



“Mahindra & Mahindra Limited Q1 FY 2016  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Mahindra & Mahindra Limited Q1 FY2016 Earning conference call, hosted by Batliwala and Karani Securities India Private Limited. As a reminder, all participants line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. AN Jayaraj. Thank you and over to you Sir!

**AN Jayaraj:** Thank you Aman. Good evening everyone, on behalf of B&K Securities, I welcome you all for 1Q FY2016 Post Results Conference Call of Mahindra & Mahindra Limited, I also take this opportunity to welcome the management team from Mahindra & Mahindra Limited. Today we have with us Dr. Pawan Goenka – Executive Director, Group President (Auto and Farm Sector) and Member of the Group Executive Board, Mr. V. S. Parthasarathy – Group Chief Financial Officer, Group CIO and President Group Finance and Mergers & Acquisitions and Member of the Group Executive Board, Mr. K Chandrasekar – Executive Vice President, Corporate Finance and Investor Relations and other Senior Management Personnel from M&M including the IR team. I will now invite Mr. Chandrasekar to take over the call. Over to you Sir!

**K. Chandrasekar:** Thank you Jayaraj. Welcome to the earnings call for Q1 FY 2016. The agenda is, first Mr. Parthasarathy will brief you on the financials, his presentation or his views and then followed by Dr. Pawan Goenka who will give the business perspectives, and then the floor will be open for question and answers. So, you have seen the results, many of you would have received the latest results published in the stock exchange and also from IR and once again welcome you all and I without further ado hand over the mike to Mr. Parthasarathy.

**V. S. Parthasarathy:** Thank you Chandra and I join Chandra in extending a warm welcome to all those attending the call and in the next five minutes, I will give you an overall summary on the external environment, Q1 financials, metrics and something about subsidiaries. Pawan will talk in lot more detail, about various strategic and operational aspects.

Let me first give you a brief about the economy’s gains. Global economic environment continues to be volatile. China, US oil price, you name it and Greece and Europe all of them have their sense of volatility and a little bit of concern in the growth overall. India seems to be one country which is bucking the trend and also showing stability amongst BRICS.

Coming to India, there are some positives that in spite of the monsoons threat, inflation is expected to be under control, which has allowed RBI during this year to cut 25 basis points in Q1 of FY 2016. Core sector is contributing to 33% of IIP and has turned positive in May with 4.4% compared to –0.4% in April; however, we have some concerns in the run as well. IIP data has been positive over the six months but yet to see higher growth regime and sustained growth regime and there is a slowdown in rural demand. One of the big things that the market is looking through is the implementation of GST and while the transportation bill will show a lot of benefit to the country

and into the industry, it will first have to be transported out of Parliament which seems to be a problem today.

Let me now take you through the financials. In M&M plus MVML, which is the standard way that we talk about, this year the PAT has shown a growth which is roughly flat as compared to last year; however, when you look at the margin it is 14.3% as opposed to 13.6% last year, which is a growth of 0.7%. Net revenue is marginally down at 3%, revenue is at 9437 Crores, but EBITDA is higher at 2.1% versus previous year at 1353 Crores. I wanted to emphasize that this is another quarter where under pressure on volumes at the top end we still have delivered results, which is in line, and greet the seeds estimate and shows our character of resilience. This is in spite of issue of degrowth in domestic industry by about 16%. We had to spend higher on advertisement, and sales promotion both due to new launches, and the environment, and various wage settlements have been down, which also has its impact.

OPM at 14.3%, I mentioned it is the best that we have in the last nine quarters, and if I were to go into segment results, Auto segment had a lower volume of 2.7% versus previous year, revenue at 5900 Crores roughly 1% better than last year but the segment result our PBIT was up 14.5%, which then therefore showed an ROS of 10.3%, which is the best in the last nine quarters. FES segment volume is lower by 16.3% in line with the industry and revenue was down 8.3% at 3572 Crores, last year this figure was 3894 Crores. FES was able to claw back something in terms of the margin and therefore the result was only down by 5% at 631 Crores. This ends up with an ROS of 17.7%, which is the best result for FES in the last eighteen quarters, so auto sector best quarter in nine quarters and farm equipment sector the best quarter in terms of ROS in eighteen quarters. ROCE is at slightly lower than 19% signifying efficient management and debt equity ratio is very comfortable and at a net level zero because the net debt is zero. Tech Mahindra showed a revenue of 6294 Crores for the quarter with a PAT of 676 growth at both ends. Mahindra Finance with a profit of 107 Crores, MHRIL 25 Crores and MLDL at 22 Crores PAT all of them showed positive PAT and momentum.

With that I will stop here and hand over the mike to Pawan for his introductory comments.

**Pawan Goenka:**

Thank you Partha. I am going to keep my comments brief so that we have more time for Q&A. So, the big news or big question that was there about this time last quarter was what is going to happen to monsoon and that fortunately has worked out quite well for us until now in the month of June, July as you know very well has been near normal and August, September right now the projection is that might not be normal but we will have to wait and see. So, overall I am quite pleased with the way the monsoon has progressed and all the sort of the bad news that we were expecting has not happened. I would not spend too much time on monsoon. If you have specific questions I will come back to it. I just want to add that in terms of crop sowing the only areas, which are still under stress in the country, are Marathwada, Vidarbha, North Karnataka, South Andhra and Telangana and other than that we have seen a very good sowing happening.

Rural economy, I would say has not yet reflected the good monsoon that we have had and that is understandable because the result of it will be seen only after harvest and some income coming into farmers pockets and therefore as we had expected that this quarter and most of quarter two will still be under slow recovery for rural segment, but come festive season that is from third week of September onwards, we should start seeing recovery happening in rural segment.

