Ashok Leyland

Operator: Ladies and gentlemen, good day and welcome to Ashok Leyland Ltd. Q2 FY27 earnings conference call hosted by Kotak Securities Limited. As a reminder, all participants' lines will be in 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 the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishi Vora from Kotak Securities. Thank you, and over to you, sir.

Operator: Thank you, Ikra. Good morning, everyone. On behalf of Kotak Securities, I welcome you all to the Q2 FY27 results conference call of Ashok Leyland Ltd. I also welcome the senior management of Ashok Leyland Ltd., Mr. Shenu Agarwal, Managing Director and CEO, Mr. KM Balaji, Whole-time Director and CFO, and the Investor Relations team. With this, I will hand it over to Mr. Shenu Agarwal for the opening remarks. Over to you, sir.

Shenu Agarwal – MD & CEO: Thank you, Rishi. Good morning, ladies and gentlemen. Thank you for joining us and for your continued trust in Ashok Leyland Ltd., as always.

The second quarter of FY27 witnessed strong growth in the Indian commercial vehicle industry, supported by resilient economic activity, sustained freight movement, and healthy demand across key customer segments. Despite an environment marked by elevated commodity prices and continuing geopolitical uncertainty in West Asia, Ashok Leyland Ltd. delivered a strong operating performance and made further progress on its strategic priorities.

The domestic MHCV industry recorded volume growth of 39% year-on-year during the quarter, while the domestic LCV industry grew by 24%. The growth reflects the continued strength of the underlying demand environment, supported by replacement demand, infrastructure activity, improving fleet utilization, and the growing requirements of the consumption-led economy.

Against this backdrop, Ashok Leyland Ltd.'s domestic MHCV volumes grew by 44% year-on-year, outperforming the industry. Our domestic MHCV market share for the quarter stood at 32.1%, representing an improvement of 120 basis points year-on-year.

Our performance was particularly encouraging in domestic MHCV trucks, where the traction for our differentiated products and our sharp focus on customer service helped us grow much higher than the industry, gaining market share of 150 basis points during the quarter on a year-on-year basis.

In the domestic LCV business, volumes were 21,371 units, representing growth of 21% year-on-year. Our LCV Vahan market share improved to 13.6%, a gain of 30 basis points year-on-year. The performance of the LCV business corroborates our strategy of expanding participation across the addressable market through differentiated products, offering best-in-class TCO, wider applications, and continued strengthening of our sales and service reach.

Overall, Ashok Leyland Ltd.'s domestic CV volumes, excluding defense vehicles, for the quarter stood at 59,575 units, higher by 34% year-on-year. This represents the highest-ever Q2 domestic CV volumes. For H1, domestic CV volumes stood at 105,877 units, higher by 24% year-on-year, and again, the highest-ever H1 volumes.

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Our international operations recorded volumes of 5,102 units during the quarter, representing 7% growth year-on-year. Demand across key international markets remains strong; however, the continuing crisis in West Asia continues to create significant logistics and operating challenges, particularly in relation to shipping availability, freight costs, transit times, and operations connected with our Ras Al Khaimah facility.

Management: While underlying customer demand in GCC remains strong, these disruptions affected production and dispatches. We are closely monitoring the situation and taking appropriate steps to protect supplies and navigate logistical challenges.

Our non-CV businesses continue to broaden the quality and resilience of our revenue base. Domestic aftermarket revenue grew by 20% year-on-year. Revenue from the power solutions business increased by 33%, while defense revenue, including that from our defense subsidiary, grew by 66%, achieving quarterly revenue of about Rs 400 crores. The defense order book and the tender pipeline remain strong, providing healthy visibility for the future. Our emphasis on aftermarket, power solutions, defense, and international operations continues to support a more balanced business and profitability profile.

Coming to our financial performance, revenue for Q2 FY27 was Rs 13,364 crores, higher by 39% year-on-year. EBITDA for the quarter was Rs 1,350 crores, compared with Rs 1,162 crores in Q2 of the previous year. EBITDA margin stood at 10.1%, at the same level as Q1 FY27 and lower compared with 12.1% in Q2 FY26. Profit before tax was Rs 1,187 crore, while profit after tax stood at Rs 869 crores, registering year-on-year growth of 14% and 13%, respectively.

The strong growth in industry and company volumes resulted in meaningful operating leverage. However, profitability during the quarter was impacted by a sharp increase in commodity prices, particularly steel, natural rubber, forex, fuel, and conversion costs. Material cost as a percentage of revenue increased to 74.9%, compared with 71.5% in Q1 of this year, an increase of 340 basis points quarter-on-quarter. Despite this significant increase, EBITDA in Q2 remained at 10.1%, the same as in Q1 of this year. Higher price recovery, better product and business mix, continued cost control measures, and operating leverage helped reduce the impact of commodity inflation.

