"Mahindra & Mahindra Limited Q3FY18 Earnings Conference Call"

February 09, 2018

MANAGEMENT: **DR. PAWAN GOENKA – MANAGING DIRECTOR, M&M LIMITED**
MR. V S PARTHASARATHY – GROUP CFO, M&M LIMITED

MODERATOR: **MR. DEEPAK JAIN – IDFC SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Mahindra & Mahindra Limited Q3 FY18 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in 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 this conference is being recorded. I now hand the conference over to Mr. Deepak Jain of IDFC Securities. Thank you and over to you sir.

Deepak Jain: Hello everybody. We are delighted to be hosting the Q3 FY18 Results Conference Call for Mahindra & Mahindra. Today, we have with us Dr. Pawan Goenka -- Managing Director and Mr. V S Parthasarathy -- Group CFO and Group CIO. Over to you Mr. Parthasarathy.

V. S Parthasarathy: Thank you, Deepak. On behalf of M&M Limited I extend a very warm welcome to everyone on this call. I will share some "Updates on Key Economic Environment along with the Financials for Q3 F18." After my comments, Pawan will take a broader as well as deeper view on the "Auto and Farm Sector."

Let me briefly talk about Macroeconomic Update: Tailwinds to fan stronger global recovery in 2018. The World Bank estimates that the growth will go up, also the US tax cuts will boost US growth prospects and the global growth prospects have been upgraded to 2.8%. Closer home, FM has presented a far sighted budget, by that I mean, it is focused on farm, agri and rural par and it is also focused on health drivers and growth drivers guided by mission to strengthen agriculture, health, infrastructure employment and MSME. Fiscal deficit continues to be focused on with it expected to go down to 3.3% next year from 3.5%. IIP growth is a shot in the arm; it has jumped up to 8.4% propelled by manufacturing which achieved 10.2%. MSP which is now slated to be at 1.5x of cost will provide impetus to growth even while it will push inflation that may not be so bad because India needs a little bit of inflation at this stage, is one line of thinking. December inflation is at 5.2%. The monetary policy announced by RBI day before yesterday kept the rate same and maintained a neutral stance and that augurs well for Indian economy.

On the back of this environment, let me share our "Financials for Q3 F18." Happy to share that for Q3 we have achieved the highest ever PAT at M&M plus MVML level in Q3 F18. That is driven by a very robust volume growth, you will hear more in detail from Dr. Goenka. Net revenues at Rs.11,491 crores is higher than previous year by 10.3%, previous year figure was Rs.10,420 crores. As mentioned by me in the last quarter, the previous year revenues have been reinstated to give the GST effect in our Farm Equipment business and you will see that reinstatement in the M&M plus MVML financials that has been shared with you. EBITDA is at Rs.1,963 crores is 19.6% higher than Q3 of previous year, which is at Rs.1,415 crores. OPM margin is at 14.7%, higher by 110 basis points versus previous year of 13.6%. PBIT of Rs 1,388 crores is higher by 23.9% against Q3 F17 which was at Rs.1,121 crores. PBT before EI is Rs.1,345 crores versus previous year of Rs.1,060 crores and PBT after EI at Rs.1,731 crores is higher by 21.5% Vs Q3 F'17. Higher tax rate continues in Q3 F18 at more than 31% on account of R&D weighted deduction, reduced from earlier 200% to 150% and investment allowance under Sec. 32AC which was discontinued from F'18 onwards, and there is no reduction in the headline tax rate. Considering the above PAT before EI at Rs.930 crores is up 19.2% against Q3 F17 where it was Rs.772 crores. You would see that PAT after EI at Rs.1,306 crores is a jump of 63% as compared to the previous Q3 figures which was published at Rs.801 crores; however previous year the same quarter there was a provision of MTWL two wheeler impairment which after merger has been reversed in the previous year, so we have reinstated that in the P&L level of last year and therefore the PAT of the previous year will be seen at Rs.1,117 crores and still records a very healthy growth of 17%.

Coming to Segment Results: Auto segment recorded revenue of Rs.7,097 crores which has grown by 11.6% versus previous year, previous year figure Rs.6,359 crores. Segment results at Rs.605 crores is higher by 33.9% Vs Q3 last year, significantly higher than the revenue rate. Auto segment top line growth 11.6%, bottom line 33.9%. FES segment revenue is at Rs.4,098 crores which grew by 9.1% against previous year figures of Rs.3,758 crores. Segment results at Rs.839 crores is higher by 14.8%, last year was Rs.730 crores, so top line growth of 9.1% and bottom line growth of 15%.

Financial Metrics: Debt-equity ratio continues to be 0.1 and net level is zero or slightly negative. We will be publishing consolidated results after the board meeting of SYMC; however I like to highlight some group messages: Our financial sectors did very well this quarter, delivering 3x profit growth versus previous year. This strong turnaround further enhances our confidence on the rural upswing. The profit more than Rs.1300 crores in nine months at PBT level, it is well within the striking distance of crossing its earlier high. TechM continued on its digital journey and posted PAT of Rs.943 crores which is 10% growth YoY. This quarter we have had two investments harvesting -- MLL got listed and we by selling a part of our stake gave us a profit of Rs.386 crores, further at a consolidated level the fair value of the price we have, gives the quarter a profit lift of Rs.1,500 crores. Our subsidiary company MOICML sold stake in CIE Automotive Spain, which gives us profit before tax of Rs.757 crores and profit after tax of Rs.589 crores at consolidated level. All these figures you will see when the consolidated results are announced. But let me conclude by saying that on a standalone basis we had profitable revenue growth in our Auto and Farm business and our Truck business has delivered strong volume growth cementing its road map towards EBITDA break even.

