“Group Meeting/CIOs Interactive session with Dr. Pawan Goenka Mahindra & Mahindra Limited”

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Sriram Ramachandran: So we wanted to do it only as a face-to-face meeting so that this discussion tends to be much more focused, but since because of the Mumbai rains, couple of people who had confirmed earlier, in the last minute couldn't come for (the meeting). Only 2 or 3 people are on the call, but otherwise everybody is in the face-to-face meeting. So I will hand it over to Dr. Goenka.

Dr. Pawan Goenka: So I think this we are going to keep more as a Q&A kind of discussion rather than opening statement and as I said that it is not so much about numbers or talking about profits or stuff like that but more about strategy for various businesses that we are in; focus more on M&M Limited, but we will talk little bit outside M&M Limited, we can do that also. Of course, when it is M&M Limited, MRV is always part of that.

Just very briefly where the industry is, tractor industry is doing very well and we all know that everything is going well for the industry. Rains, Mumbai rains is always good for tractor industry, somehow people think Mumbai is the world, so if Mumbai rains everybody is happy. So that is going very well and within that, as you know very well that M&M is performing well with market share increase to that. And I believe that we have a fairly good product range right now, reasonably new, newest product range of any tractor manufacturer in India today. And that should therefore bode well for us how we performed in the industry as has been the case for the first 4 months or 5 months here.

On the auto side, industry is seeing ups and downs for things that are happening in the BS-III ban in March, then the GST transition and then again now the talk about Cess going up on certain class of vehicles. So that is creating its bumps, but even with that there is a reasonable expectation in the industry this year, would probably grow better than what it has done in the last few years and we are all expecting a double digit growth for the industry during the year. Within that, if I look at M&M performance and break it up into 3 parts, the part of HCV, the part of small commercial vehicle and part of passenger vehicle. HCV, we are very small yet, but we have had very good growth and I think our performance is almost 25% better within the industry. Industry has de-grown about 15%, we have grown about 10% and we have picked up market share of 1.1%. So I think it is a good path and we can talk more about that if you have any **interest in it when it** comes up in the questions.

Small commercial vehicles has been a highlight for us where for the last 2-3 years we have consistently managed market share of 50% plus and we have a fairly strong product range now in all sub segments of small commercial vehicles and therefore we expect that we will continue to do well in this small commercial vehicle segment and that segment is growing and we do expect heavy commercial vehicle by the way to remain more or less flat this year, but small commercial vehicle to grow 8%-10% during the year. As far as passenger vehicles are concerned, if you look at the market share in SUV that get talked about quite a bit, clearly we have had a challenging time in market share of SUV but as I have said many times that today to distinguish between SUV and non SUV has become very difficult and almost every automaker is launching vehicle that they are calling SUVs and therefore the SUV growth has been very high and what we call SUV has become much larger and therefore it is more meaningful to look at how the passenger vehicle industry is performing and how we are performing within that.

There also, I think we have been slightly underperforming the market in terms of overall percentage growth, but our volume is sort of inching up and we have sort of products that we will be launching which again we can talk about. So that is one parameter. The market share in SUV that has been talking for us, but we are reasonably confident that we would be inching up on the market share in SUV also.

And financial performance wise, as you know that in spite of all the ups and downs we have managed to retain our OPM, there is always 1% up and down, up and down that happens, but there is nothing sort of dramatic that has happened either up or either down. We have maintained that quite well. We have been able to manage our cost, we have been able to pass on the cost increases, pricing, so all that is working well, inventory is under control in both the businesses. Overall, we have lot of challenges of course. There is nothing that is an easy ride anymore but we are reasonably confident that things are under control and moving in on the right direction. So I will stop there and then open up for any questions that you may have.

One thing that I should add is electric vehicles, which is clearly for Mahindra, a very big opportunity because we had been there for some time now and suddenly the whole world is talking about electric vehicle and we have discovered this all of a sudden. No matter where you go, which continent you go and which auto show you go in, all you talk about, all you see is electric vehicles these days and we are very well positioned. Given there is a tender of 10,000 vehicles that has come in, already given a tender of 25,000 auto rickshaws and 25,000 autos is likely to come within the next couple of months. Given that buses will come, given that there is lot of interest in fleet operations for electric vehicles, we think that is a great opportunity for us and we certainly intend to participate in that. If anyone who is logged in wants to ask question, please feel free.

Manish Kumar: First of all, thank you Pawan for giving us this opportunity. Thanks to the Mahindra team as well. So you spoke about Mahindra losing some market share in the UV space and of course you also spoke about industry talking only about UVs of the entire passenger vehicle space. So at our point of view, the way we are looking at your or segment which is relevant to Mahindra is basically the entire UV space including the MPVs and even the crossovers. So we will take that as levers and there certainly we seem to have lost quite a bit of market share. So if you can actually outline, so we have spoken in the past, we have had some sense of the strategy on new products and things like that, but if you can articulate A, B, C, what are the things that you want to do to retain or strengthen our competitive positioning in this space, I think that will be helpful?

