



“Mahindra & Mahindra Limited  
Q1 FY2020 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Mahindra & Mahindra Q1 FY2020 Earnings Conference Call hosted by Emkay Global Financial Services Limited. The safe harbour statements stand as follows: Certain statements on this conference call with regard to the future growth prospects are forward-looking statements, which involves a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Raghunandhan from Emkay Global Financial Services. Thank you, and over to you, Sir!

**Raghunandhan N L:** Thank you, Nirav. Good evening, everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Dr. Pawan Goenka, the Managing Director; Mr. V.S. Parthasarathy, Group CFO and Group CIO; other senior management personnel from M&M, including the IR team. I would now hand over the call to the management for opening remarks. Over to you, 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 quick key updates on the environment, along with financials for Q1 FY2020. After my comments, Dr. Pawan Goenka will talk about the overall performance, giving some insights on both the industry as well as the Auto & Farm Equipment sectors.

Let me first briefly talk about some macroeconomic updates. It has been a tough quarter for the global economy. The IMF has cut global forecast yet again with growth now estimated to be around 3.2% in 2019 versus 3.6% in 2018. The US is expected to grow at 2.6% in 2019. FED has declared a 0.25-point rate cut and mid cycle adjustments, though it is not given a guidance for future movement of this rate.

China grew 6.2% this quarter, weakest in 27 years and the global economy continues to face major risk leading to ongoing trade wars and geopolitical issues. The American President has imposed new 10% tariff on \$300 billion Chinese goods.

On a positive note, commodity price remained benign this quarter. India had also mirrored the broader global trend. Our growth has slowed down quite sharply to a 20-quarter low, although the outlook now stands revised to 6.9% GDP growth. Trade also underperformed, and while IIP improved slightly to 3.7% from 2.2%, service sector slowed down for the first time in 13 months.

The RBI has cut a cumulative 110 bps since the beginning of 2019 and CPI is at 3.1% and WPI at a two-year low of 2.6%, Inflation outlook is within stated targets. Though the onset of monsoon was

delayed the deficit now stands to about minus 7% and from the monsoon front things looks to be little brighter than what it was at the beginning of the season.

Let me share financials for Q1 FY2020. In a pensive environment, the domestic automotive segment degrew by 5.2%, while the tractor sales degrew by about 15%. However, we have been able to grow our market share in all segments, more details of which will be shared, and therefore, on the back of that and tractors where we were similar volumes as previous year, have looked at a net revenue of 12,805 Crores, which is a degrowth of minus 4.1% versus Q1 FY2019 revenue of 13,358 Crores. EBITDA at 1,794 Crores is 15% lower than Q1 FY2019, which was 2,110 Crores. OPM was at 14%, lower by 180 basis points versus previous year of 15.8%.

At this point, I just wanted to pause and share some context. Last year was probably one of the best quarter where we have seen about 20%-plus topline growth and 50%-plus bottom line growth. So when we compare versus that kind of performance, the OPM, which was also probably the highest for sometime at 15.8%, the 14% looks lowest. However, when you compare that with, say, Q4 or sequentially then the OPM is higher at 14% as compared to 13.5% in Q4. So therefore, on a standalone basis or on a separate basis, it is a good performance, and it is being pitted against the quarter, previous year, which was probably the best.

PBIT at 1,402 Crores is lower by 25% against Q1 FY2019. You notice that the degrowth at PBIT level is sharper than the operational cash level of EBITDA, and that is due to higher depreciation and amortization of new products. PBT before EI at 1,371 Crores is 25% lower compared to previous year. Tax rate remained steady at about 30%. Considering above, PAT before EI 918 Crores is lower by about 26%. We got one time, rather than saying one-time gain, there are two aspects, operating income, which is what you heard still now. However, our investing income also starts to kick in when we are able to realize gain out of our portfolio, and that's what happened to two of our portfolio, one through a buyback mechanism and one through a benefit trust, encashing some of the investments has given us an overall benefit of more than 1,200-odd Crores, which then takes our PBT to 2,738 Crores, which is about 48% higher than previous year and PAT at 2,260 Crores, 80% higher than previous year.

On a segmental basis, the huge turmoil in the market is also felt in both segments. Revenue of Auto segment 7,986 Crores, lower than FY2019 of 8,033 Crores, but only slightly, probably 0.6% lower. Segment results 518 Crores is a drop of 31.6%. If you look at the EBITDA margin, that degrowth is only in single digits. From that degrowth of 31.6% is mainly because of the higher amortization and depreciation costs.

FES segment of 4,382 Crores is lower by 12.5% as against Q1 FY2019 revenue of 5,007 Crores. Segment result at 845 Crores is lower by 19.2% versus last year. So it is basically the drop, which is

coming out of lower volume managed to a large extent by cost, but not to the complete extent because the revenue leverage works negatively for FES on a very sharp drop at 12.5%.

We are comfortable with debt equity ratio, which is same as last year, and now let me move towards consolidated financials.

