Mahindra & Mahindra Limited
Q2 FY2021 Earnings Conference Call

November 10, 2020

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Sriram Ramachandran: Hello everyone, good evening and welcome to Mahindra & Mahindra Q2 FY21 Earnings Conference Call. We are glad to have you all on this call today. I will begin with the safe harbor statement. Certain statements on this conference call with regards to the 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. Now, I would like to welcome our Senior Management and thank them for taking time for this call. We have with us today Dr. Pawan Goenka - Managing Director and CEO, Dr. Anish Shah – Deputy Managing Director and Group CFO, Mr. Rajesh Jejurikar – Executive Director – Auto and Farm Sectors as well as other senior leadership team including the IR team. We also have Mr. Amit Raje – EVP, Partnerships and Alliances, who has joined us a few months back and his portfolio includes Mergers and Acquisitions and also investor relations report to him. I am sure a lot of you could have an opportunity to meet Amit during our interactions. Now, I hand over the call to Dr. Pawan Goenka for the opening remarks which would be followed by a brief presentation by Rajesh and Anish. Over to you, Dr. Goenka.

Pawan Goenka: Thank you Sriram and welcome to our Q2 Earnings Conference Call. I am going to just request first Rajesh to make a short presentation on the operational performance and then Anish to make a presentation on financial performance and after that we will have enough time for Q&A. I am sure you have gone through the press release and would have analyzed the results but we will give you some more color in the presentations that we are making, thank you. Over to you, Rajesh.

Rajesh Jejurikar: Good evening all of you. I will take a few minutes to walk you through the Automotive and Farm sectors performance. Next Slide #please

Slide #2: This is a re-cap Slide #out of what I had shown beginning of the year when we had categorized the tasks into three phases of Walk, Run and FLY. I will try and give you an update on how we are doing on some of the key performance measures out of this chart. So we will go to the next chart which talks about how we have done in quarter 2.

Slide #3: For the Farm Equipment sector, it has been a highest ever PBIT, we did a PBIT of Rs. 1,180 crore, the highest ever PBIT margin of 24.4%, the highest ever quarterly ROCE of 197%. And for the first time in the Farm Equipment business, we have had a negative working capital leading to a very high cash generation. All of you who track this category, know that it is not easy to get a negative working capital in this business and especially when you are in season where typically stocks are a high and outstanding are hence high but these are different times and we are really happy to see a first time negative working capital.

The Automotive segment has had a PBIT growth of 4% year on year despite a revenue de-growth. The 4% PBIT (growth) does include a onetime of Rs. 68 crores. Our operating margin has improved versus last year, again in spite of a revenue de-growth and there is a significant year on year reduction in fixed expenses which is fixed plus personnel and that is what has also played a role in enabling the margin growth. And again, a very high negative working capital, we do have a negative working capital normally in the Auto business but this is much higher than we have ever seen before. Next Slide #please.

Slide #4: A couple of slides I will walk you through on the rural story and I know all of you track this very closely but just to sum up, this is the third highest cumulative rainfall that we have seen. Kharif output is estimated to be at record high and we are also seeing a very good monsoon, which has of course led to a very good reservoir levels starting from last year into this year and that in a way sums up well even for the next season. In case there is some risk on the monsoon, at least the reservoir levels are at good, which is very good for the sector, go to the next Slide #please.

Slide #5: This is a Slide #which I have been sharing over the last few quarters, it is an internal Slide #in rural government's spend index made by our Chief Economist and you can see that there has been a very significant turnaround in the spend index over the last few quarters and even though you saw a dip in the previous quarter, that number still is significantly higher than the same period last year. And we can see the effects of this on the rural economy overall because rural economy is of course Agriculture but a lot to do with services and overall income flows into the rural households, next Slide #please.

Slide #6: This Slide #captures in a way, what is happening in the business and I am sure all of you will have lots of questions around the next couple of slides. So, we have seen a significant pickup in our tractor sales. The production which is not on the Slide #has been at highest ever levels, so the quarter 2 has been a highest ever production, October has been a highest ever production. And in spite of that, you have the graph on the right, which is a system stock index where the stock opening getting in to season, at the end of quarter 2 is lower, almost half the absolute level of what it was at the same period last year. This is stock with us plus dealers. So, you get a comprehensive view of stock not just with us but total systems' stock.

Slide #7: This of course has led to what you see here which is the impact it has had on our market share. Our market share has come under pressure, these are of course billing market shares, not retail market shares, just to clarify. And even though we have had our highest ever production in the last few months, we are still as you could see from the previous slide, a short tight. On the left chart, you see a chart shown consistently which is how well the farm equipment sector manages its margins and you can see that we have had a very healthy increase in margin, our highest ever 24.4% last quarter, next Slide #please.

Slide #8: We believe our market share has been impacted lesser because of the way we have produced the last three months but more because of the way we were able to build up stocks in quarter 1. From a competitive stock build or a stock management point of view, which is what reflects in market share, a couple of things very unique to us has been a high Maharashtra dependence for the Mahindra tractors and Maharashtra did as all of you know, have a disproportionate share of COVID-19 and a very long period of localized lockdowns affecting our supply chain quite significantly in quarter 1. We believe and of course normally our business model works around being able to pre-build stocks into season a couple of months at least in advance. This time we did not get any chance to do that and which is why we are seeing the effect that low stocks have been having on our market share. As we get post festival season, we hope to build back these inventories because as you can see, we are producing now at record levels and we should have adequate stock we believe getting into quarter 4 and the period post 15th November will be used to do that. We have also de-prioritized exports because of the domestic demand and we will start servicing our export requirement as well post mid-November, we will go to the next slide.

Slide #9: This is I am sure something which will be music to all your ears, something that all of you have been asking about, which is the turnaround of the FES global business. You will be able to see from the numbers that in quarter 2, the FES global subsidiaries did turn in and overall positive number of Rs. 3 crores on the back of several other businesses doing well. MAgNA market share improved by 80 basis points; retail volumes were up by 41% in quarter 2. We billed much lesser than that because we have continued our endeavor to bring stocks down in the pipeline and of course some of it was because we have not exported from India adequately, so the MAgNA team was under pressure on availability. Brazil has done very well, Mexico has done well and Turkey operations saw a turnaround, next slide.

