“Mahindra & Mahindra Limited Q1 FY-19 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Mahindra & Mahindra Q1 FY19 Earnings Conference Call hosted by Emkay Global Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Raghunandhan of Emkay Global. Thank you and over to you, sir.

Raghunandhan NL: Thank you, Aman. Good evening everyone. Emkay Global is pleased to invite you for the conference call with Mahindra to discuss the Q1 FY19 Results. We are delighted to have with us Dr. Pawan Goenka – Managing Director; Mr. V. S. Parthasarathy – The Group CFO and Group CIO; and other senior management personnel from M&M including the IR team.

We would initially start off with comments from Partha sir and then we will start the Q&A session. Over to you, Partha sir.

V. S. Parthasarathy: Thank you. 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 financials on Q1 FY19. After my comments Dr Pawan Goenka will share overall performance and some aspects in detail. Let me first briefly talk about the macroeconomic updates.

Before I talk about global factors I wanted to highlight the second consequential rate hike of 25 bps done by the RBI taking the repo rate to 6.5% now. The rates have gone up by 50 bps over last two meetings and over last two years we have reached back at the same repo rate. Shall we say back to the past.

So, amidst the rhythm of rain RBI has taken an inflation focused approach to rein the inflation rather than raining benefits to the industry. But probably the industry wants more focus on growth especially given the fact that trade protectionism appears to be the new norm around the globe now.

Talking about trade disruptions:

The US China global trade wars seem to be expanding to the EU. The good part is that the global growth forecast has been maintained at 3.9% for 2018 and 2019. The US growth outlook looks sustained with physical stimulus driving short term growth.

The US Dollar continues to be strong buoyed by outlook on strong US economy and rising yields. Closer home, real GDP continued the upward trend and reached as six quarter high of 7.7% in Q4 FY18.

On the back of this environment let me share the financials for Q1 FY19 for M&M and MVML put together:

Happy to share that for Q1 FY19 we have achieved the best ever first quarter performance across all financial parameters. Net revenue at Rs. 13,358 crores is higher by 22.8% versus Q1 FY18. As mentioned by me in the last quarter the previous year revenue has been reinstated to give GST effect in our farm equipment business.

EBITDA is Rs. 2,110 crores is 47% higher than the previous year which was at Rs. 1,434 crores. OPM at 15.8% is higher by 260 basis points versus previous year which was at 13.2%. PBIT of Rs. 1,874 crores is higher by 58.7% against Q1 FY18 which was Rs. 1,180 crores previous year. PBT before EI at Rs. 1,830 crores is higher by 62% versus previous year and PBT after EI at Rs. 1,855 crores is higher by 64% versus previous year which was at Rs. 1,130 crores.

Considering the above, PAT before EI at Rs. 1,238 crores is up by 65% against the previous year of Rs. 752 crores. And PAT after EI at Rs. 1,257 crores is up by 67.2% versus the previous year figure of Rs. 752 crores. You are aware that we transited to GST regime last year from July 2017 onwards. Accordingly, we made a provision of Rs. 144 crores in Q1 FY18 books which reduced the financial performance of the previous year quarter.

If we were to adjust that one time provision from the figures of previous quarter our growth percentage will be moderated as follows but we will still be a stellar performance. Revenue will grow at 21.2% in that scenario; EBITDA at 33.7%, OPM would be 150 bps higher than previous year. PBIT growth of 41.5% and PBT after EI will be 45.7% and PAT after EI will be 49%.

So, let me quickly talk about Q1 segment results as well:

Revenue at Rs. 8,000 crores for auto sector higher by 22.6% versus previous year. Adjusting for the GST provision impact the growth would be 21.5%. Segment result is Rs. 758 crores for auto up by 69.5% versus last year growing significantly higher than the revenue growth rate adjusted for GST the growth would be 49.2%.

FES our Farm Equipment Segment revenue at Rs. 5,007 crores which is the first time ever that farm equipment sector has crossed this Rs. 5,000 crores mark higher by 24.2% against last year. Adjusting for GST provision the impact as stated earlier the growth would be 21.7%. Segment results for FES is Rs. 1,045 crores which again is the first time ever that farm equipment sector has crossed the Rs. 1,000 crores mark therefore reaching a new milestone and is higher by 40.9% versus previous year growing significantly higher than revenue growth rate. Adjusted for GST the growth would be 27%.

Financial metrics debt equity continues to be very low 0.1% gross and 0% at net. We will be publishing the consolidated results after the Board meeting of Mahindra Holidays which is slated on 9 August however I would like to highlight some messages at the Group level. Our financial sector continued its growth trajectory and Mahindra Finance delivered a 34% growth in PAT by Rs. 269 crores on a standalone basis while presenting its financial for the first time under Ind-AS.

