



“Mahindra & Mahindra Limited Q2 FY2015 Results
Conference Call”

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- Moderator:** Ladies and gentlemen, good day and welcome to the Mahindra & Mahindra Limited Q2 FY'15 Results Conference Call, hosted by IIFL Capital Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Joseph George from IIFL Capital. Thank you and over to you Sir!
- Joseph George:** On behalf of IIFL, I welcome you all to the post results conference call of Mahindra & Mahindra. I also take this opportunity to invite the management team from Mahindra & Mahindra. From the management team, we have Dr. Pawan Goenka - Executive Director & President of Automotive & Farm Equipment Sectors and Member of the Group Executive Board, Mr. V. S. Parthasarathy - Chief Financial Officer, Group CIO, and EVP Group M&A, and also Member of the Group Executive Board, Mr. K. Chandrasekar - EVP Corporate Finance & Investor Relations, and of course other senior management personnel including the IR team. I now hand over the call to Mr. Parthasarathy for initial comments and then we can start with Q&A. Over to you Sir.
- V. S. Parthasarathy:** Thank you. I extend a very warm welcome to all those who are attending this call. I will take 5 minutes to walk you through the economic environment, Q2 financial highlights, and some financial metrics. I will also give a glimpse of the group subsidiaries' performance for the quarter. The automotive industry in India though showing some initial signs of recovery is still sometime away from a full recovery. The below average and delayed monsoon in some parts of the country has aggravated further with crop damage due to cyclones and which in turn has led to the domestic tractor industry remaining flat in Q2 as compared to the previous year. The company, however, continues to meet these challenges through its focus on cost and delivering value through new and improved products. On the economic environment, India's economic growth has witnessed some weakness in the recent months with Y-o-Y IIP growth decelerating from 3.9% in the Q1 to a meager 0.4% in July and August. On the positive side, the price pressures have eased considerably with CPI headline inflation being down. India's current account deficit also remains well in check, dropping from 1.7% of GDP in Q1 from 4.8 in Q1 of the previous year. Furthermore, the recent verdicts in state elections and few actions on the labour, coal blocks and reforms have created an environment of policy action which we believe will support infrastructure and industrial growth in the medium term. However, while there are policy-level actions, actions on the ground need to be seen before we can see the recovery at a grass root level. Coming to the financials of M&M plus MVML, as I said, I will always talk about M&M including MVML, the top line at 9178 Crores up by 5.6% as compared to the previous year. Just to state again, MTBL, Mahindra Trucks & Buses Limited is merged into M&M, so the results that you hear contain for this quarter, Mahindra Trucks & Buses Division and also adjusted previous year financials, so whatever comparison I state is apple to apple. Again, coming back, revenue grew 5.6%. EBITDA, there is a de-growth of 6.6%, however, at a PAT level the growth is at 1.7%, and while there is a pressure on the cost due to wage hike, additional charge of depreciation, increased CSR, and supporting new launches, we have managed to have a positive PAT by having impact of the improved performance of the subsidiaries as depicted in higher dividends to M&M and savings in finance cost Y-o-Y, which is benefitting the overall profitability of the company. Segment revenue, auto segment revenue is up

compared to Q4 '14 by 2.2%. FES segment revenue is up by 8.2% in value terms and the volume is up by 3.1%. On the results side, auto segment as we said the margins were down and therefore the results were down by 12.6% and FES by 2.1%, and offset by increased finance recovery or lesser finance cost and dividends from subsidiaries. ROCE is at 21.4%, a healthy ROCE. Debt equity still continues to be benchmark, 0.24 versus 0.35; however, if you knock off the cash that we have on our book, it is 0.05 debt equity, showing a very comfortable position. We have a cash surplus of around 3700 Crores and net debt equity therefore is very low. As far as these companies in the Group are concerned, Tech Mahindra had another stellar quarter with revenue growing by 15.3% and a PAT of 720 Crores. Mahindra Finance had a growth of revenue of 14.3% and had a revenue of 1475 Crores with PAT at around 220 Crores. MHRIL 200 Crores revenue, growth of 3.3%, and a bottom line of 25 Crores, which is a growth both on Q-o-Q basis and Y-o-Y basis. Mahindra Life Spaces had 193 Crores revenue and a PAT of 23 Crores. All major subsidiaries have shown growth in revenue and contributed to the Group's profits considerably. With that, I come to the end of my talk and I would now request Dr. Goenka to give his introductory remark and then we will go to Q&A.

