



“Mahindra & Mahindra Q2 FY2017 Earnings Conference Call”

November 11, 2016



MANAGEMENT: **DR. PAWAN GOENKA -- MANAGING DIRECTOR, GROUP PRESIDENT, AUTO AND FARM SECTORS AND MEMBER OF THE GROUP EXECUTIVE BOARD, MAHINDRA & MAHINDRA LIMITED**
MR. V. S. PARTHASARATHY -- GROUP CHIEF FINANCIAL OFFICER, GROUP CHIEF INFORMATION OFFICER, AND PRESIDENT, GROUP FINANCE AND M&A, MAHINDRA & MAHINDRA LIMITED

MODERATOR: **MR. GAUTAM DUGGAD -- HEAD (RESEARCH), MOTILAL OSWAL SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra & Mahindra Q2 FY 2017 Earnings Conference Call hosted by Motilal Oswal Securities. As a reminder, all participant 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gautam Duggad -- Head of Research, Motilal Oswal Securities. Thank you and over to you, Sir!

Gautam Duggad: Thanks, Raymond. Good evening everyone and welcome to the conference call of M&M. I have the pleasure of introducing the management of M&M. We have with us Dr. Pawan Goenka - Executive Director, Group President, Auto and Farm Sectors and Member of the Group Executive Board. We also have Mr. V. S. Parthasarathy -- Group CFO, Group CIO, and President, Group Finance and M&A, as well as a Member of the Group Executive Board. Along with them, we also have the other senior management personnel from the M&M including the IR team.

Without further ado, I will hand over the call to Mr. Parthasarathy. Over to you, Sir!

V. S. Parthasarathy: Thank you and I extend a warm welcome to those attending the call. I will share a glimpse on economic scenario, along with financial snapshot for Q2 FY2017. After my comments, Dr. Pawan Goenka will share overall performance, as well as the AFS performance.

Before I share the financial results, let me quickly talk about some macroeconomic scenario. First, normal monsoon; very happy that there has been a normal monsoon after a gap of two years. Apart from the 97% long-term average, what is good was it was fairly distributed across India. It gives a great boost to rural economy and sentiments; it has helped pick up the tractor demand and slowly will also help two-wheeler and auto sector demand.

Additionally, the good monsoon has also helped in managing inflation within the 5% to 6% range, in fact, it has been below 5%.

GST, happy to see very healthy progress on GST and appreciate the speed of decision making by GST Council. We are nearer to seeing GST a reality for India. It will be a big step in ease of doing business and will put India on a competitive spot in global map.

On the other side, we have some concerns: manufacturing growth has been sluggish. IIP growth of July 2016 and August 2016, both are in negative zone and it still remains a matter of concern for the overall economy. Exports are still down, but rate of the de-growth has slowed at India level. However, we are in a very good position in this area as both our auto and farm equipment sector exports have achieved double-digit growth.

Coming to the global economy, I'm happy that there are green shoots seen everywhere. U.S. economy grows at 1.4% in Q2, faster than estimated, recovery both in Euro zone and China seen. And overall, global economy is still under uncertain territory, but with green shoots.

Now, let me come to M&M and talk about financials for Q2 FY2017.

From Q1 this year, new accounting standards, IndAS or IFRS for India are applicable. Accordingly, financial statements submitted to exchange are prepared under IndAS.

Now, let me share the financials of M&M plus MVML, for the reasons that I have all stated many times that comprehensive view is there when both these are put together.

Before I start, I wanted to point out that I have shared with you that there are two headwinds that M&M has been facing as we started this year. One is the fiscal benefits that were available for Haridwar is not available in this financial year. So, we start with an impact of 250 basis points in terms of the margins as we start the year.

Depreciation of all the product launches comes and sits in this year, which is not there in the earlier year, and therefore, that also has a 100-basis point impact. So, whatever performance you see, you see in the light of not only making up for the difference; but also, performing against such headwinds.

You have already seen the volume results. As against a volume growth of 35.7%, FES; and 11.5% in auto versus two years; the revenue overall is higher by 15.6% versus Q2 of FY 2016 at Rs. 10,172 crores.

EBITDA, against a revenue growth of 15.6% is higher by 28.3%; close to double than the revenue growth. In absolute term, it is Rs. 1,468 crores in Q2 FY2017 versus Rs. 1,144 crores Q2 previous year.

PBIT is higher at 34.1%, which is even at a higher base as compared to the EBITDA, and that is because dividends for subsidiary companies come this quarter and dividend growth has even been higher because of special dividend and higher dividend received from Tech M (Tech Mahindra), Mahindra Holidays and Swaraj Engines.

This is in spite as I told you, that there has been a loss in excise benefit. However, we have been able to get for the Phase-II of the IPS or Incentive Promotion Scheme which has given us a benefit this quarter and which will now continue from this quarter onwards in terms of benefit. That has also given a one-time benefit of around Rs. 100 crores in this quarter. Higher other income Rs. 200 crores, is mainly on account of higher dividend, as I said. Considering all this above, PAT grows by 29%.

So, just before I move on, I wanted to say that the revenue growth is 15.6%; operating performance is higher at 28.8%, which is EBITDA. This gives a higher OPM of 140 basis points

versus previous year. 13% was last year's OPM, this year it is 14.4%, 140 basis points higher and further benefited by higher dividend.

Segment result, auto segment, against a volume growth of 11.5%, the exports and exports growth of 11.3%, the revenue grew at 11.7% versus previous year, at Rs. 6,716 crores. Auto segment results is at Rs. 650 crores, up by 12.5%. So, revenue grew 11.7%, but PBIT our results grew at 12.5% so, higher than the revenue growth.

FES was a star performer this quarter. While more will be talked by Dr. Goenka. Volume was higher by 35%, revenue was higher, in case of FES by 24% at Rs. 3,495 crores versus last year. The segment results were even higher at Rs. 624 crores, was higher by 37% versus Q2 last year.

Debt - equity ratio continues to be 0.2 and at net level zero, or close to zero, in terms of financial ratios and there is an improvement across all metrics, whether it be ROCE, margin of safety or anything, any other parameter.