TechM continues on a digital journey and posted a PAT of Rs. 898 crores in Q1 FY19 delivering a 12% Year-on-Year growth. Profits at Mahindra Lifespaces almost doubled at Rs. 27 crores as compared to previous year figure of Rs. 14 crores. They also adapted Ind-AS 115 for the first time. Mahindra Logistics reported a PAT of Rs. 24 crores growth of 61% over the previous quarter.

Given that all these companies form the pillar of the Group performance along with M&M while we will see the consolidated results only after the Board meeting of Holidays we already have got an indication of how things will look on a consolidated basis and we will be happy to answer any questions on the consolidated number as and when they are declared.

Let me conclude by saying that on a standalone basis the financial performance has been excellent backed by good topline growth and robust cost management. Now I request Pawan to give his comments please.

Dr. Pawan Goenka: So, welcome to the conference. You have seen the result you have gone through Partha's overview of financial performance. I just want to give you little bit more of environment some of it will be repeat of what Partha has said and get in them into specific performance of the industry and in other companies.

You may recall that at the beginning of last quarter both in the media and to the analyst I had talked about by saying no headwinds this financial year and I had talked about some things to watch for. So, if the first quarter performance is anything to go by we certainly are not seeing any headwinds in fact the first quarter performance for all the industries that we are involved in or engaged in was better than what we had expected at the beginning of the quarter.

The four things to watch for that I had mentioned at the beginning of the quarter were one, normal monsoon and it certainly has happened. There were little bit of the lull in between but now it sort of back to estimate of being 97% or 96% of the normal and so far the rains have been pretty good, the spread have been very good 82% of the area in the country has received normal rainfall.

Second thing that I had talked about was interest rates rise and I had mentioned that up to 50 bps increase will not be a problem and beyond 50 bps it will probably start sweating little bit. So, we have gotten 50 bps and we have not seen any impact of that on our sales in either auto or tractors. And yet it has not been passed on to the retail financing anyway, so we would not see the effect.

The third thing that I talked about was commodity prices. Commodity prices have actually gone up perhaps little more than what we had thought at the beginning of the quarter. But as you have seen in the result we have been able to take care of it partly by selling price increase and it is not fully, and partly by other efficiencies because of the volume going up fixed cost, personal cost and percentage of revenue have gone down as you will see in the results.

And the last one was on oil prices and I had mentioned that up to about $70 should be okay beyond $70 it might start pinching. We are at about $73, $74 right now. The petrol and diesel prices are high it is somewhat hurting the transport sector and that was one of the reasons for the strike that they had. But I have not seen any slowing down on demand on account of that.

So, if you look at the rural sentiment overall everything obviously positive in addition to monsoon harvest have been good. The Rabi harvest was pretty good with 5% higher than 5 year average. Kharif MSP has gone up by 15% on a weighted average so that is also pretty good. Loan waiver certainly have helped the sentiment. Reservoir storage is very good. You probably have all of these data and rise in non-agriculture income because it is a sustained investment in rural infrastructure as well as the Government expenditure on rural development.

So, all of this is certainly helping the rural economy and for our auto segment we see a little bit more percentage shift happening towards rural than urban. Every year we see 1% or 2% shift. Now coming specifically to the tractor industry. The industry grew by 23.4% in the first quarter. It is the highest ever Q1 industry that we have seen for tractors. In July there was a bit of a slowdown to 16% but July anyway is a slow month, and everything sort of wait normally for the festive season and July may have been slightly affected by transport strike. Because most of the companies were in full capacity and perhaps they were not able to supply because of transport strike.

For M&M we had highest ever quarter volume 97,360. The Trakstar brand which is sort of a new brand for us and we have talked about that at the analyst meet in Nagpur is something that we have hoping will give us in the medium term 3% to 4% market share and we are happy to note that though on a small base Trakstar has doubled the volume in this quarter.

And also, another thing that we had talked about in analyst conference we had, was our focus on farm machinery, the implements and I am happy to note that in this quarter again on a small base the growth was 41%. If you look at the outlook for tractor industry going forward last quarter, we had started off saying for the year 8% to 10%. Given how quarter 1 has done we see very little risk on saying now that we should be more in the 12% to 14% range and Q2 on the other hand will be flat and at best flat I should say and that is because of the festive season shifting to November, Diwali shifting to November. But if you look at Q2 plus Q3 then we expect to see a growth of the order of 12% in the six months and ending the year somewhere between 12% to 14% for the tractor industry.

Going to automotive, industry again had very good growth in fact if we look at overall industry excluding two-wheeler the growth number that we have seen 28% is the highest percentage growth in 31 quarters for the industry. But you need to temper that with the fact that last year first quarter was bad as Partha pointed out both financially as well as in terms of volumes because many companies were sort of not selling in the month of June specific and because the BS-III ban the commercial vehicle industry was very strongly and heavily subdued. And in fact CV therefore has seen a 51% growth in this quarter.

