"Mahindra & Mahindra Limited Q3FY12 Results Conference Call"

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Amit Kasat Good evening, everybody, I'm Amit Kasat from Standard Chartered Securities. On behalf of Standard Chartered I welcome you all to the Third Quarter FY12 Post Results conference call of Mahindra & Mahindra Limited. Joining us on this call is the entire senior management of Mahindra. Now, I would like to hand over the floor to Mr. Chandrasekar for his opening remarks.

Dr. Pawan Goenka: Thank you, Amit. Good evening, gentlemen. The presentation will follow format in which Mr. **V.S.** Parthasarathy, who is the Group CIO & EVP, Group Mergers & Acquisitions, Finance and Accounts and Member, Group Executive Board will make a presentation on the financials, followed by Dr. Pawan Goenka, who is the President, Automotive and Farm Equipment Sector & Member of Group Executive Board. Other members of the team will support them during this call. And right now I hand it over to Mr. Parthasarathy to take it forward. Partha?

V.S. Parthasarathy: Good evening. It is quite late in the evening, so I am thankful to all of you who are in the call, especially from overseas where it must be even more late. So, let me start without much ado. We are going to talk today about the third quarter combined results of M&M and MVML. MVML, as you know, was set up to be a 100% subsidiary with a view to sourcing contemporary products for expanding M&M's market offerings. Hence, it is a critical part of our business and only the combined results of M&M and MVML will provide a comprehensive view of the company's performance. You would have seen that this time we have given prominently in the 'Press Release' and also provided in almost the Stock Exchange like format, the combined line-by-line M&M and MVML which we have put up in the web site and also the segment results of the same. This is our positive response to suggestion that we have received from analysts and investor community.

Before I go to the financials, some broad macro context. Growth projections overall in global US, Euro and Asian economies have been revised downwards both for Calendar Year '12 and '13. In India, for the Financial Year it looks more like 7% as the GDP growth versus the earlier projection of 7.5%. Apart from this there are strong adverse externalities; pessimism on certain financial markets in India on account of industrial and rural slowdown; export tapering off, government borrowings and policy tardiness. However, some of the revisions which has happened in the recent past gives us some good hope mainly on account of the FIIs inflows which have happened in the past few weeks. There are also some concerns about the rural slowdown.

What I am very happy is that even under this very challenging circumstances, your company has shown a revenue growth of approximately 34% in this quarter from Rs. 6,728 crores last year to Rs. 9,000 crores this year. This revenue growth is in the back of Auto volume growth of 30% and Farm Equipment growth of 12%. Exports have also grown significantly but I will let Dr. Goenka detail it out. Coming to the profit after tax, the previous year we had one exceptional item which I first want to deal with it. We had about Rs. 117.5 crores of profit through disinvestment of shares of Owen Corning. If we take that exceptional item off, then YoY, our profit of this quarter is Rs. 706 crores show 16% growth vs previous year of Rs. 608 crores. The annexure to the press release which is available on the web site will give you more details line-by-line. Our operating margin for the quarter for the combined entity is 13.8%. The previous year figure for the same quarter last year is 15.8%, which is a drop of 2%. However, you have heard Mr. Phadke and then Dr. Goenka talked to you in the previous quarters about how even if we are able to pass on the entire price increase, whatever the cost increase was, then based on numerator/denominator impact, the margin impact will be more than 2%. So, the margin reduction that you see is mainly because of this phenomena and it has been offset by operating leverage mainly on the employment cost and other expenditure.

This is for the quarter results. On the same basis that I have mentioned you will find the cumulative financial as well which again shows a healthy top-line and excluding exceptional item, a reasonably profitability. I would also like to mention that before handing over, all the financial ratios of the balance sheet as well as the P&L poses a very robust position for the combined entity of M&M plus MVML. Thank you.. And now I hand over to Dr. Goenka for giving a detailed perspective on the sectors.

Dr. Goenka: Thanks, Partha. I will first talk about the Automotive sector. Automotive sector in terms of overall sales performance for the third quarter has had an excellent result, as you probably have seen from the press release that we had a growth of above 30% plus when the overall industry growth in the quarter has been only 3.5% and therefore, we have significantly outperformed the industry. And even at these growth numbers, there are many of our products are right now hand-to-mouth where we are selling pretty much everything that we can make.

The highlight for us for the quarter clearly was the reception that XUV 500 has got. We had launched that product just at the beginning of the quarter and we have now completed four months and during this time we have manufactured more than 9,000 vehicles and have now waitlist of 2,500 booking plus applications that we have just closed three days ago where we have received more than 25,000 applications. So, that product is doing very well. The other good news for us is there was always a concern that will XUV eat into the Scorpio sales and the fact it is Scorpio is becoming stronger and stronger and we have had the strongest nine months for Scorpio in these nine months since the time we launched Scorpio way back in 2002. So, overall, all our products in the auto sector are doing well. Good volume growth and a good demand pull in spite of some signs of slowdown, very good demand pull for all the products in Auto segment.

On the Tractor side, the industry had slowed down a little bit compared to what we had in the first six months where growth in this quarter was about 12% - 12.5% and our growth was about same in the industry, margin lower 11.7% as against 12.7% for the industry. There are some signs of concern. So 12% growth is not a bad growth for the Tractor because we have always been seeing that that's kind of growth number that we should be having in the Tractor industry.