On consolidated financial at 26,289 Crores, the topline was flat, and at bottom line, PAT after NCI level, the consolidated profit of 777 Crores is degrowth of 43%. Some of you have expressed concern on the overall consolidated results that Auto sector and financial sector as we have seen reasonable very high degrowth, and yes, that is a fact because that is how you see it. In Financial sector, it is an NPA provision. We hope that this provision is kind of, is in lieu of four quarter provision because we have gone from 5% NPA to 7% NPA. Assuming we are able to manage the 7% NPA till year-end, there will be no provision required for next three quarters. So then this quarter's provision, in a normal sense, could have been done over four quarters, but the way Indian accounting standards, new standards apply, we have to provide as and when it goes up. Just to get some bit of comfort, last year June, the NPA was around 9.5% and this time it is about 200 basis points lower. So from that point of view, year-on-year, the NPA is lower but from March, it is slightly higher and that is what is causing the problem. So this should hopefully go away.

The second big bucket is SsangYong, which had, and I am sure during question-and-answers, and Pawan will elaborate on this. This is both domestic and export issue, and therefore, it all came in this quarter and there is a sharp decrease. However, countermeasures are being put in place, and hopefully, the domestic market and the export market will also start to have a little better response in the coming quarter. So that kind of sharp drop that you see in one quarter may not necessarily replicate in the other quarter. So that should put some bit of comfort to your concern that I heard from some quarters.

In the meantime, Tech M posted 959 Crores, which is a 7% growth over previous year, and Mahindra Holidays last year was an overall loss in consolidated, this year it has turned back and it posted a profit of 4 Crores. Those two did very good in a very tough environment.

So with that, I will sum it as a challenging quarter, but a reasonably resilient performance by M&M and with some bright stars for future.

With that, I now turn the microphone over to Dr. Goenka. Doctor.

**Pawan Goenka:**

Thank you, Partha. Now the August call is always very challenging for Partha and me because we have the Board meeting, then media meeting, and AGM and then the analyst meet, we are just returning from the AGM, I am still on the way, but just about two, three minutes away. So Raghunandhan, if it is possible rather than just starting my opening remarks from the car. Is it

possible to take a couple of questions, and then I will be arriving in three, four minutes and then do it from the conference room?

**Raghunandhan N L:** Sure, Sir. Nirav, we can open the call for Q&A and then like management can again give the opening remarks.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Pramod Amthe from CGS-CIMB. Please go ahead.

**Pramod Amthe:** I had questions for Dr. Pawan. In the meantime I can ask, what is the specific depreciation? Why it has remained, so elevated as the fourth quarter, if you can quantify and will it sustain going forward in the coming quarters?

**V S Parthasarathy:** Yes. So the higher one is your full amortization for all the three product launches we have seen this quarter. So and the next quick answer to your question is, yes, this will be the new normal in terms of absolute value, okay. You also had a question for Dr. Goenka, please go ahead and ask. What he said is that he will make the opening statements when he comes here, but he can answer your questions. Go ahead.

**Pramod Amthe:** Sir, one is with regards to, if I heard you right in some of the media interviews, you are also one of the proponents for short-term GST rate cut to revive the sector. In that regard, wanted to check what is the background and the way you are proposing it considering that, this will add a further uncertainty in terms of buyers' mind and he defers it, and considering that all the manufacturers carry a little inventory in books so that will get a immediate hit versus the low supply chain mix is realized over a period of time. So in that context, how does the short term cuts can benefit the industry?

**Pawan Goenka:** Well, I will cover it in the opening remarks.

**V S Parthasarathy:** Okay. He will cover it in the opening remarks.

**Pramod Amthe:** Sure. No issues. I will join the questioning queue and may be you can continue with the opening remarks.

**V S Parthasarathy:** Yes, thank you.

**Moderator:** Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

**Pramod Kumar:** Thanks a lot. My first question pertains to the tractor industry outlook and because, I think, things have moved quite dramatically here and some of your competitors are now talking about possible 5% to 10% decline as well. So if you can just help us understand how is the first four months? What is your read? Monsoon definitely has done much better than what was expected compared to when we spoke last. So if you can just share some incremental color on where do you see the tractor demand incrementally?

**Pawan Goenka:** Again out of the sequence, this also is going to be covered in my opening remarks.

**Pramod Kumar:** Then I will ask accounting question to Partha till then. Thank you. Partha, if you can just help us understand the breakdown of SsangYong losses because it seems to be a fairly sharp jump, and if you can just help us understand, is there a bit of one-off, write-off or anything like that, and on the second bit on the depreciation for the standalone entity, will it be logical to expect the depreciation to take another step-up when the BSVI products start rolling and when you start amortizing for the BSVI technology as well? And where would you see that kind of settling in that case?

**V S Parthasarathy:** So first and foremost, SsangYong, the losses, I am not seeing too much of one off there. It is a topline, which is an impact and that topline impact is what is flowing through the bottomline. There is, because this has happened quite dramatically in Q1, both the domestic as well as the export markets, both of them have done, and also currency has had some small role to play in it as well, so therefore net result is what you see, and the change in impact, on the other hand it has been looked at, in terms of how do we look at internally at cost control, externally as export market and how does the domestic market we can infuse, is the three-pronged thought process they have going forward, and I will just ask Pawan to supplement on that question when he starts, SsangYong.