If I look at M&M performance, we had 8.5% growth in PV and 22.6% growth in CV. Overall 16.2% growth. We had two product launches during this quarter. The all new Plush XUV500 and I am happy to see that with that the XUV volumes are back to the 2,700 to 2,800 range that we have been used to and we sold 8,482 numbers in this quarter. We also launched TUV300 Plus which is a longer TUV300 for the T&T segment and that is now picking up in volume.

HCV was a high point for us the truck side with 123% growth and that takes our market share to 5.7% from about 5.2% in the previous year. Looking forward sentiment is positive but since this quarter's performance was also because partly because of the low base of last year. As of now we are not revising the forecast, but all the indications are that if in the month of August-September does well then we should see higher growth than what we had talked about in the beginning of last quarter.

Export for auto was very good for us. We doubled the export to 9,360 vehicles in this quarter. And all the markets for us neighboring countries, Africa and rest of the world have done well for us. Tractor was flat. It was flat on the basis of the overall last year was a good year and this year has remained flat. If I look at electric vehicles percentage growth looks good from 295 we have done 469 but 469 electric vehicles in one quarter is not what we are planning for and I would still hope that we see a much better growth than this in the rest of the quarters.

Just a little bit about new launches. I am sure you are tracking it very well. We have already unveiled the name of Marazzo which is U321 and the launch will happen before end of September we have said. With the one more launch of the two S201 and the G4 Rexton before Diwali and second one will happen after Diwali. We have also unveiled the Furio ICV and where we have been fixed from the vehicle and that launch also will happen before Diwali.

On the tractor side we have Novo 65 horsepower launch and the intelligent tractor on Yuvo launched. Neither of these two are high volume products they are niche products but product that we give lot of importance to.

Another thing that I will just quickly point out is on inventory. Our inventory situation is very good. For Tractor we are probably reasonably below the industry and for auto we are pretty much in line with the industry. In fact, for next three months our concern is capacity both the supplier and at our end and not in terms of demand.

Material cost increase higher than what we had planned for. We have been able to pass on about half of the material cost increase and rest of it has been more than compensated by other efficiency improvements that we have done.

So, I am going to stop here. I am not covering the other businesses let it come up in the Q&A and based on your interest and open up for Q&A now.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question is about book keeping. We have seen other companies reporting changing in accounting netting out the freight expenses on the revenue line. Do you have any such adjustment this quarter?

V. S. Parthasarathy: Yes, I did not specifically tell because the impact on account of Ind-AS 115 that new accounting standard did not have a material impact but the principles were fully followed for example what you said secondary freight rate earlier reflected in both revenue and expenses but now has been netted off from revenue and it is more balance sheet item than P&L. This impact is Rs. 90 crores in the current quarter, so therefore revenue is reduced by Rs. 90 crores to that extent while gross margins remain same.

Similarly, there is a figure of Rs. 24 crores on account of incentives which does the same thing and in farm equipment sector there is a Rs. 16 crores impact on account of retail incentives which is now being brought into the system based on the new requirement. So, these are the impact, basically neutral to profit all of them and not material from margin point of view. To the extent of Rs. 90 crores it would have been done this year but would not have been done last year. In a way if you want to go like-to-like compare of revenue you might add Rs. 90 crores.

So, these were the changes for us. However, our consolidated report will have a little bigger impact on account of Mahindra Finance, Mahindra Holidays and Mahindra Lifespaces but we will discuss that once the results are declared, anybody wants any queries answer that, okay.

Kumar Rakesh: Understood. My next question was about which Dr. Goenka also talked about your cost efficiencies which you have been driving and offsetting your commodity impact and we have seen that happening in this quarter as well on your overhead cost is coming down. How sustainable all of that is whatever we are seeing in this quarter, all of it is sustainable or some of it will go back in the coming quarter?

Dr. Pawan Goenka: These are always hard questions to answer and I cannot really forecast what will happen. Obviously, we try and contain cost, my guess is that if we continue to get the revenue growth the way we had in the 1st quarter then we would continue to have cost efficiency both on the fixed cost as well as employee cost. I think this quarter we probably had like 1.6% reduction in these two heads fixed cost and employee cost and 1.6% is pretty large, I do not know if we can get 1.6% again but we will continue to get an advantage.

V. S. Parthasarathy: Another way to look at the same is, is there anything which is in kind of a deferment or you did not incur the cost now and you will incur the cost in future, so we have no cost carry forward in the plant and we have no carry forward in expenses in the accounting part. So, everything is fully kind of done that, and even if you have deferred something the provision is fully capturing that.

Dr. Pawan Goenka: But there is always a lumpiness in fixed cost not in employee cost but in fixed cost there is a lumpiness depending on when major marketing expenditure happens. I do not have the data to say whether there was lumpiness in 1st quarter, whether there will be lumpiness in 2nd quarter.

V. S. Parthasarathy: But it will also fair to say that when we have launches in product, so launch expenses will be incurred in that quarter. Does that answer your question fully?

Kumar Rakesh: Yes, it does.

