"Mahindra & Mahindra Limited Q3 FY-22 Earnings Conference Call"

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MANAGEMENT: **DR. ANISH SHAH – MANAGING DIRECTOR & CEO.**
MR. RAJESH JEJURIKAR – EXECUTIVE DIRECTOR, AUTO & FARM SECTORS.
MR. MANOJ BHAT – GROUP CFO.
MR. HEMANT SIKKA - PRESIDENT FARM EQUIPMENT SECTOR
MR. VEEJAY NAKRA – CEO, AUTOMOTIVE DIVISION.

Sriram Ramachandran: Good afternoon, everyone. Have a good day and welcome to M&M Q3 FY22 Earnings Call. We are indeed glad to have you all on this call today. The Safe Harbor statement which normally we have before during every call, it's displayed on the screen. I won't read it. Now, I would like to welcome our senior management team 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, along with them today we also have Mr. Hemant Sikka - President Farm Equipment Sector and Veejay Nakra – CEO, Automotive Division. With this now I hand over the mic to Dr. Anish Shah. And we will have the opportunity to have Q&A at the end of the presentations. Over to you.

Anish Shah: Thank you Sriram and good afternoon, good morning everyone, I would start with some of the key messages that we have for today. And we see a steady revenue growth, with Q3 being up 8% and year to date up 29%. This is despite various supply chain challenges, and we'll talk about that, but we do see them easing going forward. Margin pressure has been the big story for this year, driven by commodity prices, and then further exacerbated by the supply chain challenges especially with regard to semiconductors that reduced volumes and thereby reduced operating leverage. But despite the margin pressures, our PAT after EI, for the third quarter is up two and a half times and year to date is up five times. And this is really driven by results from a capital allocation actions. We have talked about that in the past and talked about how that will take away the losses we've had from those companies and increase profits in future. And we are seeing that now. We also see a strong consolidated PAT after EI, which is up 57% for the same quarter, and up to 2.4 times year to date. And this is reflective of strong performance across all our businesses.

First starting with revenue, auto up 15%, tractor up 15% year to date, international exports are strong, and there are supply chain headwinds but as I mentioned, they're starting to ease out now. So we're looking at some positivity there. PAT before EI is where we see the impact of the commodity pressures and the operating leverage. So that is down 22% for the quarter. But for the year, it continues to be up 28%. PAT after EI is where we see the benefits of capital allocation that we took last year. And we see our profits going up from 531 crores for the same quarter last year to 1353 crores for this year's third quarter.

At the consolidated level, we see a strong growth in Profit before and after EI. Before EI is up 28% after EI is up 57% and we'll talk a little more about performance across the group companies. A quick highlight on Farm and we'll go deeper into that, revenue is up 2% in a tough quarter, even as market has gone down and this is driven really by a market share increase of 140 basis points, which is a fairly substantial number, year to date farm revenues are up 15%, profit again you see the impact of commodity prices here so down 24% for the quarter, but year to date, it's up 4%. And we've talked about international subsidiaries in the past, it is now positive for six quarters in a row in terms of PBIT, which is again a good reflection of the category A and B that we talked about earlier. And we are seeing the benefits of these businesses turning around and getting on the path to the returns and growth that we want.

Auto sees a better performance in revenue, as we've seen some easing of supply chain, 16%, up for the quarter, 40% year to date. Here, in addition to commodity prices, we've got a volume loss of 20,000 due to ECU shortages, and therefore PBIT is down 40%. But it's improving from a quarter-over-quarter basis.

Mahindra Finance is one area where we had seen loss in the first quarter driven by higher GNPA and resulting provisions, we see it coming back very well. In fact, a little better than what was promised by the business, the promise was 70% to 80% of provisions reversed in three quarters after that, at this point 60% has been reversed in the first two quarters already. So we are slightly ahead of track on that, GNPA have gone from 15.5% to 11.3%. And as you see the provisions 2517 was what was taken in the first quarter, 60% of that has been reversed. And we do expect to see good performance on reversing these in future as well.