Pawan Goenka:

Good afternoon everyone. Just very quickly, I will take you through the operations side of the AFS, which is automotive and farm equipment sector business, and most of Mahindra & Mahindra's operational part comes under AFS. Before getting into operations for the quarter, I just want to highlight three or four events that happened during the last quarter, which I consider highlights, the first one obviously, we had three new launches i.e. in automotive, in tractor and in the two-wheeler segment. Automotive was a new Scorpio, tractor was the Arjun Novo tractor and the two-wheeler was Gusto scooter. I will not talk more about that, but if there are questions I will come back to it. We also signed the long awaited expansion project, MOU with Maharashtra Government during this quarter for expansion of Chakan project and we have declared an investment of 4000 Crores in expansion, in putting new capacity and new products. Then, we also bid for Peugeot scooter which again has been talked about and if there are questions I will come back to that. Parthasarathy has taken you through the environment. One other thing that will have an impact on the industry is the diesel deregulation, which is a fairly important development that has happened, something that was awaited for a long time and the government found the right timing to make that happen. As we have said in the past, that Mahindra as a Group welcomes deregulation of diesel because this is something that is inevitable and had to happen. So, as an industry overall, the auto industry for four-wheelers had the first growth quarter after six quarters. In some sense, that is good news for the industry; however, I must caution that the growth is not uniform in all the segments. The small commercial vehicle segments still continue to degrow at a fairly high degrowth rate, the vans also degrew, the heavy commercial vehicle and the UV segment and the car segment are the segments that have done well in the quarter. I do think that for heavy commercial vehicle and for the passenger vehicle segment, we should continue to see a growth in the remaining two quarters as it has been also forecasted by SIAM. The rainfall situation, we ended with 12% below LPA for this year, but the sowing was not too bad, only about 2% lower than last year and overall, the expectation of crop though little lower than what it was last year, but not as bad as we might have thought in the beginning of the season. The tractor industry for Q2, the industry was marginally up 0.3%. Q1 was down 1.2%, so overall for the half, the industry was down about 0.5%. In this, Mahindra &

Mahindra has increased its market share overall by about 0.5% compared to last year first half. In Q2, it was even and in Q1 it was higher by about 1.5%. Other businesses in tractor, we had very good growth in MUSA (Mahindra USA), which was about 29%. The China industry continues to struggle and therefore Mahindra China saw degrowth. Implements business that comes in Africa had a good growth both in the quarter as well as the half. Powerol after a long time, after five quarters, saw growth in the previous quarter by about 24%. Overall exports sales was up by 84% in the quarter for tractor. The material cost situation in tractor as well as our automotive was benign. The overall increase in material cost is of the order of 1 to 1.2%, point-to-point in the six-month period, and all of the material cost increase has been passed on as selling price increase both in the automotive as well as in the tractor business. For automotive sector, as I said earlier, the industry is beginning to see a sign of turnaround. For Mahindra, however, the market share in UV continue to decline as it has been doing in the last three to four quarters, and the reason we have talked about in the past, continues to be there, but the growth is coming in the UV1 segment, that is compact UV, and we do not have a product in that segment yet. So, UV2 continues to have 52% market share, but overall market share was about 33% for the quarter and about 35% for the half, but we did have very good growth in the pickup segment, where our market share has gone to 72.4% from 60% last year. XUV is doing well, as I said earlier the new Scorpio launch has gone very successfully. Export for the half saw a growth of about 7% to 8%, for the quarter it was down slightly. Good news is in the truck segment, where the truck industry now has seen a growth for six months in a row. Overall, for six months the growth in the industry is about 36% and for Mahindra & Mahindra the growth is about 62%, this is for the quarter, not for the half, Mahindra has grown 62% though on a very, very small base. Our market share has now gone to about 2.5% in the Q2. Mahindra Reva is beginning to see some sign of revival. We did see a little bit higher demand for this vehicle in the last quarter, but we are still waiting for the government subsidy to come, and it is only after government subsidy are we going to see a fair major significant change in this segment. So, that is about overall summary of what the quarter is fairly quick, and we will now open up for Q&A, and answer any questions that you may have either financial or operational.

Moderator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question, may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to limit the questions to one per participant, time permitting you may return to the queue for a follow up. Participants are requested to use handsets while asking questions. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: My question is related to the other expenditure for the quarter, which has seen a sharp increase both on Y-o-Y as well as Q-o-Q basis. If you could give us some colour as to what is the reason for that and are there some non-recurring items in that?

Pawan Goenka: Several things are contributing to it and we will try and answer this question partly by me and partly by Parthasarathy. Basically, there are several expenditures that are coming in, in this year compared to last year, that relates to CSR which is now 2% of PBT versus what we were spending earlier which is 1% of PAT, which relates to change in minimum wages in Maharashtra, and since

many of our plants are in Maharashtra that obviously has a big impact on other companies, also since we had many new launches in the quarter, there are always launch expenses, that becomes a one-time expense, which are totally expensed out in the quarter, even though benefit of that will come in the subsequent quarter. So, these are sort of operational side differences. I should also point out that in both the automotive and tractor industry, the cost of personal acquisition is going up and therefore the expense per tractor or per vehicle for selling the product is generally higher now than it used to be one year, two years, three years earlier, and therefore you would see a tendency of those costs to be higher from hereon, which is a continued phenomena, it is not a one-time thing. So, these are some of the things that have contributed to the higher expenses. Partha, do you want to add anything to it?

