



“Mahindra & Mahindra Limited Q1FY13 Results
Conference Call”

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BOARD**
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Moderator: Ladies and gentlemen good day and welcome to the M&M Q1FY13 earnings conference call hosted by IDFC Securities Limited. I will now like to handover the conference to Mr. Pramod Kumar from IDFC Securities Limited. Thank you and over to you sir.

Pramod Kumar: Thanks a lot Shyma. Good evening everyone. On behalf of IDFC Securities I would like to welcome you all to Q1-FY13 call of Mahindra & Mahindra and would also like to take opportunity to thank the management for giving us the opportunity to host this call and from Mahindra & Mahindra we have with us today, Mr. V. S. Parthasarathy – Group CIO, Executive Vice President (Group Merger and Acquisition, Finance and Accounts and member of the Group Executive Board); Mr. K. Chandrasekar – Executive Vice President (Corporate Finance and Investor Relation); Mr. S. Venkatraman – Controller of Accounts and other senior management personnel from the M&M, including the IR team and Dr. Pawan Goenka President (Automotive and Farm Equipment sectors) and member of the Group Executive Board will be joining the call very soon and to begin the call I will hand over the floor to Mr. V. S. Parthasarathy for a brief opening remark to be followed by Q & A session. Over to you sir.

V. S. Parthasarathy: Thank you. Good evening to all the participants and thank you for staying on and taking this call. I know it is late, even in India time and it must be late if you are joining from any part of the country which is ahead of this. So, thank you. Today is a very in many sense a historic day. Coming from scenes in the AGM where there was not a single question was there and this marks our Chairman, stepping down as Chairman of Mahindra & Mahindra after a stint of 64 years out of which 48 years has been as Chairman. So he is always in his career, I think strived for great height and we are very happy that as he is leaving the company has turned a very good performance which not only met the analyst expectation but also have surpassed them, I hope by a good margin which gladdens the heart of all of you are on this call.

The other thing I wanted to know before going to numbers is this time there are no one-offs in the results that we are going to talk about. Of course, if you look at Q4 there were many big elements like merger of MADPL, so Q4 from that point of time is not a comparison; even otherwise I always advocate never compare quarter on quarter, because this is not an industry which aligns itself for a quarter on quarter comparison. Now coming to the results we achieved a top-line of 10,000 crores. Sorry, let me back off for a second. As usual when I am talking about the result, I will be talking about M&M and MVML together. The reason as we have stated once again I will say, because being a manufacturing arm, the combined results of MVML and M&M gives a comprehensive picture of your company's performance and therefore from that point of view if whether press release or whether giving you information, we are giving all information of these two units put together. Now starting with top-line, we achieved a turnover of 10,000 crores for this quarter which is a growth of 35% year on year basis. Two milestones have been second time in a single quarter we have crossed 10,000 crores plus. Last quarter in Q4 we did that which was 35% plus growth, again we have done

10,000 crores which again institutes a 35% growth. The second is that at PBIT PBT and PAT level, the growth in profits is 26% and a PAT of 778 crores. In terms of margin, the operating margin is 13.9% for this quarter a shade lower last year same time where we were at 14.3%, a reduction of 0.4% the second part is because of the revenue growth and our cross mechanism on personal cost all the absolute amount will be higher, the percentage to revenue is sharply reduced and the other expenses is that our cost control measures has made it that we are same pace as last year and that gives an overall improvement to the bottom-line, both all of the cost element put together. Coming to another point that I wanted to make on a very broad level is that there are indications; this is in an environment which is in very challenging but which also had opportunities. We have capitalized on the opportunities, but given that economy is in turmoil, we have made sure none of this has come at the cost of compromise either in terms of inventory or receivables at our end or at the dealers end. So we have been very clear in terms of keeping a healthy pipeline even as we have done this performance. So I think that is broadly on the M&M plus MVML result. I just wanted to highlight some of the group results as well while you will get the consolidated results day after tomorrow or a day after that. So far the major companies which have announced Mahindra Finance which showed a top-line of about 50 plus percent and a bottom-line of 60% plus, we also had Mahindra Satyam which announced the result, with a 31% growth in consolidated revenue and 56% growth in profits. Mahindra Lifespaces with a 28% growth in revenue and 72% profit growth and Mahindra Holidays also improved significantly in terms of its performance. I think the economy is challenging but like I said there are pockets of opportunities. So, we are cautious and watchful but also cautiously optimistic. So, we with that all overall remarks, Pramod, I will hand it back to you so that you can start the question and answer. I want to make one point to all the listeners, Dr. Goenka will be walking in any moment, but right now he is the AGM which is still going on. So as he walks in we may interrupt one of your questions to use that as a point to give some more additional input from a product and auto and farm equipment sector perspective. But when you said that the right person always makes the entry at the right time, Dr. Goenka just walked in. So just hold on for a second. He will make the opening comments and then you can start the question and answer session.

Dr. Pawan Goenka:

Sorry for a little delayed start, today being the last board meeting of our Chairman, there were lots of shareholders who wanted to say something, give flowers, bouquets, or whatever. So took little longer for the board meeting to get over. So you are all I am sure in the results and analyzed all the details, both financial numbers as well as market volume performance. So I won't kind of repeat what is already in front of you.

