“Mahindra & Mahindra Limited Q3 FY20 Results Conference Call hosted by B&K Securities Limited”

February 11, 2020

MANAGEMENT: **DR. PAWAN GOENKA, MANAGING DIRECTOR, MAHINDRA & MAHINDRA LIMITED**
MR. V. S. PARTHASARATHY, GROUP CFO AND GROUP CIO, MAHINDRA & MAHINDRA LIMITED

MODERATOR: **MR. HITESH BHARGAVA, B&K SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra & Mahindra Limited Q3 FY20 Results Conference Call hosted by B&K Securities 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. Certain statements on this conference call with regard to our future growth prospects are forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. I now hand the conference over to Mr. Hitesh Bhargava from B&K Securities Limited. Thank you and over to you, Sir.

Hitesh Bhargava: Thank you, Bikram. Good Afternoon everyone, I would like to Welcome the management of Mahindra & Mahindra and thank them for taking out the time for this call. We have with us today Dr. Pawan Goenka – Managing Director; Mr. V. S. Parthasarathy – Group CFO and Group CIO; as well as other senior management including the IR team. I now hand over the call to Mr. V. S. Parthasarathy for opening remarks. Over to you, Sir.

V. S. Parthasarathy: Thank you. Good Afternoon and Welcome one and all to the Q3FY20 Earnings Call of M&M Limited. Generally, in these meetings I start with economic update both global and local. Today, I will keep that part very brief, but spend more time on the financials. After my comments, as usual Pawan will talk about the overall business performance in more detail. A small respite is expected in global growth which IMF is estimating the growth to pick up to 3.3% in 2020 from 2.9% in 2019. However, it remains to be seen how the Coronavirus will impact this both for the Chinese economy and the global economy at large. Currently, there are some signals that things are starting to pick up at least on the manufacturing front in China, let us hope this smoothens out very quickly. Closer home, we have seen some green shoots in the rural economy. The Rabi acreage has been increasing, auguring well for the farm output and there are some soft signals around the urban sector which augurs well for that portion of India. Overall, there is more positive news to look forward to although a full recovery maybe still be a couple of quarters away. The first budget of the decade lays out a detailed blueprint and provides strategic direction for both Bharat and India, and lays a strong foundation hopefully for economic recovery. Overall, it was a budget that will bring the three R's, revive, reignite, and rise to the fore.

Now, let me share financials for Q3F20 for M&M plus MVML. The operating performance of the company has been very robust for this quarter. Our OPM in the last one year has shown a continuous upward trajectory in spite of pressure on top line due to subdued industry. Our OPM has moved from 13.2% in Q3F19 to 13.5 in Q4F19 to 14% in Q1F20, 14.1% in Q2F20 to 14.8% this quarter of Q3F20. The company's operational performance has also broadly met the expectation of the analysts and especially on EBITDA and OPM we have exceeded analysts' expectation. The company also continues to deliver best-in-class operating margins amongst other peers in the industry. This improvement in trajectory has been achieved in spite of pressures on revenue due to a difficult external environment. This quarter, Q3 F20, we showed a revenue degrowth of 6%, however, we could deliver a robust 5% growth in EBITDA and 160 basis points improvement in OPM on a YOY basis. This has been achieved through robust cost management, improved model mix, and softening commodity prices. Good fiscal prudence and discipline has helped us to contain overall working capital and achieve good cash flows, Dr. Goenka will talk about this in more detail, so overall while our market performance has been better are in line with the industry, we have significantly outperformed the industry when it comes to financial performance. However, our reported standalone financial performance is impacted by one-off and exceptional items both in the current quarter and the comparative quarter of Quarter-3 F19.

In the previous quarter of Q3F19, there were two one-off gains totaling to 599 crores at PAT level. There was a one-time dividend received from a subsidiary of 204 crores and a one-time tax credit of 431 crores to the company. In EI there is a hit of 80 crores on account of impairment of certain investment. As against this, in the current year's quarter which is Q3F20 for a major listed subsidiary of M&M, there has been a fall in market price. On consequent testing of impairment as per accounting standards, based on a conservative approach by the company and as agreed with the auditor, we have recognized an impairment charge in the current quarter for that subsidiary. Some additional aspect that needs to be noted, this is a non-cash charge. The subsidiary is currently facing headwinds both in domestic market and the international market, but eventually the cycle will even out. The Management is taking several initiatives and actions to address this and that includes leveraging partnerships. The business case remains robust and the company's Board strongly believes it can create value and ensure it not only to future investment but also the past investment. So we have seen an EI hit of 601 crores due to impairment this year and 47 crores one-off gain this quarter versus an EI of 80 crores and a one-time gain of 599 crores in the previous quarter as explained earlier. This has led to a swing of 1073 crores in the relative YOY performance which explains the huge variance that you see in the reported results. If I were to take these one-offs and EI out then the PBT will show 1323 crores which is a growth of 1.7% versus previous year and PAT at 934 crores will show a 6.5% growth.

