

**TRANSCRIPT OF DR GOENKA's INTERVIEW REGARDING  
SUPREME COURT ORDER BANNING SALE OF BS-III VEHICLES**

April 03, 2017

**Q: How are you responding to the bombshell that was dropped by the Supreme Court last week? One of the sympathisers of the auto industry said that desperate time calls for desperate measures and therefore the industry should just sort of take it in their stride, your thoughts?**

A: This is a rather difficult interview for me to do because it is a very emotive subject because the highest court - the Supreme Court has given a verdict and that obviously is supreme, something that industry will abide by and has to abide by. Since the media as well as the general public to some extent holds auto industry guilty of doing something that it should not have done, while I firmly believe that the industry was right and I want to take couple of minutes to explain why I think so even though it has perhaps been talked about a few times.

The fact is that the regulation was very clear, notification was very clear that it is April 1 2017 is the date of manufacturing and not date of selling. The solicitor general has said so in no uncertain terms in the court that was the intent of the government. It has been not the first time but about eighth time that this has been done where the changeover is for manufacturing date.

There was a concern raised or perhaps even allegation made that the industry had stocked up on BS III in preparation for the switchover and will then dump BS III vehicles in the market post April 1 2017. However the data doesn't indicate that. Data is very clear submitted by the industry. In fact on February 20 2017 the stock of BS III vehicles was lower than what it was in December and therefore there is no case to be made that industry had piled up on the BS III stock.

Given all of that and given the fact that industry is completely aligned with the regulation, with the notification, to suddenly have this bombshell come on us and with all due respect to honourable court, obviously we will have to abide by it and we have abided by it, appears to be a bit unfair on the industry. What it does is that we don't know in future what is the sanctity of notifications that come out from the government of India, whether we should act according to those notifications or whether we have to look somewhere else to see what we should be doing. That is really what my anguish is.

What I feel bad about is that clearly the industry has been penalised for not doing something that they were not asked to do. At the same time industry also is being seen as having something wrong in the eyes of media and in the eyes of general public.

**Q: Could the industry have dealt with this differently, could the industry have come together perhaps in the middle of last year to try and strategise and deliberate on the way forward?**

A: Retrospect lot of things can be done different in life, it is not just about this. If you know what future is going to be, we will do many things differently. The commitment of BS IV fuel being available was from April 1 2017. So, industry could not have made an assumption that fuel will become available sooner. Therefore there was no way for us to say that we are going to start making BS IV vehicles let us say from January 1 2017. There is a process of ramping down and ramping up and the process was pretty much in place. As you can see from the BS III stock that except for one segment, everywhere else the stock was coming down sort of gradually to a level where at the end of March 2017 we would have been left with perhaps about a third of what is the normal practise for the BS III stock. Therefore there is absolutely no argument that the health of people and the quality of air is of paramount importance. Industry was ready to launch BS IV throughout the nation as far back

as April 2014. We waited for three years because the conditions were not right, because the government of India felt that it was not yet ready to implement BS IV. We could have done it in 2014 and that would have been lot more beneficial to the health of people to environment than to say that for one month we are going to put the whole industry in a tailspin where Rs 12000 crore worth of inventory is going to get sort of jeopardised and for what? For one month when we waited for three years.

**Q: Are you seeking legal opinion within your company, is there any way out? Some have mentioned that perhaps the auto industry can request the Supreme Court for a curative petition, have you been thinking about what next?**

A: There are two parts to the story. One part is what we had to do on March 30 and 31 2017, where we had to almost do a fire sale and sell as many BS III vehicles as we could at a very high discount, not just Mahindra, but the whole industry has done that. By doing so we have perhaps removed half the BS III inventory that we had as on March 29. The remaining half is still there and we are still sort of in a fix as to what to do with this remaining half.

This remaining half can either get converted to BS IV which will be at a fairly significant cost or can be exported or can be basically made into scrap. We need to see which vehicles go in which of the three buckets.

The legal options available to us at this point of time are very limited. We still do not have the final order that has been released by Supreme Court because what we have is interim order. We will take a look at it and if there is any possibility for us to request the Supreme Court to revisit the decision, we would certainly want to do that.

I hope that Supreme Court takes a lenient view because we have done our best on two days to remove as many BS III vehicles as possible from our stock and what is

remaining is vehicle built as per regulation, built as per the notification of government of India. We have not asked for a single day of leniency in terms of notification that was in place. That is why I find somewhat amazing that when we are not asking for any deviation from the regulation then why are we getting penalised so much?

