up to nearly 30% of the overall truck industry, whereas it used to be around 22–24%. In January, we are seeing bulk buyers for heavy-duty trucks and tippers coming back, so this trend should neutralize in the next few months. Regarding price hikes, there was a general notion that after the GST cut, it might not be the right time to increase prices. That is temporary. If commodity pressure continues to build, the industry should go for a more significant price hike in the future.

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

Pramod Kumar – UBS Securities: Thank you and congratulations on the set of numbers. My question is on the profitability side. Volumes are expected to be good, but commodity prices are surging and the mix has been a factor. How should we think about margins during this period? It could be a bit of a disruption because of commodities, but building in mid-single digit growth for the industry, how should we look at margins?

Management: There are four elements at the margin and profitability level: price, mix, commodity, and internal cost saving. Pricing avoids significant hikes right now to keep the momentum after the GST cut, but the ability to take better prices is there as demand and freight rates rise. I believe this is a temporary concern. Regarding the mix, the surge in ICV contribution from 23% to 30% shifted the balance, but this should return to normal as bulk buying returns for heavy-duty vehicles. Commodity is not in our control, but we can hedge it through future price increases and strengthened internal cost-saving efforts. When you launch new products, there is a fresh opportunity for value engineering. We will manage this temporary situation.

Pramod Kumar – UBS Securities: My second question is for Mr. Balaji. How are the steel contracts normally structured in terms of duration and pricing? Also, on the staff cost side, we see it came down sequentially. This is unusual given higher production and salary inflation. Can you clarify those two points?

Management: Regarding the steel contracts, these are half-yearly contracts. Whenever the spot rate or the market changes, either the purchaser or the seller approaches the other party for an

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adjustment. On the staff cost side, we had to tone down our variable performance pay with reference to the full-year targets and achievements. It is not a one-off, but is in line with the full-year targets for the company.

Pramod Kumar – UBS Securities: Can we quantify that?

Management: It would be approximately 20 crores that was reduced.

Pramod Kumar – UBS Securities: But it should normalize back to normal in Q4?

Management: Yes. There is no one-off involved in it, except for the wage code amount of the annual expense.

Operator: The next question is from the line of Mukesh Sarraf from Evendis Park. Please go ahead.

Mukesh Sarraf – Evendis Park: Thank you for the opportunity. My first question is on the outlook and the CV cycle. So far we have seen growth in ICVs and lower tonnage vehicles, but not so much in high tonnage vehicles. Typically, at the start of a cycle, we see higher growth in the larger tonnage vehicles. Can you help us understand why the mix does not yet reflect that improvement?

Management: Like I explained, we saw higher off-take from the retail segment in November and December. Now in January, we are seeing better traction from bulk buying, which is more focused on heavy-duty vehicles. Additionally, the momentum we are seeing in infrastructure and construction will play a large role until the monsoon arrives, giving a fillip to tippers and multi-axes. It is a temporary effect that should subside.

Management: I also want to correct the impression that high tonnage hasn't grown. Even the MAV segment grew by 34% in Q3 compared to the same period last year. It is not only ICV that grew; tipper and MAV segments also grew. Where the retail segment was higher, those segments showed an early jump, but the rest will follow. There has been good growth in the tipper segment sequentially. Similarly, growth in haulage and tractor segments has been quite uniform.

Mukesh Sarraf – Evendis Park: On a longer-term note, ADAS equipment becomes mandatory in trucks and buses next year. We see more regulations coming in for emission, driver comfort, and road safety. Do you see this leading to an increase in vehicle prices over the next 3 or 4 years? Is the logistics industry in a situation to pay more for vehicles? How are we prepared for these regulations?

Management: If you recall, the last big regulation was for air conditioning in trucks. We were worried about whether the industry could absorb that cost, but the industry welcomed it. Due to driver shortages, people are giving much more importance to comfort and safety. AC was a brilliant example. With ADAS, which is safety-oriented, people will see value in reduced accidents and lower damage to goods. It takes time to adopt new technologies, but industry dynamics have changed. Reliability remains important, but comfort and safety are playing a big role now.

Operator: Thank you. The next question is from the line of Ragunandan NL from Nivama Research. Please go ahead.

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Ragunandan NL – Nivama Research: Thank you and congratulations on strong results. Firstly, on the average age of the fleet, it was at a historical high of 10 years. Given better cash availability and infrastructure spending, how do you see this age moving over the next 2 or 3 years? Do you think it will come down?

Management: You are right. There is only one way this aging can move, which is to return to the normal. Ten and a half years is not sustainable for our industry. If GST and macroeconomic factors have triggered a replacement cycle, we will have good times ahead. There is also consideration from the government regarding scrapping in metro cities because of pollution. If those policies come in, they provide additional triggers. Reducing the age from 10.5 to 8 years would take a few years, but it represents potential demand in the market.

Ragunandan NL – Nivama Research: Can you also speak about your efforts in the non-south markets? How can you further gain market share and replicate the success you have had historically in the South?

Management: That has been one of our big focus areas. We have done substantially well in increasing penetration in the North, East, and Central regions. A few years ago, our market share in the North was 15%; now it is more than 25%, with an overall average share of 31% across India. We are now a national brand. We still have some headroom, especially in the East. We have already signed with the TVS group for distribution in the NCR area. They are building 13 outlets there, bringing their professional after-sales service to our partnership. We expect to reach 30% market share in zones where we were previously at 15-18%.

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

Kapil Singh – Nomura: Congratulations on a strong performance. My first question is on capacity. How are you placed for MHCVs and LCVs? Do you need to trigger capex to enhance capacities now that there is potential for an upcycle? Also, from a vendor point of view, are you able to service demand or are there supply challenges?