The second part of your question was depreciation, let us finish that and then we can go to it. So your depreciation was saying, now the new normal, this is the big expense so therefore, this, the new normal, which is in terms of that. Your question is next year, Q1, when the BS VI starts, is there another kicker that comes in? I think, yes, there will be a certain amount of expense, which will go up, but it will be next year, first. Second is, that something has the habit of dropping off or something comes in. So, Pramod, if I am going to make any further statement on this, what I would like to do is to have thought process clear internally and then I will put it up for everybody and then talk about it. But it is not in the same quantum or in the same kind of step-up that we see anywhere close to what we see right now.

**Pawan Goenka:**

Let me just sort of finish up the last question, and then I will move into the opening remarks, and again my apologies for being out of sequence here. On the D&A for BS VI, as Partha mentioned, that the quantum of D&A is not very large. It is like developing one new product in terms of quantum, and given there will be a price increase, though we do not know right now and we cannot say right now how much, given that there will be price increase, revenue will go up per vehicle, and therefore, we would think as a percentage term, it should not be a hit. But in an absolute term, it will go up.

Okay. So let me start off by reiterating that the last quarter had been a challenging quarter for the industry, both automotive and tractor, and everyone knows that. So I am not saying anything new. The industry, as you well know, without the two wheeler has degrown 15.3% auto industry and this has been about the worst degrowth that we have seen since 2001 in one given quarter.

The passenger vehicle have been harder hit with 18.4% degrowth and HCV had been even harder hit with 32% degrowth, and that for HCV, this is the worst degrowth in 23 quarters as a percentage and the lowest volume in eight years. For tractor, we have seen two consecutive quarters of degrowth. Q1 FY2020 was a degrowth of 14.6%, though we must point out that this is on a fairly high base that we had last year, and if we were to compare with FY2018, we have a slight growth from 18 to 20.

Now the question that everybody asked is, okay, so what is causing this? And what is going to happen? How do we get out of it? So I have already talked about sort of three buckets of reasons why we are seeing degrowth both in the auto and the tractor industry. The first bucket is the financing related, the second bucket is transaction cost related and the third bucket is general sentiment that is prevailing today with customers. The financing-related concern that we have is multi-prong. It is not just about liquidity or about interest rate. Main problem is about the norms for financing. It is not about availability of money for consumer financing. It is more to do with norms of financing, which have been made tighter because of the various regulations and expectations that have come up, especially for NBFC, and as a result of that, approximately 10% to 15% of likely customers, who would have gotten financing, say, 1.5 years, 2 years ago are not getting financing now.

The second concern is that the LTV both in auto and tractor. There is a loan-to-value ratio, which is very important because that is what determines how much money the customer has to put on the table to buy the vehicle or the tractor and LTV ratio generally has come down significantly in the last 12 to 18 months. For cars, for example, from what it would have been about 90% to it is about 80% now on an average, and the third one, of course, is a rate cut. Our policy rate cut has now been passed on to the consumers. We have seen another 35 basis points today, and I certainly hope that it will lead to lower rates on the ground. The transaction cost concern is not coming from something that happened overnight. It is coming from what is happening over the last two or three years, where slowly there have been more and more things that has led to cost increase. The regulatory impact, every regulation that has been put in is justified its own way, but the cumulative effect is that the

cost of the vehicle has gone up and the prices therefore have gone up. The registration rates have gone up and are further likely to go up with the policy or draft policy that has been announced. The insurance costs have gone up because of the three-year insurance that is required now even for four wheelers, of course, for two-wheelers and three wheelers, and also, the TDS that happens, that is not actually cost of the vehicle, but it does not increase the transaction costs. So all of these things cumulative are making for a vehicle little bit less affordable than what they may have been 12 months, 24 months ago, and of course, inflation, that is, commodity prices also played a role in it because of very high commodity price the cost went up significantly.

The general sentiment, of course, is there because of economic slowdown, because of lower government rural spending. The rural spending had slowed down before the election in the quarter four last year, and it has not yet come back to the level that was prevailing prior to that, and the monsoon started off weak, and as Partha mentioned in his opening that things are looking up on that, and that is one of the green shoots that we see here. The Sensex fall, obviously, always has a negative effect on sentiments and people's tendency to buy a high-ticket item, and so these are various things that have contributed to general sentiment, and there is no specific answer to it. But I will talk a little bit more in a minute. So basically I think from the time of pre-election, where we had kind of said that things on the standstill waiting for election to the time of the election result, the budget, the monsoon, none of these things have really helped the industry in terms of getting back on the normal growth path.

Now question is, what could be done? What might be done? Before I talk about that, I should talk about some green shoots that we see. Obviously, we talk about the monsoon where as of yesterday; the deficit is down to 6%. The Kharif sowing now is deficient only by about 6% from what was 18%, 20% just a couple of weeks ago. Commodity prices are helping now, benign commodity prices, in fact, in the quarter there have been somewhat of a reduction in overall commodity prices and inflation under control, well below budget. In the upcoming festive season, of course, we look forward to that. Maybe towards later part of the year, there will be some pre buying and the most important thing is that last year, as you will recall, that we talked about tale of two halves. Last year, the second half was a smaller base in auto, it was degrowth. In tractor, it was flat, and therefore, the base effect that we are seeing in the first 5, 6 months of the year will actually help us in the next 6 months of the year, and therefore, we should be able to see some growth there.