The deep dive that we have shown before Stage 3 asset under management has gone down from 7900 to 7088, Stage 2 down from 12287 to 10980 this is being tracked very closely and we expect a further reduction in both Stage 2 and Stage 3 in the current quarter. In addition, we have talked about or the business has talked about the RBI circular that was released in November, which talks about IRAC norms, and there is still some clarity awaited. If the business has to meet GNPAs and net NPAs for IRAC norms as well, then we would have to go down to a net NPA of less than 6%. And to do that, we would likely have to take a 500 to 1500 crore additional provision in Q4 to achieve that over and above the other performance that the business will drive, but the other performance we expect to be positive. So we will have more clarity on this. And once we do then we will share that with everyone as well.

Very strong performance in Tech Mahindra, PAT is up 5% for the quarter, but 21% year to date. And in addition to that it's a broad based growth across multiple segments TCV is +700 million, attrition is down. And one thing we are very proud of is the work on the sustainability and climate change front where we are the only Indian company to score A in both CDP climate change and water security. As we look at listed growth gems, Logistics has had some one time issues with regard to specific areas and therefore profit has been down, the revenue has been growing well, the business overall is in good shape. Hospitality and Real Estate have seen significant growth as they've overcome some of the issues of the past year, which were a little more COVID hit. And they are both on a strong trajectory right now.

And as we talk about Digital Platforms, they continue to do well FirstCry, CarandBike and Porter continue to increase in their valuations. The Digital FinCO is up and running now. And we are looking at a couple more in AgriTech and Receivables. These are vehicles to unlock value for the group. With that, let me invite Rajesh Jejurikar to take it forward. And while I do that, this time, we are also going to have the CEOs of our Auto and Farm businesses Veejay Nakra and Hemant Sikka respectively. And what we will do is, have them spend more time on the first and third quarter Analysts Meets and Rajesh and I will spend more time on the second and fourth quarter. So that allows you to get a broader perspective from our leadership team. Rajesh over to you.

Rajesh Jejurikar: Thanks and good afternoon, good evening. good morning to everybody based on the country you are in. What you see here are the highlights of the Farm Equipment business market share went up by 1.4 percentage points in the quarter. This was the second highest ever quarter three volume and PBIT and this reflects that we were on a very, very high base last year in quarter three. We've launched the Yuvo Tech tractor on the Mahindra side and the CODE machine on the Swaraj side and Hemant will spend some time talking and explaining to you why we think the CODE by Swaraj is a real breakthrough concept. We have had six consecutive positive PBIT quarter for FES, and this has been the highest ever quarterly exports on the tractor side.

Auto. This is the best in class, we've delivered a best in class margin way about the peers with a very strong booking pipeline of 155,000 open bookings and this includes the XUV700, which has open bookings of 70,000 at the moment, total bookings were 100,000. But open bookings are 70,000 and multiple cars of the Year Award Veejay will talk about that. Seeing a very strong growth on the EV three wheeler performance, which is highest ever quarterly billing and retail. And the trend and trajectory is going to be upward from here as the market penetration of electric three wheeler increases. The auto subsidiaries have improved their performance as well and we've seen a strong export growth in quarter three in the auto side as well.

Not going to read the numbers what you see here are the standalone and consolidated revenues for quarter three and YTD where standalone revenue grew by 9% in the quarter and 29% YTD and consolidated by 10% and 27% respectively. The PBIT in the quarter three was down, standalone to a 1254 but like I mentioned quarter three of last year was a very high base for FES. And the consolidated PBIT was down 29% in quarter three of F22 again reflecting the same high base from the FES side last year. On the YTD basis, the PBIT standalone is up a percent and on the consolidated basis, the PBIT is up 16% reflecting the turnaround on the Farm international subs and an improved performance on the Auto side as well. With that I'll hand over to Hemant who will take us through the Farm Equipment part.

Hemant Sikka: Thank you Rajesh. Good afternoon everybody. As we have spoken to you in the past that notwithstanding the cyclicity of the tractor industry, in Mahindra Farm Equipment Sector we have always delivered stability in this volatility. And as you can see on the red line here that despite unprecedented, maybe first time in the post war world, this kind of commodity inflation has happened. And in spite of that kind of unprecedented material cost pressures, we have been able to maintain a 17.3% PBIT margin here for this business. And in terms of our market share, we continue to maintain a leadership position. This shows 39.4 as the Q3 market share, but YTD nine months, our market share is 40.5%. So, we have gained all the market share loss that we had last year because of supply chain issues. And we are back to 40+% market share for Farm Equipment business.