Coming to group companies, Tech Mahindra showed a profit of Rs. 645 crores this quarter. MMFSL also had a strong profit of Rs. 114 crores, while MHRIL, which is Mahindra Holidays and Mahindra Life spaces both showed a strong growth in terms of profit at Rs. 33 crores and Rs. 32 crores respectively.

Now it is my pleasure to hand over the talk to Dr. Pawan Goenka, Executive Director and I'm happy to announce that Dr. Goenka is now Managing Director and I congratulate him and hand the mic over to him.

Dr. Pawan Goenka:

Thank you Partha. So, let me first quickly dispense with what Partha just talked about, about my designation changing from ED to MD. Just want to say that at a personal level, of course, I'm delighted with the confidence that the Board has put in me. But also, want to underline that at a business level almost nothing changes, in the sense that the way the Group has been organized, the way M&M has been organized it is been functioning in a way that I as an ED had the responsibility for M&M operations and Mr. Mahindra, Chairman and Managing Director had responsibility for the strategic level, at the M&M level, as well as all the decisions that pertain to the Group companies, the investment that M&M has. So, in that respect nothing changes. We had realigned the structure of the group at that time I did not know, but clearly keeping this in mind, Mr. Mahindra had realigned the structure in April 2015 and therefore, with this change there is no major changes that happen in the structure or the roles and responsibility divided between Mr. Mahindra and me.

So, I now continue with the overall view of the business for last year. Parthasarathy has given you the financial details, the background, so I will try not to repeat what he had said, but some of it may get repeated.

So, first of all, the primary driver for the industry both auto and tractor in the second quarter of the financial year was coming from the rural economy looking up because of good monsoon that

has happened and result of good monsoon translating into about 9% improvement in the Kharif crop and also a good sowing going into the Rabi crop.

So from rural economy everything is looking positive. All the segments that relate, that depend heavily on rural economy, be it tractor, be it pick-ups, be it mopeds, be it motorcycle, they have all had very good growth in quarter two.

The LCV segment has also seen the third consecutive growth after being de-growing for about ten quarters so that also is good news again, to some extent helped with the rural economy; the cost of ownership that interest rates are also helping and all the launches that we have seen from Mahindra and other companies in the last 12 months are helping in that demand growth.

The only segment that has performed poorly in the last quarter, quarter two, was the Heavy Commercial Vehicle segment, which had a de-growth during the quarter. Multiple reasons we can talk about that if there is an interest during our Question-and-Answer Session.

Monsoon details, you have already heard so, I would not repeat those and we have also talked about the kind of growth that has happened in the Kharif output.

For Mahindra, Partha has given you the growth numbers 37.4% growth in quarter two for Mahindra and 27.9% for the half and this is against the industry growth of 20% for the half, giving us a 43.3% market share which is the highest market share that we have ever seen in any half or any six months in the history as far back as we can go.

This is obviously news that our performance we will be delighted with and it is the result not just of how the industry is performing but also a variety of things that we have been doing over the last year - year and a half including the new launches that we had, the Yuvo tractor and the Novo tractor that we have launched in the last 18 months.

If I look at Automotive performance of Mahindra, we have grown about 16.4% in the passenger vehicle in the last quarter and 11.6% overall in the last quarter. For the half, our growth is 13.6%, which by the way is the highest growth amongst the top five passenger vehicle players. Mahindra with 13.6% is the highest growth.

Even in the truck business, we have increased the market share from 2.77% to 3.4%. This is a very small market share, but moving in the right direction and we perhaps had one of the highest growth in the truck industry amongst any player.

Also, very good news in export for us we had 21,900 vehicles exported during the first-half, which is the highest export that we have seen in the half as well as in the second quarter.

And this overall performance is a result of multiple things, including the new launches that we had and the improvement that we're seeing in the rural economy, as I mentioned earlier.

Just a little bit about the Q3 - Q4 outlook that we see and this will probably get tempered a little bit with some recent events. But basically, the sentiment in rural economy is very positive and it is something that we have not seen in a long, long time. In the month of October, in fact, was a very good month for us in all segments. We had tractor growth of more than 60%, we had automotive retails which was the highest ever in a given month for Mahindra. So, there is positive sentiment.

We think we will therefore, deliver a better tractor industry growth than what we had talked about in the last quarter. In the last quarter, we had mentioned 15% outlook for the industry growth for the year. Now, based on what has happened in September and October and based on how we see the sentiments in the market we are revising that upward to 20% as the industry growth for the year in the tractor industry.

With that the overall tractor volume will come to just under Rs. 6 lakhs, which is still is 5% less than the best we have seen which was in 2013 - 2014 but 20% growth clearly is something more than what anybody in the industry had expected at the beginning of the year.

On the Automotive side, the UV segment has grown very well. We do consider that to continue for the next six months and therefore, maybe 15% - 20% growth in UV segment and PV segment should end up at high single-digit. Small commercial vehicle will continue to be roughly at the level that we are in.

As far as the heavy commercial vehicle is concerned though Q2 was a de-growth, October was a good growth in heavy commercial vehicle and, therefore, we think that the October now represents what we might see in the remaining five months and the reason we are saying that is that one of the reasons for de-growth that we had seen was holding back of the purchase anticipating prices coming down post GST. Now as we know, based on the rates that have been announced, there will be hardly any change in the prices post GST and therefore, the truck sales should come back to where they were in Q1 of last year.

If there is an interest, we will talk a little bit more about GST during the Question-and-Answer Session. So, I will not cover that right now. Most of it is now known and some of it is still awaited. But we have a pretty good clarity on what might happen post GST.

Little bit about new launches because many of you will be having that question so, I will just cover that in the opening and then we can get back into it if you have questions on it. We will be launching a brand-new platform, brand new product in the second-half of 2017 - 2018. This is a product that we have code named U321. Spy pictures have been seen in the magazines. This was developed at the Mahindra Technical Center in Detroit, will be manufactured in India, of course, and will be launched in second-half of next year. Then we will have S201 code named product, which is the product that is based on the Tivoli platform. I have talked about that in the past that we have been developing a product on Tivoli, that will be launched in the second-half of 2018 - 2019 so, that means about two years, or two plus years from now.