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

Kapil Singh: Just one clarification firstly. This Ind-AS 115, the impact that we mentioned is Rs. 90 crores plus Rs. 24 crores plus Rs. 16 crores. Is that the right way to look at?

V. S. Parthasarathy: Yes Rs. 90 crores and Rs. 24 crores is only reduction in revenue. It has no impact on the contribution of profits. So for Rs. 90 crores and Rs. 24 crores, the net impact is revenue goes down and contribution of EBIDTA remains the same. Kapil, is that clear?

Kapil Singh: Right.

V. S. Parthasarathy: Okay, that is all. Earlier see secondary freight what used to happen is we used to treat it as an expense item and also a revenue item because we are charging it from the dealer but now as per our new accounting standards it becomes like a payable, so it is not counted in revenue, it is not counted in expense also.

Kapil Singh: You also mentioned some Rs. 16 crores impact due to farm equipment, where is that?

V. S. Parthasarathy: That is in expense line. Earlier retail expenses we were not fully charging up at the point of sale with the Ind-AS coming in we have kind of decided to capture even what the dealer will eventually spend on our behalf on retail which we will reimburse on his stock which is being taken into account and that is the Rs.16 crores. All this is already in the financial.

Kapil Singh: So, all these items will basically go out of revenue and other expenditure?

V. S. Parthasarathy: Yes, sorry all the items that I said is secondary freight and incentive, if you looked at last year they would be in the revenue item and the cost line, yes, that is correct what you are saying. Retail would not have been there last year, it is what we are doing for the first time complying to the fully to the new requirement. So, in that sense, in farm equipment it is an additional cost.

Kapil Singh: Firstly I wanted to check on the new launches, Dr. Goenka, you talked about S201 and G4 Rexton, so can you tell us what is the order of launches or right now you cannot tell?

Dr. Pawan Goenka: Unfortunately, at this stage, we can not tell you more than what we have already talked about at. In fact, I have been very careful in saying that the two before Diwali and one after and the one before is already announced that is Marazzo. We will announce the second one later . .

Kapil Singh: Okay, over next 2 to 3 years what is the number of new launches, completely new products in the UV space that you are envisioning?

Dr. Pawan Goenka: I am not going to be explicit about it because we do not want to announce launches to create in advance, but what I can tell you is that in terms of brand new products, brand new platforms after these three launches there will be nothing for the rest of the next calendar year. So, there are three launches we have and after that nothing for the rest of the calendar year. We will have couple of refreshers during the calendar year but not new platform. Then our new platform launches will start from 2020 which could be a full model replacement or new platform.

Moderator: Thank you. We have the next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: There is a lot of concern on the street that what happens to FY20 in terms of tractor demand. Would you say that it is based on monsoons span out in FY20 or there were lot of schemes by the government which has impacted tractor very positively in FY19, and we should look at a slowdown in FY20? Can you give your views on it please?

V. S. Parthasarathy: I will repeat the question and you can confirm whether I have heard it right. You are saying FY19 it seems very positive, there is a concern that FY20 industry growth will be very subdued and therefore he is building on it and asking what could be the reasons for that?

Dr. Pawan Goenka: See all I can tell you is that this is the third year of good growth. Normally we have a cycle of 3 years or 4 years once in a while, but normally there is a cycle like that. So, one would think that the cycle would not come back in the 4th year, the high demand. But however, one correction that I want to make because this time the de-growth before the uptick happened was very high and therefore only in last year have we gone back to the peak value. So, therefore our starting point almost one can say is from last year and start counting the cycle from last year.

So, I am saying all of this to say that there is little uncertainty on whether we are going to have the same kind of growth next year or not. It will depend obviously on factors like monsoon, it will depend on the factor like what kind of crop we get in Kharif and Rabi. It will depend on sort of government schemes also and next year being election year though elections would have been completed before the season starts that might also have an impact on it.

So, right now we are going in with same assumption as we started this year also though we have not done specific planning for next year, but we are starting the assumption of 8% to 10% for FY20 also, just like we had assumption of 8% to 10% for FY19 and we will sort of correct it as we get closer to the beginning of next year.

Hitesh Goel: You had also pointed out the various factors which are driving tractor demand, but if we look at the sowing data that is down significantly despite rains being very good, dispersion has been very good. So, that does not worry you for rest of the fiscal, in second half?

Dr. Pawan Goenka: So, it depends on how you look at it. If I look at the sowing that has happened up until now the data that we have, the sowing is little bit higher than the normal about 1.3% higher than the normal as per the data but slightly lower than the last year. These things depend a lot on when rains happen and sometimes to get overly sensitive to this number but if overall monsoon is good, if we get good rains in the first few months of August, even the small shortfall compared to last year, not compared to overall average, overall average we are better than, compared to last year that will probably get taken care of.

So, I am not at all concerned right now and when we look at what is happening on the ground we see absolutely no letup in the demand that we have for farm equipment, both tractor as well as machinery.

