

**Mahindra**

# Mahindra & Mahindra Ltd.

Q3FY13 Post Result Conference Call  
Hosted by IDBI Capital Market Services Ltd.

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## Moderators

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- Moderator:** Good afternoon ladies and gentlemen. I am Moumita, moderator for this conference. Welcome to the 3Q FY13 earnings conference call of Mahindra and Mahindra hosted by IDBI Capital. I would now like to hand over the floor to Mr. Bhaumik Bhatia of IDBI Capital. Please go ahead, sir.
- Bhaumik Bhatia:** Thanks Moumita. Good afternoon everyone. On behalf of IDBI Capital, I welcome you all to the post results conference call of Mahindra and Mahindra. I would also like to thank the management for giving us the opportunity to host this call. We have with us today Dr. Pawan Goenka, President - Automotive and Farm Equipment sectors and Member of the Group Executive Board, Mr. Parthasarathy, Group CIO, EVP Group Mergers and Acquisitions, Finance and Accounts and Member of the Group Executive Board, Mr. K Chandrasekhar, EVP Corporate Finance and Investor Relations, Mr. S. Venkatraman, Controller of Accounts and other senior management personnel from M&M including the IR team. I would like to hand over the call to Mr. Parthasarathy for opening remarks, to be followed by the Q&A session. Over to you sir.
- Parthasarathy:** Thank you Bhaumik. Good afternoon everyone. First, a little bit about the global environment scan and the Indian environment scan. I think what we are seeing is the first baby step of a global recovery. It is tentative and volatile, but there are clearly growth signs. The hope of improvement is brighter in the coming year based on all the reports that we can see. The financial markets are moving towards risk taking, US and Indian stock markets are indicating this. Indian interest rates and liquidity scenarios are benign and the actions of Government and RBI taken together show that it will aid growth. The Government policy and the other actions have started to boost the confidence of the market and investors, especially the foreign institutional investors. Expectations certainly from the budget are very high from all and therefore we will watch that space with lot of interest.
- Now, coming specifically to quarterly results M&M and MVML, net revenue for the quarter is up 25% at Rs10,243 crores versus Rs8,200 odd crores in the same period last year. Just wanted to point out that this is the first time our quarterly net revenue has crossed Rs10,000 crores mark, a big milestone. The PAT at Rs915 crores versus Rs706 crores last year, a growth of 30%. So, revenue growth is 25%, PAT growth is 30%, a story of profitable revenue growth for the quarter as well as on a cumulative basis. EBITDA margin is 13.5% comparable to last year of 13.8%, especially if you knock off the Rs40 crores last year, which was on account of revised notification on forex regulation; a figure of Rs40 crores, if you take off last year, it is below 13.5%, so clearly even in margin year on year we have done better. There are improvements in QoQ in all the other cost parameters.
- Now, coming to the group, I want to just single out two companies mentioned for this quarterly results. TECHM revenues increased by 25% and the PBT increased by a whopping 87%, a very stellar performance. And Mahindra Finance seems to be going from a pillar of strength to strength and the revenue increased again another quarter by 38% and PBT by 36%. With that I now just hand over the mike to Dr. Pawan Goenka, President of Farm Equipment sectors and Auto sector.
- Dr. Pawan Goenka:** Good afternoon. I was just checking the share price and I see that they have gone down by Rs.9. So, Partha, happy?
- Parthasarathy:** It will just go up Pawan, again.
- Dr. Pawan Goenka:** So, welcome to this conference and I apologize that we didn't give you enough time between the result announcement and this conference. The primary reason is that I had a flight to catch at 04:30, so I will have to leave sharp at 03:45. I will just walk you through the operational performance of automotive and tractors or FES business and point a little bit on financial performance. First part is covered at a macro level. So, first starting with some of the highlights that we had during the year, for the auto business we had two launches, not during the year, during the quarter from the last analyst conference to this conference. We had two major launches, one was Rexton and the second one was Quanto. Quanto is doing very well. We have sold about 12,000-13,000 vehicles and we have waitlist of more than one month and for Rexton we have sold more than 800 vehicles and we have waitlist for about two months right now in Rexton. Both these products have done well. On the SsangYong side, we had a major launch two-three days ago of a new vehicle called Korando Turismo, which is a 11-Seater vehicle, which we expect to get good volume growth coming from. In the tractor side also we have had two launches during this period, a

tractor called 255 and 595 and both of these will help us to increase our share in that segment of the tractor business.

What is kind of stabilizing for us, though we don't talk too much about it is agri business that is farm business minus tractor, where now we are steadily going up in terms of the overall growth of the business. And this year we will end up somewhere around Rs300 crores, coming from the agri business. It is not all under M&M Limited, some are under M&M Limited, some are under Mahindra ShubhLabh and some are under EPC. But, all the same we expect to have a significant growth of 50% plus in this business this year, on top of a very good growth last year. So, this business is beginning to get some scale and stability and also making some profit for us. And this year we expect to earn about Rs13 to Rs15 crores out of this agri vertical, which is minus tractor, minus Powerol, minus implements business.

If you were to look at macro level business environment that affects our business, there are things that have gone on the north side and some things have gone south side. What I think from our business view point which may look counter intuitive is what has happened to the diesel price, where diesel price deregulation or an announcement that 50 paise will go up every month until it becomes in line with the cost of diesel is good for us, because that means that this threat of diesel vehicle tax hopefully diminishes to being very, very low. Of course, there are no guarantees, but we think that with this any reason for diesel vehicle tax goes away and therefore we should not be concerned about that happening by that time. And that's how our estimate is right now, but nobody knows for sure. The thing that has not worked very well is on the agri business, where the winter monsoon had not been up to our expectation and that has had an effect in the tractor growth in some of the markets, especially Southern markets.

