“Mahindra & Mahindra Q2 FY 2018 Earnings Conference Call”

November 10, 2017

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra & Mahindra Earnings Conference Call hosted by HSBC 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. In case, 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. Yogesh Aggarwal. Thank you and over to you, Sir!

Yogesh Aggarwal: Thank You, Aman. Good Evening, Everyone, on behalf of HSBC I welcome you all for the Second Quarter FY 2018 Results Call of Mahindra & Mahindra.

First of all, a very warm welcome to the management team from the company. We are joined today by Dr. Pawan Goenka -- Managing Director, M&M; Mr. V. S. Parthasarathy -- Group CFO and Group CIO and other senior management from the company including the IR team.

I will now handover the call to Mr. Parthasarathy for his opening remarks. Partha, over to you, Sir!

V. S. Parthasarathy: Thank You. I extend a very warm welcome to everyone on this call. I will share some update on key economic environment along with financials of Q2 F2018. After my comments, Pawan will share overall performance and some specific inputs that he will give.

Let me quickly talk about some of the macroeconomic updates.

First, the world economic growth is picking up momentum. U. S. economy had a 3% growth for the second consecutive quarter and Eurozone economics confidence is highest in last 17 years. IMF recently upgraded world growth outlook by 10 bps for 2017 and 2018. This augurs well for the world economy going forward.

Rainfall at 95% of long period average. It was the second consecutive year of near normal monsoon. Further, sowing has been largely on track and higher than last five years average. Industrial growth accelerated to a nine-month high in August 2017 with a 4.3% growth.

After meager 0.9% growth in July and negative growth in June this is a good transient part for the coming months and quarter if this momentum is maintained.

Retail inflation is low at 3.28% in September and remains unchanged from revised figure of August. Overall, while 3.28% is marginally higher than the previous lows it is low overall.

The recent announcement of Union Government of Bank recapitalization to the tune of Rs. 2.1 lakh crores will be vital dose for struggling Indian economy. This will release bank from NPL log jam and will enable fresh lending. Another big booster was the Rs. 7 lakh crores investment over the next five years in creating 80,000 kilometers of roads. This will push demand for truck and construction equipment industry. This will be a booster for job creation as well.

On the back of this environment let me share financial of Q2 F2018.

Let me first start by sharing two significant items relating to current financials.

First, we have received court order for Two-Wheeler demerger with M&M and accordingly, financials of all the periods are including the Two-Wheeler financials.

For Q2 F2018, MTW, Mahindra Two Wheeler's top-line was Rs. 37 crores; PBT was negative Rs. 21 crores; and PAT was negative Rs. 12 crores.

So therefore, you will see while they are included, this quarter is not material impact on the bottom-line and top-line.

The second one is Tractor becomes taxable under the GST regime. However, the previous year's same quarter did not have any Excise Duty but has embedded input excise on the cost side. We have restated the previous year so that it becomes comparable.

Some of you who have projected numbers based on last year may have taken this revenue and forecasted. So to that extent, the current year revenue we must recognize does not include both for Auto and Tractor the GST which sits as payable.

Now let me turn to share the financials of M&M + MVML.

Domestic Tractor volumes were higher by 33% and export grew by 4% for Tractors. For domestic Auto volumes, it was higher by 13% than Auto exports were lower by 32%.

On the back of it, net revenue at Rs. 12,018 crores is higher by 19.4% versus previous year. This is the highest ever revenue of M&M + MVML.

EBITDA at Rs. 1,923 crores was higher by 35% versus previous year, revenue higher by 19.4% and EBITDA higher by 35.1%.

OPM margin at 16% higher by 190 basis points versus previous year. This is the best OPM since FY2012 and FY2012 I am referring to because that is when in the first of the merger started happening that was where we did Mahindra Renault JV, which later got merged in M&M.

PBIT Rs. 2,079 crores higher by 26% versus previous year, delivering an ROS of 16.5%, which is the highest ROS from similar period. The higher tax rate continues in Q2 F 2018 at more than 31% on account of R&D weighted deduction being lower, investment allowance of 32AC discontinued from F 2018. However, there is no reduction in the headline tax rate and therefore, the tax rate is higher.

Considering the above PAT at Rs. 1,411 crores is up by 22% against Q2 F2017. This is the highest ever quarterly profit by M&M + MVML.

So just to summarize.

Revenue at 19.4%; and PAT at 22% growth. PAT grew at higher rate than revenue. It was higher at EBITDA level where the growth was 35%.

Now coming to Auto segment. Revenue at Rs. 7,774 crores higher by 15.7% versus previous year and the segment result at Rs. 837 crores is higher by 28% in line with revenue growth of previous year. This is the highest ever segment profit and ROS margin by Auto in any quarter.

FES segment. Segment revenue are Rs. 3,958 crores which is higher by 29.9% against last year Q2. Segment result at Rs. 841 crores is higher by 38.1% versus previous year. This is the highest ever segment profit and ROS margin reported by any quarter.

Financial metrics of debt equity remained gross at 0.1 and net at 0.

Let me repeat the key financials of Q2 F2018.

Highest ever revenue and PAT, highest OPM and ROS for M&M since F2012, FES and Auto achieved highest ever quarterly PBIT and ROS margin.

With that, I would now hand over the mic to Dr. Pawan Goenka

Dr. Pawan Goenka: Thank you, Partha. I do not want to take too much time in the opening remarks. I want to leave as much time as possible for you to ask questions. But let me just say that this is perhaps one of the best quarters that we have had in a long time both in terms of our operational performance as well as financial performance.