Slide #10: Move on to the Automotives, as you can see sequentially, we have built up our sales quite strongly and the chart on the right really says the story. These are indexed system stocks with the Automotive sector and you can see that we are at still a very low level, this was opening October and of course, opening November that has gone down even further. We will move on and I will talk more on this over the next few slides.

Slide #11: This of course has impacted our volumes, we believe demand has been strong and we can talk more on that in the Q&A and we have had availability as a key constraint, even we have ramped up well. You can see that we have had de-growth in our key segments. Three wheelers of course, we were not ready with BS6 and have just started BS6 a few weeks back which is why you see a very significant de-growth there. We are showing you a 2 ton to 3.5-ton market share but we would say do not read too much into market shares in this period of time because the supply side for every OEM is uncertain at this point of time.

Slide #12: So basically, the story of the Automotive supply side is primarily because of a very low pipeline due to the BS6 transition in February and March. So just to re-cap what happened; we were just about to start our BS6 transition in February and March, in February it got disrupted because of the global lockdowns and in March India went into a lockdown and all the BS4 were sold out, so when we opened post-lockdown, we actually almost had close to zero dealers stock of BS6 and our whole pipeline was dragged. We have a very high Maharashtra bias in the Automotive; Chakan, Nasik, Igatpuri and Kandivali are all Maharashtra based manufacturing facilities. Maharashtra had a disproportionate share of COVID-19 and we had no stock to make up for that and in the meanwhile we were also transitioning to BS6 and there were many parts which were new because of BS6 transition. We believe all of that is behind us, production levels have much more stability at the moment and again post festival season we hope to build stock back and we should have greater stability as we go into quarter 4 on our availability, next Slide #please.

Slide #13: This brings out the Automotive financial performance and you can see, even though we have had a year on year -22% on volume, revenue has been down year on year -8%, our PBIT margin still has gone up, there is a onetime in this but we have still shown a very reasonable PBIT(growth) of 3.6% and when you look at it sequentially, of course there is a big swing from quarter 1 of this year to quarter 2, which is visible on the slide, next Slide #please.

Slide #14: We are going to touch on a couple of points around the run phase and more specifically in the next Slide #15 you will see the two key initiatives that we had outlined; one was building on the Krish-e and the second was the launch of Thar as a way of strengthening the SUV core brand differentiation. So I will talk first on the Krish-e on the next slide, please.

Slide #16: So Krish-e is about providing a high level of engagement on ground activation to our farmers, we believe this will create a moat to our core business of tractors and farm machines through a series of services. This Agri advisory which is both physical and digital are rentals, precision farming solutions, products which is Agri inputs and micro irrigation and partnerships. So we are working on all of these and are now into a stage where the we have done our pilots and are ready for rollout and have started rolling out, the next Slide #please.

Slide #17: You will see the rollout of Krish-e going across seven centers in Maharashtra in October and three more in AP and Telangana in November. We have got very good feedback, we are running something called Takneek plot, we have 1000 Takneek plots across different parts of the country where we are demonstrating the farmers, the productivity improvement that they are able to get so that they create a matched plot which we were conversing what we have and that is helping build very strong word of mouth, has the effects of all the technology deployment on the farms is very visible to the farmers. Next slide, please.

Slide #18: We have also launched the new Mahindra plus series, we had spoken about that the last time, this has gone through very well, significant improvement in the product offering and it has been ramped up well, it did also go through a transition as you know the ramp up happened in the middle of COVID-19 but it has gone through well and we have stabilized at a very good level of volume. And this is in our core business of Bhoomiputra and Sarpanch and we would like to see high migration of the old product to the new, quite a bit of it is done because this is a significantly better offering than what we have had earlier. Next slide, please.

Slide #19: I will talk a little about Thar as we go on to the next slide. **Slide #20:**The Thar as you all know has done very well, we have had more than 20,000 bookings already, we did a very interesting reveal on 15th August, connected it with a freedom drive, we have also done some very interesting events pre-launch of 2nd October; one of which was the 'Her drive' where we had several women protagonist who did an adventure drive at Igatpuri in Maharashtra, you see a snap of that there and some very interesting things like Anand Mahindra's Thar playlist which got a crowd sourced in a manner of speaking as with a 101 songs on it. Next slide, please.

Slide #21: One of the very interesting leadings to the launch was the auction of the number one Thar, first Thar, we had 5,500 registrations, 37 bids were above 50 lakh and four of the bids were above a crore, the top bid was for 1.11 crore and Mahindra contributed an equal amount which got donated to the Swadesh Foundation. Next slide, please.

Slide #22: These are some key highlights out of the success story of Thar launch so far, we have had more than 20,000 bookings, you can see more than 10 million plus media reviews and most interestingly and I do remember some of you asked this question last time about whether Thar will attract a new type of buyer. You can see that out of the 20,000 plus bookings, 44% are automatic, clearly indicating that we are bringing in a very new buyer, a lifestyle customer, urban centric and very mainstream car buyer. 55% of them are first time and not engaged with a Mahindra earlier and of course, very good searches and excitement around the launch. Next slide, please.

Slide #23: So if I was to just summarize, how we are on the Walk-Run-Fly, you can see , we believe we have managed our cash very well, managed our margins very well, managed to ramp up with safety, strong focus on core domestic, a strong focus on turning around our global businesses, you have seen results of that on the FES side and a lot of work happening on building especially on our SUV core brand differentiation which starts with Thar being a flagship and many new launches on there.

Slide #24: With that, thank you very much for listening in and over to you, Anish.

Anish Shah: Thank you Rajesh and a very good evening to everyone. **Slide #26:**Let us start with the main headlines of messages for today which really is centered around the Farm business, a very strong performance for domestic farm, highest OPM ever and not just Farm business but if you look at Auto as well, it has an industry leading OPM. International subsidiaries we have seen a very positive trajectory for Farm again and that will help us a lot in terms of solving all our issues around International subsidiaries. I am sure you will have many questions around that and we can talk about it as well and just a very strong cash generation for this quarter. So overall a great story in terms of coming back on track. **Slide #27:**Key definitions first which you have seen before, we have broken out international subsidiaries of Auto and Farm separately as we are tracking that very closely and besides that we have Domestic Auto, Domestic Farm and Investments that makes up everything else.

