"Mahindra & Mahindra Ltd. Annual Analyst Meet"

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MANAGEMENT:

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Sriram Ramachandran: Hello everyone. Good evening, good morning or good afternoon based on wherever you are joining from. Welcome to Mahindra & Mahindra Annual Analyst Meet FY21. We are indeed glad to have you all on the call today. Hope you and your family members are keeping safe during this tough period.

Just before I start the meeting, there's a safe harbor statement I would like to read. 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 such forward looking statements.

I would like to welcome our senior management of Mahindra & Mahindra and thank them for taking out this time for the call. We have with us today.; Dr. Anish Shah – Managing Director and CEO; Mr. Rajesh Jejurikar – Executive Director -Auto and Farm Sectors; Mr. Manoj Bhat, Group CFO and also some senior management team from auto and farm divisions and also other group business leaders would be there in the call today.

We will start with the overview presentation by Anish, followed by presentations from Rajesh and Manoj. We will then open the floor for Q&A. I hand it over to Anish. Over to you Anish.

Anish Shah: Thank you and welcome everyone to our Annual Analyst Call. It's great to be here with all of you. I hope everyone is safe, especially in these difficult times.

We have a longer presentation today than usual and the reason for that is, we have got a lot more information that is in here, in response to the questions that you all have asked in the last couple of quarters. And we do have enough time for questions after that as well.

If we were to start with the key messages:

Strong performance, as you will see or may have seen already from both the farm and auto businesses in a tough year. We did have a pressure on margins from higher input prices. What you will also see is the capital allocation actions that we have taken and that we promised are actually bearing the results that we expected they would and a very strong cash generation, which is really the highlight for this year.

Let's start with the impact of capital allocation actions:

If you look at the left-hand side of this page, it shows a profit after tax for both continued and discontinued operations. Discontinued here is essentially SsangYong and what we see is a significant jump in profit from Rs. 127 crores to 1,812 crores. It's not just capital allocation in SsangYong though, it is also a strong operating performance. Therefore, as you look at the right-hand side here, we see a 36% growth in operating PAT, which is from continuing operations only. I talked about cash as a highlight, and we see why that is the case. We have had an operating cash generation of Rs. 10,000 crores this year up from Rs. 4,500 crores last year. But I will also point out that Rs.3,500 crores here is because of actions on working capital. The team has taken some very good actions and that has really helped increase the cash generation. But this is not something that will recur every year. As we look at cash generation and ongoing basis, I would look at the Rs. 6,500 crores number as a benchmark for an ongoing cash flow. So, while the Rs. 3,500 crores additional is real, that's not something that will be repeated every year and that has resulted in a strong free cash flow which is up to Rs. 6,710 crores this year.

So, as we look back at F21, there are three things that we are really focused on across the Group. And while Rajesh will talk about our businesses later, but I am going to talk about specifically as a capital allocation actions. And then as you heard prior also there's a good control on costs and other actions, we have taken in F21 as well, but from a capital allocation standpoint, this is a familiar chart. You have seen this multiple times before and happy to say that this is complete as promised by the end of the year. So, three categories A, B and C, I won't repeat them. We have got a fair amount of restructuring done with MANA and Pininfarina as well, which sort of straddle category A and B. And we have got Hisarlar and Erkunt which were open items last quarter, put in category B for Hisarlar Ag Machinery and category A for Erkunt, respectively. So, this activity is completed now.

Let's look at the results from this on the next page:

Here, if we look at the left-hand side, we see the profit after tax over the last few years and we saw significant losses in F20 and F21 of Rs. 3,400 crores and Rs. 2.400 crores, respectively. This year we expect that to go down to Rs. 300 crores and then get close to breakeven and profitable after that. As you also see SYMC is a big part of that, but there have been others as well. And this is data again shared by specific areas, as was requested last time and similarly if we look at investments, which was also a request from some of you last time, we look at Rs.1,500 crores investment in F20. For F21, if we were to look at an apples-to-apples basis, it's also Rs. 1500 cores but there was a debt repayment of Rs. 2,800 crores which is essentially a one-time cleanup and that helped get all the businesses robust from a net worth standpoint and it's something that we will not plan on repeating again or we will not need to do again. So, which is why we have broken them out separately. We do expect that investment number to go down to Rs. 1150 crores this year and then go further down next year.

We also see the categories of the investment:

Auto in the light purple essentially refers to Automobili Pininfarina and the investments there have been for the Battista and Rajesh will talk a little more Battista and where it is today. And what you also see here is MANA has had a fair amount of investments in F20 and F21 including the debt repayment and that starts going down significantly in F22. MAgNA and other farm subsidiaries have started to turn around and are in a very good trajectory and therefore as we go to the next page which has specific numbers by subsidiary, again in response to your questions last time and here we got numbers for full year as well as for the quarter and what you see is first, a strong positive trajectory across the board except for Automobili Pininfarina where there have been some costs this year in terms of getting the Battista up and running. But more than that, as we look at the farm subsidiaries, you see a very significant turnaround in almost in all cases and many of them are profitable for the year or for the quarter and MAgNA, which is still negative for the year, is moving to a breakeven this year and profitability after that.

On the auto side, the change isn't as dramatic, but it is still fairly significant and there Battista will really drive the fortunes of APF. MANA is restructured now, so we will expect a much lower set of losses and a better products set going forward. PMTC got hit essentially by COVID. It was on track for breakeven this year prior to that and it had multiple waves that came through in Europe, but overall, the underlying business has strong performance, and we see that bouncing back. GenZe has been shut down. While there were some numbers for the year from a shutdown standpoint, what you see is essentially a negative 1 in 4th quarter and it will go away. So that's a set of businesses that we have, and we can talk about it more at questions that may come up.

In terms of where we are focusing today, we have been extremely focused on keeping our communities and our associates safe. Beyond that we have really pivoted to growth, and we will talk about our core growth, growth gems and digital platforms.

First, with regard to our communities:

A number of actions we have taken, including building oxygen plants, giving oxygen concentrators, having a large number of trucks with a logistics business, doing a program called Oxygen on Wheels, vaccination, and various other things. In terms of our associates, we have also really gone and done a lot of things to keep them safe and secure and that has been very well received. So, these are activities that were important in this timeframe, and we are very proud that our philosophy across the board, across all our companies really was to go out and share with others and to help them get back safely and securely.

As we talk about growth, first looking at the core pillars:

While Rajesh will talk about auto and farm in a lot more detail, I just want to highlight the fact that beyond market share growth in tractors, we are looking at a very exciting opportunity in farm machinery and we do see the quantum leap in terms of revenue and profits there. Beyond that product technology, global growth, are all key drivers in farm. On the auto side, with the Thar and the upcoming products, there is a very strong sense of momentum that we are seeing. The commercial vehicle space has been a strong one for us and on the electric side, last mile mobility is here and now and that's one that we will see a good growth momentum in the next couple of years. And we are essentially getting ready with a born electric platform for an EV play in a three to five-year time frame. Tech M and Mahindra Finance have number of key growth drivers as well. And I can cover that in questions if you want to go through that in detail.