If I look at farm equipment sector, basically the industry the tractor industry had been down 16.4% in the first quarter and continues to be down 12% in July, which is again as I said earlier it is not different from what we had expected and therefore we are not surprised. We still maintain that we will have a 5% growth overall for the industry and as I said last time that the growth will be seen only in the second half and just those of you want to do some quick calculation, even if we see just a hypothetically, even if we see a 15% degrowth in the second quarter and if third and fourth quarter numbers go back to where we were in FY 2014 that is not too much to ask for then we would still see a 5% to 8% growth in the industry for the year and therefore reasonably certain right now again depends to some extent on what happens in next two months in monsoon that we should see an overall growth of 5% in the industry. Other thing that has happened is that almost all the states right now have seen a de-growth in the tractor industry except for Tamil Nadu and in Assam.

For us our performance has been more or less in line with the industry just the small degrowth compared to the industry and therefore we have lost about 0.5% at this point in market share, but the new tractor that we had launched last year that is Arjun NOVO that has helped us to increase our market share in 50 HP segments, that is more than 50 horsepower segment. Our US subsidiary is doing extremely well and therefore exports were up this quarter i.e 24% up.

The agri sentiment being somewhat muted right now on the implements business which is Applitrac has been slow in this quarter about 29% degrowth as a matter of fact but the Powerol business that we have been talking about for sometime now has had a very good quarter with a growth of 27% and in this quarter we have had a revenue of about 260 Crores coming out of Powerol business. The agri business which is our input, output and EPC that is micro irrigation has seen a growth of 29% so these businesses that we have the smaller business, agri business has grown quite well, Powerol has gone quite well and the Applitrac business i.e the implement business has been somewhat slower. Partha had mentioned that the commodity prices has been muted during the quarter and which is one of the reason, not the only reason, but one of the reasons why we have been able to get one of the best profit margin during this quarter to both for automotive as well as tractor.

Just a little bit on the inventory side for tractor, this quarter we had maintained the inventory as we had at the end of our previous quarter, the fourth quarter FY 2015 but if I compare last year quarter one ending to this year quarter one ending, we have reduced our inventory by 11000 tractors between our plant and the dealers and therefore in tractor now our industry our inventory both at the plant level and the dealer level is absolutely under control and we are in a very comfortable position.

On the agri side, we have launched a new brand called NuPro. Some of you may have followed it and this is the second brand that we have launched in agri. Coming to automotive, for passenger vehicle, we had seen fifth straight quarter of growth in the industry but driven by passenger cars, UVs have been slow. In fact the growth in UV in this quarter has been only about 1% or 2%. The heavy commercial vehicles have had very good growth continuous for 11 months in a row at 20% plus growth every month but the discounting does continue in the industry and therefore in terms of financial turnaround what we are expecting to happen in terms of the accounts going down that is not yet happened. The small commercial vehicle that is the sub one tonne vehicle, sub one tonne segment continues to be under very significant degrowth as it has been doing for last couple of years. On the two wheeler side as you would have known that the scooters are growing the motorcycles are more or less stagnant, in fact last quarter was sort of a quarter of slight improvement in motorcycle volume after eight months of degrowth.

During the quarter for us the good news was our launches. We had launched the New Age XUV 500, which was helped us to cross the 3000 average number from 2700 – 2800, now we are at about 3200 per month compared to quarter last year the volume is up by 4% and 3200 is a pretty good number, which I used to talk about 2700, 2800 has been good number with the old XUV, with the new one we are at about 3200. Our market share is up in that segment.

Scorpio with the launch that we had done last year in September maintains its market share. The pickup market share is now is at about 73%. We had also launched Jeeto. This is the small commercial vehicle platform that we had launched towards the end of June so you will not see much volume coming from Jeeto in this quarter but you will start seeing volumes there. We are projecting that we should be stabilizing at about 2500 vehicles per month coming out of that platform. The heavy commercial volume for us is going in line with the industry. We have marginally increased our market share but more or less in line with the industry. Again in Tractor and Automotive also the exports have done very well. We have had a growth of 28% in exports, driven to a large extent by neighbouring countries Sri Lanka, Nepal, Bangladesh and Bhutan and also with a large government order that we had from Philippines.

Material cost story is same as it is in Tractor. In Automotive we have a little bit increase in inventory compared to the end of fourth quarter and right now we are at about a week more than where we would like to be at the end of June. We have already reduced about two days in the month of July and we will reduce further two days hopefully in the month of August and we hope that by the end of festive season we will be back to where we would like to be.

On MTBD that is on the truck and bus our growth for the quarter has been 31% in the HCV segment and 11% in the LCV segment in both cases better than the industry. For Mahindra two wheeler, I had mentioned last time perhaps that the big thing that have been coming for us is a very aggressive marketing campaign that will be putting in place. The campaign started in the first week of July hopefully all of you have seen the commercials that we have put out on TV and therefore in this quarter, quarter one you will not see any effect of that campaign because it started in June and therefore we have had a volume degrowth in two wheeler that has been the trend in the last two or

three quarters but we are hoping that on the July month onwards where we have seen some growth and therefore from Q2 onwards we will start seeing some reasonable or significant growth in the volumes or the two wheelers.

For Mahindra Reva this is obviously far away from breakeven but we are seeing some volume traction after the announcement by the government on April 1, 2015 for the subsidy or the incentive for buying these vehicles. We had talked about launching nine products during this year in the automotive space. We have already launched three or four depending on what you count and we have five or six more to be launched. Everything is as per schedule right now. We had already talked about TUV 300 and that will be launched in mid September. This is a large volume brand new platform for us and therefore counting on it in terms of giving us a market share improvement in the automotive space. So, that is about what I would like to do as an overview of the performance of our various businesses.

We will now open it up for questions. We have about 45 minutes or so.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. First question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

**Kapil Singh:** Good evening Sir. Congrats on a great set of results. My first question is relating to tractor growth. You mentioned that post a reasonably good monsoon you expect flattish volumes in the second half, which would help us, deliver around 5% growth. Do you feel it could be much more than that given that industry has not grown and the base is also really low and more importantly what are your thoughts for next year in terms of tractor growth can it grow in mid double digits?

