"Mahindra & Mahindra Ltd. Q2 FY16 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Mahindra & Mahindra Q2 FY16 Earnings Conference Call hosted by Macquarie Capital Securities. As a reminder all participant lines will be in the listen-only mode. 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. At this time, I would like to hand the conference over to Mr. Amit Mishra. Thank you and over to you sir.

Amit Mishra: Thank you Lizanne. Good evening everyone, on behalf of Macquarie Securities I welcome you all to second-quarter FY16 post results conference call of Mahindra & Mahindra, I also take this opportunity to welcome the management team from M&M. Today we have with us Dr. Pawan Goenka – Executive Director & Group President-Auto & Farm Sector and member of the Group Executive Board, Mr. VS Parthasarathy, Group Chief Financial Officer, Group CIO and President Group (Finance & 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 M&M including the IR team. I will now hand over the call to the management team. Over to you sir.

VS Parthasarathy: Once again a very warm welcome to all of you, I know today has been a very busy day as you come out of some conference and maybe you will go back to another one so, let me keep it very quick and in the next five minutes I will talk about economic environment, Q2 financial highlights and finally I will give a glimpse about our group listed subsidiaries.

First about global economic environment, it is a tough place right now with IMF saying that the growth outlook is down to 3.1% from earlier 3.3%, US Fed will increase the rate at some point, the timing is the only unknown factor but US also sees a growth potential. China remains low-key trajectory, emerging markets are witnessing flight of capital and India is the bright spot amongst such and shall we say a very depressing set of global outlook. Within India, the positive is that inflation continues to be very much under control, a big positive is that IIP has crossed the 6% mark and benign commodity prices have helped to a large extent. However, rural demand is still muted, the monsoon has been one of the low points in the last six months and is the second deficient monsoon. RBI has reduced policy rates but the transmission has not happened. However, with the IIP picking up with the rural investments starting to pick up at 22% increase in projects, the outlook for the country looks to be very positively poised as we move forward.

Going from economy now let me talk about M&M plus MVML financials. You would have seen this in the financials submitted to stock exchange. Overall M&M had a de-growth of volume in FES by 26% and 2.2% de-growth in Auto versus previous year. Against this the revenue overall was down at 2.8% versus Q 2, we had Rs. 8794 crores versus Rs. 9045 crores in the previous year. Though the revenue was lower at 2.8% the EBITDA was higher by 5.6% at Rs. 1163 crores and PAT at Rs. 978 crores was higher than the corresponding period in the previous year. Once again this shows our character of resilience even in a very tough tractor environment and at lower volumes we managed to keep our profits unchanged. OPM stands at

13.2% for the quarter versus 12.2% in the previous year it is an improvement of 1.1% demonstrating resilience and not only in profits but also in profitability.

Now let me talk about the segment results. First auto segment I told you that the volume was lower at 2.2% though domestic volume was down 5.3%, the bright spot this quarter was that exports were up by 45%. Even though the volume was lower the revenue at Rs. 5989 crores is 5% higher than the previous year’s Q2, mainly due to the benefit of selling price increase, better mix and segment results were up a whopping 27.4% at Rs. 586 crores. So, just to give once again the auto segment volume was lower by 2.2%, the revenue was higher by 5% and profits were higher by 27.4%. FES segment volume was lower at 26% and I told you this was one of the very tough quarters that we faced from an industry point, the revenue on that was not as sharp a decline, the revenue only declined by 15.4% at Rs. 2844 crores versus last year's Rs. 3363 crores and this is because there are some islands of excellence like Powerol etc. which pulled up the revenue, FES segment results were down by 11% at Rs. 465 crores here what the important matter to note that even though the volume is down 26% the revenue was only down 15% and the PBIT was only down 11% showing that almost a flexible model where the profit decrease was only equal to even less than the revenue decrease. This shows the resilience and the kind of management of the entire topline, middle line as well as bottom-line by the AFS team under the leadership of Pawan.

Coming to financial metrics ROC on a Group level and M&M level is 20.3% signifying an effect of efficient capital management and debt equity is 0.2% same as last year but it is very low and net may be even lower than that.

Coming to some key financials from Group companies first Tech Mahindra consolidated revenue crossed 1 billion for the first time in a quarter, so Tech Mahindra revenue was 1 billion which was up 5% QOQ and the only time I will accept QOQ is when talking about a tech company. Second is EBITDA, EBITDA grew by 16% and the other milestone is that EBITDA was at Rs. 1100 crores where it crossed the 1000 crore mark and against a Rs. 945 crores the previous year a 16% growth and PAT was in line with EBITDA an increase by 16% versus the previous quarter at Rs. 786 crores. So, overall a very satisfying quarter for Tech Mahindra and consolidating on whatever they have been doing in the past.