Now, let me take you quickly through the Q3 segment analysis and financials. Auto segment revenue at 7424 crores is lower by 6.2% versus Q3 F19 revenue of 7915 crores, but EBITDA has shown an increase of 14.9%. This has been achieved through robust cost focus, material cost management, and favorable model mix. OPM at 13.7 is a jump of 250 basis points over Q3F19 of 11.2% and even sequentially higher by 110 basis points over Q2 F20. Segment result at 542 crores registered an increase of 17.6% over Q3 figure of 461 crores. FES revenue at 4278 crores is lower by 7.7% against Q3 F19 revenues. At the segment level, the OPM for farm equipment sector is at 19.9%. It is slightly lower than the previous year of 20.7%, however, given this is a benchmark OPM and the best amongst peers as was stated earlier. Segment result at 831 crores lower by 6.4% versus last year's Q3 of 888 crores.

Now, let me move to consolidated financials. At a consolidated level, our net revenue was 25,303 crores with a degrowth of 4% over Q3F19 figures of 26,352. In the segment result, the consolidated PBIT was 667 crores which is 60% lower than Q3F19 numbers of 1674 crores. Higher degrowth at consolidated level is primarily due to higher loss and impairment related to SYMC, more details will be shared by Dr. Goenka. Few highlights from our key sectors are

Tech M posted a PAT of 1146 crores, Mahindra Finance reported a PAT of 472 crores as against 399 crores last year delivering a growth of 18%. Overall, if I have to summarize, I would say that amidst very tough external environment, auto and farm and the operating performance of M&M, we have been able to deliver a robust operating performance. Now, I request Pawan to give his comments please.

Pawan Goenka: Thank you, Partha, so as you have already seen that this quarter was two distinct buckets for us in terms of performance. If we look at performance in domestic core business of auto and tractor, I believe that we have done very well as Partha has just taken you through and I will give you few more highlights. When we look at some of our international businesses, there have been challenges in these businesses and I will talk about some of those in my opening remarks. Coming to our core business of auto and tractor especially in domestic market i.e Indian market, within the constraints of where the industry is, in both auto industry and tractor industry had a degrowth in the quarter. We have done same or marginally better in the industry in terms of market share in all three segments of auto and also in tractor where we have marginally improved our market share in the nine-month period. In auto of course the operating margin has jumped by 2.5% compared to last year and even compared to last quarter, it has increased. In FES, there is a significant improvement in balance sheet during the year and in fact between auto and tractor combined, the cash generated from the business is the highest that we have seen at least in five years in any quarter and the inventory levels are very comfortable, in fact for auto it is lower than the normal inventory that one would like to have and in tractor it is roughly where the inventory should be at that point of time, so fairly okay on inventory. I will not go in to electric sector and if you have any questions on electric during the Q&A then I will come back to it.

Let me just jump straight to the international subsidiary. I will only touch upon two and if you have questions on any of the other ones then we can get into it in the Q&A. These are the two which perhaps contributed the maximum to the losses in the consolidated result or to reducing the profit in consolidated results. The first one is MUSA, Mahindra USA, tractor company and the second one is SsangYong. Mahindra USA you will recall last year we had talked about how we have significantly changed our business model and how we are working towards bringing down inventory and reducing financing cost, so we are roughly about halfway through in the changes that we are bringing into the company. Our inventory has gone down by 20% at the dealer level, 40% at the plant level, and billing volume last year versus, in the first nine months is up by about 20%, so I would say we are roughly half of where we want to be at the end of nine months during this year and hopefully in the next year we would be completing the task.

When it comes to SYMC, I will not talk too much about the performance and that is in front of you, Partha has also covered some of it. You know that we had to take an impairment in investment this year of 500 crores plus and SsangYong also had a write down of asset of about 57 billion Korean Won, just for your convenience to get million from billion, just divide by 1.1, so in SYMC as I said I will not go too much into the past and I will just talk about what we are doing from here on, but if there are questions in the past, I will be happy to cover those. The only thing that I want to say about the past is that as of end of first quarter of 2019, things were looking very positive and in fact I was hopeful that we will have a breakeven year for SsangYong and things started deteriorating in the market conditions in Quarter-2 onwards and because SsangYong is a company that was at the edge of breakeven, any reduction in volume has had a much more severe impact on SsangYong then it would have on a company that is reasonably profitable, that is pure Math nothing more than that.

In the export market also, there were three or four markets where external environment has not been very kind to us, but let me now talk about what happens from here on. The SsangYong Board on December 16th has approved after several rounds and deliberation in the business plan for three years. In this business plan, SsangYong will become breakeven in the third year, that is, 2022 calendar year. What it requires is approximately 450 to 500 billion that means about $ 400 to $ 450 million of fund infusion and we obviously will be looking at a combination of three sources of fund coming from external borrowing, coming from third party investment, and coming from Mahindra investment. We have not yet concluded on which source will bring how much funding that is the total funding required including repayment of past loans, so out of this 450-500 about half of it is repayment of past loans and about half of it is fresh investment into the company. Just to put this in context while $ 450/400 million may sound like a lot of money, but it is approximately two new product development programmes that we would undertake in an auto company even in India and represents less than one year of CAPEX that Mahindra would have in normal year, but that is what we need to turnaround the company. What we obviously have to do and there is no rocket science in it, we have to increase volume, we have to reduce cost, and we have to increase efficiency. We have already achieved some of these things and working on more, for example, a very tangible thing that has already been implemented is an agreement with the labour union whereby they have agreed to take a hit in their compensation for some time for the company to become normal and this will go a long way in terms of helping us to breakeven.

