"Mahindra & Mahindra"

November 14, 2011

Representative:
Mr. U. Y. Phadke – President
Finance, Legal and Financial Services Sector & Member of the Group Executive Board

Dr. Pawan Goenka – President
Automotive and Farm Equipment Sectors & Member of the Group Executive Board

Mr. V S Parthasarathy
Group CIO, EVP, Finance and Mergers & Acquisitions & Member of the Group Executive Board

Mr. K. Chandrasekar
EVP, Corp. Finance & Investor Relations

Mr. S. Venkatraman
Controller of Accounts

Motilal Oswal Rep:
Mr. Jinesh Gandhi

Moderator: Ladies and gentlemen, good day and welcome to the Q2FY'12 Results Conference Call of Mahindra & Mahindra hosted by Motilal Oswal Securities Limited. I would like to hand the conference over to Mr. Jinesh Gandhi from Motilal Oswal. Thank you and over to you Mr. Gandhi.

Jinesh Gandhi: Thank you. Good evening everyone. On behalf of Motilal Oswal Securities, I would like to welcome you all to the Mahindra & Mahindra Q2 results call. M&M is represented by Mr. Uday Phadke, President, Finance, Legal and Financial Services Sector and member of the Group Executive Board, Dr. Pawan Goenka, President, Automotive & Farm Equipment Sectors and member of the Group Executive Board, Mr. V. S. Parthasarathy, Group CIO, EVP Finance and M&A and member of the Group Executive Board, Mr. K. Chandrasekar, EVP Corporate Finance and Investor Relations, Mr. S. Venkatraman, Controller of Accounts and other members of the senior management team. I would like to handover to Mr. Phadke for his opening remarks. Over to you Sir.

Uday Phadke: Thank you Jinesh. Good evening friends. You have already read and possibly analyzed our Q2 results. I would like to suggest to you two or three things, one is that it is now becoming important for our results to be understood only in the context of M&M and MVML's combined operations. As you are aware, the MVML operations have gained in size and they are a very important segment of our automotive sector as well as M&M's operations and it is necessary that we see the results together. As you would have read from our press release, our revenue has grown by 34%, profit after tax at Rs. 761 Crores is up by around 3% (over Rs. 738 Crores of the corresponding quarter of the previous year).

There is a net loss of Rs.32 Crores on account of the rupee depreciation against the US dollar on our external commercial borrowings. If that Rs. 32 Crores impact is adjusted, then our profit after tax for Q2 at Rs. 783 Crores is higher by about 6%. The operating margin after adjusting this exchange difference is 13.3%.

We have been able to achieve these results in spite of the huge increase in material cost mainly because of our ability to not only retain but also to increase our market share in the various segments. Our shares value is up by about 35.45%. Expenses other than raw material consumption are under control. The staff cost at 5.84% is lower than corresponding quarter staff cost, which was 6.59%. Other expenses are also under control; tax provision at about 24.5% is in line with what it was last year. So in a way I would say that we have had extremely good turnover, good market shares and moderate increase in the profit over the corresponding quarter. I will now request my colleague Dr. Pawan Goenka to make his comments on how the businesses have fared in automotive and farm equipment segment. Pawan would you like to comment?

Pawan Goenka: Good evening friends. Unfortunately I am away from Mumbai today, so I am not with my colleagues and do not have all the notes in front of me. Just wanted to cover a little bit on the operational side of the business. The volume performance for both automotive and tractor businesses have been very good and we have grown 31% and 26% in volumes in the two businesses. While in tractor business, the volume increase has kept pace with the industry in Q2, in automotive business as you know very well, we have out stepped the industry by a huge margin in terms of market share increase in various segments that we play in. October sales which were not part of the Q2 results, have in fact been even more encouraging for us both in automotive and tractors segments, where we have further gained market share.

I think right now we have a really good pricing power on the automotive side. The tractor industry on the other hand is somewhat under constraint because of very high Indian commodity prices and the interest rates. In terms of production all our plants are running at full capacity. We have perhaps lost some potential sales because of the capacity constraints, more so in automotive than in tractor division.

Exports are extremely good, especially automotive division where we have had a gain of over 89% and kept pace with last year on the tractor side. In terms of the various products, we have a very strong pull and volume growth for Bolero and Scorpio in the market place. The new product that we had launched - the Maxximo has done very well, especially the Maxximo soft top van in October has had as much of 40% market share. The big story for us last quarter ,though that would not have much of an effect on the results for Q2, was the launch of XUV500 wherein I am sure you know that within ten days we had to stop bookings and we will restart booking sometime later. XUV500 has been very well received by the customers. We had bookings of more than 8,000 vehicles in just 10 days in five cities and we already have order bookings running up till end of January.

We also have few more launches planned for the rest of the year to further gain volume and market share in various segments that we play in. Clearly the concern that has been seen by many analysts today, as evident from the reaction, is our profit level. Mr. Phadke explained the various things that have had an impact on profitability or profit margins, let me add just little bit to that. First of all I would like to venture that Q2 last year was an extraordinarily high profit quarter and what we have this year in comparison to last year, perhaps looks a little pale, but last year we also had some extraordinary income item that had give us some benefit.

