



“Mahindra & Mahindra Q3 FY-14 Earnings Conference Call”

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Moderator Ladies and gentlemen good day and welcome to Mahindra & Mahindra Q3 FY14 Earnings Conference Call hosted by UBS Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sonal Gupta of UBS Securities. Thank you and over to you sir.

Sonal Gupta Thank you Inba. Good afternoon everyone. We would like to welcome you all on behalf of UBS Securities in the Mahindra & Mahindra Q3 FY14 Results Conference Call. On behalf of UBS we are delighted to host the senior management team from M&M to discuss the results with us today. Starting with Dr. Pawan Goenka – Executive Director and President, Automotive and Farm Equipment Sectors and member of the Group Executive Board. Mr. V. S Parthasarathy – Chief Financial Officer, Group CIO, EVP Group M&A and member of the Group Executive Board. Mr. K Chandrasekar, EVP - Corporate Finance and Investor Relations and also other senior members of the Finance and IR Team. I would now like to pass the floor on to Mr. Parthasarathy for his opening comments. Over to you Partha.

V. S Parthasarathy Thank you and welcome to all the participants at the Q3 FY14 earnings con call. I will take about five minutes and I will walk you through the economic environment as we see it, Q3 financial highlights and the metrics and finally I will give a glimpse of listed subsidiary financials. First about economic growth, economic growth generally is measured by IIP, GDP or inflation. We have mixed signals, in that IIP growth has been disappointing and investments are negative, however the moderating CAD and the lower inflation whether it is CPI, or WPIs are the positives. It's been a challenging year with demand faltering and the investments uncertain.. Elements of uncertainty like change in government, difficulty in policy does exist. Financial markets have continued to be volatile, both on equity and debt markets and recent monetary policy increased interest rates which impacts demand drivers negatively. However, silver lining is the low base which could help show good improvement and basic vibrancy of our economy. For us the good news is that the agri has been a very high performing sector, with several import moderating measures, oil prices and others have been responding very beneficially and therefore higher rupee realizations have been helpful. CAD looks less threatening now than say in the last June and step by RBI has moderated the currency volatility. The effect of tapering has been now adjusted in expectations to a larger extent.

Now, let me turn to financials. Again, like I do every time I will talk about M&M and MVML together as we use a comprehensive view.

The top line at Rs.10,200 net revenue is flat as compared to previous year, however, EBITDA there is a growth of 11% at Rs.1533 crores and at PAT level there is a growth of 9.3% and our PAT is Rs.1000 crores. The reasons for high EBITDA and PAT performance even though the revenue is flat is because of high focus on material cost and other costs and en-cashing on model mix and better realization during the quarter. So, we had fared better given the constraints of a very challenging environment. Financial metrics, ROCE is around 25% mark signifying the company's continued efficient management of capital and debt equity at 0.27 is low and even

lower than what you have seen in the previous quarters. Company has comfortable cash surplus of approximately Rs.3000 crores and we can say that on a net debt level we are close to zero.

Now let me turn to key subsidiaries and I will talk about three of them:

Tech Mahindra grew revenue at 34% and the Rs.1000 crore PAT grew twofold, more than twofold as compared to the previous year. And Mahindra Lifespaces grew revenue by 18% to be at Rs.156 crores and the profits grew 71% and Mahindra Financial services grew revenue at 28% and had a healthy profit at Rs.182 crores though as compared to previous year there is a little reduction because of provision for MPS. Last, MTBL merger is in progress hopefully if everything pans out right in Q4 you will see this process getting completed and the results then in Q4, you will see as merged results.

With that I will come to a close and ask Dr. Goenka to give his opening comments.

Dr. Pawan Goenka

Good afternoon and welcome to the Q3 conference call. I will very quickly walk you through few areas before we start Q&A. I will talk about the UV and tractor performance in detail for Q3 and YTD. I will talk about where M&M is in the industry cycle and talk about the competitive scenario of industry we operate in. Product launch plans briefly for the next 6 to 18 months, outlook of the industry for the next year and quarter and few words about other businesses that are part of AFS but not M&M Limited which is Ssangyong, Two wheelers, Truck business and the Agri vertical.

So, starting from tractor industry first. The tractor industry cumulative Q3 had a growth of 22.7% which is better than what we had anticipated at the beginning of this quarter. Q1 grew 26%, Q2 21% and Q3 21% all the states now are in a growth phase except for Tamil Nadu which is still showing degrowth. In January the industry grew 16.5% which again was better than what we had expected for the month of January, so full year now we think will be between 18% and 20% for the tractor industry growth which is higher than what I had said last time. The growth drivers clearly are good crops both Kharif as well as the Rabi crop is anticipated to be very good. And the labour unavailability and the rising wage cost that continue to be the problem for the industry and therefore driving tractor demand. We expect that the production of agriculture commodity for this year will be higher by 2.3% for food grains, 6.7% for cotton, 1.1% for sugarcane, 3.9% for fruits and 4.1% for vegetables. Within this, for Mahindra & Mahindra our performance improvement in volume is Q1, Q2, Q3 at 26.2%, 22.3% and 22.1% overall 23.6% which is slightly better than the industry and therefore we have a market share growth from 41.1% roughly to 41.4% as Parthasarathy mentioned that overall we have an increase in profitability OPM percentage both for the tractor and automotive business right now I am talking tractor. The implement business which is what we called Applitrac which is farm mechanization, almost doubled in volume for the year and the Zaheerabad plant which we had started about a year ago now is producing over 100 tractors per day, so in some sense it was timely for us because the plant was ready just when the tractor industry started picking up.