What I want to say is that beyond the numbers we are quite happy about the overall demand that we see for products both in automotive and tractor segments. Especially in automotive our UVs have very strong demand right now and in spite of some very successful launches by competition in this quarter we have had very good growth in the UV segment. Our Pickups again continued to be very robust in terms of performance and growth and once again in spite of very successful launches by competition we have had very good growth. Other good thing

which is not in the published results is about our inventories and I am sure many of you will have questions on inventory. So I can sort of preempt some of that by saying both on automotive side and tractor side. Our inventory levels are well under control in the plant inventory as well as dealer inventory and we are running at what would be the desirable level of inventory for both the businesses. So that is also doing well. We have had 3 or 4 product launches in automotive segment during the quarter and each of these products we think will give us additional volumes as we move forward and we will have 3 launches coming up in the current quarter or may be by Diwali which will be significant launches for us including mini SUV that we have talked about including electric vehicle and also the SsangYong vehicle. On the tractor side we have had some tactical launches during the quarter and few more are happening and therefore we are fairly well placed in terms of overall expense and that we have product offerings.

I think overall one concern that everybody will have is on the monsoon. Monsoon certainly has been less than desirable. Right now we are running at about only 22% below the long-term average and therefore as of now the overall sowing levels are about 10% lower than what we had last year. So, there could be some shortfall in overall agricultural production. But it is not something that one would call crisis level in terms of overall agricultural production. It will have an impact on the tractor demand and we think that what we have said last time to be about 5% growth in the tractor industry will probably more like about same as last year or may be just marginal increase from last year is the way we are looking at the tractor industry growth for this year. On the automotive side even the overall growth for the automotive segments has been of the order of 8% for last quarter. But the 2 segments where we have significant presence which is the UV segment and the pickup segment have grown significantly with 50% growth in the UV segment and 77% growth in the pickup segment and that again reflects in our overall volume growth and in the process we have also increased the overall market share.

On the international front we had 37% growth on the automotive side and 5% growth on the tractor side compared to last year first quarter and again the same kind of momentum continues into the second quarter with July numbers already being announced. The tractor industry is so far in the year has grown about 1.5% or so and as I said earlier that is roughly what we expect to happen throughout the full year. I think that is about it in terms of opening statements. I understand that lot of people who have signed in today; so there will be lot of questions. So, we will get right into that and try and answer those questions.

Moderator: We will now begin the question and answer session for the call hosted by IDFC Securities Limited. We have the first question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Congratulations on pretty strong set of numbers especially in the tractor segment where margins have held on despite tough conditions. Just wanted to get a sense as to you alluded to

dealer inventory being at desirable levels. Can you share some numbers as to where it is right now and where was it last year, both in terms of auto and farm equipment segment?

Dr. Pawan Goenka: Did I hear you say 'not' right level?

Kapil Singh: No, at 'right' level.

Dr. Pawan Goenka: Okay, I cannot be very specific about it. But basically on the automotive side, we look for our plant inventory to be about 15 days. When I say plant it includes stockyard and transit inventory and we look for dealer inventory to be about 26-28 days. That is sort of what the industry would consider to be the optimal inventory. Anything lower will be bad, anything higher will be undesirable and we are that level in the automotive side. Automotive side was the same way previous quarter also. So, it is not like in automotive we have had any significant change. It was always under control. On the tractor side, we did some corrections during the quarter and right now we are at the level that we want to be. On tractor you want little bit higher plant stock of the order of 22 days and about 27-28 days of dealer stocks and that is where we are. So, both of these are well under control.

Kapil Singh: And any color on recent feedback from dealers as to is the demand slowing down further from what we have seen so far through the year you said it is flat, but can it turn negative territory.

Dr. Pawan Goenka: We had two months of 5% growth, that is the month of May and month of June. But the month of July again has gone back into a slight de-growth. July month was about 1% lower than last year July. So, basically the industry is hovering between 0-5% is where are and the monsoon it is, I don't think there will be significant change in that. So I don't expect to get a 5-7% growth that we have talked about last time that we had met.

Kapil Singh: Lastly any booking numbers on XUV 500 and also the new Verito has been launched and we know the situation at Maruti. So, there is lot of opportunity to capture with that product, a much more improved product as well. What kind of capacities are you prepared with for Verito?

Dr. Pawan Goenka: First of all on XUV, up until end of July we have sold above 32,000 vehicles and right now we are sitting on booking of about 20,000 vehicles. So given that production capacity of 4000 plus and given that we export few vehicles, it will take us about 6 months to meet the current bookings that we have and we have not yet started booking in about 40-50 towns. So therefore I think in the next 12 months we should really say pretty robust demand for XUV. We are looking to increase the capacity up to 5000 which I said earlier also and we will start working on our 4000 just stabilizing. We have had two months of 4000 now. Once it stabilizes we will go to 5000. On the Verito the initial feedback has been very positive on the styling changes that we have done. As you know that Verito was a very good product except for styling which was not liked by the customers and we have made two changes now and everybody has

spoken very highly of the impact of these changes. The dealers are very optimistic about the effect it will have on the sales volume but this is the first month of sale after launch. So, I would not want to kind of take any guess on what it might do. But since Verito had been doing pretty well. It has been doing 1500 vehicles average per month in the last 12 months or so, we will expect that with some more improvement we should be gearing towards hitting 2000 vehicles. But right now as I said the first month of sale after the launch of refresh so I don't want to hazard a guess.

Moderator: Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Just a question again on the financials only you did mention that there is no one-off, but just reconfirming. The automotive ASPs are up on a QoQ basis quite strongly. It is purely driven by better product mix?