If I was to look at the volume performance, automotive business is doing extremely well with relation to the industry. We have grown about 18%-20% in volume, which has led to about 40% growth in revenue and has led to a growth of more than 50% in profit for the automotive business. And in fact the OPM margins for the automotive business compared to last year YoY is an improvement of close to 1 percentage point. And MOS has improved. ROC has improved in the automotive business. The tractor business, as you all know the tractor industry has been slow. In fact up until December, there is de-growth of about 2% in the industry and Mahindra also has a volume de-growth in the third quarter of about 1,200 tractors. But, in spite of that we have managed positive revenue growth, though very small, about 3% or 4%. And good thing is that in spite of the slowdown, we have maintained the profit margins and our OPM is roughly the same percentage as it was last year and there is a marginal increase in profit as a result of OPM being same and also slight increase in revenue. So, to that extent financial performance wise we are happy that on the tractor business in spite of the industry being slow and in spite of the volume being down, we were not pushed in a situation, where our profit or profitability suffered from it.

If I was to look at individual segments in automotive business, as you all know there are two segments that are doing very well in the industry are the UV segment and the pickup segment and they are two segments where we are very strong. And as a result of that we have had a very good growth during this quarter of 19.6% to be precise. And if I was to look at the whole industry that is including everything, whether we play in that segment or not, our market share in the industry has gone up from 12.4% to 13.7%. That means one out of every seven 3-wheeler, 4-wheeler truck being sold in India, is now a Mahindra badge.

International operations have been somewhat subdued and this is primarily because of slowdown in three of our large markets, Sri Lanka, Bangladesh and Bhutan. Bhutan is not a very large market. But, still the slowdown in these three neighboring countries has led to a volume de-growth in the international business.

I will move on to what has gone well in terms of financial performance and what has led to the financial performance of the automotive business this year. The biggest positive has been that the material cost increase during this year, during these nine months, has been lower than last year and lower than what we had anticipated at the beginning of the year. And our ability to pass on selling price increases to the customer in the automotive business has been extremely good. And as a result of that, we did not have to absorb any of the material cost increase. We were able to pass on all of it. And we also had a fairly good improvement on the personnel cost. As a result of all of that, the volume, the selling price increase, less material cost increase and the personnel cost reduction; we have this kind of profit improvement of 50%

that you saw. Unfortunately, these four things don't come together in a given quarter too often, so we will just have to be happy about what has happened in this quarter and hope that at least three out of four, if not all four, improve in the next quarter also. I will be happy to see all four improve. We also have had a good improvement in our product mix, because our UVs have done very well. And since our UVs have done very well, that helps us in terms of the overall profit margin and that has also led to an improvement in profitability.

If I was to talk about the farm equipment sector now, as I said earlier that the Kharif rain was sort of okay and we were expecting the Rabi rain to be good. But, Rabi rain has been poor that is winter rains and about 20% lower than expected. As a result of that at least five States which are Southern States or Southern side of the country States are doing very poorly in terms of the overall volume growth, rather the de-growth, Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra and Gujarat. These five States have seen industry volume going down more than 20%. And these five States unfortunately happen to be states, where Mahindra has very large market share and therefore Mahindra is more adversely affected than any other tractor company in India, because of this slowdown. Overall industry is down 1.7% YTD December and our market share is about 41.5% in this timeframe. Market share overall up to nine months is about 1.2% down and primary reason for that is the slowdown in these five States that I have mentioned. In tractor business also, international operation is somewhat subdued, again slowdown in Bangladesh and Sri Lanka, which are major markets for us, has led to that slowdown.

As I said earlier, again I am repeating that our profitability has been maintained at the same level as it was last year, in the same quarter. And there is a slight increase in overall profit, because there is slight increase in overall revenue. Here also, we have been helped by the fact that material cost increases have been lower than what we had anticipated for the year. And we have been able to reasonably pass on the increases to selling price and therefore our margins have not suffered. I think that pretty much takes care of the overview that I wanted to give, anything else you wanted to cover? I think forex also obviously has helped us during the year, because dollar rate was average 54.5 for the year, which has helped us in our international operations profitably.

Just little bit on Mahindra Navistar and on Ssangyong. Of course that doesn't come into the Mahindra and Mahindra results or M&M plus MVML as we announced, but something that clearly is of interest to all of you. On Mahindra Navistar, just today we have gotten approval and the final approval for completing our transaction with Navistar. And therefore by Monday or Tuesday our transaction will be completed and we would then be 100% owner of the joint venture. The truck industry is not doing well. In the month of January and February, there was a 40% de-growth in the truck volumes. All companies have suffered. But, there is little silver lining for us, because our market share for the month of January was 4.2%, selling 345 vehicles, which is I think the highest market share we have had in the heavy truck industry. If that continues for two-three months, I think that would be very positive sign. This is only one month and in one month one cannot draw any conclusions from. For Ssangyong, our results will be announced next week. The Board meeting is next week, so I cannot talk about the financial performance. But, in terms of overall volume performance, we had a small volume growth for calendar year 2012 and a significant market share growth of more than 1.5 percentage point in Korea for Ssangyong for this year. So, we are quite happy about the volume performance. We have launched a new product two-three days ago as I mentioned earlier, which should help us to increase our volume and we are targeting a volume of about 149,000 for this year that is for 2013 calendar year. Powerol has had a steady growth and we are roundabout Rs1000 crores of revenue for the year, is what we are expecting from that business. EPC, which is our micro irrigation company, that has had good revenue growth, 44% growth for nine months, on top of having similar growth last year. So, in the time that we have acquired the company, which is about two years now, the company revenue has almost doubled. And for inventory, I will let somebody ask the question and then I will talk about inventory. Okay, so that covers it. So, the floor is open for questions now.