We have restructured our growth gems or restructure maybe the wrong term here. We have reconfigured the growth gems. What we realized is that we needed to have a specific monetary target around it, around all of them and what we have put forth is a billion-dollar market cap in 3 to five 5 years as the aspirational target for each of these companies and as we did that, we saw that smaller listed entities also have tremendous potential. As we look at logistics, hospitality, real estate, each of them will grow 2 to 2½ times in the next 3 to 5 years and be able to get to a 1 billion market cap. Beyond that there are a number of other entities that also can reach this aspiration and therefore that will really enable value creation for our investors.

And then we have got digital platforms:

Car and bike is essentially Mahindra first choice wheels, which was a growth gem earlier, but we feel that the digital platform play can make it grow even faster. These are businesses where we would be open to moving from a majority to a minority stake, to have a greater value creation. FirstCry, for example, is now valued at $ 1.7 billion and that's something that we hope Porter follows and then beyond that Car and Bike and the Digital Fin Co that we started. There may be a couple more that come across through the year. But these are the four that we really going to drive in terms of value creation for shareholders.

So, as we think about the next few years, we want to lead ESG globally. This is a space where the Mahindra Group has been a leader. It is part of our DNA, and this is something we feel that we should play a role in leading it, not just in India but across the world.

In terms of customer experience, we want to go from good to great and even beyond great to outstanding. And that's really going to be the focus technology and digital is going to be a key driver there and you have seen the deliver 18% ROE multiple times before. What we are adding now is also a growth target for our companies and which is a 15% to 20% EPS growth, that's at the M&M level, but it's really a target for all our companies to look at a 15% to 20% growth in their core businesses.

Let me talk about ESG in a little more detail:

We are trying to be very focused in terms of how we can establish leadership. We have set a goal to be carbon neutral by 2040. Our businesses have taken science-based targets which really is a big step in terms of understanding how we can get to carbon neutrality. We also have targets for 100% renewable energy, and we have committed to get to 50% by 2025, a 100% improvement in energy productivity, where we will get to 60% by 2025, 100% site certified as zero waste, zero water by 2030 and we already have India’s first certified location at Igatpuri but in addition to that there are 21 other sites that we already have certified. Hariyali which is our tree plantation program has planted 19 million trees so far and we will ramp that up to get to 5 million per year. So, a number of activities around environment and sustainability that will establish us as a global leader in this space.

On the social side, woman empowerment is going to be a key area of focus, with education for women, as well as skilling and training for women. And we have targets set up for both at 1 million a year.

Governance has been a hallmark for Mahindra group and for us it is about maintaining the gold standard that we have established and really evolving the NEXT standard around cyber security, data, privacy, diversity, and inclusion.

With that, I will now invite Rajesh to talk about the auto and farm businesses.

Rajesh Jejurikar: Good morning, and good evening to all of you and good to be with you again. I am going to just recap the walk, run and fly phase which we had spoken about a year back and we feel good about having delivered on all the short-term outcomes that we had planned for. The management of cash, the management of margin, the safety of our people, you see that up there. We have also made significant progress on the strategic actions that we had planned, and you can see those tick marked in yellow, and we will talk more about some of them through the course of this presentation.

Let's take a look at the F21 revenues:

What you see here are the summation of the auto and farm segment revenues. We saw a 50% revenue increase in the Quarter 4 of F21, both on a standalone and a consolidated basis. Let's take a look at the F21 financials where you see a 36% increase in the PBIT consolidated for this period of time. In Quarter 4 you see a consolidated PBIT increase of 277% and a standalone increase of 92%.

Let's take a look at the turnaround in the global subsidiaries of FES:

What you see here is the significant turnaround from F19 to what we have seen over the last three quarters of this financial year where in Quarter 4 we have shown a profit at the PBIT level of Rs. 29 crores. We firmly believe that the plans to turn around our FES global subsidiaries are well underway, and we now have a strong base on which to start thinking about growth in the global markets.

The next phase, which is where we are in right now, is one of gearing up. And the reason we say this is a phase of gearing up is because of the second wave of COVID that has hurt us. The Quarter 1 hence is focused on the wellbeing of our communities and associates. We continue to ramp up production, even though there are challenges on the supply side, because we are confident that demand will rebound between June and July. There's a focus on cash and system cost control in this period. Clearly, we see risks coming out of the semiconductor shortage, localized lockdowns and also the commodity price inflation. But we are pretty sure as we move out from Quarter 1 towards the rest of the year and beyond, it is a phase for us to accelerate to fly. It's a phase in which we will move from the walk and run to one where we can start accelerating. What we have tried to put together here for you are some critical levers which will help us build a strong growth momentum in the respective businesses.

I am starting with the automotive business, where we will look at what could be the bold moves which will get us the growth momentum, we are all looking for. They have been categorized as

Being fitter, putting our brands in momentum, building strong brands, leveraging our platforms, launch 23 new products and to create a future ready EV strategy.

Let's look at what being fitter means by way of what we have accomplished in the last two years. In the last two years, we have reduced our fixed expenses in the automotive business by Rs. 900 crores. That has come through manufacturing fixed expenses, sales and marketing and G&A. This does not include variable expenses. This does not include personnel expenses. These are just pure fixed expenses in the automotive business. We believe that this sets us up very well to drive a growth strategy as we become fitter and leaner by way of our expenses.

The next important part of the growth momentum is going to be about brands which are already in momentum. I am going to talk about three such cases. One is Thar, where we continue to see a very strong booking momentum. Our product continues to do very well and except for the lockdown period we have been getting over 5,000 to 6,000 bookings every month even as the waiting period is 10 months. The other product which is doing extremely well is XUV300. For the last 6-7 months, we have been getting bookings over 6,000 per month and we have a 12 plus week waiting period for this product. The 48% share of petrol in the bookings indicates that the product is getting very well accepted in cities and metros. Our conventionally strong brands Scorpio, Bolero continue to remain strong in momentum. Combined sale of the two brands in the Quarter 4 was over 10,000 per month and in spite of that volume, they are on a waiting period as well. We believe our current products are in a strong momentum. But as we think about our brand strategy for the future and we talk about what we mean by building a strong authentic SUV brand, really the brand idea is about exploring the impossible and this visual brings that alive. What we mean is creating a sophisticated authentic SUV brand with unmissable presence, one which really reflects the Mahindra DNA and with advanced adventure ready capabilities. Our endeavor is going to be to create a very strong product portfolio, but these are going to be based on platforms. What you see here are two body on frame platforms on which we will build the product portfolio. So, you see the new Scorpio, the 5-door Thar, and all new Bolero and 2 Monocoque platforms, one which will carry the XUV700 and then the W620, and then the other new platform which will have a product code name V201 and the all new XUV300. You also see which of these will be electrified and then the Born Electric portfolio. So, 9 new products by 2026 is what we are working on.

As we look at our commercial vehicle portfolio, the proposition here is about getting the tough going and we are planning 14 new products to strengthen our number one position. These include the Last Mile Mobility products, as well as products on Small Commercial Vehicle Range, a new Urban Pickup Range, and new products in our conventional Pickup Range, so 14 new products by 2026 are at various stages of execution.

The trucks and buses business, the proposition is going to be about guaranteeing prosperity. We have a very strong portfolio. We have just built a new ICV platform, believe now with a strong portfolio and a BS6 which makes us more cost competitive, we are well-placed to start gaining back market share.