Dr. Pawan Goenka: So let me put it in 3 buckets, first bucket is existing products that are doing very well. The second bucket is existing product that need to improve and third bucket is new products that have to come. So existing products are doing very well, are in fact what we call internally as our power brands, our Bolero, Scorpio, XUV in that space and they are doing very well and certainly I am not going to ignore those product, continue to focus on those, continue to improve those products and ensure that these products continue to work. So that remains our sort of insurance against anything that could go wrong because these are in some sense evergreen, very robust products that are there and I think today about two-third of our volume comes from these 3 products in the UV space. The products where we are working to get better volume than what we have today are TUV300 and KUV100. And we are already seeing some traction happening and there are bunch of things that we have done since the time that we have launched the product. Some incremental, some major improvements that we have done on these two products and I think we are beginning to see that these products are now where we expected them to be when we have launched the product and beginning to perform well. If these two products start kicking for us and give us a volume of say 7000-8000 together against a volume about 4000 that we are getting now, then we have, we are already in a market outperformance range. That is all we need about 7-8 from these products rather than 3-4 that we have today, then we are outperforming the market.

Manish Kumar: Why do you think they have not bring as much as you would have wanted them to, especially like in XUV was at a very different price basket, KUV is a much lower price basket. So typically one would expect much higher earnings?

Dr. Pawan Goenka: Yes, a bunch of things and first of all everything is hindsight**.** If we know things before we launch it, then we will do things that way, everything is hindsight. It is combination of the way we position the product, combination of what we are offering the product, combination of pricing that we do for the product, combination of how the competition reacts to anyone's offering and the positioning, all of these things together leads to that. In KUV100, we had 1 or 2 issues that we have faced in the very beginning which we have corrected completely now, in the last 3-4 months the products have been absolutely fine, no issue at all. But it takes a little longer for the perception to change and that is what is happening right now and we are very happy with the way the current customers, customers who have bought the product in the last few months are reacting to the product. TUV300 on the other hand is a product that we had expected to be not love at first sight but a product that will be a long race horse and that is exactly what it is proving out to be. So it is taking time for people to start understanding that TUV300 is a fantastic value and a product that is a very robust product. And now TUV300 is I mean, I get so many positive mails on TUV300 that I feel really good that product is now taking on. So both of these are a combination of that. In TUV300, we also had launched an 80 horsepower engine and then we changed to 100 horsepower engine. Once we changed to 100 horsepower engine, the power was right and obviously today that we had launched 100 horsepower engine, so that is what is happening and with 100 horsepower engine and product growing, in fact in Mumbai you can see lot more TUV300 now than you did see 6 months ago. So that is how it is doing well. So lot of interventions that we have done to the product and there are lot of little things that there is no point going into here right now, but there are lot of little things that we have corrected here and there that is based on customer input we thought we had to do differently. So that is the second bucket. The third bucket is the new product. So right now we are selling 17,000-18,000-19,000 personal vehicles in a month, right? If I get this 3000-4000 more coming from these two products, then we are talking 20,000 plus and 20,000 plus puts us at 15% higher growth than what we have today, which puts us in the outperforming range. Now if I look at the new products, there are two major offerings that are coming in the next about a year to year and a half. One is the U321 which we have talked about, an MPV designed in Detroit by MNATC Engineering Center and right now sort of under final touches of getting everything right, which will be launched in this financial year which is a very major launch for us and MPV market today we say, we think is about 11,000-12,000 vehicles a month and therefore we would aim to get a big chunk of that market, something that we had hoped for with Xylo that we will get a big chunk of the market, but we didn't. So now this is the product that we hope will be our MPV lead product which will give us that market size. I do not want to put number of what market share we expect to get but a good chunk of market share.

Manish Kumar: I thought it was coming up in the next couple of months, right, initially?

Dr. Pawan Goenka: No. We have never said couple of months. We have always said second half of financial year.

Manish Kumar: But not happening?

Dr. Pawan Goenka: Yes, but sometimes what happens is that, many of you guys try and get inside information talking to various people and the various people don't know, they pretend that they know. So what we don't hear officially from us is all rumours.

V S Parthasarathy: Second half they may have taken it in October?