V. S. Parthasarathy: I will catch up later.

Kapil Singh: Is it possible to quantify how much would be the new launch expenditure out of this and as far as cost of customer acquisition is concerned, has anything changed between last quarter and this quarter to see such a sharp jump?

Pawan Goenka: Are you saying between Q1 and Q2? I think Q2 being the beginning of the festive season it does have a little bit of higher cost because in festive season as you know the competition is higher, the discounting also tends to be a little bit higher, so that does make a difference between Q1 and Q2. Last year Q2, 'Dasara' festival or 'Navaratra' festival was completely in the month of October, this year 'Navaratra' started in the month of September, so to that extent there will be a small difference, and we normally will not quantify the expenditure of new product launches, so that is not the information that we generally share outside the company.

Kapil Singh: Okay, but broadly we can expect it to sort of come off sharply from these levels. Will it remain in the H1 levels in H2?

Pawan Goenka: Yes and no, because the Scorpio launch was on 25th of September, so only the initial launch expenses were in the quarter, most of the TV bill was in Q3. The Novo launch was on 20th of August, so quite a bit of it would have happened, but there will be TV series that will start. Gusto though it does not come under M&M Limited, but Gusto expenditure will be mostly coming in too, the TV expenditure will be coming in Q3. So, Q3 also will see some of the launch expenses, so it is not just Q2.

Kapil Singh: Okay, thanks Sir. I will follow up in the queue.

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

Jamshed Dadabhoy: Good afternoon Sir. You shed some light on this and I do not know if it is relating only to the OpEx, but in both, the tractor business and in the auto segment Q-o-Q we have seen a sharp reduction in the EBIT margins, by about 2% points in both the businesses. Could you please tell

us how much of that is attributed to these one-time expenses versus how much is just higher discounting?

V. S. Parthasarathy: I have often said that Q-o-Q is not a right reflection of this and I want to reiterate that. However, Jamshed the question you asked is still valid even if you take Y-o-Y performance. We still have lost some margin, may not be exactly 2%, maybe slightly different, but Y-o-Y basis we still lost margin and that is the point that we make. There are two or three kinds of buckets of these costs you can put into. The first bucket is things like wage hike which is in terms of wage settlements which we did last year. The full impact of which is seen in the quarter, and other government actions which has resulted. For example, Maharashtra had a minimum wage fixed, which is now much higher than what the earlier minimum wage was and that has impacted the cost hereon. So, this is one bucket of cost which you can call. The second one is in terms of what is CSR kind of expenses. Earlier what we were voluntarily doing was 1% of PAT. Now revised one is 2% of PBT, maybe it is a 3X kind of cost. So, that is the kind of increase we have seen there. The third one is on a very macro basis as we call, the cost of acquisition of customer has gone up in the quarter. So, all these three put together is what you are seeing as the margin drop which is coming on a material cost basis. You have seen that more or less that remains as a percentage to revenue constraint. So, all of this is coming from expenses which is a mix of what you can call as launch expenses, advertisement to support a launch, etc. While we cannot bifurcate it, roughly that is the reason why this quarter performance is on that basis.

Jamshed Dadabhoy: Just to follow up, Partha can we assume that customer acquisition cost should come down logically as you launched new models next year or you are saying the industry has become just that much more competitive and these costs are here to stay somewhat similar to the passenger car industry?

V. S. Parthasarathy: This is a very interesting question. If the industry picks up and the volume goes up, then we are talking about standard at the same cost levels, fixed cost remains fixed. Now, whatever increase, for example the wage settlement, the increase is what it is today. Last year it was at a lower wage cost level, so you see Y-o-Y increase in this quarter. When you come to say Q3 may not see that increase, but for a moment let us back off and say fixed cost remains fixed. As the volume tend to rise, the fixed cost is kind of getting divided over a larger base and obviously the fixed cost percentage or other expenses as a percentage to revenue would come down, then you would have a better operating margin. The key question that in a sense that you are asking is that you have always been able to manage this in the past few quarters, that is what we explained that it is a series of things which has all happened together in Q2, which is why you are seeing this impact of 12% and while we cannot bifurcate and tell you whether it will continue or not in future, the kind of expenses would give you an idea of how you can look at it going forward.

Jamshed Dadabhoy: Okay, thanks, I will come back for more questions.

Pawan Goenka: I will add a little bit more, since this question will be probably on top of the mind for many people, just add to it that many of expense increases that we have talked about are here to stay. They are not one-time expenses, the launch expenses are only the one-time expenses, but otherwise they are here to stay. In this quarter, we have been able to pass on all the material cost increase in selling

price increase, but we have not passed on the other input cost increase in the selling price increase. What happens to margins will depend on whether we are able to pass on the other increase in selling price increase, which we could not do in Q2. We will have to wait and see what happens in Q3 and Q4.