Hitesh Goel: Sir, my final question on MPV. So, the new MPV that you are launching, we were thinking like it will be launched more like at a price point of Ertiga, but the press reports suggest that you are actually launching it closer to the XUV price point. So, what is the thought process, are we targeting the taxi segment or the Innova segment at a substantial discount to Innova to really capture the segment, what is the thought process on the pricing of this model?

Dr. Pawan Goenka: I will not be able to tell you anymore that what we have already communicated.

Hitesh Goel: Okay, thank you.

V. S. Parthasarathy: There is only one thing, Pawan, do you want to share about the distribution of monsoon?

Dr. Pawan Goenka: I think these guys have data better than we do most of the time but from what we know about 82% of India has had normal rainfall up until now and the deficiency is in North East and normally North East deficiency is not something that affects agriculture adversely because North East gets lots of rain. So, compared to their datum even if it is lower it does not matter.

The only two states that are bit of a problem in terms of rainfall, one is Gujarat which is little lower, two of the southern states I think Karnataka is little lower, Tamil Nadu is okay. I think Andhra Pradesh is little lower or is it Telangana and Chhattisgarh is little lower. Apart from these 3 or 4 states Jharkhand sorry Jharkhand, 3 or 4 states rainfall is normal in every other place.

Moderator: Thank you. We will take the next question that is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: My question pertains to the price increase which we have taken in tractors and UVs in this quarter 1Q?

Dr. Pawan Goenka: We have taken approximately 1.5% in auto and about 1.2% or 1.3% in tractor.

Jinesh Gandhi: And any sort of price increase in July?

Dr. Pawan Goenka: So, we cannot talk about that right now. That is always a dynamic situation and the actual decision is made couple of days just before the announcement.

Jinesh Gandhi: Sure, secondly can you share volumes of Trakstar brand in this quarter considering that that would be one of the reasons why?

Dr. Pawan Goenka: We do not share brand wise data but since Trakstar is just a very small brand right now, we will tell you this but do not expect us to share brand wise because we will never share Mahindra versus Swaraj brand. So, we sold in this quarter 1,162 tractors of Trakstar brand which is about 100% more than 100% growth. This is YTD July sorry that was not June.

Jinesh Gandhi: And lastly for the new upcoming launches and for current SUVs we have got into this "World of SUVs"ddealerships. So, can you throw some more light on that?

Dr. Pawan Goenka: This is basically shop in shop that we are doing at our dealerships and we will create a bit of more SUV ambiance in our dealerships and do something different for what we call premium SUVs. We are not setting up a separate network because that will too expensive and not desirable for the dealers to spend so much money, we are only creating a different ambiance in shop in shop.

Jinesh Gandhi: And this would be across dealers?

Dr. Pawan Goenka: Certainly in urban area, we may go little slow in rural area but certainly in urban area.

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

Amyn Pirani: My question was on your existing SUV portfolio, while obviously the new launches will help us gain market share in the existing portfolio this year again, at least the beginning of the year has been bit sluggish compared to the overall market. So, while we have grown the growth continues to lag the market, so is there anything that you would want to highlight or is it just that the portfolio itself is more aged and hence only the new models can drive faster growth?

Dr. Pawan Goenka: So, I think it is reasonable to expect that the existing portfolio would be growing at a modest rate and what you have seen if you look at XUV 500, a very good growth coming from that, 49% growth coming from that. And when we have the new models and as mentioned in the past also that new models are not cannibalizing existing models. All three of them are totally in sort of what one would call a niche within the UV segment and therefore you would expect that our current models' volumes will continue with modest growth and all the new volumes that comes from these new models will be additional volume for us.

Amyn Pirani: Just one clarification. The Trakstar volumes are part of your overall monthly volumes and you report them, but they will not be part of your revenue right, because it is a subsidiary?

Dr. Pawan Goenka: That will not be part of revenue in standalone M&M, but will appear in Consolidated Accounts. Though there are certain supplies that happens from Mahindra to MGTL / Gromax, . So, to that extent that comes in Mahindra's revenue and get netted off and will be consolidated but other than that it will not come in.

Amyn Pirani: Okay thank you.

Dr. Pawan Goenka: I think the question that was asked on positioning of U321 or the Marazzo I cannot obviously be very explicit but if you go through the presentation that we have made in the press meet that happened, which has most of it is available online now. You would be able to position that vehicle compared to whatever names that you have taken as to where that vehicle should be. We are not directly benchmarking any vehicle, we are not going head on against any vehicle.

We are creating a spot here which we believe is a spot that is from price point view point is an empty spot and a spot where there is a good potential for demand for a good product and that is what we are trying to do. I cannot be more explicit in this, so if you hear this statement and go back to online and see what we have talked about the vehicle including the size of the vehicle and I do not know how many of you have seen that, but this is the highest footprint vehicle ever made by Mahindra including all our current product such as XUV and Scorpio.

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

Pramod Amthe: First question is, considering your 5% market share in the HCV space, how do you see this new axle load norm? And the impact on the short-term demand and the medium-term outlook?

