

Q1FY12 Post Result Conference Call Transcript of Mahindra & Mahindra Ltd.

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Operator

Ladies and gentleman good day and welcome to the Mahindra & Mahindra Q1 FY12 Results Conference Call hosted by Prabhudas Lilladher Private Limited. At this time I would now like to hand over the conference to Mr. Surjit Arora from Prabhudas Lilladher. Thank you and over to you Sir.

Mr. Surjit Arora– Prabhudas Lilladher

Yeah, good evening everyone. First of all I would like to take this opportunity to thank the management of M&M for giving Prabhudas Lilladher the opportunity to hold this call. Let me introduce the management team to you, we have with us Mr. Uday Phadke President Finance, Legal and Financial Services Sector, Dr. Pawan Goenka, President Automotive and Farm Equipment Sector, Mr. V.S. Parthasarathy the Group CIO, EVP Finance Mergers and Acquisitions, Mr. K.S. Chandrasekar, EVP Corporate Finance and Investor Relations, Mr. S. Venkatraman, Controller of accounts along with other senior management personnel from M&M including the IR team. Now I would like to hand over to Mr. Uday Phadke for his opening remarks and also to take us through the Q1 FY12 Results. Over to you Sir.

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

Thanks a lot. So last few months the economic environment has been quite uncertain and volatile and becoming more and more difficult but we are happy that in spite of these factors, our company has been able to report a good first quarter. I am going to very briefly deal with what are the main financial highlights and then hand over to Dr. Goenka for his remarks. You would have already analyzed our results so I am not going to get very deeply into it just to point out how the top line has grown by around 30% in terms of net revenue and other income, the EBITDA has grown by 16% and Profit After Tax has grown by around 8%. Operating margin at 13.3%, prima facie shows a decline of 170 basis points over the corresponding quarter but I will shortly tell you what are the factors which qualitatively makes a difference to the operating margin. You would have noticed that in this particular quarter there has been a charge of around Rs. 26 crores to our profit under the head Staff cost on account of the amortization of ESOP charges, in account of ESOP which we issued in the previous year, so these are no new ESOPs but the ESOPs which we should have in the previous year which we started amortizing from last quarter of the previous year that amortization continues and there is a Rs. 26 crores debit in the current quarter. As you appreciate this is a non-cash debit. So if one were to add back this debit then you will see that our profit after tax is up by 12% and our operating margin is around



13.72% rather than 13.33%. Now let me introduce one more angle into it. As you are aware we have a 100% subsidiary called Mahindra Vehicle Manufacturers Limited - MVML for short which is at Chakan near Pune, now that subsidiary is an integral part of our automotive operations. So since last one year we have been telling you what are the combined results of that company and Mahindra & Mahindra taken together. So on that basis when you look at M&M and MVML combined then you will find that the operating margin is actually 14.22% for the current quarter as against 15.22% of the corresponding quarter of the previous year. Add back the ESOP debit and the operating margin actually becomes 14.61% as against 15.24. So I thought this detailed analysis on the operating margin is important because you must identify what are the actual operating efficiencies we have been able to bring out in spite of this climate where the commodity prices are going up, the credit scene is there and the interest rates are firming up. That was mainly on the profit and loss account. On the balance sheet side also we are quite strong. The total debt to equity ratio as of 30th of June is just 0.22 and that will reflect the huge financial flexibility we have for raising further resources which may be required for our capital expenditure and other development program. So I don't want to take more time of you; I would like to leave more time for your questions and answers and now I am handing it over to Dr. Goenka for AFS operations and review.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Good evening. So I will talk very briefly about the operations for the quarter ending on June 30th. By all accounts, this has been a very good quarter for the Mahindra & Mahindra for both in automotive and tractor sectors not just in terms of volumes but also as Uday explained, in terms of overall profit and profitability compared to the industry, based on the results that have been published so far. The highlight for us in the auto sector is the increase in market share in our UV portfolio by about 4.5 percentage points and increase in market share in the tractor segment by about 2.3 percentage points which is a fairly significant gain in one given quarter. Our production number, sales volumes they are all available so I won't repeat them and as Uday said that our OPM is about 1 percentage point below but as you all have heard, Uday has explained to you. The industry growth during this quarter both for automotive and for tractor has been somewhat modest, automotive has grown by about 9 – 10% and tractor has grown about 13% and against that the Mahindra growth has been quite remarkable given that we had a growth of 24% on our automotive division compared to industry of 9.3% and a growth of about 18% in tractor division against industry of 13.5%. In the international market also we had a very good growth. Automotive segment grew 83% in overseas and tractor grew by 20% in the overseas market. The new products that were launched during the quarter were Genio double-cab, the Maxximo Minivan, Scorpio EX series and Verito which was renaming of Logan with some minor changes to the product. In the month of July when the results have been out, our growth has been 40% for the automotive sector and about 16% for the farm equipment division, combining both Mahindra brand and Swaraj brand. All the details are available with you so as Uday said we will not spend too much time in giving update to you, we will just use the time available for any questions that you may have either on operations or on financial performance.