With that I will handover to “Dr. Goenka for his Opening Comments.”

Dr. Pawan Goenka: Thank you, Partha. I am sorry that you did not have enough time this time to go through the results because the board meeting was in the afternoon and we just finished the board meeting at 5.15 p.m. and rushed for this con call. So Partha has given you the financial results, quite a few numbers to chew in a very short time, but I am sure that you analyzed that very quickly, but let me give you a little bit on the “Performance Insight.” So first of all on the Union Budget, Partha has given you an overall view and I am sure you also have a deep analysis of it, but basically just I want to say that for our core businesses, that is Auto and Tractor the budget is neutral to positive and clearly the agriculture and rural development thrust that the Government of India has put speaks well directly for Tractor business and also positive impact on the Automotive business.

There is a sort of hidden thrust in the budget on "Make in India" which again speaks well for our Group because most of what we do is Make in India.

If I come to Tractor industry, the industry for Q3 has performed better than what we had expected. When we started the quarter we were thinking that it will be flat to maybe just marginally positive and it ended up going 7.8% positive for the quarter, so that is better than we expected and this is the second highest Q3 industry ever. This is obviously on the basis of very good production of kharif crop, positive sentiment in rural area and government's thrust in agri and rural. For Mahindra, we were roughly about the same as the industry marginally lower for the quarter, but overall for nine months we are right on the dot as the industry growth which is 18% YTD January and Mahindra is also 18% YTD January and we are maintaining our market share as in last year. This year we expect the industry to end up highest ever which was last time FY'14, from FY14 we see 6% to 8% growth for the FY18 industry. So overall the Tractor industry is doing well and within that Mahindra is doing quite well.

For the Automotive side, we believe that the industry growth has been reasonably good coming off of demonetized quarter that we had last year, the PV industry grew 6.1% but all the growth has come from UV growth and not the Passenger Cars growth, for the ninth consecutive quarter UVs are growing significantly higher than Passenger Cars. Commercial Vehicles had a very quarter especially for both actually Light Commercial Vehicles as well as Medium and Heavy Commercial Vehicle. The Light Commercial Vehicles grew at sub-3.5 tonnes grew 29% and the Heavy Commercial Vehicles grew at 54% during this quarter, and within that Mahindra had very good growth in Heavy Commercial Vehicles growing significantly more than the industry and increasing the market share now to 4.1% from 3.5%. Also in the LCV segment we had 13.8% growth overall, 7.9% domestic volume growth for Mahindra & Mahindra.

The biggest story right now in the Automotive industry obviously is Electric Vehicles. Some of you have been already to the "Auto Expo" and some of you I am sure will be going and you would notice that the electric vehicle written all over the place and within that I am very happy to say that Mahindra probably has one of the widest portfolio of electric vehicle that we have displayed in the Auto Expo looking at the vehicle that we have currently in market the vehicle that we will launch in the next two years and we have also shown some concept vehicles.

If I have to look at actual volume in Q3, it is still very small but all the same 27% growth over last year in the four wheelers and we have also started selling Electric Three Wheelers and we sold more than 1,000 Electric Three Wheelers in last quarter, in fact, 20% of Three Wheelers sales in the last quarter came from Electric Three Wheelers. We are constantly investing on Electric Vehicles and I will talk a little bit more about that little later.

On the Exports side, we exported 11,426 Vehicles and Tractors last quarter, Tractors grew by 6%, although declined by 12% primarily because of Sri Lanka and Nepal, not fully recovering from the slowdown that it had.

Now, if I look at the Outlook for Q4 and FY'19, basically we see no headwinds, looking at the next 15-months, everything seems to be going reasonably well, economy is on growth path, positivity in rural sentiment, and therefore we do not see anything which will slow down the two industries, but I would point out three or four areas to watch on the industry side which if it goes to extreme could become a problem for the industry. The first one of course will be the monsoon and having had two, three good monsoons we think that up to 90% rainfall if it happens, anything less than 90% could cause a concern. There is a possibility of interest rate hike and I do believe that 25, 50 basis points increase will be alright, if it goes beyond 50 basis points it could be negative for the industry. Oil prices right now subdued at about 65, but if it goes much beyond 70, then it could be a concern for the industry and perhaps the biggest one which certainly is likely to happen is commodity prices which in the last four to six weeks, seem to have become firmer and we expect to see higher commodity price growth next year than we have seen in FY'18 and that would mean ability to pass on the commodity price engaged in the prices and what impact it might have if any on the volume. Other than these three or four things, we see no reason why FY'19 should not perform at least as well as FY'18. So if you take that into account our outlook for FY'19 is 10-12% growth in Passenger Vehicles, about 10% in Commercial Vehicles, higher for Light Commercial Vehicles lower for Medium and Heavy Commercial Vehicles and about 10% growth in Two Wheelers.