On the tractor side, we have a new platform launch happening in the first-half of next year. This is the sub-30 horsepower tractor. As you know that we have launched 30 horsepower to 50 horsepower last year and 50 plus horsepower year before and now we will launch the sub-30 horsepower on the Mahindra brand and we have a 50-horsepower tractor coming from Swaraj brand.

I'm not covering in the opening statement here on the other businesses; if there are specific questions on Ssangyong, on Mahindra Electric, on any of our overseas JVs or agri business, we will talk about that during the question-answer session.

So I will just stop here and turn over to you for any questions that you might have.

Moderator: Sure, thank you very much. We will now begin with Question-and-Answer Session. We have the first question from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: If you could just elaborate a bit more on what kind of impact you expect from the curbs on black money that we have seen? Do you think this is more of a short-term thing and in the long run it would turn out to be positive, any thoughts would be helpful?

Dr. Pawan Goenka: So, first of all, let me call it unaccounted cash rather than black money because that is what we are talking about and the way we have analyzed the situation right now no, of course it is too early to call, there will be some short-term impact perhaps in the month of November and this is more because of anxiety that people might have of what will happen in future and the fact that many of our rural customers manage their transactions through cash so, it is nothing to do with unaccounted or black money. It is just that anxiety about not being comfortable dealing with credit card, cheques, banking, all of that and we think that after this about a month things will start coming back to normal and two or three months from now we would be back to the normal business. So, short answer is for this month, we will see some effect because the anxiety that people might have and after that slowly it will come back to normal maybe in two months -three months and whatever it is it will be more a postponement of sales rather than losing the sales. Do you want to add anything to this Partha?

V. S. Parthasarathy: Yes, just wanted to reemphasize the point that this is demonetization and in this the least affected is the rural because they anyway have all income which is exempt. So, there the impact of the overall thing should be the least and they have a way of bouncing back off all this very quickly. So, we should not understate the case but we should not overstate the case either, okay, that is what it is.....

Kapil Singh: And, secondly, you touched upon rural sentiments and how strong they have become. So is 20% guidance on the conservative side keeping that in view last two months have been pretty strong? I mean 20% for Mahindra & Mahindra would mean hardly any growth in the revenue...

Dr. Pawan Goenka: No, not 20% for Mahindra. 20% is for the industry. We never give Mahindra guidance, 20% is for the industry which is same performance as we have in the first-half. So, first-half growth was

20% for the industry. Though we grew at 27%, industry was 20% and that is what we are projecting, we are not projecting Mahindra Group.

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

Binay Singh: Firstly, just a clarification. Is there any like sir, mentioned some Rs. 100 crores one-off. Could you talk a little bit more about it where is it sitting? I am sorry, I joined a little late so maybe I missed....

V. S. Parthasarathy: Rs. 100 crores of what? It is sitting in the contribution or EBITDA margin and within that it will be sitting as part of the gross contribution.

Binay Singh: Can you talk a little bit more, I am sorry, I missed that, what exactly is this?

V. S. Parthasarathy: So, overall, first is what this item is, IPS is available on Chakan. For Phase-I, this has been available and continues to be available. We had talked about that we are going to do Phase-II in Chakan which is increasing the capacity especially around the new products, KUV, TUV and so on. So, that benefit was to come after the installation is done and certified, and governments approve it. We are happy to state that has been done. So, from Q2 onwards, we will receive, yes, Incentive Promotion Scheme. For the quarter of Q2, we have received two kind of incentive. One, on an ongoing basis and I do not want to talk in terms of absolute. And for the past, for all the time that we have started till the time the incentive came a Rs. 100 crore one-time benefit which came. So, this one-time benefit will not be there in future but IPS on a continuing basis will be available. We lost the Haridwar excise benefit and that was a negative impact, a part of it will certainly get covered through this IPS going forward.

Binay Singh: Okay. So this is Rs. 100 crores coming on the automotive side and this partly would also be driving the automotive margin higher this quarter?

V. S. Parthasarathy: Yes.

Binay Singh: Okay, sir, that is very helpful. The second question is on the UV side, like we did talk about 20% growth for the industry this year, but we have seen volumes for Mahindra are decelerating. So, to an extent how do you see the product portfolio playing out? We were doing 24,000 - 25,000; we went down to 16,000 - 17,000 units of it both KUV, TUV coming down. So, could you talk a little bit about why did the products under-performed your expectations? How do you see the core portfolio before the new launches come and behave?

Dr. Pawan Goenka: I don't know why you were saying our volumes are decelerating. In fact, I do not know where you, you said you came in late so, I do not know whether you were there when I talked about this. But, our growth in this quarter has been, overall, about 11%; for the passenger segment about 13% - 14% and that growth that we have for the first six months, the overall growth for the first six months for Mahindra in the passenger vehicle segment is the highest and I repeat the highest among the top five players. So, any sort of thought that may be there that we are

decelerating is not true. Now, whether we are at the level of an expectation or not that is a different matter and clearly, every company will have very aggressive plans and aggressive expectation and no company should ever be satisfied with the results that are there. We will always be looking for more than what is happening. So you specifically mentioned about TUV and KUV and our core portfolio. So, in our core portfolio let me take some time to explain this because I want to sort of dispel the notions about the products not performing. So, in our core portfolio, the product that was slowing down over the last several months was Bolero and that had happened because unfortunately, Bolero was clubbed as a car or as a vehicle that is meant for rich and therefore was taxed very heavily and we are paying as much as 30% excise duty on Bolero, the highest excised vehicle in India, in fact highest excised commodity in India was Bolero. And as a result of that, Bolero prices had become non-competitive. We have been able to launch Bolero Power Plus, which was launched in the month of September. With that, we have been able to pass on the excise benefit because that is excised at 12.5% compared to 30% for the original Bolero and we have been able to reduce the price by almost Rs. 1 lakh as a result of this and therefore, after launch of that vehicle, Bolero volumes have come back to where they used to be in the hay days of Bolero. So, in the month of October, we have retailed after a long time more than 10,000 plus Bolero and Bolero Power Plus and with the Bolero Power Plus coming in along with the Bolero continuing we think that Bolero is back on track, okay and the only reason it was not was because it is becoming non-competitive because of very high excise duty. The second product is Scorpio. Scorpio continues to be very strong. In fact, in the month of October, we have had the highest ever, I repeat, highest ever retail of Scorpio since the time we launched in 2002. So, clearly that product is not under-performing. The third one is XUV. XUV is a very high-end product and one should not expect to sell for 4,000 - 5,000 of that product. We are selling of the order of 2,500 to 3,000 and that is about the level that one should be looking at for XUV in that price range. The fourth product is TUV. TUV was launched before the whole diesel debate started in Delhi, in NCR. Clearly, the diesel debate had a negative impact on TUV300, and as a result of that TUV300 slowed down in the middle months from let us say, February to March till about June - July and we are now waiting to see TUV300 coming back to what our original plan was in terms of volume for TUV300. And finally, KUV100 which suffered from the fact that the consumer sentiment shifted to petrol from diesel again, for the same reason that TUV300 suffered. And therefore, when we had planned a 70-30 ratio of diesel to petrol off take it became more like 50 - 50. And we all know that Mahindra is better known for diesel offerings. So, it took some time for customers to see Mahindra as a serious petrol player. Now, again, KUV100 volumes have started picking up is still not at the level that we had planned but started picking up and we think that now we will continue to see a ramp-up happening on these volumes. So, our growth in passenger vehicle segment which is UVs and just one more product that is Verito last quarter was 16% and for the half it is 13.6%. And again, I repeat, that is the highest of all amongst the top five players in India.