We have seen challenges in couple of areas in tractor business one of them on the exports where the export billing volume is down by about 13% but I should add that if we look at retail of tractors

we have done very well because MUSA that is Mahindra USA had seen a 40% improvement in the retail of tractors this year though the billing has been same as last year. And the Powerol business which is our engine business also has seen a downturn this year with the industry in all the sub segments of engines that is telecom, small DG sets and large DG sets continuing to be degrowing. So, overall sales volume for the quarter was Rs.78,600 which is a growth of 21% and the profit has been mentioned earlier was an improvement of 37% for the tractor segment.

Just little bit on the material cost as we had said last time also and that trend continued that for the quarter or for the year up to date the overall increase in material cost has been subdued and the tractor industry and auto industry both have seen around 2.5% to 3% increase point to point in the material cost commodity material cost during the year and we expect next year also to be about the same. For the tractor side, overall control on inventory and therefore working capital management is very good. Our total inventory of finished goods between dealer and the company is about 7.5 weeks which is a norm for the industry. On the agri side, the agri business as we call agri vertical which consists of fruits and vegetables, consist of agri input and the micro irrigation business so a growth of 25% for the year, so this business and the Applitrac business though very small right now are our growth engines in the agri business with about Rs.300 crore revenue in the nine month coming from agri business and about Rs.170 crore coming from Applitrac.

I have already talked about our Powerol segment being slow this year and therefore this business has seen 17% degrowth during the year. However, we have performed very well in what we call the low capacity genset where we are now number two in the industry. Moving onto automotive sector, for the sector as a whole or for the industry as a whole in the nine months the only segments that have seen a growth are the pickup segment and the two wheeler segment, pick up of course is a strong hold of Mahindra and I will talk more about that and two wheeler growth also is timely for Mahindra because we are just about beginning to ramp up in the two wheeler business, I will come back to that little later. But other than these two segments, if I look at the industry overall without the two wheeler industry, it is down by 8.7% for the third quarter. Slowdown continued in the month of January, in fact the industry was down by 13.6% in the month of January, without counting two wheeler again. For heavy commercial vehicles this is the lowest volume that we have seen since F'09, we expect that the volume this year will be around 86,000 trucks which is about half of what it was just two years ago. For cars, the volume again will be lowest since F'2010. Industry capacity utilization also is very poor, only 50% for passenger vehicles and about 20% we estimate for commercial vehicles and the discounts that you normally see at year end are continuing into the month of January because of sluggish sale in the month of January.

For us, the bright spot obviously is the pickup segment where we have grown our market share to as high as 65.8% from what was 53% last year and all the products that we have launched in the last 6 to 9 months as variants and some new products have performed very well in this segment. The UV segment of our market share continues to go down somewhat and now we are at about 38.5% and as I have said earlier that given that the segment that is growing right now is not the segment where we have major strength in, this trend continued into the two or three quarters but I will talk little later about the new product launches and how we expect to see this turnaround in some time. We have seen marginal increase in market share in the sub-1 ton category where we

have seen marginally, increase in market share for us in the three wheeler category. The truck business continues to be slow as you know industry is down and so are we and we have maintained the market share as it was last year, but it's a very small market share so right now it is not something to talk about.

I talked earlier about the UV segment I just want to take a minute on that because it's important for you all to understand the performance of M&M in that segment and what future holds for us. So, the UV segment as you all know has significantly changed its dynamics and I will kind of talk about UV1 and UV2 sort of two sub segments in the UV segment, UV1 being the sub-compact or the small UVs which is less than 4.4 metres as defined by SIAM and UV2 being above 4.4 metres. Just about two years ago ratio of UV1 and UV2 was 40:60 and now that ratio has become almost 60:40 or let's say 55:45 and therefore there is a significant swing in the overall sort of content of this segment. As far as Mahindra is concerned, our market share in UV2 segment which is the larger UV has not changed in fact it remains about what it was two years ago, it is the UV1 segment where our market share is low and that segment is growing and that's the reason our overall market share has gone down. So, let me look a little bit into the future. As we go into 2015 calendar year and this I have said before also that in 2015 calendar year we were launching new products and we have three new platforms that we expect to launch in that 2015 calendar year, two of these are going to be sub-compact UV platforms and one of them will be commercial vehicle platform and once we launch this platform then we will have a very strong offering in what we call the UV1 segment what I just mentioned as UV1 segment and continuing with our strong product line up in the UV2 segment and that will then allow us to cover both UV1 and UV2 with a very strong range of product and that will then allow us to claw back the market share loss that we have seen in the last nine months or so. Till that time we will have to manage with the market share that we have right now and we would expect that we will continue to have about 40% market share in the financial year '15.