Dr. Pawan Goenka: Yes. But before we launch that, there are many launches that are happening between now and then which are refreshes, minor and major. Refreshes, we never talk about specific because that also has an effect on current products but we have at least 4 refreshes that we would launch between now and launch of U321 during this year and next year is our most important launch which is the S201 which is Tivoli based sub four-meter crossover vehicle which is hopefully will be our high volume vehicle and competing in that space in sub-4 meter SUVs that you have. So with that, then of course we have FY19-FY20-FY21 plans, I am just talking about the next 18 months to 2 years right now. And these, if we get good success from these two products can easily add 7000-8000 vehicles to our portfolio and neither of these two are going to compete with our current products. These are for us filling gaps in our offering and not replacing the existing products. So we do have a gap in a sub-4-meter crossover that we don't have. KUV100 is 3.6 m and this is 3995 mm length**,** so there are many 3995 vehicles today that we have and we don't, and there is large volume in the 3995 crossovers and we don't have a product there and given how successful **Tivoli** has been globally in Korea of course and globally and given that it is based on that platform, we are quite hopeful that this will really give us a good market share in that sub segment and give us good volume and U321 similarly. There are only 2 or 3 good products in that range right now in India today which are selling in good volume and this will be only third or fourth product and therefore if we are be able to live up to the expectations that customers will have from this product and obviously we today think that we would and then that should also give us decent market share in that segment. So this together I am hoping will give us 7000-8000 volume and if I add that to what we just talked about, then we are on the top of the world.

Manish Kumar: S201 timeline we have officially announced?

Dr. Pawan Goenka: We are saying second half of FY19. So between a year to year and a half from now.

Sandeep Kothari: Sir, just keeping to the auto segment and just get a view on lot of parts as we report the auto EBIT margin last year 4%-4.5%, you have got the LCV business which is doing extremely well. UVs may be you have lost market share but you make money and Bolero is a very good product. HCV, you don't make money. Two wheelers are there. So if we look at the entire thing and if you could just overlay the technology shifts which are happening, BS-VI coming, more safety coming, more competition coming, your investment in electric vehicle over 3-4 years at some point in time, not a guidance, if you don't give guidance, where should the auto margins be and what will be the driving factors broadly, strategically, how should we think about that, where loses may come down or what is required…

Dr. Pawan Goenka: You are talking specifically margins, right?

Sandeep Kothari: Yes, specifically margins, where it should be and what are the drivers for it?

Dr. Pawan Goenka: So let me talk about what are the low hanging fruits for us and what are the challenges for us in margins, okay? The biggest low hanging fruit for us right now in improving our margin is our truck business where last year we have not released specific number of trucks losses because it is part of us, so we haven't released specific number but last year we still had significant loss in truck business, though we had gain in market share but significant loss in terms of PBIT. This year we will significantly improve the loss but this still be in a loss but significantly improved from like 80% improvement, something of that order.

Sandeep Kothari: Is volumes driving it?

Dr. Pawan Goenka: Both volume as well as what we are doing to our margins in that segment. The only spoiler that we have in that segment is that the industry discounts are not coming down and we have been hoping, everybody has been hoping for the last 2 years that these discounts will come down. We are taking realistic view in saying that we will be able to reduce our losses significantly, we are not taking an unrealistic view on discounts coming down, we are taking realistic view, on that basis we think that we will end the year at a very small loss. So that would be a very big driver to improve in, there is a number internally that you know, but I cannot share that number that how much it will improve our profit margin or ROCE percentage. The second big driver, if I look at consolidated level is two-wheelers. I do not think consolidated because last year two-wheeler was outside and now with the demerger happening, it will become part of M&M. So the loss in two-wheeler that we had year before became half of that last year and become further half this year. So that loss then also that becomes in two digit crores, not three digit crores. And therefore that will also at a consolidated at least drive our margin very well because these are the two big things. The third thing is in the small commercial vehicles. So they are the two low hanging fruits I would say. The third thing is in small commercial vehicles as our volume is growing, we have opportunities for margin improvement by virtue of material cost reduction. So within SCV, there are 3 sub segments. One is the pickup segment where we have had very good product, very good market shares always. Second is sort of what we call 1 ton segment and third is the 0.5 ton segment. The 0.5 ton segment Jeeto is one of the most successful products, I mean it doesn't get the highlight but one of the most successful products that we have launched lately and that product and Supro range that we have for the 0.7 ton and 1.2 tons together. As the volume increases in that, will obviously give us opportunity to increase the gross margin there. Once increase the gross margin, of course that will show up in our profits, that is the third option that we have. Coming to UV, our power brands clearly continue to be as you have mentioned yourself, very profitable for us and I do not see any reason why that profit will come down over time except for the fact that there is a challenge that the whole industry is going to face in the next 6 months to 9 months on the commodity prices which are on the upswing. I would think that right now the opportunity or ability for the industry to pass that on to the customer is not bad because the auto prices have not gone up much in the last year, year and a half, two years because commodity prices have been pretty stable. And therefore my expectation will be that we will be able to pass on the increase of commodity into the sector, right? The other the drivers of margins, what are the subtraction in margin will come from new product launches and new product launches always start off with the lower margin and then the margin increases and the investment that comes in and if you count margin below the depreciation and then obviously that investment that comes in will subtract something from the margin. Today, we are at about 4%-4.5% towards the end to depreciation for the auto cycle. So for the auto side, about 4%-4.5% goes into depreciation. If the new products give us the kind of volume that I have talked about, that number will not go up. But if the new products don't give us the volume, I hope that never happens, but if new products don't give that volume then the numbers would come down, the depreciation will go up. So that is a put income, a possible drain on the margin and I think one thing that is probably a drain on margin for the whole industry not just for us is that the cost of selling is going up.

