"Mahindra & Mahindra Limited Investor Conference Call with Mr. Anand Mahindra -- Chairman and Managing Director"

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Moderator Ladies and gentlemen, good day and welcome to Mahindra & Mahindra First Investor Conference Call with Mr. Anand Mahindra -- Chairman and Managing Director of M&M. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' followed by'0' on your touchtone phone. At this time I would like to hand the conference over to Mr. V. S. Parthasarathy of Mahindra & Mahindra. Thank you and over to you sir.

V. S. Parthasarathy Thank you. It gives me great pleasure that in today's call, we have Mr. Anand Mahindra – Chairman and Managing Director, M&M to personally interact and answer your questions. We have Mr. Bharat Doshi – Executive Director & Group CFO on this call along with Mr. Mahindra. It is a good opportunity for all of you to hear and understand their vision and strategic plans for M&M and its group companies. I have two requests. Please focus your questions which are strategic in nature and also restrict to one question each so that we can maximize participation. I now would hand over to Mr. Anand Mahindra for his opening remarks.

Anand Mahindra Good afternoon, everyone.

To start with, Partha had given me some numbers as a briefing. He had given me two boxes; one of them showed our returns to investors over a 11-year period from 1st October 2001 to November 2012. And we have grown our stock value 65 times resulting in a CAGR growth over the period of 46% as opposed to the Sensex's 19% in that period and gold which grew 17% CAGR in that period. He also gave a 20 year box, going back to 1st October 1992, showed a CAGR growth of 20% as opposed to the Sensex's 9, and gold 8. And that sort of got me thinking about why and how this has happened and I thought that would be an interesting way to share my thoughts with you about the key reasons for this kind of good fortune that we have experienced. And after that I would probably spend a few minutes telling you about what I believe are the issues that we have to grapple with if we are going to show a similar growth in the periods ahead. And then finally if I get time I will touch on some of the key issues that I believe are concerning analysts as they look at our growth.

To begin with, I think there are really three reasons when I introspect as to what has allowed us to enjoy this success. The first one is really about governance; the second one is about the structure of the group; and the third pillar I believe has been a competence we have developed on business strategy combined with risk management. So I am going to dwell quickly on these three.

Governance – I am not talking about a whole set of processes and protocols, I am talking about the essential DNA of the group and what matters and about how integrity is at the root of everything that we do. I know this sounds like a very fuzzy and abstract quality and I am not going to go into any kind of reverie that takes some kind of higher moral ground. I just want to refer to the fact that I believe this has helped us immensely in being competitive.

And I wanted to refer to the fact that over the last 4 - 5 years as other analysts have spoken to me and asked me what keeps you awake at night. The first thing that I would start, but then I believe most Indian CEOs would start with would be talent. How do we retain talent? How do we find talent given the intense growth that we have been enjoying and the competition for talent? I have to say honestly that if somebody asked me that today it is not the first thing on the top of my mind. Because we actually have a pipeline of talent not just inside the company but outside knocking on our doors, waiting to come in. I know that sounds immodest but I have to be honest in saying that there has been an extraordinary interest in joining our group by top talent and interestingly by talent that has left the group to come back. I do believe it has to do with governance. In a climate not just in India but globally and I do not have to go into the details, all these concerns about the trustworthiness of corporations and their governance, they have been hogging the headlines all around the world, not just in India. And we find that people are first and foremost saying, I want to come in and work where worrying about my conscience is not at the top of my mind. And so I believe governance has had a very, very strong role in providing us with a pipeline of talent and if you look at our empowered model of operation which I would be coming to in my next point, obviously, talent is the key thing. If you have an empowered style of management, if you have distributed leadership, if you have a federation of companies, then clearly talent is going to be the key thing that determines your performance. So to my mind, Governance has been number one.

The second part of governance apart from the conscience, clean management atmosphere has been that we share our wealth with people. So I believe people do come in here because they believe that if I am going to be creating wealth, do I get what I perceive to be a fair share in there. And I think our stock option policy has been a signal of success in that element, in that part of attracting people back here.

And the final element of governance has to do with meaning at work. Again a very fuzzy concept but it does lies behind everything that we are doing with our new core purpose that we have outlined, the rise philosophy. I would not go in detail on that. Later if anyone has questions, I would be happy to talk about it. What I believe it does is it allows people to come in to work, feeling that they have a job to perform that is beyond simply earnings per share in the next quarter and I think that actually determines your earnings per share in the next quarter. If people come in believing that they have some meaning at work, then I think they deliver more. So these are the three elements of governance.