The second thing that we are doing very tangible is to look at very aggressively material cost reduction working with an outside consultant whereby we are targeting about $ 90 billion reduction per year, which means approximately 3% to 4% of material cost. The third thing that we are doing is making synergy with Mahindra in product development almost a given rather than an option, and thereby the new development programmes that is the C-SUV, B-SUV will be aligned with Mahindra and significantly reducing the CAPEX and even material cost by doing that. The fourth thing is to look at how do we look at new export markets. The domestic market growth will be more or less in line with what happens in the domestic industry, and therefore, we do not expect domestic markets to jump too much over the years, but export where we have declined sharply in the last three to four years is where we see an opportunity to get back some good volumes and the two markets we are focusing on are Russia and Vietnam. Russia is unlikely to happen during this year. If all goes well, it should happen by middle of next year. Vietnam could happen towards the end of this year, so basically that is the three-year plan. Of course, I can go on in lot more detail but this pretty much summarizes how we are expecting to get back to profitability for SsangYong.

If I were to look at now FY '21 coming back to India and what is the outlook that we see, on the passenger vehicle side or auto side, the SIAM estimate is PV growth of 2% to 4%. Obviously given that we have had a very bad year, this may look like a small number, but the reason we have been cautious in saying 2% to 4% is because of BS6 coming in and prices going up and therefore for a while consumer sentiment will remain negative, and therefore, 2% to 4% is the growth that we are expecting right now. On commercial vehicle may be somewhat higher, 4% to 6% including for MHCV and therefore overall auto growth of about 3% to 5%. This obviously is being helped by focus on rural economy that the Government of India has and that should unless something negative happens in terms of agriculture output which right now we do not expect, that should do well for us. On the tractor side, current quarter we expect to see a growth of about 5% to 7% in the industry leading to an overall degrowth for the year of about 7% which currently stands at about 9% and for the next year, it is bit too early but our best estimate right now is about 5% growth plus/minus 2% and the reason we are saying 5% growth is because of many positive signs that we see today. Rabi sowing has been good, 8% above normal. The reservoir levels are very good and that means that maybe if the monsoon is somewhat deficient then because of good reservoir level, we will not see a major negative impact on agriculture, and as of now there is no negative on the monsoon. The El Nino impact appears to be neutral as of now, so therefore 5% right now with plus/minus 2% range appears to be a fair and realistic growth for us to talk about for next year.

Transition to BS6 is more or less on track not just for Mahindra, but as much as I can determine for all the companies. We are in the process of featuring down our BS4 production and ramping up BS6 production and before March 31st we should be producing BS6 for all the vehicles. Cost increase I have already talked about in the past, cost wise about 15,000 for petrol and diesel between 50,000 and 70,000 price increase will depend from manufacturer to manufacturer, some may decide to pass on everything, some may decide to pass on in phases and some may decide to absorb some, so that we do not know how everyone will play it out. New launches, very quickly, are on track. We have talked about most of this so I will not repeat W501, that is Thar, W601, Z101. On electric vehicles, E-KUV, the Atom, the E-XUV300. On commercial vehicle side, Furio ICV range and the Cruzio minibus and also I can just point out that we are working on a fairly major program for developing a new tractor platform called K2. I do not think we have talked about that in the past and the K2 platform will have four different tractor ranges or horsepower ranges and designed for both domestic as well as international markets. The work is primarily or majorly being done in Japan right now in cooperation with Mitsubishi Agricultural Machinery, so this is a very ambitious major program of tractor development for us.