On the international side:

The launch of the Battista in early 2022 is something that excites us. As Anish mentioned, the product is coming out extremely well. We do have a video which I am not going to play it today, but Sriram can get that for you to see, that is feedback from the European media on their early drive. Some customer events have also got extremely positive feedback. So, we are looking at the launch of Battista with a lot of anticipation. At MANA which is where Roxor is housed. We are and have restructured costs. We will look at launching the new Roxor towards the end of this calendar year. South Africa continues to remain a strong automotive market and we have very strong growth plans again with a refreshed Bangladesh growth strategy and the strengthening presence in Sri Lanka with our joint venture there. This is a look at the Battista and like I said please do take a look at the video if you would like Sriram will share a link of that separately.

The EV strategy is to really prepare us for the short-term and the long-term. In the short-term the immediate focus is on last mile mobility. We believe this market is ready for scale-up, some exciting tie-ups with Amazon and Flipkart are in place. We strongly believe there is a huge export and global opportunity in this arena, following our partnerships like Amazon, but even opening up new markets for last mile e-commerce mobility. You have seen the portfolio of products that we are planning. We are looking at a new portfolio of ICE derived SUVs and the Born Electric portfolio as well. A lot of focus on driving partnerships to take us on the path of creating exciting EV portfolio in the SUV space. The new structure and the merger with M&M we believe will strongly enable us.

On the farm equipment side:

We are here to transform farming and enrich lives of farmers. We believe we have a very strong growth strategy and a growth opportunity. Broken that up into four key areas, the domestic core we need to grow our market share and I'll talk some more about that. Anish spoke about the quantum growth opportunity in farm machinery, and we really think that there is an opportunity to significantly grow the market through our actions. I will talk about technology and global growth as well.

On the tractors market share side, we have repositioned our two core brands, Mahindra and Swaraj, brand Mahindra for toughness, the brand Swaraj around Josh and Energy, which is *Josh Ka Raaz Mera Swaraj*. Series of new products are in the pipeline. I'll talk about K2 in a moment. We have just introduced the plus series on the brand Mahindra side. We have Yuvo Refresh which is coming up soon and the portfolio of horticulture focused products as well. Krish-e is going to be the mode which will drive differentiation. I'll cover some more about that and of course channel expansion to leverage the growth in the market and drive greater penetration and coverage. K2, we expect the first lot of models to get launched in or productionized in 2023 and you can see the dates of the entire portfolio. These are very exciting breakthrough products. They will be very-very comparable to the best-in-class and will help us leverage the global opportunity coming out of lightweight tractors. They will come with IoT implements, connectivity all of that.

Digital technology is going to be a very important part of enhancing farming and productivity. Krish-e is a strong farming as a service initiative which will enable that, it will also create a strong connect with farmers building a growth opportunity for tractors and farm machines apart from enduring relationship with our farmers. We have started piloting and growing a Digisense, which is IoT enabled kits.. 3,200+ Takneek plots are plots where we are piloting new age practices with farmers in a matched plot where they continue our existing practices and through this, we are able to demonstrate a significant productivity improvement for them to the extent of more than 15% to 20%. Our rental is an area we want to scale up further on and you can see we have clocked more than 200,000 hours of rental usage of tractors already plus farm machines. We grew 45% in farm machines in the current year F21 of the year just went by. This is an important growth engine with an opportunity to significantly scale up growth. We are moving into in-house manufacturing at Pithampur. We see an export opportunity and we will also explore inorganic opportunities, get us the momentum and the growth that we are looking for. Strong product pipeline is in place leveraging the global centers of excellence.

As we have turned around the FES global entities, we now are looking at how we can move for growth trajectory. You can see that in North America tractors grew retail over 30%, Mexico less than 100 horsepower we had a market share of over 10%, in Brazil 4%, Turkey tractor volumes went up 97%, Hisarlar Ag Machinery revenue went up 90% and Turkey is now overall profitable. Lots of restructuring actions in MAM which take us on a strong path to now think about growth. Out of the five largest markets in the world, we are present in four out of the five largest markets in the world in the chart above.

So, that was a brief on the auto and farm sectors individual key action plans. As we set to redefine the future, there are some key areas where we want to build capabilities to define the future. The first out of those is design. We believe we really need to significantly enhance our design capabilities and towards that we will be setting up a design center in the UK which will of course, work around with the India studio and leverage Pininfarina in Italy to help create global design. It will include the entire auto and farm portfolio that we will ramp up on. Already spoken about the EV tech center, but that's a significant capability that we are planning to build, leveraging partnerships, and laying out a strong roadmap for Born Electric vehicles.

Digital transformation, especially in the customer experience journey, building strong software capabilities for human machine interfaces and new business models, also strengthening our supply network.

The other key capability is strengthening and building differentiated brand experiences. All our brands will have purpose-driven statements. They are WIP at the moment and we will share them with you all at an appropriate time. Build really world-class customer experience on ground, over and above the digital journey. Of course, Wow products leveraging our platform commonality approach.

If I was to summarize the way we look at accelerating to fly, these are the 5 key things on the auto side and the 4 key things in the farm side. We believe we are very well placed through these actions along with the common capabilities that we are investing to build in and the approach towards ESG, to prepare ourselves for a very strong path, a strong bold path to growth trajectory in the future.

Before that let me share with you the commitments that we are making for 2025 for auto and farm sectors. We are looking at the revenue growth of over 15% to 20% CAGR. Leadership in the core SUV segment with strong EV play. Strengthen further our number one position in the LCV<3.5T segment. Grow market share in tractors and a quantum growth in farm machines. Be at the top of brand affinity and customer satisfaction scores in the segments in which we play and deliver a ROCE of 18% ++.

With that, I would like to thank you all for being here and we do believe that we are on a path for a bold and aggressive growth trajectory. Over to you Manoj, thank you.

Manoj Bhat: Thank you Rajesh. So first of all, good evening, good morning to all of you wherever you are. I think what I am going to try and translate some of the things which Rajesh and Anish have spoken about into some of the numbers and how they come about.

Firstly, talking about Q4 F21, very strong revenue growth in both auto and farm and that's something which is reflected in the 48% number here in terms of growth. From an EBITDA perspective while the margin profile is different that farm actually increased margins and auto had a decline in margins, but overall, we showed a 60% growth in margins compared to Q4 last year in the standalone basis. That's a very good performance considering the commodity cost pressure and some of the constraints we had on the supply side. Lastly, on the operating PAT side our operating PAT before EI was up almost three times from Rs. 323 crores to Rs. 1003 crores and then coming down to the EI box, the EI was actually down from Rs. 3,578 crores which is what it was in Q4 to around Rs. 840 crores which is a much smaller number. From a perspective of looking at this, a lot of our capital allocation initiatives have been done very well through the year and going forward we do not expect significant elements coming through in this line. PAT after EI of course is just a reflection of that reduced EI and so there's a huge increase in PAT after EI.

Moving on to the next slide, we have tried to build out how this change has come about, and I think clearly if you trace it from last year of Quarter 4 which was 323, the first two elements are about the domestic auto and farm businesses. The farm business, as I said, had volume growth as well as margin increase and so it has contributed significantly. Domestic auto has also contributed to growth. If I look at international subs, this is actually since it's a standalone statement this is actually just absence of a cost which was there in Q4 which was about certain valuation of certain options which we had in one of our subsidiaries. The next line item is about a lower dividend. This is largely Tech M had interim dividend, which was paid out in Q4 last year which is absent this year. The last one is a line item around tax and last year in Q4, we had opted to go into the new tax regime. That was a negative bad quarter, but that is absent today. Our tax rate today is normalized to a large extent.