Mahindra Finance revenue increased by 8% YOY in spite of a very tough rural environment and the business environment, they increased topline by 8% assets and the management also grew by 8% PBT and PAT at Rs. 157 crores were lower than the same period last year 28% mainly because they have preponed the provisioning and speeded up the provisioning even better than the RBI norms.

Coming to MHRIL – member addition was in brisk pace of 50%, it is kind of a benchmark that they achieved at 50% member addition in the quarter, revenue grew 18% and profit grew 17% and including the acquisition they made the segment profit grew 50%.

MLDL consolidated revenue at Rs. 177 crores was muted due to industry environment, PAT was Rs. 15 crores for the quarter. Over the past four quarters company has launched five new residential projects with combined saleable area of 3.5 million square feet which augurs well going forward.

That is the brief outlook on all the three fronts that I talked about. Now let me handover the mic to Dr. Pawan Goenka for his comments.

Pawan Goenka: Thank you Partha. So, as Partha started off talking about the macroeconomics situation as applicable to our businesses lots of positives in the last quarter and the IIP he talked about both manufacturing and mining, inflation under control, repo rates having gone down by 50 bps in the quarter and 75 bps since April. Commodity prices being benign these are all very positive but unfortunately a lot of that has been negated by poor monsoon which as you know was deficient by 14% and for the first time in almost 15 years we are back to back poor monsoon that has had a fairly significant impact on overall agri economy and therefore on tractor sales and also those auto sales that are more rural based. However, if you look at the agri output and that this will probably have an effect going into Q3 and Q4 right now our expectation is that Kharif output will not be far worse than last year and also Rabi sowing has been reasonably good but this is very early to pass any judgement on Rabi sowing. The result of all this on our major businesses starting off tractor business we have had a de-growth in the quarter of 25% in the tractor industry and 20% for the half this is on top of Q3 and Q4 de-growth last year of 22% and 30% therefore the last four quarters have been very bad for the tractor industry, de-growing almost about 23-24% in the last four quarters. The de-growth has been across many major states for tractor business i.e UP, MP, Gujarat, Maharashtra all of these have had fairly large de-growth during the year. For Mahindra the market share is down by about 1% for Q2; however, most of that has been made up in October sales which has been good relative to the industry where Mahindra has picked up about 2% market share in the month of October and therefore YTD October we are down only by 0.2% in market share and we hope to catch up on that as we move forward November-December-January-February-March.

Amongst the international operations of tractor Mahindra USA continues to perform very well where we have now reached 9.8% market share in 0 to 120 HP segment and working towards a fairly good year, this year already we are in a profitable first half. China JV is struggling as we have reported in the past, Chinese industry is still slow and in that industry our performance is not at the level that we would have liked to see.

The material cost for tractor as well as for auto has been down almost 1.5-2% in the six months of this year which obviously has helped our financial performance. At the inventory level for tractor inventory in terms of finished goods at the end of September as is always the case going to the festive season would always be high which is the case that we have but in the month of October lot of that have been corrected in the month of November it will be fully corrected and that too a very normal level so there is no concern that we have on finished goods inventory either at the factory level or in the dealer level for tractor business.

During this quarter, just beginning of new quarter that is 1st October we have completed the acquisition of Mitsubishi Agriculture Machinery where Mahindra now holds one third share, two-third owned by MHI. Powerol, Partha had briefly mentioned about islands of excellence as he calls them we had growth of 52% in Powerol business which is the engine business in the quarter and 41% for the half and the lot of it has come because of fairly large supply of over 5000 gen sets to Reliance Jio for the 4G. The Agri business also saw growth in the quarter of 24% for the half the growth is 27% this is coming on basis of some new businesses that we have got into, pulses is significant where we now have a revenue of exceeding 50 crores in the first half and we have also started mustard oil and all are continuing businesses that is crop care, grapes, potatoes, seeds are continuing.

Coming to Automotive Sector – overall passenger vehicle we have seen 6th straight quarter of growth though UVs are de-growing. In the first half UV had a de-growth of about 2%. MHCV are on upswing 13 months continuous of high double-digit more than 20% growth that we have seen, however; discounting continues in the industry which we are hoping it will slow down, LCVs still are in the negative territory and the two wheelers are more or less flat in the last quarter.