**Pawan Goenka:** I think maybe there was some misunderstanding in what I said, what I had said was flat in relation to FY 2014 not FY 2015, which would mean about a 25% to 30% growth in Q3 and Q4 because last year we had a very big degrowth in Q3 and Q4. So, what we are counting on that with good monsoon and good harvest in Q3 and Q4 we should see the numbers go back to where they were two years ago and that is what will lead to 5.5% growth in the industry assuming that we have a degrowth in the second quarter. It is too early to predict what FY 2017 will be these days it is hard to predict what will happen in next month, so next year is far try. I think in fourth quarter we will take a look depending on how the industry has gone in Q2 and Q3 a little bit on what the monsoon forecast will be for FY 2017 and we will talk about that perhaps in the call that we will have at the end of our April results or March results.

**Kapil Singh:** Sir second question was on the raw material cost?

**Pawan Goenka:** I think should we stick to one question at a time and then come back in the queue.

**Kapil Singh:** Basically, I wanted to check if raw material cost to sales as for M&M plus MVML has been fairly flattish so I wanted to understand that have we already seen most of the benefit or do you expect some more to come in because for some of the other companies we have seen a much stronger benefit when we look at raw material to sales?

- Pawan Goenka:** Because for us also there is an improvement in the gross margin.
- V. S. Parthasarathy:** So, 1.8% at the overall level we have an improvement in the gross margin.
- Pawan Goenka:** So, that 1.8% improvement in the gross margin do you also want to tell them about that where we have change the revenue.
- V. S. Parthasarathy:** There are two parts let me just answer. First is, is there a benign material environment the answer is yes. The benefit what we have seen which is 1.8% year-on-year, I never compare quarter-on-quarter so do not even go there but year-on-year it is 1.8% and that is a mix of material cost benefit and the change in mix and other initiatives that has been there so it is not all due to material cost but a good portion has come because there is a benign material cost environment.
- Pawan Goenka:** We strive to keep our gross margin material cost neutral in the sense that if there is an increase in material cost we try and pass it on so far we have succeeded. There is no guarantee that it will always happen but so far we have been able to pass it on so there is some benefit that as part as that we have had in the first quarter because of the material cost going down little bit.
- V. S. Parthasarathy:** Let me take this opportunity to also tell about a change we have done to the topline. There are some incentives that are in the nature more of the volume discount so we used to have the build BNDP as we call it build and which has an invoice value which are taking to revenue and the rest we are taking to variable expenses earlier. Starting first quarter we are reducing it from the revenue itself, so if you were to do it if I had done it last year the revenue would have been higher by 100 Crores and my variable expenses would have been higher by 100 Crores, but now I have adjusted it in the revenue. This is because this is more appropriate and now that there is a material impact we are doing it and it also aligns me when I want to go to a IFRS or INDAES it aligns me going forward with that kind of accounting standard. So, we have done that from first quarter and also previous year it has been adjusted so it is apple-to-apple it does not give any distortion. Last but not least is I want to take your cue and therefore if there is any other more material price decrease to come in future we will be happy to receive it.
- Kapil Singh:** Got it Sir. Thanks.
- Moderator:** Thank you. Our next question is from the line of Sahil Kedia from Barclays. Please go ahead.
- Sahil Kedia:** Thank you for this opportunity. I have one quick question, which is that has there been any kind of pricing action that we have taken? Secondly within the M&HCV side how have the discounts moved just wanted to get a sense on the pricing across different segments and how they have moved?
- Pawan Goenka:** In the quarter end question we have not taken any price increase in tractor and we have taken on an average 0.5% price increase in the automotive side. As far as the M&HCV is concerned the discounts have not gone down as I have said during my overview. They remain roughly at the same level as last year.

- Sahil Kedia:** Sir in the LCV side can you help us to understand anything there?
- Pawan Goenka:** In terms of discounts?
- Sahil Kedia:** Yes.
- Pawan Goenka:** There is not much of a difference. LCV discounts are not very high and nowhere near with LCV and that remain roughly where they were.
- Sahil Kedia:** I will come back in the queue for more questions. Thank you.
- Moderator:** Thank you. Our next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. Congrats for a good set of numbers. One question was on other expenses. Just wanted to understand that you have done a very good effort in controlling them, is there any one off just for a clarification in this which is making us to look at on the lower side how should one look at this, there is expense for the quarter?
- V. S. Parthasarathy:** Very simply are you looking at quarter-on-quarter or year-on-year?
- Chirag Shah:** No even year-on-year, if I look at it the increase is not substantial so it appears that even inflation is just that also increases are lower so has there been cut on or some discretionary spends have been cut versus last year if I can understand that or so there is no major one off in that nothing else it is just a clarificatory and thing nothing else?
- V. S. Parthasarathy:** I told you about one change which I made and that has been made in the previous year also so the expenses are comparable. Second is that there is no major one time expenses this year like I told you last time same quarter I talked about a one time in terms of not other expense but 94 Crores or 95 Crores of IPS. I talked about it last time. There is no such, it is not this other expenses and I can say that there are no one time major positive that is locked into Q1. Then the next question is, is there anything else that we need to look at I will just give you this, if you look at depreciation you are seeing a reduction in year-on-year. So, the reason why there is a reduction is that depreciation per se has gone up but amortization comes down because your amortization is completed for a particular product while that in this quarter maybe reduced a little bit may be in future when we launch new product then the amortization will come back on except for that I do not see any extraordinary or one time expenses.
- Chirag Shah:** Just a clarification on the gross margin question as earlier participant asked, is the tractor mixture YoY would also be a reason because the mix is lower this time versus same time last year I presume the gross margins in tractor would be far higher than automotive business.
- V. S. Parthasarathy:** What my simple answer would be that at an ROS level which you see on a segment you have 17.7% for farm equipment sector, and 10.3% for the auto sector and the rest we are not going into individual component so I do not want to start and therefore not guide you properly, the key thing



is overall across everything there has been in the farm equipment sector anyway use to rise and it was further higher, and in the auto also there has been if you see in auto revenue went up only by 1% apple-to-apple and profits went up by 14.5% so in terms of positive movement auto had a much stronger swing in a sense.