**Q: Those are important words actually that the auto industry is still, you have kept the legal option open. You will of course, wait for the final Supreme Court order to take the final call. You have said that half of your BS-III inventory is still unsold and is that an M&M figure or is that an industry figure you are giving us?**

A: I do not have the industry data yet because it has been compiled today, today being the first working day after March 31. But my understanding overall is that the two-wheeler manufacturers after giving very heavy discounts as much as Rs 15,000 on a Rs 50,000-60,000 product have been able to clear most of its inventory. So, two-wheelers will be much lower than half.

My estimate is that the four-wheelers, that is passenger vehicles have done quite well in terms of clearing. But the commercial vehicles are the ones that are stuck with fairly huge inventory because commercial vehicles were BS-III in half the country almost and BS-IV in the remaining half where the passenger vehicles had converted to BS-IV in most cases even for Mahindra such as XUV, TUV, KUV, for all BS-IV, there was no BS-III at all for quite some time.

And therefore, passenger vehicles was not that much of a problem. The problem was primarily commercial vehicles and there, the industry probably will have more than half the inventory remaining whereas in passenger vehicles, less than half and two-wheeler much less than half remaining.

**Q: That means, because the industry at the start was stating that about 6.5 lakh inventory for unsold commercial vehicles that were BS-III. You are saying half. So, we are clearly looking at an inventory size of over 3,00,000 as we speak. In the statement that you have issued, you also said that there is going to be one-time material impact on M&M. Could you quantify that to us since this is the first time we are speaking with you?**

A: If we look at the total inventory that Mahindra had, it was of the order of Rs 3,000 crore\* before the court order came. We have been able to remove about half the inventory at approximately, I would say 15 percent or so of discount from normal selling price. And remaining half that we still have, we do not know yet as to what all we will have to do, what we can export, obviously, will not have much of a cost, what we have to convert to BS-IV will have a cost as little as Rs 3,000-4,000 for some three-wheeler to as much as Rs 2,00,000 for four-wheelers.

It is not simply a question of converting from BS-III to BS-IV because when you go from BS-III to BS-IV, sometimes, it is just an engine modification in which case we can do it fairly easily. But in other cases, it is an engine replacement and if it is engine replacement, it is also a chassis change, it is also a wiring harness change. So, I do not have an exact number right now, but we are doing the calculations and we are looking to see which bucket each vehicle falls in.

*\* Though in the interview a ballpark figure of Rs 3,000 crore was mentioned the actual number is worth little over Rs 2,000 crore.*

But let me say that I am still somewhat hopeful that there will be a leniency that will somehow come in because to take such a huge amount of inventory and try and sell it in two days or convert it to BS-IV is not an easy task. We also have to have a kind of continuity of regulations because I really do not know.

**Q: The only way there can be a leniency is if the industry once again takes the legal route because here despite the government's representation to the Supreme Court, the fact that the Supreme Court has still stuck to its guns, you are indicating that once the order comes out, the industry will look at the possible legal route, whatever legal remedies that there is left.**

A: Legal route can only be a review petition or a curative petition that we can file. Our lawyers, once the final order comes in will decide whether there is a case for filing that. My only submission to the Honourable Court would be that there were certain arguments that the industry had made and perhaps, those arguments were not clearly spelled out it is possible because if I read the interim order, the Honourable Court has said that the industry knew very well that by April 1, 2017 they have to stop manufacturing BS-III vehicles, that is in the order and yet, they did not take a proactive step.

So, I am a little bit confused by that because the industry has taken proactive steps. Every vehicle would have been from April 1 that is manufactured would have been BS-IV. So, the industry was fully prepared to meet the notification and we have not asked for any leniency. That is my only point. We have not asked for any leniency from the notification given. The intent of notification has also been made very clear by the solicitor general. So, I am just wondering whether industry was able to represent its case properly to the honourable court.

And if the Honourable court judges that perhaps certain important facts were not represented properly by industry and gives us a chance to represent that and perhaps take a different view.

**Q: Did the legal strategy somewhere also, could you have come up with a better legal strategy? At least that is the impression I get when you are saying this that did we do enough to present our case in front of the Supreme Court? Could the legal strategy have been better?**

A: No I do not think so because the arguments that were presented by the industry were fairly clear, fairly extensive and it is fairly straightforward. Industry did not have too many different points to be made. All that we have said is that we have followed the notification very clearly, that we have not done any build-up of inventory of BS-III. These are the only two material facts as far as the industry was concerned.

Now whether we should have taken a proactive step and started to manufacture BS-IV three months in advance and stop making BS-III three months in advance is something that in retrospect we can always talk about. But please keep in mind that inventory is not a question of first in first out. Even if I look at my inventory today 30 percent of the inventory is more than three months old. 13 percent inventory is more than one year old. So, if I really want to do a very natural reduction to zero, it will take more than three months, not one month.