- Moderator:** Thank you. The next question is from the line of Pramod Amthe from CIMB. Please go ahead.
- Pramod Amthe:** Two questions. One, when you are talking about this cost of customer acquisition, is it more to do with the SUV space or even the tractors have entered into ASP discounts?
- V. S. Parthasarathy:** Pawan was replying that both of them had increase in cost of acquisition to be in macro term.
- Pawan Goenka:** Discount happens on both. In tractor, you would see a little bit coming from ASP and a little bit coming from discounting. In auto, mostly it is below the line.
- Pramod Amthe:** Okay, and you are saying some of that is above line and some of them is expenses, am I right?
- V. S. Parthasarathy:** Yes, in tractor.
- Pramod Amthe:** Okay. It is very difficult to tabulate on the tractors, what is your feel?
- V. S. Parthasarathy:** I am only saying this because for order sake, when you said accounting, it depends on how the transaction happened. What Pawan is saying, sometimes the discount is given at the point of sales directly on price. So, it is a price off, in which case it is accounted as a price off. If you give as a dealer discount or dealer incentive, then it is accounted below the line or in the other expenses, so when you for a moment said we account as the transaction happens, the nature of the transaction is more upfront price in auto and the nature of transaction in tractor is more supporting the dealer, so that is how you should look at it.
- Pramod Amthe:** Okay. In case of tractors especially, how have the acquisition costs changed considering the fact that there has been a shortfall of rains in couple of regions in the last six months?
- Pawan Goenka:** Generally in the industry, there is a little bit higher price support in tractor right now and that has to do with the volume growth of the industry being flat. You will see more of price support happening. If the volumes pick up then you will see that going down. If the volumes remain where they are, you will probably see that continue. I cannot quantify, it is very difficult for me to say for tractor what it will be.
- Pramod Amthe:** Okay. I have a second follow up question, if you allow. It is with regards to the state incentive. Since you have signed up another big investment in Maharashtra, you got any clarity in terms of the historical incentives which you are supposed to get? What are the terms if you can disclose for the new incentives you are going to get?
- Pawan Goenka:** The historical thing which you are talking about which is Rule 52A I think it is called, that is history and so that remains historical and that will not come back. That we had already given up.

Therefore, what we have signed up for now does not have any impact on the incentive that we are getting today. The new package all I can say right now is very similar to what we have today.

Pramod Amthe: Okay. Thanks and all the best.

Moderator: Thank you. Ladies and gentleman, in order to ensure that the management is able to address questions from all participants, please limit your questions to one per participant. The next question is from Aryn Pirani from Deutsche Bank. Please go ahead.

Aryn Pirani: Thanks for taking my question. I just wanted to get a sense on what is the kind of timeline that you are looking at for the launch of the compact UVs?

Pawan Goenka: What we have announced is it will happen in next calendar year. Three new products we have - one commercial vehicle and two compact UVs. All three will happen in the next calendar year. We have not zeroed down in terms of announcement on which quarter the launch might happen.

Aryn Pirani: Okay Sir, and the commercial vehicle will be in the pickup segment or will it be on a higher?

V. S. Parthasarathy: Small commercial vehicle segment.

Aryn Pirani: Okay. Just a clarification on the customer acquisition cost that you are mentioning. If I got it correctly, on tractors you said the discounts are more in the form of dealer incentives and they generally happen below the line. Whereas in the case of UVs, they are generally upfront price discounts. Is that understanding correct?

Pawan Goenka: You picked up correctly, but was wrongly said. The discounts in tractors are broken between the price support that is happening at the factory gate price level and dealer support. Whereas in automotive, they tend to be more at dealer support level.

Aryn Pirani: So, that is below the line generally. Okay Sir, thanks a lot.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Good evening Sir, thanks for taking my question. On the tractor side first, what is the outlook that you see for the market as of now, also given the context that you took about four days of production shutdown in the month of October, how are things looking in terms of the inventory levels on the tractor side and how have retails been, do you still see high levels of inventory for the industry and for yourself ?

Pawan Goenka: I think in the last call, we had talked about 5% to 7% growth in the tractor industry and we had said that at the end of festive season we will take a fresh call. The quarter since that time has been somewhat subdued compared to what we had thought. We had commented about 5% to 7% growth

in the quarter, but the growth in the quarter was only 0.3% that is flat quarter. Therefore, we will have to revisit our outlook about the year. We will do that after we have data for today, which is for the month of October and therefore I will be able to give you more definite numbers three to four days from now and not today, but chances are that the 5% to 7% that we had talked about is unlikely to be our forecast after we analyzed the October data because of the flat Q2. The second question was on inventory levels. The reason we had the four-day shutdown in the month of October was to correct inventory frankly because the September month was lower sales than what we had originally planned and therefore, we had to correct the inventory, and Mahindra always has taken a call these days that we do not run the plants inefficiently. Whenever we see that we do not have enough demand we will rather shutdown the plant and save the cost, rather than run the plant inefficiently. Given that the industry has not grown this year and given that almost everybody would have planned for a growth of 10% to 12% for the year, all players, it is but natural that every plant that we have or that anybody has for that matter would have 8% to 10% higher capacity than what the demand will be, and therefore in a given month you will be witnessing three to four days of less production either you do it by shutting down the plant or you do it by running the plant under-capacity.

