



“Mahindra & Mahindra Limited Q1 FY 2015 Results
Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY 2015 Earnings Conference Call of Mahindra & Mahindra, hosted by Edelweiss Securities Limited. We have today with us Dr. Pawan Goenka, Executive Director, President, Automotive and Farm Equipment Sectors and member of the Group Executive Board, Mr. V. S. Parthasarathy, Chief Financial Officer, Group CIO, EVP-Group M&A and member of the Group Executive Board, Mr. K. Chandrasekar, Executive Vice President, Corporate Finance and Investor Relations and other senior management personnel from Mahindra and Mahindra including the Investor Relations team. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Shah. Thank you and over to you Sir!

Chirag Shah: Thanks. On behalf of Edelweiss I welcome you all to the post results conference call of Mahindra and Mahindra. I also take the opportunity to welcome the management team from Mahindra and Mahindra and thank them for giving us the opportunity to host the call. I now handover the call to Mr. V. S. Parthasarathy for initial comments and then we can start with Q&A. Over to you Sir!

V. S. Parthasarathy: Thank you Chirag. I extend a warm welcome to all those who are attending the call and I will give a five minute summary and an introduction and walk you through the economic environment and financials. Overall, you will notice that M&M has performed reasonably well in a challenging environment. At this point of time, external and environmental concerns like monsoon, volatility and political and policy uncertainties have certainly abated. The company while remaining cautiously optimistic, remains in readiness to take advantage of upside that will come. On the eco environment we see the industry activity picking up, manufacturing sector is starting to do well, trade balance have been holding up and the inventory pressures have been moderating. On the near- time, the worry has been the oil prices, especially today morning the stocks market reacted because of some strain in the Middle East.

Coming to the monsoon, overall still remains deficient at 22% but from the 41% the last month it has been good to bring it down to 22 and we understand that good rainfall will extend for another week or so and so we will have to wait and watch whether how good the balance for August and September will turnout .

Capital market continues to see interest from FIIs and it is fragrant with hope. Our outlook on the economy in the short-term is cautious but on the medium to long term is optimistic. Financials of M&M plus MVML for status reasons and hence I will talk about the overall financials. The topline at 9907 Crores is marginally up 0.9% as compared to Q14 of previous year. Previous year has also been stated so that it includes MTBL.

In EBITDA there is a growth of 4.9% and at PAT level a growth of 4.3%. This is in spite of cost pressures on account of wage hike, additional charge and depreciation. However, all of this is negated by a dovish material cost. OPM therefore turned out at 14.3% versus 13.8% last year. Overall your company has performed satisfactorily given the constraint of a challenging environment.

On the segment side, auto has been flat as far as the revenue is concerned. In spite of a volume degrowth. In FES the segment revenue was flat in value on the back of a volume which was also year-on-year the same. In terms of the results per segment auto segment went up in terms of profits by 6.6% and FES was up 2.1%.

Financial metric ROCE remains around the 21.7% signifying the company's continued efficient management of capital. Debt equity on a net level it is almost debt free cash free company. So it puts us well whichever way the environment and the industry takes us. The Company has a comfortable cash surplus of 4500 Crores.

In terms of key subsidiaries Tech Mahindra had a PAT of 631 Crores and it is a little negative versus previous year but it is a lot of one time and on an overall basis it is doing very positively and revenue and EBITDA front. MMFSL again revenue growth at profit 170 Crores, MHRIL you would have noticed had a revenue of 191 Crores and 20 Crores PAT. MLDL was the surprise package of the quarter with the revenue of 436 Crores but a profit of 179, which is encashing some of the investments which we made in the past. A property which we sold so it fetched us handsome profits and that kind of sums up the subsidiaries. Now I will hand over the mike to my senior colleague Dr. Pawan Goenka, who is the Executive Director and President of AFS.

Pawan Goenka:

Just in addition to what Parthasarathy has said I just want to add couple of macro factors and then move on the performance of the main businesses. First of all, the union budget that was presented in July, that was positive for our business especially for the UV sector the excise that has been extended to December 31 is the most positive factor. Other things Parthasarathy has covered.

So I will get into the industry overview in terms of performance. So, the auto industry is beginning to see some signs of revival after a long gap. During this year of course two wheelers grew well during this quarter. Cars also saw a turnaround in the last 2 months of the quarter. UV saw turnaround after three quarters. Passenger vehicle grew after five quarters overall. Commercial vehicles under 3.5 tonne continued their degrowth for five quarters but good news was the HCV that have been degrowing for about two years now which have now started seeing signs of revival. In fact, we had a 16% growth in the HCV segment that is 25 tonne and above during this quarter.

For the tractor industry and agri economy deficient monsoon certainly has played its role. We were in the month of April and we had the industry down because of unseasonal rains in the month of February and March and in the month of June it was down because of delayed monsoon that we saw.

Of course, we have had good monsoon in July but there has been some damage that has been done because of the late monsoon that has come in and we will have to wait to see what is the final impact of monsoon. At the end of June, the rainfall was deficient at 42% but it is recovered now to about 14% deficient as of two or three days ago.