In terms of Mahindra's performance during the quarter – our market share in UV has more or less been maintained Q2 this year to Q2 last year while on the under 2 ton LCV we have significantly increased market share from 12% to 30% this is because of Jeeto launch that we had in June 2015 that is the first quarter of the year. We also continue to maintain high market share in 2 to 3.5 ton GVW where our market share is about 68% for the quarter and in the HCV segment we have maintained market share of 2.7% with the growth of as much as 54% in the volume of HCVs. TUV 300 was a major launch that we did on September 10th we have bookings of 12,800 vehicles now as of end of October and the billing of 8800 vehicles as of end of October. We are quite happy with the performance of TUV 300. Also, the Jeeto launch that I had mentioned earlier had resulted in fairly high market share for us in the sub 2 ton category. Material cost also for AD is significantly improved for us about 1.3% reduction in material costs compared to where we were at the end of March which has again helped us in our overall profitability.

I had mentioned about MTBD so the industry had that is truck and bus industry has grown by about 50% in the quarter, we have grown 54% for the LCV segment above 3.5 Ton industry has grown 14% and we have grown 46%.

Just taking a minute on SYMC. We had announced results for third quarter calendar year third quarter on Tuesday we had reasonable volume situation of 103,000 in nine months YTD which is just about 2% below last year but we expect in fourth quarter to catch up and end of the year at about (+3%). compared to last year. Therefore volume wise we should do slightly better than last year. In terms of financial performance, YTD nine months we are at a PBT loss of 80 billion won which will translate roughly about 460 crores PBT loss which is significantly higher than last year but because of two factors one is much higher depreciation with the launch of Tivoli and the second is hedging loss last year, we had 35 billion gain in hedging this year we are 29 billion loss in hedging therefore a swing of more than 60 billion because of hedging. At the EBITDA level, EBITDA is 59.5 billion positive for SSangYong in the 9 month YTD compared to 15 billion won positive last year in nine months. So the EBITDA performance has significantly improved and Tivoli product that we had launched in January is doing extremely well, we have sold more than 43,000 vehicles by now.

New launches for auto we have been talking about the nine new launches during this year six of them have done those for keeping account that includes Jeeto, New Age XUV500, U301 that is TUV300, the Supro Van and Maxitruck, and the Thar CRDE that we had launched end of July and three more are to come. The most significant out of those is the S101 launch which is likely to happen in January. All the new tractor projects are on track which includes Dhruv which will be a major launch that we will have in 30 to 40 HP segment.

Looking forward to second half of the year first of all on the tractor side we have been talking up till last call about a 5% growth in the tractor industry now even the monsoon situations the way it turned out we do not maintain that positive stance now. Our best estimates right now is that the tractor industry will de-grow by about 5% which still is a significant improvement from where we are today which is -19%, to go from -19% to -5% we will have to see good growth happening in the last five months which we are expecting because of a very low base that we had in the last year third and fourth quarter.

On the auto side overall we expect the industry to continue to perform the same way as it has done in first half; however, UV segment which have seen a de-growth of about 2% in the first six months should end up at small positive may be 2 to 3% at the end of the year and the overall passenger vehicles growth should remain about same 6 to 7%. We are seeing some reduction in de-growth in the small commercial vehicles that is sub-1 ton segment we do expect to continue to see the reduction in de-growth but we think it will continue to be a de-growth all the same for Q3 and Q4 also for HCV. Heavy commercial vehicles we should see a good growth continuing with the momentum that we have of about 30% growth that we have been seeing. So that is the overall expectation that we have for the second half. So with that we will stop here and open up for any questions that you may have.

Moderator: Thank you. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Yogesh Agarwal from HSBC Securities. Please go ahead.

Yogesh Agarwal: Just to clarify you mentioned UV business full year you expected to be mid-single digit growth is that right?

Pawan Goenka: Not 4-5 may be 2-3, because we are -2 write now, if we get about 5-6% growth in the second half we will end up with at plus 2 or so.

Yogesh Agarwal: That was my question considering TUV has got a reasonably good response more than 4000 a month so far, would you not expect much stronger growth in the second half particularly the second vehicle will also come in few months.

Pawan Goenka: What I have talked about is the industry growth not Mahindra growth.

Yogesh Agarwal: Ok I get that.

VS Parthasarathy: We never talk on future volumes or future guidance wise we do not give, so this is the industry growth.

Yogesh Agarwal: Again going back to TUV any colour if you can give of the response both in rural and urban, has there been much better response in the rural market and if so has it been any impact or slowdown in other models particularly Bolero.

Pawan Goenka: First of all let me say that currently if I look at the breakup of the TUV 300 sales in urban and rural it is slightly biased towards urban compared to overall we have for urban and rural for Mahindra portfolio, slight bias towards urban and it has not taken away any significant cannibalization of any of our other products, there will always be some cannibalization which is very difficult to measure that but I would just like to point out that October which was the first full month of TUV 300 had Bolero back to being number one UV in India selling about 7700, so Bolero continues to be on top even though TUV300 had a volume of more than 4500.