We will actually leave time for Q&A. I can talk more about specific things but I will wait for the Q&A and get into area that you are interested in. One thing I do want to point out is the growth in export numbers both for Auto and Tractor and once again we have had a very good growth in export numbers. Where in Auto, we saw a growth of 51% YoY for third quarter and sold 7,500 plus vehicles during the period and similarly, in Tractors, we saw a growth of 23% for export, selling more than 3,800 Tractors during this period. So, with that I would stop here and then go into Q&A.

Moderator: Thank you. We will now begin with the question-and-answer session. We have the first question from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: My first question relates to the Tractor and Farm Equipment segment. Just want to understand the last three months have been fairly flattish in terms of volumes. So, what is giving the confidence that growth will come back to 8-10% in the next financial year? And also, the capital employed in the segment has increased a lot from last year. So, just want some color there. Also, if you can add something more on inventory levels and demand pull that you are seeing right now?

Dr. Pawan Goenka: I do not know if it is a one question, but I will try and answer parts of this one question. First of all, last three months clearly have been signs of slowdown for the Tractor industry in India and coming down from a growth of as much as 20%, 30% till October. In November, December, January, the average growth has been I think 3%, 3.5% for the industry. And as I said earlier that this is bit of a concern for us. When I said quarter being 12%, that was October-November-December. October was very high growth month. November, December was low growth and that is the reason quarter averages 12%. If I look at November, December, January, then the growth is at 3 or 4%. So, the slowdown that we have seen in the last three months after Diwali season. And now, we know the reasons for this slowdown including interest rate, including the farmers' realization of output because of very high or very good farm output. Also, the higher increase in the input cost for the farmer and very high labor cost. So, all of these have contributed to this relative slowing down of the Tractor industry. We think that February and March would probably be along the same line. We might see a growth of 0-5% in these two months and starting April which is the beginning of the season for Tractor, if the monsoon forecast is good at that time, then we would expect to see going back to 8-10%. I do not expect to see double-digit growth in the Tractor industry for Financial Year '13 but 8-10% will be a good realistic number to target for the growth of the Tractor industry which is the same number that we had targeted for the current year also and we will probably end up at about 14%, 15% for the whole year. Inventory wise, there is no issue. I think the Tractor industry had burnt its fingers many years ago in 2003, 2004 timeframe where it had become disciplined and to the best of our knowledge none of the manufacturers have any major inventory, so there is always a month-to-month variation here and there. But I do not see any systemic issue with inventory. Our inventory is at comfortable level. We typically try and maintain three weeks to one month of stock at a dealership and similar three weeks to one month stock in our own stock yard in plant and that is roughly the level of inventory that we would have right now in the Tractors. Our capital employed has gone back because of two reasons; we have the new plant that we are working on in Zaheerabad. This is after a long time that we are setting up a brand new plant in Tractor. And reason we need it obviously is that we have fully utilized the capacity of our existing plants in Kandivli, Mumbai, in

Nagpur, in Jaipur, in Rudrapur and in Mohali. And therefore, now we are setting up this new plant and where there is investment and clearly, this investment will bring back returns after the plant starts operations. And second is that we are working on some significant new product development to upgrade our line of products in the Tractor offering that we have and it is a high investment in that. So, in the last two years we probably have invested more in the Tractor business than we have in past several years and that is the nature of the industry as its changing and we think we need to upgrade capacity and we need to fully revamp our products.

Kapil Singh: Secondly, on the cost side, what is that that you see now for the current quarter vis-à-vis the quarter that ended? Because the company has taken some price increases in the beginning of the year. So, can we expect the margins to stabilize for even to improve a little bit from where they are?

Dr. Pawan Goenka: It is difficult to answer a question. First of all, we will not make forward-looking statement on the margin. But it depends on what happens to the commodity prices during this quarter. There has been a little less pressure on Commodity prices in this quarter starting about mid-November, December but yet they have not started going down, still they are going up. The price increase that we have taken is reflecting the cost increase that has happened in the previous quarter. So it is not like taking advance price increase. And therefore, if there is no input cost increase then you will not see a very large increase in April, May timeframe but this increase has taken care of previous quarter increase.

Kapil Singh: And lastly, if you can also tell me which are the products beside XUV 500 that are seeing a strong demand pull?

Dr. Pawan Goenka: We do not go product-by-product because if I tell you which is in a strong demand then you will know which is not in strong demand, which we cannot do. But I have told you that Scorpio continue to be in very strong demand because that was a big concern. That is the reason I pointed that out, there was a concern that XUV will eat into Scorpio sales and as I had said Scorpio has had the best nine months since its launch. What I can tell you without naming the product is that there are only two, three products in our portfolio of dozen plus products where we can supply as per demand. All the other products we have shortage of supply. By shortage I do not mean that we have 10%, 15%, 20% short, but there is some shortage of supply in all the other products. We are constantly increasing capacity. And the fact that we had overall for the nine months about 28% - 29% growth against industry that has grown in single-digit means that we clearly are aggressively pushing capacity to be able to meet demand.