## **Question and Answer Session**

- Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing \* and 1 again.
- The first question comes from Mr. Yatin Mota from ET Now. Please go ahead.
- Yatin Mota:** Hi Dr. Goenka, I just wanted to ask one question on the margin front, because on the EBITDA front there has been a miss of nearly Rs100 crores on the EBITDA front. Has there been a significant amount of deduction in terms of realization as far as the tractor business was concerned? And apart from that, can you tell us that how do you see the tractors volume going forward, because we are seeing some pressures there, so what is the outlook on tractor business and what kind of a realization pressure was there during the quarter?
- Dr. Pawan Goenka:** What is the Rs100 crores you talked about?
- Yatin Mota:** Sir, the EBITDA margins are almost Rs100 crores lower than what the street was anticipating. There was some margin pressure evident during the quarter for M&M, standalone business.
- Parthasarathy:** Sorry, just two things, before Pawan starts to answer. Once again can you repeat which organization are you from?
- Yatin Mota:** I am from ET Now.
- Parthasarathy:** ET Now. I am very sorry; I think I must tell even the people who are organizing this call that fundamentally...
- Yatin Mota:** I am from ET Now, the Research team sir.
- Parthasarathy:** Okay. So, fundamentally this is an analysts call and we do not, to be fair to the analysts we don't encourage this either to be from a media perspective or in terms of broadcasting or commenting to the media from this interaction. Anyway having said that...
- Dr. Pawan Goenka:** I am still not clear on the Rs100 crores.
- Parthasarathy:** First and foremost is on the Rs100 crores, let me comment. If I understand correctly, what you are saying is ET Now or someone may have put a projection of what the quarter's EBITDA should be. And you are saying that figure was Rs100 crores higher than the final figure that you are seeing.
- Yatin Mota:** Lower than that.
- Parthasarathy:** ET estimate is higher and it is Rs92 crores to be exact. So, that was the figure.
- Dr. Pawan Goenka:** I am glad this person is not in our Board, we will be in trouble.
- Parthasarathy:** To put it very simplistically on a broad level and then I will ask Dr. Goenka to add, that the revenue growth as you are seeing, first is, please do not look at M&M standalone results, it does not reflect reality. M&M plus MVML, if you take together the revenue growth, is about 25%. The PAT growth is about 30%. So, this is a real reflection, because part of these profits or the manufacturing profits is sitting in Chakan, on MVML and therefore that's why we keep saying that, please combine these two in order to look at the results. Now, eight analysts as I know have already started analyzing the results, M&M plus MVML, so I would like you to look at it. And in that the EBITDA margin for M&M plus MVML combined is 13.5%, which is in line with the last year's EBITDA margin as I explained during my opening comments.
- Dr. Pawan Goenka:** Okay. And I think you talked specifically about tractor, so again I do not know what you are referring to. But, in tractors for this quarter, our segment margin as being reported in our results is Rs527 crores against Rs508 crores last year. And therefore there is a small growth that has happened in the margin for tractor business. And as I have said earlier and I am repeating again that our profitability on this margin is same as last year, there is no reduction in profitability and slight increase in profit. Of course the volume increase has not happened and therefore revenue growth is very, very marginal, only 2% or 3%, which is just because of price increase. And therefore I again cannot comment on Rs100 crores that you are talking about, because as far as we can see the automotive has grown significantly by 100 basis points and tractor has maintained the margin and automotive also had a very good volume growth. If you compare to the

automotive industry, we are by far standing out in terms of where we are in volume growth and revenue growth. You also asked about our outlook for tractors business, tractor business has been struggling that there is no secret to that. And in fact we had expected to end roughly at last year's level. We are right now thinking that is going to be a stretch to reach the last year's level, because January month has been very poor with the de-growth of about 6% for the industry and therefore we may end up as the industry, marginally lower, 1% or 2% lower than last year.

**Yatin Mota:** Thanks so much Dr. Goenka for answering the question. Thank you.

**Moderator:** Thank you. The next question comes from Mr. Basudev Banerjee from Quant Capital. Please go ahead.

**Basudev Banerjee:** Thanks sir for taking my question. Just wanted to understand why this dip in automotive segment's EBIT margin on a quarter on quarter basis, which is I think the prime factor that led to margin being in fact lower quarter on quarter, despite such hefty volume growth in tractors and even volume growth in the automotive segment.

**Dr. Pawan Goenka:** I think we have said this many times, every time this question gets asked and we have said always that please do not compare quarter on quarter EBITDA or profitability in automotive business. There are quarters historically that are always higher OPM margins and there are quarters that are always lower. You can go back to last five years and you will find that Q2 margins for Mahindra is always higher than Q3 margins and this depends on the seasonality of the business. It depends on when the festive season comes in. And therefore the only reasonable thing to compare is a year on year and never quarter on quarter. And we personally don't even look at quarter on quarter, because it has no meaning. And therefore I would request you not to look at quarter on quarter. Having said that I think the delta between quarter on quarter margin and this year is lower than what it has been traditionally and that is because year on year this year we have improved in quarter three compared to the last year. So, in spite of the volume growth, in spite of all the positive results that we have had, quarter two profit always is, margin wise always is traditionally higher than quarter three.

**Parthasarathy:** Yeah, I think just to add, as Pawan mentioned today that the 1% improvement that you are seeing in auto sector year on year for quarter three, it is probably one of the best growths that we are seeing in terms of margin. So, I think in EBIT margin if you calculate the segment result on M&M plus MVML and I would request again to...

**Basudev Banerjee:** I am looking at combined only.

**Parthasarathy:** Combined only, then you will see that year on year that...

**Basudev Banerjee:** There is an improvement.

**Parthasarathy:** There is a significant improvement of 100 basis points.

**Basudev Banerjee:** And next thing sir, why is this tax rate down significantly on QoQ basis?

**Parthasarathy:** Again quarter on quarter I won't reply.

**Basudev Banerjee:** But sir, 400 bps are significant enough.

**Parthasarathy:** Yeah, it is. It is. First and foremost is that full year, last year, our tax percentage was something like 25.3%. Somebody just tell me if my figures are not right. And this year we estimate the full year tax rate to be 24.3%, so about 100 basis points lower. Now, this is coming because of two reasons. One is, our expense growth this year, the major portion has been focused on R&D expenses and that has weighted deduction and tax benefit from as per tax rules. So, that is one reason why YoY, the tax percentage goes down. The other one is, given the current year where there has been subdued volume in tractors and due to our planning ability, both our tax benefit plants, which is Rudrapur and Haridwar has been optimized. These two give us a year on year benefit of 1%. Now, that has been factored, when you look at this quarter, all the benefits for the first nine months comes in this quarter. So, it seems as if this quarter there is a 4% movement, but basically on a full year basis, we now outlook that our tax rate comes down by a percent because of the R&D expense increase.