V. S. Parthasarathy Basically, I have often said that a quarter on quarter comparison, last quarter if you remember was the merger of MADPL into M&M and Q4 had the complete full year results of MADPL sitting there. But if we look at on a year on year basis, what you will see is the revenue growth on a segmental basis and the segmental results will be in tandem. So not too much of one-off is there, even on the segment results of auto last year. So it is in line with this so just to reconfirm what you have asked. There are no one-offs in this quarter.

Dr. Pawan Goenka: However, I would also like to add that if you were to compare last year first quarter in addition to the number growth, we also have growth per vehicle revenue and that is because you will see that our growth has been higher in UV compared to the three wheeler and sub one ton then clearly UVs are higher per vehicle revenue and also there was no XUV last year. XUV is the highest revenue model and given that we have sold almost 10,000-11,000 XUV in this quarter that also makes an impact on the overall revenue.

Binay Singh: And the last one in terms of realization is the price increase which have been taken by the

Dr. Pawan Goenka: Inflationary effect is always there, which probably compared to last year, this quarter probably about 4% or so increased because of inflationary increases in price.

Moderator: Thank you. We have the next question from the line of Sahil Kedia from Barclays. Please go ahead.

Sahil Kedia: If you can elaborate the impact of MADPL that you have been seeing on a quarter basis, both in terms of margins and in terms of tax shield that is available. If you can just elaborate on that?

V. S. Parthasarathy: MADPL now is Verito business unit within the overall M&M Limited and we do not want to talk about sub segment results for confidentiality and competitive basis. What we say is that the results which have been achieved is after considering. So you may take this as a barometer of what the segment combined will look like. The other one is that in terms of volume of course, the volumes which are there in the quarter are available as a part and I can give the volumes if that is what you are looking for the quarter. Last year Q1 results won't have any volume of Verito or revenue for that matter

Dr. Pawan Goenka: In M&M results, in would be sitting in MADPL results.

Sahil Kedia: So sir, the point was not to kind of get the margins as such. I was just trying to get a sense of how much tax shield is available even on the time of the company. If you can just help us with some color in terms of what would be the tax shield advantage that firm is getting today because of the ... Just to get a sense not necessarily quarter, but kind of what is available which will be felt through the year?

V. S. Parthasarathy: So just to give you a sense what we told last Q4 I will repeat. MADPL merger happened, the tax benefit on account of this which is in the P&L of Q4 was quantified as 148 crores and we also said that there is a deferred tax benefit of 20 crores which is available. So, if in a sense if your question is how much is available for this year, it will be to a maximum effort of 20 crores, otherwise there is no tax shield per se which is there in this current year because of MADPL merger.

Dr. Pawan Goenka: The other question that was asked was about volume capacity. So MADPL as you know that originally when we had set up in the global assembly line we have set up capacity for 4000. So that plant is still in tact. Though today it is not manned for 4000 clearly but equipment is there for 4000. So we have enough capacity to meet any requirement that might be and I just want to point out this is the first variant that we launched the first XUV We have the sub 4 meter vehicle that will be launched in February – March of this year which will the bring that additional volumes.

Moderator: We have the next question from the line of Jamshed Dadabhoy from CITI Group. Please go ahead.

Jamshed Dadabhoy: Could you give us some sense in terms of the capital employed on the tractor side. Why it remain static quarter on quarter? I thought it is about 2300 crores, just it imply that the inventory levels you have had in the fourth quarter continues today?

V. S. Parthasarathy: So just I want to kind of ask you to look at the figures that I have in front of me and then Pawan will add. Just as a matter of confirmation. In 2011 June ended quarter, I see a figure of 1292 and this year, capital employed, I see a figure of 2354 for tractors. So I see a significant increase and I thought you will ask question why is the capital employed has increased, right?

- Jamshed Dadabhoy:** No, quarter on quarter.
- V. S. Parthasarathy:** So there are two factors that have happened. One increases, one decreases. So happened that happened to balance sheet are out. The inventory has gone down from the end of fourth quarter FY12 to first quarter of FY13. So inventory has gone down, working capital therefore would have gone down. But at the same time we have made fresh investments in the two things. One is the plant in Zaheerabad that we have talked about earlier, that plant is now ready for commissioning and almost all the investment in the plant has been made and secondly the new product that we are preparing for launch in about 7-8 months time from now and that investment also has been more or less done now. So these two factors would have come in this quarter as extra in fixed assets into our overall capital employed.
- Jamshed Dadabhoy:** Okay sir, just to clarify that Rs. 500 crores of CAPEX for 100,000 units right?
- V. S. Parthasarathy:** We have never said Rs. 500 crores. We have talked about Rs. 300 odd crores for 50,000 capacity to begin with.
- Moderator:** Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.
- Srinivas Rao:** I will just kind of go back to your question on the margins and if you could kind of help us understand how the margins in the farm division had been fairly resilient, almost over the last three to four quarters despite the industry dynamics obviously worsening progressively. That would be helpful.
- Dr. Pawan Goenka:** Well, how do I explain that. See, certainly the material costs have gone up in the last 12 months. We have been able to pass more or less the material cost increase in our pricing and therefore in absolute term material cost increase has been passed on to the customer; however there is a loss that has happened because of what we call numerator denominator effect. So, therefore there has been some loss because of that which has been made up by internal efficiencies. Improvement in overall system cost, that is our own internal cost, fixed cost, variable cost and so on and therefore we end with roughly static or stagnant margin which as you have said in the current situation is very good. We have also not gotten into discounting game which we refrain from and to some extent we have let go little bit on the opportunity by not getting into the discounting game and therefore you would see that in this quarter also our market share had dipped just a little bit compared to where we were last year. But we thought that in the current situation we don't want to get into the price war and that is where we are. So I think all these things have to combine with a very focused effort to maintain our contribution margins or our OPM without any significant negative impact on market share that is what we have tried to balance.