On the Tractors side, the growth in Q4 given, January already has seen 38% increase is likely to be 16-17%, giving us higher than what we had said in the last quarter as the industry growth. Industry growth will be between 15% to 18% is what we are expecting to see now. Earlier there are estimates of 6-8% more than what we saw on the peak in FY'14. Next year we would expect to see the sort of long-term average CAGR of the industry which is about 8%.

In terms of new launches, we will have four new launches for Auto and some refreshes in the next year, that is FY'19, two of them are high volume launches -- U321 and S201 and two are niche launches, one is Rexton that we showcased in the Auto Expo and one more that we have not yet talked about. We will expect Tractors growth to be in line or marginally better than the industry. On the basis of two high volume new launches, which are not replacement for existing products, which are going into new segments, we would expect to see growth higher than industry growth in the Automotive segment. We also have the launch of ICV which will happen in the first half of FY'19, that is 8 to 16 tons commercial vehicles and that would also give additional volume in the commercial vehicles side.

On the Tractors side, we have major launch of a new platform in "Swaraj" division that will happen during this quarter and then we have other variants that we will be launching in the next year for the Mahindra brand.

Two final points that I want to make -- One is on the inventory. We have ended the last quarter at about the best dealer inventory that we have seen. In fact, on the Automotive side, the inventory was lower than what we would like to see i.e the dealer inventory and we have made up for that somewhat in the month of January. On the Tractors side, the inventory is roughly where we are going to see and we are maintaining at that level. I would like to add that our inventory level in

December was better than what it was end of December last year both in Automotive as well as in Tractors.

The point-to-point increase for material cost for tractors, that is YTD, above 3.5% and for automotive under 2% and we have taken price increases similar on the commodity price on the point-to-point basis but in Tractors, the price increases were somewhat late, now we have caught up, but somewhat late, so there was a cash flow deficit that we had in the tractors price increase. This happened because of the GST transition where it was not possible to take price increases. So that is pretty much covers the overview that I wanted to give. I have not covered any of the other businesses and would be happy to take any questions that you may have on what Partha and I have talked or what we have not talked about. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Pawan, my question pertains to the automotive business. We have seen last two quarters have been fairly good come back on the margin front, and this has happened despite commodity inflation. So if you can just help us understand whether have we seen the kind of bottom on the margins and this recovery will kind of probably gather more pace as you have more incrementally big launches coming in and the focus is back to in a meaningful way towards larger vehicles to your portfolio?

V. S Parthasarathy: Just let me try and understand your question first; if I take the last three quarters, first quarter we did 7%, Q2 was 10.8% and Q3 now, F'18 Auto has been at 8.5%, so basically a thing is the average of the sustainable, I would not like to take quarter-on-quarter but if we did a three quarter it is sustainable, what my CFO from that sector would say is if the model mix is given, if the volumes are at that level, then clearly it is maintainable; however, the commodity price increase is something that is coming up very rapidly right now, it will to an extent depend on how fast and how well we can pass on the commodity, though on a full year basis I would assume the impact is that we should be able to pass on at least the absolute value if not including the margin, but on a single quarter basis, there maybe some lagging.

Dr. Pawan Goenka: I just want to add one more thing that, there have been some extraordinary events that have had an impact on our PBIT especially in auto in the last two or three quarters which need to keep in mind when you are comparing. So you will recall that in the Q4 of FY'17, we had the hit coming because of BS-III ban that was done by Supreme Court on 29th of March and we had taken a full hit in the March quarter, that is Q4 FY'17. In Q1 of FY'18, we had the hit because of GST and it is a one-time hit that we had taken which we had talked about. So both Q4 F'17 and Q1 F'18 were subdued because of this one-time.

Pramod Kumar: On Tractors side, Pawan, given the government focus rurally, do you see upside risk to the FY'19 guidance what you have given which is like 8%? I understand there is a monsoon angle there, but given the growth momentum what Tractors have delivered as an industry it has been fairly big positive.

Dr. Pawan Goenka: This year in FY'18, we also had a catch up still doing because that peak volume was in FY'14. Now that we have reached the peak volume and this year we will end somewhere between 670,000 - 680,000 industry size, again 633 I think it was in FY'14. So that pent up demand or the slowdown effect has already worn off. For us to take a potential increase of more than 8-10% would probably be not right. Now, having said that if it happens more we would not be surprised because tractors industry always have prices on either side, so we would not be surprised if it is more than that, clearly we would be prepared for a higher growth than 8% on the industry. But in terms of our planning purposes, we are assuming industry growth to be 8-10%.

Moderator: Thank you. We will take the next question from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: We showcased a multiple number of products on the electric vehicles side. So just want to take your thoughts on which segments do you see more traction coming in the next say two to three years particularly in light of changes in emission norms, so you could touch about viability of electric products after adding three wheelers, four wheelers and even two wheelers if you have any thoughts there?