Finally, two more points, one on Ford. We have a small sort of first tangible output of our alliance with Ford where we will be launching a connected vehicle solution, I think Ford is launching it this week and we will be launching it at the end of this financial year. This was developed jointly after we had announced the Phase 1 of our collaboration. The C-SUV platform work is going on in full swing and this will be saving approximately 1000 crores in terms of overall investment compared to if Ford and Mahindra were to do this programme separately, same thing is happening on the B-SUV with similar saving that will happen. B-SUV programme is about a year behind the C-SUV programme. We also have recently talked about using Ford's unused capacity for expanding Mahindra's engine capacity that will save us a CAPEX of about 400 crores and Mahindra G12 engine is getting ready to go into a Ford vehicle in the first quarter of next year, so these are sort of Ford activities and as you probably have read that we have already received yesterday the CCI approval, so now we just need to start completing all the processes and we are hoping that by end of May we should be completing the process of the joint-venture. On the investment, we had announced 18,000 crores the investment including CAPEX as well as the equity investment for FY20, '21, and '22. I have just talked about 1000 crore as saving coming from Ford, this makes it 17,000 crores. We are targeting 15,000 crores by looking at other areas of investment reduction and I should also point out that in no case would we allow the investment to go above 17,000 crores including whatever money we have to invest in SsangYong, so that kind of becomes an upper limit of investment for FY20, '21, and '22, hopefully bring it down to 15,000 crores, so that is sort of the summary of what I wanted to talk about. Now, we can open it up for Q&A.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question is to Dr. Goenka, you were quoted in the media article suggesting that BS6 transition could be hit because of the Coronavirus impact with the supply chain getting hit, can you help us understand which specific BS6 component supply is getting hit and you have a fair representation at SIAM, do you see other OEMs also struggling with the same challenge?

Pawan Goenka: The concern that I had talked about was not so much on BS6 because BS6 we are just ramping up and a week or two weeks of components not coming in is not going to make a major difference to BS6. In any case, the BS6 volume off take will be very slow and therefore BS6 is not the concern. What I had talked about is BS4 where we have one component coming from China and that affects approximately 3000 to 3500 vehicles of BS4, total effect. We are hoping that it will open up in a week to 10 days. If that happens then we will be able to still manage time wise. If it goes beyond let us say February end, it will become very difficult and then we will have to request the Supreme Court to give us little bit extra time to sell these vehicles, so that is the total risk that we have, the 3000-3500 vehicles of BS4. As you also know that China has started opening up and supplies have started trickling in, so we are hoping that we will not get to a situation where this 3000-3500 vehicles become a risk for us.

Kumar Rakesh: My next question is around the new tractor platform which you talked about is under development, can you help us understand which specific category you are looking at?

Pawan Goenka: This is the first time we have talked about it, so this is the first teaser. With time, we will give you more and more information. For now, all that I can say is this is the most ambitious tractor development programme that we have undertaken. We will have four horsepower ranges that will come on this tractor platform and it will be for both India as well as international markets shared with Mitsubishi Agricultural Machinery which as you know is our joint-venture with Mitsubishi.

I have just been informed that the number 3500 of risk has just come down to 2400.

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

Pramod Kumar: Pawan, for the time being I will overlook the India performance and go to SsangYong first. We had earlier targeted a breakeven in 2017, now the breakeven has shifted to 2023, right, so what has gone wrong and what is the confidence in terms of achieving this breakeven at SsangYong in the next three years because we probably have invested over a billion dollars since we acquired this company, and we have not had much of a return as such, so just want to understand appreciate the fact that you put an upper limit on the CAPEX investment for the next year but on the longer term what is the thinking here or any of the fundamental premises have changed since you acquired the company, if you can share that as well that will be really great?

Pawan Goenka: I think the only premise that has changed since we acquired the company was a slowdown in the overall global auto industry that we have seen in the last 12 months and as I had mentioned in my opening remarks that as on first quarter it was looking like the SsangYong will be breakeven and therefore with a normal year of automotive volume SsangYong would have been fine, so that is really the only thing that has changed and the reason it looks to be a very big impact on SsangYong compared to let us say Mahindra or any other large OEM is because SsangYong was at the sort of breakeven level plus/minus 1% and when you are at the breakeven level as Math will tell you, any drop in volume can have a fairly big major sounding impact, so that is the only thing that has changed. Let me first correct that we have not invested a billion dollar in SsangYong, in fact the total investment so far is 2450 crores, most of the investment that SsangYong has made in product development has come out of its own generation or outside loan, not from Mahindra and I should also point out that every year up until this year 2019 SsangYong had been cash positive in terms of operations and the investment that has been made or the funds that have been required have been required for future product development and not for running the company and as we look at the future as I have mentioned to you that 450 billion to 500 billion Korean Won is what we expect to be the fund requirement that once again is not going into what I would call a EBITDA loss funding.

EBITDA is positive this year in 2020-2021 and 2022 of course and has always been positive expect for the 2019 when we were minus 4 billion that means about $ 4 million minus that has all been positive. Now, 450 to 500 billion Korean Won that I just mentioned will go into the total product pipeline and as I have mentioned that out of 450 actually about 250 are repayment of loan, so the fresh funds requirement or net fresh fund requirement is only about 250 to 300 billion Korean Won and 250 to 300 Korean Won is approximately 1.5 vehicle programmes, I just want to put that in a context that for an auto company that kind of investment is not something that becomes a major investment. Now, from the viewpoint of what it does to our P&L and what it does to our investment, of course that is something that you have already seen that this time this year, the consolidated level SsangYong did pull down our profit significantly at the consolidated level, but that is again mostly coming because of D&A depreciation and not because of EBITDA loss.