So now moving on to specific performance of Mahindra, in the Farm Equipment Sector the domestic volume growth for the business was 0.7% against degrowth of the industry of 1.2% making our market share go up to 42.4%, which is the highest market share that we have had in 10 quarters. Also, AppliTrac business, which is the farm mechanization business also had a very good growth of about 65% during this quarter.

We had an OPM improvement amongst the overseas subsidiaries. The star performance was from our USA subsidiary, which had a growth of 34% during this quarter attaining a market share of about 9% in the US market, which is significantly higher than what we had previous year. The Powerol business was down little bit but we are now seeing signs of revival of that business and we think the Powerol business will now recover from two years slow down that we have seen in that industry. There is some challenge right now in the exports which was down about 19% but we think that we will recover. This is just because of one or two markets that have not performed.

Moving onto material cost, as Partha had said that the material cost increases were less than we had anticipated the beginning of the year that has obviously helped us in our operating margin and that we have talked about already. On the tractor side we have not taken any significant price increase during the year because the commodity prices were subdued.

Internal inventory, I am sure there will be a question that many of you will be asking. I am happy to say that in the quarter we were able to reduce our inventory from opening quarter to quarter ending by few days. Though I would still set at, overall we probably ask you to five days higher than where we want to be and during the festive season, which always happens in case of tractors during a festive season we expect to get the inventory level to where we want it to be.

As I said earlier, the Powerol business was just about same as last year with a marginal reduction. What is good for us is that now telecom, which is what the business had primarily started is now only about 15% of the total business and we have grown the service business, retail business and the new EMS business, which is going to become our future growth avenue.

The agri business had a 23% growth. The growth was coming primarily from fruits and vegetable, where we had fairly good season this year. We also have two JVs that we have announced during this quarter for our agri business. One is with HZPC, which is the seed potatoes and one is for Univeg which are fruits and vegetable and both of these JVs are with sort of global leaders in this space and we think that this will give us good entry into these areas.

Coming to Automotive sector our star performance was in pick up segment where our market share has gone up to about 76% from 58% last year same quarter. We had a market share degrowth in UV segment and that is part of the continuing trend that we have been seeing and I have talked in the past about UV-I and UV-II and it is the UV-II where we are kind of maintaining our market share and UV-I we would be dropping. We would be starting sort of series of new launches from about next quarter to about 15 months and during this time we will be launching five new products, three in the passenger segment and two in the commercial segment and we are sure that these launches will give us the market share gain and partly recover what we have lost.

In terms of other highlights the XUV segment then I have talked about, that in the past for XUV if we can have 3000 volume and maintain that volume that will be very good level for us to reach and I am very happy to note that in past several months we have consistently done about 3000 XUVs every month. Exports are up 37% for automotive sector and OPM as we have said earlier has been protected. Thanks to the product mix, commodity prices and so on. We have taken selling price increases in auto segments between 1% and 1.5% during the year.

Inventories are pretty much under control so nothing to be concerned about. In the truck business we had a good percentage growth compared to last year in the heavy truck segment with the growth of 62% during this year. Of course, 62% is very good but it is on a very small base. Right now we have reached a market share of about 2.4%, which is lower than what we have targeted but I am very happy to see the trend of reversal that we have been seeing in this industry for quite sometime.

On SYMC, the second quarter had some challenges. These challenges come from primarily three factors. The first one is the slowdown in Russia because of current situation and Russia as you know it the major market for SYMC and therefore it has an impact on our performance. Second one is the strengthening Korean Won, which has strengthened almost 10% from last year this quarter level and the third one is wage increases that have happened as you probably are aware following SsangYong. As a result of Supreme Court ruling on how the overtime **is to be charged**. So as a result of all, the performance has been somewhat challenging but we have more or less managed our volume target.

If I just talk about the future a little bit before I wrap up, we are expecting tractor industry to grow about 5%, which is a little lower than what I have talked about in the past when I was saying 8% to 10% and this is the result of what has happened in the first four months where at the first four months the industry is down about 2% and they afford to get 5% growth we have to go about 7% for rest of the year. The PV segment is looking up and we expect passenger vehicles to be growing at about 4% to 6% which is slightly higher growth for UVs and for passenger cars. They expect medium and heavy commercial vehicles segment to go 6% to 8% and two-wheeler to grow at 9% to 11% for the year. The segment that we do not think will come out of the red is the LCV segment that is below 3.5 tonne where there is a heavy degrowth in the sub two tonne category. Commodity price increases for

the year we think will be above 2% and we are kind of counting on the exchange rate to be remaining around 60 plus minus Rs.1 is what we are looking at in terms of rest of this year.

Important thing for us in the near future are new launches and I said earlier that the new launch season is starting for us. We will be launching a new tractor and a new scooter before the festive season and we will start the automotive launches with some major launch starting around that time. So that is pretty much ramp up in terms of opening remarks from Parthasarathy and me. Now we can open the line for questions and answers.

Moderator: Thank you very much Sir. First question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: My question on other income which has been slightly higher in this quarter. Is there any one off in this or is it related to income of SMP or anything like that?

V.S. Parthasarathy: Is that other income that you are talking about M&M plus MVML?