Capex for the quarter was Rs 240 crores, taking cumulative capex for the first half to Rs 393 crores. Investment in subsidiaries was Rs 472 crores, taking the first-half total to Rs 483 crores. During the quarter, Rs 324 crores of investments were made for repayment of the Switch UK loan and Rs 150 crores in OHM, our e-mobility subsidiary.

Our cash position, net of debt, stood at a surplus of Rs 3,546 crores at the end of September 2026, a positive swing of Rs 2,556 crores year-on-year. Our strong operating performance and cash generation have further strengthened our balance sheet.

Against this backdrop, the Board has recommended an interim dividend of Rs 1 per share on a face value of Re 1 per share, reflecting confidence in the business and our commitment to consistently returning value to shareholders while continuing to invest for long-term growth.

Product innovation and premiumization remain central to our profitable growth strategy. During the quarter, we launched India's first air-suspension multi-axle trucks, offering a payload advantage of

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up to 4 tons, superior vehicle stability, ride comfort, and tire life, resulting in best-in-class total cost of ownership for the customer. These launches strengthen our premiumization journey, wherein we improve our market position by offering better TCO.

We continue to witness encouraging customer traction for our recently introduced Hippo tractors and Taurus tippers. We further strengthened these new product lines with the launch of our 360 horsepower tippers and tractors. These products offer superior power, torque, payload, turnaround time, and total cost of ownership, strengthening our competitive position in the higher-horsepower and heavy-duty segments.

In the MHCV bus segment, we launched the Garud 15-meter front-engine multi-axle coach, offering a superior passenger experience, best-in-class fuel economy, and passenger capacity. Our product development pipeline remains robust, with further launches planned across MHCV, LCV, buses, alternative fuels, and electric mobility.

We remain focused not merely on increasing product coverage but on bringing differentiated products that create demonstrable value for our customers and support both market share and margin improvement.

In our premiumization journey, in addition to innovative products, we continue to strengthen our service delivery. Our service transformation project, called Project Dhruv, continues to make progress as we deploy more digital tools, additional analytics, and artificial intelligence to enhance workshop productivity and customer experience.

We added more touchpoints during the quarter. The new addition was 43 touchpoints in the MHCV and LCV businesses. The focus of new additions continues to be in the North and East regions, where we have higher headroom. At the end of the quarter, the Ashok Leyland Ltd. network had a total of 2,175 touchpoints, 1,205 for MHCV and 970 for LCV.

The strength of demand was also visible in the utilization of our manufacturing assets. During the quarter, we operated at close to 90% capacity utilization. We have been taking proactive steps to ensure that capacity does not become a constraint to our growth.

In the near term, we are pursuing focused debottlenecking initiatives across our existing facilities to unlock additional capacity with limited capex. In parallel, we are also progressing our plans for a greenfield manufacturing facility to support the next phase of growth.

We are working closely with our key suppliers to augment capacities for critical components in line with our future volume requirements. We are identifying potential bottlenecks in the supply chain as well, securing capacity commitments and alternate sources, and aligning supplier investments with our growth plans.

I am also happy to report that all approvals are now in place for our new battery-pack facility at {? Phillepakkam ?} near Chennai. Construction work has started, and production is expected to start in Q3 of next year.

Our sustainability commitments remain integral to the way we operate. Renewable energy accounted for 79% of our energy requirements, while our road-to-school and road-to-livelihood

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programs reached approximately 7 lakh students.

Coming to our subsidiaries, Switch Mobility India delivered 439 electric buses and 732 electric LCVs during the first half of the year. Its order book stood at approximately 2,800 e-buses at the end of September 2026. OHM Mobility increased its operating fleet to around 2,100 electric buses and continues to progress towards its profitability objectives. OHM has also received an order to deploy over 200 trucks for cement distribution on fixed routes under the e-mass model.

The NCLT order related to the merger of Hinduja Leyland Finance with NDL Ventures was received on November 6, 2026. As per this order, NDL will be the legal and accounting acquirer of HLF, and April 1, 2026, is the appointed date of the merger.

NDL, in its Board meeting held last Friday, adopted its Q2 results based on acquisition accounting, fair-valuing all assets and liabilities of HLF and treating the NCLT order as an adjusting event. Ashok Leyland Ltd. and its statutory auditors, PWC, after due consultations, have decided to consolidate the financials of NDL or HLF in Ashok Leyland Ltd. on a cost-accounting basis, thus ignoring all fair-value or purchase-price adjustments.

The consolidated book value of Hinduja Leyland Finance and Hinduja Housing Finance, as reflected in Ashok Leyland Ltd.'s consolidated results, stood at Rs 8,313 crores, with a PAT of Rs 174 crore for Q2 of this fiscal year. NDL shall in due course apply for the NBFC license.

Management: ...and complete other actions to make the merger scheme effective, paving the way for the merged NBFC entity to get listed. We expect that within Q4 of this fiscal year, this process should be completed.