Sandeep Kothari: You mean discounts or…?

Dr. Pawan Goenka: The discounts, the kind of things that we do with the leadership, the dealer margin that we have to give for dealers as dealers costs are also going up. So every year we have to increase dealer margin in percentage, otherwise dealers cannot survive. The expectation that customers have in terms of service in terms of what they see at the showroom, the competitive pressure that comes in because of which the discounts in the industry are always going up consistently. So that would probably have some diminishing effect. But overall if you look at this whole thing, I have given sort of long thing, but I am not going to give you a sort of a forward-looking statement. If you look at all of these things, I do not see a pressure coming on margin which will makes us sweat as to what do we do.

Sandeep Kothari: The overall auto margins are 4.5%, consolidated?

Dr. Pawan Goenka: Yes, but the consolidated has the effect of two-wheelers, consolidated is the effect of SsangYong.

Sandeep Kothari: Yes, so you know we buy the consolidated company…….

Dr. Pawan Goenka: So if you look at consolidated, then I didn't talk about the consolidated opportunity for SsangYong. Any turnaround in SsangYong would have a sort of disproportionate impact on consolidated because SsangYong is a very large topline. It is almost becoming as high as our auto business, it is 3-3.5 billion, right?

Manish Kumar: Almost 50% of the consolidated, auto topline is SsangYong?

Dr. Pawan Goenka: No, it won't be 50. It will be little less, 35%-40% I think because auto vertical of Mahindra is still is higher than SsangYong and then you add to that little bit of two-wheeler and some other things, so I think we have the percentage. I think it will be, my guess is 40%, not more than that. So any turnaround that we are able to do there will have a disproportionate leveraging on the margins of consolidated. And of course last year we made a profit on that and we are sort of right now zero plus minus one, and that we need to inch up to 2-3-4 and if you can just in your mind, imagine that if that was 4% which is not very high, just see what will happen to a consolidated. So that is another sort of opportunity for us to increase the margins**.**

Sandeep Kothari: And investment in BS-VI or…?

Dr. Pawan Goenka: BS-VI is not an investment concern for us, for OEMs. I think we had talked about something like 500 crores total investment for meeting BS-VI. But what we are going to do is, but suppliers will have to invest a lot of money. The concern with BS-VI is going to be the material cost that will go up. Now, would we be able to get margin on material cost increase, I don't know. So if material cost goes up, just for sake of taking the number one lakh and if we have to maintain a gross margin, let us say we took 1 lakh 25 cost increase, we will probably be sweating to pass on the whole one lakh to add margin to that will probably be very difficult. While may not affect our absolute profit per vehicle it might and that will be true for the whole industry, it is not Mahindra specific, but it is still 3 years away and we will have to see how much our engineers are able to do in terms of reducing the material cost impact. I had said when it was announced about year and half ago that, currently it costs 90,000 to meet Euro VI. So if I take 90,000 here and multiply that by GST rate of, I don't know what rate I multiple by, but let us say 45, 50 we multiply with. If I multiply that by 50, then that becomes 135. If I add some margin to that becomes 170-180 which is going to be very difficult. So that will be when 2020 comes that would definitely have an impact on margin for everybody and we will have to probably recalibrate the margin expectation at that point of time. So the concern there is in material cost and concern there is in ensuring that all the products are ready in time for meeting BS-VI and concern is there should not be any redefinition of timelines as happened for BS-IV. That is a concern because there we have zero tolerance or zero sort of delta time available because as it is pushed by 3 years from the original timeline to meet this. And I hope there is no preponing happened, but right now all the product plans are in place, everything is happening and every day is important to be able to be ready to start production on 1st April 2020.

VS Parthasarathy: Just before you go on, just quick two points I wanted to make that last time we had published saying only minus MTB what is the margin of auto and you said that over a period of 4-5 years and even before in spite of so many others including fiscal, our margins have been in the same band of 14%. So that just wanted to kind of make that one point. So very clearly it proves that even with all the pressures and volumes not having gone up that high, we are maintaining volumes, it is little bit increasing but not dramatically and revenues in the same ballpark we have managed. So the whole process of cost management and ability to pass on has been demonstrated in the past. The second is, therefore consequently impact of MTB on standalone is significant. And when the impact as we said positively, it has a big positive bias. Then comes the two-wheeler, earlier if we say 600 crores is with a net impact of last year's P&L. If 600 becomes zero, the profit goes up by 600 and therefore the margins you can do. So what are we doing? We are doing these things in both these cases to be able to do that. So I mean I just wanted to give a sense of quantum of these low-hanging fruits as Pawan calls them, but he is also balancing by saying here are some challenges, I don't want to kind of say everything is Hunky Dory, there are challenges …

Sandeep Kothari: These are in your control. So the overall margin should be dealable with….