Yogesh Agarwal: On RM cost, has the entire benefit of commodities flown through or is there still some tailwind in the coming quarters?

Pawan Goenka: I would say that at least we do not expect to see any headwind, if it is the tailwind that will be good news for us at least they should not be any headwind.

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

Kapil Singh: On TUV what would be the kind of steady run rate you expect this product to have?

Pawan Goenka: In the domestic market if we get a steady run rate of 5000 vehicles a month that will be a very good performance.

Kapil Singh: Have you identified some export market as well where you think there is reasonable potential?

Pawan Goenka: We have identified, we want to stabilize supply for domestic demands first before we start exporting therefore you will not see any significant export numbers till the end of the financial year.

Kapil Singh: But next year we can expect?

Pawan Goenka: Yes next year you can.

Kapil Singh: Would it be possible to give the non-tractor revenues in the farm segment because when we calculate the ASPs there is a sharp increase, I suppose because of the strong growth we are seeing in other revenues?

Pawan Goenka: I will come back and respond.

Kapil Singh: What I'm also trying to understand is on the pricing front has there been any changes for us in both the segments?

Pawan Goenka: In tractor we have not taken any price increase, in auto which are taken a very small price increase I think about 0.7% for the quarter.

Kapil Singh: This is net of discounting?

Pawan Goenka: No, this is MSRP change that happens, discounting it is very difficult to pinpoint because it varies month to month and region to region. Coming back to your question on non-tractor revenue the agri business has grown 24% in the first quarter all Agri business together not just M&M Ltd because some of them is M&M Ltd. and some of them is Mahindra Shubhlabh some of it is EPC has been around 350 crore plus for the half. Powerol has which also comes under the FES segment has very good growth for the quarter and half 53% growth for the quarter, 41% growth for the half as I had mentioned earlier that this is on the back of very large Reliance Jio order of about 5000 gen sets and that revenue has crossed 500 crores for the first half and then we have revenue coming out of the implement that we call it Applitrac, which is about 100 crores for the half.

Kapil Singh: Considering it has been back-to-back weak monsoons how soon do you expect the recovery, I understand the low base of last year but would you feel that it will be only around the next monsoon that you will start to see the recovery?

Pawan Goenka: It depends on two factors, it depends on the finer harvest that happens of the Kharif crop and as of now our expectation is that Kharif crop final output will not be too bad, in fact, probably just about the level that it was last year and also depends on the Rabi crop, Rabi sowing that happens the beginning of the Rabi sowing is at the same pace as it was last year but it is very early in the season so far only 9% sowing has been done which is same what it was in the last year. So if these two go well we might see a recovery sooner than next monsoon season and that is the reason we are talking about the -5% de-growth that is 5% de-growth from the current level of 19% de-growth and on that we're counting on that because of low base of last year and because of likely good Kharif output good revenue to the farmers we might see an uptick happening in the next five months of the tractor industry.

Moderator: Thank you. The next question is from the line of Promod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: My first question pertains to the tractor outlook for FY17 because of the weakness in the last two years has been much more pronounced than what we expected and there is fair bit of change in the government's stance towards rural spending and MSPs, so how should one look at the recovery in tractors from a year or two year perspective because historically we have seen a very sharp recovery cycle spikes in tractors actually, how from the position you hold how to look at it is expected to be far more moderate or will it be very close to the longer term growth guidance what you have been talking about which is 7-8%?

Pawan Goenka: It is very difficult right now for us to put any number for FY17, we have to wait till about February or so before we put any kind of outlook for FY17. We see no reason that the longer term perspective was 7-8% that we have always talked about we see no reason why that should change. But the longer term whether it's a five-year cycle, three-year cycle or one year cycle is difficult to say. As you have pointed out that FY15, FY16 both were de-growth years and therefore one would think that if you have to get an average of 7-8% we should see a growth in FY17 but I do not want to make any predictions right now till after we see how the Kharif output happens and how the Rabi sowing happens.

Pramod Kumar: But the underlying fundamental change for worse perspective in terms of be it MSP or generally I'm just saying whether the accelerator or acceleration will be much more moderate this time round..?

Pawan Goenka: I think it is primarily a question of affordability, there is no other change in fundamentals so there is no change in terms of need for tractors in fact if anything that is more and more desire to own a tractor amongst farmers and since labour cost are becoming higher there is more desire to have automation, mechanization that is in the farming therefore I see no reason no fundamental change in the demand shift. I think it is just a question of affordability and therefore monsoon and farm revenue will play very strong role in it.