Srinivas Rao: Sir on a related note would it be fair to say that the pricing discipline this around compared to say about 3-4 year back in the industry has been better in general?

Dr. Pawan Goenka: Hard for me to say that. I would say that Mahindra & Mahindra had more or less kept their pricing figures in line with material cost increase. I cannot say that everybody has increased prices along with the material cost increase. We don't have that data, but my sort of intuitive data says that not everybody has followed the price increases.

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

Chirag Shah: Sir, one question on your capacity for XUV 500. What is the kind of optimal capacity you are planning to work with, because demand seem to be far out pacing your internal target on the supply side. So, what is the assessment on sustainable demand and how should one look at your capacity ramp up?

Dr. Pawan Goenka: As I said earlier also and in the previous meeting also that for a vehicle in this price range, we would have never thought, there will be sustainable demand for 4000 vehicles a month, no matter who the vehicle came from and that is the reason we had original plan to make about 3000 vehicles and with the response we have gone to 4000 and we are hesitating to go to 5000 only because we are still not convinced that 5000 is a sustainable demand, but right now looks like there is a very strong pull and we would probably go to 5000 because there is no investment to go to 5000 is not that much more compared to where we are at 4000. 5000 is a good number for us to aim for. As of now, I don't think we will venture beyond 5000. So we will probably stop at 5000.

Chirag Shah: So when can we expect the incremental 1000 unit capacity?

Dr. Pawan Goenka: Over the next 3-6 months. We are still stabilizing 4000, we want to give 4000 some time and make sure that everything is sorted out, because it is not just the capacity in our plant which is an easier thing to do. The more difficult thing to do is the capacity in on our supplier plant and we have 70-80 suppliers supplying for XUV and each one of them has to increase the capacity to 5000 and that is where more effort is required. So, we are working on it. We have given suppliers some targets for 5000, but we are in no great hurry to go to 5000, we will do it slowly ensuring that we do not have any compromise with quality. We do not have any compromises with doing something ad-hoc which we will later on have to backtrack.

Moderator: We have the next question from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Sir one question is on the LCV market given the slowdown that we are seeing on the medium and heavy commercial vehicle side. I mean at point do you think that the LCV volumes also starts getting impacted, now we haven't really started seeing that happening. So that is really my question is to what is your outlook on the light commercial vehicle side?

- Dr. Pawan Goenka:** When you say light commercial vehicle, are you talking of 3.5 or up?
- Sonal Gupta:** Yes, the small pickup.
- Dr. Pawan Goenka:** The small pickups have, I would say somewhat slowed down. The growth has not been as robust as it has been in the past for a small pickup, In fact that pickup range that did best in the last quarter was the large pickup. The large pickup where Mahindra & Mahindra had the highest market share and therefore there is some slowing down that we are seeing in the sub 1ton pickup. I won't say slowing down, I would say that the rate of growth is not what it has been in the past. So, I think the level that we have is more sustainable level, the one that we have right now is more sustainable level and what we are witnessing in the last 2-3 year was not something that would have in any case stayed forever. Just in terms of data in the last quarter and a small pickup grew only 5.5% where the large pickup grew by 77%. So that is the kind of difference that we have seen. So, I don't think that 77 can sustain, obviously not and the 5.5 is on the lower side, I would have expected more like 10-12, but it will not be 30% what we have seen in the last 2-3 years.
- Sonal Gupta:** Sir just a related question to that, we have seen some slow down in Maxximo number even on a year on year basis. So is there any issue or is this just a market.....
- Dr. Pawan Goenka:** The reason you may have seen slowed down in the Maxximo number is probably because you are looking at Maxximo load only. We don't see a slowdown, we see 22,591 in April-July 2012 compared to 18,354 for April- July 2011.
- V. S. Parthasarathy:** May be you want to conclude Maxximo load on passenger right, both put together.
- Dr. Pawan Goenka:** Even if you look at just the load, we have gone from 12,744 last year this quarter to 16,460 this year this quarter. So there is no slowdown.
- Sonal Gupta:** In some of the recent months like June I think we have seen year-on-year basis.
- Dr. Pawan Goenka:** One month is very difficult; it is very difficult to say what happened in a given month, because it depends on so many different things. So looking at months and finding conclusion is too risky. We look at a month only when it is a good conclusion. We never draw a negative conclusion from one month.
- Moderator:** We have the next question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Dr. Pawan Goenka:** I just want to add something on the Maxximo. Now we have three Maxximo products, we have Maxximo Load, Maxximo Soft Top and Maxximo Hard Top. Hard Top was launched was launched just about a month ago and therefore when we talk about Maxximo number they

all get made on the same line. So that is one of the advantages that we have the way Chakan is laid out, both the body shop as well as assembly lines for these product is same though they are totally different products catering to different segments Therefore when we talk about Maxximo numbers we talk about three together. There is a line capacity of about 7500 vehicle and we have reached about 7100-7200, so we have only 400-500 capacity more left.

Jinesh Gandhi: My question pertains to price increase is taken in first quarter and then in second quarter.

Dr. Pawan Goenka: For automotive or?