Dr. Pawan Goenka: As you analyzed, you obviously will be analyzing at 2 levels, one level is what all happened to margins in the industry in general. So commodity price increases and BS-VI impact will be an industry impact. Nothing to do with Mahindra or any other specific company. Many things that I talked about are specific to Mahindra, which are, I think right now we have more opportunities in terms of our relative margin going up than threats.

Bhagyesh Kagalkar: Regarding the electric business, the company is ahead of its competitors and it has already launched products, the e2o and e-Verito. What are the investments we made in terms of battery and other capacities? Do these vehicles require further engineering work in terms of kerb weight being high, etc?

Dr. Pawan Goenka: Kerb weight being high.

Bhagyesh Kagalkar: It is not mentioned.

Dr. Pawan Goenka: So electric is a very long story and if I put the full story in front of you, it will take a lot of time. So I am going to do a little bit of abridgement of the story. See, Mahindra is currently in a power range or power train range which goes up to 72-volt battery. And with the increase that is happening now, interest in India the future generation vehicle will have higher voltage battery. So Mahindra is working on that development right now and will be able to launch those products about 2 years from now and beyond. In the meantime, two gold products that we have which include e-Verito, e-Supro, e2o plus are the ones that are appropriate we believe for India because they are lower cost compared to what will be therefore higher voltage and we are working on incrementally improving those products. We are not step jump but incrementally improving those products. We are also looking at newer platforms, not brand new platform designed for electric vehicles, but newer platforms from existing range of vehicles which could become electrified with the power train that we have. Today, we have in India approximately 3000 electric vehicles are on the road. 3000 is a good number of electric vehicles. The number of kilometers that have been driven is quite large. For example, the Ola project that we have done in Nagpur with 56 vehicles, we have more than 5 lakhs kilometers those vehicles have done already in about 3-3.5 months' time. The experience that we have on managing electric vehicles is very high and that is what is going to be an advantage as we move forward. We have fairly good understanding of what drives cost and we are working on reducing cost in many things. And we have now reached a point where we are at the verge of a breakeven for aggregator like Ola compared to what happens in a IC engine. We are just may be about this much more. I won't tell you how much this much is, but this much more that we need to do in combination of selling price of vehicle and revenue generation and other cost that go in. And if you believe that it is infrastructure charging became available without cost to the operator, not the charging itself the infrastructure became available without cost to the operator. Then, we are breaking even already on electric vehicle with current level of incentives that are there from the Government. So what is required for electric vehicles to take off in a big way is the incentives that are there today, I am not asking for more than that what is there today should continue for a defined period. It should not be that every 6 months, every 3 months we don't know what is going to happen because we have to invest money and we have to see that happen over a period of 3 years-4 years. Now the investment that we are making in future is in 3 parts; technology, capacity and product. The technology development work is all happening in Bangalore in Mahindra Electric. We are working with global technology leaders in batteries, in motors, in power electronics, in many cases we will do joint ventures with them and establish in India because we want to as much as possible do value addition in India and not to sort of import something and do screw drive a technology. So in that and then sort of capacity to make batteries, to make motors, to make power electronics and we expect to invest of the order of 500 crores in doing that part, the technology development and capacity for making batteries, power electronics and so on and so forth.

Bhagyesh Kagalkar: The capacities will come at Chakan?

Dr. Pawan Goenka: We are still deciding. Chakan is a possibility, Karnataka is another possibility but we are still deciding it, but the work will definitely be in Bangalore. The second part which is about the product development. The product development part is going to be done more by M&M Limited and not by Mahindra Electric because Mahindra Electric, it would not provide electric power train and there are two kinds of investment, one is incremental investment where we are taking existing product and making it electric. There, each product costs us 50 crores to 100 crores and the second one is for doing brand new products which is the Pininfarina product that we have talked about which is not so much aimed at India, so that will be in the price range of $60,000-$70,000-$80,000. So there not counting the Pininfarina electric vehicle product which is a high investment. We will invest probably another 300 crores- 400 crores in the product development for our current platform becoming electric so that is the second investment that we are making. We are also developing three-wheelers and buses because the government of India is focusing on mass transport and we are developing three-wheelers and buses. Earlier we were primarily in cars and those three-wheelers and buses will have next few months and tenders will come out and supply will start probably in the fourth quarter of the financial year which is a big opportunity. So we are working on that. But if you look at all of these things, the investment other than Pininfarina cars is not very large. We are talking sub 1000 crores total investment that we have to make. Investment is not very large. What we need to focus on is keeping our cost at a point which gives us volume with profit. Getting volume also will not be a problem, the challenge will be how do you get volume at profit and that is what we are going to work on. When we were selling 30-40-50 a month, it was okay for us to sell without making profit, but when we are going to sell 1000-1500 a month obviously cannot afford to sell without profit. So we have to work that. We have to bring our cost down sufficiently that we have been able to sell at a profit and we are reasonably sure, I mean we have enough experience now. We have done enough number crunching now. We are reasonably sure that we will be able to match any other competitor in terms of price and yet make some profit.