Pramod Kumar: My second question pertains to automotive segment. We have seen that the margins during the quarter on sequential basis of EBIT level has come down 8.62% to 7.5% just wanted to understand is it got to do with the TUV as a product making a difference at the quarterly level because it has not played a big role in the quarter as such, and you had commodity benefits as well, so if you can help us understand this EBIT deceleration despite revenues going up meaningfully, I would say marginally because EBIT margin is not in sync with revenue directionally.

Pawan Goenka: I will hand over to Partha who has been trying to convince you every quarter that never look sequential margin it should always look year on year (YOY) and YOY we have grown so Partha going to take it?

VS Parthasarathy: This is an often problem that you while comparing sequentially…

Pramod Kumar: The normal question was normally what comes in the tractor realization on quarter to quarter basis which is very volatile, practically every quarter there's a massive change but this is got more to do with the margins because the commodities are favorable, scale is also larger and just trying to understand TUV has not been there for the full quarter at least because we understand that as the pricing goes down ASPs come under pressure there is higher marketing spend but I'm just trying to understand because 110 bps on a 8.6% base is not very marginal.

VS Parthasarathy: First and foremost is because, let me go philosophically and see why are we saying look at year-on-year and don't look at quarter on quarter. The first and foremost is that every quarter has a particular kind of cycle time which it relates to industry where things sell, why is there a spike, what kind of festival which occurs in various places. So, if you look at Q1 versus the last year's Q1 there will be certain amount of trends in both the quarters and Q2 similarly. If you look at Q2, Q2 tends to be a little bit in terms of, if you look at overall profit in Q2 versus Q1 what you see, you see a reduction in the profit why does that happen, that happens because Q2 is a smaller quarter as compared to the others and so on. So, from the industry we are in, if you are in technology industry I would agree look at quarter on quarter fully. So, in automobile industry I would urge you to look on year-on-year I can try to explain quarter on quarter but it always tends to confuse rather than clarify. The only thing I would like to say is that last time when we were talking in the Analyst meet I told you something that the margin or the OPM for auto sector was the best in 9 quarter and the tractor was best in 18 quarters, so the best in the quarter when it is received it is not something on a sustainable basis many things come together to make that open including the topline which helps spread out the expense line. My suggestion would be look at last year's quarter and those of you like you predicted M&M plus MVML you've also predicted margin around the same for this year which is about 13% EBITDA margin overall and that is what you have got. I do not see that concern and whether for auto and farm equipment these kinds of margin represents a reasonable margin for Q2 it represents a reasonable margin what we got in Q1 represents a reasonable margin with a positive outlook on all the expense parameters.

Promod Kumar: One accounting related the depreciation and amortization charges pertaining to TUV would be residing in the MVML books right, when I look at M&M standalone?

VS Parthasarathy: When I am quoting the result I am quoting M&M plus MVML, so when you do M&M plus MVML all those figures of depreciation higher by Rs. 5 crores for the quarter is after taking into account the amortization hit. That is first one, second is just to clarify the amortization cost is sits in M&M Ltd so even within M&M plus MVML it will be sitting in M&M books and not in MVML books.

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

Chirag Shah: If I look at historical segmental margin of automotive and farm equipment even in this worst phase of farm equipment we are managing to hold onto our margins so if we go back to even 3-4 years ago we were at similar levels but in automotive our segmental EBIT has dropped down significantly so is this the new normal or how should one should look at because we used to enjoy 12-13% EBIT margins earlier and we have come down to 7.5-8% range right now.

VS Parthasarathy: I will quickly kind of try to give you first let us look at M&M plus and MVML for auto…

Chirag Shah: Sorry, I will correct myself for M&M plus MVML also we have reasonable deceleration to 9.5-10% kind of a number from 11-12% range….

VS Parthasarathy: I can take this off-line, just to quote figures for everybody the way I see Q2 my OPM is 13.3%, if I take corresponding figures for the previous some quarters it is 13.65% in the last quarter, 12.55%, 12.34%, 12.62%, 12%. So if I look at Q2 of last year it was 11.8%, I see an increase you see a decrease obviously some calculation you must do together so you take this off-line what I can confirm to you that AD plus MVML year-on-year my margins have not gone down because it has gone up and gone up substantially because if you see the topline has grown only 7%, if you look at the segment result the bottom line has gone up 27%, that cannot happen without significant increase in OPM. So you take as 27% increase.

Chirag Shah: Second question was on TUV, is it possible for you to give more insight what is the mix between urban versus rural which you just highlighted and if you also can share insight into customer profiling if possible what kind of customers are enquiring and what kind of replacement vehicle they are going or are they first-time buyers.