Jinesh Gandhi: Both, auto and tractors?

Dr. Pawan Goenka: 1-1.5% up on automotive in the first quarter. We have taken only one price increase so far in this year, which was taken in most case in the month of April for tractor. So the selling price increase that has happened in tractor actually it happened because of two reasons, one is the increase for the material cost which has been of the order of 1.6% - 1.5% and also there is an increase because of the excise change that happened because when the excise duty went up from 10-12 still there is no MODVAT in tractors. So, because of that the material cost went up by 1.4%. The total increase in material cost therefore is about 3%.

V. S. Parthasarathy: Price increase in Q1 is 2-3 %.

Jinesh Gandhi: Okay and sir what was our Powerol revenues in this quarter?

Dr. Pawan Goenka: Powerol revenue is about Rs. 250 crores.

Moderator: Thank you. We have the next question from the line of Mitul Shah from Karvy Stock Broking. Please go ahead.

Mitul Shah: My question is related to sector market demand. I want to understand if you can give region-wise market situation for tractors because there is a variation in monsoon.

Dr. Pawan Goenka: Well in the last few years we have been seeing that the southern part of the country is de-growing or not growing as well. In fact that state that is worst hit in terms of the demand is Andhra Pradesh and Andhra Pradesh which used to be one of the highest selling in terms of tractor now has sort of become more or a middle state in terms of overall volumes in Andhra Pradesh and that tends to continues. Andhra Pradesh is de-growing. Maharashtra also has been somewhat slow. The biggest growth has happened in Rajasthan last year and also in the first quarter the biggest growth was in Rajasthan, though right now Rajasthan is under drought but I guess Rajasthan knows how to handle draughts so they don't probably worry about it. So Rajasthan has been very strong, Bihar has been very strong, the North West state that is Punjab, Haryana, have not done very well. So roughly that gives you a picture that UP, MP,

Bihar they have done well, Gujarat, Rajasthan have done very well, AP, Punjab have not done well.

Moderator We have the next question from the line of Hitesh Goel from Kotak Institutional Equities. Please go head.

Hitesh Goel: Sir I just wanted to understand this difference in M&M plus MVML net sales and M&M sales, is the total excise duty that is paid in M&M plus MVML the right excise duty to look at because in standalone are not taking the full excise duty of that is paid right?

V. S. Parthasarathy: This is a very complex subject. Everybody I tried to explain one time always required two times. Let me very simply strictly tell you. Looking at standalone M&M, now saying legal M&M company, what happens is we buy products from MVML that is excise paid. It comes as traded goods into M&M. So therefore the gross and the net on that purchase is the same because there is no excise duty in M&M; it is a traded product as far as legal M&M company is concerned. But when you combine M&M plus MVML you have to take gross sales, net of the excise and do another action which is intercompany transaction you have to net out. It is a legal company, but the moment you talk about two companies, we can't have double count of revenue. That is a two different sector.

Hitesh Goel: Sir why I am asking this question is because there is a substantial jump in standalone operations in terms of automotive realization. But if you see the MVML plus M&M numbers actually the realization increases only 15% on a YoY basis. So if I remove XUV revenues actually the total realization improvement is 3% which is where the confusion is actually.

V. S. Parthasarathy: So if you look at segment revenue for automotive it goes from M&M plus MVML it goes around from Rs. 3900 Crs. to Rs. 5822 Crs. and you are using this as a basis to calculate realization?

Hitesh Goel: No, sir basically in segment in M&M plus MVML it goes from Rs. 3945 Crs. to Rs. 5823 Crs.

V. S. Parthasarathy: Yes, I agree.

Hitesh Goel: So when you see the realization basically there is an increase of 15% on YoY basis.

V. S. Parthasarathy: This is not 15, volume has also increased.

Hitesh Goel: No, average realization, I am taking the total auto volumes. So if I remove the XUV revenue, because XUV contribution was nothing in Q1-FY12, the increase in net relation is only 3%, where the confusion is actually why there is such a sharp increase in realization that is what I am trying to get.

- V. S. Parthasarathy:** First and foremost is which is why as a principle we are saying M&M plus MVML, because M&M as a standalone company does not consider this implication. Having said that, Pawan has a question for you before he answers.
- Dr. Pawan Goenka:** I am not following your numbers, because you are saying that revenue has gone up only 15% if you do 80% MVML, is that correct?
- Hitesh Goel:** No sir, average realization selling prices have gone up by 15%.
- Dr. Pawan Goenka:** 3% is right.
- Hitesh Goel:** So I am trying to clarify here is on the standalone numbers segmental shows 27% increase on a YoY basis. So I am just trying to clarify that this is how we should look at it. Am I right on that?
- V. S. Parthasarathy:** If you look at AD plus MVML both you and I will be able to dissect it better and answer better.
- Moderator:** We have the next follow up question from the line of Manish Gupta from Kotak Securities. Please go ahead.
- Manish Gupta:** My question is on SsangYong, can you elaborate on the performance of SsangYong in this quarter?
- Dr. Pawan Goenka:** I don't have the quarter number, because SsangYong works on calendar year basis so I will tell you for the half that is from January to June. January to June SsangYong, the market share has gone up from 12.3% in the Korean market to 13.3% in the Korean market. The volume is roughly the same as last year, there is a marginal increase in volume of the order of 0.5% to 1% and the revenue is also roughly the same as last year, but this is to be seen against the fact that everybody else has gone down; so unlike India where everybody is growing and therefore 10% growth is considered to be bad. In Korea and many other parts of the world even staying flat this year is a good performance; there the market share I am indicating has gone up from 12.3% to 13.3%. But the big news for us is that the EBITDA level from last year which was about (-14) billion Korean Won, which will be roughly about (-\$11) million we have gone to (-\$12.5) million, we have gone to (+14) billion Korean Won so about (+\$12.5) million of revenue; a \$25 million swing in the EBITDA level at SsangYong. So we are on the right track in terms of profitability. There have been two major launches in this year, the 6th month, the first one was in January which is the product called Korando Sport; which was done extremely well in Korea and has started now being exported to overseas market also doing very well and far exceeding our expectations from this product. The second product new launch is the new Rexton W, they were launched at about a month ago and they are just beginning to start shipping of that product, so it is very early to say but the initial reaction of dealers and