Coming to the consolidated view, consolidated also I think there's a strong increase in revenue about 32% led by auto and farm group companies contributed about 5%. I'll talk a little bit more later. Again, coming to the operating PAT view on the consol side, there's been a threefold increase at the operating PAT level. The significant decrease here is also in EI. So, the EI at a consol level is only Rs. 321 crores and as I mentioned before, this also signals that we are towards the end of the journey in terms of our capital allocation initiatives. The other significant thing is we have classified SsangYong as a discontinued operation and if that had been there, which I have shown is as a note here, SsangYong would have been a Rs.443 crores loss which is not in the numbers in the continuing operations. Again, a buildup from Rs. 680 crores to Rs. 1,834 crores, the same two, farm and auto have contributed positively, but I want to talk little bit about what Rajesh said, there's a huge amount of effort which has gone in into changing the profile and the profitability of the international subs, both auto and farm. So that's been a significant increase in profitability which we have seen, the swing is Rs. 670 crores.

Going on to Group companies, again Q4 F20, as you would all recollect was a quarter where many of the companies in the Group, did change to the new tax regime as well as were hit by COVID and COVID related provisions. We are normalizing back to normal level of profitability and that's where we are showing that group company performance also come through.

The last one is tax again, till last year we were taking a call till F20 we were taking a call that there will be a deferred tax liability on undistributed dividend income in some of our subsidiaries. That was positive in Q4 F20, which is absent today. Again, these numbers are normalized because that impact in this quarter is zero, but from a bridge perspective, it is showing up as a negative in the bridge.

Coming to full year, revenue is flattish. Auto de-grew by about 10%. The farm grew by about 17%-18% and EBITDA again because of the various initiatives around costs, around fixed costs, around managing variable costs as well as looking at how to increase operating leverage we have been able to show a 10% growth in EBITDA. At the operating PAT level, it has gone to 15%. I'll talk about it. The significant thing here is on a full-year basis standalone, we took EI of about Rs. 3174 crores, which is a number, which as I said might not repeat and we have done most of the significant activities there.

If I look at the bridge here, the difference here is on a full-year basis, farm continued to do well in terms of an overall profitability. From an auto perspective, two things have happened, it was really a 10-month year for all practical purposes, plus the supply side constraints and some of the commodity led challenges in the later part of the year. All of them have contributed to a net fall in margin in the domestic auto business on an absolute basis. This is in line with the fall in revenue as I mentioned it was a 10-month year.

From international subs again, most of it is about the option valuation, which I mentioned it's a small amount. Group companies is because of lower dividends and tax is again related to the tax change.

And then finally consolidated, there are two or three things here, which I wanted to point out from a revenue side. I spoke about the 10% reduction and a 17% growth on FES. At an operating PAT level there has been a strong increase of 36%. If I look at EI, on a full-year basis it is about Rs. 1,262 crores and PAT after EI actually grew about 40%. SsangYong which is discontinued was an impact of Rs. 1,535 crores which we have disclosed as a memo id.

The bridge here is pretty similar, farm was positive, auto was negative, but in this view on consolidated again, it comes through strongly on what has happened in the international subsidiaries. A huge increase in profitability on the full-year basis, our group companies, where thereabouts on a full-year basis, because I think many of them were also impacted by the pandemic in the initial parts of this year and tax we have spoken about. So, this was the bridge.

Group companies, I won't spend too much time considering we are 45 minutes into the call, but clearly each of them is poised interestingly. Tech M if I look at the last four quarters, I think increasing profitability deal with momentum is there, in terms of cash conversion and free cash flow, we have seen one of the best years in Tech M. From a MMFSL perspective the highlight here is the Rs. 773 crores number, which you see as profitability, that also includes a provision of about Rs. 1300 plus crores which they took to go down to level of 4% in terms of net NPA. That's something which that there is a lot of efforts on to improve on the overall NPA position. We should look at improvements coming from there.

The other businesses are at varied stages of recovery. MLL for example, has seen most of the traction come in the last six months. If I look at Mahindra Holidays, Q4 occupancy levels were higher and going into next year the European business also could turn around and MLDL is also something which Q4 was very good and that's something which is a momentum which we hope we can continue going into the future.

The other perspective I wanted to give was cash flow and this might not tie back 100% to the books, but it's a representation which we thought would be useful for all of you to have. From a perspective of operating cash flow, it's about Rs. 10,000 crores of operating cash flow. This Rs. 3312 crores is the CAPEX for the domestic auto and farm core business and then Rs. 1639 crores is what we have invested in the auto and farm subsidiaries which is both domestic and international. This is the bucket, which is the core auto and farm. The next bucket is about the other group companies. We got a dividend from various sources of about Rs. 525 crores last year. We have invested Rs. 1935 crores out of which the big one is the Mahindra Finance investment of Rs. 1641 crores. If you leave that out rest of the investment is less than Rs. 300 crores. So, from a perspective of the dividend it could actually have covered the investment, if not for the Mahindra Finance Investments. What we used the cash for is also this year, as Anish also alluded to, was to get many of the subsidiary companies to the right position in terms of their debt equity structure and their capital structure. We actually repaid debt in many of our subsidiaries to the tune of Rs. 3,300 crores and our own borrowings overall we did this at the beginning of the year at the peak of COVID and we had shored up our cash reserves. That's something which has gone up by Rs. 3,700 crores and the last line is the dividend which we paid during the course of the year.

This is another cut and on the left-hand side you see the cash generation. Now this includes the operating cashflow plus the dividends which we have got during the course of the year. These are in other words, what is the cash which has flown into or come into the company and out of which Rs. 3457 crores the source of the cash was better working capital management in the course of the year. As we go forward, I think we don't see that repeating. So, our inclination would be that you take the reference point of the lower number which is the Rs. 7,000 odd crores and see how do we go from there and try to improve cash generation as we go forward.

From a utilization perspective, we have just bucketized it into three buckets, the bottom most one in F21 which is Rs. 3,300 crores is the CAPEX. The investments, this is the investments we have made in both domestic as well as international subsidiaries of about 3,600 crores. And then the debt repayment, which I alluded to, which is more about correcting the capital structure. So clearly, we see that topmost bucket not repeating itself in any significant manner going forward. So, our cash utilization will also be lower.

And lastly, I think we had said we would give some visibility on the capital deployment plan. If you look at this, what we are saying is about 9,000 crores in auto CAPEX which includes EV of about 3000 crores. And then the farm CAPEX is about 3000. And auto and farm investments, now these are investments in subsidiaries of auto and farm in various parts of the globe as well as in domestically. I think that will be about 1500 crores. And then finally Group companies which will be the growth gems and they are in various stages of evolution. Over a three-year period, we are talking about 12,000 crores of CAPEX and about 5,000 crores of investments which will eventually the end-use might even be CAPEX again. But I think from our perspective we are calling them investments. So, that's the capital plan or the cash utilization plan for the next three years.

Overall, I think I would like to end it here since we are already almost 50 minutes and open it up for questions back to you Sriram.