Coming to the second pillar of why we have succeeded and I talked about structure. I remember when I first joined the company back in '91; I had come back from a period where the concept of core competence, focus was at its highest. As an MBA I had been completely imbibed with the philosophy of capital asset pricing model, I had been forewarned that analysts and investors were not comfortable with the conglomerate structure. And yet when I came back I was faced with this intriguing situation where you had a really emerging market, '91 if you remember were the reforms, finally free market forces were given full play. And there were enormous opportunities across all sectors and particularly in the service sector as economy was maturing. The question is if you have a legacy of a brand, if you have a legacy of governance, if you have a legacy of opportunities to ride this way, how do you take advantage of these without compromising the concepts of focus and providing focus data which analysts can suggest and investors can invest in. And that is how we came up with the federation structure. I have spoken at ad nauseam about this for many years, so I would not go into the details, but I just want to place on record that I believe these structures that we came out with, which created focused entities both in managerial terms and in financial terms, where presidents were empowered, given autonomy, where these flagships of the sectors then had IPOs and provided opportunities for investors to invest as opposed to a conglomerate one side fits all strategy, that combined with our empowerment and the governance, I think has played a very key role.

And finally when I come to the last element of business strategy and risk management, I believe that we have developed a very strong capability of looking at our businesses with great rigor from a strategic framework. The office of strategy management which we started five years ago, it is not a corporate planning department which dictates anything to sector, it operates on a pull basis, but there is a huge amount of competence that is provided to all our sectors and rigor that is created in the way in which we analyze each business and in which we demand that strategy and strategic positions are very, very diligently followed, coupled that with risk management. I cannot emphasize this enough. The numbers people in this company carry great weight. They filter and they moderate every over adventurous tendency that business managers including myself might have. I want to just give you one anecdotal example. I am often questioned about Jaguar Land Rover, how well it has done and we were bidders and how we lost out. The reality and we put this on record is that we were preferred bidders for a short period of time. Bharat Doshi and his team went in there and looked at it very strongly. And although we were very cognizant of the strong pipeline in the company of the brand proposition, it became very clear to us that there could be testing times in the immediate future. And that the magnitude of the downturn that could take place and the financial wherewithal and resources that would be needed were beyond the Mahindra group. Much as our operating people saw value in that. I think we made a decision that none of us regret today because with credit to the Tata Group, with its resources it could withstand the downturn. Few people today remember that in the two years after the takeover, people told us how smart you were not to buy it. I think in the long run, the risk takers do get their rewards and full measure of risks of that credit goes to Tata. But when we look back, I want to convey a very strong message that we are very cognizant of the risks we can take, what our balance sheet and our financial resources can allow us. So to end that it sounds strategic positioning coupled with a very strong risk management is the image that I would like to leave with you in the group.

I think I may not have time to go back into the other issues, concerns and I am sure they will come out and I will address them. But I just should say what do we plan to do in the future. There is an old American saying "If it ain't broke, don't fix it." I think we have created a business model and structure which frankly is unique because India's economic structure, India's business structure is unique. It has allowed us to grow as I demonstrated right in the beginning in an outperforming way. I think we have to do more of the same.

The only thing that I have learnt personally and I think lot of us have is that we have seen the value of brands and the power of brands. The current generation managers want to leave any legacy behind, it is a legacy of very strong brands. Brands allow you pricing power, brands allow you to escape gravity, and more important we are very convinced we want to increasingly be more and more in consumer facing businesses because when you are in consumer facing businesses, then you are not in businesses which incur transaction costs to put it euphemistically where you depend on the government, where you depend on creating rent seeking positions, where you have to pay something for resources in the ground or for a license to build or produce something. So whether it is services or products, we believe we have got to make the finest products, the finest services. And if we do and if we can get customers lining up outside our door to buy our products just as we have seen for the XUV and now the Quanto, I think we have discretion to pursue growth and our goals without really being weighed down by the gravity of economic regulations and political governance. I will end there and I will open it up for questions.

Moderator Thank you, sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh Sir, M&M over the years have created a lot of wealth for shareholders through investments in new ventures; however as was the case with most of them they are actually loss making. So could you please give some insights into the decision-making process for funding them? What are those two or three key things which you look at to decide that you will continue funding these ventures or this is the time to exit?

Anand Mahindra In fact you have given me the perfect cue because that was the last segment that I had to forego for lack of time. I have already defined that we are an entrepreneurial group, we intend to fully harvest the benefits of India and its opportunities and I want to reiterate that I think we have created a structure which is as I said pioneering. I must admit this, sometimes it does irk a little bit, finally, in the global managers and intellectual analysts have granted that the future innovation may not be only in the West, it may be in fact in countries like China and India and we are grateful for that concession that has been made that innovation does not only come from the West. What bothers me a little bit is that people still think that innovation in management structure only comes from the Harvard Business School or Wharton or from the West. And I think we do want people to recognize that our structures may be providing an answer to this method of harvesting growth in emerging countries like India and China without compromising the principles of focused investments and focused management. Our philosophy is we are going to grow and we have created a structure which allows us to grow in a meaningful way which makes sense to investors.