- Basudev Banerjee:** And sir last question, will it be possible for you to quantify the magnitude of losses in MNAL this quarter?
- Dr. Pawan Goenka:** No, we don't declare the results on a quarterly basis for unlisted subsidiaries, so we do not talk about it.
- Basudev Banerjee:** Okay, thanks sir. That is all from my side.
- Parthasarathy:** Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Ambrish Mishra from JM Financial. Please go ahead.
- Ambrish Mishra:** Sir, congratulations on a good set of numbers. Sir, my question was, in tractors you shared that the key Mahindra markets were actually down by 20% and our market share loss was about 1%-1.5%. Can you share the outlook, is there a way to look at or you are seeing any difference between how the overall pan India market is shaping up vis-à-vis these five markets or six markets, where we are much stronger and the volume decline has been much larger. And what is the outlook if you can split it between these two different segments?
- Dr. Pawan Goenka:** I think for the rest of this year that is two more months, we don't see any significant change of fortune for these four-five States that I talked about, because this is all based on Rabi crop that already has been determined, so nothing is going to change. Where we will see change will be starting April onwards. In fact just today I heard that the Rabi crop actually has been pretty good and if that is the case, then in the harvest season which will be leading to sales in April, we should see some turnaround, but not in the month of February-March.
- Ambrish Mishra:** Sir, I was more looking at it from let's say the next twelve months perspective, because if I look at let's say these markets are down by more than 20%. Next year, the bounce, do you think it would be relatively better than what the other markets in India would see? And therefore our market share improvement would be better than what we have lost?
- Dr. Pawan Goenka:** Logic would say, yes. Logic would say yes, in the sense that it is not just this year. In fact if you go back to last year, not all five of these markets, but I think three or four of these markets were subdued. So, these markets have had two years of de-growth, significant de-growth, not a small de-growth. And clearly that is happening because the purchase of tractor is getting postponed and in a certain point that postponement cannot happen. So, logic would say that they have to come back. There are some other factors, other than agriculture also that has an effect, such as mining and infrastructure, because tractors do get used for haulage application, which in some States like Karnataka is very badly affected by the haulage or the mining ban. So, all these factors can turn around very quickly. It is hard for us to predict what will happen, because these are factors which are in some case nature decides and in some case the Government decides. And therefore whether things will turn around or not is hard to say, but logic would say that this will turn around. Because these are big markets, agricultural markets, where large volumes of tractors get sold in these markets and they cannot remain subdued with relation to the industry for third year in a row.
- Ambrish Mishra:** So, is it fair to understand that let us assume that these markets will improve, so our market share gain would be better than what we have actually lost, because despite 20% decline in these markets, our loss has been just about 100 basis points or so?
- Dr. Pawan Goenka:** Again, I would like to think so, but it depends upon how the competitive situation changes when the markets rebound. But, in spite of these markets being down, in spite of us losing some market share here, we will remain highest market share brand in these markets. And therefore I would think that once they rebound, we will have larger gain than others. But, this is going to be anybody's guess and this is more of what we hope will happen, but I cannot be 100% sure of these things.
- Ambrish Mishra:** And sir, my last question was, the raw material cost in this quarter looks a little higher. Is there anything specific you would want to highlight?
- Dr. Pawan Goenka:** And how did you conclude that?
- Ambrish Mishra:** I am just talking about RM by sales.
- Parthasarathy:** Which is sequential again? Is it sequential or year on year?

- Ambrish Mishra:** It is even year on year.
- Parthasarathy:** You are looking at M&M or M&M plus MVML? If you look at it, let me just give you the figures, maybe we are both referring to the same thing. Our material cost as a percentage this year is 72%, which is 7375 divided by 11447. If you are reading the same figure, M&M plus MVML that is what this year is. Same quarter, last year, we were 71.88%, which is 5902 divided by 8967. So, if these figures are the same figures we are reading, then we are both year at 72% roughly. If you look at it in greater detail, it is 0.1% which is an impact of mix, many things which could be there. But, it is not material, it is very small...I could almost conclude it is same year on year.
- Dr. Pawan Goenka:** In fact we don't share detailed data on this and I will not give you precise numbers, but if I was to look at the material cost that is gross contribution margin for automotive and tractor business together, compared to last year, there is a slight improvement in it compared to last year.
- Ambrish Mishra:** Okay sir, thanks.
- Dr. Pawan Goenka:** I do not know how the data gets clubbed together, but it is not a loss. If that was the case, then our profitability would go down. And our profitability as you know has improved over the last year.
- Parthasarathy:** Let me not leave the question like this. So, I see same, if you had any question, I am happy, offline after this call to make sure that your excel spreadsheet or whatever requirement is there, Chandra, Sandhya or I can help you.
- Ambrish Mishra:** Sure sir, sure, I will come back again. Thanks. Thanks a lot sir and all the best.
- Parthasarathy:** Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Ameen Pirani from Deutsche Bank. Please go ahead.
- Srinivas:** Hello sir, this is Srinivas here. Thank you so much sir and good set of numbers particularly in an environment which we thought was very challenging. Sir, my question is on (a) your tractor business, which seems to have held up quite well despite what we thought was an environment which is challenging. So, what exactly do you think is happening there? You don't seem to be impacted by the discounts which we hear are prevailing. And secondly, Dr. Goenka has mentioned the outlook, does that still, do you think it will remain weak over the twelve months period for this year? That would be my second question. And third, sir your XUV has been now in the market for almost a year, so any feedback what you have got from customer on that?
- Dr. Pawan Goenka:** First of all thank you for appreciating the results and especially appreciating that the farm equipment business, the tractor business, in spite of the industry being down and in spite of the volume being down has not come to the temptation of discounting and hence affecting the margin in the business. And that is a conscious call that we had taken that we do not want to get into a situation where for short term goal, short term gain, we compromise with the long term strength and the strength of the business, health of the business. And therefore we have not resorted to any unusual discounting in our tractor business. Hence, we are pretty much in line with what happens based on season, every season. The reason that the profit margin has remained at the same level as last year, as I said earlier is partly because material cost increases have been low. Also, we have been able to pass on the selling price increase, I think slightly more than the competition in terms of the selling price increases that we have taken in our tractor business. And the model mix also had remained pretty good. And the models that have higher profitability actually increased in percentage, in terms of the total sales. And all these things combined have led to this profit margin being maintained. If I was to talk about outlook for next year, it is a function of two-three very important things that might happen. The purchase of tractor depends certainly on the ability of the farmer to invest that money, because it is a fairly large purchase for a farmer, he is spending 5-6 lakh rupees. And therefore it depends on the outlook that the farmer would have on the farm produce for the next two or three years. If the monsoon is good this year and it is too early for us to make any prediction on whether monsoon will be good or not, if the monsoon is good this year, it is very rarely that for two years the tractor industry will remain subdued, because after all there is pent up demand that has to come in the play. But, right now in our projection for the industry, given that this year has been bad compared to what we had