Industry has done extremely well both Auto and Tractor. And given that this is the first quarter post GST it is also a good sign that GST has certainly not taken anything away from the business and if anything, it has helped the business in its performance.

For Tractor, the Q2 industry this quarter was the highest ever 2% higher than the previous highest total about four years ago. And we expect this year the volume for the industry to be the highest ever volume ever achieved.

For Mahindra, again, this Q2 was the highest ever volume with a 33% growth compared to last year. And in September, in fact, we had the highest ever monthly billing that we have seen in the Tractor business for Mahindra at 44,000.

For Automotive in Q2, the PV industry grew by about 13.4%. Mahindra overall volume not just the PV volume but the overall volume growth was about 13%. Mahindra has now started doing quite well in terms of market share though we are still very low in heavy commercial vehicle that is Trucks and we have grown now to about 4.2% market share and we are significantly outperforming in terms of volume growth in the industry.

Based on what has happened to the Tractor industry, YTD October, we are upping our industry estimate for this year, which was 10% to 12% last quarter to 12% to 14% now. The industry has grown about 15% -15.5% YTD October and we think it will end the year at about between 12% and 14%, as I said.

For the Auto industry, we expect the Passenger Vehicle segment which is right now at about 7% - 8% growth to end in double-digit for the first time after many years at about 10%-plus growth.

Good growth in LCV segment for the industry and medium and heavy commercial vehicle segment should be just about even because the first quarter you recall, was very bad. We have caught up with the first quarter now and the second quarter has made up for the loss in first quarter for the industry.

Exports were somewhat subdued for us. Tractor had a reasonably good growth of 8% for the half but automotive had a de-growth of 32%. This is primarily because of the two largest markets that we have, Nepal and Sri Lanka. In Nepal, there is a problem in terms of financing overall in the country. And in Sri Lanka, there is a problem because of regulation changes that has significantly increased the duties.

For the Auto business and Tractor business both we have significant new launches happening over the next 12 months. In Auto, we will have three refreshes launched over this quarter and next quarter and the big one for U321 and S201 will be launched within the next year.

For the Tractor, we have at least one brand new platform that will be launched. We have launched a driverless tractor Phase-I that will happen before the end of financial year and we have several variants that we will be launched in Tractor during this year.

On the inventory side, we are doing quite well. In fact, end of September is not a good time to look because we always build up inventory for the festive season. But end of October, for Tractor we believe that we have, perhaps the lowest in the industry and lower than the normal average that we would have for dealer inventory in Tractors. And for Automotive, we are roughly where we would want to be at the end of October having significantly down stocked during the month of October.

Material cost increase has been about what we had expected roughly about 2% to 2.5% increase in material prices for Tractor side and about 1% for Auto side. The Tractor side had more because of tyres and casting which is a very large part of overall tractor material basket. We have taken price increases to offset in the Auto somewhat lagging in the Tractor which we will be making up during this quarter.

What I wanted to spend a couple of minutes on is our sort of confidence going forward the tailwinds that we see in our business and why we think that the performance that we have had in Q1 - Q2 this year should continue for us. This is not a forward-looking statement. I am just giving you the landscape of where we see the industry and where we see Mahindra in the industry.

Basically, first of all, as I look at all the macroeconomic environment is very conducive to growth. Yes, there are some concerns on GDP growth but general feeling is that this should not really have a major impact on the Automotive and Tractor because but there are many other factors that are in favor of supporting Automotive and Tractor growth. There is positive sentiment in urban area. Rural area, we have had very good retail growth in Automotive last quarter 24% growth with two consecutive good monsoon that we have had than normally, third year becomes monsoon proof.

Therefore, even though there is no forecast for monsoon for next year but normally, after two good years, third year should not be a concern even if the monsoon is somewhat deficient though we have no reason to believe it will be right now.

The thrust that the Government has on rural infrastructure boards very well for our businesses. The Bharatmala scheme should do wonders for Tractor industry as well as Automotive industry because a lot of Automotive sales happen in the infrastructure sector. And availability finance is not an issue at all. GST implementation gone smoothly, and GST has not increased prices for either automotive or tractor products that we have.

And if I look at Mahindra in that context, we have now a very strong portfolio in UVs. We have the KUV100 NXT that we will launch just before Diwali. We have some variance of TUV300 that we have done. Bolero, Scorpio and XUV500 doing very well. And we have three more refreshes happening in the next four months to five months and we have two launches happening in the next one year.

On the Commercial Vehicle side, the Jeeto, BMT pick-up all are doing well. In fact, both these products are running full capacity and we are right now adding capacity for these products. Blazo for Truck is doing very well. Of course, the Truck industry is still suffering from very high discounting. But at least in terms of volume, we are doing very well. On Tractor side, Jivo, Yuvo, Novo, all the three product that we have launched in the last two years doing very well.

Then we look at the businesses where we were losing money. There is Mahindra Two-Wheeler and now after demerger, the losses from Mahindra Two-Wheeler has come down to a very small number. In fact, this quarter, we had a PAT loss of Rs. 12 crores. PAT loss of only Rs. 12 crores coming from Mahindra Two-Wheeler. And in Mahindra Truck and Bus also though it is not separately presented the losses have come down significantly from the previous losses.