I want to broadly take our investments. There are investments which I would consider in adjacency areas to what has been considered our core business of mobility and then there are a slew of unrelated businesses which if you really strongly look at them, they have to do with the services sector, because it is very clear that as an economy matures the services sector takes a lion share. So any federation of companies, any group of companies that wants to leverage growth must develop competencies in those areas. It was with that focus in mind that we went after hospitality; we went after the world cities which were the real estate development plus township development; we went after financial services. And I dare say all of them have been resounding successes. In fact, today we are consumed by a clutch of companies which have to do with the mobility area which are taking a lot of investments, which consume people's attention. But I think we do have to wait and look back and say where has the model worked, whether it is in IT, whether in financial services and the others that I just mentioned. In fact I used to joke with Bharat that our goal should be to prove that instead of a conglomerate discount, the Mahindra group deserves a federation premium. And one day I remember there was a print analyst who wrote an article trying to explain why despite an automotive downturn, our stock price is holding up and he attributed it to the fact that our investments were coming good in these various areas like IT and Hospitality. That is why he attributed to our premium overbook and to the book multiple. I remember Bharat called me up and said, 'Anand, even if it is 15 minutes, you have got your federation premium'. And I remember laminating that article and keeping it up. It is possible and I think we have shown that we can make a success and develop competencies through this structure.

The businesses that are occupying a lot of attention today are really Navistar and the Two-Wheeler businesses and SsangYong of course where we put in substantial money. These are businesses adjacent to our core businesses. They are taking the lion share of our money. I have given a philosophy about why I believe we are again trying to create a unique model in the mobility sphere. When I joined the company in '91, I was told by a very well-known group of consultants that we should get out of the automotive business because we should just focus in tractors, we had no hope in hell of getting scale in automotive. We had a joint venture with Ford precisely because we said well if these consultants were true, maybe we need to have an escape route in a parachute. Happily, we never needed that. We invested in the Scorpio, we invested in technology. Our partnerships with Ford and subsequently with Renault gave us those technology steps in a ladder but where I think we have to play is in the backend we have to mimic the scale of the major players. If we are only producing 600,000 vehicles today, first of all aligned with tractors we go up well over 850 and closing in on the million mark. But if we are in other areas of mobility, jointly sometimes with partners and mostly with partners as we are done with Navistar earlier, where it allows us to build competencies and in the Two-Wheelers where we took over Kinetic and SYM who gave us a quick introduction to technology.

The important thing is the front end of these mobility businesses stays independent and is very agile and quick. But in the back end when it comes to R&D, when it comes to purchasing, when it comes to logistics, when it comes to human resources across these groups with same competencies, we are beginning to mimic a far greater mobility organization. I have always likened it to an engine which has pistons. Your pistons are your various verticals whether they are tractors, SUVs, passenger cars, trucks, 2-wheelers and then your crank case is a lot of the back end stuff which begins to mimic the strong crank case of a much larger player. Eventually we hope to grow so large that scale itself will be on our side. But I think just as the tractor and auto combination, which is why we never split the company despite many questions as to why we had not separated them. That synergy has given us scale and allowed us to have focus and yet have scale. So to my mind, in those businesses we will continue to invest until we get to the point where we do not believe in our products. We think that if we have a solid product which has taken us time to build in trucks, and in the 2-wheelers we are on the verge of launching dramatically improved motorcycles, our scooters which we have re-launched are taking time to get to the consumer’s attention because of the earlier concerns over the scooter products inherited. But if you look at the reviews of both of that and our trucks you will find that the consumer has begun to believe in them. Pawan Goenka once used a phrase which I thought is an interesting phrase. When he looked at our state of competency and our pricing and the product capabilities we have built in the Navistar business, he said I think we have the most right-to-win apart from the two leaders in this business. I think we will invest until we believe we do not have the right-to-win. We have not reached that point in either of these. Neither have we put in any kind of money which is risking,… has substantially list our broad financial parameters and outcomes as you have seen. Our debt-equity ratio is 0.23 to 1. So I do not think we can be accused of having in overreaching in our financial risks. But I assure you that if we get to the point where we do not see either the macro markets cooperating and despite our good products not getting scaled, if we see that the consumer is not voting to buy our products and we are not getting recognition of superior products, I promise you there is no hesitation in our group of quitting businesses, there is no mental resistance to doing that.

In the other businesses, you ask me about how we make decisions. If you really look at it in a broad scale, we have not invested any substantial amounts of money in non-mobility businesses which do not match the kinds of dividends that we might have received even if this was a separate holding company. So once again there is a broad overall mapping of what earnings we are putting in, what cash flow we are reserving and for the co-op businesses and their adjacencies and what free cash flow we have for our non-mobility newer businesses. Happily the businesses have done well like IT and real estate and hospitality are all in their legs, financial services as well. They do not put any strain for capital on the main business; in fact are contributing substantially to dividend.