thought at the beginning of the year when I had talked about 5% to 7% growth in the industry and we will end up probably at about minus 2%. We have been cautious in our prediction for what might happen to the industry and we are looking for our planning purpose is growth between 4% to 6% is what we are looking at compared to where we will end up this year. And on XUV, yes, we have been in the market now for more than one year. In fact we have been in the market for about sixteen months. We have sold more than 55,000 XUV and it is doing very well. We have been now consistently selling about 4000 units, which is where we have pegged our production at and exporting about 500 units and it will continue to have good demand. Customer feedback has been good. There are always some niggles that will happen in a new launch, which are being addressed and I don't see any issue with that. And we have very strong demand, very positive feedback and most people are finding this vehicle to be a delight to drive.

**Srinivas:** Thanks. Just two more small questions sir, one on tractors, is there a trend towards what we call premiumization normally in consumers, which is higher hp tractors selling more, that is the first question. Second, Ssangyong purchase which is, there was this talk of trying to indicate at least a purchasing function and then squeeze efficiencies from that, so any light you can throw on the progress on that front?

**Dr. Pawan Goenka:** Okay. No, there has not been a sort of switch towards the higher horsepower tractor in the last two to three years. There has been a switch. If you look at the last ten years, you will find that there is a higher percentage of above 40 horsepower than lower 40 horsepower, if you look at last ten years. But, if you look at last two years, you will not find a major switch that is happening. And in fact the above 50 horsepower has gone down in overall share of the industry. And that is to some extent, because the emission norms are such now that above 50 horsepower tractors have become more expensive relatively than below 50 horsepower. So, in the near short term I do not see any major switch happening in this range. There could be some switch from 30-40 to 40-50, but not going much beyond 50. We never have talked about integrating the two functions or two purchase functions of Mahindra and Ssangyong. What we have talked about is for these functions to work together, harness the benefit of overall sourcing that we are doing for Mahindra in India and for Ssangyong in Korea. Yes, that work is proceeding and we are getting some very good results, as a result of that synergy. There is lot of sourcing that Mahindra has started doing from Korea and the sourcing that Ssangyong is doing from India. And we are realizing some very good benefits coming out of it. Hard to quantify right now as to what that will translate to, but certainly we are getting to see some good benefits from it.

**Srinivas:** Many thanks sir. Thank you so much. I will come back for more questions.

**Moderator:** Thank you sir. Ladies and gentlemen, we request you to kindly restrict to one question in the initial rounds. Thank you so much. And the next question comes from Mr. Chirag Shah from Axis Capital. Please go ahead.

**Chirag Shah:** Thanks for the opportunity. And sir congrats for a good set of numbers.

**Dr. Pawan Goenka:** Thank you.

**Chirag Shah:** Sir, two questions. One, wanted to understand how do you see the discounts, the trend for LCVs and tractors as well as pickups, over the last two-three months what are you observing, adjusted for the seasonality effect of December. We generally have higher discounts in the system in December, because of the year ending. So, if you can, how do you see for next two-three months or the foreseeable future?

**Dr. Pawan Goenka:** For the discounts or for the market?

**Chirag Shah:** Discounts in the market for your product as well as in general, competition.

**Dr. Pawan Goenka:** Okay. So, for Mahindra on the UV and pickup segment, there is very little discount. In fact XUV, we have not given any discount to anybody up to now. On Quanto there is no discount. When I say no discount, if you go to the dealer and say I want Rs.1000 or I won't buy, they will probably give it to you for Rs.1000. I am not talking of that. I am talking about any major discounts schemes coming from the company. So, on UV segment, our discounting is hardly there. On the pickup segment, there is hardly any discount. Where you will find discount will be on the truck segment MNAL, where trucks as you know very well are very heavily discounted right now, because of the industry being slow and almost everybody trying to protect

their volumes. That is where we have the discounting issue. On the tractor side I cannot say about the industry, but our discounting has been pretty much normal what you will see adjusting for seasonality effect. As far as outlook is concerned, I don't see any reason why discounting will increase in the next two or three months. In fact January has been a very good month for us, with our volume going up on the automotive side by almost 18% in spite of the industry being down by 2% or 3%. And we don't see any reason why there will be any discounting that will happen. The truck discounting will probably continue, though there are some signs that discounting is slowing down, because it is probably difficult for bigger manufacturers to be able to afford such discount.

**Chirag Shah:** And sir, second question I had on XUV, what is the kind of capacity you have and what is, because initially we felt that the volumes could surprise on the upside and you would have to up the capacity. So, how is that?

**Dr. Pawan Goenka:** We have always maintained that we are not going to go for capacity much above 4500 to 5000.

**Chirag Shah:** Fair point, you have always mentioned that.

**Dr. Pawan Goenka:** That's where we have reached and we have taken pause there and we will not increase in a hurry from that level, because we still need to see, sustaining that volume, because 5000 or 4500 volume for a vehicle costing Rs.14-15 lakh is a very high volume. And as you know that in India today, XUV sells more than all vehicles combined of Rs.15 lakh or more. And therefore increasing volume at this point will not be appropriate. And if this kind of demand continues for next six months, eight months, then we will be taking it. It is possible for us to increase the capacity, but we are pausing right now.