Sriram Ramachandran: Thank you, Manoj. We have already a few questions lined up. I would request each participant to ask only one question as there are lots of questions, lots of participants are waiting in the queue. The first question is from the line of Pramod Kumar of Goldman Sachs.

Pramod Kumar: Thanks a lot, Sriram. And before I start off with the question, congratulations to Anand, Anish, and the management team for a significant turnaround in group operations and taking investor feedback on board. Thanks a lot for that. My only question is on the supply chain. Basically, it's no secret that Mahindra has been the most impacted due to the semi shortage primarily because of your large exposure to a single vendor. Just wanted to understand what are we doing to mitigate this risk, because it's kind of hurt us twice in a matter of 12 months or thereabouts in terms of supply chain disruption, right from BS4 to BS6 and now in this fiscal as well? And by when do you see production normalizing for the auto business? And is there any risk or a tail risk of even a further delay to our launch pipeline? If you can just help us understand this, thanks a lot.

Rajesh Jejurikar: Pramod, thanks for your feedback. And I can say I am glad the question is on supply and not on demand. It's an easier problem and will get solved as we go along. Demand is always a harder problem to solve. So Pramod, there are three types of issues related to semiconductors. One is the ECU which comes on the engines and that's the single source. We also have a semiconductor issue impacting some of our infotainment systems, and we have an ECU issue impacting airbags on some of our products. So, we have three types of issues. And of course, the engine ECU effects a large part of our portfolio and that in a way makes us decide which brands we want to produce or not produce. We have been prioritizing as the numbers show from an ECU availability brands which are in strong momentum, so Thar, Bolero, Scorpio and XUV300. We have the next come Pickup and the small commercial vehicles have been getting the least priority. And other SUV or UV products such as Marazzo and XUV500 have also been very low priority. In fact, we are hardly producing products like Marazzo because of the overall ECU constraints. I can't say the situation is behind us at all. We were earlier having only one issue now, like I said, infotainment is an issue and so is airbag on one of the products. We think the situation will get better by July, August, not to the level that we expect by way of demand. Our demand, as you saw from my slides, even on these key products that I spoke about is much higher. We don't intend to delay the launch of XUV700 because of the chip shortage. We think that's very important to our driving our brand perception and our brand story and creating excitement around our portfolio. So, we will be going ahead with that launch as we had planned. There are a couple of weeks of delay because of slow down in Maharashtra and so on, but that was COVID linked. We will go ahead with the XUV700 plan. So, I can’t say that we are behind semiconductor availability problem unfortunately. We are doing everything. We are working with Tier-2 talking directly to chip manufacturers, so we are doing everything possible. We put out 12-month requirements, we will start picking up inventory as needed. So, everything that needs to be done is being done, but we do have to overcome the short-term issue. Pramod, does that kind of answer your question?

Pramod Kumar: Yeah. And anything on diversification of the supply chain, given the lesson what we learnt, so will that be a strategy which we will adopt, or you see this as kind of a one-off?

Rajesh Jejurikar: In my list of areas that we have to work on, I had spoken about agile supply chain networks. Clearly, it’s a top priority for us. Many-many learnings that have come out of the last year. The answer may not be as simple as to diversify the supply chain, but there are many learnings, for example, picking up weak signals early. Many OEMs including us were not watching the semiconductor situation at all, totally blindsided when it hit us. Many OEMs on the Eastern part of the world had seen it coming and they had started stockpiling. So, we are putting many fundamental processes and systems to make our supply chain stronger and more robust right from how do we pick up weak signals, based on that where do we start building inventory, including the point that you are raising about, how much should we work with single vendors and which areas versus not.

Anish Shah: Pramod, I just want to add on a lighter note that over the last few years this is the easiest question that I have heard you ask, which means we are doing something right.

Rajesh Jejurikar: And that's why I was happy to hear the question is supply and not demand.

Pramod Kumar: I think it's good to say this. And before I bid goodbye, just one feedback, it will be great to hear more about the defense business in more detail because I believe you already had a very close to $ 1 billion order book on defense orders and that's quite sizeable and it will be great if you can talk a bit more about the defense side of the business as well for investors and us. So, thanks again and congratulations and stay safe.

Anish Shah: Thanks, Pramod. We will take in both the feedback, thank you.

Sriram Ramachandran: Nitin Arora from Axis Mutual Fund.

Nitin Arora: Anish, my first question to you is, CAPEX plus investment now 17,000 crores for the next three years. That is correct. Right?

Anish Shah: Just to clarify, you are right about the 17,000 crores number in total. CAPEX would be 12,000, investments is 5,000. This was in response to a question asked by one of your colleagues last time, which is give us a sense of the number of investments as well over the next few years. So, CAPEX is broken as under, 6,000 for core auto, 3000 EV and 3000 tractors. And investments, our estimate at this point is 1500 for auto and farm international subsidiaries, a lot of that would be this year actually for APF and the second one 3500 crores for group companies.

Nitin Arora: Anish, my question is that last one year we talked about, I think our earlier guidance was somewhere in the range of 12,000 crores CAPEX plus investment, which is now up by almost 5,000 crores.

Anish Shah: Just to clarify, the guidance earlier was only on CAPEX. We had not given any guidance on investments which is why we added it this time.

Nitin Arora: Am I audible?

Anish Shah: Yes, you are audible. I was just saying that the guidance we had given earlier was only for CAPEX, not for investments and investments is something that we added this time based on the request that we received earlier.

Nitin Arora: So, let me put it the other way. In the last one year, Anish, your commentary has been even till December quarter, that look, we will do where what our strengths are. We are a SUV player. We will try to generate free cashflow. We will be capital allocation perspective we will try to control it. Now, what we look is CAPEX plus investment number is a similar number what an old Mahindra had three years back continuously. And here a new CAPEX comes up which is the essential, obviously an important part of EV, where the products will come after three years. What really changed in the three months in terms of announcing such numbers and my FCF becomes any which ways negative for next year. So, if you can throw some light, what kind of a risk you avail because EVs are very dynamically changing thing, because earlier our stance has been that we will try to partner someone, it's not something we would like to put a big

CAPEX to it. That's my first question. And second, now Mahindra Electric, Mahindra Retail, everything comes into the standalone business. So, what I am thinking, what I was looking in FY20 we had any which ways a loss of I think 75-80 crores from that business. And FY21 I am assuming could be higher. What kind of a dilution to an EPS because of that, if you can throw some light? Just want to understand, SsangYong the capital allocation good, and now the whole number has blocked up very high. So, just want your guidance on that. Thank you.