There are certain interplays of factors which are now playing out in the agricultural space. The government spending even though it is still at a reasonable level, it is lower than last year. Last year, you would recollect that the government to support the migration of laborers from cities to villages and to support the farm labor had come up with elevated spends, especially in

MGNREGA and few other schemes. All these have now been normalized so compared to last year, this year the government spending is clearly lower than what it was last year. So that has slowed down and we see a strong correlation between the government spending and the tractor sales. The second factor which is playing out is the terms of trade for farmers have distinctly become negative. As you can see from this chart, while the output prices have increased by 10%, the input inflation is 25%. So clearly the money in the hands of the farmer is getting squeezed out. The third factor which is playing opposite to this is the three year in a row good monsoon that we have had. And this time as you would recollect, the monsoon was actually delayed a lot. Now that was bad for the Kharif crop because in many states the standing Kharif crop got destroyed. But it is very good for the winter crop because the moisture content in the soil was very high. And as a result the sowing for the Rabi crop happened very well. In fact, it is better than last year and we are expecting a bumper Rabi crop as the harvesting starts in next few weeks.

If you lay these three factors government spending, negative terms of trade and a very strong Rabi output which is expected to happen clearly, if we can get good monsoon this year, which will be fourth time running, I think overall, the next few quarters will play out on how these factors play out. Overall, we are saying that in quarter three, the industry has slowed down. And we are now looking at a quarter four where again, the industry is preparing for a slowdown compared to last quarter four. However, I must add that, all the comparison is with last year where we had unprecedented 27% growth in the industry last year and the industry actually does 900,000 tractors. So this year also I believe the industry will do a very good strong number. However, it will be lower than last year.

Next slide please. This is the product what Rajesh spoke about. We have launched this under the Swaraj brand. It is called CODE by Swaraj. You can see this is a very innovative product and we believe that this product can totally disrupt the Power Tiller usage industry. Power Tillers you know are not ride on ones, you walk behind them, they are very cumbersome to use, they topple at many times, huge farm trajectory, and this is a machine where it is just like any other vehicle you take it in your farm, and it can work for both inter-culture as well as for cereal crops like Paddy and wheat. The beauty of the machine is the innovative features as you can see that we have very high ground clearance and it is adjustable, the ground clearance can be adjusted by 500 millimeters. So as the crop goes up, as you can see in the middle picture, you can keep taking your machine up and still continue to do inter-culture weeding and spraying operations. And you can adjust it upwards, downwards as the crop grows up.

The third picture shows you that is bi-directional. Just to help you understand in the first picture if you see the larger tires are on the backside, whereas in the third picture, the larger tires are actually front side. So that means the machine has turned around. And it is a very simple maneuver that you do to turn around the machine and it works beautifully in both directions. These are some of the features which I have showcased there are many more features like that. And we believe this is a very innovative product. We have done a pilot launch in three states. And we have got excellent feedback from our customers. And now we are gearing up to go to next 10 states in this. We will keep you posted on how this product shapes up. But very exciting times.

Also want to talk to you about the whole tech play that we are developing in Farm Equipment Sector. Anish spoke about the whole Agri Tech platform. And we believe that this alligns very well with the purpose of Mahindra’s tractor business, which is to transform farming and enrich lives. We believe that with this technology, we can transform the farming in India. In this we have several use cases. But, I would like to today share three use cases here. The first is our IoT platform, which is a purely IoT AI in-house developed platform which we have branded as DigiSense 4G. With this, you can actually, a farmer can keep track of all his tractors, multiple number of tractors, while sitting at home or working at a very far distance from where these tractors are being used. I am going to show you videos to explain it. Similarly, we have a Nidaan app, which is a crop disease identification app. Here the farmer just has to take the picture and upload it on our app. And we can tell which pesticide and how much quantity of pesticides is to be applied to get rid of this pest. And the Smart Harvesting is again a very cutting edge solution we have developed. This is purely based on algorithms that we have prepared to decode the satellite imagery. Some years back we have spoken to you about our investments in startups across the world. And one of the company that we invested was specialized in decoding satellite imagery, based in Switzerland called Gamaya. We have bought this entire proprietary knowledge now this is a Mahindra proprietary knowledge and our teams are fully equipped and trained to handle and build further on it. This tells the farmer by analyzing the satellite imagery of his farm, what is the best time to harvest a sugarcane. And this impacts the sugar recovery and even a 1% increase or decrease in the sugar recovery you can imagine is worth hundreds of crores for the farm business.