**Chirag Shah:** And any variation of XUV can be expected?

**Dr. Pawan Goenka:** We need to move on. We need to move on, because we have to stop in about fifteen minutes.

**Chirag Shah:** Sir, just on competition was the question, can you just throw light on what kind of products can we expect, not necessarily in terms of, can we expect any smaller version of XUV in the market, given the trend emerging for sub-compact XUV?

**Dr. Pawan Goenka:** We don't expect to launch a smaller version of XUV. We have enough products in different shapes, sizes, price range and therefore there is no need for us to do a cut and chop kind of job on XUV. XUV has emerged as a good premium segment SUV. And we don't want to in any way play with the image and brand that this vehicle has developed. And therefore it will be foolhardy for us to try and play with that vehicle. On the other hand we have many products in the smaller range going down to sub-4 meter Quanto. In fact we are the only player who is offering a sub-4 meter vehicle in the UV SUV range. So, we have going down to that and going up to the Rexton level. So, we are covering from Rs.6 lakh to 20 lakh range and product in every price point in that range.

**Chirag Shah:** Fair point sir. Thank you very much sir. Thank you very much.

**Moderator:** Thank you sir. Ladies and gentlemen, you are requested to kindly restrict with one question in the initial rounds. Thank you so much. And the next question comes from Mr. Kapil Singh from Nomura. Please go ahead sir.

**Kapil Singh:** Good afternoon sir. Congrats on a decent set of numbers. My question is relating to new launches, can you throw some light that over the next one to two years, what is the kind of new launches pipeline that you have in terms of both new launches and variance, at least in terms of numbers, if not products that you can share?

**Dr. Pawan Goenka:** In the last eighteen months, we have had two major new product launches and many variants that we have done. Over the next two years, we will continue to have new product launches, but in the next twelve months we will not have a brand new product launch, we will have many refreshes that we will do during this time. We do have two launches that we have already announced that will happen from now to end of next year, which is the electric vehicle that should be coming in between a month, month and a half from now and the sub-4 meter Verito, which should also happen in the next two to three months from now. Beyond that we have at least four refreshes and that we will be doing during FY14 in various products that we have and I cannot name which products will get refreshed during this year. We are currently working

on, I would say three brand new products and these brand new products will start getting launched from FY15 end onwards that we will have. And we will also have at least one more product coming from the Ssangyong new product development that is currently going on and come under Mahindra band. So, over I would say over next three years you would see a significant new offerings and attacking new segments, getting into new segments and over the next twelve months you will see several new refreshes coming from Mahindra.

**Kapil Singh:** Sir, that is very helpful. Can you also share the same details for the farm equipment business?

**Dr. Pawan Goenka:** Farm equipment sector we have a brand new tractor launch that is happening in FY14. In tractor as you know, brand new tractors don't get launched very often. In fact the last time that we had launched a brand new tractor was Arjun tractor, which was launched in 2001. So, last brand new tractor, it was launched in 2001, when we had launched the Arjun tractor, not counting Yuvraj that we had launched about three years ago. So, in tractors it is not common to launch brand new tractors, but we have a brand new tractor launch coming up in FY14. I am really looking forward to it, because we think this tractor would be a significant enhancement in technology and customer comfort and value proposition than what we have today or what anybody has today. We certainly have refreshes and the future additions that are happening. In fact over the last twelve months, we have launched at least four to five major refreshes that have helped us to take care of gaps in our product offering, because in tractors every State has different environment and features and all. So, we have at least, I would say, three to four variant launch, not refreshes, because in tractor we don't have refreshes, but variant launch that will happen in the tractor in the next twelve months.

**Kapil Singh:** Thanks a lot sir.

**Moderator:** Thank you. The next question comes from Mr. Jamshed Dadabhoy from Citi Group. Please go ahead.

**Jamshed Dadabhoy:** Yes, just a quick question on your other expenses, M&M plus MVML. YoY the growth is fairly significant, what are the major items which are contributing to this growth?

**Parthasarathy:** Very simply put, I was telling you about last year if you look at Q3, I talked about amortization of loans and on foreign loans taken and that was a figure of Rs.40 plus Rs.20, Rs.60 crores in all. So, if you first take the Rs.60 crores in last year, then you will see that the expenses will be much lesser than what it is. And there are certain onetime expenses, I don't want to go into line item level, but there are some onetime expenses, which we have taken in this quarter, more on building things which will stand us in good stead. The tax break I talked about, which comes in terms of better tax benefits, because of R&D spends, the spend is here, the break is there. So, that also helps us in one side and that also talks about expenses being higher on the other side. So, overall I am saying the expenses are very much in line, except for that major Rs.60 crores blip of last year, which depresses the expenses by that much amount, Rs.60 crores.

**Jamshed Dadabhoy:** Yeah, but if I add them up, it is still like a 25% year on year growth versus your top line which has grown more or less in the same proportion. My point is these are semi-variable, some should be fixed, so is there limited operating leverage at this point in time? I just want to know how to think about these expenses going ahead, that's all.

**Parthasarathy:** Okay. So, what I quickly will say, except for that, if you knock that off, so we have things like once in three years, we do fixed asset verification. So, this year it has happened. So, on account of that there is the thing. Second is stock adjustments are there. Finished goods stock is a contra with contribution, so that is this quarter we have had higher stock.

**Jamshed Dadabhoy:** That will be part of the material cost.

**Parthasarathy:** Yeah. So, the contra for that, when you have finished goods what happens is that your material cost gets adjusted and overheads also get adjusted, because you are loading overhead onto finished goods.

**Jamshed Dadabhoy:** One second, your stock adjustment you are doing in other expenses, not material cost as you do in the reporting, is it?