Now what I want to talk about is Mahindra's performance. I would not go into the detailed numbers too much, but I want to give more of the qualitative feel of what is happening in the industry and what needs to happen, but I can talk about quantitative numbers in the Q&A. But good thing for Mahindra, and this is what we are very happy about, of course, the volume going down is never good news, but good thing in context of where the industry is that we were the best-performing passenger vehicle company in terms of lowest degrowth compared to others, our degrowth was only about 2%-



3% compared to industry degrowth of about 14%, 15%. We were the second best performer of commercial vehicle, again, in terms of the lowest degrowth, and we were a best-performing three-wheeler company in terms of, again, our degrowth being lower than the industry degrowth. In three wheeler also, we had a smaller degrowth compared to the industry, and therefore, we have been increasing the market share in each of these segments, which is good, and I think this has happened because of the new products that we had launched in the previous year. Given the slowdown, I must admit the new products have not given us the kind of volume that we had talked about, but clearly relative to the industry, they have performed what we had expected them to do.

In the tractor, market share has been maintained, which is very good because the first quarter, our market share is always very high, and when you maintain the high market share, it gives an opportunity for upside than in the second half, where our market share traditionally is low, and therefore, we have an upside in the market share, and very important that in the tractor, we have maintained gross margin in spite of the industry being down 14% and volume being down 14%, which is always very hard to do when you have volume down to maintain the gross margin.

Good thing is that our inventory, both in the auto and tractor, is reasonably under control. You probably add maybe 2000 to 3000 vehicles, 2000 to 3000 tractors above what will be our ideal dealer inventory and, therefore, nothing to be concerned about. In tractor, our PBIT hit is lower than the known industry figures, and in auto, our PBIT hit is in line with the industry, and our PBIT hit in line with the industry is more because we had three new product launches and new product always take a little bit time before they get to the steady-state level of margins, and therefore, the PBIT hit for auto is not because of slowdown. It is because of the model mix, which has a higher level of new product.

Now the question is what can be done about it? There are many things that we have been talking about. You are aware that SIAM has officially made a request to the government to do few things. Today, there was a meeting that Honorable Finance Minister had with the industry. I am not aware of the outcome of that meeting, but basically what we are looking for is help in improving the situation in terms of financing, either through improved liquidity or, in some sense, nudging the banks and NBFCs to provide financing and to help reduce the, reflect the policy rate cut on the ground financing rate. Second one is to look at some of the road taxes that are going up, registration that is going up and bring some rationality into that, so that we do not have this constant increase in these levies. Third is to look at GST, and we have somebody had asked the question earlier. SIAM has requested for the GST to be 18%. I can certainly see that 18% will be very difficult in the current scenario because the Government of India does not have that kind of elbow room. But we would expect to hope to see some kind of GST reduction, and why we are saying this is that this is the fourth slow down or, let us say, third slowdown that we are seeing in 12, 13 years. We had one in 2008-2009 then in 2013-2014, and then again in 2019-2020, and the previous two times, the

Government of India had reduced excise duty by 6% once and 4% once, and those who keep track of such things, we had a dramatic recovery of the auto industry immediately after that excise cut, and we in the industry feel that if something similar is done this time, there will be a turnaround that will happen in the industry. Of course, we will leave to the Government of India to take a call on whether it is justifiable or not.

The vehicle's scrappage policy, not something that can be announced overnight because there has to be proper planning and understanding and defining the rules for it, but something that we have talked about, and any other measure that will help to reduce the transaction cost without necessarily hurting the government revenue, such as insurance going back to one-year from three-year, such as the TDS that we have on vehicle purchase above 10 lakhs. If those could be rolled back, it does not hurt government revenue, but it will certainly reduce transaction costs and, therefore, increase the volumes in the industry.

Finally, industry outlook so on the tractor side, we believe that the worst is over. We had seen a 14% degrowth in 4 months up to July. But from August, which is not a big selling month, the selling month will start from September. We should start seeing some improvement in volumes, and we are expecting right now 6% to 8% growth for the remaining 8 months, that is from August to March, and that, if you do the math, will come to approximately flat industry for the year. So 14% degrowth from April to July, 6% to 8% growth from August to March, leading to roughly a flat industry from April to March, but there are some upsides in this. Upside is the rains continue to be good as they are, and right now the forecast for August and September is to be normal monsoon. Then there would be some sentiment improvement that will happen, and that will definitely, could give us some upside to what I have just talked about, and there is also an upside that Rabi crop, given the monsoon will end well, Rabi sowing could be very good and then the lower base effect could help in some regard. So there is some upside to it, but roughly about flat industry is what we are seeing on tractor.