This year we had the effect the VAT refund from Maharashtra government for our Chakan plant that had been curtailed quite significantly and had an effect on our profitability this quarter. We also had the effect of the commodity price increase, where even if we pass on 100% of commodity price increase to the customer we will still have a loss of OPM because of the numerator-denominator effect, which is almost 2%. There is a little bit of MTM (mark-to-market) effect that Mr. Phadke did not mention, but we can talk more about that later.

Overall from all the results that have been published so far I think we still have the highest profit margin amongst any of the automotive or tractors companies in India and therefore not something that we need to be overly concerned about. Clearly as an industry the profit margins are under some strain because of various impacts that you see including industry slowdown, which at least fortunately has not affected Mahindra both in the tractor and the automotive. Tractor industry has done well and in automotive we have done very well compared to the industry.

So that is an overall starting comment and more we will cover as questions that you ask and whatever subject you want to discuss either on financial or on operations.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question comes from the line of Pramod Kumar from JM Financial. Please go ahead.

Pramod Kumar: Good evening everyone and thanks for the opportunity. My query pertains to the increase in the capital employed on the standalone books for this quarter. We have seen that capital employed on both the automotive and farm equipment side has seen a sharp increase and also there has been a pretty good increase in the depreciation expense. So just wanted to get a perspective from you on this?

Uday Phadke: Basically if you look at the increase in capital employed it is in tandem with the increase in the activity level. It is possible for example as of September 30, we may be carrying some extra stock, but that was only because we had Dussehra and Diwali falling in the month of October and we need to have the inventory at our stockyard as well as with our dealerships so that we do not lose out on sales. But other than that I think the increase in the capital employed is in line with the increase in the activity level.

Pramod Kumar: Just a follow up to that, did we do any sales on credit as well ahead of the festive season just to support better dealer inventory?

Uday Phadke: We had some extra stock because of Dusherra.

Pramod Kumar: That should not lead to a capital employed increase from our side. That is what I wanted to clarify?

Uday Phadke: We have not extended any credit terms. On or two days here and there may happen. Our normal credit terms are 15 days and 15 days for higher volumes will translate to higher value.

Pramod Kumar: That is understandable. Operating margins have been under pressure even in Q2, how do you see it going forward considering commodity prices are shaping up and given the fact that our products continue to enjoy a good waiting period, a good demand on the automotive and tractor side. So will it be fair to assume that going forward directionally you should see margins improving from that level?

Pawan Goenka: Obviously we will not give any forward looking statement on what we expect on profit margin, but I think I will give you a little bit of a scenario that we see. First of all, as far commodity prices are concerned, the increase in commodity prices have been less than what we had anticipated in the beginning of the year and we do expect the same trend to continue during the rest of the year. In fact there are some reports that the commodity prices may head south though that is not what we are planning on right now. We are expecting a small increase in commodity prices. The second thing that you would see is that a lot of work that we have done in terms of our new product launches and new products that have been launched, especially XUV500, will start giving us volume and profit starting this quarter. We have already sold 1,000 plus in the month of October and expect to sell around 2,000 in the month of November and continue to go up from there. Therefore again I cannot make a specific comment, but we do not expect the commodity prices to be a huge additional pressure on our profitability.

Pramod Kumar: Finally on SsangYong, we saw that despite the sharp increase in volumes and revenue, the operating performance was not so different from what we have seen in the previous quarter?

Pawan Goenka: Are you saying previous quarter or last year the same quarter?

Pramod Kumar: I would say even if you were to look on y-o-y basis and even on a sequential basis…

Pawan Goenka: So on a y-o-y basis you cannot compare, because last year this time SsangYong was under court receivership and there were some extraordinary profits that had happened because of sale of assets.

Pramod Kumar: No I am talking at the operational level

Pawan Goenka: So at the operating level there is a big difference between coming out of receivership and being a normally managed company. There were certain costs that we have to incur in a normally operating company and the financial results that we have right now is more or less as per the business plan that we had when we acquired company. The volumes in fact are perhaps slightly better within the business plan that we had when we acquired the company. We are not concerned with the current operating performance of SsangYong. It will take some time as I said earlier also before we can turn positive in terms of bottom-line. This company was in dire trouble and the first focus that we have is in improving volume and we are constantly looking at how to further improve or how to improve the operating performance, where the primary focus is material cost, how to reduce the material cost and keep increasing volumes.

Pramod Kumar: But the way the currency has been moving does it not worry you at this point of time?

Pawan Goenka: In terms of SsangYong?

Pramod Kumar: Yes Sir.

Pawan Goenka: For SsangYong the currency still has a positive effect right now because the Korean Won is weak against both dollar and Euro. Since SsangYong has a fairly high export content of the overall revenue, the current situation in currency is positive for SsangYong.

Pramod Kumar: In a way we have not hedged our position much at SsangYong?

Pawan Goenka: We will not talk about the level of hedging that has been done.

Pramod Kumar: Fair enough thanks and lot and best of luck Sir.

Moderator: Thank you very much Mr. Kumar. The next question comes from line of Govind Chellappa from Jeffries. Please go ahead.

Govind Chellappa: Hi, could you tell us a little more about how the tractor business has done? What percentage of tractors are financed right now and how are the inventory levels with the dealers?

Pawan Goenka: In terms of the percentage of tractors being financed, there is no change that I have seen quarter-on-quarter.