Binay Singh:

Sir, that is very helpful. Just a follow-on. How is the hybrid response of the Scorpio and what are the plans on hybrid because I gather that must be a very profitable segment for you?

Dr. Pawan Goenka:

So, the Scorpio is 100% hybrid, except for the DI or LCCR that we have at the commercial segment. So everything that is with mHAWK engine is hybrid and whether hybrid is more

profitable, less profitable, I cannot talk about but certainly it is a product that is doing well for us and whether the very large retail volume that we saw in October is a result of the fact that we have Scorpio in the hybrid avatar now hard for me to say but certainly hybrid is performing very well for us and we are looking at other products also to become hybrid in future.

Moderator: Thank you. We have the next question from Aryn Pirani of Deutsche Bank. Please go ahead.

Aryn Pirani: So, I just wanted to go back to the issue of the short-term dislocation which we could see in demand. Now, on the rural side like you rightly mentioned, a lot of things happen in cash which may not be unaccounted for. But given that the availability of cash itself would be limited and obviously, farmers would be now going to sell their harvest, could it lead to like slightly longer dislocation or you think that one or two months is something that you should be comfortable with?

Dr. Pawan Goenka: See, it is very difficult for us to project, I mean this whole thing is so new. Everybody is trying to figure out what will happen and on the day of the announcement there was a much bigger fear the next day itself the fear started becoming less and by today 11th even further less. So, I do not know how quickly everything will come back to normal. What I have said earlier, that is this month we probably will see a significant impact and it will start slowing down or the impact slowing down in the next couple of months and back to normal in about three months is our best guess right now. We will have to revise that maybe three months is too conservative, maybe it is too optimistic. I do not know that; but that is what we think today.

Aryn Pirani: But your 20% outlook is after taking this into account?

Dr. Pawan Goenka: See, 20% outlook that we had set was before this happened, and since what I am saying is that this is for six-month period out of which October has already gone which is with 40% or 45% growth. So a large part of 20% has already happened in October and what we are assuming right now the effect of demonetization will be high in November and lesser in December and even less in January and back to normal by February. We think that whatever sales loss that we have in these two months or three months will come back in February and March and therefore, we still think that 20% will not go down it is possible that Q3 may be lower and Q4 may be higher. But if I just look at Q3 plus Q4, I will think it will be same as what it would have been before demonetization.

Aryn Pirani: Okay, fair enough. And just wanted to get your comment on if you could reiterate when is this Scorpio petrol and the XUV petrol launch timeline?

Dr. Pawan Goenka: Okay, so XUV petrol is around the corner should happen before the end of the year and Scorpio petrol will be looked at year after, that is in the FY 2018 timeframe. But, I should also add that what we have seen for vehicles of this size wherever there is petrol available not from Mahindra but from other players wherever there is petrol available, the demand is predominantly diesel. So, in this sector, there is not much of a pull for petrol option. When you got to smaller SUVs

like KUV for example, in KUV is 50-50 diesel and petrol but, by the time we come to the XUV size, it is almost 100% diesel.

V. S. Parthasarathy: And can I take a minute before you go on you asked about demonetization, I just wanted to give, I see a lot of concerns, I wanted to kind of give some data points. In State Bank of India, yesterday collected Rs. 31,000 crores and today collected Rs. 22,000 crores till 2:00 P.M. So in two days, you have more than Rs. 55,000 crores collected and if they do ten days of this, then the problem may not remain after that. So, all I am saying is that there is economy has a very quick way of responding and correcting. So, I think that is what I meant when I said do not overstate the case. So here is data point, let us watch this is. Maybe one week later, both of us will say it is a non-event. I hope so. I mean I do not want to understate also and that is why data point.

Dr. Pawan Goenka: So since we are on it, let me also add that Mahindra Group sees this as a very positive move. And long-term it is going to be very good for the economy it is very good for the way businesses are managed and will be good for the consumers also once they get used to not handling cash and doing more banking-based transactions. There is some little bit of short-term pain, how short is short-term it is very hard to judge right now. We will have to take a call on that, but let is not get too concerned about impact that might happen for one month - two months - three months. We need to look at the longer term and we all believe in Mahindra Group that this as a very positive move.

Amyr Pirani: Great, sir, that was very helpful. And sir, just very quickly, you mentioned two new platforms. So, one is the Tivoli platform based on the Tivoli platform so, I am assuming this would be more like a small SUV?

Dr. Pawan Goenka: I can say no more.

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

Karthik Chellapa: My first question is on the UV business. At this point of time, do you see there are any white spaces in the UV portfolio which you would like to address or are you pretty much there in all the key segments that you would like to so, that the new platforms will be more like an add-on? That is my question number one. The second question is on the demonetization. A lot of discussion seems to be centered around the retail demand so on and so forth. I am just curious to understand, whether at a dealer level or whether at a financier level especially at an NBFC financier level you foresee any short-term liquidity issues for which you may need to provide some support?

