



“Mahindra & Mahindra Limited Conference Call”
Supreme Court's order on Diesel vehicles Ban
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Moderator: Ladies and Gentlemen, Good Day and Welcome to Mahindra & Mahindra Conference Call. 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, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Dr. Pawan Goenka. Thank you and over to you sir.

Dr. Pawan Goenka: Good Afternoon, Everyone. We have organized this conference with the sole purpose of talking about the impact of the Supreme Court Order that has been released just an hour-two ago. There were a lot of queries that had come from various analysts to our investor relations cell on what it might do. So we thought that it is best to get everyone together on a conference call and very quickly and briefly explain what it might mean to Mahindra.

The last 72-hours have been quite dynamic with an NGT order coming in 4-days ago and after that there was a press hearing that NGT had, coming from the dealers in the NCT region and they were going to reconsider and then there were Supreme Court ruling that had kind of announced yesterday and then reconfirmed today as to various actions that Hon’ble Supreme Court has ordered for Delhi Government to take.

So first of all let me acknowledge that there is no doubt that air quality in Delhi is a serious concern and therefore immediate urgent action is required. When immediate urgent action is required there is always some pain that has to be borne by the society in various forms, otherwise it is impossible to correct a situation that clearly is right now beyond reasonable in terms of deterioration in air quality. Clearly, when an order like this is made, there will be certain sections that will perhaps be more adversely affected than others. In the region the approach that the Hon’ble Supreme Court has taken, they have asked for certain decision on commercial vehicles, certain decision on power plants, certain decision on construction activity and very specifically banned selling of diesel vehicles above 2-litre in the NCR region up to 31st March when they will take a fresh look at the situation in Delhi and potentially the impact that this might have.

You might have seen a very short press statement that I had sent out just about half an hour-45-minutes ago where I have mentioned that it is our hope that at the end of this period holistic look will be taken at the situation in Delhi in terms of air quality and also very scientifically understand what is the impact of each of the actions that are being taken or are stipulated on the air quality. That is it may right now we have a situation where sale of diesel vehicles in NCR region above 2-litre are banned and that is true at least till 31st of March and we do not know what will happen beyond that.

So let me first mention that the overall impact on Mahindra sales volume. Because of this ban based on historical data of the last few months is about 2%; that means 2% of the total monthly sales comes from NCR region with passenger vehicles above 2-litres and therefore that is the extent of impact that we would see on our volume. As you also know that Mahindra volumes are on the upswing in the last couple of months because of a new products that we have launched and therefore if you were to do a like-to-like comparison from last year to this year, I certainly

would expect that this 2% cost that we have in NCR region will be more than made up for the overall positive momentum that we have in our volumes.

The second important point is that fortunately I happen to be at our MRV centre in Chennai right now and we are looking at what are the various possibilities that we have in sort of working with a product to see what we can do with the product that otherwise are banned. As you can imagine that the 2.2-litre and 2-litre engine is something that just happens to be that way and we obviously will examine whether it is possible for us to do some redesign of our vehicles to be able to come below the limit of 2-litre engine for NCR region. So we are evaluating that, it certainly looks doable and we will come back when we know what the situation is and therefore I am hoping that even the 2% impact that we have seen from the ruling today would be offset by some other actions that we will be able to take. So that is about it in terms of overall impact and our actions that we will be taking.

The immediate concern that we have which is something that we have to find a solution for, is the inventory that our dealers have in NCR area, which will be about Rs.100 crores worth of inventory our dealers have in the NCR region and certainly there would have been some customers who would have purchased the vehicle already but not yet registered. So we yet do not know what the solution will be for that problem and we will be working with our teams in the sales and marketing area and working with the dealers to find a solution so that our dealers are not unduly sort of coming under pressure because of the ruling that has been announced today.

So that is about it. I will be happy to take few questions but I will stick only to this subject and nothing else today.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. Our first question is from the line of Binay Singh of Morgan Stanley. Please go ahead.

Binay Singh: My question is to understand slightly something broader; like for this news flow, could you talk a little bit about what was the industry involvement, like do you guys present your case to Supreme Court then this decision was taken? Secondly, slightly linked to that the fear that a lot of investors have is that this is the first of the notifications and other cities could follow. So in that sense is the industry planning to do something that make joint representation and explain to the government because Delhi is fine but what if some other major city comes up?