On the passenger or on the auto side, I think we are going to have to refrain from making any forward-looking estimates of what might be. There are some scenarios that we have built, but many of these scenarios are subject to what kind of intervention happens from the Government of India, and therefore, we will be in a better position to talk about it once we hear anything in terms of what kind of interventions will, and the government will do and then we can perhaps talk to you or talk about it in the media on what is our expectation of growth. But right now, the July month, as you know, was even worse than first quarter, and what I could remember July month is amongst the worst month that we have seen ever in the last 18, 20 years in a single month. So some kind of turnaround is definitely required. The good thing is that we have performed well within the industry situation that we have, and we have reasons to believe that, that difference that we have seen up to the month of July will continue because we have fairly strong product portfolio right now in all segments. Even in trucks, we have launched the Furio trucks last year, which should also help us. So all segments

LCV, SCV, passenger vehicle and trucks, we have a reasonably good product portfolio, and fortunately, our dealership, you have heard about the dealership closures in the media. We have not had too many dealerships closed for Mahindra. Our number is in single digits. So we are, hopefully, going into the coming month, the festive month with a fairly strong position within the industry. So I stop here, and go back to Q&A.

I may just want to take few minutes on electric vehicles, by the way, because I am sure that question will be asked so might as well cover it in my opening remarks. So electric vehicle is clearly where the Government of India is putting a lot of thrust, and for Mahindra, it is good news because we still are leading in terms of the product that we have made available, that we have launched, the overall fleet that we have, which is 5,000 vehicles on ground, overall, kilometres that we have run with our product, which is approximately 135 million e-kilometres we have behind us and the product that we have in the pipeline. So we are quite happy with it, and we do believe, as I have said in the media, that we do believe that with the latest GST cut, at least for three-wheeler and at least for shared application of four-wheelers, shared mobility application of four-wheeler, the electric vehicles now become affordable, and I am sure we will see more and more launches happening, which will help to grow the electric vehicle market. I will stop here.

**Moderator:** Thank you. The first question is from the line of Ranjeet Jaiswal from Sanford Bernstein. Please go ahead

**Ranjeet Jaiswal:** My first question is on SsangYong. So I guess, we have been making losses. My question is, how are we going to tackle the issue? And what is the recovery plan for the company? My second question is on dealer financing issues. So are we witnessing any challenges in terms of availability of dealer finance? Is there any constraint on inventory level for the dealers?

**Pawan Goenka:** Okay. So let me take the second question first. We are not facing any serious dealer financing issue. In fact, Mahindra's auto dealers are fairly well capitalized and have a reasonable, a good amount of equity in the business, and therefore they are not facing much of a problem. But it is generally a concern for the industry that some of the dealers are facing financing problems, and one of the reasons, many dealers are shutting down is that also that they are facing financing problems. As I said earlier in the opening remarks, our overall inventory number of days is well managed, both in the automotive and tractor. We have probably made 2,000 to 3,000 more than what we would do likely, which is about 1.5 to 2 days, that is nothing to be concerned about, and therefore, inventory is not a concern, and it is not putting pressure on dealer financials.

Now the question on SsangYong, so SsangYong, if you recall the conversation that we had in the first quarter, I was very optimistic about where SsangYong was headed, and we were looking for a very good year in terms of financials and as well as volume. Now in the last 3 months, just like in India, the Korean market also has slowed down, and there has been a significant reduction in volume

and because of that in Korean market generally and for Ssangyong specifically. Similarly, many of the global markets, where SsangYong is a strong player have also slowed down. Now for a company, which is sort of plus 2%, minus 2% kind of PBT, any change in volume strength has a high percentage impact on profit/loss. For a company like Mahindra & Mahindra auto business, if there is a little volume shrink, it can be easily absorbed, for a company like SsangYong, any volume strength becomes large. So it really is, what you see in quarter 2 is just the effect of the volume drop that has happened. Other than that, there is nothing in terms of the P&L or Balance sheet that is a cause of concern. The expenses are well controlled, both base cost and other fixed expenses is very well controlled. The D&A is high for the same reasons; the D&A is high for Mahindra as a percentage. So if you look at Q2, for example, you would find that in terms of overall, I do not have the D&A number here, but in terms of overall EBITDA, you will still see a positive result. I do not have the EBITDA number here, but that is the primary reason. Now the question that you asked, okay, so that is fine. What are we going to do about it? So what we are doing is clearly doubling up on our marketing effort in the domestic market, where we still have a pretty good market share and have been consistently growing the market share, and we continue to do that, and we need to ensure that we keep that growth of market share up even in declining industry and try and get as much as possible increase in volume of the domestic market, and then we are targeting some specific export markets and trying to see, get better volume in those export markets, including India where Alturas G4 is sold, and if Alturas G4 volume goes up, it does positively affect or help SsangYong. We continue with our effort for new launches that we have been talked about in the past, and clearly, right now, with the Q2 P&L being kind of below what we would have liked to see or below what we expected, there is tremendous effort going on in SsangYong to cut costs anywhere the cost can be reduced.

**Ranjeet Jaiswal:** Thank you.

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

**Jinesh Gandhi:** My question pertains to commodity cost benefit. Have you seen anything in first quarter? And what is the outlook for coming quarters? And in seem like the kind of price increases, which we have taken.

**Pawan Goenka:** So in the first quarter, we have seen a negative material cost that the material cost has gone down slightly, both for auto as well as tractor. I do not have the précised number with me, but it will probably be the order of about minus 0.5% is the effect of commodity prices going down, and we do expect the same trend to continue in the second quarter onwards. We have taken a small price increase in both for auto and tractors,

, and this is to make up in a way for the price increase deficiency or gap that we had from last year where with a very high increase in commodity prices, we were not able to pass on all of it in our

pricing. So the lower commodity prices or the degrowth of commodity prices is slightly helping us, somewhat helping us to get our deficit from last year taken care of.