Bharat Doshi Anand, I will just add, when we decide to exit and continue, I just want to share a story which I am sure investors know. If you look at Mahindra Holidays and how it was performing in the initial years of investment and if one looked at from a PE point of view, the PE would have said I have a seven year fund so it should be closed at seven year. And if you look at that point what would have been the value of Mahindra Holidays versus the 9th year when the IPO was done and what value it created. So it is important to decide about exit or continuing on the basis of how you look at the horizon for that business.

Moderator Thank you. We have the next question from the line of Anirudh Dutta from CLSA. Please go ahead.

Anirudh Dutta My question is related to, as you look back, on the last 5 or 10 years, what would you have liked to do differently? And as you look ahead, which business segments or sectors are you more excited about? And this is with specific reference to you mentioned about the consumer facing businesses that you like to be in new India and at the same point of time in past interviews you have spoken a lot about your interest in the defence segment. And within the defence, are there any no-go areas, particularly where armaments and ammunitions are concerned?

Anand Mahindra Let me begin backwards if I may, because I will be honest and I am sharing this openly. Let me first say we are not in the ammunitions business. Even we have been supplying to any part, we have been only supplying casings, and we do not make any of the ammunitions and sell. And clearly those would be areas that might be of concern to us. We have looked primarily if you see what we have done is to invest in businesses which in a sense were adjacent. We did a joint venture with BAE for the land systems division; land system is anything on wheels, very intrinsic, that is how they define it. So when you look at the adjacency, it was very clear what we were getting into. We are getting into armored vehicles which save lives.

Let me tell you how this defence business started. Obviously, we were supplying jeeps to the army for ages. There was a Secretary of Defence called Prasad, who called me one day and said 'You know Anand, you really are wasting your time. You are just sticking to this one area.

There is a huge opportunity coming in the future' and this was 15 years ago. He said 'we might privatize ordinance factories and there is a huge opportunity for helping defend the nation and so on and so forth and why do not you look beyond?' So, I then recruited brigadier Khutub Hai, and I remember when he came in, he spent most of his time in the North East and he said, Anand, everybody focuses on Kashmir, nobody understands we lose more people in the North East. He said 'I have lost more of my men because of poorly armored vehicles and because of land mines'. So he came in and we started modestly with just doing bullet proof vehicles with the materials we got from Israel. And I loved the fact that in a sense he was very mission oriented almost like connected with the 'Rise' philosophy ironically because he came in because of the needless loss of life he had seen. And so we moved along that line. He got the BAE joint venture done. I have to admit today, I am a little concerned about the vagaries of this business due to government policy fluctuations. And as many of you have known, because it has come out in the newspapers, we have worked very hard in the future infantry combat vehicle and today there is absolutely no visibility on when the shortlist will be done. We were given to believe to the contrary that the shortlist is almost done. I have to admit that I am not going to say any more but let us say we are relooking at our entire involvement and seeing whether in the Indian context, this business lends itself to the kind of business models which we are accustomed to where strategy plays a role and you can make predictable progress based on certain visibility of policy. I do not think we have reached that point yet. That was on defence.

On your first question, let me just say very honestly and very broadly, I probably would have focused even more on consumer facing businesses for all the reasons that I gave, so I would not repeat them. You can take that for whatever it is worth. I do not want to make this sound like a forward-looking statement but I owe you honesty and I must say that I would have focused much more in building brands. That is what I would have done differently. There are many anecdotes about particular things which I learnt about style. Although it is not consumer facing so I have no regrets now, but when people used to ask me I remember that there was once a decision to get into a foundry. We had negotiated a massive foundry very modern that we were going to build in collaboration with a Spanish group in one of our component companies which is now part of Systech. And I remember at that point in time, the then head of the tractor business, who were clavering for a foundry capability due to the shortage, suddenly headed into a downturn of tractors and said while I cannot guarantee we do this, and so we chickened out of doing that. And then in the subsequent up cycle of the economy, we were severely constrained in our auto business due to lack of castings otherwise we could have sold a substantial amount more. What I learnt from that is that you have to have a longer term horizon when you make investments and you have to have the courage to stay with your fundamental analysis of supply/demand over a longer horizon. As it happens I told you oddly enough I am not regretting it today because it was not a consumer facing business but I learnt something about just a generic situation of management. So when I go out into the future we always try and look at a longer horizon, which does not mean that you keep on struggling with the business beyond a certain point of time. We use financial parameters and other analysis to bail out but we never look at it in a shorter horizon and I think Bharat on his own if you remember just highlighted that point.

As to the future, I never usually answer that question because you are in a federation business; some businesses are small, some you would not even consider material but then Club Mahindra was never considered material when we started; and some businesses are much large. And once you say you prefer this or the other you are not able to motivate people. I want every professional in the group to feel that they get as much of my time, attention and passion as the largest, and the oldest business in the group. So I, as a rule never say in anyway tangentially as to what I am focusing on or what gets me excited. But in general I just want to make the point that even the smallest start-ups get my attention and if you take the retail business we had the Mom & Me, they have now crossed 125 stores and in all my sensors that I have of e-mail, out there in the market, twitter, customer feedbacks, our customers, promoters cause, this company has built an extraordinary relationship with consumers and are capable to delight them, which I know is going to pay dividend and I believe brands like that can go global. So I just wanted to give you a flavor that while I remain incredibly excited about what our largest business such as the Auto is doing by what we did with Mahindra Satyam, even a small and currently humble business like retail gets me very excited when I see the connect with consumers.