Slide #28: First to start with standalone results, a revenue up 6% and Operating PAT down 3% to Rs. 1311 crore, you see the OPM highlighted there at 17.8% and you also see the highlight with regard to the PAT (after EI) which is down at Rs. 162 crore and we will talk about the impairments that really bring it down from Rs. 1311 crore to Rs. 162 crore but before we do that on the next Slide #29 let us look at the Operating PAT and the key drivers focusing on the left hand side first.

Domestic Farm, the star of the day or of this quarter is Rs. 892 crore in terms of PAT, up from Rs. 418 crore the same quarter last year. Domestic Auto; more or less flat, about Rs. 15 crore lower than last year. International subsidiaries do not impact much at the standalone pre-EI line and investments are significantly lower and that is essentially as a result of dividends being lower at Tech-M and at Mahindra Finance. So what you see on the right is, as we walk from last year's Rs. 1355 crore to Rs. 1311 crore this year, the two key drivers are the uptake in Farm and the downside in dividends which has impacted us by Rs. 502 crores.

Slide #30: We go next to the impairment, it is significant and this is part of our efforts to essentially take care of all the issues with regard to our international subsidiaries, we have promised that by the end of this fiscal year, people have taken care of all the issues. We are on track to doing so right now and these impairments result in our Rs. 1311 crores of PAT before EI coming down to Rs. 162 crore after EI. **Slide #31:**As we look at the consolidated financials, revenue up 2%, PAT before EI is up significantly from Rs. 326 to Rs. 906 crores, let us take a look at that on the next page. **Slide #32:**And what we see there is again domestic farm driving a significant variance there. What we also see for the first time in a few quarters at least, is International subsidiaries of Auto and Farm driving a positive uptake between the same quarter last year and this year up at Rs. 95 crore and that is again driven a lot by the Farm subsidiaries that Rajesh talked about and that results in a Rs. 906 crore and **Slide #33:**As we look at the walk from Rs. 906 crores to Rs. 136 crores, these are entity level impairments for assets, in line with what we saw on the standalone side, so the same entities have taken impairments at the asset level and that has resulted in a lower consolidated PAT after EI.

Slide #34: Looking at our listed entities, Tech-M came in with a reasonably strong performance up 3% from a revenue standpoint, down 5% from a PAT standpoint. Mahindra Finance did exceedingly well in a very tough quarter, income or PAT is up 34%. Holidays obviously got hit with all of the COVID-19 related issues, everyone in hospitality has been impacted but because of its model and its time share approach, we see a lower impact overall where revenue is down only 13%, I say only because that is compared to other players in the travel industry and PAT is actually up 3%. Real Estate business is the worst hit amongst the lot and that is really a function of the real estate industry in the post COVID-19 time. We started to see some green shoots there but as we see this for the last quarter, we do see a significant impact.

Slide #35: So in terms of our action plan, this is consistent with what we have talked about earlier; stay firm on capital allocation, drive growth, continue our improvement in international subsidiaries, we have Farm for this quarter but we need to do that across the board and come back with a very clear narrative on Auto which includes our strategy for electric vehicles, work is under way on that and again as we have gone for the international subsidiaries, by the end of the year we will have a clear narrative on Auto that we will present as well.

So the Slide #36 that I think will gain a lot of attention as it has over the last couple of quarters, the path through 18% ROE, we have one more company that is on this now, which is Gipps Aero, this is our aircraft business that made an eight and ten seater aircrafts in Australia and while we say exit announced, it has actually gone further than that. We have shut the business down now and we have moved it to a service model where we will just meet our obligations for the next couple of years for the planes that we have sold and after that, that will be shut down as well. So that obviously has some impact on our impairments as you saw earlier and we are continuing our efforts on all of our international subsidiaries and I will repeat that till end of this year, we will have a clear view on all of them.

Slide #37: Moving next, on growth you have seen our 10 gems before, what we wanted to highlight this time was the revenue and profit numbers for each of these, this is looking at our F'20 numbers right now, just so that we can see full year and a reasonable year which is not COVID-19 impacted. What we see is, these ten businesses makeup Rs. 10, 000 crore of revenue and Rs. 172 crore of PAT. So these are substantial businesses as a whole, each one of them is well positioned in its market and has an ability to scale, some maybe 2x, some maybe 5x but we feel that this set of businesses will give a huge fillip through over the next few years and that is what we will continue to drive. **Slide #38:**And with that, I would say that Mahindra is very well positioned to be the gateway to the largest and fastest growing themes in India and back to you Pawan and we will open it up for questions soon after that.

Pawan Goenka: So thank you Rajesh and Anish, please come in with any questions that you may have.

Sriram Ramachandran: There are some people who are already ready. Just a reminder for everyone, you can use the 'raise hand' option if you have questions and also you can put it on the Q&A window that you see on the screen. The first question goes from the line of Nomura Securities - Kapil Singh..

Kapil Singh: Thanks Sir, first of all congrats, I think it was a great set of results. I have couple of questions; firstly, on your cost side, we have seen pretty strong performance this quarter. When we look at the business in more normalized kind of environment going ahead, how much cost reduction do you think you would have achieved? How much of this savings for example in categories like other expenditures or employee cost we will sustain and there was some mention of a one-off item as well, so that is the first question. Second is, on I am pretty happy to see the disclosures that we are improving on the investments, could you also share on the cash flow side, we have seen almost Rs. 2800 crore of cash outflow for investment, so what is your guidance for Capex and investments and where has this money gone?

Rajesh Jejurikar: Pawan just to be clear, the first one you want me to take is on what are the cost we will be sustaining.

Pawan Goenka: That is right, what are the costs that are sustainable?