And therefore, I would have had to stop making BS-III on December 31 and start making BS-IV from January 1 and then I cannot sell BS-IV because BS-IV fuel is not available throughout the nation, then what do I do? I am in a jam. So, this sort of ramping up and ramping down takes time and there has to be a little bit of overlap between when you stop manufacturing and when you stop selling.

**Q: Do you also somewhere feel that because the industry appeared as a divided house on this matter, you had companies like Bajaj Auto taking a completely different position, almost berating the auto industry for its alleged slack. That also weakened the industry when you ideally should have come and approached the Supreme Court as a united house?**

A: I would think that the honorable judges of Supreme Court will not be looking at the matter on the basis of whether one or two members of the industry which has 40 members are having a different view then the remaining 38. They have to look at what are the facts on the table and I am sure they have. I fully respect the view of the honorable judges that the health and welfare of people in terms of life of people is more important than any commercial consideration. There is no doubt about it and the industry has always supported that.

In fact BS VI happening in three years, is a huge step. In terms of cleaning the environment, no other country, no other auto industry would ever imagine that from 2017 to 2020, in three years, we will go from BS IV to BS VI. Industry has put in a way front, they are saying that yes, we are going to meet it, though it is looking very difficult but we are going to meet it. If you want to clean the environment, the BS VI switch over is a big thing. It is not the one month difference between whether we stop selling BS III on April 1, May 1, or June 1 is not the big thing.

The other thing of course is also and what is the economic sort of penalty that is coming for that difference, one cannot ignore completely is my personal view with all the due respect to all the decisions that have been made. Also, if you want to clean the environment, what about electric vehicles, electric vehicle is a big way to clean the environment. We have been very tentative about electric vehicles. Mahindra had been promoting electric vehicle for quite some time, so, there are many things that we need to do to clean the environment. I have always said that air quality is very



important, health of people is very important, but is this big enough of a delta to have such a huge impact on the industry.

**Q: There has been a lot of pre-buying happening, because of that do you see -- especially for two wheelers, even maybe for commercial vehicles the months of April and May been a bit sluggish - that is number one. If that is indeed the case, will M&M also have to relook at its production output because Tata Motors has said that they will have to go slow as far as the manufacturing of BS IV vehicles are concerned, commercial vehicles are concerned April, May which we think is because of the pre-buying, just address these two issues.**

A: The overall sale in the month of March was probably 2-4 percent more than what it would have been without the Supreme Court order. So, instead of selling perhaps 55,000 vehicles, we may have sold 58,000-59,000 vehicles. So, only to that extent, 3,000-4,000 and I am sure that it will probably be similar for all the other manufacturers, not much different. So, I don't think it is going to be a huge impact on April.

The only pre-buying that we had always expected will happen and happens in every country in the world is in the heavy commercial vehicle. Whenever there is an emission norm change, there is a pre-buying that happens in heavy commercial vehicle. So, to that extent, that segment may be somewhat slow for April-May but I won't expect it to be sort of very big impact. Therefore this whole thing that is happening is a one-time impact whether it translates to Rs 200 crore, Rs 500 crore, Rs 1,000 crore I don't know that right now for the industry and for our company. However, whatever it is, it is a one-time impact and we will be sort of in normal rhythm after couple of months.

My big concern right now is that we have already had a tremendous loss because of the fire sale that we had to do on March 31. We are still sitting on approximately

15,000 vehicles for Mahindra and we need to figure out in the next few days what to do with 15,000 vehicles. If we do find a reconsideration by the honorable court and I hope that there is some reconsideration, then our lives become easier and we move on. If not, we will have to take some very strong steps.

However, again, my concern is what happens in future. Whether every time we have this worry that even though we are following the notification, we do not know what will happen all of a sudden and that is the sort of business environment that is so uncertain that the whole idea of a smooth business transition goes out of the window and the ease of doing business goes out of the window, that is my big concern for the long term.

M&M is managing to get over this crisis and this will also get over. Yes, there will be one-time loss but three to four months from now, we will be completely out of it. However, it does get tiring after a while. Every time something new is coming up, and we do not know what battle we are going to fight tomorrow. Sometimes it is engine capacity, sometimes it is vehicle length, sometimes ground clearance, sometimes it is selling versus registering; at a point of time we have to have a stable business environment. We have to know what we are doing, what we are supposed to be doing and that is my big concern. Yes, we will get over it, but is this the right thing to happen that every time we have a new crisis and that we are fighting. Rather than trying to see how do we design and manufacture better vehicles in the future, how do we meet BS VI norms for the future, we are fighting these crisis.