Anish Shah: First just to clarify, the guidance we have given in the past, the numbers you shared are all on CAPEX. So, if you were to look at it purely from a CAPEX-to-CAPEX standpoint, we had a 15,000 crore CAPEX for the prior three-year period, and we then had a guidance for 9,000 for the current three-year period because a number of programs were put in place, and we did not need more CAPEX for that. That 9,000 was increased by 3000 for the electric vehicles. And that's something that we have announced a couple of quarters ago. In addition to that, the amounts that were given for investments were not something that were put in the CAPEX number at any point in the past. So, what you will see even now is the investment numbers we are looking at going forward are far lower than what they have been over the past few years. And therefore, we should see a much greater cash generation on that basis. So, that's the guidance in our slide that we had presented as well. We expect that going down to 1150 this year and then going further down over the next couple of years. So, that's for investments in auto and farm subsidiaries. For group companies we have marked, we put there for 3,500 crores is going to come from dividends and income from group companies and that is really around value creation. So, we have nine businesses that have $ 1 billion market cap potential. Those are the businesses that we are going to invest in to create that potential. Now, if we reach it for all nine, we have created $ 9 billion of value, not exactly 9 billion, because some of them have value today. So, it's basically the incremental value. But it would be safe to say that we created (+) 6 billion value. So, that is what we are looking at in terms of where that investment is going. What we are also doing is tracking all investments very closely, setting a high threshold for both ROE and EPS growth. EPS is probably the wrong word to use for businesses, but ROE and profit growth for businesses. So, we are tracking it very closely, putting investments where it can actually generate value. So, if you leave that 3,500 aside, which is really to create $ 6 billion plus of value, the rest of it is much smaller than what it has been before.

Nitin Arora: But Anish, don't you think putting 3,500 crores even in the non-auto business, I understand the growth targets there and we are putting 3,000 crores in EV, which I think was never communicated, where the strategy was to be asset light, which will not generate any cash for the next three years. So, any which ways we are negative FCF, and it's more of R&D spends which will keep on increasing in this kind of an EV business. We have seen the global players what kind of an EV R&D they do. So, I just want to understand is it fungible also when we see, okay, look this is not working, let me increase because this EV business nothing goes on the lower side when you start investing, everything goes up. Are also some strategic player talks are going on where someone can come and we can do a partnership, just so that our balance sheet or the FCF doesn't get deteriorated beyond FY22 as well. That's my last question. Thank you, Anish.

Anish Shah: The answer to that is yes. There are a number of talks and thoughts around partnerships because that is something that is essentially in the EV space. And also, to add, these are at this point directional numbers. If we don't see the right set of returns coming from this investment, we are not going to make it. So, all I would say is we have kept the bar very high, and we are going to ensure that we get a strong set of returns from the investments we are indicating here. One more thing I would add is even from a cashflow standpoint, if you look at our cash generation and the profile, we are not really likely to be at a negative free cash flow. We may be closer to breakeven this year. But as we look ahead, I think you will see a much stronger cash generation profile compared to a cash use profile.

Rajesh Jejurikar: Anish, I just wanted to clarify one point to Nitin. Nitin, if you remember on the 1st January meeting that we had when we had announced not going ahead with the Ford joint venture, we had indicated at that time that roughly over three years we would have had to invest about 3,000 crores in the Ford joint venture. And we felt that really that money needed to go into the EV investment. So just recapping that conversation for you that that's the first time we had indicated that we would invest the 3,000 crores meant for the Ford joint venture into the EV space. As Anish has mentioned and I covered in my presentation as well, a lot of the work on EV will be around partnerships and we are not going to be doing fundamental EV development. That being said, we still have to create products, right? So, if you are saying you are going to create a born electric platform with products, there is product investment that will be needed in those. So, when we say EV, it includes the products that come out of the EV space, not just in battery management systems, or so on. Talking about investments in products, just wanted to clarify that, when we say EV, it's not a pure EV investment, it's EV products which are in the core SUV space.

Nitin Arora: I got a point Rajesh. We can have a discussion on that further. Thank you.

Sriram Ramachandran: Thanks Nitin. Kapil Singh from Nomura.

Kapil Singh: My question is on guidance. Firstly, we have talked about 15% to 20%, CAGR or revenue growth. This is over what period? And similarly, Anish, you have talked about 15% to 20% EPS, so is it annual targets that you have or is it a CAGR? Secondly, some breakdown of this 15% to 20% CAGR revenue growth because one third of the topline is coming from the farm business and farm business typically we expect a CAGR of 7%-8%. So, do we break it down to 15% to 20% growth? Will auto be much higher than this or will farm also grow at 15% 20%? Just some color on that.

Anish Shah: Kapil, thanks for your comments. I want to first add that this is not meant to provide guidance. We have shied away from guidance for many reasons and what we don't want to do is start providing guidance. Let me outline the purpose for this and what this really means. The purpose is that as we look at all our businesses and all our investments, what you have seen is an ROE target so far. What we have talked about also in various analysts calls and with investors that we are looking at both ROE and growth. And therefore, what we wanted to put as a threshold for growth, so when our businesses look at what they are doing, or when we look at new investments, our threshold really is, are we getting into a space where we can generate an 18% ROE and a 15% to 20% growth. So that is one aspect here. To your question on whether it is CAGR or whether it is annual, what we would want to get to is where M&M on a consistent basis delivers an 18% ROE and a 15% to 20% growth. At this point I would not want to give guidance in terms of exactly when that happens. But that I would look at as a directional number right now. And when we are ready to give more details in future, we will think about whether we really can give that guidance versus give a directional number and we will come back with more details.

Kapil Singh: Rajesh, can you also talk about the breakdown of this revenue growth that you have talked about for AFS, 15% to 20%, how you are thinking for the auto and farm business?

Rajesh Jejurikar: Kapil, so building on Anish's point, first we don't treat it as a guidance, it's a direction that we would want to work on. We do think it is on a very low base at the moment. Especially when we look at the year that's gone by. So, we would think auto would lead a lot of this growth. As I also mentioned in my presentation, we have been very conservative on the global path for FES because we wanted to make sure we turn around from a profit standpoint, all the investments that we had made, and that has involved a lot of actions. Its involved putting cost structures in place, revisiting management teams, processes, so on and so forth. That now being in place, we do want to look at getting back to a growth momentum. Just to take Mahindra tractors North American as an example, we are still significantly lower on our billing compared to our retail over the last 12 to 15 months. And a part of that of course has been because of supply chain challenges, where we prioritize domestic markets and not been able to supply products to international markets through last year. And the dealer stocks are now at a level much-much below what we want them to be. So, significant scaling down of inventories have happened. And we do think with all the actions we have taken there; we have to come back to where we were. Even our revenues are much lower than where we were in F19. So, we do want to bring international markets back, on the FES side. Tractor like you rightly said in India will go through a certain cycle and cyclicity with a CAGR of over a longish period of time of 8%-9%, some years high, some years low, but there is a growth opportunity on the farm machinery space which we want to fructify. So, that's why we are saying over a 3–4-year period we would want to drive farm machinery growth, global businesses and auto through the multiple initiatives that we have spoken about.

Sriram Ramachandran: Thanks Kapil. The next is from Jinesh of Motilal Oswal.

Jinesh Gandhi: First question to Rajesh is on the tractor business outlook given rural areas are equally impacted if not more in this wave of lockdown. So, what kind of tractor industry outlook do we see for FY22?

Rajesh Jejurikar: Jinesh, our current outlook is low single digits for the industry for the year. We do want to gain some market share which definitely something we will aspire for. As you know we have lost market share last year mainly on account of supply issues. So, when we are saying single digit growth, I am talking about the industry. Just to add some qualitative color to your comments on rural markets, clearly yes, they have been affected more this year than last year. In the last few days, we are seeing a change in sentiment and movement. And as the tractor buying season, because that's when the land preparation will start now, is starting to pick up. There is clearly momentum building up on tractor buying which wasn't visible for the last 3 or 4 weeks. So, combination of tractor buying season along with what is people are sensing as a declining or receding COVID cases in rural, gives us confidence that we will see some kind of a rebound in June compared to what it has been over the last 4 to 6 weeks. From there on, of course it will depend a lot on how the monsoon and the rest of the sentiments play out. Overall, as I am sure you have all the information as well, all the parameters in rural India are extremely strong.