Pawan Goenka: Too much details to be able to get I would need to have our marketing people here. You can take it separately and I have already answered that urban and rural question.

Chirag Shah: All the commodity benefits are largely in, what I understood from early interaction is that most of the gains are in, is it the right understanding or there is some….

Pawan Goenka: At worst there will not be any headwind there may still be more tailwind but at worst they will not be any headwind.

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

Sonal Gupta: I had questions around LCV market and like you said that you expect sub-1 ton to still continue to decline over the next two quarters as well and it has declined very-very substantially, almost like 65%, is financing constraint the only reason for this decline or there are some other factors which are impacting this market and also are we seeing some shift towards pickups from smaller LCVs?

Pawan Goenka: I do not think that financing is the major reason for the slowdown that we have seen in the LCV segment, in fact year ago I had said that the reason for this slowdown is because of shift happening to the pickup segment from sub-1 ton to pick up segment but as you have noticed that even pickup segment is de-growing right now so it is not the shift that is causing it, it is still basket demand pull not happening because of freight movement not going up and since now we have seen 13 straight months of HCV or MHCV growing and now it is passed on to LCV, so LCV did not grow, LCV that is more than 3.5 ton did not have a growth last year but in this first half-year we have seen growth in LCV and I would expect that now to filter down to pick up first and then to small commercial vehicles that is sub-1 ton. So what I'm expecting is that in the third and fourth quarter the pickup segment should start getting into positive territory and HCV segment the de-growth will be less than what we have seen in the first and second quarter but still continue to de-grow. But I will not say it is because of financing, I will not say it is because of shift to pickup it is just the demand cascading down to lower and lower tonnage segment.

Sonal Gupta: That basically there is lot of overcapacity and underutilization in the market which is..

Pawan Goenka: You are correct, and our estimate is that the e-commerce definitely will create a demand for sub-1 ton vehicle because sub-1 ton will be the primary mode of freight movement in the intra-city, low tonnage weight movement that will happen in the e-commerce and therefore it is not a matter of long-term concern that the sub-1 ton segment is not growing it just won't happen in the immediate future but it should happen hopefully starting FY17.

Sonal Gupta: You launched Supro so does that replace the Maxximo? what is the strategy?

Pawan Goenka: That is different capacity, different category Maxximo is in sub-1 ton category and Supro is in 1.2 ton category.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: The rise in capital employed that we have seen on the tractor segment is that only attributable to the inventory buildup and if so can you give a sense of where the inventories are currently relative to at the end of second quarter and the second question is slightly more longer term if you just go back two years at a point in time when the industry tractor sales was around six lakh units annually how have the mix of agri versus non-agri use changed, what I am trying to get that in spite of the poor monsoon I'm trying to see how big a damage the CAPEX collapse in rural areas have done to the overall tractor sales.

Pawan Goenka: Are you comparing capital employed quarter on quarter or year-on-year?

Karthik Chellappa: Year on year because year-on-year also it has risen by about 10% at a time when both revenue and EBIT is down so that's why I just wanted to get a sense whether there has been some inventory buildup and if so at what level?

Pawan Goenka: There is some effect because of the launch of Arjun Novo that has happened about this time last year and that would not have a full capital employed in the second quarter it would come in the next quarter but you're right that largely it is effect of inventory that we're seeing in this quarter, that is Q2 of FY16 and as I had mentioned that because the festive season here started in October and last year it was in September the start of festive season there is always this problem when we talk at this time because depending on when the Diwali and Dussehra comes there is significant movement in inventory by few weeks here and there. Since end of quarter happened

30th September you end up seeing lot of effect of it, I had mentioned that we went into the beginning of this quarter with high finished goods inventory in the company however significant correction has already taken place in the month of October more will take place in the month of November and by the end of November we will be where we want to be in terms of finished goods. This is always the case every year you will see a built up happening pre Dussehra and correction happening post Diwali. Agri versus non-agri users we do not have a precise breakup that we get of agri versus non-agri but directionally there is a more agri users and less haulage users of tractors because of the fact that you have talked about in the past where there is lot of ban on sand mining that really does bring down the haulage application of the tractor. But we do not have precise data to tell you that was X percentage and become Y percentage.

Karthik Chellappa: One more question on the UV side, you shared the bookings for the TUV 300 roughly around 12,000 to 13,000, I know early days but if I were to put it in the context of bookings of other models that we have seen say for example Creta which is a higher ASP product or even a Baleno which has been launched recently these booking numbers look a bit light, so how would you assess them and how do you see a TUV evolving going forward considering the competitive intensity in the segment is only set to rise.