V. S. Parthasarathy: There are two elements to this. One is that we talked to you about almost being a debt free company which is that we have put a lot of money in our debt profit and kept it there. The income, which comes on that front, sits here. So, obviously the cash position is much stronger in this quarter as compared to the previous year and consequently in the income there. Second one here is 23 Crores dividend that we have received from our subsidiaries higher than last year. So I will give you a comparable figure of last year which was 11 Crores. This year is 34 Crores. So these are the two broad elements why the increase is there.

Jinesh Gandhi: Sir second question pertains to the excise duty reduction, which happened. Just wanted to double check whether that has been fully passed on at the ground level or we will retain some benefit of that?

Pawan Goenka: That was done in February itself when the reduction was announced on February 17 and so we had passed on at that time and right now what was announced was a continuation of that so there were no changes as a result of that.

Jinesh Gandhi: Thanks and all the best, I will come back in the queue.

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

Kapil Singh: Sir good evening and congrats on a very good set of results. My first question relates to discounting in the industry where are we in the cycle compared to historical levels where growth rates used to be strong for Mahindra and Mahindra in particular. If you could just give some color on that.

- Pawan Goenka:** Right now, overall in the industry the discounting and I am talking about automotive industry. The discounting level are somewhat higher than what you would see during this period for discounting changes based on season also. So, somewhat higher than what you would normally see not the kind of numbers that you will read in newspapers that is little bit of exaggeration. There may be one or two isolated cases like that. In case of Mahindra I think we have been little bit more constraint in giving discounts and we frankly feel that it is one of the reasons why we have been able to maintain our profit margins. So I would not say we are same as normal but our extra discounting is very constraint.
- Kapil Singh:** There will be scope to reduce this once growth picks up.
- Pawan Goenka:** Not too much I mean as I said our discounting is not much more than what is the normal practice in the industry and that too even in good times.
- Kapil Singh:** Sir secondly regarding the new launches we are going to embark on a strong phase of new launches so typically new launches come at a slightly lower margins but it also gives you the benefit of operating leverage. Would we see a significant impact on margins or do you think one factor may balance out the other?
- Pawan Goenka:** In India, normally you would have seen that this is a practice now that any new major launch by any company is happening at a fairly attractive price and therefore every company probably starts with somewhat tighter margin on new launches and then slowly the prices are taken up if it got successful. If it is not successful then the prices remain where they are. So basically, the end becomes a volume multiplied by per unit profit gain and one would expect that with new launches you will have higher volume, which will then compensate for a lower profit margins that will happen. That is not to say that all new product launches will be with lower profit margin but it will be individual products that we have to take a look at and it is a dynamic situation and we have to play the game and not based on our cost but on the basis of prevailing prices in the market and control cost to be able to manage profit at those prices.
- Kapil Singh:** Understood and Sir finally on. Sure sir I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Institutional. Please go ahead.
- Hitesh Goel:** Thank you for taking my question Sir. This is on MTBL. Can you give us the EBITDA number or a PBT loss number for this quarter versus last quarter so that we can understand how automotive segment has done 'X' of MTBL?
- Pawan Goenka:** On MTB, since now MTB is part of the automotive sector and not a separate company. I cannot give you a breakup of individual financial performance but what I can give you is the operational

performance. So during this quarter, I said earlier also, in my opening statement that on the XUV segment we had volume growth of 62% taking us from 462 last quarter to 748 this quarter, which takes us to a market share of about 2.4%, which is an improvement over the last year from 1.6% to 2.4% thereabouts but certainly not where you want to be but it is a good sign that things are turning around in this segment. In the LCV segment, we had a slight drop in volumes by about 300 numbers and then industry has also gone down in that segment and as you know the pickup segment has grown well. Some of the LCVs are moving towards pickup and some towards the medium and heavy commercial vehicles. The good thing is that we are seeing a definitive trend of turnaround in the industry and when you talk fleet operators they seem to be more positive about buying trucks in the near future than they have been six months ago. What has not happened yet and which is required is financial turnaround is that the discounting has not come down but I am sure that as the volumes pick up we will see a lower discounting and for profits both discounting coming down and volumes going up both have to happen.

Hitesh Goel: Can you at least give us a sense that on a YOY basis we have seen that margins have gone up. So is it purely due to mix in automotive segment or there is some element of reduction, losses in MTBL also?

Pawan Goenka: What we have said at the time of merger is that as a result of MTBL getting merged into automotive sector. There will be a synergy benefit that will happen to the tune of about 50 Crores and 10% to 15% of the cash fleet that we have which was about 300 Crores. So that would translate to 30 to 45 Crores of overall for the year benefits simply because of merger and that benefit certainly we have seen in the first quarter.

Hitesh Goel: This is on the tax side or you are talking about the operation side?

Pawan Goenka: Operation side.

Hitesh Goel: So basically on sourcing side that has benefited, but on a YOY basis, is the discount higher?

Pawan Goenka: About the same as it was last year.

Hitesh Goel: Also XUV has gone up in the proportions that would have benefited you in terms of margin?

Pawan Goenka: Well, I cannot again reveal individual product margin, but all I can say is that XUV going up is good for us.