Management: At this point, we do not have an overall constraint on capacity. Even with a strong positive forecast for FY27, we should be fine across the segments we operate in. There might be some challenges in smaller niche areas, like a specific machine setup or a particular supplier who may need to invest in tooling, but the capex requirement there would not be humongous. It would be bits and pieces as we have done in the past, perhaps 50 to 100 crores for specific areas. We do not see any major investment in capacity expansion for the next 2 to 3 years.

Operator: Thank you. The next question is from the line of Amyan Trani from JP Morgan. Please go ahead.

Amyan Trani – JP Morgan: There has been news flow today regarding OHM and its valuation. Can you give us a sense of the kind of investments OHM may require, what you have already earmarked, and any financial metrics you can share?

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Management: We are focused on building a business model around e-mobility, not just for buses but for trucks eventually. We have already invested 300 crores in OHM and have earmarked another 300 crores as and when needed. Beyond this 600 crores, we will be open to external fundraising options. Regarding GCC contracts, we maintain a certain minimum threshold for margins. If we can contribute with those thresholds, we take the contracts. For YTD Q3, our total investment in subsidiaries is at 16 crores. We will look at capital infusion requirements for OHM, Hinduja Leyland Finance, and Hinduja Housing Finance based on our current cash position, which is 2,600 crores positive. We are also looking at the possibility of repaying some loans acquired outside India.

Operator: Thank you. The next question is from the line of Chandramouli Mutiwala from Goldman Sachs. Please go ahead.

Chandramouli Mutiwala – Goldman Sachs: My first question is on the non-truck business mix. Over the past 6 months, we have seen a meaningful pickup in the truck business. Can the non-truck components grow equally fast and maintain their share in your margin planning?

Management: It is happening. If you look at the truck portion of the overall revenue compared to last year, it remains around 55%. However, international operations grew from 6% to 8% of revenue. We are seeing efficient management of the mix, which helped the margin go from 12.8% to 13.3% year-over-year. Even with strong truck growth, the power solutions business was up 45% and defense was up 84% in Q3. Defense now accounts for 1.5% of revenue, up from 1%, and the power solution share has gone from 3% to 3.6%.

Chandramouli Mutiwala – Goldman Sachs: That is helpful. My second question is about the Dedicated Freight Corridor (DFC) extension to Jawaharlal Nehru Port. It appears the extension is being pushed out. How do you feel about the DFC's impact once it is fully operational for the last leg?

Management: The deadline for the last 100 kilometers of the Western DFC has been extended multiple times. While the DFC is 95% complete and operational in many parts, it does not address full connectivity because last-mile connectivity is not there. This could have some impact on truck and trailer volumes, but there will be a positive impact on ICVs and LCVs required for that last mile. We expect the impact, even on the truck and trailer side, to be very minimal over the next 2 to 3 years.

Operator: Thank you. The next question is from the line of Pramod Amte from Incred. Please go ahead.

Pramod Amte – Incred: Considering the start of a new upcycle, do you need to advance product launches to address any gaps?

Management: We are increasing the agility of our new product development process. We have digitized the tools to track daily activities and improve collaboration, which brings ownership and priority to speed up projects. Our product development pipeline is very strong. We have just done a big launch with Hippo and Taurus, as well as the 4.1 ton Bada Dost. You will see many such launches this calendar year. Our roadmap to increase LCV coverage from 50% to 80% is already under execution.

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Pramod Amte – Incred: Regarding subsidiary investments, they seem low compared to previous guidance. Are the subsidiaries performing better than anticipated?

Management: The subsidiaries are doing fine. Last year, we exited the assembly facility for Switch UK, which was the main cash consumer. Any funding for OHM or the finance businesses will be done as required. We might release another 100 to 150 crores for OHM. For Hinduja Leyland Finance and Hinduja Housing Finance, where AUM growth is around 20%, we will invest accordingly. We are also looking at repaying loans outside India, specifically relating to Switch UK. There are no surprises; the subsidiaries are doing well, and most funding will be for growth.

Operator: Thank you. The next question is from the line of Rishi Vora from Kotak Securities. Please go ahead.

Rishi Vora – Kotak Securities: Looking at previous upcycles, tonnage growth typically outpaced volume growth. In Q3 FY26, tonnage growth seems to have underperformed volume growth. Do you expect this cycle to be different, or will the quality of growth converge?

Management: Tonnage growth will continue at a regular pace, though it might not be very strong. Lower and middle-level segments have solid long-term potential because of last-mile delivery and e-commerce. Tonnage will fluctuate based on sector performance. The key fact we are looking at is the sustainability of this replacement cycle. Since November, we have seen strong momentum on the ground in terms of inquiries and bank cases, which suggests this will sustain for a longer period.

Rishi Vora – Kotak Securities: With better quality roads and vehicles, is it necessary for the average age of vehicles to come down, or is 10 years the new norm for fleet operators?

Management: Average age can be misleading. We should look at how many vehicles are more than 12 or 15 years old, or still running on BS2 and BS3. Looking at those specific data points, it becomes clear that the current age is not sustainable and needs to change.

Operator: Thank you. The next question is from the line of Prashant Kothari from Pictet. Please go ahead.

Prashant Kothari – Pictet: I wanted to understand the financing business. Looking at segmental results, the profits are down on a year-over-year basis. Can you explain why?

Management: Based on our data, profits have actually gone up. For Q3 compared to last year, profits went from approximately 108 crores to 130 crores. I will check where you are pulling that number from and clarify. We will take that question separately.

Operator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for the day. I will now hand the conference over to the management for closing comments.

Management: Thank you, ladies and gentlemen, for your time and your trust in us. As an industry, we are going through a lot of positive momentum, although we are also navigating some challenges. We hope to close a good quarter and a good year. Thank you very much.

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

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