We are investing in next gen technology. BS-VI we see no concern right now in meeting the April first manufacturing time line. Of course, if there is any kind of change that happens in that that will be a concern. But as defined right now by the Government of India, we will be ready for it. We are ready with all the safety requirements.

Electric Vehicle, of course, is an area where we are on the forefront and there is a lot of interest in Electric Vehicles right now. And all the globalization stuff that we have done for tractor especially, the Mitsubishi Agricultural Machinery and the Turkey acquisitions and the Sampo acquisition all are doing what we had expected them to do.

And of course, we always have a focus on operational efficiency, controlling inventory, no issue anywhere, debtors, creditors no issue anywhere, working capital, well managed, material cost well managed. And therefore, overall, the picture that I am trying to paint for you is both the industry side and within the industry how Mahindra is, we remain very optimistic about the short-term as we go into third quarter and fourth quarter.

I will stop there and open up for any questions. I have not covered other businesses. We will do that depending on the questions that you ask.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Firstly, I wanted to check what is the key driver for margin expansion and how sustainable do you think that is?

Dr. Pawan Goenka: Well, one of the things that I would like to say is that we did not carry anything into this quarter from previous quarters. That means everything that was a GST impact, onetime GST impact we took care of in quarter one of last year. Everything that was a BS-III - BS-IV impact we took care of in quarter four of previous financial year so there is nothing that we carried into this year. And all the stuff that we have been doing in terms of operational efficiency has certainly worked to our favour. And if you look at model mix because obviously certain models are more profitable than others if you look at model mix, the model mix has been favourable. In case of Auto, we have passed on all the material cost increase in the pricing and therefore, that is not a concern and there was no loss of margin because of GST. And if we add-up everything together then it is a recipe for good operating margin where it will remain so in future, we never answer that question. We always strive to try and maintain the margin but would never be able to say or never will say that we will manage or not manage.

V. S. Parthasarathy: So let me just add a couple of points to what Pawan has said. First is another way to ask us is there any onetime in this quarter and the answer is no. For previous year, that has been onetime benefit, which makes the performance even better. For taking Q2 of F 2018, there is no one time. The second thing that I wanted to say that you could see each line item as you will see from

M&M + MVML financial figures that you have at stock exchange which we filed so that will show that each of the cost lines have increased. However, because of a higher revenue increase, all the productivity activity in cost appeared. So this is one of the things that in a sense we have been languishing in a particular segment of India Inc. because the revenue has not been very high growth. Now when you see the revenue growth, you see the productivity improvement in the line item. The third is that Auto sector if you see the segment results, you will see a very good set of numbers and that has things because the power brand continues to do well and it did really well in the current quarter and that has led to expansion in the Auto margins just by share mix impact.

Dr. Pawan Goenka: And finally, as we have said in the past that we do not go after volume at any cost and therefore, we do remain to how much of customer incentive we will give to generate sales. And that is worked well for us in terms of getting financial performance.

Kapil Singh: Okay. Especially on raw material costs, I mean, do we see any cost pressures going ahead?

Dr. Pawan Goenka: Well, the raw material prices are expected to increase at the same pace that they have increased in the first-half. And right now, we do believe that we have the ability to pass on that increase in our pricing. Of course, a lot of it depends on what competitors do and if neither competitor decide not to pass on then we also have to react. But right now, our view is that we will be able to pass on the commodity pricing increase in the pricing.

Kapil Singh: And sir, one question was on the volume side. We have seen very good performance on volume front in both the sectors but especially UV sector, where we were struggling a bit. So anything we are doing differently or is it the market conditions which have become much better? Added to that, if you can add some comments on KUV as well because we brought out a new variant, so what are the major changes that you think here can work which were not working earlier?

Dr. Pawan Goenka: First of all, thank you for observing that because we have always been struggling to kind of tell you that we should not be overly concerned about UVs. So basically, what we have been saying for the last couple of quarters that KUV and TUV had a slow start and we have been saying that now we see uptick happening and basically, that is what it is. In addition to doing well in our what we call power brands, Bolero, Scorpio and XUV500 we started seeing positive traction on both TUV300 and KUV100 and that is adding to our UV volumes and that there is no other magic that is what it is these two products when they start firing then clearly we have a very good set of products. Because our product portfolio is very rich, and we have four out of six performing very well and two are starting to perform well. The KUV100 NXT launch that we did so far, feedback that we have gotten in terms of how they like the product, it is being very positive. We launched just few days before Diwali and so did not catch the Diwali season much. But now we are beginning to see the sort of churn happening in terms of inquiries and retail. So, end of November, end of December would be a good test of how the refresh launch has gone. But our feel right now is that it is gone well and therefore, should give us good numbers.

Kapil Singh: What are the major changes?

V. S. Parthasarathy: Just one minute, just we can answer the thing about KUV…

Kapil Singh: What are the major changes.

Dr. Pawan Goenka: We have launched the product, we have talked about 40 changes that we have done to KUV. So obviously, I do not have time to go through the 40 here but it generally include exterior styling, interior styling, performance, NVH, fuel efficiency, seating comfort, everything. So all the input that we had from the initial launch where we had to correct some gaps or add some new things we have done. We have very good infotainment system, a good screen in this price band to have that kind of screen is not very common. So overall, it is become a very good attractive package and most people appreciated the styling change, the design changes that we have done. So we think that we have a very good package and also very attractively priced and therefore, should give us some good volume.