Now, I think the most important question that you would have is what is the confidence that we have in this plan that we have talked about and will we be sitting here three years from now having a similar conversation. Clearly, no one can give you a black and white sure shot answer to that. There are no sure shot such things, all we can talk about is that this time around everyone is looking at the business plan very carefully, the Board of SsangYong; In fact we have engaged an outside consultant to review the business plan of SsangYong and independently tell us not coming just from SsangYong management, but independently tell us whether this programme or this business plan is something that we can take as realistic plan and invest based on that plan, so that is an extra layer of confidence that we are trying to build in to the business plan. The part about cost reduction based on the experience that we have had in the past in India, we are fairly confident on, the part about CAPEX, we are fairly confident on because that is something that we have done time and again. The part that of course remains an unknown that nobody can give any guarantees on is the volume growth, and therefore, volume growth is what the total performance will depend on and clearly if Mahindra is going to invest more money in SsangYong, Mahindra will be reasonably certain that the three-year plan that we have put in place will work out and we will have a situation of breakeven in 2022.

Pramod Kumar: Now, I will address my question to Partha on the standalone performance, Partha on the India business I think good performance I think Operation Kuber clearly reflecting in your margin performance, but how should one look at how much of more of the benefits are still to accrue on the cost side going to BS6 and how should one look at margins in the BS6 era for you in the automotive business, tractor does not get impacted but if you can just talk a bit more about the cost and the benefit kind of jostle in the BS6 era?

V. S. Parthasarathy: You are asking me to do a crystal ball and you know that is the toughest one for me because we do not give forward-looking statements, but having said that let me dissect the cost element and look at each of these elements. One of the biggest beneficiaries from an external point before I start talking about internal is about the tailwinds on material cost and that is the material cost tailwind you all in fact do more research and how the trends are occurring. You can take it as a philosophy that we do pass on whatever material cost increases happen, but however currently we are at a cycle where it is giving us benefit and we hope that it continues, but there are always cycles here, so that is how we should look at that line item. The second is Project Horizon and Project Kuber done by auto and farm, respectively. These are cost which are in terms of the benefits are permanent in nature and we hope so it is certainly permanent in nature and this is giving us very good not just on material cost line but also up to EBITDA all the lines and this is something which can continue.

The third portion this time what auto got a huge good benefit is on model mix, they got a very good model mix. It is always our endeavour that our power brands do well and as the power brands do well our margins do well, so this is an attempt and how it pans out for future you can do it but we hope it will continue, but projections we cannot make. The last one out of the material cost is in terms of the stock, this time we have no net-net benefit at an M&M level, we do not have a hit because of stock increase or decrease or vice versa, we do not have a positive impact, so these are the elements, Pramod, I would like you to kind of look and factor them in.

BS6 you have asked and I will not duck that question, that is a cost increase and there will be a price increase taken and if you take a little bit of measured price increase, we hope other elements will come and kind of manage margin. All I can show you is the five quarters strength; 13.2, 13.5, 14, 14.1, and 14.8 this quarter, so this is the trend but the past is not as they say only indication for future.

Pawan Goenka: Pramod let me be little bit more bold in answering your question, so if I look at the petrol vehicle and we have right now only two petrol vehicles in our portfolio, XUV300 and KUV100. In both of these, we have taken a Rs. 20,000 price increase already announced and both of these pass on the cost increase and also make some margin on that in line with the margin that we have in our products. For diesel, as you know cost increase is much higher and every automaker will fall on how much of it to pass on and whether to pass on everything in one shot or do it in two or three tranches and how much margin can one potentially make on this cost increase, it will depend to a large extent on the competitive scenario who does what and also depends on where the positioning of our product is, so we will start announcing this price increases. Mahindra as you know has always kept the financial performance in consideration as we take such calls and we will do the same thing again and there will be products where we will take the full cost increase and there will be products where we will do a partial increase in phase 1 and another increase in phase 2, but eventually we will try and recover all the cost.

Pramod Kumar: Pawan, timeline on the launches, there are so many launches coming up including the XUV500, the new Scorpio, if you can just say quarterly what are the kind of expectations on major automotive brand launches?

Pawan Goenka: We have several launches coming up in the next 18 months to 24 months. The most eminent one is the launch of E-KUV100 which in terms of volume obviously will not be very large but very important launch for us because of the very aggressive pricing that we are able to do in this one and this should be happening in the first quarter of the coming financial year. The next one is the new Thar which should also happen in the first quarter of next financial year and we are very excited about that launch. We decided not to showcase in the Auto Expo because we did not want it to get lost in the crowd and we will do a separate event for that. Following from that would be the launch of the Atom, which is the mass mobility electric vehicle that we showcased in Auto Expo. We are very sort of positive on this launch because we think this will be a perfect last mile connectivity electric vehicle, very affordable, very comfortable and therefore we expect this to become a major volume driver for electric vehicle and we expect this launch to happen in the second quarter of next financial year FY 21 followed with that will be the launch of W601, which is a brand-new platform crossover SUV that will happen in the fourth quarter of the next financial year, that means first quarter of 2021 calendar year. Followed with that will be Z101 which will be happening in the first quarter of FY 22 or second quarter of 2021 calendar year . Followed by that will be the E-XUV300 which we showcased in Auto Expo, that should happen in the middle of calendar year 2021 that is on the passenger vehicle side. I am not talking about the refreshes that will happen, there are several refreshes that are happening on many products, I have only talked about the new launches, new platforms. Then on the commercial vehicle we have launched the Cruzio Minibus in the Auto Expo, 12 seater and 42 seater. On Furio ICV, we have launched several variants, five have already been launched and five will be launched during the next financial year that will be from covering from 5.4 to 7.2 ton and that will complete the range of commercial vehicle for us from 0.5 ton to 49 tons and then on the tractor I mentioned the K2 platform is the main one where the launch will start from middle of 2021 and carry on for almost two years as we had launched different horsepower segments in the tractor.