Moderator We have the next question from the line of Srinivas Rao from Deutsche Bank, please go-ahead.

Srinivas Rao My question is obviously we have seen for example Satyam Group in terms of acquisition. The last let's say 4 years we have had acquisitions in the casting forging space JECO and Schoneweiss and followed by that by the scale up of SsangYong. My question is what outcomes are you looking for over a 3-4 year period, a) on SsangYong and b) on your Systech business which at least our view is that has not paid the dividends as one would have hoped for?

Anand Mahindra First of all, SsangYong, the good news is that it is still running ahead of business case. It turned positive EBITDA in the last quarter which is good news. It is seriously challenging the competitor above it to move ahead in the rankings of the top companies in Korea. I do not like to usually refer to competitors by name but you can look it up. I think we are nudging the one above us which has not been doing well, we may move up the rankings. We have had very good success beyond what we expected with some of the products. They did not have very strong products in the pipeline when we first saw them but we have been amazed at how the Korean workforce can work right till the edge of a launch and keep tweaking products and improve them and I drive the Rexton W today, it is an outstanding product which is incremental from an old platform and it is doing very well. The Korando C and the Korando Sports which we have never even banked on is becoming a success in all its global outlets. So things are looking good there. What do we look at in four years, clearly, we want to complete the financial turnaround but much more important than that, if you go back to my example I just gave earlier about the metaphor of the engine and the pistons, the SsangYong business gives us scale not just in terms of volume of upfront vehicles where in terms of purchasing, in terms of engineering. I think Pawan has gone on record to say that our next generation of engines for our smaller vehicles will be jointly developed by SsangYong and M&M. I cannot even begin to tell you what kind of synergy that gives us and for competitive reasons do not even want to quantify it to you, what value we are getting and what cost savings we are getting across the board. In purchasing, interestingly, we are benefiting because we are getting access to Korean suppliers in quality and cost which you know we really were not even aware of, it is interesting you would think you would be aware of them, we exhort our people to do global purchasing but somehow the energy always is to focus on the ecosystem you know when you acquire something like SsangYong it opens up new worlds. And we have access suppliers in Korea which we did not even know of and conversely SsangYong has found Indian suppliers, they may not have considered without an Indian owner. So in the next 4 years, as I said, see a financial turnaround but see a much, much greater harvesting of the synergies of scale and R&D and purchasing, that is a very pointed goal we have there. Even though most people are focused on the channel, yes, the channel is important but we are finding that there are certain channels where we might want to keep distinct channels due to the different qualities of each brand. So the real benefits we are getting are the behind the scenes ones here in SsangYong.

As far as Systech is concerned, yes, you are right, that did not go as fast as we would have liked because most of the acquisitions as you know were in Europe and nobody predicted at that time what would have happened with the worldwide crash and although it looked like it affected America first, we were very, very clear in all our annual macroeconomic scanning that the people that were really going to get hurt in the long run were Europe. Our predictions unfortunately have been correct and the slow growth in Europe has been what has held us back from really harvesting the gains of that acquisition. But happily when Hemant acquired them he had one rule which was not to acquire loss making companies with the arrogance that we could turn them around. So he hired companies that were doing well, which were positive, had good talent, had good customers, and in that sense despite of 40% downturn in forging companies they swung back with a 40% gain the next year. Of course that means we are just back to where we were before and so you cannot look over the horizon and say we made gains.

But I would like to leave you with the thought is that the efforts that have been going on and have been referred to in the press about one Systech which Hemant has talked about and I think where we want to get value for us and for all our shareholders today is a) of course maintain and improve operating performance and parameters but more importantly how do we group these, how do we structure them and create around them a business model which will bring value in terms of the perception of value to be created. That will I think boost the stock of this company and this new grouping and I think that is where we are focused on for the next four years.

Moderator We have the next question from the line of Sonal Gupta from UBS Securities, please go-ahead.

Sonal Gupta My question is again partly, I mean if I take a step back, I am making a slight generalization but your greatest success have come in businesses which you have entered organically whether it is the automotive and tractors, whether it is on the IT side where you started organically or even in the financial services, and on the other hand the Systech which is largely built on acquisitions has not really worked out. So I just want to understand what is now that it seems that you are looking more aggressively at acquisitions? What is the group philosophy in there and specially with respect to because you have been on record saying on the Aerospace side that you would like to create something like an Embraer in India etc. So what competency does M&M bring to the table to be successful and starting just on the back of an acquisition and something like that? That is where I am coming from. And do you have any ROCE hurdles for these acquisitions?