Mr. Surjit Arora– Prabhudas Lilladher

Moderator can we have the Q&A session please?

Operator

Definitely Sir. We will now begin the question and answer session. The first question is from the line of Shreya Gaunekar from Morgan Stanley. Please go ahead.

Binay Singh – Morgan Stanley

Hello Sir this is Binay Singh from Morgan Stanley. Congratulations for a good quarter in very challenging times. Sir I had two questions, firstly could you throw us some light that like last quarter, we remember that because of change in accounting or

change in taxation in Chakan you would have had some impact of reduction in excise duty and so where exactly does it show? Secondly if I look at your segmental EBIT margin in tractors they have gone down but your overall EBIT margin is actually has gone up so you know how does the segmental EBIT sort of ties up with the overall EBIT and lastly if I could just squeeze one more question. Could you give us any idea about other expenses as a percentage of sales, they have trended down on sequential basis were there any one-offs or should we see that? Thanks.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Can you repeat the first question?

Binay Singh – Morgan Stanley

On the first question like we remember that Maharashtra government the issue that was going on, those incentives were discontinued from 15th of March so where does we see; where do we see an impact of that? You know like is it there in the MVML accounts which is separate or are they like your margins have expanded you know?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Actually you will see bigger effect of that on M&M Limited account because of the way the rules have changed, the set-off that was available to M&M for vehicles purchased from MVML will not be available and therefore M&M will not get that VAT refund and hence the bigger impact will be on the M&M account but overall if you would combine and M&M and MVML their total impact of rule change in the first quarter has been somewhere between 0.6 to 0.8 percentage on OPM on a combined OPM of MVML and M&M. Also I should add to that question since that question is very important significant question that right now we are in constant dialogue with the Government of Maharashtra and we are very hopeful that before the end of this month some resolution will happen to this long standing issue that we have been talking about for last now 5 months.

Binay Singh – Morgan Stanley

Ok so basically including that your margins from 14.2 would have been somewhere close to 14.8 or so.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

That is correct between 14.8 and 15. That factor itself will explain the lower margin that we have on the OPM or close to it.

Binay Singh – Morgan Stanley

And secondly Sir segmentally if I see your tractor division margin have trended down from Q4 to Q1 from 17% to 16% but your overall EBIT margin has trended up so how do we tie up the segmental EBIT Q4FY11?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

First of all we don't compare sequentially. I think we have been saying it in every conference call that we are not an IT industry so we always compare with the corresponding quarter or period of the previous year. So it will not make too much of a sense to keep comparing with the immediately preceding quarter.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector



So let explain - answer that question on a quarterly and on a year-on-year basis and not on a sequential basis. On a year-on-year basis you will find that both for Auto and for Tractor, the OPM would have gone down little bit. The auto is clearly explainable from the what we just talked about the VAT set-off that we didn't get in the first quarter. For the tractor, funnily enough it is simply an effect of increased material cost and the way it works out that even if you pass on the 100% of the material cost in selling price increase, you will still lose about 2 to 2.5% in margin because we don't make profit on increase material cost, we just manage to pass it on and that is a reason for the reduction in margin of the tractor. Similarly in auto also there is reduction in margin for also that factor also but in auto we have more than compensated overall by other improvement that we have been able to do.

Binay Singh – Morgan Stanley

Ok and just lastly anything on other expenses you know, they have trended down so anything?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

No, Again if you have look at the corresponding quarter previous year, you are right that in terms of percentage to sales they have indeed come down but that is because of the sort of cost control which we are exercising and there are no particular abnormal item in the last year which is there this year or anything like that.

Mr. V S Parthasarathy - Group CIO, EVP, Finance and Mergers & Acquisitions

Yeah I just want to again emphasize this is year-on-year rather than sequentially. So if you look at year-on-year it is come down as a percentage to revenue while absolute cost may have gone up and what Mr. Phadke is saying is that due to an abundant measure of cost control given the current situation to make it as a percentage to revenue lower.

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

And also you might appreciate that when sales increase so much, not all cost will be increase; there are some costs which are fixed and some are variable, many are variable so it is the variable cost which will definitely increase. Fixed costs will increase only if there is a very, very high degree of increase in turnover which realises to our having to incur some extra fixed cost. So in the nature of things when the activity levels significantly improves, the percentage of expenses to sales should come down which has happened in our case.

Binay Singh – Morgan Stanley

Ok thanks a lot Sir. That's it from my side.

Operator

The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh – Nomura

Good evening Sir. Congratulations on a good set of numbers. Sir I have two questions first one pertains to the demand momentum that you are seeing, at this point we are seeing you know the auto segment not doing so well, we see some industry slow down, but M&M has being doing quite well of late, how do you assess the demand momentum going forward; how are the inventory levels being moving forward for M&M in particular?



Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Ok so demand for the industry as you have noted is sluggish and we do expect that the overall industry growth for this year would be somewhere around 10% and not much more than that against 20% growth last year and that's because of multiple factors that have played into it, the biggest one of those being interest rate hike and to some extent also the fuel price hike fortunately for us the commodity price increase has not been anywhere near what we had anticipated and that is to some extent offsetting the increase in interest rate and therefore it's not complete sort of slowdown that might have happened if commodity prices have also gone up along with the interest rates. Now for M&M that's on the auto side, in the month of July in fact the auto industry has - we don't have the final numbers yet, we will have it tomorrow but on the for the month of July the auto has - more or less flattened. On the tractor side, on the other hand, we have had the very good demand, very good growth in the month of July for the industry. We grew about 22% and we do anticipate that overall the tractor industry should grow about 11 to 12% as we had predicted at the beginning of the year as the growth for the tractor industry. Now against that the reason Mahindra & Mahindra has grown very well can be attributed to several things, the most important of that will be the product offering that we have. One thing is that there are several new product segments that we came into last year where we are now increasing market share substantially and some new product segments that we have got into this year. for example we launched the Maxximo Mini Van at the beginning of the quarter which has already gotten market share of more than 30% in that sub segment which is giving us additional volume. We launched Maxximo last year which is consistently growing in market share and gone upto 22% to 23% market share that's giving us very good volume. The Verito is doing very well where we are growing more than 100% compared to last year after the ownership of Mahindra of that product and we are doing consistently 1500 volume. So if you combine all of these factors and the fact that we will have many new launches during this year beyond what we have already talked about, we do expect to have outperforming industry kind of performance for the auto business. On the tractor side we have already grown market share by about 2.3 percentage points in the first quarter. We do obviously expect that we will continue to do well and be in line or slightly better than the industry on the tractor side.

Kapil Singh – Nomura

Sir thanks and on the inventory levels do we have?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

On inventory levels we have absolutely no issue on Mahindra & Mahindra in fact some of the our products are in short supply for example Bolero you still have a waiting list, Scorpio you have a small waiting list, Pick-ups you have a long waiting list, on Arjun Tractors there is a waiting list so there are many products where we actually have a waiting list right now and therefore we don't have an inventory.

Kapil Singh – Nomura

Ok Sir thanks.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

And then you can also make out from the balance sheet whether you have the inventories; in balance sheet you have all the details which will indicate to you that we do not have any inventory issue.

Kapil Singh – Nomura

Right Sir thanks. Sir my second question pertains to material costs. According to you have we seen the peak for this year during this quarter and what were the recent price increases that we have taken?



Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

During this quarter the commodity prices were on an average stable, on an average. Some commodities went up, some went down but on an average they were stable. We have taken a small price increase during this quarter of 1 to 1.5% which pertains more to the commodity price increase last quarter as the whole industry has done, everyone during this quarter has taken price increases for the previous quarter between 1% - 1.5% to 2% that's what's Mahindra has also done for most of the products.

Kapil Singh – Nomura

Sir when was the increase taken and was it for auto and tractor both?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

The increase that was taken was I think on May 1st, we may have taken another increase on one or two models post that also. On the tractor the increase has happened I think on 1st of June for M&M and 1st of July was Swaraj.

Kapil Singh – Nomura

Ok and would you know that percentage, how much increase has taken in tractors?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

No I don't know the quantum but our CFO will be joining us shortly I will give you this data at that time.

Kapil Singh – Nomura

Ok Sir. Thank you. Thanks a lot.

Operator

Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel – Kotak Securities

Thanks for taking my question Sir. Sir my question pertains to more on the gross margin side. I see that the raw material cost as a percentage of sales have gone up on a year-on-year basis as well as Q-on-Q basis but your product mix has you know reflects that tractors sales have been much higher in this quarter so I mean did we see a substantial hike of commodity cost this quarter and how are your contracts placed you know specially the steel contracts and when the revision is going to come through?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Ok so to get back to your question, the material cost increase as a percentage has been somewhat higher for the tractors than for automotive and that is simply a function of mix of commodity that gets used in tractors, tractors uses more of a steel, castings and forgings whereas in automotive has that and also rubber, and rubber prices have also gone up significantly whereas automotive has in addition to all of this quite a bit of plastic which has not gone up so much, aluminum which has not gone up so much. So overall percentage increase has been higher for tractors than for automotive. What was the second part of the question?



Hitesh Goel – Kotak Securities

Sir basically now like rubber cost have started to come down and for steel I think you have a contract of 3 to 6 months so if you can give some color on your steel contracts?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

So basically rather than giving details on the contract what I can say is that we don't expect the next nine months to be very difficult months for us in term of commodity prices and obviously little bit of a slowdown that you are seeing in economy in a perverse manner is helping the commodity prices; because of that commodity prices are becoming stable maybe even declining. And as I said in the opening statement that to some extent, commodity prices not going up is making up for the interest rates going up and therefore the EMI or the combination of sales price increase and interest rate increase which will determine the EMI is not going up too rapidly.

Hitesh Goel – Kotak Securities

Ok Sir one last question actually on the non-operating income basically that has also dropped quite significantly despite you know cash going up in this quarter and so can you give us some color on that.