Moderator: Thank you. Next question is from the line of Jay Kale from CIMB Securities. Please go ahead.

Pramod Amthe: I wanted to check your feel in terms of XUV recovery. Am I right in understanding from SIAM numbers that the XUV recovery this time is lagging the car recovery?

- Pawan Goenka:** No. I do not think so. I think actually July numbers I remember very well. In July the UV growth has been 20% and passenger car is about 5%. If I look at the data for cumulative July, passenger car growth is 2.9% and UV growth is 7.4%.
- Pramod Amthe:** Any particular segments within that?
- Pawan Goenka:** In UV segment obviously what we have been calling UV1, which is sub-compact UV are growing more during the month of July. There was a new vehicle launched by one of the players Honda Mobilio, which has also led to the UV growth and therefore the growth is higher in the sub-compact segment than in the full size UV2 segment.
- Pramod Amthe:** If I look at June, it seems to be lagging in the numbers for the June quarter,?
- Pawan Goenka:** Well, since we already had July, we forget about June and I move on to July. So, right now I am looking at the four months and this is the spend that we have seen four months.
- Pramod Amthe:** And do you see a substantial difference in growth rates in urban versus rural?
- Pawan Goenka:** Right now no. Right now we do not see a significant difference because of the slow monsoon. The rural growth has been somewhat impacted and the combined effect therefore is that rural and urban growth is about the same.
- Pramod Amthe:** Thanks a lot.
- Pawan Goenka:** Just on the previous question, I just checked the June data and in cumulative June the passenger car growth was 2.2% and UV growth was 3.9%. Please go ahead now.
- Moderator:** Thank you. Next question is from the line of Yashesh Mukhi from Morgan Stanley. Please go ahead.
- Yashesh Mukhi:** Good evening sir and congratulations on a good set of numbers in a difficult environment. Sir, my question pertains to the new launches that you have announced. You previously mentioned that on the PV side, there will be two new launches and now you are mentioning that there will be a third one as well. Would you be able to give us any colour on what segment this will be or what third launch will be?
- Pawan Goenka:** Colour of my new launch is always white. So, I cannot give you any other colour on this and no, I cannot give you any more details. Only thing I can tell you is that the two of the three launches will be in the sub-compact segment and one of the three will be in the full size UV segment.

- Yashesh Mukhi:** Sir, secondly on the tractors, you lowered your guidance from 8% - 10% earlier to 5% from a current level in on FITD basis, you expect tractors to grow going forward for the rest of the year. What do you think will primarily drive the growth?
- Pawan Goenka:** So, basically, what we are looking at is that there is some loss in the Kharif crop because of the deficient monsoon and delayed monsoon and therefore the first half will remain subdued. So, even in the month of August and perhaps even September, though September is a festive season, which is advanced this time to September from October last year. Therefore, we will see a growth in September, but it is Rabi, which if there is a good exit of monsoon and that remains to be seen. But if there is a good exit of the monsoon, which is what has been predicted right now, because the El Niño effect that we were concerned about the beginning of the year, now has been sort of diluted and anticipation is that the El Niño may not really have an effect and therefore the exit of monsoon may be good, which will then have a very good season for us in the Rabi crop and that is what we are basing our estimate of 5% growth on.
- Yashesh Mukhi:** Thanks a lot for the opportunity and all the best.
- Moderator:** Thank you. Next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Good evening everyone. In terms of the tractor side, you said you are four to five days ahead of where you would want to be in terms of the inventory and also the other thing that what was surprising was that last year was a very high base in Q1 and in that base you are saying that your retails have actually been stronger than last year. I thought probably the retails are actually higher than your wholesale numbers, is that the way to look at it?
- Pawan Goenka:** That is correct. So, our inventory has gone down from quarter opening to quarter closing which means that our retails are higher than our billing in the first quarter.
- Sonal Gupta:** Okay, because my understanding was that typically retail is weaker and it gets stronger from the second quarter onwards.
- Pawan Goenka:** It depends on whether you restrict billing or you over bill, so billing is something that we control, retail is something that we do not control. Therefore, in this quarter our focus was to ensure that we reduce dealer inventory and we have done so by restricting billing and letting retail happen. So, if you were to compare retail to retail number, we probably would be a little better off than billing to billing number. Retail numbers are never announced in the industry, we only announce the billing numbers.
- Sonal Gupta:** The other thing again on the tractor side, you still are forecasting a 5% growth – I mean last year the industry was at all-time high with a 20% growth. Incrementally what do you see as the incremental

driver in terms of tractor growth. I know the last few years have been stronger. So, incrementally, what do you think is still running positive for tractors really on the ground?

Pawan Goenka: See, 5% growth will come simply from replacement demand. If the replacement happens as per the norms that we have set out in our forecasting; that will bring us about 4% growth and therefore in a 5%, only 1% is new purchases and therefore 5% growth is not something that one would consider as a very high growth in tractor industry. In tractors, you have seen there the swings are very high. You go 20%-25% growth one year and the next year you have a degrowth and therefore it becomes very difficult to project and our projection of 8%-10% of beginning of the year was an assumption of good monsoons and it is even though we have said that monsoon does not have a very good correlation with tractor sales but this we are seeing otherwise and we are finding that monsoon is affecting tractor sales and therefore 5% growth is right now an estimate based on how we see things and assumption as I said earlier is that the monsoon will behave from hereon. We will have good rains in August and it is very important to have a good monsoon exit and a good monsoon exit what is needed for the second half to be very good which is the Rabi crop.