V. S. Parthasarathy: I am going to answer one thing because it is an important point you raised and I thought, while I mentioned on a broad basis, the margins part of the expansion also comes the way revenue is recognized. In FES, like I told you, last year, the revenue embeds input tax. So if you see, roughly 7% of the revenue is impacted. So last year's impact is Rs. 180 crores and just fast-forward to this year and take a multiple of 17% growth, Rs. 220 crores. When you reduce the revenue, but the gross margin and profits remain same the percentage goes up. So, keep that in thing which is why I have reached it at the previous year. But if you go back and see the previous year figure the margins will be a little lower than what I have shown for the previous year. So, keep that in mind. Part of this has come by the numerator denominator impact, okay?

Moderator: Thank you. We have the next question from the line of Raghunandhan from Emkay Global. Please go ahead.

Raghunandhan: Just continuing on the KUV part. For the first-half of the year, the monthly run rate was closer 1,600 vehicles whereas I think, in October it has gone up to 4,000 vehicles. So just wanted to understand how do you see the numbers spanning ahead in coming months.

Dr. Pawan Goenka: See, it is difficult to forecast. October, what you see 4,000 is because we were sort of withdrawing the product in the month of September and filling that channel in October. What I would like to say is that we would ramp up to about 4,000 consistent volume and if you get to that volume that I will consider to be good volume for KUV100.

Raghunandhan: And sir, for the last quarter, can you give your comments on what was the growth during the festive season, Navaratri to Navaratri or Diwali to Diwali and also a bit colour on the rural urban demand you said in the initial commentary that it was a 24% growth in rural.

Dr. Pawan Goenka: So on the Tractor side, when I said festive I cannot give you Navaratri or Diwali. But what I can give you is September - October combined. For September - October combined more or less is a good comparison of last year festive season and this year festive season. Let me just talk about Mahindra growth. Mahindra growth during this time combined together both Mahindra Swaraj brand of Tractor is about 14.2%. And for Automotive, the growth is for September - October together. I will come back to you on the Automotive. I think, it is about 7%, 8%, right? I think for UV, it is about 7% - 8%. September - October together and for the festive months UV growth is about 8% for us; for LCV, about 7%; for trucks 96%; and for LCV about 18%. Overall, domestic growth overall is about 9%.

Raghunandhan: Thank you, sir for the Two-Wheeler business, can you share details of the fixed assets and the current assets?

Dr. Pawan Goenka: Details on what?

Raghunandhan: The gross block and the working capital.

V. S. Parthasarathy: So can I suggest something that because this is the first time the merger has happend, this may be an interesting one. So like I gave you the top-line is Rs. 37 crores. PBT is minus Rs. 21 crores and PAT is minus Rs. 12 crores. Asset side, I can give you offline but it is not a material change to this thing but we will give you.

Dr. Pawan Goenka: Yes, we had done some impairment last year and therefore, the number

Moderator: Thank you. We have the next question from the line of Pramod Amthe from CIMB. Please go ahead.

Pramod Amthe: One, with regard to Two-Wheeler some clarification you have issued some shares. Can you quantify the reason for the same?

Dr. Pawan Goenka: This is a swap that we had done with the shareholders and it is as per the demerger scheme.

Pramod Amthe: And you will be holding in treasury or you are giving to a third party?

V. S. Parthasarathy: No, no. This is Two-Wheeler there was a private equity which is called Samena Capital when the merger happened, we cannot issue share to ourselves. So to that extent, our own company held, we canceled the shares, only to Samena we have issued shares. There are two people I mean, Samena the biggest one but there is ICICI also. Both of them were issued shares, yes.

Pramod Amthe: Okay. And with regard to EV business, you were talking about making big investments to go forward with the new products and all. But especially with the last month Government order not coming through. How do you see the challenge and especially with globally also government policies and Government is driving the big thing in EVs. Is that a setback? How will you be looking at the future contracts or the same?

Dr. Pawan Goenka: What do you mean by Government order not coming through?

Pramod Amthe: In the sense, the large part has gone to the competitor as compared to you.

Dr. Pawan Goenka: No. So let me sort of address this question, as there is clearly some sort of misconception here. As far the EESL order is concerned, first of all the total order in two phases, Phase-I and Phase-II was for 10,000 vehicles. We were L2 in the bidding and as per the tender condition, L2 was given an opportunity to match the L1 and get the 30% of the order which we have done and therefore, we have an order of 150 out of 500 in Phase-I. If we were L1, we would have gotten 250. So the difference is not very large and even as L2, we had an opportunity to bid for 250 because L1 had bid only for 250 and therefore, if we wanted to we could have gotten 250, okay? Now for Phase-II 9,500 vehicles, L1 will be given 4,750 and we will be given an opportunity to match L1 to get order for as much as 4,750, okay? And therefore, we certainly are in the race to fulfill the EESL order roughly at the same level in terms of volume as the L1 bid. Now as far as our investment is concerned, this has no impact whatsoever on the investment plans that we have talked about before. We have talked about investing approximately Rs. 600 crores in technology and component development for Electric Vehicles and some more money in terms of product development which we have not talked about. We have our firm plans which have not changed the last two months to three months on what all we will be doing. We will be setting up a battery plant, not a cell plant, a battery plant. We will buy a cell from outside India. We will be assembling cells to make modules and battery pack. We will be setting our plant for motor and joint venture with a party from outside India. We will be setting up a plant for power electronics. Again, a joint venture with a party from outside India and we will be setting a plant for transmission. So the four things that go into Electric Vehicle power electronics, transmission, motor and battery. All four we will be making in-house and supply to Mahindra & Mahindra who will make the vehicle and this is Mahindra Electric that will set up this plant to supply to Mahindra & Mahindra to make the vehicle and anybody else wants to buy from us any of these components. Mahindra Electric in a sense is the supplier of electric technology and components and Mahindra & Mahindra is the maker of the vehicle. So that plan is intact, no change in that plan and we are currently working on many other avenues other than the current Government order and we have sales happening in Bangalore, in Delhi, in Pune, in Mumbai and Nagpur and we have more than 3,000 vehicles on the road. We have covered Rs. 4.5 crores or 45 million kilometres in India with our Electric Vehicles. So nothing that has happened in the last few months has had any negative impact on our Electric Vehicle plans. And we are as optimistic, as aggressive about this as we have been for the last five years - six years.