Sonal Gupta: What is the status of inventory right now for the tractor side, could you give us a sense?

Pawan Goenka: We have corrected it by and large in the month of October, by virtue of having higher delivery, that is higher retail than the billing and also by virtue of producing more than billing, so both at the factory level and at the dealer level. The month of October is the month where we have corrected it.

Sonal Gupta: Okay. On the finance side, I just wanted to understand, how much is the other operating income lower, I guess there was some issues on the VAT refund, I guess that would be a factor in terms of the margins as well, so if you could just shed some light on that?

Pawan Goenka: The IPS is accrued when the sale happens. It has nothing to do with when the VAT refunded, actual physical refund is not the point of accrual. The point of accrual is when the sales happen, and therefore VAT refund will have no impact on it. However, I should also add there is no backlog on VAT refund and we are very current in terms of receiving the VAT refund from the State of Maharashtra.

Sonal Gupta: So, IPS is on accrual basis, not on actual received basis?

V. S. Parthasarathy: IPS is on accrual basis.

Sonal Gupta: Okay, so then it is not a factor. Lastly, if you could give the Powerol revenue number for this quarter?

Pawan Goenka: About 200 Crores. This was the first growth quarter in five quarters for Powerol, and we had a good growth of some 25% this quarter.

- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi:** Couple of questions from my side. You indicated that you would be investing about Rs. 40 billion for Chakan plant expansion. Can you throw some light on what kind of capacity addition which we are looking for and by when it would start commissioning?
- Pawan Goenka:** The capacity expansion that we are looking at is on the order of 400,000 vehicles. Right now, we have that capacity of 400,000. This is running the plant three shifts completely. So, by the time we get done with phase II, where we have seven years from the signing of MOU for completing phase II. So, at the end of that we would have a plant which will be 800,000 to 1 million capacity.
- Jinesh Gandhi:** Right, and do we plan to execute this over the next couple of years?
- Pawan Goenka:** The two compact SUVs that I talked about earlier will be produced in this plant, so those two will get executed here right now. Beyond that, will be further expansion in future, but the immediate expansion will be for these two SUVs.
- Jinesh Gandhi:** Okay. Can you indicate about how was Applitrac growth during the quarter and in the first half?
- Pawan Goenka:** Applitrac growth numbers I will tell you in a second, but Applitrac had a growth of 29% for the half. So Applitrac now accounts for about 125 Crores for the half.
- V. S. Parthasarathy:** There is only one small addition that I wanted to make to what Pawan said just so that there is a very clear reconciliation between the 4000 Crores said and the figure we give out for our CapEx and investments, 7500 Crores is what we have said for the next three years. We had also mentioned one-third of this, roughly 2500 is for Chakan phase II. So, the key thing to understand is that this is what we are planning and maybe after that the balance portion out of 4000 Crores may be spent afterwards. So, that is the broad way to look at it. Our CapEx is not going up because of this is the point I wanted to draw attention.
- Jinesh Gandhi:** Sure. Lastly, can you give number for CSR which you have done in the quarter or for the half year?
- V. S. Parthasarathy:** For CSR, you will have to kind of work your way up from 2% which is indicated PBT.
- Jinesh Gandhi:** So, is it on quarterly basis we do or how it is?
- V. S. Parthasarathy:** It will be yearly profit 2%, but that is very clearly known honestly because you know the law. It is the past three years' average.
- Jinesh Gandhi:** So, it would be around 20 to 23 Crores.
- V. S. Parthasarathy:** I cannot confirm whether you are correct or not, but mathematics has a way of finding it.
- Jinesh Gandhi:** Price increases during the quarter?