Once the scheme is effective, HLF will dissolve and cease its business operations. However, the current auditors of HLF have pointed out certain discrepancies in transactions and loan balances between the various underlying systems of the company. The impact of these on the financial statements is currently not ascertainable.

The company is in the process of appointing an independent agency to conduct a comprehensive review of the related systems and processes. Upon completion of this review, the company and its Board shall evaluate and take appropriate actions as may be necessary.

In summary, Q2 FY27 was a quarter of strong growth, the launch of market-defining products, and reasonable market share gains. Although at the same time, the quarter was also marked by significant external cost pressures, the underlying demand environment for commercial vehicles remains quite positive.

Our recent launches and forthcoming product pipeline position Ashok Leyland Ltd. well to participate in this growing market. At the same time, we remain mindful of elevated commodity prices and the ever-evolving geopolitical situation. We will continue to address these challenges through higher price realization, better business and product mix, accelerated cost savings, capacity interventions, and a disciplined focus on profitable growth.

Our foundations remain strong. We have a differentiated product portfolio, expanding market presence, increasingly diversified businesses, a wide service network, and a strong balance sheet.

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On this basis, we remain confident in our ability to create sustainable long-term value for all our shareholders. Thank you once again for your continued trust in Ashok Leyland Ltd. I now hand the call back to the moderator.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Chandramouli from Goldman Sachs. Please go ahead.

Chandramouli – Goldman Sachs: Hi, good morning, and thank you for taking my questions. Just the first question is around the festive period. I think we have seen CV demand, if we look at the Vahan portal, grow pretty well. We are, of course, in the back half, and the entire auto industry is up against a slightly higher base. So I just want to understand the demand momentum.

You mentioned that you see healthy demand in the back half, the remainder of the year, as well. I just want to understand what your range of growth expectation is for the CV industry and where you think Ashok Leyland Ltd. could move. If you could also give us a little clarity on the export environment, you mentioned freight and shipping challenges. The Middle East is an important market for you, so please provide some color on how the underlying demand is there and, if and when there is an improvement in the shipping situation, what sort of pent-up opportunity you might have.

Management: Thank you for the question, Chandramouli. Last time when we spoke, we were all thinking about how October would go because October was the first month in which we would encounter a higher base for the industry.

Now we all know the October numbers for the industry, and we are very positive to see them because, even on a higher base, the October numbers were very, very good, both on the MHCV side and the LCV side. That is giving us a lot of strength in our outlook for the rest of the year.

Basically, we think that there is a fundamental growth momentum that has set in the industry. We have been talking about the aging of the fleets in the past. We have been talking about the trigger that was created in the September-October time frame last year because of GST rationalization.

So right now, we are of the view that this momentum shall continue and will continue strongly. We think that already in November we are seeing that the sentiment is very positive among our customers in various segments, and we think this will carry forward through the whole year.

Now, as far as the numbers are concerned for the year, we do think that it will be double-digit. We also think that it could reach mid-teens growth for the whole year for the CV industry, especially MHCV, which I am referring to. LCV is also going very strong, so LCV should also register similar growth.

Now, coming to the export environment, I should tell you that even in Q2, we had a degrowth in our GCC volumes to the extent of about 20%. The good news is that during the quarter, we recovered

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quite significantly at our Ras Al Khaimah facility. The supply chain is back to almost normal, I would say. The plant is again running at almost full capacity.

Therefore, we think that GCC should see a turnaround in Q3 and Q4 going forward. However, in Q2, the other markets did very well. For example, SAARC and Africa did very well for us, registering very good growth in both markets.

Therefore, our total numbers, which were slightly negative, or showed degrowth, in Q1, came out positive for the current quarter. Although the growth in export volumes for Q2 was only 7%, we do hope that, with the strengthening of our supply chain conditions and the rest of the production environment at Ras Al Khaimah, we should post very good growth numbers in Q3 and better numbers in Q4.

Chandramouli – Goldman Sachs: Got it, that is helpful. Just as a follow-up to that, I am trying to understand, when we look at freight rates and compare them with what has happened to diesel prices since the West Asia conflict broke out, it looks like freight rates have not adjusted upwards to the same extent as diesel prices have increased.

Also, I think in the back half there is an expectation that interest rates might move higher. I just want to understand your thoughts on what these two factors could imply for the demand environment over the next 12 months.

Management: As far as freight rates are concerned, I think there is an upward movement in freight rates, and that is really helping. There is also a lot of upward movement in freight demand. Both those things are positive.

We do expect freight rates to continue to rise in the future as well. The overall economic activity is very good, which is creating demand. Also, people have now realized that they cannot afford to keep their older trucks on the road anymore because they have clearly determined or understood that the TCO for a newer BS-VI truck is far better than the TCO of a BS-II, BS-III, or BS-IV truck.