We have already signed up six sugar mills to demonstrate this technology on a pilot basis and we are going to sign up many more. So currently we have more than 1000 acres under our supervision and we believe that the results that we are getting, this is also very good technology which has the potential to disrupt and transform the farming in India. Can we have the AVs please.

Let’s move forward, this is the performance on our global subsidiary. As Rajesh spoke about six continuous quarters of profitable growth, the MAgNA which is our US based company Mahindra Agri North America, the billing volume was 35% up continues to maintain good profitability. Mitsubishi Mahindra Agri Machinery MAM in Japan again the profit is better than last year. And both our companies in Turkey have delivered a very knockout performance in profit. For Erkunt Traktor it is the highest ever Q3 profit and for Erkunt Foundry it is the highest ever-ever quarter on profitability. The third company Hisarlar has been divested as part of our capital allocation policy. And both the remaining companies in Turkey continue to do very well for us. In Brazil our volume is up 80%, market share in our segment of less than 100% we continue to gain, the market share is now 4.6% it is again the highest ever PBT there in Brazil. We are planning to launch South Africa in quarter four of FY22.

Next please. And this slide you have seen over the last few quarters, like in F19, F 20 when we had those challenges on the losses in our global subsidiary, you can see that F21 onwards major turnaround has been affected in all these companies and we had a very small loss of 769 crores and since then, in the last six quarters our profit has improved and we are profitable continuously. So the turnaround has kind of become very, very structured there. There are a lot of structural changes done and now we see continued path to profitability for our global subsidiaries. Veejay over to you please.

Veejay Nakra: Thank you, Hemant. Rajesh in his opening remarks on the Auto business spoke about the success of the XUV700 and the strong pipeline of bookings. So, I thought an appropriate slide to begin with would be to just share with you where we are on the 700 journey. We have now clocked 100,000 bookings in four months. We've already started seeing and receiving the accolades for the XUV700. And, we thank Shutter Drive, IVA 2022, Zee News, Motor Vikatan, AutoX for recognizing this and more so, Team BHP, which in their internal method of voting to arrive at the car of the year, have called out XUV700 as the car of the year. Most of you all know that Team BHP is a digital platform of auto enthusiasts. So you can clearly see that with a great margin, they have called out actually XUV700 as the car of the year. The other thing very quickly I want to cover on this, is that we have 70,000 open bookings. And we continue to have a strong pipeline of bookings coming in, on XUV700 despite the long waiting period, especially on the high end variants of the XUV700

Next slide, please. We were talking about a very strong pipeline of open bookings. We spoke about a 155,000+, you can see that this total open booking is spread across products, XUV300, we continue to have a strong booking of 7500 per month. In quarter three Bolero as a family both the Bolero Neo and the classic Bolero 7000+ bookings every month. Scorpio going strong with 5500 bookings every month. Pik-Up a very strong product with the highest market share in the category. Again, strong booking or 14,000 per month and a strong open booking and even Thar, after more than a year of launch now 15 months into launch besides an open booking of 31,000 we continue to get over 4000 bookings per month in quarter three.

At this stage some of y'all would have seen the new car commercial that we put out we had it on CNBC and some of the news channels during the budget period but we thought it may be an opportune time for us to share what we've done in terms of building the Thar brand by putting out the communication on the product. Can we have the TV commercial. So, we have this play out both on the news channel as well as on social media and very happy to see that the response was very, very positive to this commercial.