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

Jinesh Gandhi: A couple of questions; one is, can you share MVML volumes and second, can you quantify price increase taken in Jan?

Dr. Pawan Goenka: MVML, as Partha said earlier is a very integral part of our overall M&M performance, because MVML is 100% subsidiary of M&M and basically it is production arm, manufacture arm of M&M. The volume in MVML is growing very rapidly. In the last quarter we made about 33,000 vehicles out of Chakan and for the year we have made about 75,000, that is for nine months out of Chakan. So right now the run rate is 11,000 plus vehicles roughly per month which is constantly keep going up has increased the production of XUV out of Chakan. You will recall that we had talked about an overall capacity potential of Chakan without too much further investment of 250,000 vehicles and 70,000 trucks, that is 320,000 vehicles with 11,000 we are at 132,000 capacity utilization, that means we are still using about half of potential capacity that Chakan has and therefore, for some time to come we will be able to keep increasing volume without making a significant investment in production capacity. Regarding your second question, we have taken between 1% - 2% price increase in the month of October and another 1% - 2% price increase in the month of January. Obviously, we have taken a larger price increase in XUV where we have taken up to Rs. 55,000 price increase for the high end and Rs. 35,000 for the low end, so that will translate to in the like 3.5% for the high end.

Jinesh Gandhi: And this would be in both Autos and Tractors, 1% - 2%?

Dr. Pawan Goenka: Yeah. October and then January. XUV being more than 3%.

Jinesh Gandhi: And one last question on this reversal of Forex loss for first half, that has been adjusted in 'other expenses' or where it would be?

V.S. Parthasarathy: That would be in 'other expenses' and it is a figure of Rs. 3986 lakhs, that is the impact you will see on the 'other expense' line.

Jinesh Gandhi: And lastly, any update on sales tax negotiations with Maharashtra government?

Dr. Pawan Goenka: I guess it is not much of a negotiation, it is a question of putting our case forward and for the government to make a decision on that. We have been advised by the state government that they are working on a solution that would work both the state and for the companies. Of course, frankly, we have been hearing that for some time now and I hope that they would come to that conclusion quickly. We do have concern from our side, that it is not just a question of the money that we are losing in incentive, also, we are not able to make a decision on the next phase of investment. Because next phase of investment very much will depend on what the final resolution is and we are more or less ready with planning for the next phase, but we need to wait for this decision by the state government. So, it could happen as early as next couple of weeks, but then again it is not in our control and we do not have any surety of that.

Moderator: Thank you. The next question is from the line of Harsh Mehta from Shah Investors. Please go ahead.

Harsh Mehta: Your excise duty was lower in Q3FY12. Is it because of higher contribution from Chakan plant?

V.S. Parthasarathy: Can you tell me which paper are you referring to?

Harsh Mehta: The press release. The Standalone one.

V.S. Parthasarathy: I would urge you to look at M&M plus MVML result, it is why we started by saying it will reflect. I will give you the answer for this question and again, that will tell you why you should look at the consolidated result. M&M is buying from MVML, it comes as traded goods into M&M books. So, therefore, all the material cost which is there for M&M will be the sale price of MVML. So, the excise duty seems artificially reduced and the cost is sitting as material cost. But if you combine M&M plus MVML result which is given, you will see that it is much more.

Harsh Mehta: And the other part, what will be the contribution from Chakan plant going forward? Will it be around 25% as stated earlier?

V.S. Parthasarathy: Contribution in terms of volume terms?

Harsh Mehta: Yes.

Dr. Pawan Goenka: Contribution of Chakan plant will keep increasing. Right now, like I said last month we did about 11,500 vehicles out of total of 44,000 vehicles that we sold that is about 25%. And all the future growth in volume will mostly come out of Chakan because Kandivli, Nasik, Zaheerabad and Haridwar plants are full capacity, therefore all the growth will come out of Chakan.

Moderator: Thank you. The next question is from the line of Sahil Kedia from Enam. Please go ahead.

Sahil Kedia: If you can elaborate on the point that you mentioned right now with respect to the accounting treatment for Chakan, would it be fair to assume that as the capacity production of Chakan goes up, the raw material impact that is being seen on the standalone books will continue to kind of go up and as a result profitability in the standalone books will actually start to come down?

V.S. Parthasarathy: First and foremost is that in the standalone books, we will continue to make the kind of margins that we make today, so therefore, there will not be a change. But in terms of the traded goods as a proportion to manufactured goods would change based on what comes from MVML. Hence, back to our point once again, we want to emphasize, therefore look at M&M plus MVML and once again for everybody I want to state that this time, almost like the Stock Exchange format line-by-line we have given both for the quarter and cumulative, figures for combined MVML and the corresponding figures last year including the segment results.

Sahil Kedia: Would it be possible to share the debt levels on MVML books?

V.S. Parthasarathy: Yes, it will be possible to share them. If you look at the segment results again, if you see the capital employed for Automotive sector is given, that would include both the M&M capital employed as well as MVML capital employed.

K. Chandrasekar: Rs. 1100 crores.

Moderator: Thank you. The next question is from the line of Jamshed Dadabhoy from Citi Group. Please go ahead.

Jamshed Dadabhoy: Just to get back to this MVML point, just two, three clarifications; one, the data you have given is net of intersegment transfer?