Moderator: Thank you. We have next question from the line of Raghu Nandan from Emkay Global Financial Services. Please go ahead.

Raghunandhan: Because it is only one question, I wanted one question on Jawa, last quarter you had provided an update, if you can provide an update on how the production and volumes are going, there was also some news relating to doubling of production to 10,000 per month by January and if you can also indicate the breakeven point for Jawa?

Pawan Goenka: I think on Jawa last time we had specifically requested Anupam Thareja to come into this conference, today he is not on the conference, but I can basically say that there is nothing significantly new to report, things are going as per the plan and whatever was mentioned last conference is happening. We are constantly increasing our volume and looking at new products to be launched. Perak was launched November '19 and booking started in January '20 and more products will be coming up.

Raghunandhan: Can you share the volume numbers Sir for the December quarter?

Pawan Goenka: We are not sharing volume numbers.

V. S. Parthasarathy: Just to give you a perspective last time when Anupam came in, what we had made the request is you were very keen, so we will give you some numbers, give us a little bit of space, in May we will come and share and by that time the annual numbers will also be and it will be a good time for a company which is just doing its early bit to give it enough time, but I must share with you that we are looking at it very, very positively on a 10,000 feet level and you will have more details in May.

Pawan Goenka: I think one sentence summary would be this is where we said we started in two wheeler.

Moderator: Thank you. We have next question from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Congratulations for good performance on the India business amidst very challenging times, but it was dragged by the consol business and in fact even when we look at between FY14 to FY19, we see that the consol profits have lagged the standalone profits, by standalone I mean M&M plus MVML, so in light of this, is there a rethink on the federation structure or a rethink on incremental investments that you are planning to do in non-M&M plus MVML business?

V. S. Parthasarathy: First and foremost is that whenever, you are right that this is a fact that our consolidated profits are lower than standalone profit, and therefore, that point is well taken. We are having basically two big ticket items where we are seeing that loss to kind of come, one is on SsangYong and one is in MUSA. SsangYong you already have had an update from Pawan and in some sense we ,also covered…, but to say that we also were year-on-year you will see a greater improvement every quarter and next year we should be on the breakeven to positive mode, so this is the broad coverage on MUSA, this is how we will handle it.

Binay Singh: Actually, the point I was trying to make is that even when you look at FY14 to FY19, the consolidated profit for Mahindra has grown by around 3% whereas the M&M plus MVML profit has grown by around 7%, so for last few years we have seen that the consol business ends up being a bit of a drag on the standalone business, so in that context when you look at incremental investments outside the automotive business, is there a sort of a rethink on that, something on more on those lines?

V. S. Parthasarathy: There is one technical thing that you need to look at because the good companies are paying as dividend which goes into the PAT growth in M&M and MVML and when you compare that with the consolidated, so if you remove the dividend and see it may give a much closer figure but there are more technical, but what your point is we are in a cycle where the investments that we have made is not yielding us that kind of a positive momentum from a profit growth point of view and we hope that the cycle reverses. From a capital allocation point of view, you are aware how we have said that we look at each investments on its merit, we look at the IRR that it gives from a financial perspective, we look at what it does to us strategically and I have explained that all to you in terms of our investment philosophy. We will continue with that philosophy, but build in more checks and balances because of the external environment which has also changed dramatically over the last four or five years, and more about this maybe after the year-end when we have the analyst conference, we will take this as one of the subject matter and could have longer discussions around in terms of thought process and how we address various loss-making subsidiaries.

Pawan Goenka: I think I just want to add two things, first of all in terms of total investment that M&M Limited makes, bulk of it goes into M&M and not into outside investment, i.e. M&M plus MVML. I do not have the number in front of me, but it certainly would be more than 50% going into M&M plus MVML, and only about the remaining is going into the various investments, that is one point so it may look like that we are investing lot of money outside the M&M Limited but the number in investment may not be as large. The consolidated profit loss is a different thing, I am talking about investment. The second point that I want to make is that in automotive and tractor business as we look at growing beyond India, the gestation periods are long and that one cannot take that away and no matter which company you look at, when it goes into a new market, whether MNCs coming into India in automotive business or anyone going anywhere else, they are long gestation period and if we were to take a call that we will not invest in the long gestation period investments then we would be constraining ourselves to the India domestic business and that is not how we can grow in the long-term, so there may be some discomfort in terms of the time is taking for us to turnaround some of these investments to become profit-making and it has not been helped by the last two or three years of slowdown that we have seen in the auto industry globally, but we still believe that while as Partha said we will be obviously looking at each investment lot more critically and will be doing that, but even so I would like to think that we have to take these bets and if we did not take these bets then we will not have the growth engine for the future.