Jinesh Gandhi: Second question pertains to this auto business fixed cost reduction of 900 crores and almost 70% reduction in sales spend. This is entirely sustainable or as auto business recovery happens you expect some of these sales spends to come back?

Rajesh Jejurikar: I will just focus, Jinesh, on the specific of sales and marketing. There were three components in that 900 crores reduction. So, your question I am taking is specifically on sales and marketing. I am combining the two. This does not include pricing and incentives. This is what we call fixed expenses. So, fixed expenses is a combination of things like brand spends and travel, conferences and multiple other things that go into fixed expenses. We believe that through combination of COVID and the digital evolution, many of these will stay, and will be hence systemic. We also think that when we get our product proposition right, clearly, we don't need to spend big bucks on brand building of the kind that we have done before. We have spent a negligible amount of launch expense on the launch of Thar. And we have lots of learnings that have come out of that on how do we leverage key influence or moves using digital and so on and so forth. We have almost not run, in fact, we have not run a mass media campaign on Thar at all. Even though we made a theme television commercial, it has never seen the light of day. And don't honestly know when we can bring it on air ever. So, I think if we get our launch strategy right, hit the sweet spot, we don't really need big bucks. As you also see from our focused SUV brand strategy, we are advertising lesser name plates and that's a fundamental systemic change in the way we are approaching brand building brands. So, only a few brands are going to get the brand support that's needed. And we believe that will make us look bigger and more effectively and more efficiently. So, I would treat that as a systemic improvement in the way we will do business.

Jinesh Gandhi: Can you clarify how big is the domestic farm machinery business in FY21?

Rajesh Jejurikar: For us it was close to 500 crores.

Sriram Ramachandran: Thanks Jinesh. The next is from Chirag Shah of Edelweiss.

Chirag Shah: My question is for Anish and it's a slightly different question. It's more on listed subsidiaries. So, two parts, one, what is the role that M&M plays in listed, you are more focused on dividends, or you also focus on operational performance and ready to benchmarking. And if there is a change in way you are looking at the listed businesses, because when we look at M&M there is an embedded value of the listed entities and their performance, and their market caps do matter.

So, traditionally how it was looked at and how do we look at going ahead? If you can share some light?

Anish Shah: Chirag, we have essentially increased the benchmarks for performance for these entities. And that's where I go back to benchmarks for ROE benchmarks for growth. And what we are telling these entities is that this is the kind of benchmarks you need to achieve. All of them have the potential to do so. The logistics industry is a very strong one and the business actually is well-poised. In hospitality, our business actually is also very unique and can grow quite significantly from here. In real estate, we have a lot of potential, haven't realized it as yet but in terms of the actions taken over the last six months, we started to move in the right direction. So, our role essentially is to set the operational benchmarks and to provide the support that these entities may need in a variety of ways to help them to grow faster.

Chirag Shah: But do you also play a role in evaluating the executive performances over there and also questioning them because some of the subsidiaries have not delivered with their potential, for a variety of reasons, I am not saying that. So, is there a change in protocols that have been introduced over there?

Anish Shah: So, there is a change in protocol, and you are right that we do need to see a set of companies that are listed really live up to their full potential. And the change in protocol really is around how our board nominees operate. So, these are listed entities from a governance standpoint, their boards essentially oversee the companies. So, the Mahindra group does not look at performance evaluation of those companies or management teams. Their board does. But what the group does is the nominees that we have on the board, are asking much tougher questions in terms of where are we playing, why are we playing there, what is the right to win, what is the growth rate we are seeing, and that is a change in protocol I refer to.

Sriram Ramachandran: Thanks Chirag. The next question is from Jay Kale of Elara Capital.

Jay Kale: My first question is on the tractor business. We have seen apart from one year of blip FY20, prior to that we had seen three years of up cycle and then 2021 also we have seen a decent growth. How do you look at the tractor businesses in the following 2-3 years in terms of growth trajectory? The reason I ask is because 2021 you were constrained on capacities. And you have mentioned about a 3,000 crores CAPEX on the tractors business. So, how would that split up between capacity expansion or the normal maintenance CAPEX? So, just wanted your view on the tractor growth story in the next 3-4 years because that will decide your capacity expansion strategy as well on the tractors side.

Rajesh Jejurikar: Sriram, I am not sure I got the entire question. I am just going to summarize and make sure I have understood the question, if not, just correct me because I could hear it very clearly what Jay was saying. So, one is about the future of the tractor industry over the next three years and what kind of industry growth we could expect, connecting that with our market share aspirations and what implications does that have on capacity planning? Is that right?

Sriram Ramachandran: Absolutely, that's right Rajesh.

Rajesh Jejurikar: Jay basically, we have in the past looked at multiple types of modeling on what will happen to tractor industry growth and looking at farm productivity, what is the penetration levels and how much machine capability is needed for what kind of land preparation at different types for different types of crops, etc. We do believe that there is enough headroom yet for a CAGR of about 8% over the next three to five years for the industry. Of course, there will be years which will be very high as we have seen in F21, and there will be years which will be suppressed. And that is a nature of the tractor industry, and we don't see that changing into a flat linear or a linear growth curve. So, our guess is over a 3 to 5-year period there will still be a CAGR of 7% to 8% in the industry. We do have to grow market share, first gain back what we lost last year due to supply constraints and then through the multiple actions that we are working on to go beyond where were a year-and-a-half or two back. So, we would expect to grow faster than the pace of industry. Towards that we are looking at additional capacity in Swaraj which we are working on and, of course, significantly enhancing capacity of many of our suppliers. On the brand Mahindra side which is farm division as we call it, we have enough capacity over the next 2-3 years, we need to add shifts because we have to increase manned capacity, but we are taking actions to improve and enhance supplier capacity and the cost of capacity addition in tractors as you know is not that high and that's all built into the 3,000 crores number that we have given over 3 years as a CAPEX and improved capacity needs.

Jay Kale: Just one clarification on slide 7, you have mentioned that the investments in 2022 and 2023 should be 1150 and then further going down, 1150 crores and it further going down in FY23. However, if I look at slide 60 where the total investment is 5,000 crores over the next 3 years, which implies a 1700 crores odd run rate per annum. So, just wanted to check, am I looking at two different numbers or how should I reconcile those two?

Anish Shah: Let me clarify that. There are two separate parts, auto and farm investments are 1,500 crores and what you see on slide 7 is only for auto and farm. And therefore, what you would see is 1,150 this year, going down next year and then it would have to go down much further the year after that or be close to zero for it to be 1,500 over the 3-year period. So, we are seeing a bulk of that 1,500 coming this year. So, which is why my earlier comment also was we will see a lower trajectory for investments going forward. The 3,500 crores is for our group companies. And they will essentially be focused on the growth gems that we have and to some extent on the digital platforms. So that we would look at as a separate investment if we can generate the kind of returns there. So that hopefully explains the question you had on why page 7 is different from the 1500 plus 3500.