Few highlights for third quarter, Scorpio which as you know is in its 12th year now, actually had its highest ever month, best ever month in October 2013 month when we sold 5230 vehicles. XUV sales also have turned around and I think we had talked little bit about XUV in the last conference call where I had mentioned that for XUV to reach a volume of 3,000 consistent will be a delight and a volume of 2500 will be something that is an acceptable volume for us. In the last two or three months we have seen our volumes around 3000 or higher and therefore we think that we have turned the corner in XUV and now we are hovering around 3000 volume consistently if we continue to that over the next three to four months and there will be very good sign for us that XUV now has reached the steady state of about 2800 to 3200 vehicles which for vehicle in price range will be a fairly good volume to have consistently. As you know that OPM for the auto business also has improved over last year and the last quarter both which is a pretty good sign that in spite of the slowdown in the volume we have managed to increase profitability and that has happened because of combination of model mix being more profitable as well as our ability to pass on all the material cost increase to in terms of sales price.

Little bit on SYMC, SYMC performance say by 2013 is known, we had grown 21% in volume, the highest sales volume increased in Korea amongst the five Korean manufacturers that we have

and we still have not had the Board meeting for this quarter of Ssangyong, that will happen next week and only after that we can announce the financial results. The key challenges for the automotive industry remains that industry slowdown is continuing and I will talk a little bit about how we see the next 12 months and till then should it turn around I guess all the players will be little bit in a mode of losing volume and profit. Sales volume for the quarter was down 11% and profit and Partha mentioned earlier was down only about 4.4%. Here also, the working capital management in terms of inventory both company inventory as well as dealer inventory was under control and there are no issues in terms of creditors or debtors. So for F'15, I had already mentioned about the tractor.

So, I have not mentioned tractor, so let me go back to tractor first for F'15 in the tractor side after or about 20% growth in F'14 we expect to see 8% to 10% growth in F'15 and we are kind of balancing to two factors to come to that 8% to 10% number, one is that we are coming of a very good year and therefore we will be in a very high base and therefore the high base as you know will tend to deduce the percentage increase from there and on the other hand the farm prosperity is very good this year, both the crops being very good and therefore that will drive tractor sales for next year and therefore overall balancing these two factors and expecting a reasonable monsoon overall balancing all these tractors we think 8% to 10% is good industry growth to plan for in terms of where we are budgeting. On the auto side there is more uncertainty, I have said in the past and repeating again that on the passenger vehicle side there is no major reason why we are in a degrowth phase in the industry because after all the economy is growing at 4.5% which is not insignificant growth after all the demand the pent-up demand for automobiles has not disappeared, there is also still a need for automobile and the affordability for automobiles have not also become worse now that it was say two years ago and therefore we think that the passenger vehicle demand can turn around any time, any trigger to make the demand change will help us in turning that around it and could happen with anything on Monday and vote on account though unlikely it could happen with election results it could happen if some good news comes on overall macroeconomic factors but we are counting on and this pretty much everyone in the industry though SIAM has not given a forecast this year but most industry players are looking at single digit, high single digit kind of growth for next year so I would say that 7% to 9% growth in the automotive sector is reasonable growth to expect for next year again the growth numbers will be different for different sectors and we can talk a little bit more about that if there is an interest in that during Q&A.

On the commercial vehicle side on other hand the growth will depend on what happens with overall economic situation, the infrastructure projects, the mining ban, the manufacturing activity and if all of those have to turn around for commercial vehicle to go well, so therefore commercial vehicle turnaround will be little bit more difficult I think than passenger vehicle but we would still think that given that we have had a fairly big degrowth we will see here we will see a positive growth for commercial vehicles in next year, so I will stop here and take on questions.

Moderator

Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. Our first question is from Kapil Singh of Nomura. Please go ahead.

Kapil Singh My first question is, how we think about the interplay between market share and profitability especially given the view that there could be some time before the new products come up so we have been able to manage that very well last year in tractors and this year so far in UVs, it's again strong cost management but just from a discounting and market share perspective if you could share your thoughts?

Dr. Pawan Goenka Well, we have not gone into very heavy discounting to gain market share and as you have said yourself that we have kept our eyes on the profitability and manage to get higher profit margin rather than go after high market share and that's the same sort of philosophy that we are going into FY15, well, we will balance and it's a dynamic game that we have to decide every month on what is right level of incentives that we are sort of giving, what volume we should be targeting and what profit level we shall be targeting and we will try and do a balance similar to what we have done in FY14 in terms of where we put our trust.

Kapil Singh Is there a priority that you will have like between market share and profitability, what comes first?

Dr. Pawan Goenka There is no answer, I have asked all the analysts that what would you like to see first and I get 50-50 divide between the two but I mean kidding aside, yes there are certain general directions that we follow but clearly it will not be prudent for us to talk about that in this call, there are some directions that we follow there, we do focus on ROCE because that really then becomes important as to what kind of return we are getting on the investment that we are making which becomes a major criteria and therefore we would try and optimize the volume that gives us the best ROCE in some sense. Again, as you know very well that this is not an exact science and this also we cannot use a formula but we will try and use our best marketing judgment and financial calculations to come to that right balance between what will give us the best profit, not best profit margin but best ROCE.

Kapil Singh And secondly on the new platforms we talked about new platforms coming in CY15 so is this starting CY15 or all of them come in 2015?

Dr. Pawan Goenka Starting CY15.