Moderator: Thank you. The next question is from the line of Lakshmikant Reddy from Franklin Templeton Investment. Please go ahead.

Lakshmikant Reddy: Just wanted to understand, I mean when do we start defocusing on R&D on the internal combustion engines?

Dr. Pawan Goenka: This question has been asked since 1920 at various times by various people to various companies. I don't think we can. While we talk about everything, it is not the first time that the view was that the internal combustion engine has a limited life. There are many other technologies that have come forward which were thought to replace internal combustion but that has not happened. And it is too risky for any automakers today to take a view that there is no future in IC engine and therefore we should defocus on it. In fact, we cannot even take a view that we should defocus on diesel engine and focus only on gasoline engine. So therefore the complexity that we have in product development is that you have to cater to too many things, we have to cater to gasoline engine, the CNG, the diesel, the hybrid, the electric all of these and right now we cannot afford to defocus on anything.

Lakshmikant Reddy: Does it mean that the R&D cost over the next 5-year period will be much higher than the last 5-year period?

Dr. Pawan Goenka: The R&D cost for the next 5 years will be higher than last 5 years, but it is not necessarily because of focusing on multiple engines. In fact, what we are doing right now is developing one new engine platform. We already have an engine platform developed with SsangYong which gives us a 1.2-1.5-litre gasoline diesel engine all on the same platform, and that is done. There is nothing further that we need to do for the 1.2-1.5-litre engine. No further investment in that, except incremental improvements for the platform is done. We are right now working on a new platform of 2-2.2-litre engine which is already work in progress and part of the investment is already done and that would be the second platform, again gasoline and diesel both and after that we don't need to invest. So really the total investment that we have in R&D, the engine investment is probably not even 5% to 7% and therefore the engine will not drive the R&D expenditure. What will drive the R&D expenditure is that the space of product changes in India is becoming much faster and therefore we need to refresh the products much faster, do refreshes much faster, refreshes has to become bigger refreshes than we have needed to do in the past and that will drive the R&D expenditure. But the important thing for us, I mean what we measure is to look at what is the percentage of revenue that is going in depreciation and the number that we have today if we are able to maintain that number and that is our internal target. And if you are able to maintain that number, then we are fine. So if our volumes grow in proportion to the industry growth, hopefully slightly better, then we will be alright. Our depreciation percentage will not go up higher than what we have today and that will be the sort of thing that we will shoot for or target for.

Prasun Gajri: Just want to get a sense sir both on two wheelers and HCVs while the losses would come down, we are still very marginal players. So what is the end game in that, do we believe that we will become significant players and therefore what drives that and if we don't believe we are significant players then what is the end game in that?

Dr. Pawan Goenka: Commercial vehicle is easier question to answer. In commercial vehicle, we are now at about 4.5% market share. A significant player will be about 8%-10% market share. So that is what we are aiming towards to get to that point. In many ways, the transition from BS-III to BS-IV has been a very good thing for us. The reason it has been good thing for us is that BS-IV is all CRDe engine. We already had a CRDe engine in our trucks while many placed in and we have the largest or longest CRDe experience in India because we started 10 years ago before anyone else in India had a CRDe engine made in India and that gives us a leg up in some sense because CRDe technology we are very familiar with and today if you look at the, if you talk to the truckers, my belief is and this is what I am told, I hope that this is right that our vehicles standout very well against competition Blazo and then we have also done very aggressive marketing by giving a guarantee that if fuel efficiency is not matching to the best, then give us the truck back and so far we have not had to take a single truck back. So I think on the strength of product that we have today which is very well accepted, we are still growing in terms of the network, we are still growing in terms of our service set up. We are still ensuring that spare parts are easily available everywhere. These are three very important parts for market share to grow in the industry. I do believe that we have a good shot at getting to 8% to 10% market share. 8% to 10% market share in this industry is a fairly good topline and the discounts cannot continue forever. So if the discounts become more reasonable, what it usually before this current sort of way we started, then I think this business will give us a good topline and good bottom line and therefore being a significant number three will be our objective. Right now, we are number four, becoming a significant number three will be our objective even if we are significant number three, then I think this is enough materiality in this business for us to pay attention to it. When it comes to two-wheelers, we have changed our path. The commuter business that we were in with 110 cc bike and scooters, we have more or less gotten out of, we are still selling a few, but more or less we have gotten out of. And what we are focusing now on is the premium bike under CLPL and that will start happening towards end of next calendar year and we will see how that goes. If that catches on, then sky is the limit and you have seen that because other examples of what kind of values it can drive for a company. If it doesn't catch on, I mean obviously we were doing it with a view that will catch on, but one can never be sure of anything. So if it does not catch on, it is not something where the investment is very high. The investment is not in terms of 1000s of crores, it is in 100s of crores. So it is not a very high risk for us. But the potential benefit that we get from it if it catches on we believe is very high. So therefore it is very good sort of thing for us to get into and work on. That is where we are.