Dr. Pawan Goenka: Yeah.

Jamshed Dadabhoy: Secondly, this includes Navistar?

Dr. Pawan Goenka: That is another complication. That is why it becomes little difficult to understand the actual finical performance of the company. What happens is that the Navistar Trucks which are sold by MVML to MNAL are not part of M&M plus MVML result. So, the top-line of the Navistar truck comes into MVML because we are selling fully built up truck but the profit that is there on this truck is split between MVML and MNAL. So the full profit will not show up in the MVML plus M&M book, because part of it will go into MNAL. But the full top-line will show up, because the trucks are sold as a complete unit from MVML to MNAL. So, if you consolidate everything together then you have to include MNAL but then you have to include MNEPL also, so that gets pretty difficult and therefore we are staying with MVML plus M&M.

Jamshed Dadabhoy: My question is actually what is the profit contribution of MNAL --?

Dr. Pawan Goenka: That we will not tell you. What we can tell you is that in the top-line, roughly –

Jamshed Dadabhoy: That is okay, sir. But I just want to clarify that the MNAL profit is included in this unaudited –

Dr. Pawan Goenka: Not MNAL profit, profit of MVML is supplying trucks to MNAL.

V.S. Parthasarathy: What happens is MNAL is a separate legal entity and it will have its own margins. The conversion cost margins sits in the M&M plus MVML book which is not significant at this point in time.

Jamshed Dadabhoy: So the third question related to this is that MVML also has some financial incentive which it gets, like Rs. 70 – Rs. 80 crore, if I remember correctly, which is recorded in the MVML's books, is that also reflected in these numbers?

Dr. Pawan Goenka: The way it works is that the agreement that we have with the state government is that there is a consortium of MVML, MNAL, M&M and MNEPL. So, the incentive that is coming in is distributed between these four companies. So, everything is given by the state government to MVML and MVML then distributes it to these four companies on a formula that we have agreed to part of the agreement that each company has with MVML and that is in relation to investment that each company has made into this facility that we have in Chakan. So, the portion of the incentive that belongs to MVML is in the MVML profit, some portion of incentive is given to MNAL, that will not be in MVML profits, some portion of incentive is given to MNEPL which is not part of MVML profit and some portion is given to M&M which will be in consolidated M&M plus MVML.

V.S. Parthasarathy: It would have also be that in the standalone results of –

Dr. Pawan Goenka: Standalone we have only the M&M portion and combined we will have M&M plus MVML .

Jamshed Dadabhoy: Sir, can you say how much this is on a quarterly basis? Because if you look at M&M plus MVML, your margins will be higher partly due to this benefit.

Dr. Pawan Goenka: I want to make one thing very clear this benefit is not something that is a one-time exceptional item, very much part of the business case that we have prepared, we would not have done this plant, we would not have made this product, we would not have sold these products if it were not part, because of this incentive. Therefore, to separate that out from the OPM is not right, it is part of the overall business proposition that we have for this product. So it does not matter whether it is a 0.5%, 5%, 10%, 20%, it is part of the overall business case for these products.

Jamshed Dadabhoy: And this benefit last for how many years?

Dr. Pawan Goenka: This benefit last till we run out of whatever the state is supposed to give us.

Jamshed Dadabhoy: So, that is equal to --?

Dr. Pawan Goenka: That depends on what the state decides finally. The whole **d**isagreement the state right now is on that. We had done the business on the basis of certain assumptions where the state government had a different view and that is a whole stalemate that we have at this stage.

Jamshed Dadabhoy: So even this MVML benefit is subject to the same legislation?

Dr. Pawan Goenka: That is correct.

Moderator: Thank you. The next question is from the line of Gaurav Agarwal from Irevna. Please go ahead.

Gaurav Agarwal: My question would be on your Automotive segment margin, M&M plus MVML. While your top-line has gone up on QoQ very significantly, our PBIT margins has come down from a 1%1 to 10.1%. So, could you please elaborate on the reasons?

V.S. Parthasarathy: Conceptually, first I wanted to say what Dr**.** **G**oenka has said in the earlier quarters as well when this question was asked. In a scenario where the price increases are happening, the material cost goes up. And if we pass on this price, as price increase, exactly the Rupee amount the material cost increases, then the margin still erodes by 200 to 250 basis points.

Gaurav Agarwal: It is because of the –

V.S. Parthasarathy: Base effect. That is fundamentally. It is not to say that there are no other impact, there will be mixed impact also. But I am just saying that is predominantly a big reason in the numerator/denominator impact.

Gaurav Agarwal: And second thing would be on your standalone tax rate. If you could just, why the tax rate has gone up and what could be the average tax rate for the year?

V.S. Parthasarathy: The first and foremost is that the tax rate which is about 25.5% is based on some factors which is in terms of what is the weighted deduction of R&D, incentives that we get from the plants in Rudrapur or Haridwar, etc. So this is the marginal rate increase that I have seen between the years. And the third one is always dividend income. Just to complete that difference between standard rate and what rate we get. This on a YoY basis have gone up marginally because there is one element of ESOP amortization that is there which we have explained every time that Rs. 27 crores sits in actually personnel cost, or employment cost, staff cost. Therefore, that will account for some part of the percentage increase and that is fundamentally the difference that we could see between the rates.