Pawan Goenka: There is no change that we have seen in terms financing and inventory levels. End of September the inventory levels are sometimes deceptive because there is always stocking that is done for the festive season. As you would have seen that in the month of October we sold 30,000 plus tractors, which is far more than the production capacity that we have in our plants, we always have to stock up tractors both at the dealers and as well as in our own in the month of September, both dealers as well as in our own plants so end of September inventory will always be high. It is after the Diwali season is over, that you look at inventory. As of the end of October, we have the lowest inventory levels that we have seen in years both for tractors as well as our automotive business in terms of numbers of days.

Govind Chellappa: When you say percentage of tractors financed being constant, approximately what percentage of tractors?

Pradip Vaidya: Generally about 75% of tractors are financed and 25% are sort of cash purchase. Cash purchase means that customer pays within a period of two to three weeks.

Govind Chellappa: Dr. Goenka had mentioned that there were certain extraordinary incomes in Q2 last year. Could you just give us a sense of what those extraordinary incomes were in Q2 of FY'11, which we need to adjust to make a y-o-y comparison?

Uday Phadke: They are extraordinary, in the sense that the amounts are large, but they are basically incentives for some of our products, which we get from the government, but we have not quantified it at that time and we are not going to quantify it now. These incentives will keep changing in value from quarter-to-quarter. Sometimes we get a big chunk in one particular quarter and sometimes we may not get it for the next two quarters. So there is no point in having that type of an item.

Govind Chellappa: There was no forex impact in Q2 last year?

Pawan Goenka: There was actually a moderately positive impact in last year's Q2.

Govind Chellappa: Would you quantify that?

Pawan Goenka: One or two Crores.

Govind Chellappa: Thank you.

Moderator: Thank you very much. The next question comes from the line of Jamshed Dadabhoy from Citi Group. Please go ahead.

Jamshed Dadabhoy: My first question is on the tractor industry. Dr. Goenka mentioned that the industry is under constraints due to interest cost and material cost, so could you give some sense on what the growth for the sector has been in the half year and how do you think the growth for the industry will be for the second half of this year?

Pawan Goenka: My comment was not that the industry growth is under constraint; my comment was that the price increasing ability is under constraint because of very high material cost increases and very high interest rates.

Jamshed Dadabhoy: Pricing is a constraint?

Pawan Goenka: No, the industry growth in fact has been far more than what we had anticipated. At the beginning of the year we had said that the industry will probably grow at 11%-13% and the industry growth has been more than 20%. So industry growth actually has surprised us and therefore there is no concern on the volume growth that we have had in the tractor industry and frankly it is a month-to-month situation and current growth rate of the industry continues to surprise us every month. Even in the month of October we had not expected the kind of growth that we have seen which was 24%. Our estimate is that we will end the year perhaps at some moderating growth in next five months, but we have been surprised every time up to now in this year, so I would not surprised if we continue to have very good growth, but the growth rate right now is very healthy and even if we have a 11%-12% growth, we will end the year at a 17%-18% growth, which is very, very healthy for the tractor industry.

Jamshed Dadabhoy: Understood. Sir second question could you just give some understanding on MVML automotive division plus MVML accounting, because is if I look at the revenues from MVML only for Q2 it works to about Rs. 46 Crores, against that the segment profit is about Rs. 56 Crores. Obviously I am reading something wrong, so if you could just explain? I am just doing auto division plus MVML less auto division, which gives MVML.

Pawan Goenka: That is because of inter-division transfer.

Jamshed Dadabhoy: It says it excludes inter-division transfer.

Pawan Goenka: That is the reason you see a very small increase in revenue growth because except for the trucks everything from MVML is sold to M&M and the truck volume has been small. So the truck revenue is not too much and therefore you will see that most of the MVML revenue actually is shown in M&M revenue and the only thing that you see is standalone, or the additional revenue is the revenue coming from the sales of trucks to MNAL.

Jamshed Dadabhoy: That is fine Sir. That I understood. I just want to know why the EBIT is more than revenue.

Ajay Choksey: EBIT is also inclusive of the incentive we get from the government for this particular product.

Pawan Goenka: Let us assume that there is Rs.100 revenue in MVML and Rs.4 profit in MVML. The Rs.4 profit as is gets transferred to consolidated but the Rs.100 revenue gets almost Rs.98 or Rs.97 is assumed in M&M. So the revenue growth is only Rs.2 or Rs.3 where the EBIT growth is all the profit that is coming in MVML.

Jamshed Dadabhoy: Very helpful, thank you Sir.

Moderator: Thank you very much. The next question comes from Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: Thank you very much. First this year it seems the performance of the commercial vehicle segment (trucks), which obviously you are not participating in significantly seems to be doing better than even the small commercial vehicle relative to the growth of cars and of course tractor are again surprising on the upside. Could you throw some light as to why you think there is a dramatic dichotomy in performance of the segments, where as everyone keeps giving the same underlying factors that has been fuel cost inflation and interest rates?