Kapil Singh Is there any thought you have like the pacing of new platforms because this time we saw that there was slurry of new launches then a period of no launches?

Dr. Pawan Goenka See if we launch three new platforms in FY15 or CY15 there will be again nothing happening for a while because we cannot be doing three new platforms every year then that would mean that we are investing far too much money on new product development so three platforms in CY15 would really I mean the primary thing for us right now the primary gap for us right now as you all know very well so I am not saying anything new is what I call the UV1 category where the sub compact category where we don't have strong product and with two products that we will launch in that category in CY15 in the UV segment we would have a very strong product portfolio with two new compact UVs with Quanto, with Xylo, Bolero, Scorpio and XUV and also the Rexton of course and therefore there is no need for us to have a brand new platform in that segment and we will be

in a mode of doing refreshes and variants on these vehicles. On the other hand commercial vehicle side we have some areas where we need to look at some gaps that we have so one platform that we launch in 2015 will take care of one such gap and then we will be looking at further new launches in commercial vehicle segment but we will always constantly have refreshes and variant that will be coming up in all the existing platforms.

Kapil Singh Final question from my side is, is there any thought you can share on the growth rates you expect for the industry for UV1 and UV2 maybe for both short term and long term.

Dr. Pawan Goenka Yes, so my estimate first of all is that there is still little more room for UV penetration to grow in the passenger vehicle segment this year has been about same as last year and last year was a growth over the previous year so we are at about 22% - 23% of overall passenger vehicle segment comes out of UV which is UV1 plus UV2 everything together in that till two years ago the UV2 was dominating at about 60% share and now UV1 is dominating at about 55% share my guess is that the growth will continue to be higher in the UV1 segment and we will see in fact all the product launches that you see coming up that have been announced on the Auto Expo and that I am announcing here for Mahindra & Mahindra are all in UV1 segment, you are not hearing any new product launches in UV2 segment and therefore UV2 segment is not getting too much attention from various OEMs which is good news for us because we have very high market share in UV2 segment and whatever UV2 segment is we don't expect it to de-grow much but we expect it to remain about where it is and therefore we would continue to have a good sort of base in the UV2 segment. In the UV1 segment which is the faster growing segment and where we have new products coming up and everybody has new products coming up that's going to become a battleground. And overall winners in UV segments will then be decided on how we perform in UV1 so we have an advantage of having a strong base in UV2 which will add to the volume or the market share that we get in the UV1 and give us a pretty decent overall market share in the UV segment, I hope that answers your question.

Moderator Thank you. We will take our next question that's from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao Just wanted to ask you on the two wheelers I mean during your opening commentary you mentioned that you will come back on that, I guess if you can just throw some light on what your strategy is given that we are seeing the industry is A, facing below trend growth and fairly aggressive competitive activity particularly from Honda so what's Mahindra's place in that?

Dr. Pawan Goenka Thank you for asking the question since I said my colleagues were looking at their watches so I have to skip few of my notes, so now you gave me a chance to get back to two wheeler. So, two wheeler segment you know sort of the background in it so I won't repeat any of that so good news for us in that Centuro product that we launched in September of 2013 has been perhaps the biggest hit in the two wheeler segment, in the year this product has won six awards in the various auto awards this year and is doing very well, so with the Centuro product we kind of have what I would consider serious entry into this segment and we will end this year at about 250,000 volume and looking at volume which will be more than double, normally we don't give a guidance on volume

but certainly in two wheeler segment which is a growing segment for us more than doubling the volume will be minimum expectation going into FY15. Now, this will happen on the strength of Centuro doing better meaning in the sense that this will get full year of Centuro and volume will continue to grow a little bit from what we have in terms of monthly run rate on the strength of exports growing and we are counting on exports to be about 50,000 plus in next year and looking at some five or six markets where we will have a serious entry into export and export in two wheeler is a very material part of the strategy and two wheeler growth for anybody to get serious two wheeler player in India having a significant presence in export is almost given. So, therefore that's very important part and third element is launch of new scooter which we will be doing in the first quarter of the year and that would then give us our serious entry into the scooter and if that product also performs as well as Centuro does then that's again very important for us then we do expect to hit our volume target that we have for the year. I have said earlier I do not know if I have said that in this conference call but I have said earlier that for a company to kind of breakeven in the two wheeler space in India we have to be selling about a million two wheeler in a year at a gross margin of about 20% and therefore our strategy I have talked about how we are increasing our volume our strategy also has to see our gross margins going up and we need to be moving towards 20%. We are no way near that in FY14 we will not reach there in FY15 but that will be our ultimate objective before we can say that yes we have arrived in the two wheeler space, so right now what we are looking at is how do we get to that million volume and how do we get it 20% market share combination of focus on material cost reduction combination of domestic and export volume and combination of Centuro performance continuing or doing better and the new product launches one of which I mentioned is scooter which is happening in FY15 and beyond.