Sonal Gupta: Could you tell us how much is the typical replacement demand in terms of the total tractor demand?

Pawan Goenka: That is very difficult for us. We would not know that. As I have said that we estimate that about in a given year about 4% but that is a pure estimate about 4% of demand is replacement demand and remaining demand is new growth in the industry.

Sonal Gupta: Thank you sir. I will join back the queue.

Moderator: Thank you. Next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Thank you very much for giving me the opportunity. My question is on your relative strategy on UV and where you have the kind of said tried to maintain your margins rather than fight for market share over the last couple of quarters. In tractors if we expect a softer outcome for the next 12 to 18 months, would you continue to follow a similar strategy where you would kind of maintain margins and look at market shares but not have to grow it?

Pawan Goenka: I do not think I can give you a long term answer that we will do it in a certain way 12 to 18 months from now. It is a dynamic decision that we make based on what is in the best interest for shareholders in terms of overall profit performance and in fact this a question that I had asked some of you earlier on whether you would like to see higher profitability or higher profit and nobody gave me a clear answer of which is better. So, if you have an answer, please tell us, what do you like to see more of and we will work towards that.

V. S. Parthasarathy: But we have seen in the past that this is not a science but an art, but that is an art we played reasonably well and it is a dynamic situation and we will react as per the dynamic situation.

Pawan Goenka: Let me just add that what I am very excited about is a new tractor launch and that we will be doing before the festive season and that tractor in some sense is perhaps the best tractor that we would have launched and a significant improvement over the current tractors, not just of Mahindra range but I believe of any tractor in that range, in that segment that is available in India and hopefully that launch will help us to get little bit of a market share growth also. In tractor industry market shares do not change significantly year-on-year but we do expect to see some growth as we have seen in the first quarter.

Srinivas Rao: My question was in UV do you expect to gain back your market share if there is a loss because of concern of we have more products. In tractors is it also similar dynamics that you gain back market share once you have lost the introduction of new products.

Pawan Goenka: No, we have lost market share in tractor. In fact the Q1 market share in tractors is the highest market share we have had in 10 quarters and therefore in tractor, I am not expecting a significant jump in market share. We will be very happy if year-on-year we get half a percent to one percent improvement which is actually good in a very competitive tractor industry today. So, I am not looking for a big jump in market share in tractors.

Moderator: Thank you very much. Next question is from the line of Apurva Kumar from Jefferies. Please go ahead.

Apurva Kumar: Thank you for giving me this opportunity. You mentioned that the material costs have come down this quarter, can you share if there is any specific component that has come down and how do you see this going forward?

Pawan Goenka: I may have said something slightly different; it has not come down. What I have said is this that the rise in material cost has been less than what we had expected in the beginning of the year and overall percentage wise, about 1% increase that we have seen in commodity prices during this quarter and it is a mixture of all commodities. So, I cannot say one commodity has gone up significantly, others have not and so, everything has kind of moved something that has not gone up is rubber, which helps in tractor more than in auto, because rubber being a very high component in tractor. The steel has been just marginally up; so, overall it is about 1% up. I do not have the breakup of which commodity has gone up.

Moderator: Thank you. The next question is from the line of Arvind Sharma from Citi group. Please go ahead.

- Arvind Sharma:** Good evening Sir and thanks for taking my question. Sir, just one question from my side. The realizations for the farm equipment segment have fallen QOQ and almost flat YOY. So, despite price hikes undertaken over last one year, what is putting the downward pressure on the realizations? I am just saying the revenue is divided by the total number of tractors sold? Thank you Sir.
- V. S. Parthasarathy:** So, let me restate your question and tell me whether I am right. You are saying per tractor realization, is flat whether you take last year or this year?
- Arvind Sharma:** It is flat YOY and fallen QOQ? Just wanted a view on that?
- V. S. Parthasarathy:** Sequentially, you should never compare. We will come back to this question in a little while. Let us go ahead with the question, let me look at it because whether it is the mix which is impacting part 1 and part 2 and also the other. In FES you also have Shubhlabh, you have agri revenue and you have all the others going in and also the Powerol revenue. So, therefore it is a combination, but I will give you a quick sense whether the tractor is also the same or not.
- Arvind Sharma:** One more question on the new tractor that you spoken about. What category is that tractor aimed at? I mean in terms of HP can you give some colour on that?
- V. S. Parthasarathy:** You will give us a little bit of leeway here, because this is something the competition will want to hear and we do not want to tell. We will very happily tell you, but we do not want to tell the competition. So, bear with us, it is not very long, do not have to wait very long.
- Moderator:** Thank you. The next question is from the line of Ajay Sethia from Centrum. Please go ahead.
- Ajay Sethia:** My question was on the tractor side. If you see in FY2014, the growth rate was fairly distributed across the regions. If I see for the first quarter, then barring two or three regions like Maharashtra, Gujarat, and Karnataka, which has fairly done well most of the other segments with other regions have whether seen a strong double digit de-growth or marginally positive growth. What is leading to this sort of disparity in terms of the regions?
- Pawan Goenka:** I think it is a lot of detail that I will have to go in to answer that question, because in tractor unlike auto, the growth and degrowth is very local. In fact, if you were to go district wise within the state you will find an even bigger disparity in growth going up to plus 50% to minus 50%. So, what is the rainfall in a given a state, what is the economic situation in given state, what is being planted in a given state, all of that affects the growth. As you have pointed out, the three states that have had the highest growth percentage wise during this quarter are Gujarat at 25%, Maharashtra at 12%, and Karnataka at 32% and the states that have had highest degrowth is MP at 14% degrowth, Rajasthan 14%, Tamil Nadu at 39%. I am talking about the industry degrowth not Mahindra.