I think that mental shift has happened, and that is driving both replacement demand and the new fleet requirement arising from economic activity.

When we speak to our customers, the sentiment remains very positive, and we have seen that in the October numbers as well. Q2 itself was very, very strong, beyond even our expectations, because the MHCV industry grew by 38-39%, while we were all hoping that it would possibly grow by 22-25% in that region.

I think the momentum is quite strong. Interest rates also have a bearing, definitely, and we think there might be one more round of interest-rate hikes. But right now, given the positive sentiment and the underlying freight activity and rates, we think that this will not have a major impact on overall CV demand in the next 2 quarters.

Management: On the other side, Chandra, regarding your question on freight, we had to absorb the freight increases relating to the freight rates we pay to our transporters for transporting vehicles across the country. That is part of other expenditure, where you would see that we will have to absorb some of the freight-rate movement and freight-rate increases because of this diesel-price

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movement and the demand from transport operators.

Management: I can tell you that, if you compare the percentage [trails off]

Management: ...percentage of our freight cost for the trucks and buses we move from our factories to the dealers, that has gone up by more than 50% per vehicle over the last 1 year or so. So, definitely, this affects our P&L, but we are happy that freight rates in the market are moving up, which will support the industry.

Chandramouli – Goldman Sachs: Makes sense, makes sense. This last question is on profitability. I think in the first half, because of the higher steel prices, which may not have been fully passed on to customers, there has been about 150 basis points of margin dilution year-on-year.

Over the next 6-9 months, at this stage it appears that non-steel metals are the ones that are correcting. Steel prices have not yet come off. I am trying to understand how you are thinking about profitability over the next 6-9 months in that context, given that one of your primary raw materials, steel, is not expected to come off in the near term.

Management: Thanks for this question, Chandru. We should temporarily stop looking at margins in terms of percentage of revenue. The reason I am saying that is that we are in a situation where we are seeing a good increase in volume, whereas margins are significantly under pressure because of these higher commodity-cost movements.

While you will certainly see profits, revenue, and all these metrics going up in absolute terms, profits and margins as a percentage of revenue should temporarily not be the way we look at them. We should look at them relatively, in absolute terms, with reference to the previous year, until this commodity-cost escalation recedes somewhat. That would be my suggestion to everybody in the market.

Specifically regarding your question about the timing gap between inflation and the pass-through of inflation to the market, that is always the case. In the last few quarters, price inflation has been happening at a rapid pace, and we simply cannot pass on the entire increase to the market in one go.

Therefore, when this inflation phenomenon halts, stops, or moderates, we will have a large amount of unrealized price pass-through, which should benefit us. The question is whether inflation will moderate in Q3 or Q4. Right now, it seems that Q3 will also be a bad quarter in terms of inflation.

We are already seeing some signs of that, especially on the steel and natural rubber sides. But at any given point in time, let us say in Q4, when material-cost pressure recedes, we will have in our hands a lot of price increases that are not being reflected in the P&L because of the timing issues.

Chandramouli – Goldman Sachs: Got it, got it. That is helpful. Thank you very much, and all the best.

Operator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to 2 per participant. Should you have a follow-up question, please rejoin the queue. The next question is from the line of Raghunandan NL from Nuwama Research. Please go ahead.

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Raghunandan NL – Nuwama Research: Thank you, sir, for the opportunity, and congratulations on the market share gains. My first question was on the demand side. In the domestic market, within the various categories, how do you see the performance in ICV, HCV, and buses? Also, can you talk about the initial acceptance of your higher-payload truck and whether, in this category or this form factor of providing higher payload and better TCO for transporters, we can expect more launches going forward?

Management: Thank you, Raghu, for that question. As far as demand is concerned, we are seeing a huge surge in demand in basically all categories in Q2. I think the lowest was buses, which also grew by 22%.

The demand is comprehensive and spread out. ICV trucks are at the top of the table, as they have been for the last few quarters since GST rationalization, because we know that this is the most price-sensitive market. Therefore, any reduction in the price there because of the tax cut helps that market more than the other segments.

Other segments, such as heavy-duty trailer trucks, tippers, and multi-axle vehicles, are all showing very, very strong growth. We are happy that the growth is comprehensive.

Actually, growth in tippers among the heavy-duty trucks is the lowest right now, but we do think that coming November and December, and in Q4 as well, demand will grow because of the heightened activity in the infrastructure and construction segments.

Coming to the products that we have launched, as we told you earlier, our theory or mindset behind every product launch is now one of premiumization. By premiumization, we do not necessarily mean merely increasing the price of the truck, but justifying the increase in price many times over through the value we provide to the customer in terms of improvement in TCO.

The Hippo tractor is currently getting huge traction in the market. That is one of the reasons we are gaining better market share overall in MHCV, and specifically in MHCV trucks we had good market share gains in Q2.