Rajesh Jejurikar: Yes, Kapil Hi, thanks for your comments and your question. There are some changes we are making fundamentally in the way; we are running our business learning out of COVID-19, we believe that many of those will be sustainable. For example, the role of digital marketing can actually be a sustainable saving and we have done a lot of that in the case Thar to take an example, where we created a lot of excitement and achieved the kind of response, we have without actually almost not going mainstream on advertising. So that is one example of using digital. We have done several launches including in tractors, you know the whole Plus series all launches have happened digital, customer meets are happening digitally. All of these are very big, a very sustainable changes in cost structure., the way we are communicating with our employees, people, customers, so and so forth. So that I think is one bucket which certainly is sustainable. We think also, a lot of the travel cost reductions, at least half of it will be sustainable, so there are changes in the business model which certainly are going to, we believe the sustainable and we would, we are doing a lot to make sure that we institutionalize these changes and we even do budgeting going into the next year, these go in as targets coming out of a well-documented learning out of everything that we have out of managing these times. That being said there are things which are not completely within our control and one of that is commodity price and we are seeing at this point of time pressures in quarter 3 on commodity prices, last two quarters were benign, so there is an offsetting or improved fixed cost structure with some risk on the commodity price, some risk on FOREX to some extent, on any small imports that we may have or our suppliers may have. But these are unknowns, I am talking about these are things which we cannot control. The other area, especially on the tractor side which I think has been very favorable, it is a good price realization coming of course out of benign commodities but also a situation where demand has been much more than supply. It is again an external factor and while you know that we do not do anything unreasonable by way of discounting, right now because the supply situation not had to worry about a competitive context at all, so when we do start worrying about a competitive context, there could be some pressure on beyond what we have met now. So, I think we have to balance the upsides and downsides but our endeavour will be to keep delighting you all with strong performances on margins and costs.

Pawan Goenka: Kapil before Anish comes to second question; I just want to add to this because this is a question that is on mind of many people and when I am speaking, I am not speaking specific to Mahindra but general for the industry and perhaps for all industries. There are lot of things that we were doing earlier in the way we ran our business, which we now wonder why we were doing it that way and the opportunities of saving fixed cost is especially plenty. Rajesh talked about few things, I could add to it, everybody is questioning why we need number of offices that we have around the country, we are questioning why do we need to do the events that we do, the number of events that we do and how much money can we save and how much time can we save by reducing the events. How much inventory we need to run the business both the dealer at our plants, also is being questioned. So that there are almost every part of the business is getting relooked at, simplified and made more efficient and therefore in fact there are few things that have happened in the last 6 months which may not sustain like Rajesh mentioned but there are few things that we have not yet done, which we are in the process of doing, which would perhaps bring us even more cost saving, I do not know where the final balance will come out but I think it is one thing that COVID has done for us positive is, made us rethink almost everything that we are doing as to why we are doing it that way.

Anish Shah: Kapil I just add to that before coming to your second question, I would expect cost reductions the way we have done it this year, is we had people put cost into a category of must have, nice to have and if we can eliminate. Now, what we can eliminate is not going to comeback, as we look at must have and nice to have, while this year was only must have cost, next year we are going to look at that again and say why does the nice to have need to become must have. And that in itself will create a cost benefit as well. So, I would expect this cost to come down and as

Pawan said this crisis has created an opportunity and that is one thing that has benefited us. If I come back to your second question, 2800 of cash has been spent in essentially three areas. The first one was the largest, we have publicly announced, the Mahindra Finance Rights Issue and that was Rs. 1641 crore. The second is to reduce the debt at some of our international subsidiaries, some at higher amounts of debt and we have converted that to equity in line with what we felt was prudent and the third was operational from an international subsidiary standpoint largely and some of other subsidiaries here as well. So, those where smaller amounts but that is really where that is gone and therefore yes, we would see that number coming down because Rights Issue at Mahindra Finance is not going to be repeated again and the conversion of debt to equity is not going to be repeated again as well.

Kapil Singh: What is the overall investment target that we have, for this year and next year?

Anish Shah: So, on that Kapil what we will do is comeback with a clear view of that once we have the International subsidiary situation behind us because there as I said last time we are looking at the three categories A, B, C and you will then know which companies continue in Category-A and based on that we will be able to come back and say here is what we are going to put aside in terms of allocation for most of them.

Kapil Singh: And the Rs. 68 crore one off?

Anish Shah: That is on the Auto OPM, IPS.

Rajesh Jejurikar: Yes, that is the IPS, the investment subsidy, there was a backlog of something which was carried over after the GST change.

Sriram Ramachandran: Thank you Kapil. I request participants to restrict to one question, they can comeback in the queue. The next question is from Hitesh Goel of Kotak Securities. Hitesh you can go ahead.

Hitesh Goel: My question is actually on Ssangyong Motors, Anish you had specified that by end of this fiscals, you will take care of most of the loss making subsidiary, so what does it mean for Ssangyong Motors, where are we right now in terms of bids that is coming up for Ssangyong and what is the bids that has come through, what is our game plan on it, so if you can give us some more color on Ssangyong Motors?

Anish Shah: So, there what I would say is that we continue to stay firm with a view that we are not going to invest any more, Ssangyong is looking at a potential investor, there have been discussions which Ssangyong is having with them, once there is a clarity on that we will comeback with details, Ssangyong will make public those details. As I said before we stay firm with that, we are not going to invest more and we will have to look at, in many ways the situation will resolve itself in the next few months, we are hoping that it resolves itself in a way that is beneficial for everyone.

Hitesh Goel: Okay and can I just ask Rajesh what is his outlook on the tractor segment for FY21 because last time we had talked about a single digit growth but most of the industry participants are now talking about double digit growth, so can you give some outlook there Rajesh?

Rajesh Jejurikar: Yes, Hitesh it is lower double digits for the industry for FY21.

Pawan Goenka: I would like to state that up until now the industry has grown about 12%, right Rajesh?

Rajesh Jejurikar: Yes.

Pawan Goenka: YTD Oct growth is 12% and we would think similar growth for the remaining year.

Sriram Ramachandran: Thank you Hitesh. The next question is from the line of Gunjan Prithyani from J.P. Morgan. Gunjan you can go ahead.

Gunjan Prithyani: I just had a follow up to the first question on the cost side, now on the Farm segment you did point out these are the record margins that we have seen, now as some of the costs comeback and the supply side normalizes what is the range that we should keep in mind for this business, I mean typically in the past you have guided to somewhere in the range of sub 20% but we have exceeded that by a mile in this quarter, so any color on that?

Rajesh Jejurikar: Gunjan thanks for the confidence you have in us and I am glad that you see us beating our estimates just keep counting on that, we do not give a specific guidance on margins.