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

Yeah the non-operating income again I am comparing it with the corresponding quarter the previous year so in the corresponding quarter of the previous year there was a higher level of let's say profit on sale of surplus funds you, know surplus funds to invest in bank deposits, in liquid mutual funds etc. so it depends upon in which quarter, you, for liquidity purposes sell how much of your surplus funds investments and that profit then comes on the respective quarter so in the last year first quarter there was a higher profit on surplus fund investments; then there was an income from some interest on the income tax refund so there were some one time type of things in the last year first quarter which were not there this year.

Hitesh Goel – Kotak Securities

Ok Sir. And then also on the depreciation expenses, is there a one-off here or how should we look at depreciation now ?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

What has happened to depreciation? It has gone up because of the increased capital expenditure.

Hitesh Goel – Kotak Securities

No Sir I mean on the sequential basis because Capex must have increased right?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

No I am not willing to look at sequential, as a principle I have said that we don't look at it on a sequential basis and even on sequential basis sometimes what happens is that at the year-end you then review all the four quarters and if due to shift working or otherwise if there are any adjustments to be made they get made to the figure. But still the depreciation and also asset less than Rs. 5000 have to be fully charged off so there could be many reasons for one to two crores could be extra in one quarter and not in the other quarter.

Hitesh Goel – Kotak Securities



Ok Sir. Thank you very much.

Operator

Thank you. The next question is from the line of Pramod Kumar from JM Financial. Please go ahead.

Pramod Kumar – JM Financial

Yeah thanks a lot for giving this opportunity Sir. Sir just wanted to understand on Mahindra MVML basically the quarter on quarter steep decline is it entirely due to the VAT refund issue?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

What quarter to quarter steep decline are you talking of?

Pramod Kumar – JM Financial

Sir in terms of the EBIT and even the top line as we deduced from the presentation what you gave us in terms of the details on Mahindra Automotive and MVML put together looks like the revenue has also fallen on a sequential basis and so is the case with EBIT and of course PAT so just wanted to understand what is the factor, what is driving that kind of steep reduction whereas volumes are expected to have improved from that particular entity?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Did we give MVML's & standalone?

Pramod Kumar – JM Financial

You have given the automotive segment and MVML numbers.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

From that you cannot determine what is MVML number?.

Pramod Kumar – JM Financial

No but basically I do understand there would be post inter-segmental revenues?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

No but MVML's scale of activity is certainly much more in this quarter than in the corresponding quarter.

Pramod Kumar – JM Financial

So because what we do is keep the numbers what you have given last time also keeping the base as same and using the same method if you look at it the number sure is steep decline even on the revenue front.

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

Now I don't know how you come to that conclusion?



Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

No, the revenue of MVML has gone up significantly.

Pramod Kumar – JM Financial

But this is post the inter-segmental transfers and all that.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Yeah but that's what I am trying to tell you that if you were to take what we have declared today and simply subtracted M&M from MVML plus M&M you don't get MVML from that. Because that's inter-company set-off that will happen. So what I can tell that I don't have the data in front of me right now but the revenue of MVML has gone up significantly. In this quarter we have made little over 40,000 vehicles in MVML in Q1F12 quarter and in Q1F11 I don't have the data in front of me but it will be significantly lower than that I would guess less than half of that.

Pramod Kumar – JM Financial

Ok let me rephrase it then is there any impact on the profitability of MVML as well because of the VAT refund?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Just one second I will get back to you on the MVML numbers sorry the number I gave you was wrong I will have to get that number.

Pramod Kumar – JM Financial

Yeah it looked like that. Also if I continue with that also want to understand whether the VAT refund benefit is also playing out or rather impacted FY11 numbers of Mahindra Navistar as well.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Yeah it certainly has affected Mahindra Navistar number because Mahindra Navistar otherwise would have gotten VAT refund on the complete sales no matter whether it's in Maharashtra or out of state but after the rule change they are getting it only for the sales in Maharashtra effectively and therefore there will be loss of profit for Mahindra Navistar as well as for M&M.

Pramod Kumar – JM Financial

Ok and even M&M standalone has some part of that particular?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

M&M standalone will bear the brunt of it.

Pramod Kumar – JM Financial

Bear the brunt of it. Ok great. Thanks a lot Sir and best of luck.



Operator

Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao – Deutsche Bank

Thank you very much Sir, just two questions. One you have given the tractors market guidance as about something around 12%. Do you see any upward bias to that number given the MSP prices which have been announced which seem to be pretty strong that would be my first question? And second could you reaffirm what would be your guidance for capital expenditure and investments I know you give a three year rolling so to say guidance but it would be helpful if you can throw some light on that. And thirdly your interest cost for the quarter has gone up, any particular reason for that?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