Gaurav Agarwal: So average tax rate would be around 27% -?

V.S. Parthasarathy: I always believed my predecessor as well as Dr. **G**oenka that we will not give any forward-looking statement. Please conclude your own --.

Dr. Pawan Goenka: I want to go back to the first question and just elaborate a little bit more on what Partha has said. The operating margin is coming from several factors. The first is how much is material cost increase, second is how much of we are able to pass on to the customer, third is numerator/denominator effect that Partha talked about and just to give you some calculation, if the material cost goes up 5% and if we pass on the whole 5% as is, our margin will come down by 1.2%, how sensitive it is to that number. The fourth factor is the model mix that we have. And clearly, in different quarter depending on which is the product that we are selling well or not so well, the model mix also gets changing. So, all of these things Partha talked about. What he did not talk about was the fifth factor which is the cost that we incur in our operations in terms of personnel cost, the conversion cost, the selling cost, R&D cost and all of that we have. So, if you look at the sheet that we have distributed for M&M and MVML, you will see that our employee cost has come down from 5.9% to 5.78%, our depreciation and amortization is remaining the same, 1.9%, 2.01% in spite of very high investments that we have made in the last couple of years. Our other expenses have come down from 10.33% to 8.61%. So, to a large extent we have offset the numerator effect by these factors of reducing the, what we call "internally system cost." So I just wanted to point out that there is very significant cost control that we have within our own operations to compensate for the material cost increase.

Moderator: Thank you. The next question is from the line of Chirag Shah from Emkay Global. Please go ahead.

Chirag Shah: My first question again pertains to MVML. If you could just help us understand why there is a huge difference in excise duty, how does it work? Because there is some 200 crores difference if I look at between M&M excise duty and M&M plus MVML.

Dr. Pawan Goenka: First of all, I am very happy that there are so many questions on MVML, because we have been saying for last several quarters that please look at MVML and M&M together and clearly, this time all of you are looking at MVML figures, that is a very good sign for us. The reason the difference is like this. If I make a XUV in the Chakan plant and let us say if I am selling it for Rs. 10 lakhs, then I have an excise element of 2 lakh. I am giving you round figures not exact figures. Now for MVML, that's excise. For M&M it is traded goods. So, when M&M is buying that product from MVML at 10 lakhs, then let us say they sell it for Rs. 11 lakhs, their material cost is Rs. 10 lakhs and there is no excise set-off for M&M because M&M is trading the goods and there is no CENVAT credit available. While for one XUV while in the books of MVML there is 2 lakhs of excise, in the books of M&M, there is zero excise.

Chirag Shah: Second question was on this sharing of various incentives from state government. Is it linked to the unit produced or it is linked on annual basis or it is linked to the amount invested?

Dr. Pawan Goenka: It is linked to the VAT that we are paying in the state on selling the vehicles in the state and is tied to the total investment that we are making. So two factors; the total investment and the VAT that we pay.

Chirag Shah: But the recognition that you would be doing and the distribution that would be happening, it would be happening based on a number of units produced or --?

Dr. Pawan Goenka: Number of units has nothing to do with it. It is only VAT and the investment.

Chirag Shah: One more question I had this, there has been on and off various rumors coming on M&M interest in SAAB. Can you just clarify your position? Because what I understand your intention has always been on the UV side, your aspiration.

Dr. Pawan Goenka: If you have seen all the media reports where we have said "no comments" and it is still at "no comments".

Chirag Shah: And the last question was on Tractor. You highlighted that things looking slightly difficult as of now. Do you see a scenario of price war or pricing pressure coming in at the industry level given the kind of capacity that everybody is putting up in next six months to nine months?

Dr. Pawan Goenka: I do not think that will happen. The reason I am saying that if you go back to the last six, seven, eight years, there has been always, every three, four years you will see a downturn in the Tractor industry. Tractor industry is like that, where it is going to grow very rapidly for two years, it will be flat for a year and then perhaps drop for a year or so and then again start growing. So if you go back to the years when there has been a decline in the industry you have not seen a price war ever. Because everybody, while they are trying to use the capacity they also want to protect their margins. If you look at the profitability, there are only two tractor companies that report their profit. Mahindra & Mahindra and Escorts. If you look at profitability, in fact, we are in a pretty healthy situation where our profitability is much higher than that of Escort, that is the only company that we can compare with, but of course, we have our own internal assessment over there, but that we cannot talk about, and therefore the ability to do a price war is not very high for companies like Escort, because they are already on a very thin margin and that is the reason I do not expect a price war to happen even if there is idle capacity. But then, again, I am just talking based on past history.

V.S. Parthasarathy: But even the maturity of the players who have been there and who have been there for so many years, just going back to my experience in 2001, when the industry fell by 40%, we still did not see, so it is a good prediction of the players who are in spite of the kind of pressures, did not resort to lose - lose game so at least we can be conscious of the kind of players who exist in this industry.

Chirag Shah: Last thing was on Capex, can you just highlight what is the Capex as well as investment in standalone and as well as in MVML, how it is lined up?