Pramod Amthe: Thanks for the detailed clarification. Just a follow-up. In that case, would your investment be going up as compared to what you planned earlier? And second, what is your take on the profitability because the L1 guy has bid very aggressively on the pricing front?

Dr. Pawan Goenka: No, the investment that we had talked about had covered this kind of buying from Government of India and we have talked about investment to get to a capacity of 5,000 vehicles per month and that is where we are at right now 5,000 vehicles per month. But if you see the demand going beyond 5,000 we will be happy to invest more. But right now, we are not committing to more than 5,000 a month. 5,000 itself is a bit of a leap of faith because other than this one large order, there is no specific demand that we see on the ground today. So we are assuming the demand will grow as time goes on. As far as profitability is concerned we had mentioned that to match the L1 bidder for these 150 vehicles, our contribution will be Rs. 3 crores less than what we had in our bid and we had said that Phase-II bid will depend on what we are be able to do to the costing of these vehicles. We are working on that right now. I think, Phase-II opportunity for us is still is about a month away when we will be invited to match the L1 price. And at that time, depending on how much progress we have made in **on** pricing for these vehicles we will decide how much to bid for or how many vehicles to bid for.

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

Jinesh Gandhi: Just to follow up on the previous question. When you had bid with the original pricing, was that pricing PAT positive?

Dr. Pawan Goenka: Electric Vehicle pricing right now cannot be PAT positive. This is a growing segment, a lot of investment in technology that happens and if you put all the technology investment into the sales that we have right now, clearly it comes to PAT positive. There is a lot of investment being done looking at future growth potential of this segment. As we look at Phase-II, if we look at Phase-II I mean, Phase-I was basically matching L1 and now Phase-II because we had only few days to decide Phase-II is where now we have done a lot of work since that time and Phase-II is where will take a decision on the basis of wanting to be cash positive.

Jinesh Gandhi: Okay. Second question pertains to how has market reacted to Scorpio hybrid post-GST, given that there is been increase in GST and we have partly passed it on or fully passed it on?

Dr. Pawan Goenka: On Scorpio yes, so we have taken the price up and as you can see from growth of Scorpio in this quarter that our sales have been pretty good and September month was the highest ever monthly sale for Scorpio since June 2002. So customer have probably understood that yes, without the government incentive for hybrid they will have to pay the full GST on it, and that is what we have done.

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

Amyn Pirani: Firstly, one clarification. You have restated both the parent as well as MVML for the Two-Wheeler as well as Tractor GST accounting?

V. S. Parthasarathy: Yes. Absolutely correct. So our Two-Wheeler this year it includes the figures previous year also includes Two Wheeler figures, okay. So for example, when you see the higher depreciation figure in the previous year the higher depreciation comes is because there is an impairment of

Rs. 77 crores of Two-Wheeler which was there last year which we have taken into the expense line, okay so it is restated. As far as the GST is concerned, this time like I told you it is net price plus payables which is GST will be a payable. So it is not coming to revenue. Previous year embedded takes to that extent, I have restated previous year numbers, okay?

Amyn Pirani: Okay. And sir, just on the launches on the automotive side I think as per the initial guidance you were supposed to see the MPV launch this year and the Indian version of the Tivoli next year. So is there any change in the time lines? I mean, are we having both of them next year now?

Dr. Pawan Goenka: So we still have 4 and half months to go this year so you will have to wait and see. And S201, as we have said is on that time line.

Amyn Pirani: Okay. And sir just lastly, on the Tractor side, I mean, as you mentioned FY 2018 will be the highest year. So looking into next year whether we have a normal monsoon or not I mean, could we have like a flat to slightly negative year because now we will already recovered from the last cycle? How would you look at it?

Dr. Pawan Goenka: I do not think so because the peak was in FY 2014, okay? So this year, we would be ending at maybe 4% or 5% higher than the FY 2014 peak. So, if I was to look at CAGR of 2014, 2015, 2016, 2017, 2018 five years, the CAGR of the last five years would be less than 1%. And therefore, we cannot say that it is a situation of demand. We should continue to see good growth, unless it is obviously very terrible monsoon, but even if it is somewhat deficient, we should see good growth. And if I was to look at longer-term a little bit and do a projection of where Tractor industry would saturate too which is a question that often comes in minds of everyone including our own mind as to how long will this growth continue? Our view is that the industry should saturate at somewhere between 12 lakhs to 13 lakhs and right now, we are at about 6.5 lakhs. That means the industry should double and if we are growing at about 8%, it will take around eight years to nine years before we reach that level of 12 lakhs to 13 lakhs Tractor sales. After that, it will be replacement demand only which means the growth will come down to 3% - 4%. But at least for eight years - nine years, we do think that there is a good potential to grow at an average 8%-9%.