**Pawan Goenka:** Since you asked the question the mix this quarter and year ago quarter was about the same slightly positive this quarter but nothing material, nothing significant.

**V. S. Parthasarathy:** But it is not somewhere I got a tinge that you think that the mix is negative?

**Chirag Shah:** Yes, I said the tractor mix last year was slightly higher than what it is in this quarter?

**V. S. Parthasarathy:** I do not draw the conclusion. Somebody else asked me the question and let me tell you that farm equipment sector also has Powerol and agri revenues in it so trying to get mix from that is going to be a tricky proposition or realization even.

**Chirag Shah:** Thank you very much.

**Moderator:** Thank you. Our next question is from the line of Pramod Amthe from CIMB. Please go ahead.

**Pramod Amthe:** Congrats on good set of numbers. Two questions; was there any VAT refund in the quarter?

**Pawan Goenka:** You mean IPS not VAT refund, you mean the investment subsidy right?

**Pramod Amthe:** Yes, which last year first quarter you have received?

**Pawan Goenka:** The subsidy now we account for, that is called IPS, which is primarily coming from Chakan but there are some smaller ones coming from Zaheerabad also where we have our tractor plant and the new Jeeto plant so the investment subsidy is accrued as we sell so we do not wait for actual cash proceed it is on accrual basis and therefore there will be an accrual of investment subsidy during the quarter.

**V. S. Parthasarathy:** So if your question is that is there an extraordinary?

**Pawan Goenka:** No there is no extraordinary this year but there was an extraordinary last year which was about 94 Crores extraordinary last year but this year it is not there and that is the reason when we are saying you compare quarter-on-quarter, you should subtract 94 Crores both in the revenue as well as profit.

**V. S. Parthasarathy:** Just probably I will take one minute. See what had happened is earlier we are accruing 90% of the benefit possible assuming the 10% will be knocked off so we went to 100% because the government was sanctioning 100% and that we did last year so we got a one time for the past after that it is standard every quarter, so there is nothing.

- Pramod Amthe:** I wanted to get your thoughts on how are your dealerships gearing up for new products especially like the TUV and all and would it have been better for you to see at premium distribution like what Maruti is doing with Nexa?
- Pawan Goenka:** Dealers are obviously gearing up and waiting for the new launches. We have been working with them constantly from the time that we launched XUV. We already have two different distribution network one for commercial vehicle and one for passenger vehicle and right now we do not see any need for us to create any different or subsection within the personal segment therefore we will continue with the one distribution network for personal and one for commercial. We have a distribution network separately for the trucks and LCVs which is third distribution network that we have, fourth is for Mahindra Tractor, fifth is the Swaraj Tractor and sixth is for two wheeler, so we are managing six distribution networks.
- Pramod Amthe:** Thanks and all the best.
- Moderator:** Thank you. Our next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Sir on the ramp up side, you said Jeeto will take some time to ramp up in the sense when you launch a new UV how should one look at the ramp up program of that?
- Pawan Goenka:** So, what I mentioned was that in a commercial segment the customers do more for waiting and watching before they start buying and there is a lot of analysis and lot of shopping before they buy even a new product and therefore it is not like an instant long queue what we have up to now is almost 40,000 enquiries that we have and we are beginning to see retail happening and what I had said was that I would expect that our retail in Jeeto will stabilize at about 2500 number is what we are targeting though it might go up for a month or two but it will stabilize at about 2500 is our target and that is what we had planned our whole capacity also for the time being, on the UVs both TUV 300 and S101, clearly the ramp up will be much faster because we would expect that the customers would be waiting for those products and perhaps buying it as to when we launch them.
- Chirag Shah:** How much time it takes for you to supply models to all the dealers it is a one month process or two months process?
- Pawan Goenka:** We pre-supply in almost all cases so that is when we launch, unless we are doing a region wise launch whenever we are doing a national launch all the dealers will have products in their showroom to showcase to test drive and to sell the day we launch.
- Chirag Shah:** This was helpful. Thank you very much.
- Moderator:** Thank you. Our next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Thanks for the opportunity. Sir, my question was on your tractor profitability. You have always maintained resilience there despite volume fluctuations but if I look at this quarter specifically even

if I compare year-on-year despite a decline in volumes your margins are actually better so any specific cost reduction measures have you taken to achieve this or is this commodity link some color would help?

**Pawan Goenka:** Well, again the same thing that answer that we have been giving to several questions that sort of keeps coming back to the same thing in different flavors that it is a combination of material cost reduction that has happened both by virtue of commodity price reduction as well as the value engineering that is the design cost reduction that we do if we were to compare with last year to this year on an average selling price of tractor has increased Rs.13,500 on an average which certainly helps us to maintain our margin and overall cost reduction that we have done as somebody pointed out earlier that when we look at the cost the fixed cost, variable cost and personnel cost there has not been much of an increase from last year and therefore we have been able to manage reasonably well. We also help slightly with the exchange rate which obviously gets us a high realization for export though that is not a very big number in case of tractor it is only about 3000 tractors in the quarter so it does not make a difference but has made a small difference in that.

**Amyr Pirani:** Sir just a clarification, the TUV 300 is basically the compact SUV sub four metres SUV from you?

**Pawan Goenka:** TUV 300 what we have said up to now is that it is a true blue SUV it is not a cross over make it sub four metres.