Next slide please. Two areas that I want to touch upon today. Both are areas which would be on top of your mind. One is focus on margins and second is focus on managing volumes. As far as focusing on margins is concerned a lot of work has happened and continues to happen in the organization across all the three levers, whether it is identifying every opportunity on material cost saving across products, fixed cost optimization, something we've spoken about in all our meets and continues to be a major area of focus. And we've taken appropriate selling price increases through the year including one in the month of January. When it comes to managing volumes while we did have a loss of about 20,000 vehicles in quarter three, because of semiconductor shortages, we firmly believe that if there are no new surprises that spring up, the worst is behind us. A lot of work has gone in to solve both short term and medium term in terms of semiconductor supplies. And I'm just going to touch a little bit more about this in detail in the next slide.

So in terms of short term actions, we've been talking about the supply constraint of ICs from Malaysia, we spent a lot of time talking about that in the last meet. Happy to say that we've identified new IC source. So that we are able to create fungibility across our products. And we are already seeing the benefit of that, as well as sourcing ICs from the open market, to help us create good reserve stocks, as a result of which we are seeing the benefit already coming in, in the early days of February. And that gives us a lot of confidence going forward. On the medium term, there are certain things that we've done on the product development front, especially looking at how do we remove complexities of multiple function ICs on the ECUs. And also look at alternate multi sourcing of components on the ECU front. And with the short term and medium-term actions in place, we believe that, as I did mention, the worst is behind us. We believe, for the short and immediate term, we've solved to a very large extent the constraints that we sit with and going forward with the improvement in the supply of semiconductors, we believe we will be able to get some operating leverage out of this into our financials with volume growth. With that, let me hand it back. Now let me hand it to Manoj. Manoj over to you.

Manoj Bhat: Thank you, Veejay. So quick snapshot of the numbers before we go into Q&A mode. We spoke about this overall revenue at 15,239 crores a growth of 8% led by Auto and both Rajesh as well as Veejay talked about it, in terms of the sector doing really well. On the EBITDA front, while this quarter has been impacted by the material cost and partially because of the supply constraints. Going forward, we do see stability, and there is some positive signs around the stability on material costs. And that should be able to in conjunction with what Veejay said, be able to create some margin levers going forward.

If you go to the next slide, please. At the PAT level, before EI translates from the EBITDA picture, where there is a decline of about 22%. At the after EI level at the standalone there are there is no EI this quarter. In quarter three FY21 we had some EIs as part of our capital allocation actions. So the 1353 number, which is the part after EI for quarter three is a normal number without any EI for the quarter. If we look at the kind of the waterfall from last year, same quarter to this quarter, clearly both farm and auto have shown a decline in absolute terms because of commodity cost pressures. And also because of some of the supply constraint, especially on the auto side. On the group companies performance has been about flat at a standalone level. And this is not the consolidated picture, this is just a pickup we have for various things like dividends and so on and so forth.

Moving to the next slide. At a consolidated level, again, auto leads away with the 16% growth. As we spoke, this is coming across both domestic and export markets. Both markets are doing well, with great products and more products coming in the pipeline as we go forward. Farm at a consol level, there's a growth because the export markets have done well. And our international operations have done well in terms of revenue. And in group companies we are seeing growth across multiple areas so our Hospitality business, our Steel processing business as well as some of the other businesses like Logistics have done well, which is contributing about 8% growth at the consol level.

At the PAT level consolidated, a growth of 28%, which is a very significant kind of growth in terms of profits to 1798 crores and at a PAT after EI level, it's a growth of about 57%. This quarter, we have had positive exceptional income, largely because of funding round in one of our investee companies, which is Porter. And as we had disclosed last quarter, Porter has a post money valuation of 500 million, as part of that about 100 million was infused into Porter. And this is the dilution effect and a pickup of that into our numbers. So that is causing this positive EI during this quarter. If I look at the walk forward, clearly while Auto and Farm we spoke about it, but in terms of the group companies, about 819 crore positive swing from quarter three last year to quarter three this year. And largely because of the Mahindra Finance business, a large proportion of this is coming from there because it was in a position where there was a negative profit last year, same quarter to a positive number this year. And that accounts for most of this swing as we look at it. So, effectively the other group companies have also done well but the majority share is Mahindra Finance. With that, we have come to the end of the presentation and over to you guys for questions. Back to you Sriram.