VS Parthasarathy: And just one or two clarification part from my point of view, when you talked about 4.5 you meant HCV, so not the total portfolio but only HCV portion of it which is the one, and LCV we already have a good presence and then there is some new range also.

Dr. Pawan Goenka: So small commercial vehicle which is 3.5 tons and below, we are at 51%-52% market share. LCV which is from 3.5 to about 9 tons or 8 tons, we are about 10% market share and the medium commercial vehicle which is 10 tons to about 16 tons, we are not present right now. That is where we will be offering a new product about 9 months from now and that will then complete the range for us that is only the missing link that we have today.

Prashant Jain: Government has announced the tender for three-wheelers. So is does this business risk moving from a B2Cto a B2B business, that is one. Lithium batteries, I mean the electric three-wheelers have now come with the battery, speed will be the comparable to the conventional three wheelers?

Dr. Pawan Goenka: Yes. It is a good question. Does it become B2C to B2B business? I think you are coming at it from the view point of whether it will have put stain on margin. So is that your concern? See, right now I think electric vehicle by itself is kind of very difficult business in terms of margin, as you know very well that in Mahindra Electric we are still losing money. So electric vehicle itself is a very difficult business from margin view point. I think as a tender, it is hard to say what will happen now. Obviously tender means bulk buying, bulk buying always means higher power to the buyer then to the seller. But we will just have to make sure that we don't become too anxious to get volume at the cost of not making money, so it is too early for me to answer that. But when the tender it does, it tend to become from B2C to B2B business.

VS Parthasarathy: Just to get one perspective that when you do B2B business, the gross margin maybe a little lesser, but if you did have an organization which is B2B, the cost below gross margin also tends to adjust itself, but there are two issues that we are grappling with here, one is B2B and second is technology change and Pawan was saying that both put together creates more tension, but B2B business per se should just because there are enough B2B business which makes good ROCE.

Dr. Pawan Goenka: So frankly if you look at the profit margin of B2B businesses, by no means B2B businesses are lower profit margin business than B2C businesses.

Prashant Jain: Do you think competitors who do not have the legacy of B2C market on the whole and assembling electric vehicle is far simpler than conventional vehicle?

Dr. Pawan Goenka: And that is what Partha was saying that the gross margin may become lower but that does not mean that our PBIT will also become lower.

Prashant Jain: And sir, second question is with the Lithium powered batteries in electric three wheelers when will they begin to compete with the conventional three-wheelers, I mean so far we have seen…?

Dr. Pawan Goenka: In terms of?

Prashant Jain: So far we have seen they are more as replacement to cycle rickshaws?

Prashant Jain: Electric Three-wheeler are more like replacements. They are not a threat to, because of the low speed. The Lithium battery three-wheelers, how do they start…

Dr. Pawan Goenka: See, these tenders that are coming would certainly be requiring a performance that would be a replacement for diesel or gasoline rickshaws and not cycle rickshaws.

Prashant Jain: And sir how do you expect the consumer price to compare for three wheelers?

Dr. Pawan Goenka: It has to be same, otherwise it won't sell.

Prashant Jain: Can it be lower?

Dr. Pawan Goenka: Will be a challenge. What the government is doing is they are saying that we will sell a rickshaw or an auto without a battery and battery will be a fuel and separate vertical will be created for swappable batteries that will be put into the three-wheeler auto rickshaw. That whole infrastructure is not in place yet and that also has to come together along with the sale of rickshaws and e-autos. So it is right now everything is work in progress. So for me to be able to say what will it mean to the customer price is hard, but what is expected is that we will be able to sell our vehicle at a price very similar to what we sell our vehicle without battery at a price very similar to what it is for current auto rickshaw and the diesel engine. And then the battery with the charge would cost less per kilometre then what it cost for putting fuel in it. So if you add that two together, it probably means that the customer would pay similar amount if not slightly smaller for commuting.

Vetri Subramaniam: Would we get some idea on SsangYong and what is the plan there in terms of expenditures of new platform and what is the key to actually expanding margins there? Is it just that we do not have enough of a global distribution or brand footprint? What is the key to that expanding actually?

Dr. Pawan Goenka: So product platform plan has been communicated very clearly. Nothing has changed. We have just launched G4 Rexton. G4 Rexton global launch was on 12th of February in Frankfurt Motor Show and we have launched in Korea. It has been a huge success. In fact, with the volumes that we got from first 2-3 months are more than what we had expected to get. But it is a fairly expensive product even in Korean benchmark and we have a very good market share in that penetration and therefore after Tivoli that is our sort of second big hit product. We have a Q200 product coming on that same platform in the first quarter of next calendar year and after that, we have C300 product coming in about middle of 2019. So one new product every year and then after that again we have a full plan. So product range development view point, we are quite okay.