Pawan Goenka: Basically if you look at the performance of passenger vehicle and commercial vehicle, you will find that the passenger vehicles are slow in terms of the overall performance last year. Commercial vehicles as we have pointed out have been good both in the light commercial vehicle as well as medium and heavy commercial vehicle. In fact the light commercial vehicles have gained lot more. The total growth in Q2 for light commercial vehicle has been of the order of 35% plus where the medium and heavy commercial vehicle has been of the order of 10%. Now the slower passenger vehicle performance is coming from two factors. One is the overall contraction of the market but equally important coming from the slowdown that Maruti has faced because of the labor situation. If you were to take out the utility vehicles from overall passenger vehicle, which are not affected by Maruti, the growth actually is 14.5% in the industry, which is a very healthy growth but if you start including the small cars, which is very heavily affected by Maruti, the growth becomes negative and that is what is slowing down the passenger vehicle. Now coming to our participation in commercial vehicles, except for medium and heavy commercial vehicle where we are just beginning, we have a very strong participation in the range starting from the smallest 0.5 tonne and going up to the light commercial vehicle range. In all of these segments whether it is the 2 tonne to 3.5 tonnes, less than 2 tonne or even three-wheeler we have a very strong presence. In most of the segments we are number two player and the number one players are different players in each segments. So overall for commercial vehicle industry we are number two right now in terms of volume in the Indian commercial vehicle industry.

Srinivas Rao: Sir just wanted to check with you as much given the dichotomy as you mentioned UVs are doing well, small commercial vehicles doing well and small commercial vehicles typically used for entrepreneurs. Would it be fair to say that interest rate is actually not that big a factor? These are segments where livelihoods are concerned, so these should be probably the most sensitive to any changes in financials.

Pawan Goenka: I would not want to jump to that conclusion that interest rates are not a factor because we do not know what the increase would have been if the interest rates were more moderate. In fact if you look at the initial projection that SIAM had made, we were projecting higher growth in medium and heavy commercial vehicle, and we believe that growth has been somewhat subdued because of the interest rate. In the lighter commercial vehicle we had always presumed a very high rate of interest and that is because of more and more people coming into these segments and the overall availability of like 0.5 tonne, the one tonne increasing substantially from last year. So it is just becoming a better business proposition therefore people are buying it. I would not say it is not affected by interest rates because we really do not know what could have happened without interest constraints.

Srinivas Rao: One final question, between the two quarters, the topline has dramatically increased, I am including MVML numbers in that, so from a Rs. 6,200 Crores revenues you have gone to approximately 8,300 Crores revenue whereas at least the PAT which has been disclosed is relatively flattish at 6% growth. Would incentives I know you mentioned that incentives are a part of it and then of course the fall in the profitability and the margin fall. Can you establish which one has played a bigger role in taking away your incremental profits? The Q2 of this year does not have incentives and is also impacted by your lower profitability because of raw material cost. I am assuming these are the two key factors for a relatively smaller profit, absolute profits despite the stronger revenues right?

Uday Phadke: On the incentives, we will not be able to give you any clue for a simple reason that it depends upon the government's cash position and when they will release and how much. Overall one can say that incentives become significant when explaining the profit variation in terms of totality of the operations, the turnover etc., they are not a significant figure but it does when we are trying to explain why 300 is becoming 350 then it becomes important but in Rs. 7,500 Crores of turnover it is not important. So I do not think I will be able to give you any clues on the incentives but quarter-on-quarter there will be various reasons why profits may not grow as much for e.g. material consumption to sales, that is something which can differ from quarter-to-quarter. Now you talked about Q2 turnover being much higher than Q1. So first of all we have not started yet accepting the proposition that sequential……

Srinivas Rao: I mean Q2 compared to Q2 last year, I am not comparing sequential at all.

Uday Phadke: Clearly the material consumption percentage to sales as you would have seen is between 4% to 5% higher than what it was last year and certainly I would say that incentives forms a very major portion of that.

Pawan Goenka: There are two factors in there. Just want to remind you. One factor is whether we are able to pass on 100% of the increase, second is even if we pass on 100%, in OPM percent is because of numerator-denominator effect.

Srinivas Rao: Thanks.

Moderator: Thank you very much Mr. Rao. The next question comes from the line of Pramod Amthe from RBS. Please go ahead.

Pramod Amthe: With regards to tractors, you are planning to ramp up your production, is this growth sustainable and do you see any system related issues cropping up in even though short term demand is exorbitant?

Uday Phadke: System generated means what?

Pramod Amte: In terms of banks lending or in terms of the NREGA scheme?

Pawan Goenka: For the remaining five months we do not see production becoming a constraint for us on tractors because the months of November and December are typically lean months in the tractor industry and that is the time when we fill our pipeline and be ready for the month of February and March which are the high season months. Therefore we should end the year at a reasonably good inventory going into April-May, which again is the high season. So production wise we do not see constrains, end of October as I said earlier we have very low inventory, among the lowest in number of days that we have had in years. As far as the lending and any other system related issues are concerned on the lending side, I will request Mr. Phadke to answer.

K Chandrasekar: Given the increase is in priority sector lending. I do not think it has slowed down. So our talk with banks at various levels indicates that the extension of credit for good company products continues to be robust.

Pramod Amte: But do you see any caution in the way the other sectors are facing NPA issues?

Uday Phadke: I know what you are saying. There are other sectors where there seems to be stress and therefore the NPA level there is a threat which was evidenced by one of the largest banks, but that should not affect the overall system.