Sriram Ramachandran: Thank you. So participants please note that, today we do have a hard stop at 2:55. So therefore I request everyone to stick to your questions, as short as possible and stick to earnings call related questions as much as possible. With that the first question is coming from Jinesh Gandhi of Motilal Oswal. Also one more request, participants please muting and unmuting will be done from our side. You don't have to mute so that in case you need to ask an additional question you could do that, clarification. With that Jinesh, go ahead with your question.

Jinesh Gandhi: First couple of clarifications. One is on this Scorpio launch timeline. So is it on track for fourth quarter launch and second clarification on the media articles about demerger of tractor business. Can you clarify on those two things?

Anish Shah: So Veejay, if you can take the first one, I'll take the second one after that.

Veejay Nakra: We are looking at the launch of the Z101 towards the start of quarter one of F23. Largely because of some of the impact on semiconductors, but by and large on track. So it's not a major slip, we spoke about quarter four, couple of months moving ahead into quarter one of F23.

Anish Shah: And Jinesh on the second point I know there has been a lot of speculation. So, while I will say that we will continue to look at all options to unlock value and everything's on the table. We are not looking at a demerger of the Farm business at this point in time, we may consider a spinoff of the Farm Implement or the Farm Machinery business, because that is one where we see a huge potential for growth and it may require a very different mindset in terms of driving that growth which can actually be a 10x growth in the next three to five years potentially even more. But that again is not finalized as yet and that is something that we will announce as soon as we finalize but that is only for Farming implements or Farm machinery, we are not looking at demerger of the Farm business right now.

Jinesh Gandhi: Right. And second question pertains to Mahindra Group has applied for PLI and ACC batteries. So are we going alone in this, or are we are we having any partner and what kind of capital allocation do we plan for this. Thanks.

Anish Shah: So it is very unlikely Jinesh that we will go alone in this. The EV space still has a long way to play out. I've said earlier that we are likely in the first five or 10 overs of a test match. And what we're looking at is how is battery technology evolving, who are potential partners that can come in and once we have all of that in place, then we will look at how we take that forward. So at this point in time we do not have full clarity on that but as soon as we do we will share that.

Rajesh Jejurikar: I just want to add to that Anish, in no scenario will we be taking a majority in setup. It is a potential play that we are considering depending on scenarios but we don't intend to lead that.

Sriram Ramachandran: Thank you Jinesh. The next question is from Pramod Kumar of UBS.

Pramod Kumar: Just a question on Auto Sector, the order backlog of 150,000- 55,000 is great, it tells a lot about the customer expectation from the product lineup and excitement. But the waiting period is too long, at the current production run rate, it's well beyond five, six months, which is never healthy thing. So what are the plans on production ramp up if you can quantify by when do you expect to hit milestones like 25,000 or 30,000, in terms of monthly production run rates for SUVs, that could be really useful for us to model in because the order backlog is great but we don't know what to do much on a quarterly basis with that, because we don't know the production trends here. So if can just help us understand the milestones and especially given that Scorpio will come in, I'd say it's one of your best, I'll call it the best brand for Mahindra in the SUV franchise, and still going very strong after 20 years. So expect great numbers on that product as well, that will only make your order book even larger and the waiting period longer. So if you can throw some light on the plans on the production side, and linked to that, is there long enough runway on the margin improvement side for automotive. Because the volume runway clearly looks pretty good at this point of time. But, if we can make some comments on directionally where do you aspire the margin should be given the strength of the product portfolio, and the fact that you're practically not facing much of competition. It's a very, very strong niche where you're operating with the new lineup. So those comments will be very helpful Rajesh and Veejay, and Anish as well.

Rajesh Jejurikar: So, Pramod just trying to stay with our general philosophy of not giving specific guidance on volumes. Veejay, will talk more about multiple things that we're doing to the semiconductor situation, the situation has improved dramatically over the last quarter. And we would start seeing a very good move in the direction of the numbers that we are expecting**.** I am going to at the moment avoid giving you an exact timeframe, because we keep seeing also a lot of volatility, but the way things are looking, it's not too far. Veejay.