Dr. Pawan Goenka: First, as far as involvement of the industry in the Supreme Court hearing is concerned, industry was not in the original application that the Hon'ble court had heard yesterday, but lawyer representing the industry was present in the court and did request that his views be heard and Hon'ble judges had given our lawyer an opportunity to express his views. So that was done. But that was the only interaction or only involvement that SIAM lawyers or the industry representing lawyer had in this particular case, that may have been a few minutes I do not know how long he talked. In this there was no opportunity to present facts and figures, so this was more of a general statement that the lawyer was able to make. What my expectation is when the Hon'ble Court

reconvenes on 5th of January as they have said in the order they would review the situation in a lot more detail and I am very sure at that time the industry will be given proper opportunity to represent their view on this matter. As I have said earlier that clearly we have to find a solution for Delhi's air quality. There is no question about. What the industry would request or put forward to the Hon'ble Court is what we think is the priority in which things need to be done and whatever the cost may be, so be it, as has been said many times, and I fully agree with that that the air quality is of foremost importance and therefore we have to bear the cost. The only request that we will make is that the final judgment that comes out after the hearing should be based on actual data that is available including the IIT Kanpur study that was commissioned by Delhi Government, the results of that have not been yet formally announced, and I would hope that that will be done and then the final decision will be made. So that is part one. Part two; you mentioned about similar things happening across other parts of India. So as you will know that Delhi has stood out in this situation since 1999, it is not something new, since 1999 there have been petitions filed in the Hon'ble Court, requesting ban on diesel, and so far it had remained a very local Delhi phenomena and not gone beyond that. That is not to say that it cannot happen. But again my hope and request to everyone concerned will be that final decisions that are made are taken based on facts and figures and not based on sort of what may be a conventional wisdom that there seems to be right now that diesel is culprit for everything. I will not deny the fact that Delhi diesel has more PM emission but we have to look at everything in a holistic manner. So right now I cannot answer that question as to whether it will spread or not spread. But, we as Mahindra, certainly have to be prepared for all eventualities and our preparation basically is that we have a petrol line up that we are working on and we will have petrol options available for all of our vehicles in a period of time. Hard for me to give specific timeframe right now as to when that might happen, but it will not be tomorrow, it will happen over a period of time in the short term not very long term and that will be our defense against anything like this. I would also like to point out that Mahindra is the only company today in India that has an electric vehicle option. Electric Vehicle as you know is the only 100% clean vehicle. Anything else is a matter of what we talk about today. If you talk about CO and CO₂ diesel is better than petrol. If you talk about NOK, CNG is the worst. If you talk about PM, diesel is the worst. Right now today everybody is talking about PM because of Delhi situation, but it could be CO₂ tomorrow, and as I have said in a previous interaction that CO₂ is a stated objective of our Prime Minister in Paris when he talked about it and for CO₂ reduction, there is nothing better than diesel. So again I come back to the same point that when such decisions are made eventually this is interim decision, this was based on the information available in front of the Hon'ble Court today, but when the court reconvenes after the winter recess, then I am sure they will take a look at all the information available, examine all the information, give opportunity to all the stakeholders and then take the final decision.

Moderator: Thank you sir. We have the next question from the line of Kapil Singh of Nomura. Please go ahead.

Kapil Singh: In terms of solutions, what are some of the solutions to address according to you this problem that is there in Delhi? Secondly, just to understand some of the facts how much pollution are

actually diesel vehicles causing in Delhi as a percentage of total pollution if some data is available on that?

Dr. Pawan Goenka:

I think that is not a subject of discussion today, today what we are talking about is what is the impact of Supreme Court ruling on Mahindra's business and what you have talked about is something that is debated many times, Hon'ble Court has given their ruling based on the information that have been presented to them and I do not think right now it is appropriate for me to be discussing things that go beyond the ruling. To your first question on solutions, once again, I repeat the same thing that Mr. Salve had presented his argument to the Hon'ble Court, they have gone through it, there are certain things that Mr. Salve had said, which the court had accepted, certain things that Mr. Salve said Court decided that were not appropriate to do right now, and therefore for the time being this is what we are doing. So we will stay with that. Again I repeat that the court has decided that this is for the next 3.5-months till 31st March and clearly the implication of that is in period after the court reconvenes, they will be going through this case, carefully listening to all the arguments, looking at all the information, reports, scientific data and then take a view after 31st March on what is the long term permanent solution to reverse air quality deterioration that is happening in Delhi. So we will debate that question when the court reconvenes; we will go back and try and present our point of view to the court at that time, but till then we stay with the ruling that has been given today and work with that ruling and align to that.