Pawan Goenka: You will have to do your own math. We have given the plusses and minuses; you do your own math.

Gunjan Prithyani: Let me just then move the conversation to the capital allocation now, I mean it is good to see aerospace, you have taken a call on that, if I look at the financials for aerospace there was about Rs. 300 crore of loss that this business had, so it is fair to assume that incrementally there are going to be no losses from this subsidiary and the large part of investment write off which we have seen in this quarter is coming because of aerospace, if you can clarify that as well?

Anish Shah: So Gunjan, aerospace has two parts to it, one is aircraft which was Gipps Aero business and second is aero structures. The aircraft business has been shut down, there have been losses in the past and there will be no losses going forward, except for a very small amount which is as a result of a service on that we have to keep open to meet our obligations for the next couple of years or so. So, that is going to be a very small amount and that we will see in future numbers as well but I would really would not say that significant amount. On Aero Structures, that is the business that is longer sub - term business, a long cycle business that is essentially making parts for Boeing and Airbus and its Tier 1 suppliers, we are actually very well positioned in it now. We are one of the leading players in India for this business and we have got a very good reputation with the Tier 1 as well as in Boeing and Airbus directly, all the hard work is behind us for this, any new part there takes a long time for it to get certified as well, we have a number of parts that have been certified already and we see a lot more upside in that business going forward but that would be in sort of a 3-5 or 5-7 year window, that is not a business that takes up a lot of cash either. So, after that clarification is to directly answers your question, yes we see all the issues for both Aircraft and Aero structures behind us.

Gunjan Prithyani: Okay and this sub write off is largely the Rs. 900 crore coming from this or is there anything else besides this, the impairment.

Anish Shah: Yes, we have not been sharing the details every quarter, so what I will do is, at the end of the year we will come back with all the details in terms of this is what was impaired and where. At this point in time, prefer to stay with our current approach which is not share the details every quarter because there can be some plusses and minuses there.

Gunjan Prithyani: Okay, just last question, if I can squeeze on the tractor segment, you know clearly supply chain issues we have kind of lost some market share but as you look at the remainder of the year which is not good we as peak, a season, do we expect to recoup the market share or we should assume that for this year, our growth is going to lack the industry growth on a full year basis on FY'21?

Rajesh Jejurikar: On a full year basis, we will lag the industry because there is not enough volume left to recoup what is lost unfortunately, because as you know bulk of the industry happens in May, June, July and then October, November, so bulk of the industry volume is at that time. And January, March market shares typically cannot out way, we may make some comeback but we cannot probably make up everything that is not possible, that would be our current input right now but we do not see this as a fundamental loss because our brands have been in very strong demand and it is just unfortunate that we have not had as you saw on the index stock chart, enough tractors on the ground to convert them into sales. So, we do not see this as a fundamental loss at all in our positioning.

Sriram Ramachandran: Thank you Gunjan. Again, the request is to limit to one question and if any follow up on that. Okay, so the next question is from the line of Amyn Pirani from CLSA. Amyn, you can go ahead.

Amyn Pirani: My question was more on the tractor cycle, if we look at all Automotive categories, you know tractors has had the shortest downcycle, and we are already in a growth stage this year compared to other categories. So, given lot of things which are happening, on the farm side, in terms of regulation. I know, it is early days, can you give us a sense as to how this tractor cycle will, could it be like the tractor cycle which we saw at the start of this decade or will it be like as short cycle that we saw at three years ago. I mean, is there any initial sense of what is happening on that.

Rajesh Jejurikar: Thanks for your question. You know the one thing we believe, we have not really been able to predict is, when exactly tractors will sync through and when it will not. And many things drive that and when I am saying that I mean in a very specific, next year will there be growth or not and if yes, how much. That is why, normally we wait till a later stage and you know as clarity emerges before committing to a given growth rate for a given coming year. Though we do what we do always, reinforce to all of you is that irrespective of the slight ups and downs that is happening in the tractor cycle. The common thread that you would see is, an 8% odd CAGR and you know, whichever way you split it, you see a negative odd percent CAGR and that is something I do believe that we should build in to the way we think about going into the future. We also believe that it is normally strength that all of us have by way of building agility in supply chains. In a non COVID era at least remain very good at it. To be able to respond to quick increases or reduction in demand either way and manage our margins very well, in an up cycle or a down cycle. So, it is very hard to say how long a cycle will last and what triggers it or not and of course part of the issue is that the comeback we will look at our all billing numbers and not retail numbers. So, there is a limitation in an industry of this kind, only at billing numbers to project growths, of course we have our own econometric modelling which is at a literally a Tehsil level based on multiple factors that happens at each Tehsil, District and we build that modelling up for the entire country. We do not do a top-down econometric modelling, we do a very base level econometric modelling, something we call geonomics. So, and that has a reasonable level of accuracy but I would just suggest that you know the best thing to do in tractors is think about a CAGR on an ongoing basis rather than whether one year will be very good or very bad. Too many variables come in which affects the short-term performance of the industry. I do not know, I mean if you want to, I know Sriram has a restriction on number of questions but if you have a follow up on that, I am happy to take it.

Amyn Pirani: No I appreciate that, just very quickly we have been talking implements business for a long time in terms of mechanization, is there any new launches that we are having there, how are the existing products doing in terms of uptake, if you can give us some update on that.

Rajesh Jejurikar: We are seeing a very good year in the farm machine business, in fact quarter 2 we have had a 90% something growth. In farm machines, every part of the portfolio is doing well, rotavators, harvesters, some of the new and pioneer products that we have launched; rice transplanters in Punjab, so the whole spectrum of farm machinery business is really picking up and has seen a very good momentum in Q1 and Q2.

Sriram Ramachandran: Thank you Amyn. The next question is from the line of Shyam Sundar Shriram from Sundaram Mutual Funds. Shyam I think you are back on line; can you unmute and ask your question.