So Pawan will deal with the tractor volume part of it and as for guidance for Capex is concerned we don't give annual guidance. Inherently in the scheme of things depending on how the environment is and depending on how our projects are progressing, we always shift Capex, sometimes we differ, sometimes we change a bit lesser then we advance the Capex so while our three-year Capex remains same as the estimate which we gave you last time namely Rs. 5,000 crores over the three-year period, we will not be able to provide a guidance because there is a flexibility involved in incurring Capex from year to year. Now let me deal with your third question which is about interest cost; interest cost have increased compared with the corresponding quarter because as our activity level increases, as our Capex program increases we have borrowed and due to the extra borrowing there is an increased level of interest and I suppose that when we execute our Capex program, interest cost will rise obviously not exactly pro rata because we will keep having internal cash generations but within the prudential borrowing limit we will borrow more and there will be increase in the interest cost in the quarters to come.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Ok on MVML let me first answer that question which I could not answer earlier, in Q1F11 the total volume was 5,700 and this year quarter it was 17,700, so volume has gone up more than three times from Q1F11 to Q1F12 and the revenue has gone up four times during this time I cannot get exact number but revenue has gone up four times and MVML in this quarter last year had slight loss and this year had small profit. Ok as for upward revision tractor growth, the overall growth in the first four months will average to probably about 15 to 15.5% and we think that the growth in the remaining 8 months will be somewhat lower ending up with an average of 11 to 13%.

Srinivas Rao – Deutsche Bank

Thank you so much Sir and finally one question have you seen competitive activity increase in the tractor market, I mean I am not saying just this quarter but in general over the last 6 months?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

I would not say that it is a substantial increase in competitive activity; there is lot more of that in auto than in tractor in terms of increasing intensity; there are no new significant players no new significant entries in any segment of any player, the only significant entry that has happened was about I would say nine months to a year ago when John Deere had launched their Chris



Series of tractors in the 32 to 40 horsepower segment. So that is the only new entry that has happened and the other significant entry that actually has happened is the Yuvraj entry of Mahindra in the sub 20 horsepower, so these are the only two significant moves that have happened in the industry and other than that there has not been any new significant change in the competitive scenario in the tractor industry.

Srinivas Rao – Deutsche Bank

Fair enough. Thank you.

Operator

Thank you. The next question is from the line of Ambrish Mishra from Daiwa Capital. Please go ahead.

Ambrish Mishra – Daiwa Capital

Sir, congratulations on a good set of numbers I had just one question we discussed about the situation in Maharashtra about the VAT issue. Just wanted to check, you mentioned we are in discussion and that you are expecting some solution in going ahead. Just wanted to understand, will this eventually would be implemented if at all decided in favor of the company from retrospective effect or from a prospective effect?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

We don't know that, obviously we have requested a little bit of retrospective but we do not know what the final resolution will be. Once there is I am sure that before the announcement is made there will be some kind of consultation that the Government will do with the affected industries and during that time we will once again reiterate our request for retrospective implementation but we cannot be sure right now what the Government will decide.

Ambrish Mishra – Daiwa Capital

Ok great, thanks a lot.

Operator

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

Sahil Kedia – Enam Securities

Sir, Thank you for taking my question. I have two questions A) can you throw some light in terms of how the Yuvraj is doing in terms of volumes etc. B) What is the update on the Navistar JV please?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Yuvraj is doing as per our plan. We have reached a capacity now about 1000 tractors a month and clearly we have capacity constraint in how much we can sell and we are ramping up capacity so as per original plan we are supposed to be somewhere around there in fact somewhat lower than this and we have reached 1000 tractors a month now. By end of this financial year we will reach at least 1500 tractors per month if not more so that demand is very good but the supply is ramping up and we are focusing on slowly expanding coverage for Yuvraj. We had started in the state of Gujarat and Maharashtra and now we have gone in Tamil Nadu and Madhya Pradesh and Karnataka.



Sahil Kedia – Enam Securities

An update on the Navistar JV?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

And on Navistar JV, there are two parts to it, one is what is happening over the sales volume and second is what's happening as the result of that to the overall financial performance. So the product itself is doing well and the customers who have brought the product are quite happy with it but the ramp up of sales has been slower than what we had originally planned and it's taking a little longer for customers to kind of accept brand, new brand in the heavy truck business though all the customers are saying that they have no doubt this will do well but everybody wants to wait little bit and see how the trucks perform in the market and that is to be expected in this industry because this is livelihood and nobody would want to be the first person to try it out unlike car where everybody wants to first to own a car in the neighborhood; in trucks I think they don't want to be the first but they want to wait for the neighbor to see how the trucks have performed. So it's taking a little slower than what we had anticipated in terms of ramp up but we are working on all fronts to ramp up as quickly as possible in terms of sales.

Sahil Kedia – Enam Securities

Sir what would the run rate likely to be towards the end of the year in terms of?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

As for volume forecast, we normally do not give and therefore I cannot talk about that right now. We had about 200 vehicles a month sales of medium and heavy commercial vehicles.