Dr. Pawan Goenka: Okay, I will answer the first one and let Partha think about and answer to second one while I am answering the first one. So, white spaces, see as you very well know that Mahindra has the widest portfolio in UVs, SUVs in India, starting from KUV100 to Bolero, to TUV300, to Xylo, to Scorpio, to XUV500 and so, we are covering quite a bit in terms of a basis or sub-segments

in the SUV market. However, even with that strong portfolio that we have there are couple of sort of micro segments, sub-segments as you want to call it where perhaps we do not have a very strong offering and something that clearly in our product planning we take a look at. So, one segment is roughly a 4-meter size crossover what we have is a 3.6 metre size KUV100 and there is sort of a bunch of volume that happens around the 4 metre size crossover vehicle not the sort of SUV type. For SUV type, or the ladder on frame type we have the TUV300 and Bolero but for the crossover type we do not have a vehicle in that segment. And the second one where we do not have a very strong product, we have a product but not a very strong product is the MPV segment and there is reasonable decent market size in the MPV segment where our offering is not very strong. If I was to look for white spaces that is what I would talk about. I am not including in talk saying this the premium segment which goes above RS. 20 lakh and there our only offering right now is Rexton which sells in a small quantity, but that segment overall is very small. But that also if you want to consider white spaces that also is a white space. Partha?

V. S. Parthasarathy:

So, I think first and foremost is this financing by institutions we are now financing say about 90% - 95% of the retail loans and that always is being done as was earlier done through a complete banking environment system. So, I do not per se see any problem in terms of financing being done, dealers, many of them have what is called as the banks funding and therefore to that extent they are protected and rural I have pointed out has no tax issues per se rural income is overstating the case agriculture income has no tax and therefore even if they declare any income, it is a non-taxable thing so they should not have a problem. One of the things is that I think it is very positive. I spoke to a few NBFCs and they believe it is very positive that they will be able to push a lot of their customers into banking habits rather than cash habits and because if they are not worried about tax from that perspective it will be easier to do at the rural environment and this is the feedback that I have got. This is also another practical point that they are making with saying Rs. 500 notes and Rs. 1,000 notes are not available so, cash is a constraint, as and when the Rs. 2,000 notes start coming in and start the circulation getting widened the cash issue will get sorted out which an agricultural or a rural person would want to have so, there are two issues here. Issues of say accounting and second is cash the cash currency issue should get sorted out over a period. So, these are some of the pointers beyond this each one of us will have to make our own guesses.

Karthik Chellapa:

Got it, thank you very much for the detail color, sir. I just have one follow-up on the competition. What we notice at least in the last six months, has been that we have had well entrenched car OEMs get into the SUV space and we have seen two successful models from competition already. One is the Brezza from Maruti which is doing 8,000 units to 9,000 units and we have the Creta as well doing very similar volume numbers so, given that increasingly car OEMs with well entrenched distribution muscle are now starting to enter the space do you think the level of competitive intensity has increased one notch up as opposed to the past where we did not have to contend with such OEMs?

Dr. Pawan Goenka:

Undoubtedly, I mean if you were to go back five years, there were only three or maybe three and a half players in the SUV segment and now there are as many in the SUV segment as passenger car segment so, competitive intensity has increased. We had recognized that and

acknowledged that two years ago when we had talked about all the product launches that we are having that KUV100 and the TUV300 was a response to that increase in competitive intensity two brand new products that we had launched last year and we have more the U321 and S201 are coming into the UV segment. So, that clearly is an outcome of the fact that we are the largest, or the biggest UV player in India and we have to continue to have product offerings in all the segments of UVs. So, that is a matter of fact that there is competitive intensity and any segment that is growing the way UVs are growing will clearly attract more and more players to jump into it. Now, you talked about the traditional passenger car player getting into the UV. What that is doing in effect if you were to dissect the numbers, what it is doing in effect is they are trading their passenger car volume for UV volumes. If you look at overall growth for most of the players in passenger vehicle barring one or two, if you look at overall growth for most passenger vehicle, it is of the order of 10%, 11%, 9% for the players who are doing well, okay. But if you were to break it down into passenger car and UV what you find is that in passenger car, they are not growing or maybe even de-growing, where all the growth is coming from UV. So the impact on Mahindra of that is if you start looking at market share of UV not the growth, but market share for Mahindra in UV, you will find the market share dropping because there are lot more UV players there are lot more UV sales that is happening but if you look at market share of Mahindra in passenger vehicles because now game is not so much passenger car and UVs but it is passenger vehicle then our market share is not dropping. We are maintaining our market share in the passenger vehicle segment. So, just one has to look at the data little differently because UVs now have become, if I could use the word mainstream. Earlier UVs were more niche, now they have become mainstream 25% of passenger vehicles sold is UV which is highest of any major market that we have in the world. Till three years - four years ago we used to talk about 18%, 19%, 17% being UVs and I used to say at that time that UVs will grow faster than cars the reason were that average globally was 22% - 23% and we were taking 19%. So I used to say that we will catch up with the world. We have in fact gone beyond that and we are at 25% while the rest of the world is at 23% - 24%, I hope that helps.

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

Pramod Kumar: Before I start my question, I just wanted one clarification on the IPS from Partha. First, is it tax exempted the incentive what you get? And also you have talked about recurring incentives, which is part of the quarterly results. I just want to clarify, was what there in 1Q FY 2017 as well?

Dr. Pawan Goenka: 1Q?

V. S. Parthasarathy: He is asking first quarter you asked first quarter, was this applicable even for first quarter?

Pramod Kumar: Yes, Partha.

V. S. Parthasarathy: Okay. So first and foremost is that this is a IPS is an incentive like any other incentive and it is subject to tax.