V.S. Parthasarathy: I will first say what we had said last quarter. We had said that in Capex invest Rs. 5000 crores over the next three years and Rs. 2000 crores of investments totaling to Rs. 7000 crores. M&M plus MVML figure. M&M plus MVML on Capex, we are going to spend about Rs. 5600 crores over the next three years. The investment remains at less than Rs. 2000 crores, so overall the figures that we had given is Rs. 7600 crores and stands consistent with what we said last year.

Dr. Pawan Goenka: I just want to add to the figure that Partha has talked about, our figures for currently planned product plan. We are right now working on the Phase II expansion of Chakan. Fortunately, for us, the capacity that we have in Chakan will probably get full sooner than what we had planned and therefore we need to start planning our Phase II. That plan has not been finalized and therefore not yet part of the Capex plan that Partha talked about. Perhaps next result or maybe one after that we would have that finalized. Where we make the investment, depends very much on what happens with the state government decision on the incentive packets and whether we invest in Chakan for Phase II or somewhere else that will be decided but clearly, we will have investment beyond our current capacity and current product line.

Chirag Shah: As on December what would be the net debt in M&M or gross debt?

V.S. Parthasarathy: We will give you that figure. Let the next person can ask the question.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Just one question : Wanted to understand when do your Rudrapur and Haridwar tax exemptions turn out to be 100% exemption?

Dr. Pawan Goenka: There are two exemptions there; one is excise duty exemption and the second one is income tax exemption. Excise duty has 10-year life and gets over in F16 for Haridwar…F14 for Rudrapur and F16 for Haridwar and as far as income tax is concerned, there are two slabs; five years 100% and next 30%. That expires for both. And now we are in to the 30% exemption.

Sonal Gupta: So that will also expire with the F14 and F16 that you mentioned?

Dr. Pawan Goenka: No, right now if you compare like-to-like last year also we won 30%. 100% expired even a year before that.

Sonal Gupta: And just in terms of the investment that you highlighted of Rs. 2000 crores, then what is this for? Other than the Capex, what are the investments pertaining to?

V.S. Parthasarathy: The investments that we make in our subsidiary companies and new ventures. So, these are the complete investments that we have made. Let us say if we go in the past it would be investments that we have made in say Navistar or we would have made in MVML, that comprises investments. Just for the sake of clarity, when we talk about M&M and MVML it will include all other investments except MVML.

Dr. Pawan Goenka: Again, for sake of clarity, Rs. 2000 crores is something that we have earmarked. Actual investments could be higher or lower depending on what all we end up doing. For example, if we have a large acquisition, we can easily exceed Rs. 2000 crores, so that will depend on what happen in the next two, three years.

Sonal Gupta: And just wanted to understand in terms of where is this cost pressure and the margin pressure? I know you talked a lot about the base effect, but I just wanted to understand what sort of lag is there between the time the commodity prices go up and when you pass on the increases to your suppliers. So is there some timelines on that? And which commodities are you really seeing the cost pressure side coming from?

Dr. Pawan Goenka: First of all, it is not a one-to-one formula, where we say, okay, the cost has gone up today, so, 13 days from now we will increase the price. The price increase happens on a certain cycle. Normally, you will see that Auto and Tractor companies both look at a price increase at the beginning of the quarter. So, normally, you will see January, April, July and October normally as the months where price increase will be taken but not in every quarter price increase is taken. Normally, you will see price increases not more than 1% to 2.5% because anything more than that will probably create a very significant demand downturn. So, if 1% to 2.5% is not sufficient to cater to the increase in cost, that has happened in the previous quarter, then we end up with a lag and which we try and make up in the next increase provided in the next quarter the increases are reasonable. So, therefore, if you have let us say 10% increase in commodity prices in a year, it is very difficult to pass on the 10% to the consumer because then the demand will come down very significantly. If on the other hand, the increase is only 3% or 4%, then we can easily pass on 3%, 4% to the consumer. So, therefore you will see that in the years when the commodity price increase is lower like was the case in F09 and even F10, in these two years, commodity prices increase were lower and therefore our margins actually went up. Where in the years when the commodity prices increase is higher it is not possible to pass on everything to the consumer which a cycle that works both for Tractor industry as well as for the Auto industry not just for Mahindra but almost every company, at least in India. So, I cannot really talk about a lag or a lead, it is more of a what can the market bear in terms of price increase, what the competition is doing and what is our desire, and what is our need for increase in these three have to come together to decide what increase we can take. What we will try and do is of course, profitability, our margin is important but what we try and do is maximize profit so that the volume multiplied by profit is higher than if we took a higher increase and then what we have taken. For example, if I had a perfect calculator which nobody has, then I would decide at what price will I get maximum profit. So, we try and take the qualitative call that if I was to increase price another 0.5%, how much of volume come down, and will that lead to a net profit reduction. And if it leads to a net profit reduction we will not take that price increase.

Sonal Gupta: No, actually my question was on the vendor side. If the steel prices go up –

Dr. Pawan Goenka: On the vendor side, there is always a little lag in price increase and decrease both. Now, the little depends on vendor-to-vendor, there is no fixed formula that three months from now we will give an increase. With some vendors, we have an automatic formula, with other vendors it is negotiated. So, these days the lag is becoming lower and lower and because we are going more and more into not a negotiated settlement but an automatic formula because that makes life easier for everybody.