Anand Mahindra Let me try and introspect along with you just as you said, you did some thinking about what has worked and what has not, and I cannot quarrel with you, in fact, I will share that as a point of pride that we seem to have grown organically and you are right, Mahindra Financial Services has done an amazing job under Bharat's leadership and it is all done organically. At the same time I would not want you to forget that within one of the core businesses as you refer to them, one of our biggest successes has been the acquisition of Swaraj. It went way beyond business case and I think it was a really good test case for us to prove our 'Acquisition Manual.' We have an M&A manual that we funnily enough were perfecting at that time and it talks about the entire process, manual sounds very sort of classroom stuff and very mechanical, it isn't, there is a lot of do's and don'ts we have in. For example, there are some insights we have learnt that even when you are studying an M&A,, HR due diligence and engaging with the HR professionals has probably got to be equal to if not more important than your financials. We learn that in some ways through our experiences. So now any acquisition you look at you will find our HR professionals are right up there with the M&A team, it is not just number crunches doing the number crunching at this. So I think Swaraj has proven that we know how to not only acquire but integrate and right now there is some very interesting strategic work going on in the Phase II of the Swaraj acquisition is to how do we manage and get these brands to give you a one plus one three effect. So I think it is not generically true that we have not had success with inorganic acquisitions. Now, one could stretch the point, yeah, that is in a business you already knew. Fair enough but I am just adding that to you, that inorganic growth is not something we are unfamiliar with and we have had successes with them. There are smaller ones where all these effects have had -- may be the team here can come up with some more examples. But one we have just undertaken it may have been off your radar screen, EPC, the irrigation company grown 40%, excellent example of how you integrate it in a new business, that we have no idea about, no competencies which is drip irrigation. And we are targeting to be amongst the top two players in the country. We are looking at further inorganics in those areas if any opportunities come up. Albeit a small example, I want to tell you that we have made success.

Bharat Doshi Other big example operationally is Mahindra Satyam.

Anand Mahindra Sorry, I should have done that first. When you look at the service area, nobody would say IT was our core business, it was a very small company running like a sweat shop with 95% of its revenue coming from British Telecom when I took over as Chairman in 1997. What the teams have done since then is nothing short of remarkable and I completely agree with Bharat, I think Vineet, CP Gurnani, Ulhas, all these people who really turned this around. You know it has not been easy, right now you look back and everything seems so wonderful. Yes, it's grown, stock prices up and it seems the most natural thing in the world for them to merge. These people have lived of a plane for the last 3 years and they sacrificed a huge amount, I believe they were rewarded with excitement and so on but they worked very, very hard. So I think Bharat is absolutely right that we have been monitoring that, our office of strategy management got its own internal case studies of this. I think there are enough examples. The reason for Systech as you said, I have already talked about, so I would not repeat it as to what happened there, but when you look at the number of companies, we bought 2 German companies with different cultures, we bought the British company, we bought an Italian gear company and if you really go into the details of these companies you would not have heard of anyone one of them having either labor strife or management turnover strife. Even the ones that we have taken over in India, whether it is Hinoday and Amforge, you have not heard of any turbulence arising out of post-acquisition integration. So I would argue with you whether core or not, whether in our inorganic spheres in both our businesses core as well as out, integration I think is something we have fairly proud of our capability. Why Systech itself is facing problems in generating the financial outcomes in one I have already got into and those are external and extraneous circumstances.

So going forward even in the Aerospace business, building organic competency we have also done in parallel. May be all of you know that we entered into a program with NAL , it is the first public-private partnership to design and build a plane; the NM 5, which just test flew earlier this year and so we have shown that we can do it organically. We built that competency internally so that we are not just sitting there as passive investors. We in fact got the test flight and final assembly of the NM 5 done in our new aerospace company in Australia and its first flight was certified there. So there is a wonderful Jugalbandhi going on between the organic and inorganic. The financial outcome of that will not have to do with whether we bought out or did not buy out; it has to do with the strategic position and the developments in that industry and how well we execute. I do not think it will have to do with some pattern that you can do regression on and say we do well only when we grow organically in new areas. I hope that covers your question.

Sonal Gupta I did not want to get into the thing on Swaraj and Tech Mahindra and Satyam because I understand that. But that is exactly partly the point that where you at least had a good sense of the business to begin with versus if you were to say, the differences between having a very good UV business and then acquiring SsangYong versus acquiring SsangYong just if you had a very small UV business. So just on that point, not to take specific deals but I mean there have been talks about Beachcraft, etc. so which could be potentially meaningful large acquisitions in the space versus the current size of operations and just again coming back to the point on the ROCE?