- Pramod Kumar:** It is subject to tax.
- V. S. Parthasarathy:** Yes, it is subject to tax so, it is before the tax line and tax is applicable on it. Second one is that we got it certified by the government so if we got whatever is due for Q2 and what is prior to Q2 which is Q1 and prior years' prior years is not prior year because that is when we started. So from start to Q1 we got in one shot which is equal to Rs. 100 crores, okay?
- Pramod Kumar:** My question what I had on the business was on the two-wheeler strategy, there has been a welcome change on the strategy in the recent few months with strings of acquisition in terms of brands. Just want to understand your thought process as to (a) whether does it really brings down the capital intensity into the two-wheeler business, given the fact that you will have to prebuild lot of these brands from where they are and especially in terms of R&D capability and production capability? And (b) what does it do to your mass market strategy, which is currently in play which in terms of the existing products, are you going to pull them out? And finally, what do you think all this will kind of result and in terms of the investment intensity of this business both in terms of recapitalizing the balance sheets and also in terms of the R&D investment?
- Dr. Pawan Goenka:** Okay, you have asked lots of questions in that and it will take a lot of time answering this. So, I am going to refrain from answering this question in detail. We had a very detailed communication on our strategy for two-wheelers about three weeks ago and if you have not seen that we will share that with you. But very quickly let me just say a little bit on this (a) it does reduce the capital intensity of the two-wheeler business. In fact, in the first six months of the year, the cash loss in the two-wheeler business has gone down less than half from last year and we have been able to reduce our inventory, working capital, we have been able to right size the organization, we have done all of that and as I mentioned in that press communication at that time were that we are basically going into a maintenance mode of the current mass market two-wheeler business. The total investment that we have earmarked for the new vertical, the CLPL, Classic Legends Private Limited is about Rs. 300 crores over a timeframe of about two years - two and a half years, and we will be launching our first product in two years I think I will stop there.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** First, wanted to understand there are two questions. First question is basically, how much is your volumes sold to Ola, can you give us that? And second question is basically, just wanted to get a sense, what is the buyer profile in a Bolero and then Scorpio customers. I want to know what is the contribution of a business guy and a salaried guy who is buying a Bolero or a Scorpio?
- Dr. Pawan Goenka:** The first question we cannot answer because we cannot share with you how much we are selling to Ola or aggregators in general. You are aware that we had a special announcement made where Mahindra has partnered with Ola and created an overall package which is very attractive for the drivers and that certainly is helping in our business with Ola; but I cannot share numbers with you on how much we are selling to Ola. The second question is a very detailed question. I am

not sure that I have a precise answer for you. But let me just say generally, generally, the Bolero and Bolero Power Plus is more rural based product and bulk of the sale happens in rural India. Whereas Scorpio, a bulk of the sale happens in urban but surprisingly large numbers get sold in rural India also. So, therefore, Scorpio will be in both urban and rural and Bolero only primarily rural. But I do not have precise data with me on how many are salaried people, how many are traders or businessmen.

Hitesh Goel: Okay. And sir, just a follow-up on that. So, after this cash issue, have you seen any moderation in demand in your large SUV segment?

Dr. Pawan Goenka: Too early, I mean just two days and too early for us to respond. Anyway, the period after Diwali is always a lull period because all the buying has happened pre-Diwali and nothing much happens for a couple of weeks after Diwali. So, whether this issue is there or not there the sales will start towards the end of the month and by then the initial anxiety of demonetization will get sorted out. So I think as Partha said earlier, that we are right now getting overly worried and concerned many people are getting overly worried and concerned about what it might do. We have to take it in the stride we have to wait and see as to what the effect is and I think our customers, our dealers, our financiers, have a way to resolve all this short-term issue and life will be back to normal before we know it.

V. S. Parthasarathy: Maybe it is a good idea Pawan...

Dr. Pawan Goenka: Maybe ten days from now we will be in a better position to answer this question. So, right now, this is only 10th and 11th we all be busy with the Board Meetings preparing for Board Meetings so, we really do not have any insight that we can give you beyond our general overall disclosure.

V. S. Parthasarathy: I will request the IR actually to kind of be in touch with you, so, if in couple of weeks you still have some questions, I think we can organize a quick call to kind of take status, but overall I do not expect that our answer will be significantly different from what we have said.

Hitesh Goel: Okay, sir. Can you also give a dealer inventory number for tractors and UV, sir?

Dr. Pawan Goenka: I am glad that you have asked the questions, because one of the big story for us which is not generally published in any of the publication that we do recent publication is about the inventory management and for inventory, I will not talk end September but I will talk end October. So, in October month we have down-stocked the dealer inventory in the automotive side by 14,000 vehicles. So, that means that our billing which was about 48,000, our dealer sales, that is retail, was about 63,000 and what that has done is, and I had mentioned this last quarter also, that I was little concerned about the inventory level of the dealers that we had in the automotive business. It is now come down to maybe just about two days or three days more than what the ideal inventory should be. So, we are very comfortable now on the inventory side for auto. On the tractor side, in fact, the problem is that our inventory has drained out. So our inventory has gone below the comfort level, because of very high billing in the month of October and therefore, plant stock has become, in fact, too low for comfort and the dealer inventory also has become

lower than what our norm is because our deliveries or retail in tractor was almost 7,000 tractors more than our billing and therefore, our retail was 9,000 more than our billing for tractor also and therefore even tractor inventory has gone below the sort of what will be a normal inventory for us. So, we are both in auto and tractor pretty good shape going into the month of November in terms of dealer inventory and same thing is plant inventory also our company inventory because of some stock is in fact too low for comfort for tractor we have to build it up and auto is roughly where we want it to be.

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

Sonal Gupta: Most of my questions have been answered. Just wanted to get what is the level of financed sales in UVs and tractors, can you give that number?

Dr. Pawan Goenka: Tractor is about 90% financed, and UVs are about 80% - 85% financed.

Sonal Gupta: And just on the Bolero Power Plus what is your expectation in terms of I mean, say, by next year, what proportion of Bolero volume should be.....

Dr. Pawan Goenka: So, Bolero has three different verticals. One is what we call personal segment within Bolero. We see the personal segment will totally switch over to Bolero Power Plus. Second one is commercial segment, where we use the old DI engine that will remain with the old Bolero and the third segment is what we call Bolero Plus, not Power Plus, Bolero Plus, which is a longer Bolero, they will continue with the old Bolero. So, I cannot give you the break-up between these three. But what I can tell you, is that with time and that is let is say about six months Bolero Power Plus will be higher volume than Bolero.

Sonal Gupta: Okay. And sir, just lastly a clarification, so you said the IPS Rs. 100 crores benefit is in gross margins, right? So your raw material cost has come down to that extent, right?