**Parthasarathy:** Yeah. So, this is on the excise duty.

**Jamshed Dadabhoy:** Okay, I got it. Just another quick question, what is your capex and investment YTD and the plan?

- Parthasarathy:** So, the capex plan actually, so let me talk about the plan. So, we had talked to you about the Rs5000 crores capex over three years and Rs2500 investment. I think we are roughly in the same ballpark even as we speak. In this part of the year, the running rate will be a little lesser than, we always keep a little bit of buffer for any rainy day. So, whatever we have incurred is in the same running rate.
- Jamshed Dadabhoy:** And when does the new tractor capacity come on line?
- Dr. Pawan Goenka:** The new plant in Zaheerabad you are saying?
- Jamshed Dadabhoy:** Yes.
- Dr. Pawan Goenka:** The new plant in Zaheerabad is almost ready. We expect to start production there before the end of this financial year.
- Jamshed Dadabhoy:** End of the financial year, FY13?
- Dr. Pawan Goenka:** Right.
- Jamshed Dadabhoy:** Okay, thank you very much.
- Moderator:** Thank you sir. The next question comes from Ms. Vaishali Jajoo from Aegon Religare Life Insurance. Please go ahead.
- Vaishali Jajoo:** Yeah, good afternoon everyone. Just a question on the budget expectation if you could give us the sense on the auto industry and especially the diesel is too much of an issue again the pricing is also going up. Could you give us a scenario for the passenger vehicle industry going forward in case diesel continues to grow from there on?
- Dr. Pawan Goenka:** On the budget side, the main question that comes up that affects the auto industry and Mahindra is the diesel vehicle tax and that gets talked about every now and then. And in fact this diesel vehicle tax has been talked about last three budgets very, very strongly. And I would like to think that this year there is less of a reason for it than any year in the past, because of the decision that the Government has made on deregulating diesel prices. And since it has been now formally announced that diesel prices will go up by 50 paisa per liter and in about a year's time there will be an increase of Rs.6, I don't think any rationale that can be used for putting diesel vehicle tax. That doesn't mean that it won't happen, that's obviously up to the Finance Ministry to decide where they will get the revenue from. But, the rationale for it is very, very weak and if it was to happen, we will be disappointed, heavily disappointed that this is a very uncalled for thing that is being done, having increased the diesel fuel prices. We don't expect anything much else to happen in the budget that would have a significant impact on the auto industry. Of course if there is an increase in excise or anything like that, that is going to have a negative impact and I hope that doesn't happen. I don't expect a reduction in excise and therefore that will not come in as a benefit. What I do expect to see this year is, something on the electric vehicles, because the Government of India has announced a long term mission plan for promoting electric and hybrid vehicles. I do expect something to happen, that will not make a huge difference in terms of volume, top line and bottom line, but certainly it will make a huge difference in terms of the direction that we take and our vehicle that is Mahindra REVA vehicle which is ready for launch will then come out in the market.
- Parthasarathy:** Just to add on to that.
- Dr. Pawan Goenka:** Outlook for next year, outlook for next year, just one minute. So, outlook for next year I am only going to quote the SIAM numbers which has been published recently. The SIAM expectation is for FY14 for the overall PV industry, passenger vehicle industry will grow 9% to 11% and in that the UVs will grow more, 15% to 17% and cars will grow less, 8% to 10%. So, that is the projection right now and I could just add my commentary to it that this year as you know UV has grown significantly higher to the tune of 60% compared to the passenger cars. And it is unlikely to repeat that kind of growth number, but the trend of UVs growing much more than passenger car will continue I think for the next couple of years, because when you look at the new launches that are happening in the UV segment, there are still many new launches that are expected during this year and that will fuel more and more customers to come and buy these vehicles. Overall for the industry in the other segment for FY14, the MHCV segment, there is expectation of 6% to 8% growth, in the 2-wheeler segment, 9% to 11% growth, and passenger vehicles

- segment about 6% to 8% growth. Overall, for the industry I think that will add up to something around 9% growth.
- Vaishali Jajoo:** Just on the UV side, because we have seen a double digit growth in the last couple of years and in such a high base.
- Moderator:** Vaishali ma'am?
- Vaishali Jajoo:** Yeah.
- Moderator:** I am really sorry to interrupt you in this. Will that be okay if you could take it offline?
- Vaishali Jajoo:** I will take it later, okay.
- Parthasarathy:** Just one small thing that I wanted to add, so that you don't lose on this front, this aspect. There is overall positive expectation on the budget that it will support industry and growth. Some signals have already been sent by the Government through its actions and we expect the budget to add to this direction of growth. And overall global also, it is seeing recovery. So, both of them should augur well for the industry, especially the auto industry. Auto industry, today's newspaper carries is probably said as the fulcrum of the industrial growth. So, I hope that auto and tractors will find a pride of place in this year's budget discussion. Overall I look at this thing positively.
- Dr. Pawan Goenka:** Okay, I will have to leave, one question at most, one question.
- Management:** Last question, Dr. Pawan Goenka has to leave.
- Moderator:** Sure sir. It comes from Mr. Binay Singh from Morgan. Please go ahead.
- Binay Singh:** Hello sir. Could you talk a little bit about the price hike that you have taken recently?
- Parthasarathy:** Price hike taken recently.
- Dr. Pawan Goenka:** We have taken a price hike in the beginning of January. I think it ranges from 1% to 3% for automotive. And before that we had taken two price hikes during the year for automotive. On the tractor side we have taken a total price hike YTD nine months or YTD ten months I should say of 4.6% amounting to average Rs.20,000 per tractor.
- Binay Singh:** When is the last tractor hike that you took?
- Parthasarathy:** Last tractor hike.
- Management:** We took in October, about Rs.6,000 per tractor.
- Dr. Pawan Goenka:** Last hike was taken in October and last automotive in January.
- Binay Singh:** And sir, just secondly though we don't look at it sequentially, but with tractor ASPs have been down on a sequential basis.
- Dr. Pawan Goenka:** If we don't look at it, then we cannot talk about it.
- Parthasarathy:** Tractors sequentially.
- Dr. Pawan Goenka:** So has automotive, so has automotive.
- Binay Singh:** If I look at tractor ASP, we took a price hike in October, but ASPs on tractors are down on a sequential basis. Though I know that there are lot of things that work below that.
- Management:** Binay, how much is it down, do you remember?
- Binay Singh:** It is down around 1.1%.
- Dr. Pawan Goenka:** 1.1%, one can do nothing. We can do nothing about this. There is so much, the lowest price tractor that we sell is Rs.2 lakhs and the highest price tractor we sell is Rs.7 lakhs. Even if there is a slight change in overall content or overall distribution of tractor, 1% will happen.
- Parthasarathy:** Yeah, and lead and lag of course.