The Taurus tipper that we have launched is also very unique, and we are seeing great acceptance of it. We do think that because of these 2 products, we will continue to gain market share for many quarters, as these products are very unique in terms of fuel economy, reliability, the kind of aggregates we have used, and the industry-leading torque they provide for tough applications.

We also launched this air-suspension truck in the MAV category, and we have launched only 3 models. I think there are a lot of opportunities, so this whole concept needs to be translated into many more models and variants. We have launched only a few of them so far.

Even in Q3, we are planning to scale up the new 360 horsepower model, which is part of the same series or family as the Hippo and Taurus. I think Q3 and Q4 will be very, very busy as we extend this entire concept around premiumization to many more models and segments.

That should also help us continue to make further inroads into the market and hopefully achieve some market share gains.

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Management: We are seeing a strong increase on the multi-axle vehicle side. Multi-axle vehicle volumes have gone up. The share of multi-axle vehicles with reference to the overall truck volume has gone up by about 5% in Q2. It was 20% in Q1, and it has gone up to 25% in Q2. This augurs well for us and is also a reflection of the good performance of the new products launched in the market.

Raghunandan NL – Nuwama Research: Thank you, sir. That is very helpful, and best wishes for the future. On EBITDA, even if I take absolute EBITDA, there has been a good number, and EBITDA per unit has also seen an increase quarter-on-quarter. It is a great performance in challenging times.

Can you indicate what pricing actions you are taking in Q2, how much was implemented and retained, and what the plan for price hikes is in Q3?

Management: Every quarter, we have been trying to improve net sales realization. Although sometimes we may not announce a price increase through an increase in the price circulars, we have been consistent in raising net sales realization by anywhere between 1% and 1.25% every quarter.

That way, you can clearly see that prices have gone up from the beginning of the year by about 2-2.5%. In Q3 also, we will strive to continue with the same kind of price increases. We will try to build the same kind of momentum in price recovery.

Management: I just want to add, Raghu, that we do a lot of analysis around how much the market can take in terms of price increases, and based on [trails off]

Management: ...that, we do believe that there is more potential for us to increase prices for our products and at the industry level as well. However, we have to do it in chunks, in tranches. We cannot simply increase prices because, at the same time, we do not want to dent the market momentum.

We are taking a very calibrated approach, but we do think there is more capacity to increase prices in the future. In Q3, we have already taken a price increase, so that should be reflected when we see the Q3 financials.

Your observation is also right, Ragu, regarding the quarter-on-quarter growth momentum. Revenue has gone up by about 39%, and our EBITDA has also gone up by 39%. Quarter-on-quarter, it has been good for us.

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

Operator: Vedant, you may please proceed with your question.

Operator: Since there is no response from the participant, we will move to the next participant. The next question is from the line of Amyne Pirani from J.P. Morgan. Please go ahead.

Amyne Pirani – J.P. Morgan: Yes, hi. Good morning to the team, and thank you for the opportunity. My first question is on Hinduja Leyland Finance. Regarding the observation that you and NDL Ventures have made on the differences in balances, can you give us some more context as to what

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this relates to? I know that you have not ascertained any impact, but for our understanding, what is the discrepancy?

Management: Basically, the discrepancies are in the underlying transactions related to loan balances between the various underlying systems of the company. As you said, the impact is difficult to ascertain in a short period of time. I think we will need about 4-6 weeks.

The Board has decided to initiate a system audit, which is in place. The Board is also in the process of appointing an independent agency because the idea is to completely understand what kind of processes need to be changed.

Please be a little patient and give us some time. We will come back as soon as this comprehensive review is over and let you know what needs to be done regarding HLF's financial statements.

Amyne Pirani - J.P. Morgan: Okay, okay. We will look forward to that. With regard to the transaction itself, once HLF has been transferred to NDL, or because NCLT approval has come, has the share swap already happened, or is that yet to happen?

Management: No, let me clarify this. As per the NCLT order that was received, I think, on November 5, it was specifically mentioned that NDL would be the legal and accounting acquirer of HLF.

As you also know, there are 2 different streams here. One is the legal stream and one is the accounting stream. For the accounting stream, NDL regarded the NCLT order as an adjusting event and went ahead in Q2 with the merger accounting. As far as accounting is concerned, it carried out the merger accounting as per the Indian Accounting Standards by fair-valuing all the assets and liabilities of HLF.

If you have access to NDL's financials, you will see that it has taken some adjustments on loans, investments, and other items. That is the accounting treatment.

As far as the legal treatment of this order is concerned, there is a process to be followed before the share swap or listing can happen. That involves NDL applying for NBFC registration from the RBI. That process will be undertaken very shortly.

Then they need to obtain a certified copy of the NCLT order, which is simply an administrative matter, and they will have to apply to the ROC. I think that will take another 4-6 weeks, hopefully, perhaps a little longer, but by the end of December we hope that this legal part of the acquisition should also be complete.