- Pawan Goenka:** Not the quarter, but the half, it is about 1.1% for tractor and 1.2% for automotives, so 1.1% to 1.3%.
- Hitesh Goel:** But no increase in the quarter?
- Pawan Goenka:** Quarter also the same.
- Hitesh Goel:** Okay Sir. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Aditya Makharia from JP Morgan. Please go ahead.
- Aditya Makharia:** Just with context to the diesel deregulation you referred to, we have seen a sharp cut in diesel prices. Are you seeing demand pickup maybe in auto industry as a whole, particularly for SUVs?
- Pawan Goenka:** The effect of diesel deregulation and reduction of difference in price between petrol and diesel is felt more for the smaller cars than for larger SUVs. So, the compact SUVs will see a shift from diesel to petrol, but we do not have compact SUVs, so it does not affect us. The larger SUVs are 100% diesel driven even with the change. So, therefore it does not affect the larger SUVs.
- Aditya Makharia:** Sure. Your outlook for SUV growth for this year, given that we are through with six months of the year?
- Pawan Goenka:** I think SUVs overall, both compact SUVs as well as full-sized SUV together should grow at around 10%.
- Aditya Makharia:** Okay, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sahil Kedia from Barclays. Please go ahead.
- Sahil Kedia:** Thank you for the opportunity. I have just one question. What has been the response for the new Scorpio, anything that you can help us?
- Pawan Goenka:** We have launched the vehicle on 25th September, so it has been about five weeks now. In these five weeks, we have had approximately 10,000 billing and this month, we will have over 6000 billing from Scorpio, so that will make it highest ever month for Scorpio in terms of billing. So, I would say it is contributing very good, and we would have waiting list going into the month of November and then we will have to see post festive season, how things go. We are quite pleased with the response that we have seen.
- Sahil Kedia:** There has been, in your experience, no cannibalization on the XUV?
- Pawan Goenka:** No. We have not seen that at all. In fact, when we released the figures, you would see that XUV had a very good month also. We will comfortably cross 3000 number on XUV. We have always said that the XUV and Scorpio are two very different vehicles, and the person who wants the

Scorpio, XUV does not meet his or her demand need and vice-versa and therefore we do see too much of cannibalization.

Sahil Kedia: Okay, all right, thank you so much.

Moderator: Thank you. Next question is from Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: One question on pickup side, you had been gaining market share, but is it that the new pickup that you have introduced to some extent is compromising on margin perspective in order to gain bigger volume, is that a thought process that volume versus margin and hence the platform profit could be better?

Pawan Goenka: How did you conclude that we are compromising on margins?

Chirag Shah: If I just try to look at your profitability trend, I was just wondering that is it one of the reasons that you are gaining more volumes by marginally compromising on the profitability on the product, maybe directly or in terms of indirect incentives or something like that on the LCV side?

Pawan Goenka: If you look at profitability, it is not affected by material cost contribution, it is affected by the other expense, if you look at our P&L for this quarter. The pickup segment is doing very well for us and therefore it is clearly a segment that does very well and you do not need to have any heavy discounting going on there. We have not purposefully as one said bought volume by compromising with profit on pickups. There are two different lines of pickup that we have, what we call full-sized pickup that is Bolero pickup and what we call BMT that is Bolero Maxi Truck pickup. There is different profitability in these two products, and in a given quarter if you want to know what is the mix of these two, the profit coming out of pickup segment would be different, but it is not by choice or buying volume or by giving up profit. It is only which ones of the two gets sold more.

Chirag Shah: Fair point. Thanks for clarifying. It is more about mix rather than anything else.

Moderator: Thank you. The next question is from the line of Vaishali Jajoo from Aegon Religare. Please go ahead.

Vaishali Jajoo: Good evening everyone. This is more a broader question, if I may actually. If you take the last few years rally in tractors barring last one year, it was more fueled by the economic trend which supported apart from the few government incentives and also I think apart from pharma there was also support from the construction which happened on road for tractor industry. How do you see the scenario changing if the GDP growth comes back to maybe 6% plus for tractors? On the UV side, if we take the growth which happened in the last few years, some of it also, in Bolero if we take, is supported by the rural consumption and after the lots of competitive launches in UV, how the landscape has changed for M&M? These are the two questions from my side.

Pawan Goenka: This is an analysis question rather than a question where we can give a quick response. It is very difficult to give very definitive answer to your question and these are kind of things that obviously

we debate internally, to try to understand the trends and all that, and a lot of it is qualitative. So, let me try and explain, and I do not want to take too much of everyone's time right now and we can perhaps talk separately later on. Let us talk about the- auto side first. On the auto side, in the rural area where the choices and options used to be very limited, today there are more choices that are available in rural areas. Mahindra has always been a rural focused company and we have always had a very good network in rural areas, but as you would see from the all the newspaper articles and statements made by various companies, everybody is focusing on rural now, and everybody wants to have very sort of deep penetration rural network. Therefore, the rural area has more choices. Also with the road construction happening, earlier the rural areas were very UV centered because other vehicles were not suitable for rural areas, and therefore now you would see other vehicles also. Therefore, for any company and this is no secret, for any company the monopolistic situation for a given segment is not there and one is to therefore work harder to get sales than one did sometime ago. On the tractor side, the question was more to do with the tractor sales happening to a non-agricultural application. With the GDP growing, will that portion of tractor sales go up, which is the non-agricultural portion of the tractor sales go up? I think the growth will happen on both sides, on the agricultural side as well as on the non-agricultural side, and therefore I do not expect a significant shift in the proportions of the two. Again, in this conjecture, it is very difficult for us even to have data very precisely on which tractor is being used for what because more often than not a given tractor is used for both purposes, so a farmer would buy a tractor, use it in the season for farming, and use it off-season for hauling. Therefore, it is very difficult for us to really do a sharp device because what is used for agriculture and what is for non-agricultural. I do not know if it answers your question, but we can probably discuss it afterwards.