- Ajay Sethia:** Sir, just a followup question, if I see Madhya Pradesh and Chhattisgarh, over the last three years have almost doubled in terms of the market size. I am talking about the industry size in terms of the tractors. So, anything which is driving the demand in these two pockets and how do you see the trend going forward?
- Pawan Goenka:** Well, again see what happens is that in a certain year a particular crop does very well and whichever state is very heavy on that crop, will see a very large growth. For example, two years ago there was a very large growth, unbelievable growth that happened in Rajasthan and everybody knows why that happened. That happened because America had lot of demand for guar and the only place guar is raised is in Rajasthan. Therefore, the prices of guar hit the sky and therefore every farmer was able to buy a tractor in Rajasthan. So, there are many such local factors that happen and it is very difficult for me to kind of be able to explain each and every one of these. MP last year for example, grew very well because of specific crops in MP that performed well. This year sugarcane and cotton is likely to perform well and therefore the states that grow sugarcane and cotton, which is Gujarat, which will be UP, which will be Maharashtra, they might do very well.
- Ajay Sethia:** Where I was coming from is that if I see the other regions then there is quite a lot of volatility seen in terms of the annual sales, but if I see Madhya Pradesh and Chhattisgarh directionally it has been going up in terms of the industry sales?
- Pawan Goenka:** This year Madhya Pradesh has gone down. In the first quarter Madhya Pradesh was down 14% and Chhattisgarh down 7%.
- Ajay Sethia:** Thank you so much. This is quite helpful.
- Moderator:** Thank you. Next question is from the line of Yogesh Aggarwal from HSBC. Please go ahead.
- Yogesh Aggarwal:** I just have one question. Sir, if you can provide some colour on your longer term outlook for the XUV market over the next may be three years because most of us see first time buyers coming back and usually they buy smaller cars. So, do you also believe that car market can grow with pace in the XUV market over the next two to three years, any colour on that will be helpful.
- Pawan Goenka:** Well, my view on this remains same. My view is that currently, UVs account for about 21% - 22% of passenger vehicle segment in India, and I think that it is still little lower than where it might settle in and I think the settling in will happen about 25%. So if it is settling at 25%, that means for the next three to four years, the UV segment will grow marginally more than passenger car segment and the reason it will grow marginally more, is that new UVs that are being launched, are all on the lower end of the market. There are very few UVs that are being launched on the higher end of the market and therefore price positioning wise, they are similar to sort of high end hatchbacks, premium hatchbacks and not like high end Sedans and therefore more and more buyers may come in for the compact UV

segment than it has been in the past. So my bet will still be that the UV for the next three years or so will go little bit faster than the cars.

Moderator: Thank you. I take a follow up question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: My question pertains to SYMC you indicated that there are peer pressures on volumes because of Russia situation. So in that regards, are we changing our current year volume outlook?

K. Chandrasekar: Jinesh, is it on SYMC?

Jinesh Gandhi: Yes.

Pawan Goenka: Now so, we had already reduced our outlook from the beginning of the year. If you had followed SsangYong, you will know that we had initially announced our target for the year at 160,000 vehicles. It was reduced to 150500. That was partly because of the Russian situation that we have and therefore I do not expect us to revive the target during the year.

Jinesh Gandhi: In turn do we also expect financial performance to be, do we expect it to break even at parallel this year or that also changes?

Pawan Goenka: I cannot give you a forward looking statement in the financial performance. You have seen the first half, the first quarter performance was similar to the last year first quarter and second quarter which is April – June quarter performance was lower than last year and I have already explained why that was because of the higher exchange rate, that is appreciating Won and the labour cost that has come in as a result of the Supreme Court decision on how overtime is treated.

Jinesh Gandhi: Sir, can you also indicate what was Powerol's revenue in this quarter?

Pawan Goenka: Powerol revenue in this quarter Rs. 206 Crores. Going back to the earlier question on why our realization is lower, overall per tractor. If you were to compare last year this quarter to this year first quarter, there is a higher growth that we see in less than 20 horse power segment compared to the 20-30 and 30-40 horse power segments and then less than 20 horse power segment has lower per unit realization and therefore that probably had been impact on overall realization.

Moderator: Thank you Sir. Next question is from the line of Chirag Shah from Edelweiss Securities. Please go ahead.