Sonal Gupta: Sir just last question pertaining, do you have any latent pressures that you still see on the commodity side for you or do you think --?

Dr. Pawan Goenka: I have been here for 19 years now and every year in 19 years I have seen this talked about latent pressure on commodity prices except for two or three years when there was a downturn and the commodity prices did not go up. But if you look at how we manage the business, in spite of that our overall margins give or take a percentage up by year, percentage down in another year, margins have remained in the low teens every year since then. I think it will continue because of the overall growth that we have and therefore higher demand for commodities in India. In fact, if you were to look at the commodity price projection in India it is higher than what it is in many other countries because even though we are not happy about 7% growth but 7% growth is still a high growth when you look at overall global average and therefore we see higher pressure on commodity prices in India than we see in any other markets.

Sonal Gupta: My question is purely from more like a quarterly sort of view like, there was a sharp depreciation in the currency last quarter. So will that have some sort of a lagged impact in the coming quarters because of that?

V.S. Parthasarathy: When last quarter some of the commodity prices were little more benign and if the dollar was at say Rs. 48 or Rs. 47, then it could have given us some benefit. Now, we are into a globe grazing exercise where we are trying to say what the dollar will be and how it do. But your point in terms of fundamentals that if the dollar rate is at that rate and the commodity prices benign there will be a tendency for it to go down, but when you are betting on many factors to happen at the same time. We will leave it to your judgment.

Dr. Pawan Goenka: They are the analysts, they can tell us.

V.S. Parthasarathy: And when you do judge, please tell us as well.

Dr. Pawan Goenka: But there is always an indirect impact exchange rate on commodity prices because commodity prices are, there is no right or wrong commodity prices, it is what the raw material suppliers that the prices add and they would always look at exchange rate, they always look at what will be the landed price if you were to import raw material and on that basis commodity prices are fixed and therefore exchange rate does have indirect effect on commodity prices.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Systematix Shares & Stocks. Please go ahead.

Rahul Agarwal: My question relates to Tractors, particularly Swaraj Tractors. I wanted to know what is related to Swaraj Tractors gaining market share from 5% to 12% in just three to four years since you acquired it? And then three units for Swaraj Tractors we sold in nine months for this year.

Dr. Pawan Goenka: We do not separately announce the numbers for Swaraj and Mahindra. But having said that your observation is right that Swaraj has increased the market share significantly from the time that we took over, it is still a very impressive increase, but not 5% to 12%, though significant increase in market share. And very simply the reason is that Swaraj always had a good, strong brand and Tractors that in the market that they sold were very well appreciated. What was missing was perhaps aggressiveness, missing was some internal processes. And when Mahindra came in they focused on those. And this as you know very well it is one of the best acquisitions that Mahindra has made in terms of how quickly we have to turn around the company and bring it to profitability, huge profitability and also increase the volume and market share for these Tractors. So, it really is a classic case of how fresh management input was able to turn around the company that had basic fundamentals right but perhaps the execution that had to be taken care of. Since Parthasarathy was involved in it from the other side at that time, let him also talk about it a little more.

V.S. Parthasarathy: No, you covered more than adequately. I just have a one question. Offline, I will be happy if you tell me where you got the 5% to 12%.

Rahul Agarwal: That is from the website. Since we took over Swaraj market share has gone up from 5 to 12%.

Dr. Pawan Goenka: That is a general statement.

V.S. Parthasarathy: It was never 5%.

Dr. Pawan Goenka: But when we took over it was around 9%.

Rahul Agarwal: Now, it is close to --?

V.S. Parthasarathy: The figure given in the website is not specific to any quarter or something.

Dr. Pawan Goenka: It was given at the time it was part of Mahindra but a separate company, I remember that it was a separate company but Mahindra has acquired it. We used to say that after the company got merged with Mahindra we do not give separate figures.

Rahul Agarwal: And then what is the strategy going forward? Are you positioning Swaraj Tractor for the particular segment of the industry or it spans the entire industry means from 20 hp, 70 hp --

Dr. Pawan Goenka: You will have to come and attend our strategy meeting and spend two full days with us and then we can explain to you. But if I have do it in three sentences, we are in the process of clearly differentiating what Mahindra brand stands for and what Swaraj brand stands for. That process will be a long drawn process. It is not like overnight there is a clear definition on the two brands in the mind of the customer. That will evolve overtime. We want to position these two brands very differently. But it will not be a segmentation in terms of this horse power to this horse power is Mahindra and this is for Swaraj. It will be more of what does the Swaraj Tractor stand for and what does the Mahindra Tractor stand for.

Rahul Agarwal: When you said that you are almost done with your capacity at Mohali, does it mean capacity of manufacturing Swaraj Tractors?

Dr. Pawan Goenka: Yes. The new plant that we are making at Zaheerabad will be able to make both Mahindra and Swaraj Tractors.

Rahul Agarwal: Can you please give me a rough idea of that how many Tractors are sold under Swaraj brand?

Dr. Pawan Goenka: We do not give separate data.

Moderator: Thank you. The last and final question is from the line of Mahantesh Sabarad from Fortune Equity Brokers. Please go ahead.