Sahil Kedia – Enam Securities

Sir can you also give us a quick comment on the Ssangyong acquisition because those the last results have not been that great from an operating margin perspective while volumes seems to be improving so if you can just quickly comment on that.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

See volumes are doing very well, in fact volumes are doing better than what we had expected at the time of putting in our bid for the company and we should end the year very close to 1,20,000 volume that we had talked about at the beginning of the year as the budget target. In terms of financials what you see should not be surprising. What we had last year was a situation where the company was under Court Receivership and the Court Receivership, lot of the expenses were not being incurred and now that the company is being run - managed like a normal company there are things that we had to do take care of some of the labor related cost that were put on abeyance at that time it was known to us; it was not a surprise to us and also there was a wage increase that was given during the contract negotiation, the suppliers who for long time have not taken a price increase, requested a price increase etc. So all of this costs which were expected are now coming in, so what you see right now in the first two quarters is the real operating situation of the company and what we saw last year was a special condition because of court receivership. And from here on what you have seen first two quarter which I think there was loss of about Rs. 135 crores or thereabouts, from here on we are starting to improvement now with all the things in place, with the volumes going up and with the focus on the material cost reduction and operational efficiency improvement. We are quite pleased with the way the company is performing.

Sahil Kedia – Enam Securities



Sir one last question if I may, in Ssangyong has there been any addition to the investment made in this quarter in terms of what all balance sheet numbers that was given out?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

The way the investment is being made in Ssangyong right now is through freeing up of the working capital. So yes there is investment made in terms of Capex but there is no investments made in terms of funds generation coming in from outside because at the time of Court Receivership, the company was in a situation of cash and carry so there could not have by the Court order they could not have any credit term with suppliers and therefore lot of working capital was blocked that working capital is getting freed up now and as we said at the beginning of the year also that all the investments that we have planned for this year is of the order of 200 to 300 crores would come from freeing up the working capital and that's what is happening right now we have not had to put into any fresh funds in the company but the company is investing in both product development and brand development and market expansion.

Sahil Kedia – Enam Securities

All right. Thank you Sir.

Operator

Thank you. The next question is from the line of Jamshed Dadabhoy of Citigroup. Please go ahead.

Jamshed Dadabhoy - Citigroup

Hi Sir two questions from my side. First questions employee expenses this 26 odd crores that you had accounted for this quarter will it be a recurring non-cash charge right through the year?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

Yes, yes it would be recurring. Amount will come down as we proceed with the quarters that is the nature of ESOP scheme but there will be a recurring expenses just like that.

Jamshed Dadabhoy - Citigroup

Second question Sir you all had derivative contract roughly about a billion dollars outstanding as of end of FY 10. As of end of FY11 most of these have been cancelled. Could you just explain what the mechanism has been through which you all have cancelled these and where they show up in your balance sheet?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

No they are not actual exposures so they will not be there as a part of either asset or liability side of the balance sheet. You will get it in the March 11 balance sheet as a form of a note to accounts where we would have given the details of what type of hedged exposures which we have; what type of unhedged exposures which we have and yes we had some aggressive export plans when we had taken up those hedges and whenever we see that the exports are not going to materialize we have cancelled those contracts; there has been, unlike in the previous years, there is no significant financial effect of any such transactions into our quarterly accounts.

Jamshed Dadabhoy - Citigroup



So there is no cost on cancellation which is routed through the P&L?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

No, Not certainly in this current quarter. Whatever has happened has happened in the FY11.

Jamshed Dadabhoy - Citigroup

No in F11 what was that amount could you tell us broadly?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

Not now, I mean this is a conference call for FY12 Q1 results. I don't have F11 figures with me.

Jamshed Dadabhoy - Citigroup

Ok Thank you Sir.

Operator

Thank you. The next question is from the line of Pramod Amthe from RBS. Please go ahead.

Pramod Amte – RBS

Yeah hi this is with regard to the tractors. If I have to look at your capital employed end of the year March and for the quarter ending there seems to be a sharp jump of almost like 25% for the capital employed? Would you give some color is it more on the Capex side or like more on the capital working side?

Dr Pawan Goenka - President, Automotive & Farm Equipment Sector

Ok on the tractors the reason you see an increase is on the working capital side and not on the Capex side. The reason for that is that now again you are making the mistake of comparing sequential, sequential will always give you a wrong indication because the seasonal thing that happens. Now in end of June every tractor company will have higher inventory, preparing for the season of September – October because nobody will have extra capacity to take care of the peak that you will have in September October. Therefore always the inventory will be somewhat higher in the month of June. In our case, even if you were to compare quarter over quarter, that is the last year and this year, you will find higher working capital and that is because last year June, we were terribly short of capacity and therefore we could not have any inventory that was not by choice that was by constraints and therefore what we have this year is more normal inventory then what we had last year. So last year we were under inventory.

Pramod Amte – RBS

And Sir coming to this current situation on the Bellary iron ore, would you give us some color in terms of your steel components sourcing? How comfortable you are placed and how bigger issue it is for you and for the sector per se?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector



It's very difficult to answer that question because it really depends on how long this problem lasts and what we were told and what we read in the papers I am sure you have read the same thing about a week ago and the problem lasted another two weeks I mean one more week from now and it will start pinching the show and you might start seeing the shortages or prices going up but I would assume that this temporary phenomena would be taken care of quickly. Just one correction I want to make to the investment figure that I had given for Ssangyong I had said Rs200 crores; it's not Rs200 crores it's Rs200 million.