Pawan Goenka: I do not want to compare with anybody else on what others have and what we have, what I would like to look at is the quality of booking that we have again standalone am not comparing to anybody kind of enquiries that we are getting and the test rides that are happening. The TUV product is a product which has a lot of functional benefits and therefore it is something that we expect and hope will remain more long-lasting than having a sort of a peak in the first six months of launch and then after that slowing down. We have had products where we see a very good response in the beginning and then it sorts of slows down after some time and we have had products where the response continues to remain very good I will only take example of my own product, not other people's products if you look at XUV 500 for example it has remained consistent lead good performer and we have had volume of 3000 per month for almost 2 years now whereas if I look at let us say a Xylo product which we had launched it had a very good performance for some time and then it slowed down. TUV 300 I would like to put in the XUV 500 category where the kind of performance that we have will be sustainable and therefore the 5000 volume which is a good volume for this product on a sustainable basis I would expect that we'll continue to be like that for times to come and not peak at 7000-8000 and then slow down to 3000-4000. So, therefore in my view TUV 300 performance with 12,800 booking in the 50 days that we have had booking so far is a good performance and I'm not at all concerned about the initial response that we have received for TUV 300.

Karthik Chellappa: If I have heard you right at the beginning you mentioned that S101 will be launched in January because I remember in the first quarter we had indicated at December timeline but now it is January so did I hear you're right?

Pawan Goenka: You heard me right, to say that I have said January you're being too precise in picking up December and January there are lot of factors that go into it, not the least of which is the fact that nobody wants to launch in December.

Moderator: Thank you. The next question is from the line of Sahil Kedia from Barclays. Please go ahead.

Sahil Kedia: We have seen some amount of festive season what the early signs that you're picking up especially on the tractor side and secondly any reason for just wanted to understand the logic for doing the launch in January and not ahead of the festive season is it that it could have clubbed against the TUV?

Pawan Goenka: You have answered your own question. Absolutely right as S101 launch if it happens within 4 to 6 weeks of TUV 300 for the whole system to manage two launches so close to each other to new products is a very difficult proposition and it could have probably hurt either TUV 300 or S101 and clearly we do not want to take any chance with that, the amount of preparation that happens it is not just getting a product ready and manufacturing it, the amount of preparation that goes in terms of training all the salesforce and the creating spare parts on ensuring that we have the customers story is all done on developing the launch communication and TV films and all those things the same set of people are working on it and therefore we cannot have two launches happening so close to each other and once you go beyond the festive season we want to wait till January before we make a launch before we make a major launch. So that is the reason. On the festive season well October month as you have seen was good for auto where we had a growth of 20% overall in the passenger vehicle segment and not so good for tractor where we saw at de-growth of 19% if I have to kind of estimate and these are very difficult things to estimate because the real thing will happen in the next 3-4 days when we see the sales starting from Dhanteras which is a very big selling day, indications are good but we will only after 11th of November.

Sahil Kedia: You had mentioned that there has been an improvement in your HCV numbers can you give us some colour how the truck, I know it's no longer a separate business, but you did talk about achieving the breakeven how far are we from that?

Pawan Goenka: Obviously we do not share breakup of truck performance from HCV performance in terms of financial results, but what I can tell you is that everything that we had talked about when the merger was done and justification on merger which was about getting the synergy benefits of the think part of the same company have come through and we have improvement in financial results this year compared to last year significant improvement not just some minor improvement.

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

Binay Singh: If you look at in the next two years the bulk of the growth in Mahindra automotive side will be driven by TUV and S101 which are to that extent lower ASP and maybe lower margin models also at the same point of time you will also see a leverage game coming in into the business. So how do the positive and negative, how will the automotive margins behave with these two factors?

Pawan Goenka: Difficult to answer the question without doing forward statement which we never do. Let me just kind of do a roundabout answer and let you derive on your conclusion. First of all you say that the sales will be driven primarily by S101 and the TUV 300, and not entirely true because TUV 300 as we just talked about is a volume of about 5000 vehicles and S101 right now difficult to say but let us just say for the purpose of talking of the order of 5000 to 7000 per month that is only about 10,000-12,000 out of 40,000-50,000 vehicles that will be selling every month about 25% of the total volume that we would have. So cannot say that it is primarily driven by these two products we still have Scorpio at about 4000, we still have XUV at about 3000, we still have Bolero at about 6000-7000 these three products combined are more than S101 and TUV 300. These are matured products and therefore both the ASP as well as the margins contribution will come from these products, on the commercial vehicle side our large volumes comes from pickup segment which is about as much as 11,000-12,000 vehicles in a month and again it is a matured product for us. So that is one part of the answer, the second part that you said about leveraging that is obviously very important because we are right now in the first half have run at about 40,000 per month our plants have the capacity of doing lot more than that and therefore when we are able to sell 5000 a month, 50,000 a month or 55,000 a month or 60,000 a month I can always have wishful thinking then obviously it will make a very huge difference in terms of leveraging our personnel cost will not go up anyway near in that proportion, our fixed expenses will not go up anyway near in that proportion and therefore we would expect to have leveraged benefit coming if the volumes go up to that level 40,000 is what we have had. In the month of October we had about 48,000 domestic volume but October always is a sort of a peak so when S101 comes in that will give us that extra 5000-7000 volume and S101 clearly does not cannibalize anything that we have because it is totally different segment so it is nobody will even ask me that S101 is going to cannibalize Bolero or cannibalize TUV 300, I hope nobody will ask that question.