**Amyr Pirani:** Sir it will start selling from September?

**Pawan Goenka:** It will start selling from mid September.

**Amyr Pirani:** Thanks for the opportunity Sir.

**Moderator:** Thank you. Our next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

**Hitesh Goel:** Thanks for taking my question. Congratulations on good set of numbers. Sir, I was looking on your trend for last many quarters and I see that other expense, sales is always lower in the first quarter. Is it to do with the incentives that you're talking about, the incentives may be lower in the first quarter and then dealer getting incentivized in the next few quarters. Can you just detail on this, because the other expenditure is always lower in the first quarter.

**V. S. Parthasarathy:** I have not looked at this trend line at a very unique way of looking at it and I will have a look at this trend but I am going to assure you of two or three things. We do not prepone or postpone expense. We book them as they happen and we make provision as they happen. That you can be assured of, there will be nothing carry forward in that way so given this accounting practice there are seasonal variations. There are things that happened season-by-season and every season attracts a different set of advertisement if we are launching a product for example in Q2 it will attract and we talked about just now 300 launch and it will attract advertisement in that quarter and therefore that quarter expense will be more if there is a season which is Diwali or there is lot of things both

variable and fixed are lumped into other cost so along with volume also it will raise. So, I will have a look at the trend you are talking about but according to me they are both seasonal and volume based variations and also you remember that increment does kick in at some point of the year so first part of the year in the sense will not have the increment built in for personnel cost and after that there will be increment built in.

**Hitesh Goel:** Thanks for this answer and one more question. One more question, sir, you said gross margin improved by 150 basis points, but at your reported numbers including the change in inventory, if I look at first quarter FY 2015 which you have, you have said that it's already adjusted for the adjustment that you have made, it was 68.6% and this quarter it is 68.1%. So, should we assume that because of commodity, the gross margins would have improved by 180 basis points, but because of mix, because the Bolero and Scorpio sales are lower in Automotive, the mix would have deteriorated on a Y-o-Y basis in Automotive, is that the way to look at it because your reported numbers show only 50 basis points improvement Y-o-Y basis.

**Pawan Goenka:** 50 basis point from that 94 Crores has been taken out.

**V. S. Parthasarathy:** So have you adjusted for the previous year that IPS of 94 Crores. What I suggest is it is 180 basis points year-on-year and offline if you want I will take you through that. My IR colleagues will make sure that you get 180 there is no net 50, but net 180.

**Hitesh Goel:** Thank you very much.

**Moderator:** Thank you. Our next question is from the line of Kaushal Maroo from Emkay Global. Please go ahead.

**Kaushal Maroo:** Just wanted your view on the growth outlook for the UV2 and LCV segment for the year?

**Pawan Goenka:** The growth outlook that has been put out by SIAM is what we are following which is about 8% to 10% for passenger cars as well for UVs. Right now, as I said earlier passenger cars are growing at about 10% pace but UVs are growing only about 1% pace. So UVs are behind compared to the growth projection that we have made. I am expecting that with all the launches that have been talked about some of them have already happened in the industry for UVs. The UVs growth will pick up.

**Kaushal Maroo:** The LCV segment Sir, light commercial vehicle?

**Pawan Goenka:** Light commercial vehicle segment it depends on which segment you are talking about. There are three sub-segments. One is sub 2-tonne which includes the Jeeto to the Maximo vehicle and there is a pick-up segment to which is from 2 to 2.5 tonnes and then there is a LCV segment which is 3.5 to about 7 tonnes. So the 3.5 to 7 tonnes we are seeing a growth and we do expect to see a single digit growth continue for the year. For pick-up segment it is plus minus just about 2% or 3% degrowth right now that might go into positive territory but it will not come double digit in our opinion for this year and small commercial vehicle segment is degrowing, it is degrowing fairly

significantly and again there right now we do not see any change that will happen and therefore we expect the LCV segment will end the year at degrowth.

**Kaushal Maroo:** Lastly, if you could give a rough breakup of the rural and urban sales of Bolero, Scorpio and XUV?

**Pawan Goenka:** We will not release specific model numbers and a breakup between rural and urban. All I can say that we are working very aggressively on the rural penetration for last several years and every year we have high and higher rural penetration that we see for all our products.

**Kaushal Maroo:** Thank you Sir and all the best.

**Moderator:** Thank you. Our next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.

**Jatin Chawla:** Good evening Sir. Congratulations on a very good set of margins. My question is, do you see any adverse impact on the Scorpio from the recent launches by Maruti and Hyundai and related question with vehicles, which are significantly higher priced when compared with the TUV, these guys, have set targets of between 5000 and 7000 a month. So should we expect that the targeted numbers for TUV should be at least that much?

**Pawan Goenka:** Scorpio, I do not know why there is a feeling that Scorpio is slowing down because compared to last year quarter Scorpio had a 6% growth this year quarter and in between in September last year we had launched new Scorpio and that is the reason why we have seen the small growth in this Scorpio numbers and our market shares in the competitive segment for Scorpio remain same as it was last year. So I do not believe there is a slowdown in the Scorpio.

**Jatin Chawla:** The question is coming because Scorpio, people were aware that in September it was coming the sales leading up to that would have been lower?

**Pawan Goenka:** Not in June in July, August I agree but not in June. That is too far from launch. So the slowdown will be in July August, not in June. So therefore I think roughly it was last year quarter. If you are to compare to Q4 you might see a slowdown but before it is always big for the Scorpio again quarter-on-quarter becomes very deceptive to compare. So Scorpio continues to be where it was and XUV is somewhat stronger and then where it was.

**Jatin Chawla:** Any comment on that targeted volumes by the two players?

**Pawan Goenka:** I will not obviously comment on targeted volumes of other players and we never comment on targeted volume of our own new launches. One exception that I have made just now few questions ago while on Jeeto, where I have said that we are targeting about 2500 volume.