Vaishali Jajoo: Okay, just one follow up on UV side, because we have one of the largest market shares in the UV segment and maybe seeing a little bit of pressure because growth is also not there in the segment and the competitive landscape has increased, so if you take a longer term growth scenario, next five years or so, we have to give up some of the market share in the industry?

Pawan Goenka: I think we have given up the market share. The effect of Mahindra not having the UV1, the compact UV is already evident in our market share now. So, the 33% to 34% market share that you see today for Mahindra in Q2, that market share is coming from basically three products that we have in the UV segment, Bolero, Scorpio, and the XUV, and we do not have a direct competition for the 4 meter kind of vehicle. In this segment, we remain at 50% plus market share. Therefore, if you were to divide UV1 and UV2, and given that UV1 our market share is 0 and UV2 is 52%, giving us a weighted average of 33%. Assuming that we remain at 52% and assuming that we get something more in UV1 once we launch the product, the market shares will go up from here.

Vaishali Jajoo: Thanks for answering my questions.

Pawan Goenka: I have tried very hard to confuse you, I do not know if that answered your questions.

Moderator: Thank you. The next question is from the line of Yogesh Aggarwal from HSBC Securities. Please go ahead.

- Yogesh Aggarwal:** I just have maybe couple of questions just on Bolero. In the past, you have done around 8000 to 9000 a month and the numbers have come down to now around 6000, and we have this feeling it is probably less connected to the urban macro environment as well. Firstly, I wanted your views if the numbers can go back to the previous high and secondly, just your views because you have done very well in XUV, Scorpio, now in the hindsight, do you think you could have done a little more with Bolero, maybe reduce the length or reduce the engine size and that could have the increased market much more, so any views on that would be appreciated?
- Pawan Goenka:** I do not know how you guys get these figures of sales, we do not release. Yes, the Bolero product has lost a little bit of its volume from its peak and the reason for that is what I said, when I answered the previous question about the rural change of landscape. We clearly are working on trying to regain that volume. Our expectation is that we will start seeing some turn back in Bolero volume from what it had come down to in Q2. Let us see how it goes. But clearly the volume number which you quoted is not the figure. All I am saying is yes, he is right in the sense that Bolero has come down a bit.
- Yogesh Aggarwal:** And you said you expect it to get better?
- Pawan Goenka:** There are things that we are doing and we are beginning to see some turnaround on the volume. We do expect October month to be a good month.
- Yogesh Aggarwal:** Okay, great. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Kaushal Maroo from Emkay Global. Please go ahead.
- Kaushal Maroo:** Just a clarification on the state government incentive which was there in Q1 and not in Q2. What is the frequency and quantum of this payout?
- Pawan Goenka:** The reason it is affected is not for the payout. It has changed from 90% to 100% in Q1, therefore there was a one-time effect in Q1, otherwise it has nothing to do with the payout.
- Kaushal Maroo:** In Q2, it did not accrue to us?
- V. S. Parthasarathy:** The same 100% even in Q2 because we changed from 90 to 100 accrual in Q1, we got to catch up one-time benefit in that sense in Q1, past period adjustment which happened. This is based on the fact that we have got from the government for our completed assessment full 100%, therefore now it is appropriate, therefore accrue 100% because we are getting 100%, so that is what was done in Q1 and therefore give us a benefit which was larger. It will now continue at 100 and therefore there will be a quarterly increment, but the catch up will not be there which was there in Q1.
- Kaushal Maroo:** Okay. The second question is on the retail demand for UVs during the festive season, what kind of growth did you see and do you see any signs of revival there?