Binay Singh: Point well taken, just one suggestion maybe the company can explore to sort of give a longer term return on capital employed target like when you meet us in May maybe have like a 2025 target because that will just make it easier to sort of put some number as to where things finally reach to?

V. S. Parthasarathy: I got that input and I have taken on-board, we will kind of think through and in May we will come back with a response.

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

Kapil Singh: Sir, my question is on electric side, we are seeing significant number of new launches, could you talk about where are you seeing initial signs of success in this segment, you see electric could gain significant market share in next two to three years and or these products going to be profitable right from the start for you?

Pawan Goenka: The segment that is clearly taking a lead right now is the three wheeler segment and in fact if I were to include the lead-acid battery three wheelers that are being sold which I do not think will be the long-term future but even so if we include those that are being sold right now, we are now selling in Mahindra close to 1500 a month of these three wheelers, 500 of these are lithium ion Treo and 1000 of these are the E-Alfa lead acid. In lithium ion Treo, right now we are the major player, in fact almost the only player and E-Alfa there are many, many players in that segment, so that will be the first segment that I believe will take off and the reason it will take of is two; one already with the current level of FAME benefit and current level of GST, the Treo kind of three wheeler is commercially viable for the owner operator, that means owner operator makes little bit more money per month after paying for all the expenses on the Treo then we make on the petrol-diesel or CNG three wheeler, and therefore, commercial viability is established, just a matter of the operator getting used to it and for Mahindra, the Treo is at the variable cost level profitable from the word go and as the volumes go up, I am sure that it will become profitable at the EBITDA level also and then at the PBT level, so I do not think that the time is very far, I do not have the calculation right now as to how much volume we require per month to get to that level, but it is not very far for getting a PBT breakeven on Treo. We already are like I said variable cost profitable.

On the second segment that is emerging but slowly is the fleet operation, E-Verito and a Tata vehicle are the primary vehicles being used in the fleet operations. We have now launched the E-KUV100 which I hope will be more desirable because of low ticket price that we have 8.25 lakhs and once that vehicle gets accepted in the fleet segment, the fleet segment can grow very rapidly. Now our calculations are that E-KUV100 at the 8.25 lakh price is commercially breakeven for an operator compared to an IC engine vehicle that they may be operating and therefore commercial viability at 8.25 lakh is established, 8.25 lakhs is not a profitable price that is the introductory price, but if we get to volume of I would like to say 500 or so per month, then it will become variable cost profitable. The E-Verito is already profitable for us and it is selling about 100 a month but again for it to become meaningful, the volume has to be minimum 500. The bus segment is not something we are present in, but bus segment also is growing very rapidly. I do not know the profitability of the bus segment and I do not know whether current OEMs are making money in the bus segment. I would just like to add even though we do not make forward-looking statements that Mahindra Electric we are expecting to be EBITDA positive in FY21.

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

Gunjan Prithyani: Sir, I had a few follow-ups on SsangYong, you mentioned that the infusion could come through external third-party or by M&M. Now, by third-party you mean are you open to some strategic stake sale there because those were the kind of news report also circulating in December, if you can share your thoughts there and on the write off that you have taken in this quarter, now if I look at the investment here it is about 2400 crores, after taking 600 crores it is not really mark-to-market to the current stock price, so what has been the thought process around 6 billion write-off?

Pawan Goenka: The answer to the first question is very simple, yes.

Gunjan Prithyani: As part of this three-year plan are there conversations under where you are looking at strategic sale?

Pawan Goenka: Yes.

V. S. Parthasarathy: This is a very involved question which when we look at prices. On one hand, I told you in my opening remark that we think the business case not only covers the new investment, but also all the past investments gives return, so the business case is positive on one hand and then the market price is showing stress, so you have to take both of these into account in order to arrive at a conservative basis. On one hand, you can say no impairment required because the business case is positive. On the other hand, you say market price is what it is, so you put all these into the boiling pot and then you kind of appear what is that conservative provision that I should take and then you have auditor also agrees with you and that is the figure you take, but your assessment is right at 2450 when we knock off, it still is about 25% to 30% higher than the current market price.

Gunjan Prithyani: So we should not be worried that this write-off is coming, there is going to be another MTM year because the way the operations has panned out, if there was a write-off being taken I thought it should have to been an MTM, which is why I thought you know how you are looking at it?

V. S. Parthasarathy: Good point, actually all I can say is that whenever we take any write-off or any provision for the year it is a one-time assessment and that is what will be for the year is our way of looking at financials, what you are saying is what is this for this year and in essence it is our best estimate on a very conservative basis of what we should have in our books.