We have the electric vehicle work happening along with Mahindra for making one of the vehicles of SsangYong electric, so that work is also going on. Where we are right now struggling is on export volume which has reduced one down during the day for variety of reasons in various markets that we present in. The big ticket item for us are China, Russia and some of the countries in Latin America and some of the countries in Europe and we are focusing on all of these. If we can, our domestic volume is increased and our market share is constantly increasing. There we are doing very well. We need to get the export also to fire. And there are variety of things that we are doing for that. So that is on the volume front and product front. As far as the margin is concerned, right now Korean Won has appreciated. So that is hurting our margin, so it is for 1120-1130 and good value for us in terms of profitability above 1150. So we are looking for that help to come that is one. And second like any other auto companies looking at material cost reduction, looking at efficiency improvement, looking at reducing some of the fixed costs, all of those things we are doing. Since we are close to zero, anything that happens even a smallest change increases the profit significantly. So that is the beauty about being zero, go from zero to one doesn't require whole lot of things to happen. To go from 9 to 10 is more difficult than going from zero to one. So I am hoping that over the next 2-3 years we will get to a sort of a steady, it will never be double digit margin in the next short to medium term and double digit margin phenomenon doesn't happen outside India too much, but it will be sort of, if you get 3% to 5% margin in SsangYong that is a good margin to shoot for and that is what we are targeting in our business planning. Not given by any means, something that we have reasonably good plan for and working towards. Last question, we will take.

S. Krishnakumar: In terms of EVs do you see EVs going towards CNG where as public passenger moves towards electric vehicles and then the private vehicles continue to sort of more on EVs?

Dr. Pawan Goenka: It is a combination of EV and shared mobility, that will probably change the way we drive, the way we move from point A to point B and the shared mobility is growing very rapidly and there are so many different models of shared mobility that we have Ola, Uber of course all of us have used and there are many more companies that are in the shared mobility space on a rental basis, call basis, fleet basis and electric sort of becomes a pretty good option there. The reason of pretty good option is that all these vehicles travel more kilometres per day than a personal vehicles do and electric vehicle have been higher fixed cost and lower variable cost and clearly work better when you all flogging off the asset is higher and that is the reason electric vehicle with little bit cost down, with battery cost coming down and more and more use of shared mobility perhaps will become a natural fit and at a point of time not even require government incentive like what has happened for solar, not even require government incentive to grow. So I think there is no doubt in my mind that electric vehicles will play a major role in mobility, whether we will reach the sort of stated goal of 100% electric by 2032 or not, it is too early to pass a comment on that because right now we are selling less than 100 a month. So right now from us to talk about what happens when we start selling 500,000 a month is too far and we should take a step at a time. It is a good goal to have in front of us and work towards it because if electric vehicle becomes viable and if we have 100% electric fleet, the benefit that come to us as a country are enormous. It does not matter whether it is Mahindra or somebody else who is the major supplier of electric vehicle but the benefit to the country is enormous. Air becomes so clean that you would in fact feel pretty bad that there is nothing to smell anymore and oil import which is a very big drain on our balance of trade, if that goes away, just imagine what will happen to our balance of trade. So both the balance of trade view point and the environment view point if a trade becomes not even, forget 100, even if it becomes 25%-30% electric that will make a huge difference in both of these.

Moderator: Thank you. The next question from the line of Aditi Puri from Capital World Investor. Please go ahead.

Aditi Puri: Thank you Dr. Goenka for this opportunity. I wanted to ask you on the SCV side, do you think you need to make any changes to your dealership network, revamp the experience, some sort of rebranding you need to do because now in terms of your product portfolio, you will be launching sort of the U321, the S201, more Tivoli based platform. So just on the dealership experience and on the branding, is there anything different or anything that you are thinking about doing there?

Dr. Pawan Goenka: No. I don't think we need to do any major overhaul of dealerships because we have already two separate dealers which is one for personal vehicles, one for commercial vehicles and of course we have heavy trucks being sold in third set of dealership. Therefore, we don't need to do any major overhaul unlike creating a new range of dealership, answer is no. Of course as we launch new products, we always look for better infrastructure from dealers, they need to invest little bit money, sometimes they look for more floor space if possible. So those things happen but not a major overhaul.

S. Krishnakumar: **So** on the battery charging side do you think both models of battery swapping and public infra will have to be implemented if EVs have to take off?

Dr. Pawan Goenka: So I think the swapping idea would yet to be tested because there is not a single vehicle today this swappable battery but that idea is planned only for three wheelers and buses. That is not planned for cars, because cars don't lend themselves to a swappable battery because the battery is stuck inside whereas in three wheelers and buses the battery is sitting on the chassis. So it is easier to do a swappable battery, easy access to the battery, in fact many people know that Mahindra was the first company in the world to launch swappable battery, electric vehicle way back in 2005 or 2006 where we have launched what we called Bijlee which had swappable battery, three-wheeler swappable battery that was launched in 2005. So there it is very easy and that is where it will be. So we will have to have both swappable battery as well as the charging infrastructure. Okay, thank you every one.

Moderator: Thank you.