**Jinesh Gandhi:** Okay. So do we expect further RM cost benefits or this is about...

**Pawan Goenka:** The current estimate is that RM costs will further reduce during the year, and this is always, whenever you have a degrowth, you will see that because the demand goes down for commodities and when demand goes down, the price will go down. So I would rather see a growth cycle come back than the RM costs going down. If both happen, nothing like it, but 1 of the 2 has to happen I, would rather see growth.

**Jinesh Gandhi:** Thanks and I will come back in queue.

**Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh:** I had a question on investments. When I look at the consolidated results for the full year, there were some investments, which had fairly large losses. Will you be able to call out if there were some one-time items there? And related to that, is there a case for exploring a different capital structure for making these investments, just sort of thoughts around that?

**V S Parthasarathy:** So first about, in terms of losses, clearly, last quarter and the last year, saw some unprecedented and onetime impacts in the losses that you see. While we won't call out individually, let us say, some, we are seeing loss making subsidiaries, unlisted, and there were about half of the losses you could kind of say were due to the one-time impacts and we may want to go, I mean, if it is a concern, which you wanted to address, and we can look at it as a separate call to kind of address that queries, but roughly half of the losses coming from onetime impact, and therefore, you may not see that on an ongoing basis, and the other areas where we have already said that we are looking as an investment phase, and then it will come up. The second question of yours was around capital cycle as well as way of capital, I will try and understand your view from you, but roughly we were looking at a sum of parts. So the investment that we made in any company initially would tend to have the losses, and then they will come to profit, a part of the solution is invest less in the first phase and then go to majority, or something similar. I will try and understand and see how I react to that one. Is that okay?

**Kapil Singh:** Sure, Sir., but broadly the thought was that the valuations of the auto business look fairly depressed compared to the rest of the peers, which is, I would say, not the case in case of other businesses like financials and technology so when we are making these investments, the investment horizon is fairly large, and sometimes, we do not have enough visibility on those investments, and therefore, the thought process is coming from there.

**V S Parthasarathy:** Okay.

**Kapil Singh:** Yes. One question to Dr. Goenka on BS VI, do you have any thoughts around what will be the diesel or petrol share in the SUV segment after BS VI? I know you are prepared fully on both, but any thoughts around that? And the fact that we have seen after the new launches, some margin dilution at least initially, should we be concerned that after BS VI, there could be some risk to margins for the industry?

**Pawan Goenka:** So let me just wrap up on the previous question, the auto that you talked about that depression in profit. As Partha had mentioned in opening remarks, that is only because of SsangYong, and that is the effect of that one quarter of the last quarter, and other than that, auto has a very small sort of plus or minus. There is nothing major. The major is coming from SsangYong, okay, and we have investment, of course, in APF which is clearly right now is an investment, because the launch will happen only towards the end of 2020, and we have investment in ROXOR and these are all future investments that we are making, and I think it would be very wrong for us to not make these investments. It is clear that the first 2, 3, 4 years, they will obviously be consuming cash and will be loss making, and if you did not do this investment then we will not grow. So in our view, these investments have to be done. The horizon of turning profitable, of course that is something that we can discuss and talk about it. But we should not shy away as a company to make these investments because they will show losses for a few years. Okay. Coming to BS VI, I do not know, Kapil, if you were there for the BS VI Conclave that we did, but there we have talked in great detail about our preparedness for BS VI as well as giving some hint on cost impact and talked about what might happen in terms diesel and petrol mix and what might happen in terms of the margins, okay. So let me kind of try and repeat that because, obviously this question is very important in the mind of many people. We believe that for 1.2 litre vehicle size, which will be the KUV100 type or vehicle of that size, the diesel will probably not be a preferred powertrain because the cost increase as a percentage will be very high, and therefore, that segment will probably move to 100% petrol or near 100% petrol. Mahindra, for example, is not developing the diesel engine option for KUV100. When it comes to the XUV300 size, which is the sub-4 meter size, we would see a mix of diesel, petrol, but probably a little bit more shift towards petrol than what we see right now. Right now in that segment, I think it is roughly about 50% petrol in the 4-meter segment and I am sorry, 74% diesel right now in that segment because one of the large selling vehicles does not come in petrol option. We believe that post-BS VI, this number may be closer to 50-50 than what we see today. Mahindra is also 75% diesel and 25% petrol in that segment, and we would see a shift towards the petrol after BS VI.

When it comes to the size of the XUV or Scorpio size vehicle, we think they will predominantly remain diesel because in that segment, the percentage increase in cost will not be as high because the increase in cost is same whether you are talking about a small engine or a large engine, the absolute increase, and the percent is lower, and our belief is that the customers would prefer to

continue with diesel engine in that segment, and that is how we are planning our volumes and our capacities keeping that in mind. Now cost increase, we had, I am not in a position to talk about that right now. But what we had said last time is that a cost increase is better than what our target was when we started working on BS VI 3 years ago, and in terms of margin, that will depend on what the industry situation is at that time. If we pass on the margin along with the cost increase, if we are able to do that then obviously our revenue goes up for sure, profit also will go up, absolute profit, if we are able to pass on the margin. If we are not able to pass on the margin, we will, at least, protect the absolute margin that we have absolute profit, but that will lead to a dip in margin. It is too early to say what the scenario will be. It depends a lot on what kind of recovery the industry has by that time? And what kind of confidence automakers have going into the BS VI in terms of what affect it will have on the volume. So we have to consider the volume impact, profit impact and profitability impact and come to an educated judgement. I won't say guess but educated judgement on what is the right pricing that will optimize for us volume, profit and profitability.