Dr. Pawan Goenka: Have you been to the 'Auto Expo' yet?

Kapil Singh: Yes.

Dr. Pawan Goenka: I would not connect the electric vehicle growth that much to emission right now except for the fact that when BS-VI norms come in, the diesel and petrol vehicles specifically diesel vehicles became more expensive and that on a relative scale help electric vehicles because electric vehicles price will not increase because of BS-VI norms clearly. Now, if you look at the various segments of electric vehicles, I expect that where we will see biggest growth in electric vehicles will be in commercial application both on the load side and the passenger side. So that means three wheelers should see large volume increase. As of now, all the three wheelers that are being sold except for one or two companies who are more unorganized sector and most of them are lead acid battery over the next six months you would see several lithium ion battery three wheeler launches including that of Mahindra which we had displayed in Auto Expo. Therefore, slowly, all the lead acid battery three wheelers will transition to lithium ion three wheelers. The second growth that you will see will be in the buses where as you know that eleven states are issuing tenders for electric buses both 9 metres and 12 metres and all the manufacturers, Leyland, Tata, Mahindra, BYD and some others are getting prepared for it. We have displayed our 9 metres buses auto expo and we expect today ready to do volume production in less than one year and small sort of pilot batches sooner than that and we will participate in many of these tenders. The third one you will see will be on the four-wheeler for aggregators like Ola and Uber, fleet operators like lithium that we have, like the order that we have recently got Bhagirathi and EESL order of course obviously, and you will see increase in volume happening there. As far as EESL is concerned, to be more specific, Mahindra has manufactured and ready to supply all the vehicles that we had contracted for in the tender, that is 150 vehicles, the uptick has been somewhat slow because of the internal process, the alignment of EESL and so far 56 vehicles is what we are delivering and others are waiting to get delivered and we are waiting right now for the Phase-2 order which is for the remaining 9,500 vehicles from the original 10,000 vehicles, in that 1000 delivery happens during 2018 or let us say FY'19, that clearly will give a very big fillip to electric vehicles. This is what I have said in the media and I am going to repeat here that by end of FY'19 for us to say that electric vehicles now are getting traction, I would like to see not counting three wheelers, overall volume of about 3,000 a month for India, not for Mahindra and that is what will give me feeling that yes, everything that we have talked about all the trust that has been put in by the government is working and that is what is happening. One risk that I see is what happens to FAME policy, which is due to expire on 31st March, it has been announced that new policy will come in to replace the old policy, and we do not know right now whether the new policy will have any reduction in incentives, i.e., subsidy that has been given, I hope not, because right now we have good equilibrium and I would not like to see that equilibrium being disturbed. Sorry, this is a longer answer, but I am sure many of you have questions on Electric Vehicles, so I have tried to cover everything.

Kapil Singh: No, this is quite helpful. Just one small clarification; when you mentioned about three wheelers shifting slowly to lithium ion, does it include e-rickshaw kind of products, shifting to lithium ion or the conventional autos that we have in Mumbai they are shifting to lithium ion, which category are we talking about?

Dr. Pawan Goenka: The interest that has been shown by the state governments for three wheelers is in the e-Auto space and not in the e-Rickshaw space. e-Rickshaw space came up sort of a new segment, when all these e-Rickshaws came into Delhi, before that e-Rickshaw did not exist as a segment. While we are preparing both for e-Auto and e-Rickshaw, though we have shown only e-Auto at the Auto Expo. We are preparing for both. My guess is we will probably see more of e-Auto than e-Rickshaw.

Moderator: Thank you. We will take the next question from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy: Just want to follow up on your comments on pricing, I kind of missed that. Could you just repeat what you said for pricing as far as tractors goes and also for UVs if you all have taken any price hikes in the third quarter?

Dr. Pawan Goenka: What I have said was that the total point to point material cost increase during FY'19 so far has been about 3.5% for Tractors, and about little less than 2% for Auto. Point to point we have passed on the full price increase, but in terms of cash flow, timing of passing on, there is a slight sort of gap in tractor and therefore while now our pricing reflects the full commodity price increase, but there was a gap in between because the time of transition to GST we were not able to take a price increase, because too many things were changing at the same time. On the Auto side on the other hand, we have managed to get the timing right also, and we have been able to pass on the full pricing.

Jamshed Dadabhoy: So then in Auto segment, the QoQ dip in EBIT margins 10.8 to 8.5, what is that on account of, is it because the drop in sales is not enough to explain the drop in margin?

Dr. Pawan Goenka: We have been saying for last 40 quarters that please do not compare quarter-on-quarter, because there are too many seasonal factors, that come in quarter-to-quarter and it is always full of risk to see quarter-to-quarter comparison. There is nothing fundamental that has happened in Q3 from Q2 that would have negative impact on our margin. So that is the only statement that I can make but I cannot explain why Q3 was X and Q2 was X+ delta.