Dr. Pawan Goenka: It is a scenario that is changing every day and even today there were some updating that were done by ministry. I believe they have now reduced the increase of load from 15%-18% to 12%-

15%. I believe they have also said that all homologation done by July 15th or 16th of 2018, are grandfathered that means we do not have to go and re-homologate and the existing fleet can be reregistered by the user. So, these are the things that have been just modified today.

Clearly as far as the OEMs are concerned we cannot declare our existing vehicles to have the newer load capacity. We have to redesign the vehicle, only after that we can declare those, and the redesign is not something which is trivial. The biggest factor is tire because the tire spec required for the new axle capacity are not available in India, and they will have to be developed by the tire manufacturers from scratch and typically it takes 12 months to 18 months to develop a tire like this.

Now I do not know under the current sort of urgency whether tire manufacturers can do it faster than that, but that is the longest lead time. Then we have to update the brake, we have to update the axles, we have to update the steering, we have to update the chassis. So, all of these will take some amount of work and given that we are all right now busy working BS-VI that certainly creates bit of distraction for us in terms of trying to meet that requirement.

But everybody will be working on it because that is what the customer would be expecting and those who do it faster than the other would definitely have an advantage in the market place. So, all manufacturers I am sure will work very vigorously to be the first among the first to launch the trucks with the new axle capacity. I cannot tell you right now whether that it will happen in 3 months or 6 months or 9 months, as I said probably tires will determine it as to how fast it happens.

Pramod Amthe: And second is with regard to your SUV portfolio. Do you feel again we are getting into too crowded or a too shorter span for the new launches because like next 3 months you will have two launches. These are similarly what we did some time back and then it becomes very difficult for the network to adjust, what is your thought on this same? And second, how do you see the Xylo and Quanto to sustain beyond this year considering you have new products coming through?

Dr. Pawan Goenka: Quanto has already been stopped, Xylo continues in sort of what I would consider low end T&T segment and in a sense Xylo is replacing the demand that Tavera had which was about 1,000 vehicles and Xylo is selling about 600 or 700 in a month, so that is where Xylo is. It is a very niche positioning and we do not see any reason to withdraw that product because it has constant demand that happens month after month.

We have clearly prepared our network to be able to manage these launches. We have clearly prepared our plants and suppliers to manage these launches and we probably will be able to talk in April 2019 conference on whether we did well or not did well.

Moderator: Thank you. We have the next question from the line of Mahesh Bendre from Karvy Institutional. Please go ahead.

Mahesh Bendre: Sir, my questions have been answered. Thank you so much.

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

Chirag Shah: My question was on gasoline engines. Any updates on that? Also the three models that we are launching they will also have gasoline engines at the time of launch?

Dr. Pawan Goenka: So, one of the three models will have gasoline engine at the time of launch. One more will get gasoline later on and one will not have gasoline.

Chirag Shah: So, is it possible to indicate which one of them will not have gasoline?

Dr. Pawan Goenka: . We would not like to comment at this stage.

Chirag Shah: We have to wait, fair point. And on the existing portfolio?

Dr. Pawan Goenka: Existing portfolio, as we have announced that by 2020 that is by the time we come to BS-VI, almost all our volume products will have gasoline option. But I also want to point out that in the segments that we are in gasoline is not a customer preferred option. For example, on XUV 500, we had launched a gasoline option in November of last year and up to now we have sold a total of 22 gasoline vehicles.

Chirag Shah: So, that was my point then when we know that the market may not be looking at gasoline why we have been making this kind of investment on the gasoline engines for the higher end products, when I say higher XUVs or the new models that you are launching, is there actually a need for gasoline engine on the portfolio?

Dr. Pawan Goenka: Two reasons. One is that for overseas markets, many markets even for the bigger SUVs like XUV 500 or Scorpio, gasoline is a desired option though we sell largely diesel right now, but we know that if we had good gasoline engine in this product, we will probably get a additional volume, so that is one reason. Second reason is that with diesel we do not know what might happen when and we cannot be caught napping where we do not have a gasoline option and suddenly we cannot sell diesel and we have to sell gasoline. So, that in a way preparing for all scenarios.

Now the question that you asked is why are we spending money on gasoline when we do not see a volume here, I think I had mentioned this either in the media or in the analyst meet last time that what we have been able to do is since all these engines that we have are ground up engine designed in the last 3 or 4 years, we have been able to design them in a way that the production capacity is totally fungible.

So, investment that we are making in setting up capacity at least is identical. I can almost make anywhere from 0 to 100 on either side. Not quite that way but almost it can be 0 to 100 on either side and the investment that has been made on development is not one plus one but it is far less than one plus one. So, we have been able to kind of take advantage of the fact that we are starting from scratch, planning for going either way, diesel or petrol depending on how the demand shifts and setting up a capacity to be totally fungible.