- Pawan Goenka:** We normally do not talk about the growth before the month is over. Last six hours of the month always have sort of very quick spinning of retail sales.
- Kaushal Maroo:** Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Ajit Sethiya from Centrum. Please go ahead.
- Ajit Sethiya:** I just wanted to understand on the pickup side how you are seeing the financing and the NPAs because if I see on the LCV and the small commercial vehicle side, there has been a significant issue in terms of the NPAs. How are you seeing that on the pickup side?
- Pawan Goenka:** NPA situation is very different for different sub segments of the commercial vehicle. On the pickup segment, where Mahindra has 72% market share perhaps is the best in terms of the reduced NPA. Therefore, there is no issue at all in getting high LTV that is loan to value ratio in the pickup segment, and it is very robust, no problem at all. The resale values are high. The NPA is low and the LTV is also very high. In the small commercial vehicle, there is very large NPA and some of it is of sales that happened a year or two years ago by various people in the industry, where the margin was very high and that has led to very high NPA and on the truck segment I think it is about what normally is, so I do not think it is abnormally high. Just to summarize, in the sub 1 ton category, NPA is high. In the pickup category, NPA is very low, and in the truck category the NPA is about normal. I am talking at the industry level and not at Mahindra level.
- Ajit Sethiya:** Just a follow up question, in the last few quarters you had alluded to the fact that there has been a shift happening from LCVs to pickup, so that sort of seems to continue, but what is the shift happening and what is driving that shift?
- Pawan Goenka:** That is not evident anymore in the sense that if you look at the overall industry growth, both SUV and pickups have degrowth, it is only that Mahindra has grown in the pickup, but pickup industry has degrowth. We will come back and give the answer of percentage growth.
- Ajit Sethiya:** Okay, that is all from my side, thank you so much.
- Moderator:** Thank you. The next question is from the line of Trilok Agarwal from Birla Sun Life Insurance. Please go ahead.
- Trilok Agarwal:** Good evening Sir. I just wanted to check, would you be able to let us know the loss because of the MTBL, because the EBIT margin in this quarter in auto business has dipped meaningfully, so can you just quantify or is it possible to summarize that primarily that is because of MTBL itself?
- V. S. Parthasarathy:** First and foremost is, we do not give sub-segment results and therefore what I have done in order to make comparison possible and for you to project I have adjusted the previous year's figure for M&M plus MVML to reflect MTBL in percent. So, previous year has been adjusted to give effect to MTBL. So, what figures you are looking are apple to apple. In this quarter, as we spoke auto segment had some higher cost of overall acquisition as we call it and so did farm equipment,

similarly MTBL concept had that kind of acquisition cost which was higher. Pawan also will comment, but Pawan was telling earlier in the call and in the press meeting that the discounts in SCV which you had seen continued to be there and you are not seeing them coming down. So, in a sense other expenses increases for auto, for farm equipment, so it has increased for MTBL for the same set of reasons. But the figures of previous year had been recasted to include MTBL and the current figures continue to have MTBL. Is it okay.

Trilok Agarwal: Thanks.

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

Hitesh Goel: Good evening Sir. Can you quantify the one-time incentive that you got in Q1 FY'15 absolute number please?

V. S. Parthasarathy: Approximately 90 Crores.

Hitesh Goel: Okay. My next question is on the compact SUVs. Now, next year you will have significant launches and this will be in the low-price segment. Now, you had earlier indicated that the margins will depend on the platforms as well, but given that the Scorpio and Bolero already does quite a significant volume of higher than 5000 a month, do you see that your gross margins may get impacted because of these launches at least initially, the volumes have to be substantially higher for these kinds of margins to sustain, am I right on that?

Pawan Goenka: Hard to answer that question right now, we have not decided on what the pricing would be for these products or the final material cost would be, so cannot answer that question. What we are clearly looking at is significant volume enhancement and therefore profit enhancement, what happens to gross margin or OPM will be function of what we finally decide on pricing.

Hitesh Goel: Okay. My last question is on this discount or what customer acquisition cost. Basically, I want to understand that Scorpio and XUV 500, Scorpio is a new product, there I believe the discounts will not be that high, is the discount mainly in the Bolero segment which is impacting your other expenses or the margins?

Pawan Goenka: Exception to discount in Scorpio.

Hitesh Goel: Okay, so other products have discount. So mainly XUV. Pickup you said the discounts are not very high.

Pawan Goenka: It will be lower.

Hitesh Goel: Okay Sir, thank you very much.

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

Jamshed Dadabhoy: You just alluded to substantial profit and top line enhancement coming through on account of the CapEx initiatives and the compact SUV space. Given you are spending so much money at Chakan what do you think could be the size of the compact SUV segment as a whole, about two to three years down the line, not asking for your guidance or your volumes, but just how big do you think the segment could really become and what will drive that?

Pawan Goenka: To give you that answer, I do not have that in front of me, so I cannot really answer.

V. S. Parthasarathy: We will take a look at what you are saying and maybe we will come back to you.

Pawan Goenka: What I can say is that probably about 50% of UV industry should be compact UV and right now the UV industry is about 50,000 a month, so that makes it about 600,000 a year, and roughly half of that should be UV1 market. Right now, UV2 is still higher than UV1, but I think UV1 would probably be more higher. What I mentioned was that right now both are degrowing. When I had made a statement that was referred to, at that time the sub 1 ton was degrowing rapidly and pickup was growing, now both pickup and sub 1 ton are degrowing, though Mahindra is growing in pickups because Mahindra is having a substantial market share.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Joseph George for closing comments. Over to you Sir!

Joseph George: Thank you. I take this opportunity to thank the management of M&M for taking out time for this interaction. I also thank all the participants for logging in. Thank you. Have a good day.

Moderator: Thank you. On behalf of IIFL Capital Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.