**Jatin Chawla:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Ronak Sarda from Axis Capital. Please go ahead.

- Ronak Sarda:** Thanks for the opportunity. Just on the tractors, you highlighted some areas where the crop sowing is still not as expected but can you just highlight region wise what is the outlook on tractors and sequentially is there any change in the sentiment?
- Pawan Goenka:** Region wise the forecast for tractors?
- Ronak Sarda:** Not forecast but how the sentiment has changed.
- Pawan Goenka:** I cannot really get into region-by-region. What I have said earlier was there are four areas where right now crops are under lower, lower cropping or lower sowing of crops than what it was last year, which is Vidarbha, Marathwada, Southern Andhra Pradesh, Telangana and Northern Karnataka. Other than that everywhere else we see a good cropping pattern.
- Ronak Sarda:** Any change in the customer sentiments I mean our customers coming back because the crop season has been normal?
- Pawan Goenka:** I had answered that earlier that we will not expect to see any kind of spurt in the middle of the season it will happen at the end of the season once the harvest starts and therefore we expect a demand growth to pick up over the effect of a monsoon we will be seeing in sales starting end of September and early October.
- Ronak Sarda:** Second was on the SsangYong operations I mean they have just launched a new crossover Tivoli but again on the target market how is the situation there if you can just elaborate on SsangYong?
- Pawan Goenka:** Tivoli has been perhaps the best launch in Korea in recent times for anyone. Up to now we have sold 33000 Tivolis in Korea some of them is export also but bulk of it is in Korea. We have more than 5000 a month for the last three or four months. Bookings right now 8000 so we are very happy with the kind of response that we have got for Tivoli and we do expect that Tivoli will cross 50000 for the year under it is calendar year this year. For SsangYong since you asked the question the concern right now is of course on export volume which is because of Russia where we used to sell the peak of about 30000 vehicles a year and this year it is close to 0 so that is the big hit that we have some of it is made up by very aggressive growth that we have seen in domestic growth where we have grown 37% in the six month January to July seven months but exports have degrown by about 40% primarily because of Russia and somewhat because of China. Overall volume in seven months is 5% lower than what it was last year and we estimate that for the year we will have about 4% growth in volume ending at about 146,000.
- Ronak Sarda:** Thank a lot Sir.
- Moderator:** Thank you. Our next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.
- Kapil Singh:** Just wanted to take your thoughts on this crossover segment. Do you feel that the target segment for crossover is the same as that for Scorpio or XUV?

- Pawan Goenka:** Not really as we have been very careful in pointing out every time that we have such dialogues that UV segment really needs to be seen as UV1 and UV2. UV1 is what we call crossover and UV2 is what we call true-blue SUV for lack of better word. The vehicles like Bolero, Scorpio and the TUV300 will fall in accents in the UV2 segment or TUV 300 is a smaller vehicle compact vehicle but it falls in the segments what we call true blue SUV and S101 that will come out later will fall in the crossover segment and therefore I think these are two different segments and there is not as much as costing over between the two segments as you might expect the more crossing over happening in crossovers and cars then you might see between crossovers and frame based vehicle.
- Kapil Singh:** In terms of global markets which product do you see between to TUV300 and S101 having a better or higher potential?
- Pawan Goenka:** I consider both of them to be high potential for overseas market but for different reasons. S101, I see at high potential because it is a crossover, it is a compact crossover and would be a good value for export markets and therefore for many countries and right now I cannot talk much about that product because we have not revealed anything about it because many countries that would be a good product to look at. TUV will be a good product for overseas markets because there are not too many new products being launched on a frame based vehicle. Mahindra being primarily SUV player we thought that we must have new product coming in the framed based also and therefore in terms of new product entry in the frame based vehicle we will be one of the few that is launching a new product and therefore those who want those kind of vehicles for them this will be attractive product offering and therefore you would expect both of them to have potential for export, good potential export.
- Kapil Singh:** Thank you Sir.
- Moderator:** Thank you. Our next question is from the line of Yashesh Mukhi from Morgan Stanley. Please go ahead.
- Yashesh Mukhi:** Good evening Sir. Thank you for the opportunity. Just had one question on the S101, launch timing. Can we expect this to be launched ahead of the festive season and therefore benefits from the higher sales in the festive season or do we not know the timing yet?
- Pawan Goenka:** I cannot comment on that right now. We will announce when the time is right. So far, we have only announced TUV300, which will be launched in mid September.
- Yashesh Mukhi:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Deep Shah from SBI Capital Securities. Please go ahead.
- Deep Shah:** Thanks for the opportunity. Just one question, Sir, where do we see ourselves as far as the two wheeler business and the truck business let us say..... for the next two to three years?

**Pawan Goenka:** I think this is again a question that was asked last time and my response is pretty much the same as last year. The truck business for us to become profitable, we need to sell about 10,000 heavy trucks and about 15,000 LCVs and so that is what we need to do. Right now we are growing at about 30% this year. If 30% growth continues then we will probably end up the year at about 5000 trucks and that means we need two more 30%, just two more 30% will get to 10,000. LCV side we are growing reasonably okay about 10% to 11% where we do not expect leaps and bounds kind of growth. We have a new product that we are working on in the LCV and medium commercial vehicle segment which will be launched about 2.5 years from now and that will give us fairly good presence end-to-end from the 3.5 tonne LCV all the way up to 49 tonne trucks. So, that is the overall plan for it so the brand new product in LCV and the medium vehicle and continue with variants and specific initials on the heavy commercial vehicle focusing on marketing. Now focusing on growing our volume in line with the industry and hopefully picking up the market share along the way will take us to that magic number of 10,000 trucks and about 15,000 LCVs. On the two-wheeler side our concentration right now is on increasing volume this year itself not to the level, which is the end result, that we are looking for. I had mentioned earlier that we need about a million annual volume and about 18% to 20% of gross margin for this business to become profitable. Last year we ended about 200,000 volume. This year we will have to wait and see the effect of the marketing campaign that I talked about earlier and festive season in a good position to know how effective the marketing campaign is and what we are able to be able to get from that. As far as products are concerned, we do not need to do any major new product development in the two-wheeler segment of course we will do variants, we will be doing refreshes. We will have some engine options coming in but not a new platform coming in, leaving out what we may do with the acquisition that we have done of PMTC and we might launch a PMTC product in the Indian market not this financial year but next financial year.