V. S Parthasarathy: Two or three additional comments to what Pawan said, one is that when Q2 generally happens to be the festive season and this year especially all the festivals jumbled into one quarter, normally it spreads over Q2 and Q3, but this has not been the case, so you have seen a little abnormal margin in Q2, little subdued margin in Q3 from the festive point of view, so you should take that into account, but like Pawan said, year-on-year is the best prerogative, so we will be able to answer better from that perspective, and that is how you see last year it was about 110 basis points or something higher than last year in Auto segment. Just to give a perspective last quarter the revenue is about Rs.7,800 crores, and this quarter the revenue will be about Rs.7,000 crores, because all the expense remaining same, the productivity benefit that you get on a higher revenue is not there. But one small thing I wanted to point, I think, this quarter also they have had a stock reduction, which is also from an auto segment point of view specific only relates to auto segment, is also 0.3%-0.4% kind of 40 basis points impact on that margin, because they have reduced stock.

Jamshed Dadabhoy: So stock impact on the auto side of Rs.387 crores that we see in the parent business that is mostly on the Auto side, is it, change in inventory?

V. S Parthasarathy: Finished goods stocks have come down, that is 30 or 40 basis points impact, not Rs.387 crores.

Dr. Pawan Goenka: There is always higher year end discount, always happens in auto.

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

Saurabh Kumar: On the Tractors side, what is the current utilization and new normal at 20% margin sustainable?

V. S Parthasarathy: Broadly if you see the higher revenue, which we have got as the basis on the growth that we have had, had also helped us in the same productivity which we have been talking on the other side and it gives us 20+ margin. Why not? If all the other things being equal this is nothing. If your question is other way round, is there a one-off which our tractor has? I can tell you there is no one-off

Saurabh Kumar: So what will be your capacity utilization?

Dr. Pawan Goenka: In Tractors, Swaraj division is absolutely maxed out, in fact, we have to stock some tractors in Swaraj in Q3 to take it to Q4, and we are increasing capacity and by middle of first quarter of next year we would have higher capacity. On the Farm side, we have three or four plants, and each of the plant is running one shift and some two shifts, 92% utilization on the farm division. Zaheerabad is running one shift, so when we say 92%, this is on the basis of shifts that we are running right now, and we have a full shift available in Zaheerabad.

V. S Parthasarathy: One is our capacity demand is very well utilized fully, but there is also headroom available, it will be good problem to have if not at overall.

Saurabh Kumar: Assuming 8% growth your current capacity is…?

V. S Parthasarathy: That is why I asked a counter question… that is why I raised that point, yes, if the volume growth is 8% or even higher, we do not have a problem,

Dr. Pawan Goenka: In any case having capacity issue is a much easier problem to solve than having a demand issue.

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

Amyn Pirani: Sir, my question is on your LCV market share where you become a market leader over the last three, four years but at the same time what has happened is that the sub-segment where you are very strong has grown faster and the other sub-segment which is the sub-0.8 or 0.7 tons have really not grown. Now with the LCV segment growing back as a whole, are you having any product introductions in that smaller segment which is relatively weaker, how should we look at your market share going forward if the entire segment grows faster?

Dr. Pawan Goenka: So, actually we have a fairly strong product portfolio in the segment that you are talking about… I think what you are referring to is below 2 tons. So we have fairly strong product offering, we have Jeeto in the 0.5 ton category, both at the load as well as passenger, and the Jeeto has been constantly getting market share over competition, and in the middle segment which is 0.75 to 1-ton, we have the Supro, which was launched little less than a year ago, and we have just two weeks ago launched a heavy duty Supro, and that heavy duty Supro is something that gives us an edge over what we had earlier. So between these two products Jeeto and Supro, I think we are very well covered, there is no need for a new product to be launched in that segment. We obviously working on how to gain market share, and you are right, that our market share is very high in 2 to 3.5 and relatively lower in the sub-2 ton, and our focus will be to increase the sub-2 ton market share, and obviously, even in the 2 to 3.5 you would have seen that we have very aggressive new campaign that we have just launched with the 4-year residual value guarantee, and with that right now, we are maxed out on capacity on that segment, and it is not very often that you bag orders on that segment.

Amyn Pirani: On the U321 launch at least to us from the outside it seems that the launch has been a bit delayed than what we understood would have been a timeline but internally is it happening as per your initial feel or is it a bit delayed, what are your thoughts there?

Dr. Pawan Goenka: So I have heard some murmurs about that there is a feeling that U321 has been delayed. So, let me put it this way that we have four launches happening in FY'19, i.e., U321, S201, Rexton, which was not in the books till recently and one more product which is a variant of an existing platform, and we need to plan out in terms of giving good spacing in terms of market launch. So we cannot launch a product when it is ready, we have to also time it properly in terms of gap between two product launches. So we are right now in the middle of preparing our launch due for each of these products. There is no doubt that within FY'19 all four will be launched. I cannot tell you right now what the sequence will be and exactly what will be launched and where. Keeping in mind between mid-October to end-December there is not a product launch, because that is a dull season, so either we will launch these before mid-October, or in January, February.

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

Chirag Shah: On the raw material side, what is the kind of cost impact we expect going forward? You have indicated what we have seen in nine months.

Dr. Pawan Goenka: I would not be able to share with you what we are budgeting, but what I can tell you is that the general feeling right now is that other than rubber, commodities will be increasing more steeply for entire next year than they have increased in the current financial year.