And I personally feel that it gives us an advantage going forward because there is so much uncertainty these days on what will happen in regulation, what will happen in customer demand, what will happen in exports market, so it is good to have that kind of flexibility.

Chirag Shah: And sir, just one last information. I missed on the price hikes that you indicated. Can you please repeat?

Dr. Pawan Goenka: 1.5 % in the last quarter on Auto, and 1.2% to 1.3% in Tractor.

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

Pramod Kumar: Pawan, my first question was pertaining the inventory financing for dealers in the tractor industry. Given the fact that the industry is seeing such a sharp growth is there a thinking that you can probably start kind of make the dealer community kind of carry the inventory on their books in terms of shortening the credit cycle as a process to begin with? Because we have seen that happened in the commercial vehicle industry post-GST?

And it kind of helped the industry performance in a much better way, there has not been much of a dramatic hard landing when the cycle kind of corrects because of overrating of the inventory and all of that. Because tractors historically had a much sharper correction and a bounce as well because of the inventory being kind of funded by the companies. So, is there a thinking that we can probably kind of go that way?

Dr. Pawan Goenka: So, any change if we make in a drastic manner at a given point of time will create too much disruption for the industry. We are quite comfortable with the working capital cycle that we have today. And as you pointed out that tractor is a positive working capital for us but fortunately for us Auto more than compensates for that positive cycle. So, we are in a very comfortable position and the whole pricing, the whole chain everything is based on what we have as a working capital cycle for dealers and for us.

Every once in a while if it goes out of line then we bring it back on line on either side and we have a certain internal formula of how much of inventory that the dealer has, or how much of the working capital the dealer puts into the business, how much of it is own money, how much of it is Mahindra’s money and how much of it is borrowed money and we try and stick very closely to that formula and with time we want to reduce inventory and reduce what Mahindra's contribution is but right now the inventory reduction that you see is more because of sudden spike in demand.

It is not something which is a permanent reduction and therefore we cannot be changing the dealer working capital cycle month on month depending on what is happening in that month. So, we have no intention, and sort of little bit longish answer to you but we have no intention right now to make a significant change in the working capital cycle and how much of the working capital is financed by Mahindra for tractor dealer we do not see any major change happening.

Pramod Kumar: Just a follow up question on Tractors. I have been kind of surprised positively on demand on the tractors side. So, just trying to understand which are the areas or pockets where which have to lead to the surprise when you look back at the data for the last few months? We have been cautiously optimistic, but the data seems to be much stronger than what we would have expected. So, I am just trying to understand, have you kind of managed to analyze the pockets of outperformance or any particular non-agri usage which is kind of started to kick in a meaningful way? Just some incremental color so that it kinds of gives us a better handle specially on FY19 because if it is non-agri then it can probably sustain for FY20 as well?

Dr. Pawan Goenka: Just want to add one more thing to the previous question, see the working capital cycle or the inventory financing that we do and the pricing that we do they go hand in hand. So, the capital cost in a way is built into the pricing and the margin that the dealers get. And therefore, we cannot change one without changing the other. So, now in terms of growth there are only two states which had single digit growth in the first quarter. Large states MP and Rajasthan, where the growth was almost flat in both cases. The markets that have grown very well let us say above 25% or 30% will be UP, Bihar, West Bengal, Gujarat, Telangana, AP.

These are the markets that had a very good growth. One thing Pramod, what you are kind of eluding to and it is very true that when it comes to the AGRI business, whether we talk of machines or tractors, India is not one country. India is as many countries the number of states we have and sometimes it is as many countries as many districts we have, not even states. And every district, every state has their own nuances depending on the type of soil, depending on where rain happened or did not happened, where irrigation is good or bad, what crops were sold that year and therefore every company not just Mahindra, does very detailed planning of district level on what will happen in each district and we do demand forecast for districts and not for country and then do our inventory planning or management of dealers based on the district planning.

I do not know if that answers your question but that is kind of what we have. Now other thing I think you said, what are the emergent trend that might affect the demand going forward? There is certainly a change that happens year on year on what kind of crop is planted and I do not know if I can say there is a pattern, but can we say that pulses are growing and MSP obviously has a large impact on what crops get sowed. And depending on which crop is being sowed the different kind of tractors will have higher demand.

Some crops require lower horse power, some require higher horse power, also if rice transplanters which are used for paddy farming starts picking up in demand which in India is very small right now that will also have an impact on tractor sales. We do think that India will see more and more use of implements and if more implements gets utilized then again it can affect what kind of tractors get used. So, everything is very interlinked. In our business planning all of these things are looked at in great detail and those who get it right perhaps do better than those who do not get it right. I am sure everybody does it right.

Pramod Kumar: Last question on the automotive side. How is the initial feedback in select markets where you launched the TUV300 plus? The reason why I asked this question is if the addressable market can be expanded materially by having a extended overhang and making it a more roomier vehicle can that also be a thought which can be applied even to the S201? Because then you can play even in the sub 4-meter category and even in the 4 meter plus category depending on what the customer wants either more space at a higher price, so I am just trying to understand how is the TUV300 plus kind of doing initially in the initial run?