Sriram Ramachandran: Thanks Anish. Next question is from Amyn Pirani from CLSA.

Amyn Pirani: Just going back on the farm machinery performance. So obviously, this year it has grown really well, and I think you mentioned around 490-500 crores of revenue this year. What is the kind of outlook that we have here especially on which categories are doing well? Because I remember that around a couple of years back you had an event related to the farm business where you had shown India's pet products on rice transplanters and lot of other products for the horticulture as well. So, which categories are driving this kind of a growth and was it a one-off year for 45% growth or is it something that we should expect very strong double-digit growth here over the next few years as well?

Rajesh Jejurikar: We would want to deliver very strong double-digit growth on farm machinery. The specific categories which are growing and where we see growth momentum to continue are Rotovators, and I'll talk a little bit more on that and Hemant if he on the host side, if you want to add on Hemant then please come and let me just open it up and then you can add on if you like. So, the way we categorize our farm machinery portfolio is in basically three broad areas. One is what we call commodity led products. So, products like cultivators is in that space. Here innovation is limited, what we need to do is get the cost structure and supply chain and logistics cost down so that you are able to compete with localized players. It is a huge opportunity. I am just taking cultivator as one example. Almost every tractor will go with a cultivator. But often they are locally procured. The second are more evolved categories where already penetration is at a reasonable level, and those are categories like Rotavators, and as more and more labor shortage comes into the farms Rotovators are becoming very commonly used in land preparation and the category will grow, and we have an opportunity to grow our market share as well, we are not leaders yet in this category. And I would add harvesters as well to that, it is an established category but opportunity to penetrate and opportunity to gain market share. And the third are pioneering products, and in a way the Rice Transplanter is in that category, we are seeing very good momentum on Rice Transplanters. In the past I think many may remember that we have shared that the total size of the Rice Transplanter industry in India is 2000 numbers a year, 3000 numbers a year. And China which grows lesser paddy than India is over 100,000-150,000 numbers a year. So, a lot of work that we are doing at places through our initiative like Krishe, is to create awareness about a different kind of farming practice, nurseries, and so on, which will enable use of products like Rice Transplanters. So, we are not going to get growth in that category by pushing through the sales network. It needs fundamental work on changing farming practices, and hence we call them pioneering category creating products. Vegetable Transplanters would come in that category as well. So, basically our strategy is operating on these 3 axis.

Sriram Ramachandran: The next question is from the line of Saksham Kaushal from Phillip Capital.

Saksham Kaushal: My question is again on the farm segment. In your earlier remarks you have indicated that the tractor industry will register in mid-single digit growth. However, given the industry's current inventory situation which roughly is 90,000-100,000 units, this gives us very little headroom in pumping more inventory and if for May we take the industry to be somewhere around 40,000-50,000 K, remaining months we are looking at a monthly run rate of 80,000 run rate just to get to flat. And wholesales have to match up with retails, because given the inventory situation don't think so there is any more headroom left. Apologies if my understanding is wrong but this kind of monthly run rate for retails for such a sustained period hasn't happened before. Secondly, compared to last year, the impact of COVID has been very severe and your certain channel partners for the industry has also been impacted. So, can you please help us, what factors will enable this mid-single digit growth that you are referring to?

Rajesh Jejurikar: Actually, I didn't say mid, I said low. Of course, that is not very different than mid but just to clarify I didn't say mid, I said low. So, different interpretations on what is happening on channel inventory and so on, so clearly as I said April has been slow. May has been slow up until the last week or so. What is giving us some renewed confidence is what we have seen over the last 4-5 days, and it is very early days so let me be honest that all the factors that you are raising are real issues. I am just giving you a feel based on the latest view that we are picking up from our network, that we are seeing a very positive demand outlook generate over June. To be honest till a week back that was not our view of what will happen in June. We share all the concerns that you are seeing or have mentioned on what is going to happen in the rural economy in the short term, including will people really postpone their land preparation and sowing from June to a later time. Right now, that doesn't seem to be happening. We are seeing farmers get into the mode of doing their land preparations at the usual time because they are seeing monsoons coming in on time, that is giving them hope. Also, a lot of manufacturers, and we had led it, have put out various initiatives to mitigate the risk of putting margin money in case medical exigencies come on. So, we have done farmer protection schemes to facilitate their buying through either life insurance, medical expense covers, that kind of thing, in the event of an eventuality, which will also help farmers overcome barriers. Finance companies have created more enabling packages as well to mitigate risks for buyers. So, you may well be right, we all having been in the FES business for a long time and you having tracked it for a long time, know that this is an industry which can surprise you either way. None of us when we started last year expected that the industry will end up at (+) 20% growth after 1½ months of being in a lockdown. So, we wait and watch what will happen, but just now good that we are picking up with all the rural fundamentals are very strong, and if that were to be the case we would see buying kick in. But one has to wait and watch and see how it plays out.

Saksham Kaushal: Just a second question on this. Commodities especially for the farm segment you have seen margins for 24% a bit, now 22%, so given where they are and whatever pressure, last year you had a bumper year as for there were zero discounts in the system, not many incentives. So, this year around, we know what the inventory situation is and how the ground situation is, so you see the pressure on the margins coming from the incentive side as well? And lastly the product mix was very favorable to us to the higher HP side last year. So, you see any change happening on those terms and margins getting impacted?

Rajesh Jejurikar: Saksham, clearly the pressure of commodity prices, all of you track it, and you know that there is a significant inflation that has happened through the last many months, not just now, and that is continuing. We have mitigated that with better cost management, passing on most of commodity prices, but that being said to maintain margin one has to also pass on not just the actual material cost increase, but the margin that you are making, so when in a very high inflation situation as we are facing now, one has added pressure of material cost pass on plus a margin on the material cost which does create a margin pressure, so we are doing everything possible to mitigate it, but there will be possibly some lag defect by way of how much one is able to pass off at a shot.

Sriram Ramachandran: I think we are almost towards to end of the time. So, there is one question from Vimal Gohil from Union AMC. That is the last question, can we go with your question?

Vimal Gohil: My question was on the 3,000 crores EV investments that are going to happen over the next 3 years. Just wanted to understand the areas that we are going to invest in, will it be battery manufacturing capacity, platforms, etc.? If you could just give us more sense on that.

Rajesh Jejurikar: Vimal, it is going to be primarily on creating our product portfolio and I think I had answered that and said that earlier. We will go in for a lot of partnerships, we are not going to try and create core capability and things like battery management system, that will be through partnerships. What we are really talking about creating an exciting and a wow product portfolio of the kind that we showed you. So, some of the SUV's will be electrifying our ICE offerings like XUV700 will have an electric and this W620 will have an electric version and so on. So, some of the investments are towards that. And some of it is towards creating the born electric platform where we are yet to decide what's the make versus buy. But when we are putting out a number that is at the moment an early thought process by way of what we intend to do, but we have not yet firmed up the make versus buy yet. But the emphasis will be on buy.

Sriram Ramachandran: Thanks a lot. There are a few more questions but we have completely run out of the time, and I am sure we will have more opportunities to interact in future. Thanks a lot again for taking time and being here. Thanks Anish, Rajesh, Manoj, and other senior leaders. Have a good evening. Good day.

Anish Shah: Thank you everyone.

Rajesh Jejurikar: Thank you everyone, stay safe.