Mahantesh Sabarad: My question was related to MVML. Now that you have had nearly a year of tiff with the Maharashtra Government, if I may use that word, or the incentives being rolled back by the Maharashtra Government. Is there a possibly that MVML can get merged with M&M? And likewise, will the Verito Manufacturing Company, we also merged with the standalone entity. So –

Dr. Pawan Goenka: Second one is easier to answer. First of all, Verito manufacturing is done by M&M and that company only sells Verito, does not manufacture Verito. That is MADPL. And we had a court convene Board meeting today with a demerger scheme of bringing the Automotive business of that company into M&M. So, that process is on. As far as MVML is concerned right now we have no such plans because it was set up with a certain objective of having a company that would have world-class manufacturing. In future whether it happens or not I cannot say but right now there is no such plan.

Mahantesh Sabarad: If I may ask, you refer to what you called as a 'perfect calculator' about explaining in price increases effect on demand, on XUV 500, did the perfect calculator not worked? Because you seem to have quite underpriced a product for, you have got an overwhelming response for that product.

Dr. Pawan Goenka: Both the question, in fact, Board also asks us all the time that do we know that we are doing the right job in pricing our product in a way that we are maximizing shareholder value. Because the Board obviously representing shareholders and maximizing shareholder value. And every quarter we try and answer that question that we are doing XYZ and so on. So, let me go back specifically to your question on XUV. You are absolutely right in saying that the price that we have for XUV is lower than what the value that we are providing for by that product to the customers. It was not because of our calculator was broken or because we were not able to read our calculator but we read a calculator loud and clear. But this is a deliberate attempt that we have done and let me explain the rationale to you for that. And it is a very interesting observation, a very interesting question. For Mahindra & Mahindra, XUV, was moving to a new premium segment that we never existed in, our highest segment was Scorpio which was done Rs. 10 lakh, Rs. 10.5 lakh vehicle at the high end where the XUV was going to be starting at Rs. 11 lakh, Rs. 11.5 lakh and going up from there. So, for us to be able to attract consumer for buying a Mahindra product in that segment we had to provide a value far superior than MNCs who have been providing that product in that kind of premium segment to consumers where they have established themselves, the credibility that they have established. If you look in India, there are many very high volume companies that have not been able to make a march to premium segment. They have failed. I do not need to name them, you know very well which companies I am talking about where they have tried to launch a product in a segment, one or two notches above, their volume and customers have totally rejected their vehicles and they sell 10s and 15s and 20s and then they withdraw. So, our attempt here was to get into the premium segment in a way that we create almost like a storm. And for that not only we had to give a good product, not only we had to give good styling, we also had to give a mouthwatering price.

Mahantesh Sabarad: Pardon me for interrupting, but you could have done that with the Ssangyong products that you have already.

Dr. Pawan Goenka: Let me complete. Unlike MNC who comes into India with a product that they have designed, developed in another market, if they sell 500 a month, 700 a month, 1000 a month, they are very happy because this is not their primary market. This is an additional volume that they are getting. For us, this is our home markets. If we sell 1,000 a month we will lose money on that product, we will never recover investment. Therefore, it was not only moving the customers Rs. 12 lakh, Rs. 12.5 lakh, Rs. 13 lakh price range, it also to move 4,000 of them per month every month for the next ten years. And therefore, again, we had to create a value which is unbelievable value. The Ssangyong product when it comes in, it will be in a different price segment. And there we are not looking to sell 4,000 a month, there if we sell 500 a month, 700 a month, we are very happy just like any other MNC who is bringing in a premium product on a CKD basis is already developed in another market and all they are doing is milking their product here. That is what we will do with Ssangyong product. We cannot do that with XUV product. XUV product has to be our mainstream, where we must get 3,000, 3,500, 4,000 volume month-after-month, year-after-year and that is the reason we have to start with a very, very attractive price which we increased very quickly after three months as we had said at the time of the launch by Rs. 50,000 and we will increase again, undoubtedly, once you complete the current booking that we are going to get from lottery I can assure you the prices will go up again. So, this has been our strategy that has worked for us in all our previous when we have moved the market up, we started that with Scorpio, we have done that in Bolero, we have done that in Xylo and it works very well for us and we start somewhat on a low price and slowly once the customer is comfortable with our products we increase our price. So, if we are winning strategy there is no reason for us to give up that winning style.

V.S. Parthasarathy: And I say, Pawan, at end of the day still give a great value for money to the customers.

Mahantesh Sabarad Just one clarification, on these 25,000 bookings you garnered 80,000 per bookings so that is roughly about 200 crores is the cash inflow of money that you have had, am I right?

Dr. Pawan Goenka: Absolutely right.

Mahantesh Sabarad: And you intend to retain all that --?

Dr. Pawan Goenka: These are not bookings, these are applications. 25,000 applications giving us 200 crores of deposits. Out of this, we will draw 7,200 bookings. So, those 7,200 booking amount will be retained and the remaining will be returned within a month after we announce the booking results.

Moderator: Thank you so much sir, gentlemen, management and Mr. Amit Kasat. Since that was our last question, would you like to add few closing comments to this conference call sir?

V.S. Parthasarathy: I do not want to take more time, this late an hour but just thank everybody once again for a very patient listening to all our answers and more importantly staying and participating in this call. Thank you.