- Moderator** Thank you. Our next question is from Sahil Kedia of Barclays. Please go ahead.
- Sahil Kedia** I have one clarification. The platforms that you mentioned that will be launched in UV1 is this going to be in conjunction with Ssangyong because in some of the earlier conference call you had mentioned that there will be some joint work with Ssangyong that is happening, can you just clarify that?
- Dr. Pawan Goenka** No these platforms are work started before Ssangyong, so these platforms do not have Ssangyong synergy.
- Sahil Kedia** So is it correct to say that the earlier format-
- Dr. Pawan Goenka** I correct that slightly the engine that will go into one of these vehicles will be coming out of the synergy project and engine synergy project of Ssangyong but not the vehicle itself.
- Sahil Kedia** But there is a separate program that is going on with Ssangyong as well is that the right way to think about this?
- Dr. Pawan Goenka** That is correct we are working on other programs with Ssangyong which will be talked about later right now I am talking CY2015 in CY2015 the product that we are launching will not be coming out of that synergy project.

- Sahil Kedia** And one more follow up question if I may. At the Auto Expo there was an automatic manual transmission that was shown on the Quanto how close are we to commercially launching that and is that likely to be applicable on other models as well in the future?
- Dr. Pawan Goenka** Six months, right now we are planning it on Quanto now as you know that there are many manufacturers now who are launching this AMT transmissions so we will watch the market and if we find that AMT is kind of getting in favor with the customer then we would look at launching that into other platforms it is doable, right now we are starting only with Quanto.
- Sahil Kedia** And the gearbox is localized in India I would assume in the sense that is it?
- Dr. Pawan Goenka** Gearbox on which the AMT mechanism fits is fully localized in India. The AMT mechanism has import content and not all of that can be localized easily.
- Moderator** Thank you. Our next question is from Chirag Shah of Axis Capital. Please go ahead.
- Chirag Shah** My first question was on quadricycle if you can share some light on that, would you be ready for launch of quadricycle by when and how are you looking at that segment? I wanted to understand your views on quadricycle. How are you looking at that segment? ...
- Dr. Pawan Goenka** We can talk about quadricycle but it is like too much time out of this and I don't think it could be the main stay of this conference call.
- Chirag Shah** Fair point. Can you share your CAPEX outlook it would be helpful, what you had spent this year and what would be the CAPEX for next year?
- V. S Parthasarathy** Chirag you have heard us telling that our CAPEX for three years including this year will be Rs.7500 crores and investment Rs.2500 but we are talking about CAPEX so CAPEX is Rs.7500 and that's what is the figure we are still working with and maybe after the year is over in May when we talk about Q4 results we will talk about what will be the outlook for the next three years but as of two we look at the same figure and your next question was how much have we spent so far for the first nine months, yeah on a very broad level Rs.2000 crores is what we can say and within that about Rs.1300 crores of CAPEX okay.
- Chirag Shah** Just a follow up if I can just get a clarification on the three platform that you highlighted, so you will be launching from CY15 this would have numerous model from platform you would be able to launch more than two models would be the right way of looking at it?
- Dr. Pawan Goenka** In the long term yes, when we start a new platform we typically will come out with one product which will have two or three different sort of levels of content so let's say that the platform A will have model A1, A2, A3 but these are the same models with let's say different frame, different features right. As you go into future then we do variance on the platform that's when you will see more products coming out so you will not see more variance coming out in CY15 you will see variance coming out in '16 - '17 and so on.

- Moderator** Thank you. We will take our next question from Jay Kale of IDFC Securities. Please go ahead.
- Pramod Kumar** This is Pramod here. My first question pertains to your FY15 tractor forecast, just want to understand, are you building in any improvement in the non agri usage of tractors and given that historically it used to be pretty good when the economy activity was higher so what is your reading of the non-agri usage and how much of comeback are you assuming in your FY15 in forecast for tractor.
- Dr. Pawan Goenka** We are expecting that the non- agri slowdown that it had happened in the last two years because of mining and some of the infrastructure would partially come back, so when we talk about non-agri uses, non-agri use also has two parts one part is just haulage, so that haulage part has not slowed down because that has haulage of the agri output that is not slowed down what has slowed down is the mining, infrastructure that will come down somewhat, it is not such a big part of the overall tractor industry that it's coming back we will have a significant impact on the growth rate predictions so I could probably say that out of the 8% to 10% as I said perhaps half a percent is because of that but it happens or doesn't happen is not going to make 8% to 10% become 5% or 15%.
- Pramod Kumar** And one clarification on your two UVs in the UV1 category what you talked about for 2015. Is it that it will be one platform with two different level of vehicles?
- Dr. Pawan Goenka** Two different platforms?
- Pramod Kumar** And what would be the rough cost of per platform right now,?
- Dr. Pawan Goenka** Cost of development now per platform is about Rs.1000 crores, somebody in fact asked me that how come the Rs.600 crores become Rs.1000 crores and I reminded that Rs.600 crores was in 2002 and this is 2014 so if we have increased by 80% in 12 years we are far better than inflation and more over the newer products now have much more technologic content than it did say in 2002 both in terms of emission norms, the safety norms, and the features that we put in and therefore it is out of Rs.1000 crores now.
- Pramod Kumar** And any comment on Ssangyong relaunch in US as there are some articles doing around that Ssangyong is looking-
- Dr. Pawan Goenka** I think again that's a question that's probably we should take offline.
- Moderator** Our next question is from Govind Chellappa of Jefferies. Please go ahead.
- Govind Chellappa** I had a question on the growth in UV1. I want to understand what is driving that growth, all OEMs as you rightly mentioned are assuming that that's the segment that will keep growing what is the basis for that assumption?
- Dr. Pawan Goenka** It's very simple what UV1 is doing is it's giving you best of all worlds you are getting a compact vehicle and therefore easy to maneuver drive like a hatchback or low-end sedan so people who