Kapil Singh:

Sir, is there any proposal from SIAM side which is in public domain that on this issue?

Dr. Pawan Goenka:

There is no specific proposal that is from SIAM side. What Siam has maintained in the past is that we need to take holistic look at this problem and cannot put all the blame on private diesel vehicles only. Yes, of course, private diesel vehicles do contribute to the PM pollution that we have in Delhi, but there are many other factors that contribute, and we need to do a careful analysis of which are the factors which are most important, what is the cost of correcting those and then prioritize what is the right thing to do. That is what SIAM has said in a more sort of general terms. But since we are not party to the NGT case and we were not party to the Supreme Court case, we have not had a formal opportunity to present as an industry our point of view except for the intervention that our legal counsel had done yesterday in front of the Hon'ble Supreme Court.

Moderator:

Thank you. Our next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.

Aryn Pirani:

I am not sure how much you can comment on this, but on the ruling that more than 10-year old vehicles and right now it is only limited to commercial vehicles should not apply in the National Capital Region, first of all, as per your understanding does it apply to private vehicles as well, and if it does have you made any representations to the government regarding any scrappage scheme or any incentive scheme which may or may not be required if such a ruling has to be made on a PAN India basis later on in the coming maybe months or years?

Dr. Pawan Goenka: The scrappage scheme in general for all kinds of vehicles -- commercial, personal, diesel, petrol -- has been on SIAM'S agenda for discussion with Government of India for a long time and we have been presenting that as a best way of cleaning the environment, best way of improving fuel efficiency and therefore reducing CO2 emission and for safety of the vehicles, we have been presenting that for quite some time. There is no specific direction that has come so far from the Government of India; though there is always acceptance of the fact that this is the right thing to do but there has been a concern on how do you implement something like this. So SIAM has always been saying that; SIAM'S presentation normally has been of the order of 15-years as the useful life of a vehicle and one can debate whether 15-year is right or 12-year is right or 10-year is right, that is open to debate, it depends on how aggressive stand that one wants to take. Clearly, if you do 10-years, you are removing more older vehicles and therefore having bigger impact compared to 15-years, but then when you do 10-years you are having more people who are sort of inconvenience because of vehicles that are still running on the road well but they have to be discarded. So that is a judgment call that authorities will have to take, SIAM cannot have a view on that. Our view has been that we should do scrapping of the vehicles, we should incentivize the scrapping of the vehicles and we had presented I think about 15-years is the right timeframe.

Amyr Pirani: One of the conclusions will be that this actually goes beyond the court and ultimately the government has to come in and basically formulate rules because the court can only do so much and as even the company can only do so much in the interim?

Dr. Pawan Goenka: Just like they have banned registration of 10-year old commercial vehicles court certainly can act on it if the court decides to. The government certainly can act on it if the government decides to; government certainly can incentivize it by giving some kind of "cash for clunkers" scheme that was very popular in Western countries a few years ago. So all of these things can be done. The industry is more than happy to work with the authorities on this to see how do we make it work, how do we make it incentivized for the owners of these older vehicles and yet make it at least revenue neutral for the government because some incentives will have to be given. So industry is more than happy to work with the government and see how we can find a solution and this is not something new this is something we have been talking for at least 8 to 10-years.

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

Sonal Gupta: I just wanted to get your thoughts on what about early BS-V implementation, in the sense that historically, the metro cities have been one step ahead of the rest of the country in terms of the emission norm, so do you think if there was to be something like a more early BS-V implementation, can you really action that, and what would be the cost implication, if you could give some light on that?

Dr. Pawan Goenka: Again, we are going beyond the immediate concern that is there with the analyst for which this conference has been called and I would love to discuss these things but this was hurriedly put to get a conference for very specific purpose to inform everyone what is the scope of the impact that is on Mahindra and I said earlier that it is about 2% of the total sales that is in Delhi-NCR

region and also to sort of communicate to you that we are looking at what options can we have to comply with the order of the court, at the same time not even have 2% hit in our volume coming out of NCR. So we are working on that and hopefully we will soon find a solution. The timing of BS-V, the cost of BS-V, the BS-VI, do we skip BS-V or we go straight to BS-VI. All of these are questions that have been debated very-very rigorously in various forums and we can talk about it, but this probably is not the right time for it.