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

Chirag Shah: Sir, just one question on the UV front. On the crossover type of models, do you think that now that we are getting our act together, we may not necessarily need that kind of model and a market share we can at least start gaining market share based on our existing portfolio? Or a crossover type model would be a required addition to that portfolio?

Dr. Pawan Goenka: When you say crossover type model, what do you mean?

Chirag Shah: See, most of the UVs that are out there be it like Cretas or Brezzas are most of the latest UVs are not traditional UVs. They are soft roaders that means they are soft roaders, if not crossovers.

Dr. Pawan Goenka: Yes, so basically, we already have two products in that at the two ends XUV500 is a crossover. And though it is probably more tending towards SUV sort of stance, but it is a crossover. It is not on a frame, it is a monocoque vehicle and KUV100 is a crossover, clearly. And S201 will be a crossover. So we would have three vehicles in our portfolio a 3.6-meter, roughly about a 4 meter and roughly about a 4.6 meter which will be on the crossover platform. So we would have as much of a crossover portfolio as anyone else. In addition to having our frame portfolio of Bolero, Scorpio of the MPV that we will launch and these three products basically.

Chirag Shah: And sir, just a bit on the rollout of petrol engines for various UVs that you had indicated?

Dr. Pawan Goenka: No change. The timeline that I have talked about in the past, the same timeline stays. The KUV is already with a petrol engine. We will continue to enhance that engine as time goes on. The S201 will be launched with a petrol engine along with a diesel engine and we will be bringing in petrol engine on all products starting 2000 when we launch the BS-VI product, we will have petrol on every product.

Chirag Shah: And sir, last clarification on the commodity cost. So you indicated that Q2 has seen some commodity cost pressure, is that right?

Dr. Pawan Goenka: No. What I have indicated is that yes, there has been about 2.5% increase point to point in commodity prices for tractor and about a 1% increase point to point for automotive. In automotive, we have passed on the complete increase in the pricing. In tractor, we are slightly behind and we will be catching up on that and hopefully, by end of this quarter, we would have passed on the full price increase in tractor also.

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

Sonal Gupta: Sir, what is the price increase in this quarter?

Dr. Pawan Goenka: In Q2, we have taken 1.5% increase in Automotive; and we have taken 1.7% increase in Tractor.

Sonal Gupta: Okay. And just actually going back to even again, the petrol diesel question, are we going for the gasoline direct injection….. I can understand for the larger vehicles, so you can still stick with probably diesel. But say for products like the TUVs, etc., as we get I mean, after this year we are like two years left. I mean, are you looking at gasoline direct injection? And when do we see the launch for the petrol engine for TUVs?

Dr. Pawan Goenka: I will not want to be very specific on the details of technology in gasoline engine. But all I want to tell you is, we will have different options in gasoline, including MPFI, including just turbo and including GDI.

Sonal Gupta: Okay. And the target on this is like by the time the BS-VI will be launched?

Dr. Pawan Goenka: Yes. By the time BS-VI comes all the vehicles will have petrol as an option and even before that, some vehicle will start getting petrol. But by the time BS-VI comes, everything will be petrol, everything will have petrol option.

Moderator: Thank you. We have the next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir, on the auto margin, the entire margin improvement is just coming to the volume improvement in Bolero and Scorpio? Or is there also additional contribution from reducing losses at MTB and the LCV business?

Dr. Pawan Goenka: Okay. Before we answer that question, let me since there is so much question in petrol engine, let me say a little bit more on petrol. We will basically have three petrol engines in our portfolio. I am not counting on the sub-1 litre which will go on the smaller commercial vehicle, I am not counting on that. For our passenger vehicle, we will have three petrol engines. This we have talked about in the past, so nothing new but just summarizing 1.2 liter engine which is currently in KUV100. Right now, what we have is not naturally aspirated engine we will have with time turbocharged and GDI both on the 1.2 litre and decide which version goes on which vehicle. We may decide that sometimes we will have both GDI and MPFI in higher and lower variant. But the GDI, of course, costs more money so we will have 1.2. Similarly, we will have a 1.5 which again will have a GDI version and an MPFI version. And this engine will be is a common engine with SsangYong, developed jointly by Mahindra and SsangYong and will be co-owned by Mahindra and SsangYong. And then, we will have a 2-litre engine which will be a brand-new engine and that will then also will be a GDI as well as MPFI. And therefore, we would have three displacements 1.2, 1.5 and 2 and we will have two or three variants MPFI, turbo, non-turbo and GDI. So that will give us a complete range of petrol engine and all of these will be brand new engine. The 2 litre is under development right now, 1.5 is under development right now and 1.2 was launched just two years ago. So we will have a completely new portfolio of gasoline engines by 2020 and meeting of course BS-VI emission norms. Now coming back to the profit improvement that you talked about, it is a combination of things. I do not know Partha how much light you want to shed on it but it is a combination of things. It is not just volume, it is not just cost everything together is leading to it.