Pramod Amte – RBS

And Sir specific to this quarter tax rates were relatively higher would you give us some color for the full year? Would you be same as last year numbers or how does it change?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

Ok. So as you aware the way we work out the tax rate is yes we make an estimate for the taxable profit for the year, ascertain what could be the tax liability on that then determine what is the average rate and apply that to the profit before tax of the concerned quarter so that is the method, now so therefore you will find that the tax rate average, average tax rate for the current quarter is about 25.7%. Now so you are comparing it with what?

Pramod Amte – RBS

Your last year numbers 22%?

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

So last year also when you see that for the year as a whole it was about 24.3% ok but that is only one part of it. So second part is that when your profits have crossed a threshold level; threshold level means the level at which you are able to absorb all the incentives and your income starts getting taxed so once you are operating about that level every crore of profit is taxed at a marginal rate. So when you compare the profit before tax of the current quarter and it is 93 crores higher than profit before tax of the corresponding quarter, so all these 93 crores has got taxed at 33%-32.5% and that itself is a major explanation so as the profits will increase the tax will increase. And I hope if you make higher profits, shareholder should not grudge at the higher tax which we pay.

Pramod Amte – RBS

Sure Sir. Thanks and all the best.

Operator

Thank you. The next question is from the line of Amit Kasat from Standard Chartered. Please go ahead.

Amit Kasat – Standard Chartered

Hi everyone, I have one question on the tractor industry, is it possible to throw some light on the region wise growth which you are seeing on the tractors industry?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Why that industry is growing is that the question?



Amit Kasat – Standard Chartered

No, region wise whether it's north, south east or central?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

I won't have that data with me.

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

But Amit you can keep in touch with our IR cell and they will give all the data.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Yeah we will give you all the data. I don't have that with me.

Amit Kasat – Standard Chartered

Sure. Thank you Sir.

Operator

The next question is from the line of Dinesh Gandhi from Motilal Oswal. Please go ahead.

Dinesh Gandhi – Motilal Oswal

Yeah hi Sir my question is on the price increases which you have taken post quarter in July and in August if any.

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

I think in July we have taken a price increase on Swaraj Tractors. I don't know whether in automotive anything.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

No automotive in July we have not taken price increase we have taken price increase during the quarter for automotive and for the Mahindra brand and we have taken price increase in the month of July for Swaraj brand. Price hikes in both auto and tractor I think are slightly more aggressive than the industry.

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

But again you know you please get it from our IR cell maybe tomorrow or day after right now that data is not available here.

Dinesh Gandhi – Motilal Oswal

Ok but any plans to take any further price increase?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

That we will never talk in advance. It's always a surprise.



Dinesh Gandhi – Motilal Oswal

Thanks and all the best.

Operator

Thank you. The next question is from the line of Basudeb Banerjee from Quant Capital. Please go ahead.

Basudeb Banerjee – Quant Capital

Yeah thanks for taking my question. Sir currently can you say at what level of utilization your tractors business is going on?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

In tractors business it's very close to full utilization. And all our plants are running full capacity on two shift basis. And as you are aware that we are right now setting up a new plant in Andhra Pradesh which will be operational in about a years' time and obviously when you set a new plant you will get quantum jump in capacity but the demand doesn't jump quantumly so then we will have some unutilized capacity for the rest of this year and first part of next year, unless there is a big slowdown, we will be running full capacity.

Basudeb Banerjee – Quant Capital

So, basically it will take almost 12 months to get operational from current.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

For the new plant, yes.

Basudeb Banerjee – Quant Capital

And this quarter what was the engine revenue within the FEA segment Sir?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

The engine revenue will be probably just hold on please. I will try and get it.

Mr. V S Parthasarathy - Group CIO, EVP, Finance and Mergers & Acquisitions

Why don't we carry on with any other question that you have. We will come back on this question yeah; he is just looking at this detail.

Basudeb Banerjee – Quant Capital

Ok thanks Sir these were, most of the questions were answered. So this is.

Operator

Thank you. The next question is from the line of Rajiv Agarwal from Eureka Stock Broking. Please go ahead.



Rajiv Agarwal – Eureka Stock Broking

Sir my question pertains to purchase of traded goods, expenditure during the quarter have gone up substantially to 718 crores from 268 crores I just want to understand that Sir?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

That's because of purchase of MVML. All the purchase from MVML is purchase operated goods.

Rajiv Agarwal – Eureka Stock Broking

Ok, all the quantity, all the value Sir.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

That is correct. The traded goods that you see listed is not all of it is not Chakan but all of Chakan is traded goods. Ok there is some additional items that come in as the traded goods but bulk of it will be the Chakan products.

Rajiv Agarwal – Eureka Stock Broking

It's around 90%, let's say.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

I won't want to guess that number but.

Mr. V S Parthasarathy - Group CIO, EVP, Finance and Mergers & Acquisitions

Substantially it will be that number, you are talking about the Delta?

Rajiv Agarwal – Eureka Stock Broking

Yeah

Mr. V S Parthasarathy - Group CIO, EVP, Finance and Mergers & Acquisitions

Yeah the major part of delta will be traded goods.

Rajiv Agarwal – Eureka Stock Broking

Ok Sir. Thank you Sir.

Operator

Thank you. We will take the last question from the line of Raghunandhan from Avendus Capital. Please go ahead.