Chirag Shah: Second question was on the discounting trends you are seeing in the LCV as well as in MHCV. How to look at those things because we hear a lot of discounts are being offered, despite that players are making good margins, in general is discounting you are seeing in LCV side, how to look at it?

Dr. Pawan Goenka: On the LCV side I do not think there is anything unusual the discounting that we have sometimes will go slightly up, slightly lower, but I not see anything unusual on LCV side, in fact on the pick up 2 to 3.5 tons there is hardly any discounting that we are doing right now with the campaign that we have launched. On the HCV side, in spite of the industry growth being very healthy, 30% I think FY YTD there is still discounting at the same level, as it was in the previous financial year, and I have been told that many of the players now are actually running full capacity when you combine the supply capacity and OEM capacity. But even then the discount rate has not come down. My take will be that the kind of growth that we have seen in the last 3–4 months continues for the next 3-4 months, we definitely would see a reduction in discounting.

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

Raghunandhan: Just on the Three Wheelers side, you said 20% of our sales this time was the recently launched Electric Three Wheeler. So how do you see this electric three wheeler segment shaping forward and how do you see the market share gains for organized players?

Dr. Pawan Goenka: The deepest penetration that you would see in electric vehicles my guess is will be in Three Wheelers. It is very simply because given the current incentives that we have on Three Wheelers the equation works out very well for the operator, and for operator per kilometre running cost with the FAME benefit and the GST rate is about same or maybe little lower than it is for the normal Three Wheelers, and also from government's view point the benefit on environment is high with three wheelers, because of inner city running that three wheelers have. So, you should therefore see a good penetration like I told you that we had launched a Three Wheeler just about six months ago, in last quarter we sold 1,000 Electric Three Wheelers, and on Four Wheelers side, we sold only about 350 or so during the quarter.

Raghunandhan: How are the organized players such as yourself be differentiating from the unorganized players in the segment? One thing I understand is like the warranty and the quality of the product would be far better.

Dr. Pawan Goenka: It will obviously be differentiated on that basis, that there will be hopefully higher trust that a customer would have when organized brand or organized player comes into the sector. As you know the e-Rickshaw sort of worst that had happened in Delhi, that was all through unorganized players, there were no known three wheeler players who had launched the eRickshaw, and these are all come based on some sort of technology, components imported from outside. Now the eAuto, i.e., Autorickshaw, almost every organized players, the key players in that industry are working on electric lithium ion auto, and all will be launched in the next one to six months I guess… in fact one or two have already announced that they would be virtually becoming electric, and almost replaced current electric offering. So therefore, it will be very fast ramp up provided of course, that is the only caveat, FAME Scheme continues beyond 31st March. If the FAME scheme withdraws its support for the Three Wheeler, then penetration of Three Wheeler will come to halt.

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

Sonal Gupta: Just on two things related to the crash safety norms. Other than Bolero, which other models will you need to upgrade ahead of the deadline and where is the current final deadline now, I understand that October '19 might be being pre-advanced little bit. So could you just talk about that? Secondly, earlier clearly the U321 was supposed to be launched second half of this financial year. So now we are sort of shifting into the next year, right. So any comments?

Dr. Pawan Goenka: I have already answered the U321 launch question. On the crash safety norms, the only product which does not have airbags and ABS in any of the variants, is Bolero, and we are working on that right now, that is the only one we will have to upgrade to meet the new crash and safety norms which now comes in July '19 rather than October '19 and as of now we do not see any issue in that.

Sonal Gupta: Just a related question to that in BS-VI, are we working on any sort of major light weighting in terms of our models in terms of technology to reduce kind of weight of vehicles?

Dr. Pawan Goenka: Obviously we are, but I certainly would not want to share any details on that, because that is an information that all of us will be keeping very closely guarded.

Moderator: Thank you. We will take the next question from the line of Mahesh Bendre from Karvy Equity. Please go ahead.

Mahesh Bendre: Just two quick questions: What will be the tax rate one should look at next year? What are the capital expenditure plan for next year?

V. S Parthasarathy: Tax rate for the year so far YTD is about 31.6%, I think it is reasonable one, going forward the only thing that gets added to is the cess that came in the budget, so next year if you are looking at it, we would like to add cess to that, that is how I look at it. Second is about CAPEX. We have talked about Rs.7,500 crores for three years, and that figure we generally reconfirm for the next three years circle once we come to the new year, so in the next call that we have… maybe in April- May we will talk about the next cycle, but we have been around this figure for reasonably quite some time, because we have been focusing on product development which is the major portion, I suppose it will be around this figure, but April will come for the new cycle, at this stage for a three year cycle, it is Rs.7,500 crores.

Moderator: Thank you. We will take the next question from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Pawan, any update which you can share on the proposed talks with Ford for the automotive business?

Dr. Pawan Goenka: No, I think it will be premature Pramod, as we have mentioned when we signed the MOU, that there are eight streams that we are working on, work is going on in each of those streams, two teams are making and we have not reached a point where we are in a position to make any definitive announcement on outcome of it. All I can say is all the talks are proceeding well. None of the eight topics have been dropped as of.