Pawan Goenka: The difference here right now is that the farmer's revenue is expected to be very good. We have had the highest ever Kharif production and a very good increase in MSP (minimum support price) and therefore we do expect that farmers would have the ability to pay the EMI of the tractors and that is one of the reasons why tractor industry is doing well. In addition to labor shortage the income of farmers is good. That is one of the reasons why NPAs are under control in the tractor industry.

Pramod Amte: This is with regards to the XUV which you have launched. I think it has surprised the industry experts including you. So in that context how do you see sustainable volumes for this product in the medium term?

Uday Phadke: We were pleasantly surprised at the response to XUV500 because after all it is product in the 12 to 13 lakh range and not in a volume segment. There has been such a high demand that everybody is queuing up to get that product. So we had to stop bookings. We have planned to ramp up to 3,000, which was planned for Q4 of this year. We are on track with that, in fact we would probably be a little bit faster than what we had originally planned. We have made about 1,200 vehicles last month. We will make close to 2,000 this month, 2500 in the month of December and we are planning on 3,000 in January and then ramp up from 3000 to about 5000 by end of Q1 of next year, (about May-June). By end of June we should be at 5,000 volumes. Right now we have not made any specific plans to go beyond 5,000 because we need to see how well the demand sustains once we reopen bookings and if we have the same kind of response then we will consider going beyond 5,000. But right now we have committed an investment till 3,000 nos. We are in place to commit investment from 3,000 to 5,000 and have not decided on going beyond 5,000. If you want to commit investment beyond 5,000, the plant can certainly go 40% to 50% more than that.

Pramod Amte: Thanks and all the best.

Moderator: Thank you very much Mr. Amthe. The next question comes from the line of Aditya Makharia from JP Morgan. Please go ahead.

Aditya Makharia: Just had couple of questions regarding the margins in terms of the product mix. Have we seen higher sales of tractors relating it to the Yuvraj or is it that the Maxximo is less profitable as a product per se?

Pawan Goenka: First of all yes we have a higher percentage of Yuvraj sales in this year's quarter than last year's quarter. We have now reached about 1,200 to 1,300 a month and last year I do not remember what the number was but it will be in a few 100. I am not commenting on profitability of Yuvraj versus profitability of other tractors but I am just giving you the volume figures. Similarly Maxximo was just getting ramped up at this time last year and we did not have the Maxximo MPV, the Van, and therefore clearly the percentage of Maxximo in our portfolio is higher this year than it was last year but once again I am not commenting on profitability of Maxximo versus other products.

Aditya Makharia: Because you had such high volume on the tractor side any leverage benefit which could have offset the material cost increase, I know you mentioned that you raised prices for your tractors, which you adjust in line with the metal cost but any savings on the leverage part, which could have kind of….

Uday Phadke: By leverage you mean what?

Aditya Makharia: Like higher volume obviously bring down…..

Pawan Goenka: Certainly higher volume has an effect on our overall economies of scale and therefore possibility of lower cost per unit which we constantly do and as we have always said that the increase in commodity prices are partially offset by us increasing or reducing the material cost by virtue of value engineering as well as the economies of scale and also by the business system cost that is combination of our fixed and variable cost in the factory and marketing as well as personnal cost. So that combined result is what gives you the overall OPM where without passing on the full cost increase to the customers we are still able to retain our profit margin in a reasonable range.

Uday Phadke: If you look at the segmented results, you will find that the return on sales of farm equipment sector has gone down very moderately. So that is what you are saying this leveraging effect they have been able to actually reduce per cost tractor of the fixed expenses.

Aditya Makharia: Just in terms of Chakan, could you quantify the sales tax loss in this quarter.

Uday Phadke: We said that incentives is not an item you want to quantify quarter-on-quarter because quantification itself may not be again indicative of what it will be in the next quarter or what was in the previous quarter. It will fluctuate from quarter-to-quarter.

Pawan Goenka: I just want to repeat that we are in constant dialogue with the state and have not yet reached a conclusion. The chief minister has made open statements in meetings that they are looking to find a solution, which will be a win-win for both the state and the industry and two days ago that has appeared in the newspapers. We are in constant touch with the highest officers in the government and we continue to hope that that very soon we will find a solution and it has been more than seven months. It is a matter of concern for us that the solution has not yet been arrived at by the state.

Uday Phadke: I will give you an update as of yesterday. I was listening to an interview of the Chief Minister on CNBC Awaz, the Hindi channel, and he actually said that *"humain pata hai ki auto industry ka koi difficulty hain" "We know that the auto industry is facing some problem"* because of change in incentives etc., for some which *"usme raasta nikhal rahean hain, aur jald hi niklaenge" "We are solving those problems, and we will do it as soon as possible."* So I think it is on top of the radar that some solution would emerge in the near future.

Aditya Makharia: Wish you all the best and hope the lower commodity prices benefit you going forward. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Good evening Sir, I just wanted to understand the price increase taken in the last six months and whether the current margins fully reflect the impact of those?

Pradip Vaidya: For tractors, point to point, we have taken about average Rs.6000 price increase per tractor, which amounts to 1.5%

Kapil Singh: This is from when to when Sir?

Pradip Vaidya: April to September we had one price increase in the Mahindra brand and one in Swaraj brand. So overall it is about Rs.6000, which works out to 1.5% of our selling price.