Binay Singh: On S101 also, in case of TUV where do you think is this 4300 unit customers coming from like you to analysis at the dealership level where do you think that these customers coming in from which model was he planning to buy?

Pawan Goenka: Well I have answered that question by saying that I cannot answer that question, earlier I mentioned to Chirag for this also you have to have an off-line discussion because they are relevant people are not here in this room who will be able to answer that question.

Binay Singh: In this segmental revenue that you report for the group the two wheeler business is included in others is that correct?

Pawan Goenka: Yes.

Binay Singh: Is that the key reason why on YOY basis we see a very weak performance on others or others have gone up sharply?

VS Parthasarathy: Yes I know in others two wheelers is sitting and there is we have spent a lot more on brand building and advertisements and promotions in this quarter and more CAPEX which goes on to support the two products launches that we had. The second part is it is not the only thing in others we also have for the first year PMTC which we acquired also sitting there with the quarter results comes in. In a different way what I wanted to say is that many sectors like there are other sectors or other units which are present there many sectors are seeing stress and that is reflected in the others column that it is just not two wheelers, so that's why I said yes and no, two wheelers of course one but there are other businesses which is also seeing the downward trend therefore is causing others to be significantly lower this year as compared to a higher in loss compared to previous year.

Moderator: Thank you. The next question is from the line of Jimesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: Can you throw light on the discounting trends in tractors considering the stress which we are saying have they come off?

Pawan Goenka: There is no significant change in fact.

Jinesh Gandhi: With respect to our auto capacity for UVs and pickups what would be your current capacity?

Pawan Goenka: Plenty. Capacity is not a constraint.

VS Parthasarathy: To put it simply we have a term which you can call as manned capacity so we are manning according to what we require so we have reasonably high manned capacity but if suppose demand goes up as saying in Hindi "aap ke muh mein ghee shakkar" then we do not have a problem quickly ramping up.

Jinesh Gandhi: Because we are also expanding capacity at Chakan right?

Pawan Goenka: Let be more specific, if I look at overall capacity that we have for automotive production plenty of capacity, however there are two factors that I need to point out manning is always done as per demand projection so capacity when we talk about it is plenty of capacity, equipment capacity and not the manned capacity, manned capacity level we are pretty much using the resources that we have but we have the ability to add people as we see the demand grow, that is number one. Number two, the products are not easily movable from one plant to another plant so the Kandivli plant which makes the pickup product by and large and makes the Thar product is reasonably full and then not that much more scope for us to increase the capacity in Kandivli where in Nashik which makes Scorpio, which makes Bolero, which makes Xylo we have plenty of capacity that we can grow further and in Chakan which makes all other products XUV, S101, TUV 300 and so on there we can grow capacity to any number that we want.

Jinesh Gandhi: My question primarily pertaining to Chakan phase II which we have indicated recently are we going ahead on full basis or that will be taken up as need arises?

Pawan Goenka: For the TUV 300 is part of that…

VS Parthasarathy: He is asking are you spending 2500 crores..

Pawan Goenka: We will spend but in a timeframe not immediately.

VS Parthasarathy: Not immediately what we are saying is that we are going to have to spend some part of it which we have already done to make something like TUV come on board. We will phase it according to this but it allows me to increase capacity overall as and when the demand goes up.

Jinesh Gandhi: Otherwise our CAPEX and investment guidance remains the same.

Pawan Goenka: Remains the same with a southward if the demand remains at this and if not full utilization.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Amit Mishra for closing comments.

Amit Mishra: Thank you everyone, we thank Mahindra and Mahindra management team for giving us the opportunity to host the call. Thank you and have a great weekend.

Pawan Goenka: Thank you everyone and happy Diwali.

Moderator: Ladies and gentlemen on behalf of Macquarie Capital Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.