

Anand Mahindra at the 76th Annual General Meeting of M&M Ltd.

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Dear Members,

I warmly welcome all of you to the 76th Annual General Meeting of Mahindra and Mahindra Limited, being conducted for the third consecutive year in this phase of virtual AGMs. This gives us encouragement that even during the pandemic, we found out new ways to Rise, which is the core purpose of our Group.

Your company has approved the Q1 F23 results, which have shown the growth pathway of your company and the Mahindra Group. I will not dwell upon them further as they are already in the public domain. I would like to mention, though, the unprecedented response to our Scorpio-N launch, where 25,000 bookings were gone in 60 seconds.

It is my privilege now to share some thoughts with you. I always believe that pictures speak louder than words, so I am going to do this in the form of a presentation.

I had shared this picture on Twitter a short while ago. At that time, I had used it to comment on the need for humility. However, we can also look at it

in a different way. When you see familiar things from a distance, they can sometimes look different. A change of perspective changes the view. So today, I would like to share another perspective on the generally gloomy economic outlook we hear so much about nowadays. Even though we are a transnational business group, today, I am going to focus on the India opportunity - which provides some light in that encircling gloom.

Let's start with one of the most troubling issues- the price of oil. That's on everyone's mind, and rightly so, because it affects so many other things that are part of our daily lives. And it hurts. But let's step back a bit. Let's take the oil prices over the last 15 years and adjust them for inflation. In 2008, the oil price was the highest ever - about \$130 a barrel. If you take that figure and adjust it for inflation, it would cost about \$300 in today's money. The highest price of oil in recent times is \$ 120. It's actually lower than 2008 on an inflation-adjusted basis. Today's price is not great. But looked at through the lens of inflation, it's not devastating.

As they say, when a door closes, a window opens. In the case of oil, more than one window could well open.

The war in Ukraine is teaching us a timely lesson about the dangers of overreliance on oil and the need for alternate energy sources. It also coincides with a climate change crisis which needs to be tackled on a war footing. It seems logical that this experience of oil supplies being negatively affected by war will shake us out of our complacency and give a much-needed fillip to the quest for renewable energy. Some good may yet come out of this deplorable situation, and if that happens, it may well turn out to be an opportunity.

The war in Ukraine has also brought high-tech defence into focus. Here's a meme doing the rounds on social media. One of the main reasons Ukraine, though vastly outnumbered on the ground, is holding its own in the conflict

is the high-tech defence technology being poured in by NATO countries.

There is a lesson in that countries like ours need to be perpetually ready to defend our borders. High Tech defence will become a sunrise industry...

The next big concern is whether the US will go into RECESSION. That's a prospect that sends tremors through the economies of the world.

It's difficult to predict how a possible recession will play out in the US. But there's a silver lining to it.

India has always been resilient. Look at shocks over the last three decades - there is a short-term impact, of course. But over the longer term, the India story keeps alive. If there is only a mild recession in the US, that is likely to be good for India. Our resilience will help bring capital inflows. Further, the recession will help reverse the commodity price rises and also perhaps induce the US Fed to put a cap on rising interest rates.

Another area where businesses everywhere are feeling the pain is in supply chain disruption.

In M&M, one of the main reasons for the long waiting periods for delivery of vehicles is that the availability of semiconductors had slowed down to a trickle. Those lamenting the demise of a global supply network are ignoring the fact that the disruption is in the China-dominated global supply network rather than the true global supply chain.

Unshackling ourselves from China is a good development for the rest of the world and long overdue.

Nature abhors a vacuum, and other countries, including ours, will rush to fill it.

In fact, the process of unshackling has already begun. China may be losing its edge: 60% of companies and 82% of manufacturers now report their production slowed during the present outbreak due to lack of employees, inability to obtain supplies, or explicit factory halts resulting from the lockdowns.

So, where is the opportunity in this scenario? There is likely to be significant supply chain restructuring. Companies and countries will look for alternate supply sources. This will create pockets of opportunity around the world.

There is likely to be a significant supply chain restructuring, and India may well be one of the beneficiaries of this 'sourcing' diversification.

The supply chain disruption experience will also boost another burgeoning business. All of us have learned the hard way that it is crucial to keep monitoring the supply chain situation, to keep a finger on the pulse and to get early warning signals of possible disruptions. This points to the need for greater digitisation and reliable monitoring software, including perhaps, blockchain. Another Opportunity.

Another area of brightness that completely eclipses the sobriety is leisure and recreation. After two years of Covid, the whole world is realising that You Only Live Once. There is an unprecedented frenzy to do all the things we have been postponing. I could throw a hundred statistics at you, but the pictures we have been seeing every day of holiday crowds say it all.