Bharat Doshi One of our criteria for the group and the criteria I will just repeat individually I would have said in different conferences by talking about leadership or innovation or being global and is about financial return and how discipline has to be there for financial returns in terms of a threshold ROCE which has to be little higher than the cost of capital. If your earning less than cost of capital it does not make sense. The question which really comes when you look at various ventures and has in a way been answered earlier is over what timeframe you look at it and compared to the size of the group when you are doing certain innovations or looking at certain parts, at that point how much time do you provide, in that where the Mahindra Holidays example came in. but then how the long term return comes into play. There would be plays which are short term, there would be plays which are long term but ultimately it has to give a return higher than the cost of capital, so this is the basic criteria.

Moderator We have the next question from the line of Vijay Chugh from BNP Paribas, please go-ahead.

Vijay Chugh My question was that considering that the group is very entrepreneurial and was looking at investing in several auto segments and also investing in businesses outside auto. How does the group measure that it has not underinvested , we keep hearing that several players now find the UV business in India very attractive and are looking to invest a lot. So how do you measure that your investments in the UV side are adequate or say for the matter in tractors?

Anand Mahindra Most people ask whether you invested too much. I am glad you flipped on to that. That is a very interesting question. I think it does occupy us. Part of our structure which I did not go into obviously for lack of time but apart from the structure of the organization, there is a particular set of processes we call the Mahindra way in which we administer this federation if you will. And there is an annual planning cycle, it is called the Mahindra Annual Planning Cycle or the MAPC and there is a whole flow of events that take place, we use war rooms which we started back in 1994 and these take place at certain sequences of budget war room operating and strategy war rooms. Strategy war rooms then precede the budget and the cycle continues. Now one of the questions which is most frequently asked in the strategy war rooms is the question which you asked. And that is the appropriate venue in which to ask is once a year. It is not that we open up strategy every year but we have a set of questions that are given by the office of strategy management every sector within a template they follow of questions they have to answer during this day long war room session. And one of them is has anything changed in the atmosphere, has anything changed in the environment, has anything changed in industry structure using the well-worn five force analysis where competitive pressures come in. But using as many tools… we are not rigid about tools, if people want to use Blue Ocean they can come in with whatever is their flavor of the month. But it ultimately it has got to make sense. One question you asked is what has changed in the competitive dynamics in the industry, whether it is regulation or competitive intensity which makes you need to reevaluate your philosophy. And often the answer has been exactly what you said that we are underinvested here. And then interestingly, I remember, now I am just going back to my memory, sometimes we say if we do not do 'X' we will not survive, and to be very honest that is how Swaraj came about. Very interestingly, we were very smudged with our leadership of 25% odd that we had. TAFE was I think probably a not too distant 21% at that time. One could say… look in a competitive industry that is a nice lead, we are number one, etc We have something in the Mahindra where also called Shadow Boards which is we ask people under 35, the fast track people every sector is required to have a Shadow Board created that means roughly 4 times a year. They have to pretend they are the Board of the Company and what would they do differently. We run competitions also and the best case study or best presentation is then shown at our annual conference. In one of these conferences the Shadow Board of the tractor business came out with exactly what you said. They said our leadership is under threat. That if we do not get scale where we become dominant in the business, we are very close to being under invested in our channel, in our markets, in our product range and we will lose. And once you lose the momentum of being the Number One, there will be a vicious spiral that will set in when the sales people do not go in with the same confidence they do. I will be honest with you, when we were bidding, even though there were points at which we were approaching our walk-away deal price. That presentation was echoing in the heads of people like me and Bharat and all the other leaders. And we just said you know that was a nightmarish scenario when somebody came up to that, you cannot rest on your laurels and you always have to look at where you have underinvested. So I want to assure you whether it is UVs or tractors in both of which we are in a sense almost dominant today, we are paranoid and we constantly look at under investment not just in terms of assets, right now, for example, given our good fortune we have to look at planning our capacity in the long run. But we are looking at technology which is why the Mahindra Research Valley came in, despite people saying why you are over spending for this market. But we today have a world class R&D facility that will keep us ahead and then we then look at acquisitions across the globe which brings us brands and technology in another orbit like SsangYong. So if you look at it, this is an organization running paranoid. I would not go on too long winded but let me assure you we will never be found guilty of under investing. We are not infallible, sometimes we may make the wrong investment but we will never under invest simply because we are in a position of leadership.

Moderator We have the next question from the line of Pramod Amthe from CIMB, please go-ahead.

Pramod Amthe Being a conglomerate you had your own success and setbacks in different businesses in this upturn. So in that context even the conglomerates are measured by the correction which they take in their setbacks. But if I look at this whatever downturn has been, there have been hardly any setbacks which have been corrected if you see any of those cases. So in that case how do you see this downturn, has it been much shorter or what is your opinion in terms of your any business setbacks or would be putting more of your resources both in terms of financially and managerial time or bandwidth for a longer than expected time?