Management: [off-mic discussion] Just to touch on this [cut off]

Management: [off-mic discussion] Sorry, yes [cut off]

Management: [off-mic discussion] Yes, Amit... no, go ahead. No, although the order came in the first week of November, accounting standards provide that, since the condition for this merger existed during the first 2 quarters, there is a requirement under the accounting standard to also consider this an adjusting event. Therefore, up to September 30, the accounts can be merged.

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Taking that accounting-standard requirement into consideration, NDL has considered this an adjusting event and merged the accounts. The effective date of the merger as given by the NCLT is April 1, 2026.

Amyne Pirani – J.P. Morgan: Okay. One last thing on this. Once the legal process and the share swap are completed, you will own a stake in NDL, but you have also invested separately in Hinduja Housing, right? So you will continue to own an 8% stake separately from your ownership of NDL, right?

Management: The investment is yet to happen, Amyne, although we have received approval from the Board. I think we received the Board's approval last quarter, and we will invest these Rs 500 crores at an appropriate time.

Amyne Pirani – J.P. Morgan: Okay. So whenever you do that, you will continue to have 2 streams of ownership. You will own NDL, and you will also own Hinduja Housing separately.

Management: Yes, separately. Yes, that is correct. Sorry.

Amyne Pirani – J.P. Morgan: Sorry, one last question on operations, now that this is clear. Some NBFCs, especially in the truck segment, have highlighted some small challenges regarding asset quality. Are you getting any sense of that when you speak to your customers? Are the financial positions of your customers generally healthy, or are you seeing any stress?

Management: No, in fact, on the contrary, we see that a lot of NBFCs and even banks are trying to gain a higher share of the CV market. When the market is growing at such a rapid pace, it also indicates that there is underlying strength in the credit supply to the market.

I do not know if 1 or 2 NBFCs have any issues, but largely we do not think there is a problem.

Amyne Pirani – J.P. Morgan: Okay, that is great to know, sir. Thank you. I will come back in the queue.

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

Vedant – UBS Securities: Hi, sir. Thank you for the opportunity. Can you hear me?

Management: Yes, Vedant, please go ahead.

Vedant – UBS Securities: I wanted to understand the disclaimer of opinion that the auditors have raised regarding the loan balances. Could you help us understand whether there is any major risk here? I just wanted to get your view on it.

Management: As I explained in response to the previous question, the auditors of HLF had pointed out some differences in the transactions and loan balances between the various underlying systems, especially relating to the loan balances.

For us to determine the exact issue, we need to conduct a comprehensive review. The Board has already started a system audit to determine whether the systems and processes are working

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properly, why these differences have emerged, and what their quantum is.

As I requested, please give us some time because there are lakhs and lakhs of loan accounts. This company is a very old NBFC and has been in existence for many years. Please give us some more time, and as soon as the review is completed, we will come back to you on both the nature of the differences and the amounts involved, if any.

In the absence of such a review, it would not be possible for us to say what the amount involved is. It will be very difficult to say. For the same reason, when there was a discussion with HLF's auditors, they were also of the view that unless this review was completed, it would be very difficult even for them to say what the nature of the difference and the amounts were. Therefore, this disclaimer has been given.

Vedant – UBS Securities: Okay, thank you, sir, and all the best.

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

Kapil Singh – Nomura: Hi, sir. Just a quick follow-up on this issue of HLFL. I wanted to know how these discrepancies were identified. Was it part of a regular audit, merger-related, or something else?

Management: What we know as the parent is that, since there was this merger that had to take place and the order had come on November 5 or 6 itself, there was a short time frame. Therefore, there was some additional scrutiny of the loan books to make sure that the merger took place properly.

During that scrutiny, some differences came up. As I said, the Board has decided to conduct a very comprehensive review so that, when the merger accounting takes place, we have full clarity on it in the future as well.

Kapil Singh – Nomura: Sure, sir. The second question was on electrification. Could you talk about how you are thinking about electrification for both MHCVs and LCVs? In terms of battery-pack capacity, what kind of plans do you have, and by when will it be upstream?

Management: I think it is very clear to everyone that electric mobility will continue to gain a lot of momentum in our country. We have seen the kind of numbers being reported, especially in 3-wheelers and 2-wheelers. Passenger cars are also growing constantly.

As far as CVs are concerned, on the LCV side it will happen faster, while MHCV will take more time. On the public-transport bus side, of course, it is happening at a very rapid pace.

We understand this entire shift that is happening and will continue to happen in the future. Therefore, we want to be prepared not just with the technology related to electric trucks, but also with the supply chain that needs to be addressed.

As we told you earlier, we are looking at batteries as a strategic investment, and phase one of that was to invest in a battery-pack manufacturing facility. The initial capacity we are looking at is about

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4 gigawatt, which will be sufficient for our own captive demand from both Ashok Leyland Ltd. and Switch.