Pramod Kumar: Pawan, on the Three Wheeler mobility, you did mention that everyone will be launching lithium ion sooner or even later but if our understanding is right, based on the fact the prices could be as high as Rs.3.5-4 lakh without any government subsidy. I am just wondering is there viability from a consumer point of view given that the current three wheeler price points are on the breakeven level, so do you think there is a commercial market available irrespective of however high may if you take the current sales subsidy, I think it is not going to be good enough, just want to hear your thoughts on the viability of this lithium ion three wheelers?

Dr. Pawan Goenka: I do not know Pramod, where you got this 3.5-4 lakh price point because at 3.5-4 lakh price point there is no viability, and that is not the price point that we are looking at.

Pramod Kumar: So the TREO what you showcased is a much more low cost lithium ion three wheelers solution, is that right?

Dr. Pawan Goenka: All I can tell you is the price point that we think we will be able to launch this product at assuming no change in taxation and continuing subsidy is very much viable for the operator.

Moderator: Thank you. We will take the next question from the line of Prayesh Jain from IIFL. Please go ahead.

Prayesh Jain: Sir, just a medium-term question on capital allocation towards emissions and electric versus the ICE engines in the automotive sector. In next three to five years, what would be the strategy on that?

Dr. Pawan Goenka: Unfortunately, we are not in a situation to drop one at the cost of other, because we do not know at what rate will Electric Vehicles grow in India, and even the Government of India seems to have softened its stand about 2030 being full electric… if I was to read between the lines, and therefore we cannot say we can slow down on ICE engines, and focus only on Electric Vehicles. Now, fortunately, electric vehicles as long as we are electrifying existing products, and not creating brand new products, the investment is not very high, we have talked investing about Rs.700-800 crores for electric vehicle capacity, and that will give us capacity for as many as 5,000 electric vehicles per month, and that is quite affordable, and that will give us all the backward integration that we want to do. As far as ICE engine is concerned, we are doing everything that we are intended to do even without the electric vehicles coming in. We have to meet BS-VI in all of our products, of course, we had already made a decision on dropping some products when we go to BS-VI, low volume products, that continues, and we have to invest in all the safety regulations that are coming in and therefore there is no letting up of investment in those. The overall figure, that we have maintained that Partha talked about remains the same. So, electric vehicle do not put too much pressure on investment for us. Lot of investment happens in R&D done by suppliers like cell R&D, which is basically input to us, in a way the cost is built in into the cost of electric vehicle, in the buying price of components that we are buying, and we do not have to invest a lot of money.

Moderator: Thank you. We will take the next question from the line of Awanish Chandra from Centrum Broking. Please go ahead.

Awanish Chandra: In the opening remarks, you have talked about new launch from the Swaraj division. Could you elaborate more on that and also what is your plan for the Swaraj division in terms of future investment at least few launches in the coming years?

Dr. Pawan Goenka: I cannot give you specific on when the launch will happen and which sort of HP range, but I have mentioned in the opening statements it will happen in Q4. So therefore in the next six to seven weeks you should see a launch of a new platform coming out of Swaraj. In Swaraj, we are constantly sort of keeping our portfolio refreshed and invest whatever we have to invest to keep the portfolio refreshed, and all our products are doing well, we are looking at some total sheet metal changes also in the Swaraj division, where we are doing fresh styling, restyling of all the tractors that we sell in Swaraj, and process will take two to 3 years, we had launched a product last year, which is doing quite well, we are looking at products in the lower HP range because

Swaraj does not have a tractor in sub-20 HP which Mahindra does, we are looking at that also, and give a complete range, because Swaraj, is right now primarily from 20 HP to 50 HP, whereas Mahindra has got 15 to about 57 HP.

Moderator: Thank you. We will take the next question from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: What do you think of alternate fuel types like CNG -- do they have a future in your scheme of things or you think given the move towards electric, there is no point in working on those technologies?

Dr. Pawan Goenka: I think, at least for the next I would say 15-years, you cannot ignore CNG, diesel and petrol and we have to keep a sort of in the frontline in these technologies also as I said earlier.

Kapil Singh: Which segments do you think CNG would be required?

Dr. Pawan Goenka: CNG as it is today is required in all commercial applications in many of the cities… CNG as you know is not available throughout India, Delhi is most aggressive in use of CNG, vehicle cannot be sold, petrol cannot be sold without CNG in these markets, so there are many cities like that where CNG is most prominent, and as more and more cities get CNG infrastructure, more and more CNG will happen.

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

Raghunandhan: Given the pickup in electric vehicles volumes, when do we see the breakeven happening for the electric vehicles subsidiary?

Dr. Pawan Goenka: That is a difficult question to answer. Right now, the Electric Vehicle business is in an investment phase, the volumes in spite of all the top are very-very small, we are selling about 100 vehicles a month on an average, and that is pretty much the total four wheeler volume being sold in India right now. Even though we make money at the variable cost level, that volume is not enough for us to break even. So I would have to think that till the volume reaches let us say 10x of what it is today, about 1000 vehicles per month, it will not be possible to breakeven. Whether that happens by the end of FY'19 or goes into FY'20, is hard to say, because the take-off of electric vehicles has not happened yet, it is around the corner, but I do not know whether that corner is one month away, three months away, six months away or one year away.