**Deep Shah:** Thanks Sir that was helpful.

**Moderator:** Thank you. Our next question is from the line of Priya Ranjan from Systematix. Please go ahead.

**Priya Ranjan:** Thanks for the question. My question is just on the volume from the new product, so what level do you think that the new product whether TUV 300 or the S101 will become as profitable as say Scorpio or XUV 500?

**Pawan Goenka:** That depends on at what price we are able to price it and that would be very much a question of how the overall scenario is in the industry when we launch the product frankly I mean honestly we do not decide the price till the day before launch and that is one day we do a full analysis of what our costs are, what is our breakeven volume, what is the competitive scenario, what are the other products that are doing well in the market and where do we need to position our product. So it will all depend on that. Obviously our endeavor will be to keep it at the same level of profitability after sometime as we have most of stable products but I cannot really answer that question. Just going back very quickly to the question on truck, just wanted to point out one very important milestone that we have reached in this quarter in Q1, which is to get a breakeven at a variable cost level for our heavy trucks. This is the first quarter that we have had a breakeven at the variable cost level.



- Priya Ranjan:** Just continuing on that point I mean truck level individually or it is a total MTBL level?
- Pawan Goenka:** MTBL level already had a breakeven because LCVs are positive. It was the truck that was not breakeven at the variable level. The trucks were supported by LCV now truck by themselves have become breakeven at the variable cost level.
- Priya Ranjan:** In the first half you have been doing around 500-600 rough total M&HCV so do you see the run rate moving up till end of December.
- Pawan Goenka:** They have not reached 500- 600 yet that will be a good milestone first to reach. We are sort of crossing or thereabouts 400.
- Priya Ranjan:** Upcoming launch of TUV and S101 so we can expect in the third quarter S101?
- Pawan Goenka:** I cannot say anymore than what I said in an answer to the previous question. TUV 300 to be launched mid September, S101 to be launched in this year but when I cannot say. In fact nobody in this room knows, when it will be launched.
- Priya Ranjan:** Thank you, that is all from my side.
- Moderator:** Thank you. Our next question is from the line of Nikhil Deshpande from Sharekhan. Please go ahead.
- Nikhil Deshpande:** Good evening Sir. Thanks for taking my question. This quarter we have reported a margin of 14.3% M&M plus MVML last quarter that Q4 FY2015 is 11% reported. As per the new accounting changes what we have made what would be the restated margin of Q4 just for a comparison?
- V. S. Parthasarathy:** We will not keep you in suspense. We will offline share each of the quarter restated figure upfront. So not only you, I suggest every quarter of last year we can restate but if you want the rough and ready answer increase it by 0.1.
- Nikhil Deshpande:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.
- Jatin Chawla:** Thanks for the opportunity again. First question on the two-wheeler side you mentioned that now there are not going to be any new platforms and you are relying on the new campaign driving sales now what is that does not drive sales? When you do take a call that we are not likely to reach that one million unit target and hence you need to have your set of worries to be resolved.
- Pawan Goenka:** Do you really expect me to answer that question?
- Jatin Chawla:** Yes, I think you kind of indicated right that at some stage you will have things from this time to get a sense on?

**Pawan Goenka:** Rethinking is not going to be about whether we should be in that business or not. Rethinking will be that whether we need to change the business model right, and right now our business model is in sort of commuter bikes volume both scooter as well as motorcycle. We will wait for about six months the result of campaign that we have done. Right now the first indications are that the campaign is working very well and we are seeing very good traffic in our showrooms and therefore hopefully we will never have to content with that question that you have asked and let us wait for a quarter, in one quarter we will have pretty good idea on how things are going.

**Jatin Chawla:** Just a very quick check on the consolidated results that have been given when I look at it the infrastructure segment has seen a very sharp fall in profits. I am unable to figure out what is the entity that is really driving it. Can you agree with that?

**V. S. Parthasarathy:** So you are seeing the fall as opposed to what to what .....

**Jatin Chawla:** I think it was 280 odd Crores.

**V. S. Parthasarathy:** What happened in Q1 last year if you see the result, it would say that they sold a land piece called NGE land that gave a profit of about 170 Crores at the PAT level and 245 Crores at the PBT level so if you knock this up, you will get a figure. After you did it you will still see that there is a year-on-year drop that is because Mahindra World City, Chennai had number of sales, which we did in the first quarter of last year. Now they are going through a lull and then again Jaipur and Chennai will kick back in Q2 and Q3. So you are seeing a lull. These are the two reasons why do you see such a sharp drop from 270, 240 or something like that.

**Jatin Chawla:** One off explains it because of the one off the decline is not that acute.

**Pawan Goenka:** I want to go back to the two-wheeler thing that you asked where you made a statement that we will not be launching any new platforms and will rely on these products. I want to put it in a more positive sense that we do not see a need for any new platforms. Both the products that we have on the motorcycle side and the scooter side both are very good platforms as I said both have some features that are not seen by market leaders today in India like for example in a scooter the adjustable seat height it is a very big feature and a very big draw on Centuro, the keyless and the key that we have and anti-theft are very good features that I have seen and therefore what I just want to say that we do not see a need to any new platforms. We will have variants for sure and we will have engine options for sure. Right now both are 110 CC while we go forward we will have 125 CC 155 CC we will have Mojo which we have been talking about, Mojo which will be launched before the festive season. So we will have Mojo also which is the new platform but I was not counting that because that is not in the volume segment. So it is not that we do not want to it is because we do not think we need to.