V. S. Parthasarathy: Our revenue has gone up. So you already got the answer, right? It is part of revenue. I was hedging that.

Sonal Gupta: No, because your raw material cost has also come down this quarter. I mean, I know you would say that it is not correct to look at it on a quarter-on-quarter basis. But, I mean, there is clearly a drop, significant drop. So, just want to understand where is that coming from is that commodity prices or what are we seeing on that side in terms of the outlook on raw material cost side?

Dr. Pawan Goenka: I think it is a very strong function of model mix, both in the tractor side and the automotive side. Different models have different contribution margin and it is a very strong function of model mix.

V. S. Parthasarathy: But I will also just kind of add is that I want to kind of emphasize quarter-on-quarter it is not correct again.

- Dr. Pawan Goenka:** Partha, has been saying that since he was a small kid.
- V. S. Parthasarathy:** I cannot miss the opportunity to say it again. And also if you look year-on-year, both in auto and tractors the margins are comparable for this quarter. They are better by some but not a very large margin. They are similar. Gross margin, gross margin between last year and this year for tractor alone. However, the tractor proportion to the overall has changed this and therefore that model mix will strongly impact.
- Sonal Gupta:** Okay. And just last thing, you mentioned in your opening comments, 250 basis points impact because of Haridwar. I think earlier you had indicated a 100 basis points.
- V. S. Parthasarathy:** Yes, so I may have overstated on a sector basis it is that. On an overall basis, it is between 100 basis points to 150 basis point, you are right, yes so that when I mentioned, both the 100 basis points and the 250 basis points was in relation to auto sector. Good that you asked that question.
- Dr. Pawan Goenka:** Both are correct. If you look at M&M, then it is 100 basis point, if you look at auto sector...
- V. S. Parthasarathy:** Auto sector 250 basis points.
- Moderator:** Thank you. Next question is from the line of Pramod Amte from CIMB. Please go ahead.
- Pramod Amte:** Two questions, one, with regard to the GST rates, what is your guess now, different sub-segments where they will be pegged at? And do you enjoy any benefits or any disadvantages which you have will go off when the GST comes?
- Dr. Pawan Goenka:** You said with the lack of or what was the first sentence.....
- V. S. Parthasarathy:** GST.
- Dr. Pawan Goenka:** No, what is the sentence you said with the?
- Pramod Amte:** No, where does the GST slabs for your products lie?
- Dr. Pawan Goenka:** So we know some things we do not know everything yet. So let me kind of take time to explain to you what we know and also what we do not know and what we expect and what we do not know okay. So, some of it is our estimates, some of it is information. So, just give me one second. So, the standard rate for all automotive products, including commercial vehicles, two-wheelers and small cars and small UVs is 28%, okay; this 28% therefore applies to all products that in the excise scenario had 12% excise and 12% to 14% -14.5% VAT, depending on which state you are in and also subsumes all the different cess that we had, the NCCD cess, the education cess, the infrastructure cess, all of that, okay. So, if you look at that, a 28% rate for various vehicles will be within 1% - 1.5%, maybe 2% of the current excise in GST rate. And, therefore, you will not see any meaningful change happening in prices of these product that is commercial vehicles, all commercial vehicles, two-wheelers, three-wheelers and the small cars you will not see any change happening in the price of these products post GST. When I say any change, I mean any

meaningful change, some sort of final calculation will probably lead to 1% or 2% difference. When it comes to large cars which may be called luxury cars because the Government of India has talked about luxury cars attracting cess; but our understanding is luxury will be defined as anything that is not a small car in the definition of cars. So, any car which is more than four metre or more than 1.5 litre diesel engine or more than 1.2 litre petrol engine would be coming in the luxury car definition and will attract a cess. Amount of cess is not known whether there will be multiple slabs of cess or a single slab of cess is not known. Our request, when I say our, I mean SIAM's request to the Government of India, when we had a meeting with the Revenue Secretary was to have a single rate and not multiple rates because we had single rates till about two budgets ago and in the last two budgets multiple rates were introduced. So, have a single rate of cess whatever that might be, and moreover we have requested a rate of 8% cess to the Government of India. So, therefore, what happens to the overall tax on these vehicles will depend on what is the final cess rate and I do not want to guess what that rate might be. Once we know the rate, we can share with you what will be the impact on the pricing of these products. In case you are interested on electric vehicles, electric vehicles is most likely going to be 12% though, we are hoping that it becomes 5% because at 12% for some states where the VAT is zero on electric vehicles and the prices go up. For other states where VAT is 12%, the prices will come down because currently excise rate is 6% and the VAT rate varies between zero to 12.5% state-to-state. So, that is what is electric vehicles. The maximum will be 12% in my estimate and minimum could be 5%. So, that is the overall status on GST rates.

Pramod Amte:

What is the guess for tractors?

Dr. Pawan Goenka:

Tractor, my guess, it will be 12%. At 12% there is no impact on price. If it is 5% the prices will come down, if it is 18% prices will go up at 12% there will be no impact in price.

Pramod Amte:

And needed a clarification from Partha. This incentive which you are talking about is for Chakan plant. So, hence, it will sit in MVML and not for your standalone, right?

V. S. Parthasarathy:

Yes, so the way it works is that it will be, I mean it is for Chakan, first, correct. Second, it will sit in both M&M and MVML.

Dr. Pawan Goenka:

Let me just add a little more. See, the way our agreement is on this Chakan project with the government of Maharashtra is very unique because Chakan was set up as a manufacturing plant for multiple units of Mahindra and in fact at that time we had four different legal entities that were sharing this incentive and the agreement that we have with Government of Maharashtra is that Chakan, that is MVML, will collect all the incentive from the Government of Maharashtra and will pass it on to many different entities on the basis of certain formula that we have worked out that is who has made what investment because investment in Chakan for which we are getting the government incentive is coming partly from MVML partly from M&M Limited partly from MHEL and partly from what at that time was MNAL or Mahindra Navistar Truck Limited. So, all of these have contributed and all of these get a share of that incentive that gets given to Chakan or given to MVML, but gets distributed as per a formula to these various entities.