**Kapil Singh:** Could you also give us your cost on the LCV segment, what do you expect to happen there? Do we expect...

**Pawan Goenka:** Is it LCV?

**V S Parthasarathy:** Yes. Just one question, that if maybe, we are running short of time, and there must be people in queue, so if others can ask, and then if we have time, we will come back and answer this, if you do not mind.

**Kapil Singh:** No problem, thank you, I will join back in the queue.

**Moderator:** Thank you Mr. Singh. The next question is from the line of Shyam Sundar from Sundaram Mutual Fund. Please go ahead.

**Shyam Sundar:** Specifically, you were talking about the subsidiary investments. I just have specific questions on this Mahindra USA and Peugeot motorcycles. Of course, the losses have increased and specifically in Peugeot we have been incurring losses over the last 4 years. Well, if you can help understand how do you look at these businesses going forward? And in Peugeot specifically, is that a business case to continue there?

**Pawan Goenka:** Okay. So Mahindra USA or Magna, as you call it now, clearly had a onetime bad year financially last year, and we had talked about that, that we had taken a decision at that time to clean up dealer inventory, which was very high, and we had taken a very tough call to restrict billing which is what translates to revenue and profit and allow retails to outpace billing, and I am happy to say that from Q1 FY2019 to Q1 FY2020, that is in 12 months, our dealer stock has come down by 25%, and just about where we want to be, maybe in the 1,000-or-so reduction will bring us to where we want to

be, and in the process, clearly, again, the company is at a marginal profit, 2%, 3% kind of profit or loss. Any change in billing volume has a very significant impact on profit, and that is what happened last year. Now this year, we are slowly getting back to normal billing as we have gotten our dealer inventory pretty much on track. We are getting back to normal billing, and we have taken a lot of cost-reduction measures to bring the company back on track. So we will not see profit this year, but you will see significant reduction in loss this year by the time we get done. For example, in the first quarter, we already have approximately 50% reduction in loss from last year first quarter, and we will continue on that pace and maybe even extra that pace and then end up the year at a loss but much less than last year, and we expect to be near breakeven in the year after, that is in FY2021 and certainly profitable in FY2022. That is our plan on Mahindra USA and we are right now quite happy with the way quarter 4 of last year and quarter 1 of this year have gone in terms of our efforts to both do cost reduction as well as to do inventory reduction at the dealership. As far as PMTC is concerned, we have gone through challenging times for a variety of reasons, which we have talked about in the past. So I will not repeat that, but I truly believe that the worst is behind us. Now we had done, last year, a major restructuring of manpower in our plant and that has been successfully completed. That was a onetime cost that we had incurred and that will then lead to cost reduction in the future years, and we have also invested a lot of money in product development, including an electric scooter and that, in fact, is developed in India and will be manufactured in India and shipped to France, to Europe. The first shipment is going this Sunday, and so we are just about starting that cycle and some other new products have been launched. So we believe that in about 1 year's time, we would probably get to EBITDA positive situation with PMTC, and given, and this is a very important point. Given that 2 wheelers are somewhat coming in passion, I think that goes well for PMTC business and Peugeot brand becoming stronger in Europe because of the performance of the 4 wheeler, All those things go quite well for us, and therefore, it is a business that has been a difficult business for us, I must admit up to now. But again, I am repeating that we believe worst is behind us.

**Shyam Sundar:** Sir, this Mahindra USA is a tractor business, right?

**Pawan Goenka:** Yes, Mahindra USA is a tractor business.

**Shyam Sundar:** Just on this SsangYong, you have explained in length of the challenges facing there, will there be any requirement for further investment to support the SsangYong business there?

**Pawan Goenka:** Right now, we do not foresee that. Right now, we still have ability to borrow. We will have to obviously see how the performance is for the next 12 months and then take a call. But as you know very well that for a company that has invested \$1.4 billion roughly in product developments since the time we took charge of the company and the fact that we have invested only \$130 million as extra equity is quite remarkable and speaks very well of cash management that the management at SsangYong has been able to do.