would otherwise not look at your UVs and only consider hatchback or low end sedan or entry level sedan would now also look at UV1 vehicle because it fulfills that requirement of being compact maneuverable easy to drive, okay. Second is the UV1 vehicles are typically built on a car chassis that may not be a derivative of a car but our chassis which we called monocoque chassis which is a like a car and therefore they have the comfort level like a car so they are not really performing like you would expect SUV to perform these are not rugged off road vehicle these are more of a vehicle which have look and feel of UVs but comfort and driving of a car so when you are driving UV1 you feel like you are driving, you feel like you are sitting in a UV but driving a car. And these are more affordable because these are smaller vehicle so you get it for Rs.6 lakhs Rs.7 lakhs, Rs.8 lakhs versus spending Rs.10 lakhs – Rs.12 lakhs for UV2 vehicles and therefore you are attracting a much larger customer space everybody who is buying a premium hatchback today or entry level sedan today which is the biggest portion of car buyer will be attracted towards UV1 and therefore the pond that you are fishing from is much larger for UV1 than it is for UV2 and that's what is driving the UV1 growth.

Govind Chellappa

Yes, just related question we have seen UV1 segment growth precisely the same time when entry levels of sedans have also grown so it looks like people are shifting either up from a lower price point or down from a higher price point it doesn't look like people are shifting from entry levels sedan to UV.

Dr. Pawan Goenka

You are absolutely right in your observation we see a lot of down trading that we are seeing happening and if you look at the D-segment vehicles, D-segments vehicles have not done very well recently in fact even now XUV which is selling roughly 3000 as I mentioned earlier is more than all the D-segment sedans combined in terms of total volume so there is some down trading that is happening and similarly updating that is happening for those who are buying 3,00,000 – 4,00,000 car now looking at 5,00,000, 6,00,000 car and therefore this whole segment of Rs.5 to Rs.8 lakhs is becoming a very attractive segment.

Moderator

Thank you. Our next question is from Pramod Amthe of CIMB. Please go ahead.

Pramod Amthe

Two questions one is with regard to the MVML financials. There seems to be a substantial jump in the both EBITDA and PAT versus the September quarter what had changed in MVML?

V. S Parthasarathy

So, like I said when you do individual either entity M&M or MVML you will get kind of distortion which is why we always recommend that you combine them and see but just to give you a perspective to you it is a question of throughput that is coming out of MVML if you go couple of quarters back you will see the same kind of profit EBITDA, PAT that you saw this time in MVML okay, even then so it is not distorting it's only higher as compare to the last quarter and that is because of throughput. So, is there any other part of the question that is only on MVML.

Pramod Amthe

Second question is with regard to your product strategy. Looking back the success of XUV 500 where you created a segment or your product was a differentiated version into the marketplace as compare to that Xylo versus Innova which played out and which hasn't come up to the expectation

so do you think second or third more strategy will still work for you in the UV1 strategy or what is the earning and how you want to correct that going forward?

V. S Parthasarathy

XUV... you are prime mover according to me.

Pawan Goenka

Very difficult to answer the question unless I have a dialog with you. See any new platform or product that we launch or anybody launches for that matter clearly we don't go into the launch thinking that we will not create a sensation so both the products that I have talked about there are certain elements that we think would be new elements which will help us to define a niche for our service in that sub segment but time will tell but not everything we hope pans out that way sometimes it does and sometime it don't and that's what it needs to success or no success of a product so we will have to say how it goes and come to the launch and see what we have and see if you are going what we launch.

V. S Parthasarathy

Yes, when we have that offline discussion also tell me where will you place Scorpio in when it came in.

Moderator

We will take our next question from Mihir Jhaveri of Religare Capital markets. Please go ahead.

Mihir Jhaveri

My question is related to tractor segment, we are being seeing continuously tractor margin improvement quarter after quarter so I just wanted to have your thoughts whether we see further levers into margin expansion in the tractor segment that's my first question.

Dr. Pawan Goenka

Okay, no short answer so you will have to bear with me. See, the reason you have seen the OPM improvement in tractor this quarter and for this year in fact is because three things aligning at the same time and all three driving towards profit improvement. The first one is a volume, so any time you see such a big volume growth 20% kind of volume growth it always helps you to improve your profit margin even if nothing else changes because clearly your fixed costs are getting distributed over a much larger volume and fixed cost don't grow at the same pace at the volume and that's why their fixed cost and therefore higher volume certainly helps you with the margins. The second one is the material cost and normally when you see higher volume growth you will see a higher material input cost growth also but this time since auto sector is down the input cost, commodity cost have not gone up significantly and that has therefore helped us to pass on all the material costs increases in our selling price and third is the overall internal factory cost so what we call is system cost which again this time the factors all came together in a way that helps us to reduce those cost by almost one percentage point. Now, these three things aligning together don't happen every year, normally you will get maybe one or two positive things not all three but if we get two more years of this positive alignment let's say if we get two more years of 20% plus growth then certainly we would see an improvement in margin but that is no way for way to predict today that we will see an improvement in margin point.