Sonal Gupta: And just to clarify on this 2%, is this as monthly volumes including tractors and everything, so could you?

Dr. Pawan Goenka: No, I am talking about the vehicles that are affected by the ban that has been put today by the Hon'ble Supreme Court. That means we are selling about 40,000 vehicles on an average in a month, this is not including tractors, this is only for vehicles that is automotive product including commercial vehicles and approximately 800 on an average come from NCR region.

Sonal Gupta: Because where I am coming from is that if I look at the SIAM data for the first half of FY-'16 it shows about 4% of your PV sales will come from the Delhi region and I imagine that NCR would be obviously higher than that, so I am just trying to reconcile how does that and given that largely your UV portfolio, so that is largely...?

Dr. Pawan Goenka: So surely you have looked at data very carefully but one thing that you have missed is this is PV data, what I am talking about is our total vehicle sales which includes commercial vehicles; so it is 2% of total vehicles sales that we have which is 40,000 vehicles, whereas PV sale is approximately half of that, and therefore it is 4% of PV sales but 2% of total sales.

Moderator: Thank you. Our next question is from the line of Jamshed Dadabhoy of Citigroup. Please go ahead.

Jamshed Dadabhoy: So you alluded to the fact that you are working on 2-litre and some options on the diesel side. Could you give us a sense in terms of timeline when those would be ready?

Dr. Pawan Goenka: Too early for me to be able to answer that question, as I said, that this is all very dynamic and in last 72-hours a lot of things have changed and this whole business of 2-litre came up only yesterday. So we are looking at the time line and I do not want to give a time line right now which we will miss either too early or too late, we will work on it, and hopefully it will not take us very long to be able to come back with a definitive solution to be able to meet the 2-litre objective.

Jamshed Dadabhoy: Secondly, technically speaking between say 2-litres and 2.4-litres is there a very big differential in the PM 2.5 emissions from the tailpipe?

Dr. Pawan Goenka: Zero.

Jamshed Dadabhoy: So there is no rationale in keeping that as a cut off?

Dr. Pawan Goenka: I will not want to comment on rationale. Technically, you ask me that between 2-litre and 2.2-litre. Obviously assuming same engine because different engine technologies will give you different PMs, I am not talking about difference in technologies, I am just saying if the only difference is displacement, nothing else, then that does not make any impact on PM.

Moderator: We will take the next question from the line of Yogesh Agarwal of HSBC. Please go ahead.

Yogesh Agarwal: You are trying to down size the engines, but does it give you an opportunity to push a little more aggressively Ssangyong vehicles like Tivoli?

Dr. Pawan Goenka: Those cannot be short term solutions because even if we decide today that we want to bring in Tivoli into India, it is going to take us at least 2-years to do it. I should also say that we do have solutions available which go below 2-litre, we have TUV 300 which is 1.5-litre engine and picks up 1.5-litre engine and that is recently launched and doing quite well. We have the S101 that we have said we will be launching very soon, that again is sub-1.5 litre engine both diesel and petrol and therefore we are not devoid of products that will meet the cut off limit of 2-litre diesel engines and therefore to meet the needs of the customer we do not need to bring in another product beyond what we have planned. So the product pipeline that we have already in place launched recently and more that will be launched in the next 3 to 4-months will give a fairly large option to our customers, obviously, a vehicle with a smaller displacement will be smaller vehicles cannot be like an XUV which is a much larger vehicle. So clearly that will be the case. Other than that we do have other products available.

Moderator: Thank you. Our next question is from the line of Joseph George of IIFL. Please go ahead.

Joseph George: Sir, I just wanted to get your views on what you think or how you think the Indian fuel mix in passenger cars is going to evolve. Right now looks like it is closer to 50:50, but when you look at other markets like US, China, etc., it is predominantly petrol.