Raghunandhan – Avendus Capital

Thanks for taking my question Sir I just want to know like what part of your sales are diesel vehicles?



Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

97, 98, 99% somewhere around that. Yeah we are primarily diesel manufacturer; we just have a very small volume of petrol Verito, very small volume and we have a very small volume of petrol Scorpio that we export. So I would say that probably it's 98 to 99%.

Raghunandhan – Avendus Capital

Ok and can you throw some light on the new launches which are lined up for the remaining part of the year?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Certainly I can talk about what already is in public domain which is we will be launching our new SUV sometime during this year. We have talked about that. We also talked about new version of Verito which will happen sometime around end of financial year. That will be 2 new versions we are planning on. We have also talked about a Ssangyong product that again will happen around the first quarter of next year and then we have talked about electric vehicle that is coming from Mahindra Reva which will happen again about at the same time.

Raghunandhan – Avendus Capital

Ok. Thank you Sir.

Operator

We have the last question from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta – UBS

Yeah hi. Good evening thanks I feel lucky.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

May be if you give one more question to somebody then you won't feel lucky?

Sonal Gupta – UBS

No I still will feel lucky. No Sir just a couple of questions, this is just returning to the question that was asked on tractor price increase for the quarter you have that number now.

Ms. Sandhya Sharma – VP, Corp. Finance & Head - IR

Yeah Sonal we will give it to you tomorrow.

Mr. V S Parthasarathy - Group CIO, EVP, Finance and Mergers & Acquisitions

What happened is that the CFO is still in the AGM so you know we don't want to give you not confirmed figures so we will make sure all of you get that.



Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

I don't know whether you are aware, whosoever is on the conference call, that our Annual General Meeting is actually in progress but would have come out some of us because we had fixed this call with you people.

Sonal Gupta – UBS

Ok Thank you and Sir just to wanted to check on this Scorpio EX launch, how has that gone and have we seen some uplift in the numbers because of more inventory or shipment because of that?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Well I cannot tell you how Scorpio EX launch is gone because EX is one of the variants that we have on Scorpio and that kind of detail I do not have. But Scorpio EX is aimed at a certain segment and it's a replacement for what we used to have earlier which is Scorpio M2Di and I have been told that the product is doing very well but I don't have any specific number with me. Scorpio sales are overall very strong right now and we are selling 4000 plus a month and Scorpio is growing compared to last year.

Sonal Gupta – UBS

Ok and returning to the question on tractor inventory, would you say that there has been decrease in inventory level year-on-year and that's why you are saying that in the first half the strong growth is partly driven by some amount of inventory increase.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sectors

The growth will not be driven by the inventory because inventory will not drive growth, the growth will be driven by actual sales that happens to the customer. What I had said earlier was that last year this quarter that is 30th June we were terribly short of capacity and therefore we were constrained in having the right level of inventory and therefore we were actually under stocked. This year we do not have the supply constraint and therefore we are appropriately stocked as of the end of June so if you are to compare last year to this year our inventory was high but it is not that we have over inventory this year it is that we had under inventory last year.

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

And also when you are comparing the inventory values, please remember that inventory is best compared in some number of days. So actually you should look at percentage to revenue. If you look at percentage to revenue you will find that there is hardly any increase.

Mr. V S Parthasarathy - Group CIO, EVP, Finance and Mergers & Acquisitions

Sonal was your question about company's inventory or dealer inventory at the dealer level? What was the question?

Sonal Gupta – UBS

I want to understand the inventory at the dealer level how is that?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector



Dealer level inventory we normally do not talk about that's not a data that is shared.]

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

And that is not figuring in our balance sheet.

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Yeah that is not figured in our balance sheet and normally we won't talk about it. All I can say – a general statement that I cannot compare last year to this year. I can tell you general statement that the inventories are fine.

Sonal Gupta – UBS

Right and Sir my last question was on the Light Commercial or the Pick-up side we have seen a very strong growth and especially again in July numbers, so I mean you have alluded to some of the factors like the new segment etc. but also wanted to touch upon the fact that I believe last year you had some capacity constraints on pure Pick-up segment, the Bolero Maxx and some of those and so have those been resolved?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Those capacity constraints still continue on the Pick-up segment and therefore actually our Pick-up sales are lower than the potential that we had for Pick-up and the maximum loss that we had because of capacity during this quarter was in the Pick-up segment. So we could do little better in Pick-up if we could make more of those.

Sonal Gupta – UBS

But any timeline as such as to when do you see this resolved?

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

By end of this quarter we should be out of capacity problems.

Sonal Gupta – UBS

Ok Sir. Thank you so much.

Mr. Surjit Arora– Prabhudas Lilladher

Hello. Yeah this is Surjit here, Sir I just wanted to take the opportunity to thank the management team of M&M for taking out your time for this call. I really appreciate it and thank you all the participants for being on the call Sir.

Mr. Uday Phadke – President, Finance, Legal and Financial Services Sector

Dr. Pawan Goenka – President, Automotive & Farm Equipment Sector

Thank you Surjit.