Chirag Shah: Sir, my question is on the UV side, you highlighted that people are focusing more on profit per unit and in terms of volume rather than just on margins. Given that you are looking in entering into the

compact segment which would be like a fresh entry for you in a sense. Would you also be looking at similar strategy in the sense that you have segmental margins of 10% - 11% and in good times you had higher margins? So how should one look at compromise between the margin trajectory versus the volume and absolute profit trajectory.

Pawan Goenka:

I would rather ask you this question, Chirag who was the sponsor. I would rather ask you this question on what you think is the right strategy, but let me first correct the statement. You said that I have said that people have gone after volume than margins. I do not think that I had made a general statement. What I have said is that during this quarter the incentives have been somewhat higher. That is not to say that every auto maker is going for volume. It is every auto maker has their own strategy, some probably have stayed the course and looked for profit margin and some may have gone for volumes and I have told you that Mahindra has restrained itself from being very heavy on discounting or incentives and I said that we are somewhat higher than previous year but not to the level of what the industry average is. Now going forward, one thing that is very clear is that the pricing has to be determined by the competitive environment and not by what our cost is. So the winners in terms of volume will be those who are able to price it at the lower end of the price band of a segment and financially the winners will be the ones who are able to manage their cost quite well and if you can do both, the pricing and the cost, then you are big winner. If can do one of the two, then you are a small winner.

Chirag Shah:

Fair point, traditionally Mahindra has always focused on profitability, also, you have been among the best margin trajectory in that sense, given the product profile that you are on the UV side?

Pawan Goenka:

Traditionally, if you look at the data, we also have had the best CAGR in terms of volume. So it is not that we have only focused on profit margin, we have had the fortune of having both good volume growth as well as good profit growth in the previous 8 to 10 years. It is only in the last year or so, where the segment has moved to UV1 segment, where we have had some strain on volumes and you had said that in good times, we have had higher margin. In fact, right now the margin that we have in auto sector is about as high as we have seen. So it is not by any means a compromise margin, 14.4% is what we have, it is about as high we have seen.

Chirag Shah:

If I can take one more question, just wanted to understand if you can update us on the SsangYong side briefly what is happening in terms on new launches, in terms of expanding geography?

Pawan Goenka:

The major new launch for SsangYong had already been announced, which is the X100 product. That will be launched in the first quarter of next calendar year, which is on track. The product I have driven personally, I am very excited about it and we are looking forward to that product giving us a very good push on the volumes.

Moderator:

Thank you. Next question is from the line of Basudeb Banerjee from Antique. Please go ahead.

- Basudeb Banerjee:** Thanks for taking my question. If I see your quarterly tractor segment numbers, broadly there is a seasonality in terms of Q4 volumes being very much lower and realization per tractor being almost 10% higher than Q3 and typical in Q1 again as it falls down. So is there any element of revenue your book annually in Q4 which pushes up the realization and it comes back to normal levels in the remaining quarters?
- V. S. Parthasarathy:** No, one small thing, about the rainfall, in terms of season, the Tamil Nadu and the other one in terms of rainfall starts from May. One ends in September and other starts in September to December. So, there may be seasonality from that point of view, but there is no seasonality. There is no revenue or shortfall revenue. This you have seen even in the previous years.
- Basudeb Banerjee:** Yes these changes at least in the last three – four years I can see.
- V. S. Parthasarathy:** Andhra and Tamil Nadu and so on your mix as well as your realization will be higher. Trouble with our CFO is that he was in tractor business for many years. Always puts me on guard.
- Basudeb Banerjee:** Sir, this new tractor launches will be in which horse power segment?
- V. S. Parthasarathy:** We cannot answer that question. You will have to not wait very long to get the answer.
- Basudeb Banerjee:** Sure, and sir recently in media we came across that new hirers for your Michigan R&D facility and planning for those long term UV designing for India market. So can you elaborate on that so, can we expect global level cars under Mahindra through that R&D centre per se?
- Pawan Goenka:** Well, I think that article pretty much covers everything that is to be said. Yes, we have set up this R&D centre in Detroit area, coincidentally not because of few miles away from where I use live when I was in Detroit and we have now ramped up to about 60 people there. These are very experienced people, having worked many years 15, 20, 25 years in either large automotive company or big Tier1 suppliers and these people are doing two things; one is they are developing a new product on their own that is based out of that centre and they also providing sort of technical expertise to our teams here in MRV in specific areas and that is how we are benefiting from it and we are also able to use the Detroit ecosystems in terms of development, so whether it is for tightening, whether it is for design, styling work whether it is for specific work on let us say on handling or an MVH, anything like that and therefore I am very excited about it, both in terms of the new product that will come out of that centre and also the technical help that we are getting from there.
- Basudeb Banerjee:** Sure sir, any thought process on this recent news of Peugeot?
- Pawan Goenka:** Well, you know the answer there. So, we will not obviously comment on any speculative news.