- Moderator:** Thank you. Due to time constraints, we will be able to take one last question.
- Dr. Pawan Goenka:** We have started a little bit late and today there are a lot of questions on demonetization, maybe we can go five more minutes.
- Moderator:** Sure. So, the next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Sir, one question on Bolero jump in the month of October that we have seen, is it because of the new offering or there is a genuine recovery in rural side you are seeing? Which is the bigger factor in that?
- Dr. Pawan Goenka:** Bigger I do not know but both are factors the demand for Bolero Power Plus is very high. So, I cannot guess whether if Bolero Power Plus was not there how much of the demand would have gone to Bolero and how much would have not come to us I cannot guess so it is certainly a combination of both.
- Chirag Shah:** And any updates on Ssangyong it would be helpful because we are expecting it to be PBT neutral this year so....
- Dr. Pawan Goenka:** We certainly expect it to be PBT neutral. In the first three quarters together, we are roughly 35 billion Korean Won, positive PBT which is against I think, about negative (-80) billion Won PBT last year in nine months. So, we have seen a swing of 115 billion Korean Won which translates roughly to about Rs. 700 crore swing that we have seen in the nine months. There is a special item that I should mention because if you have seen the published result of SsangYong, you will not see 35 billion Won, you would see about 20 billion Won but we had a settlement of a litigation that was in Supreme Court which has gone in the favor of Company. Therefore, the 15 billion Won of provision that we had made has been reversed and has been added to third quarter result. So, that is the reason it is 35 Won billion and given that we are 35 billion Won positive in the first three quarters and given that fourth quarter normally is a positive quarter we would certainly expect to see positive PBT in this year.
- Chirag Shah:** And how should one look at next year are there any launches lined up and we can build on from this positive PBT next year or how should one look at next year?
- Dr. Pawan Goenka:** Okay. So, I cannot tell you about the financial performance of next year but what I can tell you is that we have a very important launch that is happening next year which is a launch of a vehicle code named Y400 and this Y400 vehicle will come in the middle of the year and that vehicle will be a significant volume generator for us. It is not in a small vehicle segment it is a large vehicle so, it is not like in the order of 8,000 to 10,000 but 2,000 to 3,000 kind of volume.
- Chirag Shah:** And I presume it would be initially for domestic market?
- Dr. Pawan Goenka:** No, it will be for domestic, as well as export. Typically, we launch domestic market first and after about two months to three months we will launch in overseas markets.

Chirag Shah: And last question, if I can squeeze in, any indication on cost pressures because we have seen commodities going up on the material side how can we see the impact of that in terms of negotiations and all?

Dr. Pawan Goenka: So, for the first six months, the material cost increase and selling price increase are more or less neutral. I mean, that is more or less offsetting each other give or take some fractional percentage point difference between for both auto and tractor. So, the overall increase in commodity prices has been roughly what we had expected for the first six months. For the second six months that is second-half again, we don't see anything major changing between what we had planned and budgeted in and what is likely to happen.

Moderator: Sure. We will take the last question from the line of Deepak Jain from IDFC. Please go ahead.

Deepak Jain: Most of my questions have been answered, just two quick things. One, on the non-tractor agri business how has that being progressing? That is on non tractor agri business. And the second thing was again it is a little on demonetization. But if there is a reduction of black money and wealth does go down do you see wealth destruction impacting PV demand over a couple of months? So it goes beyond the short-term currency problem and probably slightly longer-term do you think that is a possibility, any thoughts you have on that?

V. S. Parthasarathy: Let me answer the first part. Let him think about the wealth.

Dr. Pawan Goenka: I was thinking whether I should make a light comment but this is recorded too many people listening, so I would not make a light comment.

V. S. Parthasarathy: So, first and foremost is, thanks for asking this question. I should have mentioned somewhere in the either the opening comment or this. You recall that we have spun-off all our agri into a separate company called MASL or Mahindra Agri Solutions Limited. So, all the agri revenue would either be sitting in MASL or at the listed company EPC so, from an agri point of view, okay. So, therefore, roughly about, for the quarter last year, maybe for this agri business, we had in the range of about Rs. 100 crores - Rs. 125 crores. So, therefore, that is one thing which you will find lower revenue this quarter in M&M results which will sit in the separate company MASL, okay, so that is one. Second part of the question may have been that agri, except tractor what about revenue. AppliTrac or what is called as implements so there the traction I believe, will be seen more in the second-half and that augurs well for future today, we are even keel, okay.

Dr. Pawan Goenka: So, see, we have speculated enough on effect of demonetization in the last one hour here and earlier in the press conference we had lots of questions, speculative. I think, let us just wait and see. Anything that we say right now is speculation, we relay wrong point. There are four constituents, four stakeholders that will determine the impact on our business, one of course the Company itself and for the Company, I can tell you it is zero impact, absolutely zero impact second are our financiers, where I would expect that once the initial problem of cash transaction is taken care of, there will be zero impact on financiers. The third constituents are our customers.

We have talked about that, we can only speculate what will happen and fourth are our dealers and again we can only speculate what will happen. So let us not speculate, let us wait for two weeks - three weeks then the dust will clear and we will know where we are.

V. S. Parthasarathy: A small input on this that our IR Head here is pointing out that GDP is going to go up based on all this in the long run. If GDP goes up, there is wealth creation, no wealth destruction per se. Some ill-gotten gains may there will be destruction but overall if GDP growth, wealth has to be created otherwise GDP cannot grow.

Dr. Pawan Goenka: So, let us put it this way as a final closing statement. Wealth that is being destructed was wealth that was not helping anybody in anyway.

V. S. Parthasarathy: And that is what the government is trying to push that agenda forward.

Deepak Jain: Si, I will just push that a little bit, just a little bit, I am sorry because you are the only company which is present across all the segments in the automobile space. So, if you believe that there is going to be a wealth destruction which segments do you think will be impacted the most? Would it be PV or two-wheelers, which one do you think could be impacted most, if there is? I mean, it is speculation, but based on a logical analysis which one do you think would be impacted?

V. S. Parthasarathy: Our hypothesis was there is wealth creation. So, when I am saying Brahma and Vishnu, why are you asking me to be Shiva?

Dr. Pawan Goenka: Thank you very much. You can close the call please.

Moderator: Sure, thank you very much. With that, we conclude this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.