customers have been very positive on that product also. Anything else on SsangYong you want to ask?

Manish Gupta: Any guidance on volume for next 6 month or a year?

Dr. Pawan Goenka: We have given guidance in case of SsangYong, where we have said that we expect volume of 123,000 vehicles which will be 9% improvement over the last year.

Manish Gupta: So you were expecting the second half to be same?

Dr. Pawan Goenka: We expect in almost all of that increase in the first half. So, first half as I said the volume is roughly same as last year. The second half volume therefore will have to be 7000-8000 vehicles more than last year for us to meet our guidance. The reason we have that confidence is that the Rexton W has been launched just now in the beginning of second half and there is another product called Rodius where we were not meeting the emission requirement and therefore we couldn't sell it in the first half. That emission requirement has been now met and we have launched that product. So that product also we have sold in the second half. So these two product Rodius and the new Rexton were not available in the first half and also the India CKD project will start in the second half and that will give us additional volume in the second half.

Moderator: We have the next follow up question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Sir just wanted to understand the other operating income that we have seen in the early 100% growth compared to last year. So if you could just give us some color as to what has been the reason behind that?

V. S. Parthasarathy: MVML which is Rs. 169 Crs. this year and Rs. 136.Crs. So, I see a normal increase and not an abnormal increase on this. If we take M&M plus MVML, I don't see that kind of figure. Can you point out to me where you are seeing the figure?

Kapil Singh: The number is 1194 million versus 603 million.

V. S. Parthasarathy: Again I am just saying that is why I was always suggesting that you take M&M plus MVML which gives a better result. In M&M there could be there could be increase. I am just replying overall. The way I see the figure is about 100 last year and 120 this year, which is a 20% growth; I do not see abnormal. But if you have any further queries on that, I am happy to understand how you calculate offline and so that we can give you a better answer, but I don't see in my figures any abnormality from this.

Kapil Singh: Okay sir we will take it offline.

Moderator: Thank you. We have the next question from the line of Ambrish Mishra from JM Financial. Please go ahead.

Ambrish Mishra: Sir just wanted to have a sense on exports because that is something which has really a surprise for year to date; if you look at we have been growing at almost close to 50%. Can you just give some highlight as to the markets where we are exporting and the kind of demand that we are going to see and is this trend sustainable?

Dr. Pawan Goenka: Let me do the tractor side first. The tractor side export volume has gone up marginally not gone up too much, it is only about 4% growth from last year. That is only because of one country where we have fairly significant export but that country because of internal situation had collapse in demand which is Bangladesh, where demand has gone down compared to last year significantly because there is a credit crisis; there is overall inflation and currency devaluation. So Bangladesh has gone down and otherwise the growth would have been very good but even in spite of that we have had a small growth of 4% on the tractor side. On the automotive side we have had very good growth, 37% growth in the quarter. In fact even this 37% is actually lower than what actually happened before we have ran into a constraint on port capacity. So many of our vehicles I think of the order of 700-800 vehicles could not be shipped in time, otherwise the growth would have been higher. But in any case, I do not see this demand right now to be something that is a blip. I see this kind of growth to be what we will see in the year. However, as we grow from quarter to quarter the base will become larger and larger and therefore the percentage growth may not be as high as you see today that is 37%. But the absolute number demand that you are seeing should be retained during the year. The major markets for us are South Africa, Chile, Brazil and Brazil is not a new market but a market we are putting thrust on. Brazil was kind of stagnant for a while and we have now started just from last quarter in Brazil in a big way. Then we have Sri Lanka, Nepal, and Bangladesh. The three neighboring countries always big markets for automotive and we are putting a fresh thrust on Australia where we have launched XUV in the last month and rest of the Africa is also important for us. So these are the major markets for us. Right now we are working on Russian Market as a new market. It will take some time. It is not something as around the corner it will be probably 1-1.5 to 2 years before you see anything happen in the Russian market but that is the big market that we are looking at. Any other question on export?

Ambrish Mishra: Sir the 3% number on an average if I look at for the first four month of this fiscal on auto side that absolute number is sustainable?

Dr. Pawan Goenka: That absolute number I think is sustainable. It was 3000 for the quarter, but July was 5000.

Ambrish Mishra: So you are saying these 5000 is sustainable.

Dr. Pawan Goenka: No, 3000 is sustainable.