V. S Parthasarathy

And just wanted to add one thing that this quarter the OPM 15% was higher than last previous quarter by 1.5 percentage point and it were the best in the last 12 quarters meaning after 11 quarters we have seen kind of things and more important even auto sector the margins improved this quarter

the profit in a lower profit was only 4% for the segment as oppose to the revenue which was lower by 10% so it's not only in tractors that you saw but you saw because of the other two material cost, cost control, price realization, all of being aligning even auto was better okay this quarter.

Mihir Jhaveri

Second, if you can throw some light on terms of Ssangyong what is the strategy going ahead and what are we looking at new products in the Ssangyong platform for the next one, one-and-a-half years?

Dr. Pawan Goenka

See, I can only talk about Ssangyong, what has already been discussed previously so in Ssangyong the next major launch for us is the X100 launch which will happen in the first quarter of calendar year 2015, this is a very major launch for us and we are counting on significant volume growth to happen from this launch. We have also mentioned earlier that Ssangyong as a company plans to invest about 1 trillion won in new product development and capacity enhancement in the next four years which would clearly mean that we were launching more products beyond X100 in the next two to three years. We have given our volume guidance for Ssangyong which is 160,000 vehicles for calendar year 2014 and also we have said that we expect to double the volume in three years for Ssangyong which includes growth both in the domestic market as well as in markets outside Korea as you are aware perhaps Russia is the largest market for Ssangyong we continued to keep a momentum in Russia and we hope to continue to keep a momentum to Russia and grow China at next big market that will be coming up for so that's where we are at Ssangyong.

Moderator

Thank you. Our next question is from Kaushal Maroo of Emkay Global. Please go ahead.

Kaushal Maroo

Would it be possible to break up the UV segment into commercial and personal categories and the respective growth rates in these segments.

Dr. PawanGoenka

So, yes we can but see till three four years ago a very large uses of UVs was in commercial segment okay and therefore that time it was very important for us to do this break up between commercial and personal segments however now with specifically with the UV1 almost all of the usage is what one would call personal segment uses though there will be some taxi use which is there in passenger cars also and therefore we don't look at the commercial and passenger segment as much as we used to four – five years ago.

Kaushal Maroo

And specifically referring to the UV2 segment which is where we are strong?

Dr. Pawan Goenka

Yes UV2 segment, even in UV2 segment if you look at the UV2 the way it is now what we have is XUV, what we have is the Scorpio and even the Bolero now is not as much in the commercial segment. It is mostly in the personal segment and therefore the commercial segment usage of UV even for UV2 has become less than what it used to be earlier and we don't frankly we don't even track what percentage of it goes into commercial segment.

Kaushal Maroo

And second question is what is leading to this bucking the trend from the pickup segment versus all other segments in that category.

Dr. Pawan Goenka As long as it keeps doing well I don't need to know but see these things go very much on what I would call operating financials and two years ago the operating financials were such that they were favoring the sub-1 ton vehicles and therefore you saw a huge growth in the Maxximo Ace segment for almost three to four years continuously you saw that growth. But the pickup segment kind of kept its own in degrow but didn't grow much. Now, somehow that mechanism or the overall viability shifted more towards the pickup segment and I cannot tell you why that is the case but it has shifted more towards the pickup segment therefore new buyer, it is most profitable to put his money and for buying 2 to 3.5 ton vehicles and that's what is reading I think to the growth in the pickup segment and we are very happy with it because we are obviously the waiting player in that segment and our market share has earlier grown from 55% to 69% which suits us quite well.

Kaushal Maroo Could this be because of higher diesel price and per ton cost of carrying the good gross?

Pawan Goenka If I was to kind of take my answer little further it also a function of the new products that had been introduced in the segment so if you look at what has happened in the last two years the sub-1 ton segment has seen no new product being introduced so we have the Maxximo we have the Ace we have one or two other products but those have been there for quite some time and we have not seen a new product being introduced in that segment well in the pickup segment there are several new products that have come out so those were introduced by Ashok Leyland about two years ago, not two years but less than two years ago. Mahindra has introduced their new BMT, Mahindra has introduced Refresh and Tata has introduced Super Ace and therefore there are many new products that have come into this segment which also always leads to a growth of a segment when new products are being launched.

Moderator Our next question is from Ambrish Mishra of JM Financial. Please go ahead.

Ambrish Mishra Just wanted to get a thought on you said next quarter we will reflect the merger of MTBL wanted to check in case of MVML once we merge this entity what would be incremental be in MVML apart from let's say some capacity what all it will form about.

V S Parthasarathy See MVML is the manufacturing arm which manufactures many products what currently it was doing for M&M and MTBL okay, so in a sense your question is after it merges will it be almost a captive production unit and Pawan I think broadly the answer is yes, okay so we may have some production done for something some other unit but broadly it caters to both these companies yes so does that answer your question.