Shyam Sundar Shriram: Yes, hi sir good afternoon. This is Shyam Sundar Shriram from Sundaram Mutual Funds and thanks for taking my question. Sir very heartening to see a strong operational performance this quarter. One question on this, FES global subsidiaries, we have turned around most of those businesses posting a small positive PBIT this quarter, is it reasonable to assume that even going forward, given the global Agri cycle being on a slightly positive trend. Can we sustain this positive EBIT momentum into the second half and well into the next year as well and add up to that sir, in terms of our path to 18% ROE, will we have to provide for impairments for the businesses that fall in the bucket C where there is no clear path to the ROE and which is not strategic to M&M.

Rajesh Jejurikar: Yes Shyam Sundar, thanks so much for your question. Now, so what I would like to say on the FES subsidiaries is, you know we had seen a couple of companies and especially MAgNA post very big losses over the last two years and that was a big drag on overall FES global performance. We had at that time said that why it is substantial part and that was one time as we have been clearing up the pipelines, be it stock levels to a very reasonable levels, restructuring cost at MAgNA and in the last analyst call we had said that we will at least cut our losses in MAgNA by half this year. We think we are well on path to that, several other restructuring exercises are being done in various parts of the FES global subsidiary organizations and as Anish has been saying we are in any case, evaluating every company; A, B, C bucket. So, to your specific question on will we see the same kind of PBIT every quarter, I do not think I would want to commit to that at this stage but I think what you will see is that the substantial losses that we were making will be behind us and we should be in a range of something which is reasonable and not to say that we would not have profits at all but we should be in a range which is reasonable and by the end of the year that would hopefully be in businesses which are very strategic. Anish you may want to add on, Pawan as well.

Pawan Goenka: I just want to add only one point on MUSA (MAgNA)as we had reported earlier that MUSA (MAgNA) was a one-time correction because of very high inventory in the pipeline which we wanted to correct and thanks in part to COVID we have almost over corrected now, so there is absolutely no inventory issue now in MUSA(MAgNA) and that was a very big task that took us almost 2 years I think to correct.

Anish Shah: So Shyam Sunder I would say two things, one is for all of the subsidiaries by end of the year as I have said we will have a clear view of whether they are at path of 18% ROE, a strategic quantifiable benefit or not. So, even the farm subsidiaries as we have been doing a lot of work with them right now, for all the ones that we decide to keep they will either have Category-A or category B, so from that perspective yes, not only losses will reduce but also we will start seeing profits in those businesses as we go through the next couple of years. On your second question, we already are providing for impairments for businesses and that is what you have seen over the last couple of quarters, where we have done impairments including this quarter. We have taken the tougher businesses first and therefore the impairments have been higher in the last 2 quarters, I am not going to give a forward looking view on that but all I will say is the businesses that we are looking at now are the easier businesses or once that we feel are in a better chance of going to Category-A or B. We have focused on the options for category C first and we have already listed a number there. And I will just add for the ones that we have done on C already; we have taken all the impairments required for them.

Shyam Sundar Shriram: Okay wonderful that is very helpful. Just one question on the auto side, because of the very low inventory situation which was as abated by the production challenges specifically on the LCV are we at a risk of losing sales per se or have we prioritized LCV over the UV for now, how are we managing this specific situation?

Rajesh Jejurikar: I will take that Shyam Sundar, I guess right now when you are referring to LCV, you mean the pickup portfolio because that is where we have had a set of supply, well I will not say supply issues, we are in the pickup; we are making to our full capacity. We are enhancing our capacity, the shortage of capacity has not been with us, it has been with some of our suppliers and we have already triggered actions to put that in place. Typically, what has happened in pickups is we do have a stock in pipeline and we do build up stock before season, unfortunately this year like in tractors we have not been able to do that in pickups. So Pickups we are operating at full capacity, it is not like we have short produced but that has not been enough given the huge surge in demand that happened in pickups and given that we had no pipeline inventory we have been very challenged on the availability but again we should get into building that back post November 15th when Diwali is over and in the meanwhile as we move onto the next wave of demand, we are working on enhancing our supplier capacity, it is a very small investment that needs to be made with suppliers which we have already initiated.

Sriram Ramachandran: Thanks, Shyam, the next question is from the line of Nishit Jalan from Axis Capital. Nishit, go ahead.

Nishit Jalan: Thank you for the opportunity and congratulations on a very strong set of numbers. My question is primarily on investment in subsidiaries, even if we exclude **Mahindra** Finance there was still almost a Rs. 1200 crore kind of investment in subs, Anish did highlight that a part of it is to reduced debt level and a part is operational in nature, just wanted to understand the breakdown between the two, so that we are able to look at the sustainable part in a clear way, so basically just either you can classify by different subsidiaries or say at least can classify what was the amount to reduce debt levels, that will be very helpful?

Anish Shah: Yes on that what I would say is, this year what we have done physically trying to follow the practices we have had before and by end of this year as we have all our international subsidiaries in rest we will come up with a new set of practices, I can sense the need for little more transparency in some of these numbers, so we will take this feedback into account but we will do it consistently, so at this point in time I will stay with the practice we have which is not look at it by the company and we will comeback with more details on this and we will try and meet the needs that you and others have expressed and on greater transparency for these numbers.

Nishit Jalan: Okay Sir we will wait for the details, just one more follow up on the impairment side obviously you cannot share the details at this point but if I look at the consolidated results, almost Rs. 600 crore loss seems to be there in the auto businesses if I look at the segments results before exceptional and segment results after exceptional, so it is fair to assume that a large part of the impairment is related to auto business and not the aerospace business that you talked about in terms of shutting down?

Anish Shah: There are numbers as I said at this point in time we will not get into specific entity details because we do have to make sure that we are consistent with our practice on this but as I also said that once we have the international subsidiaries behind us which is by end of this fiscal year but we will share all the details at that point in time, it will become a much clearer picture as to where that is coming from.

Nishit Jalan: Okay sir thank you so much we will wait for the details.

Sriram Ramachandran: Thanks Nishit. The next question is from Venugopal of Bernstein, you can go ahead.

Venugopal Garre: Yes, hi hope you can hear me. Thanks a lot, firstly congratulations on a great quarter. You know, actually two small questions from me, if I may. The first one is, global businesses subsidiaries of yours, both in farms as well as autos, rather than asking you specifically about each business, just wanted to know, are there any of these subsidiaries or associates where you are actually seeing a deterioration in performance in let us say, the last three months or six months which you would want to callout, I am basically saying it could be maybe something in Europe I think you have been having problems in Peugeot, for example or. So, any business that you are actually incrementally worried, that is the first question.