Kapil Singh: When was this done?

Pradip Vaidya: In Mahindra it was done sometime in June and it was followed by Swaraj around July.

Kapil Singh: In the auto sector?

Ajay Choksey: Auto sector we have taken roughly around a 2-3% price increase. It depends on model to model.

Pawan Goenka: This is in quarter or half?

Ajay Choksey: This is in the half year.

VS Parthasarathy: However, I just wanted to once again remind everybody that even if we pass on the entire material cost increase, Pawan has in the beginning already said there is the numerator denominator effect, which could be 200 to 250 basis point. Just keep that in mind while you are analyzing.

Kapil Singh: Just to get a view on commodities for the company, does Q2 see a peaking trend or do you see that happening in Q3?

Pawan Goenka: I do not think commodities are peaking for the company. As I said earlier the increase in commodity prices is tapering down and we expect the tapering down trend to continue in Q3 and Q4. We do not expect the commodity prices to go lower than what they are today even though there are some reports that there may be some softening, but our planning is that they will taper down but still increase slightly from where we are in quarter two.

Kapil Singh: Okay, thanks a lot.

Moderator: Thank you very much Mr. Singh. The next question comes from the line of Sahil Kedia from Enam. Please go ahead.

Sahil Kedia: I have two questions, firstly if one does a simple math in terms of just understanding the average realization for the FES business, which is taking the segment revenue, and dividing it by the volume, there is a 4% increase in the average realization. So I just wanted to get a sense if is there any shift within the FES business towards the higher HP tractors? Is there any trend that you can help us understand?

Pawan Goenka: Yes and no, we are actually increasing on the two ends. Our share of business has gone up in the less than 30 horsepower segment and that is primarily because of Yuvraj. We have a high growth in the Yuvraj and our share of business has grown considerably in the 40 horsepower plus, and that is on the higher revenue per tractor segment and gone down in the 30 to 40 horsepower segment. The reason you see the 4% increase is partly because of the small price increase that we talked about which obviously adds to the realization per tractor. I do not have the math to know whether the 40 plus offsets the 30 minus but we have grown on both ends.

Sahil Kedia: Can you give us a little bit of color in terms of the new launches either that we are likely to do or we have recently done within the FES business.

Pawan Goenka: On the FES side the recent change that has happened in the month of October is the introduction of new emission norms. Emission norms in tractor do not get talked about as much as in automotive. We have had a change in all emission levels for tractors above 50 horsepower which is added to the cost of the tractor, which you will not see any effect in the September quarter but you will start seeing the revenue effect in the October quarter because the prices would go up with the new emission norms. We have also launched sometime ago, the Arjun multiapplication tractor which is ramped up during this quarter and we have done some variants on various tractors during the year. There has not been a major new launch in tractors in the last six months.

Sahil Kedia: One last question, you have mentioned in your opening comment that there was some lack of capacity on the automotive side. Could you help us understand where that came from – is it in terms of production or suppliers?

Pawan Goenka: Our biggest constraint comes from the capacity of our engine that goes into one line of Xylo, all the Boleros & pickups. That is the MDI engine, and that MDI engine constraint capacity has put some constraint on the vehicle production in these segments. The biggest affected sub-segment has been the pickup segment where we had to constraint output and give a higher percentage to the Bolero segment where we have seen very good growth. Bolero is performing very well but even at that level we could probably sell few more Boleros. If you ask me to quantify how much the loss would have been it is always very difficult to do so. But our marketing would claim that they could have probably sold about 2,000 to 2,500 more each month and that for the quarter is maybe 6,000 to 7,000 more.

Sahil Kedia: In capacity will there be any addition?

Pawan Goenka: We are constantly improving on it, but our demand is growing even faster than the capacity increase that we are doing. Our current estimate is the by mid-February we should be totally out of the MDI constraint, but our capacity is going up every month.

Sahil Kedia: So, what is our current capacity on the MDI engine?

Pawan Goenka: No, I would not be able to answer.

Sahil Kedia: Alright thank you so much sir.

Moderator: Thank you very much sir. The next question is come from the line of Shreya Gaunekar from Morgan Stanley. Please go ahead.

Binay Singh: **T**he emission norm change that you have mentioned in tractors, have you passed it on fully through a price hike?

Pradip Vaidya: We will be passing on. The tractors which we sold in October have engines produced in September so we have an intention of passing on this prices increase.

Binay Singh: **I**n the press release you are mentioning that the economic outlook is cautious but at the same point of time we see very strong performance playing across the business for you. Any initial signs of moderations in demand in case of tractors, be it in a regional context or something that you know on the tractor demand particularly?

Pawan Goenka: Well as I had said in my opening remark, that we had in fact expected October to be less than what it actually did and we are very surprised both by industry and the pull that we had in our tractors. In the month of October we have picked up I think 2% and we had the highest combined market share ever between Mahindra and Swaraj for our tractor business almost at a 45% level. Our current business plan assumes that the next five months will not grow at the same level as the first seven month have grown, but as I have said earlier that we have been surprised every month this year and I won't be surprised if we are surprised again. I really cannot predict what it will be, our best guess is that we will end the year at about 17% - 18% growth but it could be higher also, it is very unlikely to be less than 17% - 18%.