V. S. Parthasarathy: Yes, so two or three things actually very clearly. One is, mix is positive so it is a combination of the mix that is coming and this quarter, the Power brands which is also very significant contributors have been on the forefront and what we told that it seems part of it is also the rural story coming to play and part of the story is overall the festive season has been very good even at both Bharat and India. The second part is that you are right, some portion of it has to come because MTB is improving contribution and this is a story we said it will play out. There may be a small improvement every quarter that you could see, and you have seen that in this quarter. The third one is our cost. It will be our always be our focus we know that it is an industry where we have to be competitive. So cost reduction, which is VAV has been a very integral part of our story. So all of them when the revenue growth is high all of this is accentuated positively which is why I made the point and that is where it has come to play. And if you are looking at EBITDA margin please understand that let us say personnel costs it is increased by 6% but revenue has increased by 18% so there is a huge productivity increase. If the overall other expenses as we call it our other expenses have increased by 11% - 12% revenue again has increased so the productivity and so on. And depreciation other and Two Wheelers is flat year-on-year which is what we expected. Again, revenue growth means percentage comes from broadly, that is how you should look at it.

Moderator: Thank you. The next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.

Jatin Chawla: We saw the newsflash on you investing in the U. S. for a new plant. So I just wanted some details or thoughts on that. Will be it be SsangYong vehicles, Mahindra vehicles or what are the plans there?

Dr. Pawan Goenka: So the announcement formally will be made on 20th November in a ceremony in Detroit so I do not want to take the thunder away from that. But basically, this plant is a plant for making off-road vehicle, not UVs and SUVs as we know it. These are special vehicles in the U. S., a different category of vehicles that are used only off-road for the purpose of recreation, for the purpose of farming, for the purpose of just basically hunting and stuff like that, okay? These are not on-road vehicles. So this is a special vehicle that we have designed for U. S. to be sold only in U. S., which we will be made in this plant, okay? This plant is not designed with the aim of either supplying the USPS vehicle that is United States Postal Service contract that as you know, we are bidding for, nor for SsangYong. If those two things happen then we will have a different plan for it. USPS will require a much larger plant than what this plant is and SsangYong will most likely be a CBU. We are yet to decide but that plan is still four years away. So this is not meant for that investment details, volumes, product, all of these will be announced on 20th November.

Jatin Chawla: Okay. Second question, if you can just comment on the SsangYong performance because we had a great quarter on in the domestic Autos business but on the consol level the Autos numbers are not looking that great I guess that will really be on SsangYong. So if you could just share some details on that?

Dr. Pawan Goenka: Yes. So SsangYong has had a difficult quarter, this quarter. So overall, we have had a good volume growth in domestic. So domestic performance continued to do well G4 Rexton that we had launched in May, started selling in May, that is doing well in domestic market. That we have not yet started selling in export market where we have suffered is in export de-growth, which has de-grown in third quarter by about 28% and same de-growth actually for the whole nine months of the year about 29% de-growth and therefore, overall, there is a volume de-growth of 2.2% for third quarter and 4.5% overall for nine months, leading to a PBT loss of Rs. 102 crores translated using conversion rate Rs. 102 crores for this quarter Q3. But if we were to look at the EBITDA level, EBITDA level is same as last year. That is if you do not count the onetime licensing fee that Mahindra had given to SsangYong for the S201 platform, the EBITDA level performance is same. The reason in spite of the volume is slightly lower the reason that PBT is large negative is twofold one is what you saw in licensing fee not happening this year and second one is in currency exchange because export is clearly the significant part of the overall revenue approximately about 30%. And therefore, the KRW being somewhat stronger this year than it was last year has also led to a loss at the PBT level. So we need to work on improving our export performance and we hope that the Korean Won comes back to the level that it was a year before. Now, as I also say that we are looking at potential of G4 Rexton coming to India and if that happens, that obviously will bring some revenue and one-time fee to SsangYong which will help in the P&L and we are also looking at some other licensing that we could be doing from SsangYong, if any of these become reality then that will definitely help in the P&L. So basically, the bottom-line summary is that at the EBITDA level, performance is similar to last year. At the volume level, a small drop from last year and the PBT level, a big swing from last year because of the onetime and the currency exchange rate.

Moderator: Thank you. We have the next question from the line of Bharat Sheth from Quest Investment Advisor. Please go ahead.

Bharat Sheth: Sir, on this refreshing of this KUV you said**,** what exactly are we doing that so you can tell anyone we have launch a product and we do not have come out with the refresh so from the day one it starts picking up the way you want?

Dr. Pawan Goenka: For that answer, you will have to come and work for Mahindra & Mahindra. You will not get it as an analyst.

Bharat Sheth: No, what exactly we are doing?

Dr. Pawan Goenka: I cannot. I cannot be saying that on a call on what exactly are we doing.

Bharat Sheth: Okay. And second thing, sir, I mean, we are looking for farm machinery internationally growing that business by 2020, so what is your sense and can you do the colour how it is panning out?

Dr. Pawan Goenka: Yes, so farm machinery, that is, farm equipment minus Tractor is a very large segment. In fact, overall globally it is even bigger than the Tractor segment where we have had almost negligible presence. So we are focusing quite heavily on that segment because we see that as a big growth area for us. So in India, we have implements business and that had a good growth this year. We have grown about 30% from last year but it still amounts for a very small number. We will probably end up at about Rs. 250 crores revenue in that business this year. But we are looking at international growth in that Hisarlar is a company that we have bought in Turkey primarily with a view of growing the implements business. The Sampo is a company that we have bought 1.5 years ago in Finland again, looking primarily at the growth in harvester area and Mitsubishi Agricultural Machinery also had a very strong presence in rice transplanter and rice harvester. So these three acquisitions have been done with a view to growing our implements business or mechanization business and then we are doing a lot of R&D work on developing new implements for India as well as global markets. And we will therefore, see a lot activity on growth happening in this segment.