- Dr. Pawan Goenka:** Before I go, it seems nobody asked the question on inventory, I would just talk about the inventory, maybe people are in the queue for the inventory question, because that gets asked every time, especially since they have fears that since the industry is slow, both automotive overall and tractor overall, there could be lot of inventory built up. So, normally we don't share numbers on inventory, but I can tell you that on the automotive side, our company inventory is less than about two weeks, which is in fact if anything, it is on the lower side. And dealer inventory is just little over three weeks, which is again slightly lower than what the industry is comfortable with. On the tractor side, the plant inventory is less than three weeks and dealer inventory is less than five weeks, which is in line with what is the normal inventory that we would like to keep. So, for Mahindra at least either in automotive or tractor, there is no inventory built up. Okay, so with that I will have to leave. You can continue with the questioning. Thank you very much for all the questions that you had. But, I can see that you are not happy with the results.
- Management:** It is Rs.12 down, almost at the same level.
- Parthasarathy:** Okay alright, thank you Pawan.
- Dr. Pawan Goenka:** Thank you.
- Management:** Thanks Pawan.
- Parthasarathy:** We can carry on; we can now have the last two questions.
- Moderator:** Sure sir. The next question comes from Mr. Vishal Saraf from SBI Mutual Fund. Please go ahead.
- Vishal Saraf:** Sir just wanted to continue on previous question. Mr. Goenka has left; he would possibly have been the right person. But still, just on the UV side, like you just mentioned, UV expects 16% to 17% growth going ahead, and we don't have any significant model launch planned for the whole of the next year. It has been almost, should it be like 18 to 20 months of period where we will have no significant new launch coming up. Plus competition is coming up with significant new models and the kind of volume numbers they have on monthly basis for Ertiga, for Duster, clearly shows the potential in the segment. So, is it that we have missed out somewhere in the overall strong growth for the segment and are getting defocused into other segments like say CVs and others?
- Parthasarathy:** Thanks. You have pointed out very rightly, that this is one question which Pawan would have been very happy to answer, because he would have liked to kind of hear your inputs and tell you that it is not like that. First and foremost, he did mention and I want to repeat, and if I missed something, please from the team here. First is he said that we are, we will be doing a series of refresh, so we are not at a liberty to talk about which refresh, because that affects the sale, but overall we will be focusing on some refresh, all of which, four or five refresh, four refresh that we talked about. We will also be looking at some product launches which we don't want to talk about at this point of time, over the next twelve to eighteen months. And Verito sub-4 meter, is already told to you, which will get launched next year and the EV will be launched either end of this year or early next year. So, we will have a series of launches on par. Sometimes it gets dulled, because of the huge series of change, big launches which we had this year, but next year will be exciting as well from a field activity perspective. Second on tractors, like we said that we are going to have an entire new family of launches in FY14, which is generally not understood, because in tractors when you launch, it will not only be for one model, it will spread over some models and variants. So, basically next year is going to be a good year for new launches.
- Vishal Saraf:** Okay. And sir, also you mentioned briefly on model launches from Ssangyong, so just wanted to understand more, when do we see the next launch and is there some waiting period on the current model and how do you see the volumes for that?
- Parthasarathy:** Okay. Rexton here, which is the product that we launched, it is doing really well from a market point of view. While I don't want to comment on numbers per se, what I can tell you is that in a very short span, even though we have not put fully, we have sold about little less than 1,000 vehicles in this small span. And actually we are averaging something, which is next only to the top brand and probably double of all the others in the category put together. So, we think we have done really well in the initial part and the demand seems to be continuing for that.

- Vishal Saraf:** And sir, for the launch...
- Parthasarathy:** Yeah, Vishal can you take it offline? I will explain this later.
- Vishal Saraf:** Sure sir, sure. Thanks a lot sir.
- Moderator:** Thank you sir. And the last question comes from Mr. Nawaz Sarfaraz from IDBI Mutual Fund. Go ahead sir.
- Nawaz Sarfaraz:** Thanks for the opportunity. I have just one question, given the fact that the price differential between petrol and diesel is expected to go down, going ahead, do you foresee a shift in demand towards petrol UVs from currently diesel UVs? If such a situation arises, how are we going to handle the situation, since currently I believe we mainly manufacture diesel UV?
- Parthasarathy:** Yeah, I think this question has already been answered. But, let me try and summarize in two sentences what was said. One is that if the diesel price increases by 50 paise, now in the immediate vicinity there is no impact, because of the huge benefits that diesel UV, a combination of UV and diesel gives us and therefore in that vicinity it will not be a problem. And second one is that world over, there is a diesel, petrol have similar price, but the UV segment with diesel as a base is a reasonable proportion. So, I see from both points of view, it is not. Your next question, the last question was around how are we prepared? We have answered that in the past, one is that we think diesel vehicle will continue to have a future. But, if required, we are prepared and will be able to at appropriate point of time bring in. I don't want to talk in details, because that will tantamount to competitive information at this point of time. But, you should clearly get comforted that we are buffered from both sides.
- Nawaz Sarfaraz:** Okay, fine sir. Thank you.
- Moderator:** Thank you sir. Now, I hand over the floor to Mr. Bhaumik Bhatia for closing comments. Please go ahead, sir.
- Bhaumik Bhatia:** Thanks everyone and my special thanks to the entire management team once again and wishing the entire management team the best. Have a good day.
- Management:** Thank you very much.
- Parthasarathy:** Thank you. Thank you for your patience and your time.
- Moderator:** Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good evening everyone.

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**Note:** 1.This document has been edited to improve readability.