- V S Parthasarathy:** Just one quick answer that, we wanted to supplement what Pawan said earlier that in its entire history, every year it has been able to make cash profit or EBITDA profit. So any impact which is getting is on account of that depreciation and amortization and not so much cash profit. So they are generating cash to keep investment.
- Shyam Sundar:** Okay thanks.
- Moderator:** Thank you. The next question is from the line of Ashish Nigam from Axis Capital Limited. Please go ahead.
- Ashish Nigam:** So on the demand outlook, everyone is talking about a recovery in the second half, but what will drive the recovery? Is it only a pre-buy on a low base? Or are there other factors that can improve on the ground and can bring buyers back?
- Pawan Goenka:** Are you talking about tractor or auto.
- Ashish Nigam:** No, no, I am talking about autos, in general, 4 wheelers.
- Pawan Goenka:** Okay. So as I said in the beginning that right now we are not in a position to give an outlook for the auto, different verticals because of uncertainty that we see on what might happen. I have talked about few green shoots that is monsoon, commodity price and therefore no pressure on pricing, Inflation under control, festive season coming up and some pre-buying for BS VI and the low base. All of these things are there, but they do not necessarily add up to a very significant demand pickup, and therefore, we in the industry do believe that for demand to pick up, there is a one-time stimulus that is required, as has been the case in the past and in 2013, 2014 and 2008, 2009, a onetime stimulus is required, not long term, maybe 4-months, maybe 6-months. But if that happened and along with the green shoots that I talked about, then I think we would be in a fairly good shape. Without that, we will have to wait and watch to see whether all those green shoots are sufficient to change the sentiment and bring the demand back. Of course, if there is a significant real improvement in the financing situation based on the policy rate reduction, which is now 110 basis points in this calendar year, and we have seen nothing on the ground. So if that 110 basis point to ground, that is a huge difference, and if the banks and NBFCs come forward to start financing the way they used to finance 12 months, 18 months ago, then I think that is going to make a huge difference. But we have to wait and watch and therefore, we cannot make a projection right now.
- Ashish Nigam:** Dr. Goenka, on the related note, but if that onetime stimulus could be, let us say, a GST cut, would not we rather have that with BS VI, because if we have it now, there will be inventory losses and you would go in for a cost increase again so how are you looking for that from government?

- Pawan Goenka:** So your question is very valid, and what I have been proposing is the best of the ideas because we cannot wait till April, and we cannot see the industry bleed for 9 more months. If 9 more months of bleeding happened then I think everybody will be in a very difficult situation. Therefore, we have to revive the industry here and now, and you are also right that we want to see that effect on BS VI. So what I have been suggesting in some quarters is that we should do our GST cut now, but withdraw it after 6 months and then do it again at the time of BS VI, which can be a permanent cut, and the reason for permanent cut at that time is that since the selling price will go up, the revenue per vehicle will go up for the government and if the government decides that they will keep the revenue per vehicle same then there is a room for a GST cut without reducing the overall GST collection. Now the question that you talked about inventory and the effect in terms of losses, that is not true in GST regime, because in GST regime unlike excise, where once you have paid the excise, it is gone even if excise duty comes down. In GST, that is not the case because final GST that you pay is on the final selling price, and therefore, there is no loss of GST.
- Ashish Nigam:** Very helpful. Thanks so much.
- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** I have just this follow-up on the auto segment margin. Now this depreciation increase that you are talking about has not been a meaningful change versus last quarter, that is Q4 of FY2019, and there has been already significant decline in the auto segment margin. So is it just the model mix? Or is there something else? And should we look at this as a normalized levels of margin for the auto segment?
- Pawan Goenka:** I think you are comparing margin drop from Q4 last year and quarter-to-quarter.
- Gunjan Prithyani:** Yes, quarter-to-quarter.
- Pawan Goenka:** So if I look at quarter-to-quarter, the rupees Crores figure have remained the same on a lower volume. So that is why percentage is going up. It is not that the depreciation has gone up; the volume in Q1 this year is only 127000 against 169000 volumes in the previous year, right? And the revenue in this quarter is lower by 22% because the Q4 is always a high-volume quarter, and Q1 normally is good volume, but this year is a bad volume and therefore this 22% drop in net sales for and same absolute number of depreciation. You follow me?
- Gunjan Prithyani:** Just the operating leverage and the probably to some extent, also the mix ?
- Pawan Goenka:** Correct, 1.1% loss has happened as a percentage term because of this in the depreciation amount.

- V S Parthasarathy:** Yes, and in overall basis, however, in spite of Q4 being a big quarter and Q1 being lower, I made the point that from, not at operating margin, not OPM, sorry, not at a PBIT level, but at OPM level, Q4 was 13.5% and Q1 is 14% on a M&M plus MVML basis.
- Gunjan Prithyani:** Sir I get the operating leverage, I was basically coming from your commodity benefit as well as the promotional spend or launch costs that we had last year with the 3 new launches, we would have thought that some trajectory improves here with those promotional spends going away and commodity tailwinds coming into the picture, but it seems that the margins have seen some compression irrespective of the operating leverage drop?
- VS Parthasarathy:** I mean the volume drop. So just one second. This is what I have a big problem of comparing sequential, and therefore I have always said that do year-on-year comparison, and every quarter has got huge amount of variation. But to your point about operating leverage being lower in autos case because of a drop, is a reality. one. Till contribution margin, we have maintained it, which is basically in spite of 3 new products, and the margin there of, we have by model mix and the benign material cost has helped us get contributions okay. But operating leverage operates negatively beyond that, okay? Yes. So we will end. That was the last question, and thank you, everyone, for taking time to attend the call, and Raghunandhan, it is back to you.
- Raghunandhan N L:** Thank you. Thank you very much for providing us the opportunity to host the call. So, Nirav, we can please close the call for the day.
- Moderator:** Thank you very much. On behalf of Emkay Global Financial Services Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.