Bharat Sheth: So what is our inspiration and what is the current size and over the next two years, three years where do we like to see this business?

Dr. Pawan Goenka: Well, I told you the current size in India Rs. 250 crores revenue likely this year, Sampo by itself is about Rs. 170 crores. Sampo, for the half was about Rs. 190 crores and Hisarlar for the half was about Rs. 100 crores and Mitsubishi Agricultural Machinery has this embedded in it, so I cannot separate out the implements and tractor. But overall, you can count the numbers maybe about Rs. 700 crores - Rs. 800 - Rs. 1000 crores this year. And an area where we have strong growth presence, I cannot give you a forecast for what might happen in two years - three years.

V. S. Parthasarathy: I will ask the question differently you talked about some businesses which is billion dollar and so aspirationally, is it a big bet and you would think so?

Dr. Pawan Goenka: Yes. So some time ago, we had talked about four or five businesses that we are growing which will become a billion dollar businesses for us in times to come and times to come, meaning, next four years - five years maybe six years. There, if I recall correctly we had our agriculture business where we have sell as separate entity which is growing through both organic and inorganic and we are on a path to get to a billion dollar in about five years - six years there. We have the Mahindra U. S. tractor business, which has now grown to $600 million. That will be $100 billion business for us. Third is our Powerol business where we have grown to about Rs. 1,200 crores this year and we will continue to grow in that business and we have a lot of new things happening. We could have almost a full call on what is happening with Powerol and the fourth one is on the implements business where we are, right now this year we will probably total to about Rs. 1,000 crores that again, has a potential to becoming $1 billion business. So these are the four or five things that we have talked about as potential billion dollar business.

V. S. Parthasarathy: I mean, we are still looking at the same way that is all I just wanted to add. Last question please.

Moderator: Thank you. Yes, next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Sir, it would be helpful if you could throw some light on the alliance that you have formed with Ford recently like when you will be start seeing the benefits of the alliance?

Dr. Pawan Goenka: There is not that much more to say on it than what we have announced on the day we announced the alliance. We have talked about eight areas or nine areas that we are working on together to explore how we can cooperate which includes mobility, which includes connectivity in connected car, which includes electric cars, includes development technology, includes sourcing, includes distribution, includes global distribution. And each of these areas we have teams working to it right now to explore where are the common areas of cooperation. The big sort of tangible benefit will come in product development and in sourcing if able to find that by working together we can reduce cost per development and if we can improve on sourcing cost that is where the big bang will be. Also, we are fully aligned in terms of how we see the future of mobility, how we see the focus on Electric Vehicles, how we see focus for mobility. And therefore, there is a lot of good work happening in terms of understanding the direction that we have and then deciding on where we will work together and in what manner.

Srinath Krishnan: So the benefits of which is start flowing two-three years down the line.

Dr. Pawan Goenka: I would think so. But again, it is too early to say because right now, we are exploring.

V. S. Parthasarathy: What Pawan is saying, watch this space.

Moderator: Thank you. Thank you. Ladies and gentlemen, that was the last question.

Dr. Pawan Goenka: Before you wrap up, I just want to take a couple of minutes on Electric Vehicle because, again, there were a lot of questions on it. I want to give a little bit of a holistic answer to it so that you understand the whole thing I have given you part of the answer while answering the questions that were asked earlier. I just want to say that in Electric Vehicles, we are going to be participating in the full range from Three-Wheeler to Buses. So in Three Wheeler we have already launched a lead acid battery – e-Alfa, in Delhi which started selling in the month of October. And we are currently finalizing our lithium-ion Three-Wheeler and e-Rickshaw both which we hope to launch in the fourth quarter of this financial year. We are working on Buses right now, and these Buses will probably be ready in about a year's time to be launched but we might do some pilot batch sooner than that. We are working on a small commercial vehicle. We already have something called eSupro that is plying in Delhi in delivery service and plying in Himachal Pradesh in carrying passengers because eSupro can carry seven passengers. And we have our e-Verito and e2o Plus. e-Verito is part of the EESL order and also a lot of other fleet order that is happening with e-Verito and e2o Plus is again going into an Ola project that we have in Nagpur and many other mobility products that we are working on right now will have that. We have finalized the long-term sourcing contract for our lithium-ion cells which is the most expensive part of Electric Vehicle and with that, we would expect to see a potential cost reduction going into the future and basically, the large cost in Electric Vehicles is in cells which currently is priced anywhere between $200 per kilowatt hour to $230 per kilowatt hour which we expect to go down to about $120 per kilowatt hour - $125 per kilowatt hour in two years to three years' time. And that is where the big savings will come and that is what will make electric vehicles more affordable. So this is I just wanted to give a little bit more of a complete picture on what we are doing in Electric Vehicle and even we will be doing partnerships in many of these areas and some of these we will be doing organically.

Moderator: Thank you. Ladies and Gentlemen, with that, I hand the conference over to Mr. Yogesh Aggarwal for closing comments. Thank you, and over to you, sir!

Yogesh Aggarwal: Well, thank you so much, everyone for joining the call. And thank you, Mahindra for giving us the opportunity to host it. Have a good evening, and a good weekend.

V. S. Parthasarathy: Thank you, everyone.

Dr. Pawan Goenka: Thank you. Bye-bye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of HSBC Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.