Binay Singh: Any emission related pre-buying that you saw in tractors?

Pawan Goenka: No, I do not think so because the emission norms are changing only for 50 horsepower and above and 50 horsepower and above, even though it is the highest growing segment, represents only 9.5% of the total tractor sales. Therefore the emission norm change will not have a big impact. If anything, people who are buying 50 horsepower plus tractor may choose to buy less than 50 horsepower tractor to save money, because the delta between less than 50 and more than 50 will become higher. But I do not think that will have any major impact on overall sales volume because as I said 50 horsepower and up is a very small percentage.

Binay Singh: Lastly, I know there is a forex loss that is a part of your other expenses in the numbers that you have reported. But when I look at your EBIT margins across automotive and tractors where exactly is this forex loss sitting? Is it in the automotive division?

Uday Phadke: No, this Rs. 32 Crores loss will be at the corporate center as it is related to loans, etc., It is not in the segment results.

Binay Singh: Thanks a lot sir.

Moderator: Thank you very much sir. The next question comes from the line of Chirag Shah from Emkay Global. Please go ahead.

Chirag Shah: Thanks for the opportunity. My first question pertains to MVML. Is it possible for you to share the gross and net debt figure as on September 30? Have we peaked in terms of debt over there and can we expect debt coming down in the MVML books?

K Chandrasekar: We have around Rs.900 Crores debt in MVML.

Chirag Shah: This would be net debt. Net of any surplus cash you may be having with you?

K Chandrasekar: It does not have much of cash, maybe temporarily pending usage other than that you have to really see there is debt at around Rs.900 Crores.

Chirag Shah: Any more borrowings lined up for CapEx? Should one expect the debt number to go up?

Uday Phadke: Nothing is lined up. If there is a huge increase in the activity level we have may have to consider, but the working capital maybe.

Pawan Goenka: Our original plan that we had for equity infusion and debt on this company has not changed and our project expense has not been higher than what we had budgeted. In fact it is marginally lower than what we had budgeted. So as far as phase one is concerned we have launched from there XUV500, Genio, the trucks and the Maxximo. We are right now in the process of deciding where we will do the phase two expansion and depending on where the phase two expansion is, that will be a totally new project and if we have a phase two expansion in MVML and that it will also depend to some extend on what the Government of Maharasthra decides to do on the refund situation. If we do decide to invest in MVML for phase two then there will be a fresh step of financials that will be worked out and there maybe borrowing.

Chirag Shah: Fair enough and Sir this Rs.900 Crores also includes working capital?

K Chandrasekar: No, that is separate.

Chirag Shah: Can you just help us understand how much that would be?

K Chandrasekar: No, it will be fluctuating. It depends on the level of activity. That is not a figure that we can tell you.

Chirag Shah: Okay, sir a follow-up question, one on raw material you indicated that there could be a slight uptick in terms of cost pressures for you - is it the right way of understanding?

Pawan Goenka: There will be a slight upward movement in raw material prices though less than what we had originally anticipated.

Chirag Shah: The benefits of price hike are yet to come in or are they already filtered in? How should one read into that?

Pawan Goenka: We constantly keep increasing prices. They do not necessarily keep step with the commodity price increases because commodity price increases happen on daily basis and price increases happen on a quarterly basis or let's say two to two and a half months. So there will be always be some lag effect.

Chirag Shah: Can you share what kind of numbers you are doing on Genio and how are you present in terms of you for reach?

Pawan Goenka: We do not reveal the breakup of volumes between pick-ups Genio and Bolero. The market share I think is 71% in this segment which includes the BMT product, the Bolero and the Genio.

Chirag Shah: Is Genio available at all places where Bolero pickup is available?

Pawan Goenka: I think Genio is available at almost all locations where we sell the Bolero pickup. But the target segment for Genio and Bolero are different. The Genio is meant for the captive users and not for commercial, therefore more meant for small entrepreneurs whereas the Bolero pickup is more for contract carriers where people carry load for others on a hire basis.

Chirag Shah: On the three wheelers, your numbers are actually surprising us, at least me. So where are you present in terms of geography and how are you looking at this particular business?

Pawan Goenka: We have had a very good growth in three-wheeler numbers. The industry in three-wheeler in the second quarter actually had a negative growth of 3.7% whereas Mahindra had a positive growth of 15.7% and therefore our market share has gone up by more than 2%. We are present pan-India in three-wheeler and selling both passenger as well as load versions all over India. Certain markets are obviously stronger for us than others, I would not have the detail in front of me as to which are the strongest markets.

Chirag Shah: **C**an you share amongst the five regions where would we be relatively strong?

Pawan Goenka: I really do not have the data.

Moderator: Thank you very much Mr. Shah. The next question comes from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: I wanted to understand how are you seeing the UV segment, because that is the only segment within your portfolio which seems to be growing slowly, so if you just can just touch up on that?

Pawan Goenka: Did you say which is growing slowly?

Sonal Gupta: I think the growth there is sort of more like close to single digits…..