- Moderator:** Thank you. The next question is from Sahil Kedia from Barclays. Please go ahead.
- Sahil Kedia:** Sir just one quick question. Can you give us little bit of color on how some of the other businesses like MNAL and the two wheelers are doing, can you give us a quick update there, that will be useful.
- V. S. Parthasarathy:** On two-wheeler, actually product launches have happened. The Duro DZ happened about some months back and not very far, but some month back and it has seen a good pickup in terms of volume. It is selling there about 7000-8000 kind of volume right now in terms of wholesale billing. The second one is we have just launched Rodeo which is a follow on product for this. These two products represents the first full fledged developed model from M&M stable which is getting launched and therefore we will see the fruits of these in the coming quarter and on both the products the critics feedback and the customers feedback are very encouraging. But as a cycle we are in the cycle which is in development stage before we get into a breakeven stage. Now, the other launches, there are some launches which is being planned which are about 3-4 product launches between now and the end of the year in the two wheeler segment which again should introduce to the market. So that is a broad view on two-wheeler.
- Dr. Pawan Goenka:** So if I take as long for each company I will need one hour. So let me give you sort of two-three line on each business and there are many other businesses to cover. You want just MNAL, two wheeler or all the other businesses?
- Sahil Kedia:** These are the two main key ones that we do want to get feedback but we are obviously always eager to hear what you have say on other?
- Dr. Pawan Goenka:** I will give you one line on all the businesses each okay. So I will start with Mahindra USA tractor business where we have had a very good first quarter. Our revenue has gone up significantly and market share has also gone up in the US market. US market actually has grown, after long time we had seen a good growth of 6.3% in the US market and we have had a higher growth so that our market share has gone up by about 0.7% increase in our market share in US which his very good. Mahindra China, the Chinese market is bit of a concern right now. There has been a de-growth in the China market, just coincidently 6.3%, same number as USA, where we have also de-grown and the market share has gone down slightly in Mahindra China. So US is a good story, Mahindra China right now bit of concern because of market. Mahindra Gujarat Tractor which is a small company that we have a joint venture with Gujarat Government. That is doing very well. There is nothing extraordinary about, good growth, volume growth and revenue growth both. Swaraj Engine again nothing extraordinary; good volume growth; good profit growth in line with volume growth. Then we have the Mahindra ShubbLabh which is our fruits and vegetables business which now this time has grown very well in terms of profit. But these all are small companies but they don't make material difference. But these are all businesses for the future and I think that will become good

volume in times to come. The EPC result I cannot talk about because the board has not yet announced the EPC result, this is the Micro Irrigation Company that we have. That is on the tractor side. On the tractor side, Powerol we have already talked about, where we have seen very good growth this quarter about 18-20% growth and good position in the DGA segment. We also are doing good export now in the Powerol in African continent. Then we have the construction equipment business which is our Backhoe Loader where we are somewhat slow in terms of market ramp up and we have sold about 70 average or 60 average in this quarter that is about 180-200 equipments during this quarter, somewhat a slow growth. On the automotive side, on export Mahindra South Africa is doing extremely well. We have had almost doubling of volume during this quarter and good return also. Though of course it is small size compared to our overall business. Mahindra Reva right now is a very small company. We are waiting for NXR launch and once the NXR launch happens then only it will become material and we expecting NXR launch to happen right around Diwali, that is our frame and then coming to MNAL And MNEPL as you know the truck sales have been somewhat subdued partly because of the market condition where the heavy commercial vehicles segment has de-grown in this quarter almost by 27% against an assumed growth of 8-9%. So it is a 34-35% swing from what was planned in this segment and the result of that has been that the discounting in the industry is very high by established players and therefore the volume growth for us has been somewhat slow;. I won't say somewhat slow, I would just say slow in MNAL And MNEPL. MNEPL is basically a dependent company of MNAL. So that just makes engines for MNAL. So this is an area where we will be putting lot more focus during this quarter and try and be more aggressive to gain somewhat. This covers almost all the business that comes under automotive and tractor.

Sahil Kedia: And sir one quick question if I may. Are you still sticking to, what are the timelines for expected cash breakeven on MNAL and MNEPL?

Dr. Pawan Goenka: We have never given any timeline. If somebody has given it to you, then we should ask that guy? What was your information, if I could ask?

Sahil Kedia: Sir, we read a media report which suggested mid of next year.

V. S. Parthasarathy: Just forward that media reports to me, so I know who to catch hold of.

Dr. Pawan Goenka: You know that we will never give any information like that.

Moderator: We have the next question from the line of Vishal Saraf from SBI Mutual Fund. Please go ahead.

Vishal Saraf: Sir earlier you mentioned about SsangYong numbers on the EBITDA side you said you have done positive and if I heard correctly we have made positive EBITDA of around 13?.