In the future, we are preparing and building the factory in a way that will allow us to expand it to 8 or 12 gigawatt. Production should start sometime in Q3 of next year. Of course, that will also provide us with significant commercial benefits because of the duty structure and other factors.

Kapil Singh – Nomura: Regarding cells, have we given it any thought, or is it too early for us to decide on cell-manufacturing investments?

Management: That would be phase two of our overall plan and strategy around batteries, but it requires a lot more work and thought regarding the technology and other matters. That will take more time.

I would say that we might take a decision sometime in the next financial year regarding cells. Our first priority is to ensure that this pack factory is up and running and that we are delivering good quality and efficiency in the production system at the right cost.

Kapil Singh – Nomura: Okay. Thank you, sir, and best wishes.

Management: Thank you.

Operator: Thank you. The next question is from the line of Amit Hiranandani from PhillipCapital. Please go ahead.

Amit Hiranandani – PhillipCapital: Sir, thank you for the opportunity. Most of the questions have been answered. I just have a few bookkeeping questions.

It has been observed that generally other income is higher in the second quarter compared with the first quarter, but this time it is reversed and we have seen a quarter-on-quarter drop in other income. I wanted to understand whether there were any one-offs.

Management: Actually, last year we had some one-offs, Amit. Last year, fair valuation of some investments in the subsidiaries was carried out, and we recorded a gain of about Rs 50 crores in Q2 of the last financial year. That is why you see sundry income for the last financial year being slightly better.

Otherwise, if you look at the trend, Q2 could be slightly higher because we receive dividends from some of the subsidiaries in Q2. That could also be one of the reasons.

But last year we also received some income-tax refunds. I remember that we received about Rs 10 crores as a tax-related refund. All these factors added to the higher sundry income in Q2 of the last financial year.

Amit Hiranandani – PhillipCapital: Okay, noted, sir. Secondly, on the capex outlook for this year and the coming years, where are we going to deploy it? Also, can you highlight the discounting situation in the second quarter and how it has been on a quarter-on-quarter basis?

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Management: Capex so far for H1 is close to Rs 400 crores on a cumulative basis, and we do hope that it will reach Rs 1,000–1,200 crores for the whole year.

On the discounting part, as we have already declared, there is no provision to discount prices right now. Rather, the challenge is how we can accelerate realization per vehicle going forward, which we have been able to do successfully, although we still have a gap as far as inflation is concerned.

In Q3 also, we are trying to take about 100–150 basis points of price increase. We will most likely go ahead with one more increase in Q4, and then we will see how the situation is at the end of this fiscal year.

We track only net sales realization, Amit, which is after discounts. Discounts beyond a point are not tracked at all because they have no relevance as long as net sales realization is increasing. We monitor that consistently, and we do that.

Amit Hiranandani – PhillipCapital: Right, sir. Just one last question. I know the situation is tough. I wanted to understand whether we are maintaining the mid-teens margin target for the next 1–2 years, or whether there is any revision to it in light of the input-cost pressures.

Management: No, definitely, that is our medium-term goal. We do not want to sacrifice it. We think this inflation phenomenon is only temporary. It will return to normal. The timing is difficult to say, but it will come back.

In any case, as I said, we always have this balanced price realization that is not reflected in the P&L because of the timing gap with inflation. But structurally, I do not think there is any change in our business.

Demand is very robust. India will need many more trucks and buses in the future if India is to achieve its dreams of Developed India and the kind of economic activity we are seeing. India will definitely need many, many trucks and buses.

The kind of value we are also providing in trucks and buses in terms of customer TCO has improved significantly since BS-IV times. There is enough capacity in the system for better trucks and buses and for customers to pay extra for them.

I think that mindset has already developed in India. The way we see our 320 and 360 horsepower tippers and trucks performing, and the demand being so robust while they are much more expensive than the original or earlier 250 horsepower models, tells us a lot about how the Indian CV industry is going to develop in the future.

On the business model also, we have been working consistently. Our non-truck revenues have consistently been in good shape, and our contribution from the non-truck business is also quite good, which brings stability to our margins, as you are witnessing.

Despite truck volumes going up by 40% and MHCV volumes going up by 40%, with the share of trucks in revenue increasing significantly—and we all know that among the businesses, trucks are the least profitable or lower-margin business—we are still seeing stability in the margin.

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All these factors are acting as a very good test of our business model, which you are witnessing every quarter.

Amit Hiranandani – PhillipCapital: Great, sir. Fantastic. All the best. Thank you so much.

Management: Thank you.

Operator: Thank you. The next question is from the line of Yash Aggarwal from Nirmal Bang Securities. Please go ahead.