Our own Club Mahindra has seen occupancy levels go from strength to strength despite new variants. The leisure and recreation boom has begun.

CHINA'S LOSS IS INDIA'S GAIN. We are going to be the beneficiaries of a geopolitical realignment in threat perception. For the last few decades, all roads led to China. But there has been a change in the situation. China's geopolitical ambitions and growing economic dominance are spooking the

West.

The US Foreign Secretary Antony Blinken made a speech recently where he called China “the most serious long-term challenge to international order” and proposed, among other things, “to align with partners with shared interests who are opposed to China's overseas development policies.” That is India's cue. We can be the balance against China. We can be the new player in the supply chain. The situation is rife with opportunities. We have but to seize the day.

As global interest in supporting an economically strong India grows, I am confident that Capital will flow here from the West. This investment will be via FDI, thus directly putting money into Indian businesses and infrastructure. PE and VC capital, in particular, will see strong growth, as it already has started showing.

Even FPI flows, which were negative due to flight of capital, are seeing the first green shoots.

It's a particularly gratifying confluence of events because we are at a stage of great entrepreneurial blossoming. India has the largest number of start-ups in the world and the third largest number of unicorns. In 2022, we've added a new unicorn almost every ten days.

The move to restructuring global supply chains, which I talked about, will also benefit India. India will be the top candidate in the sourcing diversification process. Given the right conditions, Indian manufacturing could take off.

Rupee depreciation has caused inflation. But fortunately, it has remained in control due to sound fiscal and monetary management. Our inflation target deviation is well below those of most developed economies.

The rupee was overvalued, and it was inevitable that it would head towards finding its own level. This level helps boost export competitiveness and helps India's exports, which have grown 25% YoY.

Overall, the situation is full of opportunity for India. There are, however, some gaps we need to fill in to take full advantage of these opportunities.

The most important of these is jobless growth.

The Indian unemployment rate is hovering around 7-8%, according to CMIE. This is because job growth has not kept pace with GDP growth.

Only 40% of the labour force that is capable of working is actually working or looking for work. In the US, this labour participation rate is ~60%. The biggest sufferers are youth and women. With one of the largest youthful populations in the world, it's easy to imagine the potential for social unrest if jobs don't grow along with the youthful population.

The government is trying to do its bit. It has announced plans to hire 1 million people in Govt jobs by 2023.

Given that we have a 900-million-strong workforce, there's a lot more to do.

In the private sector, job creation is happening mainly at the lower end of the gig economy - drivers for Uber, delivery for Zomato, that sort of thing. This is not nearly enough. To create jobs on a mass scale and to take advantage of the global factors that are moving in our favour - we must boost manufacturing.

Even more important than large conglomerates are MSMEs. MSMEs that can take advantage of the trend toward localisation of manufacturing and the use of technology to create the scale that I talked about. In the US, 90% of new businesses are Mom and Pop shops. Their investment may not be huge, but they create 67% of new jobs in the US. In India, too, taken

together, MSMEs can be a spine for growth.

I say to my industry colleagues, "Let's set aside our fears and step up to bat." Even though inflation is a concern, from the business angle, it can nevertheless provide a minimum threshold of returns on productive assets. It enables a businessman to take more risks because inflation ensures that investing in the present is cheaper than that in the future.

It further makes businesses more attractive vs passive investments, thus attracting capital. If it does not spin out of control, inflation can be the ally of growth.

I believe industry should have faith in the future and invest. The world is changing, and there are opportunities waiting to be seized. We seize these opportunities and turn our fortunes around. A little bit of calculated risk, a little bit of courage will pay rich dividends. To quote FDR, we have nothing to fear but fear itself ...

In M&M, we are walking the talk. We are well positioned in the businesses where opportunity beckons. Even as we adopt a more focused approach to capital allocation, we are strategically scaling up investment in our chosen areas of focus.

Be it Electric Vehicles, Tractor plants, solar, logistics or real estate.

We are upping the game and tapping into sources of global capital to mitigate risk. We see opportunity and we are going to take it.

These of course are the opening lines of Charles Dicken's A Tale of Two Cities, which I used a couple of years ago. They continue to have resonance today. In many ways, we appear to be living in the worst of times. But depending on how you look at it, these can be the best of times.

We believe these ARE the best of times. And we intend to act on that belief.

As I conclude, I express my gratitude toward all our Stakeholders for keeping faith in the Mahindra Group and the Company for more than 75 years and many more glorious years to come. We will certainly ensure our commitment to the Stakeholders first approach and also the conduct of our Businesses in a sustainable manner to ensure value creation for all.

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