Dr. Pawan Goenka: So, the market that TUV300 Plus is addressing for us, we have two other products. One is Bolero Long and second is Xylo. For each of these we are getting 600, 700, 800 kind of volume per month. TUV300 Plus was launched I think middle of May, so we have seen one full month of this and the volumes for this I will not give you exact number, but similar to what we see in Xylo of that order.

Pramod Kumar: But it could be an interesting strategy, right?

Dr. Pawan Goenka: One thing that we are doing now and again everybody is doing, again we are not unique, that the auto business is a business where everyday something new is happening. And something new is happening because of changing business models, because of government regulations, because of customer requirements, expectations and because of competitive moves and therefore every auto company has to keep many options open as long as they are affordable options.

And therefore, in a segment like T&T which is what this is focusing on we have kept our options open. Now when you talk about S201, I do not think S201 and TUV300 are in the same class. S201 is a monocoque crossover whereas TUV300 is clearly a frame-based SUV vehicle and therefore the customers who are looking for TUV will not be looking at S201 and vice versa.

Pramod Kumar: No, my read was more that can the addressable market for the S201 platform can be much larger by making a larger derivative of that as well? So, I was thinking on those lines. Not on overlap with TUV definitely.

Dr. Pawan Goenka: Certainly, can be, but that is part of the product planning and product planning is more secretive department in Mahindra than even our designer studio.

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

Sonal Gupta: A few clarifications. Sir, if you could just highlight what do you expect now that this Axle load revision has been done for existing fleet as well. So, does that I mean your thoughts on the demand outlook for the truck side?

Dr. Pawan Goenka: So, demand was certainly adversely affected towards the end of July. And there were lot of confusion on what might happen, might not happen. There was even in fact confusion on RTO registering the vehicles not knowing what they are supposed register. Things are clearing up August will be better than July in terms of impact of axle capacity, but I personally do not think that August will be fully normal. My guess is by September it will become normal, but I do not think any automaker will be launching a higher axle capacity vehicle in September.

So, to that extent those who want to wait for higher capacity vehicles will probably not buy in September. I do not want to project whether it will have an impact on demand overall because the demand has been very robust. And almost coming close to being constrained by supply and therefore the demand once the confusion is over the demand may go back to normal but they are certainly when the people who will wait for high axle capacity vehicle and as I said earlier that I really cannot predict right now since things are changing every day, I cannot predict right now as to how long it will take for us to launch the high axle capacity vehicles.

It would have been nice if it was aligned with BS-VI so that we will have good time to develop these vehicles and not do two developments separately once for BS-IV and then again within few months for BS-VI. But it will be the way it is and therefore we will have to launch it and the competitive situation does not allow anybody the luxury of waking till BS-VI because if one company launches other does not launch and that the company does not launch will have a disadvantage in the marketplace. So, everybody is going to be in a race to be amongst the first to launch it.

Sonal Gupta: Just related to that there is this push back your launch in the medium duty side because of this new launch?

Dr. Pawan Goenka: No, it does not because that is now which is ready to go. We have already unveiled the product, we are just in the seeding phase everything is done, supply developments, manufacturing validation everything is ready to go. So, there is no engineering resources that are getting pulled by that product, it is just in the final stage of sign off. And therefore, it does not delay that product and that product as you know is not affected by this change.

Sonal Gupta: And sir, could share the revenues on the agri implements for this quarter?

Dr. Pawan Goenka: We have not shared that in the past. Okay Sriram says we can share. So, last quarter the growth was 41% taking us to about close to Rs. 100 crores.

Sonal Gupta: And just one clarification I mean you made a comment saying that there is no overseas?

Dr. Pawan Goenka: This is just India as you know many of our overseas business like for example Sampo is all machinery; HISRLAR, one-third of it is machinery even in MAM it is lot of machinery even in MUSA. So, I am just what I have told you just the India revenue.

Sonal Gupta: Just the M&M plus MVML, right?

Dr. Pawan Goenka: Yes, M&M India revenue.

Sonal Gupta: And just on your comments that no new platform till 2020 so the Bolero upgrade given the safety norms criteria?

Dr. Pawan Goenka: Yes, I do not think its new platform there is an upgrade.

Sonal Gupta: And just lastly, are you still looking at new launches on the two-wheeler side so will those will happen after BS-VI comes in?

Dr. Pawan Goenka: On two-wheeler side the new launch will be in the CLPL segment where we have the JAWA bikes and that will be launched in this year.

Moderator: Ladies and gentlemen, due to time constraint that was our last question. I now hand the conference over to Mr. Raghunandhan from Emkay Global for closing comments. Thank you and over to you, sir.

Raghunandhan NL: Thank you everyone for attending the call. On behalf of Emkay Global we thank the management for giving us this opportunity.

V. S. Parthasarathy: Thank you everyone.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.