Dr. Pawan Goenka: Right now I think it is not 50:50, it was 50:50 about a year or year and a half back when diesel, petrol price differential was much high may be 2-years back. After the freeing up of the policy, market based pricing of diesel, the difference has come down, I do not have the number with me right now but my guess is about 58 petrol, 42 diesel is probably about right, that is what I was thinking. As things stand today, clearly, there is anti-diesel wave in India, and today it is not fashionable for anybody to support diesel. If I say anything in favor of diesel I probably will get pounded. The fuel is unfortunately being accused for everything that is wrong in air quality. This is only partly true. Again I go back to what I said in the beginning that I hope that when the courts come back after the recess there will be an opportunity for us to present the data that is available which says that with the negatives of diesel and nobody is denying the fact that diesel emit more PM 2.5 than any other fuel that is being used in the roads, that is the fact, but other than that we also have to look at the fact that diesel emit 25% lower CO2 and that also is a requirement. So one cannot only go after one thing and say, "Okay, I need to do this," we have to look at holistic requirement and we have to look at CO2 also and given that Hon'ble Prime Minister has committed that we will be reducing CO2 emission by 33% in the next I think about

15-years, we have to look at how do we move to technology that is less CO2 emitting. What I would also like to add that if the Government of India really wants to clean the air in Delhi and other metro cities, it is electric vehicles that will promote it; electric vehicles are the cleanest vehicle available; zero tailpipe emission and that is what we need to promote. So it is a holistic solution that one has to look at. One cannot just say that diesel is out and everything else is in and our problems are solved. If it is the case that by banning above 2000 cc diesel engine, Delhi air quality gets improved, then I am more than happy to have a situation where we do not sell any diesel vehicles above 2-litres. But my conclusion right now is that this in itself will not be enough to solve the Delhi's air quality problem.

Moderator: Thank you. We will take our last question from the line of Kaushal Maroo of Emkay Global. Please go ahead.

Kaushal Maroo: Sir, if the rules which have been implemented would only be for the NCR because it is much more polluted than most of the other metro cities also. So the Supreme Court judgment is only for the State of Delhi, would it make sense for companies to invest into technologies on petrol for the 2-litre engine, would it make sense for you to come up with a less than 2-litre diesel engine in the first place?

Dr. Pawan Goenka: I think there cannot be a generic answer to it. It will depend company-to-company depending on what is the volume that they have in Delhi and also depending on how much extra investment has to be made to find a solution that is applicable to Delhi, whether it is smaller displacement diesel engine or whether it is petrol engine. Having said that I would like to say that Delhi is an important market for all auto manufacturers. Mahindra as you pointed out earlier is about 4% of passenger vehicles sales are in NCT region. It is not just volume in Delhi. Delhi also creates an overall brand for us and therefore perhaps even if it becomes financially non-viable because of the small volume in Delhi or because rules being applicable only to Delhi, I am just making a general statement, I do not think anybody can afford to ignore Delhi in terms of having vehicles available that can be sold in Delhi.

Moderator: Would you like to add a few closing comments?

Dr. Pawan Goenka: The only thing that I want to say is... and we have discussed this through this call, I am just summarizing that as Mahindra & Mahindra, we certainly respect the order of the Hon'ble Supreme Court, we have already stopped selling of vehicles in Delhi above 2-litre and we will work to find solutions that will be in line with the court order today and I am hopeful that in fairly short time we will have solutions in place, though I cannot commit any specific timeline. Having said that the second point that I have made today is that this was a decision that the courts have made based on the information available today and based on the urgency of the problem that Delhi is facing and therefore something had to be done immediately and I am pretty sure that once the courts reconvene they will hear the whole case again and give an opportunity to all the stakeholders including auto industry to present the data and facts as we see it and also present our sort of proposal on what are the options to solve the Delhi's air quality...problem that we have been talking about in various fora in the past. Third thing is it is not the first time that

Mahindra has faced a problem like this, just a couple of years ago we had this problem of ground clearance based excise duty that was created and we were able to find a solution in fairly short time to get around that problem and I am sure that we will be able to do something so that our sales are not impacted in any significant meaningful manner. With that I would like to close. Thank you very much for joining in a hurriedly called conference call.

V S Parthasarathy:

Thank you, everyone who have joined at such short notice. I had my thanks to Pawan.

Moderator:

Thank you. Ladies and Gentlemen, on behalf of Mahindra & Mahindra that concludes this conference. Thank you for joining us and you may now disconnect your lines.