Gunjan Prithyani: The other thing that you mentioned CAPEX rationalization and cost is in our control now, you have some assessment on what is going to be the cost saving and the savings on the CAPEX side, do you think that with those two keeping the volume aside because that is something which is going to depend on how the global markets do as well as some of the export market where things have not really changed in last one year, so I am just keeping the volume variable aside, do you feel confident that with the cost and the CAPEX initiatives you would be able to reach your cash breakeven sooner enough?

Pawan Goenka: I have given some numbers to you that we have fairly meaningful reduction in personnel cost thanks to the workers' union agreement that we have already put in place…

Gunjan Prithyani: How big is that, material cost I got 90 billion, but?

Pawan Goenka: I did not given a number that is why you did not hear the number on that one because I cannot reveal that number as to what that is the confidential agreement between the labour union and the management. On the material cost 90 billion is looking fairly doable based on the initial analysis that has been done by the outside consulting firm and we should be kicking off that project hopefully by the end of this month and therefore these two will amount to a fairly significant reduction in cost and like you said that we need that the volume increase to get the financial performance at a comfortable level. I just want to go back to your other question that I said very short answer, yes to. You mentioned the word strategic sale, just want to clarify that what we are looking for is an investment not a sale, so it is not like Mahindra is going and selling their stake, it is about getting investment into the company and not selling that stake.

Gunjan Prithyani: On the farm business, again the inventory correction was taken last year from what I recall then what really is the issue still there and how confident are we of a breakeven on the overseas farm subsidiaries next year?

Pawan Goenka: What we had said last year was that we had fairly large inventory at the dealer and at the plant itself and we are going to take a two-way program to bring that inventory down to the level where we want it. We have reduced dealer inventory by 20% in the last 12 months and we have reduced the plant inventory by about 40% in the last 12 months. We still have some more ways to go maybe not 20% reduction may be 10 more percent in dealer and may be 20% more in plant, that will bring us to the right level of inventory and right level of inventory means working capital reduction and therefore interest cost reduction, so that is the one area that we are doing and the second area is operational efficiencies which will save us tens of millions of dollars and that two together will bring us to profitability in 2021 calendar year.

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

Hitesh Goel: Sir, just wanted to double check on this consol EBIT of automotive, what is the kind of write-off included in this for SsangYong, it is 340 crores or it is higher than that?

V. S. Parthasarathy: This is a good question, when it comes to SsangYong in consolidated, we are not talking standalone because that is a new investment impairment. In consolidation that does not figure in because you are picking up every quarter the financial losses or proportion of the losses that we have so therefore there is no investment. This is an impairment of assets at SsangYong level, that impairment of assets on a gross level is 340 crores and at PAT level after NCI is 254 crores, so 340 and 254 respectively, so that is the impact on the financials of consolidation. At a segment level in our consolidated 340, at PAT level 254.

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

Pramod Amthe: This is with regard to the third partner the partner you are trying to bring into SsangYong, this is more for a value discovery or to reduce your burden, and follow-up to the same is there are talks about you are looking for a partner in the EV business in India, so you are just structurally changing the way Mahindra is looking at investments into subsidiary to bring in partner so that the burden on the shareholders will be reduced structurally?

V. S. Parthasarathy: Just to give you a perspective whether it is Systech when you saw auto components or any of the other investments we have done, we have always welcomed and believed that a financial partner will actually help us in many ways not just monetary, so this has been a philosophy always being not a new philosophy that we are having from that perspective. Having said that, now you asked two questions, first about SsangYong. SsangYong first is that when we are looking at getting investments it is from that perspective that investment into SsangYong will be both the things that you said and more, so therefore we are keen in it. When it comes to electric vehicle, I do not want to comment on any speculation that happens, but broadly I can say to any private equity walks into my door that here are my 10 sectors, we welcome investments in all of them because we believe that together we can create more value, so it is a general philosophy and therefore if somebody did tell tomorrow that they want to invest in Mahindra electric are welcome, but I do not want to comment specifically based on the reports that you may have heard from the market.

Pawan Goenka: But our priority preference will always be strategic partner because strategic partner will bring value also especially when we talk about Mahindra Electric where I have said many times that scale is the key, if we get a strategic partner who puts together their requirement of electric vehicle components into Mahindra Electric then clearly they create a bigger business and brings in more value, so priority will be there but we would welcome a financial partner also.

V. S. Parthasarathy: I just want to clarify this what Pawan said is very applicable for Mahindra Electric, but not generally. What I answered applies generally and to that extent applies to Mahindra Electric but not in this order of priority for strategic and then financials.

Moderator: Thank you very much, Sir. I would now like to hand the conference over to Mr. Sriram Ramachandran for closing comments. Sir, over to you.

Sriram Ramachandran: Thanks a lot for participating and if you still have some queries you can write to us and we would respond to it. Thank you.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of B&K Securities Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.