Pawan Goenka: No, the UV segment growth in the second quarter has been 14.5% and again it depends on what you group under what, so that can get confusing sometimes. But as far the SIAM grouping goes, the UV segment has grown 14.5% and our growth in that segment has been same and therefore we have maintained market share in the second quarter. But if I look at the first and second quarter together we have increased market share. The UV segment has been growing at this rate for last several quarters now. Our performance there is underlined by the new products that we have been launching in that segment and we already had the Bolero, the Xylo, and the Scorpio as 3 very strong products in that segment and now we have XUV also as a fourth product in that segment and therefore we hope to continue our dominance of that segment or let us say leadership position in that segment. We will soon launch a SsangYong product and therefore we would then have a much wider coverage in terms of the price points in the UV segment. I do not expect unless there is any serious Government intervention, UV segment growth to head down from where we are. There is a very strong demand, as I said earlier we could have sold more Boleros, more Scorpio, and more XUVs if we had more of those.

Sonal Gupta: Alright sir thank you. The second question I have is on the raw material cost. I know you do not want to look at it on a quarter-on-quarter basis but I just wanted to understand did you see any increase in commodity prices for yourself in this quarter compared to the last quarter?

Pawan Goenka: There was a commodity price increase though lower than what we had planned which has been passed on to some extent, has been absorbed and has been neutralized.

Sonal Gupta: Sir just a final question, I know you are not looking at incentives right now but I thought that Octroi refund was a regular feature. Have you finished your tenure on the Octroi refund?

Pawan Goenka: Octroi refund continues.

Ajay Choksey: No, Octroi refund is already over. Now we do not have the Octroi refund as such.

Pawan Goenka: There are two different things we have seen. First of all Octroi question comes up only in Nasik and Mumbai and not in MVML production, there is no Octroi there. In Nasik production we have Octroi exemption on Xylo, not exemption, but we pay a small amount of Octroi on Xylo, that exemption continues, but the

Octroi refund was linked to investments that we had made and that have been completed now. So there is no further Octroi refund we are entitled to in Nasik.

Pawan Goenka: Okay, sir great thank you so much.

Moderator: Thank you very much Mr. Gupta. Sure sir. The last question comes from the line of Vaishali Jajoo from Aegon Religare Life Insurance. Please go ahead.

Vaishali Jajoo: Good evening everyone there is the broader question on the diesel policy of the Government. If that happens what would be the impact on the volume? If you could give some indication on the increase in the excise duty hike or some extra excise is given on the diesel vehicle and the passenger vehicle side?

Pawan Goenka: The whole issue of tax on diesel vehicles has been talked about for long now, I think more than a year, and this is being justified right now because of the lower price of diesel. Our stand has been very clearly, strongly and aggressively communicated to the Government of India at all levels that as an industry we do not support tax based on vehicle and we will fully support increasing diesel prices if the Government can manage to do that in whichever way. Even if they want to do a differential pricing for vehicles we do not have problem with that. Having said that the talks do continue. The Finance Minister sometime ago had made a statement that they will input tax then he backtracked on that statement. Right now we have not heard anything, any authoritative inputs from the Government and there are only speculations that have been made in various forums. We will continue to fight it, we will continue to impress up on the Government that there is no justification whatsoever to put an extra tax on diesel because diesel is the fuel of the future in terms of cleanliness, in terms of reducing CO2 and just because there is some supposed subsidy on diesel vehicles that should not discourage the use of tax use of diesel vehicles by putting advance tax. Diesel vehicles as you know cost more and putting more tax on it will certainly affect the demand of diesel vehicles. Having said all of that if there is a diesel tax the manufactures who have predominant share of diesel vehicles in their portfolio will certainly get affected because the demand may shift from diesel to petrol. The only saving grace for Mahindra's portfolio is that in the segments that we operate in, that is the UV segment, there is no other petrol offering. So if the demand disappears from UV then only we need to be concerned, but as long as UV demand continues, there is no shift from diesel to petrol that can happen in UV. So to that extent we are protected. We also have petrol power train available with us that we use for export because in India there is no demand for petrol UVs and that is the reason we do not sell in India. So if needed we can launch petrol engine or petrol powered UVs though it will not happen immediately, it will take us a few months but we can launch the petrol powered UV. We just hope that it does not happen because we believe that diesel is the right fuel and to be supported and not discouraged.

Vaishali Jajoo: Okay, thanks a lot for that. And one just the last question on Yuvraj, if I am not wrong it is outsourced, so if the volumes pickup quite significantly, going forward can we produce it in-house?

Pawan Goenka: No, we had no such plan. Our outsourced model for Yuvraj is working very well. The manufacturer of Yuvraj tractor is doing a very good job in terms of quality control and managing costs and we see no reason to do it in-house. We have already put action in place to increase the capacity of Yuvraj at the existing location and if need be we would develop a similar model in some other location of outsourced or contract manufacturing. We do not intend to make it in-house.

Vaishali Jajoo: Okay, thanks a lot and that is all from my side.

Moderator: Thank you very much. Due to time constraint that was the last question. I would now like to hand the conference back to Mr. Jinesh Gandhi for any closing comments.

Jinesh Gandhi: Thank you. On behalf of Motilal Oswal Securities I would like to thank the senior management of M&M for taking time out for the call. I also like to thank all for joining the call today. Thanks.

Moderator: Thank you very much Mr. Gandhi. On behalf of Motilal Oswal Securities Limited that concludes this evening's conference call. Thank you for joining us. You may now disconnect your lines. Thank you.