Veejay Nakra: Two things. One, you're absolutely right, that the waiting period is probably not very healthy, especially on some of the brands and more so on particular variants. But, just in perspective, if one looks at any successful well performing SUV brand in the market today, the general waiting is in the period of four to six months, because there is a significant impact that cuts across the industry. But anyway having said that, a couple of things on the semiconductor front that we've done. And like I said, first let me talk about the short term and immediate term, what we've done as a result of which we are already seeing the benefit already in the month of February, which is why Rajesh said that while we are not looking at giving a guidance, we have very high degree of confidence of getting to the kind of numbers you spoke about. So firstly, Malaysia was the biggest constraint that we kept talking about from the particular IC that we were sourcing from as a single source. We've already debottlenecked that by looking at multiple other sources. Not only that we've taken the fungibility of that across our brands. That's one thing that we've done in the immediate short term.

Second, as I did mention sourcing of ICs from the open market, that too has helped us in a very big way. Number three, we've also looked at alternate sources for ECU. All of these are beginning to already show benefits because these were actions that we kicked out in the last three to four months. The other thing that I'll talk about, which is on the product development front which is when we moved to BS6, with the shift and advent of technology, there was a bundling of a lot of complex functions onto a single ECU. And that coupled with a single source is what led to the kind of complications we've had on the supply chain side. But with all that I've spoken about so far in the short term, and now unbundling these complex actions on single ECUs with a combination of all these actions with have #A, de risked the supply chain going forward. So in the event of similar kind of crisis that comes up in the future, we have debottlenecked that and taken care of that, and at the same time, ensured that we've solved for the short term starting February, and resolving for the medium term as we get into quarter one of next year. So, all these actions put together will get us to the kind of numbers that you were talking about shortly.

Pramod Kumar: Second question was on the margin front

Rajesh Jejurikar: So, I'll take that Pramod, we clearly are seeing a strong upside in auto margins over the medium term. These will be led by three things operating leverage kicking in, the impact of pricing of new products as they stabilize because clearly we've seen when we have successful launches we build margins over a period of time, and a very structured cost reduction program that we have both on material cost and on other cost. So, with all of these we believe that in the medium term we can get a margin upside of about 3% from where we are at the moment. So we are pretty optimistic about the margin upsides given the strong demand momentum and focus we have on cost.

Sriram Ramachandran: Thanks, Pramod. Next is Gunjan from Bank of America.

Gunjan Prithyani: Two questions from my side. Firstly, on the auto business extension to what Pramod has asked, what you point out is technically supply chain constraints easing but if I look at your slide #27, where you put the sustainable run rate, monthly run rate you are seeing across models. This is almost double of what we are producing right now, for most of the models. So what is it beyond the supply chain we are doing in terms of capacity ramp up for some of these models, from what I understand both for XUV700 plus the 300, the capacity is much lower than the run rate you are seeing, so some perspective in this case, relooking at the capacities for these models as well?

Rajesh Jejurikar: So, Gunjan answer is very similar to what we gave Pramod unless Veejay you want to add something else.

Veejay Nakra: So, Rajesh I'll just add that capacity planning is a standard process in the organization and as we, the whole budgeting process takes the future into consideration. And it's a cyclical process of every time, visiting capacity planning well in time to ensure that capacities don't become a constraint. So that's ongoing and in some of our previous calls, we've also mentioned about ramping up of capacity of certain products, and all of them are well on track.

Anish Shah: I'll just add Gunjan that, in this case the demand has been far higher than what we have expected, having a 100,000 bookings, for the XUV700 already. And having 50,000 in the first three hours, was unprecedented. It really is a global record and that has caused in some cases, greater waiting period. We are putting in more capacities to meet with that, but the capacity ramp up realistically cannot be as fast as that.

Gunjan Prithyani: Sure, got it. That's the concern sometimes come to is that there is such a big wait period and I know that people are waiting, you have given a wait period of 18 months, which kind of worries would people wait that long but, it's good to see that response.

Anish Shah: And Gunjan, just missed on that, I would say that, in some ways it's a good problem to have to have such a huge demand. But we do need to deal with that problem as well.

Rajesh Jejurikar: Gunjan just an add on, the cancellations so far are at the rate of 10%.

Anish Shah: So not too many cancellations.

Rajesh Jejurikar: Not too many cancellations and the 70,000 open booking includes the correction on cancellations, its post cancellations.