Anand Mahindra First of all, as you said, my mission in life is to tell people that we are not a conglomerate. Conglomerate is an entity in which all the verticals of the business are in one legal entity. We are a federation which is very different, so you can actually invest in our separate sectors and they are worth, they are empowered, they have very independent boards, etc. I always labor this point because we should not be put into the same box as GE is. GE is a conglomerate, we are not, neither I think is the Tata Group a conglomerate. It is a very unique Indian phrase. Why should not we invent our own phrases rather than laboring with definitions that we have inherited from elsewhere. Number one. Number two, I just want to understand your question. I could not hear you too well in the second part. You said you had setbacks which you have not learnt from, not adjusted, I did not understand.

Pramod Amthe No, what I am saying is you had your own successes and setbacks in different businesses here; in this entire upturn of last 5 years or 7 years. But definitely the economic environment has been tough in the recent times and if I look back your own history you have used these type of tough environments to put behind some of the setbacks either by selling them or closing them or in that sense, whereas this time you seem to be continuing them in spite of the economic setbacks. So in that context I wanted to say are you committing too much on these setbacks both in terms of managerial bandwidth and the capital?

Anand Mahindra I am in danger of becoming repetitive, so I understand your sensitivity, but I thought we had addressed a number of these because Bharat also chipped in about the horizon, we also explained the logic of some of the businesses we are in. I know that it looks as if we are laboring on but that horizon we believe we have not crossed the horizon where we have to throw in the towel on any of these. We believe all the reasons for which I enunciated we look at this back end scale, the crank shaft analogy, all of these plus the fact that we think we have a position now certainly in the Navistar business with the right to win sweeter products. We are launching new products in the two-wheelers which will allow me to talk either more confidently next year or tell you that we are losing heart but right now we have done all the right things in terms of learning loops, in terms of learning from the market and building new products. We do not think the time has come to give up on the larger goals that we are working with which I enumerated. So I do not think there is anything we are doing which is going beyond a point. I also mentioned earlier if you remember, have we stretched bandwidth, no. I told you one of the things I am proud of today is I have got 2 or 3 outstanding leaders waiting to come in and I do not have enough projects for them. So pipeline of top level managerial resources is not our problem today and in financial terms despite all these ups and downs as you refer to them, our debt-equity 0.2-0.3, our free cash flow is very strong. So I do not think we have stretched in anyway but I want to end up by assuring you that when we reach the point as I said earlier, where we do not think we have the competence to build products or services in these businesses which are distinctive, differentiated and which allow us the right to win and to be superior I promise you we will throw in the towel.

Moderator We have the last question from the line of Jamshed Dadabhoy from Citi Group, please go-ahead.

Jamshed Dadabhoy I wanted to understand how you all think about leverage both at the parent and the group level and the context of industrial or a corporate group which now has a very rapidly growing financial services business?

Anand Mahindra If you are a conglomerate, then you would have problems with this, then you know it is very strange to kind of mix oil and water, if you have a financial services company mixed up even the parameters by which you measure: how do you measure by revenue, by assets, what kind of return on net worth, what kind of debt-equity, all that gets fuzzed up, which is why this federation structure is very interesting because we run the financial services along the same metrics that any financial services company would. That is just one aspect of the question you asked. Overall in leverage, I will only say one thing and then I will defer to Bharat and Chandra and Partha but as far as we are concerned there is a DNA in this company of great risk management, I would not call it risk aversion, we are conservative, may be that good old word will have to come in. Sometimes we are faulted by being overly conservative but we have very strong internal metrics as to what our debt-equity should be in various companies in different industries. So, for example in the auto industry I have never felt we should go beyond 0.5 to 1, we are well below that as you know, that is looking at the history of auto companies those that have done well, those that have gone into trouble, like that we have metrics for each one, we have metrics for how much cash reserves and liquid reserves we would like to have. Going into those details might be a little too much divulgence of competitive data.

Bharat Doshi Anand indicated the parameters as we look at and when you ask specifically about things like financial services which also entered the group. Financial Services company is a separately listed company, it has to meet the RBI guidelines and we are more conservative than the RBI guidelines. You might then ask me a question why are you more conservative and why do not you leverage a little more, but it is a fact that our approach is a conservative approach on this subject. On the other end, if for the growth of the company whatever action is required in debt-equity play, we would allow that to happen and you would have noticed this even in the recent past. So what I would like to convey is that it is keeping the overall parameter for the group so that the risk is defined, our ability to do service does not get affected and simultaneously to continuously watch as to what is required for growth of the growing businesses. So not too constricted because of a group requirement. So this is the philosophy behind it.

Moderator I would now like to hand the floor back to Mr. K Chandrasekhar for closing comments. Over to you sir.

Chandrasekhar Thank you gentlemen, all of you who participated in this call. I know there could be many more questions since Anand was also on the call today, but I am sure we would have opportunities like this in the future. Thank you very much and I thank Mr. Doshi and Partha for being here also. Thank you, Anand.

Anand Mahindra Thank you, everyone.

Moderator Ladies and gentlemen, now the conference call stands concluded.