Pawan Goenka: I think you are asking the same question again in a different way, we will give the same answer again.

Anish Shah: Let me in this case give you a little bit more then what has been asked for because you specified you are not asking for an buy entity, so I do appreciate that and thank you for it but what I will say which is a reality that every subsidiary that has been performing worse than before, has been addressed. Everything that we have today, has been performing better than it has performed before. That does not mean that they will be in Category-A or B, though there is a good chance that many of them may be there, it does not mean that but to answer your question directly; yes, what we are seeing today in all the subsidiaries that we have not talked about and already as category C, they are in a better performance than they have been before.

Venugopal Garre: Thanks a lot, you know a second small question. I just wanted to hear from all of you, especially regarding Thar because it is clearly a big success, so what in your view are the drivers for this success? And the reason I am asking this is, to understand two things; one is sustainability of that and number two is, these learnings of success, how does it actually translate into the newer launches, the next set of launches you are doing, is this something where you think probably you know, needs to be calibrated to achieve the similar sort of an initial traction. And the reason I am asking this is, because SUVs is one area, you meet a lot of questions on market share concerns and you know this business could be challenging in future, so in that context since you have success story, at least in the initial phase to highlight.

Rajesh Jejurikar: Yes, Venugopal thanks for that question. We have actually spent quite a bit of time documenting the learnings and it is not often when you have a success that you spend time writing down the learnings but we did it for exactly the same reason that you said, so that as we get into the newer launches, we are very clear in our mind what worked for us and what we still need to do better than what we have done this time around. So yes, we have gone through the process of documenting the learnings and I will take a couple of minutes at least to walk you through some of them.

One is, is this a more a strategic call, right and if you remember, in over the last two presentations, we have been very strongly reinforcing to you that our success is going to lie in creating products which are core to the Mahindra DNA, products which look and feel like a Mahindra and are not going to be one of the SUVs, Thar and we had said that before the launch that we strongly believe that Thar represents that core Mahindra DNA and I can tell you, with the same confidence that the 601 and 101 strongly represents that core DNA of Mahindra. When you see it, it is going to look very distinctive, very different and very Mahindra, we are very confident. So, the product of Thar, the way it has been designed, the proportions, the refinement have all been one very strong factor in enabling the success of Thar. I think the other thing that worked very well for us was connecting Thar to a very indirectly the spirit of freedom of the freedom of India and that is why it is very important for us to get it out on 15th August because there was a kind of momentum that got built around that as an occasion and then linking the launch again to 2nd October where again there is a very strong association with it being our founder's day and our 75th year but also a very important day in the calendar of Indians. So other than that, we have been able to create excitement in between through multiple things that I had in my presentation. I think we have got our pricing reasonably well and we went in with also a complete offering, so we had Gasoline, Automatic and everything else. So, and we have used money very judiciously as I said earlier, we have not really yet gone on mainstream, television though. We are going to, we are having a theme communication, we may or may not use it or we will decide the right time but we have really been able to create excitement around using digital communities, saw some of the data out there, some specific videos that have got made by the bloggers or journalists which have each had over a million views. Even a single market like Kerala has had some of the bloggers get them over a million views. And these are all organic, not paid for. So, I am hence giving you examples of journalists and bloggers getting viewership. So I think it is connecting with Mahindra DNA being very focused on what is our SUV core differentiations, staying true to that, not trying to be somebody who we are not and we strongly believe if we continue to do that, the market share will come, we should not come at it the other way to say what do we need to do to get market share, I think all we need to do is, what is it that we need to do to be ourselves and I think market share is going to come. So, you know, I would again reinforce to you all, market share will come but we will make sure it comes the right positioning of our brand and by delivering what we have to. I think what we have not probably done well enough right now is, to leverage the opportunity through volume ramp up which we are in the process of doing. As soon as we revealed on 15th August, we knew the demand is going to be much higher than what we are anticipated and had triggered, everything that we needed to ramp up production and we should start seeing some of that happening, most of that was with suppliers and we should start seeing the effect of that starting soon. Pawan you want to add in?

Pawan Goenka: No, I think you have covered everything. I just want to bring back one point that you made, which should not get lost. This is probably the first time that we have launched all variants together; Petrol, diesel, manual, automatic, three different types of body top. In the past, we have always done for a one core and then after that, after slowly we launch more and I think that also has been a big reason for success and it is a lesson learnt for us for future, that when we launch new products then we should be ready with all variants and not just the core variant.

Sriram Ramachandran: Thanks, Pawan.

Sriram Ramachandran: The next question is from Pramod Kumar of Goldman Sachs.

Pramod Kumar: Thanks a lot, Sriram and congratulations to the management. My question is to Rajesh on the product side, Rajesh Thar we have seen despite it being the 3 doors sub-4 metre product it has done exceptionally well in terms of demand, so was just thinking has that success triggered a thought process that there is a larger market which you can access with the more main stream product like a 5 door larger wheel base which can be a regular car, regular commuter product as well. So, which could be a significantly larger addressable market and built on the success of Thar what you had, so is there a thinking somewhere on these lines because I understand Anand has mentioned that Thar is a pretty large and a long project for you guys, this is just not what you have launched now, so just wanted to know your thoughts around that?

Rajesh Jejurikar: Yes, Pramod thanks I still remember your question in last analyst meet about whether this is going to be mainstream or not and I hope you are satisfied looking at that 45% automatic number which is definitely not off road, so it is mainstream right now. Specific answer to your question, is yes we will look at broadening the Thar family without losing its core essence and 5 door could be part of that but there are many other things we are thinking around on how to make it more mainstream than it is, I think it is already main stream and will be main stream even in a 3 door format but there are definitely opportunities to make it into a very a strong franchise and we have already triggered work on that.

Sriram Ramachandran: Thanks, Pramod. The last question is from Chirag Shah of Edelweiss.

Chirag Shah: Sir two questions, first on the quarterly's, so the other expense line items if you see any general are significantly lower, is it also a function that because tractor contribution is high, the OPEX cost is on the lower side over there and hence the number is looking, if the mix stays the way it is hypothetically, the cost sheet will look in the same way especially on the other expense which is more discretionary in nature. Would it be a right assessment?