**Jatin Chawla:** Great thank you, best of luck.

**Moderator:** Thank you. Our next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

**Pramod Kumar:** Thanks a lot for the opportunity and congratulations on a robust operational performance Sir. My first question is pertains to the tractor business and forgive me if this is already been asked but I kind of joined the call late. What could be your outlook for say period beyond FY 2016 in terms of do you see that FY 2017 can be a fairly good year for sharp bounce in the tractor demand or you see more of a normalized kind of a recovery in the tractor industry?

**Pawan Goenka:** The question was asked earlier and the answer that I had given was right now we are focusing on FY 2016 and we may not be in a position to make any forecast by FY 2017. There are too many variables, too many unknowns. So any forecast that we make right now will have no meaning. We will be looking at beginning of fourth quarter as to what the forecast would be. Depending on demand pattern that happens during this year depending on the crop output that happens in Kharif and depending on the sowing that we see in Rabi crop. So before January or February of 2016 this is the almost impossible for us to make any meaningful forecast for FY 2017.

**Pramod Kumar:** Pawan, let me rephrase it in that sense can we expect historically what you have seen a very sharp recovery of very strong double digit after a year of slump. Is there a possibility of that happening that may not be expected given the normalization of MSPs and various other things, which have happened on the rural side with the new regime?

**Pawan Goenka:** Let us put in other way, because the slump that you saw in last year was because of very high growth two years before. It was normalized and may be we will go back to normal. Right now we really have no sort of take on it. So far ahead of the end of the year we always plan our operations on the historical growth rate which is about 8% for tractors and closer to the year we will then see whether we want to increase that or decrease that right now we just work on that assumption. When we make a long term plan we just assume 8%.

**Pramod Kumar:** My second question pertains to the other expenditure and gross margin as we go forward and transition into a new product launch which will be coming from the smaller products and also in a very competitive market and as you mentioned the UV growth so far has been behind your estimates as an industry. So there is some bit of fatigue coming in probably for the traditional UVs but how should one look at the automotive segmental performance as we get into a very busy pipeline?

**Pawan Goenka:** Just in terms of UV growth though we did not talk about in today's call but the diesel prices do play a roll in it and now lately the diesel prices have become favourable once again and it is possible that will then lead to a better UV sales but I must also say that all crossovers that are launched except for the one that was launched recently come in both diesel and petrol versions. So it is again very difficult for us to pin down any specific numbers that I can tell you today that this is what it will be when we launch as S101 or TUV300 we will have to kind of remain competitive do what we need to do to get our volume targets that we set for these two quarters.

**Pramod Kumar:** Finally anything on Pininfarina because news flow keep coming from the company saying that they are still talking to you and they are still hopeful of a transaction though earlier I think the deal could not happen.

**Pawan Goenka:** Our answer will not be any different than what we have been saying consistently that we will not make any statement or any speculation of M&A.

**Pramod Kumar:** Sounds good. Thanks a lot and best of luck.

**Moderator:** Ladies and gentlemen that was the last question.

**Pawan Goenka:** I would just like to summarize sort of some key points before Chandra closes the conference. So very quickly for Q1 the results that we announced today, environment we see the biggest positive factor was monsoon which was under lot of cloud so to say, no fun intended but that worked out very well for us and has given us a good sort of positive fillip for the future though in Q1 itself we did not much of a result translating into volumes either in tractors or in UVs because of monsoon but that to be expected we will see hopefully that result towards end of Q2 and into Q3. In terms of result our biggest sort of something that we feel very happy about the fact is that we were able to get very good margin both in tractor business and automotive business and therefore overall for the company. Margin as Parthasarathy said was best in nine quarters and we did launch two or three very important products in the quarter. As we look at Q2 and going forward I kind of think that sort of everything is in place for us. We have all our products lined up in the automotive space the tractor product that we have launched last year, the Arjun NOVO as you know is doing extremely well for us though it is small volume segment but is doing extremely well. On the Swaraj side also we have just about - launched 50 plus horsepower tractor, Swaraj does not get much attention but we have launched 50 plus horsepower tractor and we will be launching another new tractor about towards the end of the year and therefore we are reasonably well set in terms of products in two wheeler, in trucks, in tractor as well as in automotive and right now our cost base is working quite well. Obviously, we are helped by the commodity prices being what they are. We are looking forward to the festive season with lot of optimism because we do feel that if the rains are good for the remaining month, month and a half then we should have very festive season this year. Going forward for us we have talked about.., nobody asked about investment but we have talked about investment of 7500 Crores of over three years which is investing money in our new products in all the business but more so in automotive and less so in tractor, two wheeler and truck though in truck we are working on new platform and we have plenty of capacity which is good for us. Plenty of capacity in all the businesses two wheeler, auto and tractor and therefore we do not have to spend too much money in capacity as the volume grows. Of course we will be spending money on product development as we launch new and new products. You are also aware that we have MNATC R&D centre that we have in Detroit, which is helping us in some of the new products that we are doing. So that is roughly where we are. Quarter one was good from financial viewpoint. We would have been happier to have little bit more volume but it wasn't too bad for us and roughly where we had planned for the quarter.

**K Chandrasekar:** Thank you Pawan and Partha. That brings us to end of the program. Thank you very much ladies and gentlemen till we meet or speak again wish you well. Thank you very much.

**AN Jayaraj:** Thank you everyone. A special thanks to Mahindra and Mahindra management for giving us the opportunity to host the call. Once again thank you. Have a great weekend.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference call. Thank you all for joining us. You may now disconnect your lines.