- Dr. Pawan Goenka:** 14 million Korean won for the half, which is approximately USD12.5 million.
- Vishal Saraf:** This is a positive EBITDA we have made?
- Dr. Pawan Goenka:** Positive EBITDA for first half as against the same number negative, last year first half.
- Vishal Saraf:** So a \$25 million in there, is it?
- Dr. Pawan Goenka:** Yes, that is right.
- Vishal Saraf:** But some of the filings otherwise show still a loss on the EBITDA, is there some extraordinary is there?
- Dr. Pawan Goenka:** In EBITDA there is no extraordinary. What you will see is at the PBT level. So last year there was an extraordinary item of profit. Therefore the PBT last year would look better, because of an extraordinary item on profit. There is nothing extraordinary this year. There was an extraordinary positive last year.
- Vishal Saraf:** Can you give me the PAT number as well for the same, first half this year?
- V. S. Parthasarathy:** Can I request you to do something? It is available on the website of ssangyong.com. Otherwise we will send it to you after the call.
- Vishal Saraf:** Okay sir, can you give us some indication at the PAT level when do we expect breakeven in SsangYong or some other key benchmark numbers or expected profitability?
- Dr. Pawan Goenka:** You will have to ask the same media guy who told the previous person about MNAL.
- Vishal Saraf:** But since we have already mentioned there is this \$25 million turn around so if you can indicate what are the key thing which are helping this in this turnaround?
- Dr. Pawan Goenka:** That I can tell you, basically it is no magic. We all know that in auto tractor business, there are 3-4 things that one has to control and if you control them well you make lots of money; so one is selling price. I will tell you about each one of these. Selling price in case of SsangYong is at a small discount compared to other major players in Korea right now, because SsangYong brand is not at the same level as you will see as Hyundai or Kia brand in Korea and we are doing lot of work right now to improve the brand awareness and brand value in SsangYong. So, that has not changed. The second element that comes in is a material cost, we have had good improvement in the material cost, this half compared to previous half and that has happened to some extent because of synergy between Mahindra and SsangYong where we have had the two purchase team work together and see how we are able to reduce material cost for SsangYong. The third element is overall fixed cost and that has come down to some extent and as also volumes go up, clearly the fixed cost which his not going up, since the capacity in

SsangYong has got significantly higher volume. The fixed cost will not go up till about I would say about 170,000-180,000 vehicles. So that is helping us in that regards and this three things add up to what is remaining is profit or loss. So, two of these three areas we have made good progress.

Vishal Saraf: So this EBITDA positive which we see here now would you believe this will sustain or possibly only improve going ahead and they aren't any one-time items here.

Dr. Pawan Goenka: There aren't one-time items and I should also say that exchange rate also has helped us, because just like rupee Korean won has also depreciated, but not to the same level as rupee but has depreciated compared to where it was last year, that has also helped us especially in case of SsangYong export is almost 60% of the volume and therefore it makes a huge difference when Korean won depreciates.

Pramod Kumar: Partha sir, this is Pramod here, I just wanted to highlight one clarification. There was this question regarding other open income doubling, from Kapil, if I am not wrong. Actually, I think that confusion has got to do with the restatement of the number as per Schedule-6. The reported number last year were other open income of Rs. 60 Crs., but as per the revised rates...

V. S. Parthasarathy: Then you should look at both revised.

Pramod Kumar: Exactly, there was confusion to that effect. I think the comparison was made with the wrong number. Otherwise, I think what you said was right; it is 100 crores going to 120 crores.

V. S. Parthasarathy: That doesn't matter. Even otherwise Kapil, offline you can still clarify and we will be happy to spend time.

Moderator: We have the last question from the line of Vaishali Jajoo from Aegon Religare Life Insurance. Please go ahead.

Vaishali Jajoo: The question is more on the rural side of your business, majorly on the tractors and Bolero. If you see that there is this slow down because of the monsoon or may be the economic slowdown, is the rural getting more impacted. Anyways in tractor we can see that there is going to be slow down and so we can see 0-5% growth? But do you see that can go down further and what happens to the Bolero because it is more of sold in the rural part of India, so that is again one of the major contributors?

Dr. Pawan Goenka: Let me take the easier one first, which is on Bolero. There is absolutely no sign of any slowdown in Bolero. We are selling anywhere between 9000-10000 Bolero's a month and that depends entirely on how many Bolero's we can make, the demand is always there for Bolero. So I don't expect any slow down to happen in Bolero, because I think there is some pent up demand which we were not able to meet in Bolero and therefore there is demand slow down,

demand will only come down to the level of matching supplies, So Bolero is not a concern. Coming to the tractors as I have said that we are looking for 0 to 2% growth, but if you would ask me, can I be absolutely 100% sure that it will be 0 to 2%, answer is no. In fact, in the last three meeting that we have had, I have reduced the numbers from 8-9% to 5% and today 2% and let me put it this way, that right now our indication is that the monsoon will be about 18-19% lower compared to long term average and if it is 18-19% and if we get some good rains in September that will help the Rabi crop and that will then help to again good sales in tractors. So assuming that monsoon is at 18-19% and assuming that there is no other negative things that happen between now and end of the year, I think 0-2% should remain but if were to ask me can I be 100% sure, the answer is no.

Vaishali Jajoo:

But Bolero you are confident?

Dr. Pawan Goenka:

Bolero I am pretty confident and in fact all the new products that are being launched by various people none of them will compete with Bolero directly, because Bolero is in a price point that no body else can come in, I shouldn't say can't come in, but nobody looks like is coming in. All the prices we are hearing from various new launches that are coming up, they are all in the 7-10-12-lakh range. Bolero is almost 1-1.5 - 2-lakh lower than that. So therefore I don't expect any new competition for Bolero and therefore I think that Bolero will continue.

Moderator:

I would now like to hand the floor over to Mr. Pramod Kumar for closing comments. Over to you sir.

Pramod Kumar:

Thanks. I would like to thank all of you and especially the management for taking time out on a busy day. I would congratulate them again on a very strong set of operational performance. Thanks a lot.

Dr. Pawan Goenka:

We are very happy to talk to all of you, so it is not a problem we took time out from the busy day and also would like to complement Shyma for being very rigid on not allowing more than one question and I think that has helped to get many questions. Shyma, good job.

V. S. Parthasarathy:

It is busy day; it was a nostalgic day, but we are very happy to have talking to you.

Pramod Kumar:

Thank you every one.

Moderator

On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.