Ambrish Mishra In that case I just wanted to understand I mean for one thing is what has been the status I think we were now looking at and let's say auto units were struggling for this tax incentives for Chakan that was I think one of the reasons why we set up this entity if I am not wrong so what is the status there and are we looking at in case these incentives are not expected to come back let's say come through in the near future are we looking at merging MVML at some stage in the near-to medium-term.

- V. S Parthasarathy** So, let me just first answer the first part of the question and then the second part of the question is asking about what we will do in future but you know our answer what it is going to be. But, coming to this that I think we set up the unit to get some incentive and also create a fiscal vehicle which will serve M&M and some of the joint venture companies which we may have in the fold and it has served both purposes. It has also incentives what had been which we are still getting. There were some disputes between whether we could get something more and it was our contention that at the time when the venture was formed it was in some form committed by the government but that's water under the bridge now, yeah, but we are getting incentives which we continue to get from them. Merger in a future date is the question of strategy to be taken at that point of time and we will be very transparent whenever we take the decision we will be transparent and come to you but as far as future strategy is concerned for the time being we can say all options are open.
- Ambrish Mishra** And just one last question, can you share the price hike that we must have taken on both farm equipment and automotive side?
- Dr. Pawan Goenka** In the quarter there was 0.75% increase in the quarter for tractor prices and automotive 2.1% average.
- Moderator** Thank you. Our next question is from Ajay Sethia of Centrum. Please go ahead.
- Ajay Sethia** My question was on Zaheerabad facility on tractors would that facility be catering to both the brands Swaraj as well as M&M and in terms of engine sourcing the engine facility would be integrated over there or how would that work?
- Dr. Pawan Goenka** Okay, so ultimately this facility will be making both Mahindra and Swaraj tractor that's the way we have planned it but right now we are focusing on Mahindra tractors because we have used up all the capacity for Mahindra Tractors, so currently all the vehicles that all the tractors were making there are Mahindra tractors but we will perhaps in FY15 maybe second half, they will start doing Swaraj tractors also there, number one. Number two we are doing engine assembly in Zaheerabad but we are not doing machining right now we have provision for doing machining in future and that we will decide at point of time whether we want to invest in doing machining engine and that's purely a decision based on financials if it is cheaper for us to machine and supply directly from the Zaheerabad plant itself for the assembly we will do that right now the volumes do not justify doing machining in Zaheerabad.
- Ajay Sethia** And just a follow up on this we understand that Swaraj engines is catering to Swaraj brand of tractors in terms of the engine requirements once you sort of in FY15 start the facility is dedicated to both the brands M&M plus Swaraj brand of tractors how would that work in terms of?
- Dr. Pawan Goenka** But that doesn't make any difference because Swaraj engine is still catering to Swaraj tractor but that is made in Zaheerabad plant or that is made in Mohali plant.
- Moderator** Thank you. Our next question is from Jinesh Gandhi of Motilal Oswal Securities. Please go ahead.

- Jinesh Gandhi** Just a question on Powerol business you indicated decline is 17% in nine months right?
- Dr. Pawan Goenka** That is correct yes.
- Jinesh Gandhi** And what would be revenue for the quarter?
- Dr. Pawan Goenka** Quarter revenue for the month it is, for the nine months it is 560 is for the nine months, we do not have readily available the quarter numbers.
- V. S Parthasarathy** Yes so roughly 170 is for the quarter-
- Dr. Pawan Goenka** We don't have readily available the Powerol number.
- Management** Net revenue is 173.
- Jinesh Gandhi** And second question pertains to this merger of Mahindra trucks and buses. Would we be utilizing entire tax benefits which we will be having in FY14 or that will be actually spilling out of FY15?
- Dr. Pawan Goenka** No, it will go on many years.
- Jinesh Gandhi** Can you indicate what kind of?
- V. S Parthasarathy** It will take couple of years to get that, we will get that reasonable share this year but because we are on MAT it will spillover to next year or even year after that. We will share small granular details in Q4 when that merger happens. What I wanted to let you know or when you are planning for your next year I did not want to surprise you later that the merger will happen in Q4 and that's why I gave that as a key message.
- Moderator** Thank you. Ladies and gentlemen that was our last question. I now hand the floor back to Mr. Sonal Gupta for closing comments.
- Sonal Gupta** So, just on Dr. Goenka you mentioned that 1000 crores per platform does this include the tooling cost as well?
- Dr. Pawan Goenka** Yes of course the Rs.1000 crore is engineering, prototyping, validation and all the toolings that we have to do specific to that product so normally when we talk about Rs.1000 crores we will not include any expenditure on paint shop and press shop because that's taken as generic capacity but we are typically including investment that we will make on the body assembly line as well vehicle assembly line, including all the toolings that go in to this and the vendor tooling.
- Sonal Gupta** Great sir. So, behalf of UBS Securities I would now sincerely like to thank the senior management team from Mahindra & Mahindra for taking out the time to discuss the results in detail. I would now like to pass on to the floor back to Mr. Chandrasekhar for his closing comments.

K. Chandrasekar Ladies and gentlemen I am not going to be long. Thank you very much for attending this call. I hope you have got some clarifications out of this and also some outlook and as a new practices will also flash the key highlights of this call by way of a small publication on the website. Thank you very much for your patience and good night.

Moderator Thank you. Ladies and gentlemen on behalf of UBS Securities India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.