- V. S. Parthasarathy:** Before that one question which was asked and I think Pawan did answer it but I just year-on-year realization of tractor. I just wanted to point out that, that question has been answered. The other point is, you have been repeatedly asking about whether there is an exceptional item this time or a one time and I just wanted to point out, there is no exceptional item and no one time. However, you know that there is something called IPS that we receive in the Chakan plant. This quarter the accrual is higher as compared to the same time pervious year. This is an operating ongoing income that we do receive but in this quarter it is higher as compared to the previous years, so just wanted to leave that thought with you.
- Moderator:** Thank you Sir. We can take a last question from the line of Akshit Gandhi from Aviva life. Please go ahead.
- Akshit Gandhi:** Hi Sir, if I am not wrong, you were running a cost improvement programme called Kuber. If I may know how much is the cost improvement we have achieved and how much is yet to be, some thoughts on that?
- Pawan Goenka:** It is something that is an ongoing thing and I will not want to kind of ascribe something specific to Kuber. Therefore I will hesitate to answer that question.
- Akshit Gandhi:** The second thing is, if you could give us some thoughts on what could be the tax rates since now we are clear with the budget and all for this year and next year please?
- V. S. Parthasarathy:** Good that you picked up, at last a finance question for me. I have been wondering, even in the press I get business questions, but that is fine, even here I was not getting any finance questions. So, you are talking about YOY tax rate right. You would have found that year-on-year the tax rate has roughly gone up by a percent. There are two reasons for this. Reason number one is Rudrapur benefit was available from last year. It is not available this year. Number two is the Central Government Authority who kind of decides what R&D expense is have come with narrower definition. Therefore there is a small recalibration which is happening of what is eligible R&D expense for 200. Everything is eligible for 100 it is what they get eligible for 200%. So that there is a recalibration we always take a conservative view, so therefore what you find here, tax rate gone up, is our estimate of what it could be this year based on these two factors and therefore it is from that perspective, no other reason.
- Akshit Gandhi:** Alright, so can we assume the current tax rates for the full year also or should we assume a bit higher than this?
- V. S. Parthasarathy:** So the way we look at tax is, never calculate for the quarter because you cannot. It is only an annual tax rate that you are able to calculate, does that answer your question?
- Akshit Gandhi:** Yes, so the annual tax rate guidance, I am sorry if I missed it.

- V. S. Parthasarathy:** I said it is the annual tax rate, what you have.
- Moderator:** Thank you. Sir we are going to take one last question from the line of Sunil Jain from Birla Sun Life. Please go ahead.
- Sunil Jain:** Sir, could you give us some guidance in terms of now the diesel prices and the petrol prices the delta is becoming narrower and since Mahindra is largely based on diesel cars especially in the UV and passenger segment, so what is your take on that and how do you think sort of this is going to pan out and impact the company?
- Pawan Goenka:** Well, may be little bit longer answer but see when the gap between diesel and petrol had become almost 40% to 45%, we thought that gap was very large and diesel prices should go up relatively to petrol and therefore we welcome government's move when 0.50 paisa per month increase was announced and I have stayed through that announcement and now the gap has come down below 20%. In my opinion between 20% and 25% gap is the right gap for diesel and petrol price in Indian economy and therefore I think that from the consumer side, the gap should be remain awaited. Now from the recovery side, there is still shortfall of about I think Rs.1.50 per liter for diesel. And therefore perhaps the gap will go down further by about Rs. 1.50. Now as far as the impact of it on sales is concerned you have to look at three segments separately. First segment is, what we call UV2, which is the UV more than 4.4 metre segment which includes Mahindra's Scorpio, Mahindra's XUV, Inova, Sumo and all of these vehicles. In that segment the diesel, petrol prices do not have much of an effect because almost all the vehicle sold are diesel vehicles and there is no viable petrol option in most cases. And therefore in those segments there is no effect. In the compact UV segment, that is UV 1 segment, there is a possibility of a switch from UV to car, if diesel price is goes up more and in some of these cases there is also a petrol option available and therefore it could be a switch to petrol vehicles also. The segment that gets affected most in diesel petrol price parity is the passenger car segment. So those type of cars where both the diesel and petrol options are available, when the gap becomes narrower you would see more and more of petrol vehicles getting purchased. So right now you would see a higher a percentage of petrol vehicles than you would have seen six months ago and in terms of monthly sales.
- Sunil Jain:** So if I can sort of take it from M&M's point of view that since your sales are mostly in the more than 4.4 metre, then those sales or not getting too much affected, only I think XUV, whatever urban phases may be getting slightly affective I guess?
- Pawan Goenka:** For the smaller vehicles.
- Sunil Jain:** Typically I think you are not there in the smaller vehicles but the competition would be on your XUV or Xylo whatever is going to the passenger side.

K. Chandrasekar: Thank you gentlemen for being present on this call. I hope you got some clarifications and also some insights into the business, the outlook, the environment and other things and I think there are about 150 people logged in. We thank each one of you and we will see you next time, next quarterly conference call. Thank you very much for being present. Good night. We will upload this on our website and you can also hear it again if you want and the transcript will be available after sometime.

Moderator: Thank you. Chirag, would you like to add few closing comments?

Chirag Shah: Thanks. On behalf of Edelweiss, I thank the management for giving us the opportunity and thank all the participants for being part of the call. Wishing everybody a great weekend. Thank you.

Moderator: Thank you. On behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.