Rajesh Jejurikar: I am not sure Pawan, Anish, do you, I am not sure which line item Chirag is referring …

Chirag Shah: Other Expense if you look at raw material and staff cost, I have understood but the Other Expense which is all discretionary, admin as well as Marketing and SG&A type of spend is a bit lower.

Pawan Goenka: That is fixed cost I think Pawan, is it a fixed cost.

Sriram Ramachandran: Yes, it will be both Fixed cost and variable cost, Other expenses is what he is talking about.

Rajesh Jejurikar: So, is it other apart from material cost, is that the item?

Chirag Shah: Yes, material cost and both.

Pawan Goenka: I think normally that is how it is, material cost, people cost and other cost.

Chirag Shah: Other cost item is reasonably lower, is it also a function of the mix because tractor is on the higher side for us and the activity level required in tractor is far lower than what is required for the auto parts and hence and is it..

Rajesh Jejurikar: Chirag let me try and respond, if needed Sriram can come back to you with more information within what is okay to share in the public domain but the way I would interpret this is that we have actually taken harder calls on the auto side on fixed costs rationalization and marketing spend and the approach to overall marketing spend has been one very significant one. You have seen and I am repeating again that the Thar we have marketed it in a way in which we have spent very-very little in mainstream advertising and that has been a very conscious cause to create excitement with this very little mainstream advertising and we have also taken a very conscious call on how we sequence this money that we have spent in multiple auto brands and making sure that it is not all happening at the same time and we are going to follow very focused brand building strategy in line with our core SUV DNA that I have spoken about. So, that is one very tangible approach to how we are looking at marketing, Pawan and I have both covered various other initiatives that we have taken to rationalize the way we do business that is applicable both to the tractor side and the auto side but much more on the auto side because clearly auto went through a longer period of recovery cycle whereas tractor did get into recovery cycle as early as 3rd week of May, early June. So, I would not attribute it to FES versus Auto but I think it is just more much harder view at how to manage business expenses and hopefully we will try to keep a lot of them going. But maybe my answer is more intuitive right now and if there is any other granular detail then Sriram can talk to the finance team and get back to you within what can be shared but my answer right now I would say is intuitively right. You may still be right by way of the mix but I do not think that is the fact.

Chirag Shah: And second is for Anish, capital allocation as a team you are doing a wonderful job, so there are two questions, one is taking impairment and the second element is loss funding, while in Ssangyong you have a category called out that loss funding is unlikely to happen, would it be right assessment that in last quarter loss funding in other so called C category company is also out of question? Because impairment is what we have historically booked in your on the balance sheet and I am more looking at the future perspective from cash flow perspective.

Anish Shah: See as I said anything that is C category, we want to have a clear answer this year. In fact, A and B will have a clear answer as well. So, we will not continue with significant loss funding for any company next year. Most of our companies in Category-A and B will not require a significant amount of loss funding, because as I said if we have to be on a path to 18% ROE in the next 3-5 years, we need to be closer to breakeven today and what we are seeing across the companies, in the farm subsidiaries at least, many of them are close to breakeven and some of broken even already. And you will see a positive trajectory from there. So, therefore, if I were to put the companies, let me give a little more background of this because many of you have asked this question and if I were to look at it today, I would say that there a set of companies that are trending towards A or B, the reason we are not categorizing them is to stay consistent with our detail methodology that we need not only a path to 18% ROE but also milestones and we need conviction that we can get there and some we are close to that conviction but we do not have it as yet, so we will come back on that as soon as next quarter for some and 4th quarter for everyone. So, there are the reasonable set companies that will fall in Category-A and B. For those that are falling in category C, the large majority we have taken care of, already. Gipps Aero was the latest one and I am not saying that there will not be any more in C but what I am saying is that the big part of the problem is behind us on that. So, the other entities that are there, we would not expect significant amounts of loss funding going forward and therefore all the problems should be addressed in this fiscal year itself.

Chirag Shah: And just one follow up on Category-A, so is the review mechanism of Category-A right now in the realm or you are more focusing on category B & C company, shall I say Mahindra Finance or a Tech Mahindra which I believe would be Category-A, is there a review mechanism there based marking and actively part of M&M as a holdco company or right now the focus of is on M&M is on category B & C company and then later on Category-A company will also come into the purview?

Anish Shah: Okay so let me just clarify this, because we did not have a chat this time and we had talked about it last time. So, what we are talking about A, B & C right now is only for international subsidiaries. For international subsidiaries, Category-A will be subsidiaries that have a clear path to 18% ROE in three to five years, B will be those with a strong quantifiable strategic benefit and C will be neither of the above and therefore on a path to exit, so at this point in time because the losses and impairments from international subsidiaries were higher , we have decided to make sure that we close the problem once and for all, so that going from next year onwards we do not even need to show the category international subsidiary because there should be zero losses there, that is our objective, now whether we can achieve that objective for fiscal '22 or fiscal '23, I do not know as yet. We will have a clearer answer of that by the end of this year but the objective is to try and get to zero losses and zero impairments but that is why A, B, C is only for international subsidiaries.

Pawan Goenka: Anish, on a lighter vein, to close out, maybe you need to have a Category-A+, which is both financially as well as strategically important.

Chirag Shah: And also, the review mechanism of A+ category because I presume that will also be an agenda at some point of time, if not today maybe some point of time, you are there also, your AB mechanism will also start playing out?

Anish Shah: The answer to that is, one of these we are going to be reviewing on a quarterly basis, what we are doing is setting milestones, milestones will be 6 monthly, so all of them will have clear milestones to make sure they are on path to 18% ROE and that review mechanism exists today for other investments as well. So, we have a set of review mechanisms in place, that has been there for a long time, so there is nothing new on that front.

Sriram Ramachandran: That brings to the end of the Q&A session and thanks a lot. Back to you Pawan, you want to make some closing remarks.

Pawan Goenka: Thank you everyone, happy Diwali to you all and stay safe.

Anish Shah: Happy Diwali to all of you and families.

Rajesh Jejurikar: Happy Diwali to everyone, bye.

Sriram Ramachandran: Happy Diwali and thank you everyone. That closes the conference.