Gunjan Prithyani: Okay, got it. The second question is on the farm business. I won't ask you for F23 outlook, I know you won't share it yet, but at least from a margin perspective, can you just some more sense on, what are the kind of price hikes so, is there a case to take price hike that given the ones we have already seen. So, how should we think about the margin trajectory and also if you want to revisit the F22 industry guidance?

Hemant Sikka: Gunjan let me take that, so you would recollect the numbers from last year, last year the industry was at 900 to 1,000 with a growth of 27%. So, this year with all the interplay of factors that we are saying the industry still will do very well. But compared to last year, which is on a very, very high base we are expecting the industry to de-grow this year by 6%. And in terms of the margin, we have always said that we will maintain the best in class margin, we always give a range of margin from 17% to 19%. And we will play within that range. We have taken a price increases through the last six quarters. And we believe the last price increase was also taken on 1st of December, as recent as that we believe that the commodity inflation for FY23 is looking benign. That will give us a better room to improve our margins, than an immediate price increase. However, if the price increases are warranted, we will surely take that at the right time. So we are watching this space very carefully. And any opportunity which comes we will look at that.

Sriram Ramachandran: Thank you, Hemant and thank you Gunjan. The next question is from Kapil Singh of Nomura.

Kapil Singh: Firstly, I wanted to check on the price increases, what is the average price increase we have taken across businesses. And is there further cost pressure that you'd see in in the current quarter?

Rajesh Jejurikar: I'll take that Kapil. So, commodity outlook is benign at the moment, we expect prices to be stable, not yet seeing a downward trend, but downward trend will kick in over the next 18, 24 months not sure when that will happen. For the moment we are assuming a benign commodity price outlook. On the tractor side in F22 we fully passed on all material cost, there is some backlog of F21. On the auto side, we are ahead of what competitors have done by way of price increases, but we have passed on approximately 7.5 or 8 out of the 17% point to point material cost increase. So, there is an unrecovered gap on the auto side even though our price increases are faster than competition. So we will have to do a combination of cost, price increases and hoping for commodity prices to come downward which we think will happen over the course of the next year.

Kapil Singh: I was also actually looking for to the price increase that we have done in December or January the average price increase in auto and farm?

Veejay Nakra: Auto took a 2.5% increase in January over and above the price increase that we had taken during the course of the previous quarters.

Hemant Sikka: Tractor business took a 2% price increase on 1st of December.

Anish Shah: You may have this already but in addition to that, the XUV700 as you know had price increase after the first 25,000 and increase after the second 25,000. So as we come close to hitting that number of first 25,000. We start pricing higher for the next round of deliveries and similarly, the Thar went through that as well. So we are effectively pricing higher for the Thar today than we were a few quarters ago.

Kapil Singh: Sure. Second, I wanted to check on the timelines for electric vehicle launches, we have heard about E-KUV and E-XUV. Broadly, I'm not looking for exact timeframe, but broadly are they both in FY23 and also what is the cost impact of CAFE norms for particularly for diesel or petrol segments for you, how well are you prepared to handle those. Thanks

Veejay Nakra: Rajesh you want me to take that?

Rajesh Jejurikar: Yes.

Veejay Nakra: Okay. So on the CAFE front, we are prepared and we will meet the CAFE norms based on the combination of diesel, gasoline and the launch of the E-XUV300, which happens next year so that this also in a sense answers that question of yours. From a broad time perspective it is scheduled for launch towards end of quarter three, quarter four of F23. I hope that answers your question.

Kapil Singh: I was also looking for the cost increase for diesel because of CAFE two norms?

Rajesh Jejurikar: I think it's in the region of 10,000.

Veejay Nakra: It's varies from model to model, but it's in the range of between 8 to 12 so as Rajesh said it averages out.

Sriram Ramachandran: There are a few more questions, but we are hitting the 2:55 time mark. I'm sure there are more opportunities for us in the next coming weeks to meet at different forums. So we could continue to answer your questions. At this point of the time we have to close the conference here. Thank you everyone for joining the call and we look forward to meeting you again in near future. Thank you Dr. Anish, Rajesh and Manoj, Hemant and Veejay.

Anish Shah: Thank you everyone for joining us today. Have a nice day.

Hemant Sikka: Thank you.

Veejay Nakra: Bye everyone, thank you.