V. S Parthasarathy: Now that Pawan has made the statements which I should have made, let me say it little reverse one, that if you had asked the same question to Pawan and me one year back, we would have been much more kind of circumspect in saying kind of that its medium to long term, but in the last one year, whatever traction we are seeing both from Government of India and at the local level, it is kind of multiplied manifold, in fact, Pawan did talk about how much did we sell, compared versus previous year, it will be manifold growth, I would kind of say that the optimism of achieving break even in the medium-term has gone up as compared to six months back. So that we are clearly seeing, but we cannot say more than that at this point of time.

Last before you close, one comment I want to make everyone. Some of you may not had a chance to go through the figures. In case you have any queries, which is not answered on this call once you go through the statements if you have anything, please do input into Sriram, we will be comprehensively be able to answer them by sending out something or putting on the website, because I want to make sure that all your queries answered. Thank you.

Dr. Pawan Goenka: I just want to also come back on one point. My colleagues here nudging me to say that I have not answered the BS-VI question well and I should be little bit more detail about it, so let me go back to BS-VI question. I may not specifically answer the question but let me just make the following statement: We started the work on BS-VI on time and right now unless we see some major event happening, we would be ready with BS-VI on all our products by 31st March 2020 deadline that we have, but if Supreme Court does anything in terms of saying that we have to stop selling by that date, that would mean three to six months before that date, which right now looks unlikely that we will be able to do anything much before 31st march 2020 in terms of being ready with BS-VI… one or two vehicles may happen but I am talking about full portfolio, that is point #1.

Point #2 is that we have had no nasty surprises as we develop BS-VI, and therefore everything is as we had planned or little better, there is no nasty surprises.

#3 Mahindra and I presume others also are not looking at BS-VI transition only let us go from BS-IV to BS-VI, they are also looking to see how do I make the product better for the customer, and take this as an opportunity to offer a better product along with BS-VI and we are also working on the same.

One specific point that I want to make is on our 2-litre engine, where with BS-VI we are launching a brand new engine, which is lighter than the current engine, which is more fuel efficient than the current engine, which is more refined in terms of noise than the current engine, and therefore it is not just BS-VI, it is also improving the product along with it in terms of what the consumer will see, and the light weighting, features, technologies, that we put in the vehicle, all of that will happen along with BS-VI to varying degree on various products, and as I said, I presume that almost all the benefits we are looking at the same way.

Moderator: Thank you. We will take the next question from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: In terms of product development capability sir, lot of difference between three wheelers, trucks and passenger vehicles. But when we move to electric mobility, does the synergies increase because you have built a lot of capabilities in electric vehicles, do you think synergies increase when you move to that space?

Dr. Pawan Goenka: When you look at ICE engine, the same synergy exists in engine development, we take engine for granted, but the fact is that engine has also gone to a same evolution as electric power train is going through now. When we develop engine for three wheelers or develop an engine for four wheelers, or develop engine for a truck, the same set of people who have the technical knowledge of engine development work on the engine. Same thing is happening with electric vehicles, when we develop a battery, motor, convertor, power electronics for a three wheeler versus four wheeler versus truck, the same synergy happens across these various segments, and therefore I will not say that it is any more or any less than in case of engine. The difference is that in case of engine, it sort of diffused in the sense that most of the components are bought out, and we do some machining in-house and put the engine together, whereas in case of electric power train, we are doing a lot more backward integration than we do in the case of engine, and therefore as you know that we have announced that we will be doing two JVs; one for motor and one for power electronics, and we will be doing battery in-house which we do not do in case of engine, but here battery is the heart of the vehicle and therefore if you have to buy the battery fully assemble then we are in a way buying a fairly significant component of the cost of the product, therefore battery is done in-house. So I would right now tend to think that the synergy across the portfolio is roughly the same as we have in the case of engines.

V. S Parthasarathy: Within the organization it is not different, but vis-à-vis competition and vis-à-vis relative, because others have the same engine kind of capability maybe but EV that I think is another angle it maybe.

Dr. Pawan Goenka: That angle of course is different because Mahindra got started sooner than others, therefore we probably have an edge over others right now, though I will not know what others are doing, how far they have caught up, I do not know that, but logic would say that we probably have an edge over others, and other different advantage is one more thing that I just thought of that in case of engine, there is no separate group that supplies engine to M&M Limited, in case of electric power train, Mahindra Electric is the company that supplies electric power train to Mahindra & Mahindra, and therefore everything is concentrated in one unit. To that extent, perhaps that you can leverage synergy better across the various product lines, than one can in the case of engine. Okay? Interesting question. I will ponder over a little bit more.

Moderator: Thank you very much, sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for any further closing comments. Over to you, sir.

Sriram Ramachandran: Though many of you are in the "Auto Expo", thanks for taking time to participate. We know that lot of you are travelling to the airport. Thanks for taking the call. As Partha mentioned, if there are any further questions, please feel free to send us your question and we will be able to respond it in a way where all of you can get the information.

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