Yash Aggarwal – Nirmal Bang Securities: Hi, sir. Thank you for the opportunity. My first question is on LCV, as we continue to gain market share in our market share [cut off]

Yash Aggarwal – Nirmal Bang Securities: ...around 100 basis points in the last 2 quarters. What is driving this gain?

Management: Thank you for this question, Yash. I personally believe, and the management believes, that the kind of headroom we have in LCV is enormous for us.

You know that historically we have participated in only 50% of the market, and practically speaking, we are a newcomer in the LCV market. Our initial focus was on our stronger markets, which were the South and West. Therefore, there is still a huge amount of headroom to be explored in the North, East, and Central regions.

On LCV, on a long-term basis, we are very, very optimistic about our position in the segment. Having said that, we have done a few things over the last 2-3 years.

For example, we created not an exact sub-2-ton platform, but a model called Saathi, which catered to the premium end of the sub-2-ton customer segment. This means sub-2-ton customers who want to move to higher-payload vehicles were provided with a very good option through Saathi.

At the same time, we have also made a lot of improvements to our existing Dost and Bada Dost platforms. That is giving us a market-share push, along with the expansion of our network in the North, East, and Central regions.

The major jump in this area will happen when we create some new platforms in the future. We are thinking about this and will come back to you regarding how we can increase our market participation to approximately 80-85% from the current 55-60%.

Despite that, we have a huge headroom to grow, and we will continuously focus on both network expansion and product expansion.

Yash Aggarwal – Nirmal Bang Securities: Thank you, sir. My second question is that, as we are setting up a battery-pack plant, where do other technologies such as hydrogen, LNG, and CNG fit in for long-haul trucks, and which of these do you expect to scale first in India?

Management: [pause] Very excellent question, actually. This is a debate that is going on across the entire country, especially for heavy-duty trucks, regarding which technology or alternative fuel will take precedence.

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More or less, the opinion is that electric mobility is something that will happen first. For long haul, LNG is definitely a viable option. Hydrogen will take some time, but hydrogen is also an excellent option for the future.

As a company or as an industry, we have no choice but to follow all 3 streams, definitely with different priorities or different timing of priorities. Right now, we are very focused on electric mobility.

We are also preparing our products, and you will hear from us in the next meeting about what we are doing on the LNG side. We are going to launch some new products there as well.

We are working on hydrogen slowly and steadily. You know that we have the largest fleet of hydrogen trucks in the country. We also have some buses that we have put on the road in partnership with NTPC.

We are following all the streams. Specifically regarding your question, electric mobility will happen first, definitely in LCVs and buses. Even on the heavy-duty truck side, LCV volumes should increase substantially over the next 2-3 years.

Yash Aggarwal – Nirmal Bang Securities: Okay, sir. Just one last question. Other expenses have gone up 20% quarter-on-quarter. Is there any particular reason for that?

Management: [pause] Other expenditure comprises both variable and fixed costs. Variable expenditure would be in the form of factory-related expenditure, production overheads comprising power, in-plant logistics expenses, tools, consumables, and so on. All these move in tandem with volumes.

Similarly, it also includes sales overheads comprising warranty, free service, packing and forwarding expenses, and so on. All these also, especially on the warranty side, require us to make a provision for the 6-year warranty period. We have to estimate the warranty and make a provision on day one, in the month in which the vehicle is sold, for the 6 years.

All of this gets accounted for. You are seeing an increase in volume as well, so correspondingly, the expenditure has both fixed and variable components. While fixed costs will remain fixed, variable costs will track volume growth.

Accordingly, you see that the growth has been only partial. It is not in line with the growth in volume. If it were in line with volume, it would be a matter of concern because we would not be getting the leverage from the fixed costs.

As long as the increase is much lower, we will be able to obtain leverage from the fixed costs. I hope I have answered your query on this.

Yash Aggarwal – Nirmal Bang Securities: Yes, sir. Thank you so much. That is it from my side.

Operator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

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Management: Thank you very much again for the trust that you have always shown in Ashok Leyland Ltd.

Q2 FY27 was a record quarter for us, with very strong growth, the launch of some market-defining products, and excellent gains in our market shares, backed by our products and services. The underlying demand environment for commercial vehicles, as I said, continues to be very strong.

We were hoping that October would give us a good indication of how the full year would develop, and October itself has been very, very strong.

The inflation environment is very challenging, but as I said, we will continue to address these challenges through better price realization, better mix, accelerated cost savings, and capacity interventions. Our focus on disciplined, profitable growth will also continue.

We are happy that we are in a very, very strong cash position, having increased our cash by more than Rs 2,500 crores during the year so far.

Our foundations do remain strong. We have a differentiated product portfolio, expanding market presence, increasingly diversified businesses, and a much better service network. We believe that we have a lot of headroom to grow, supported by a strong balance sheet.

I want to thank you once again for your participation in this call and your continued trust in Ashok Leyland Ltd.

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

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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