

## Mahindra & Mahindra Limited

### IR Flash – Q3FY17 – Earnings Call

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|------------------------|--|
| Date & Time            | February 10, 2017; 5.00 p.m.   |
| Event                  | Earnings Call – Q3FY17   |
| Participants from M&M  | Dr. Pawan Goenka - Managing Director;<br>Mr. V.S. Parthasarathy - Group CFO, Group CIO, President (Group Finance & M&A);<br>Senior Management Team |
| Audio playback details | +91 22 30652322 / +91 22 61813322<br>Playback Code: 46655<br>Available till February 28, 2017  |

In Q3FY17, auto industry was impacted due to Demonetisation, with all segments of Auto and Tractor industry showing substantial drop in demand during November & December' 16. The excise duty benefit from Haridwar plant, which was available during Q2FY16 was not available in this quarter. Despite these negative factors, the company was able to maintain operating margins.

#### Demonetisation:

- The demonetisation impacted rural sales more than urban sales.
  - PV was the least affected with about 10% loss in volume in Nov & Dec '17 compared to the first seven months of FY17; the impact on tractor & 2wheeler industry during the same period was about 30% (compared to the first seven months growth rate);
  - While Auto has recovered fully, other segments are likely to recover fully by the end of FY17.
- The revised Industry growth rates for FY17 post demonetization are:
  - PV industry is likely to grow at more than 10%
  - LCV industry is likely to see single digit growth
  - The minitruck (<1ton) segment is likely to be flat.
  - 3 wheeler could end with de-growth.
  - Tractor industry is likely to end the year with 16-17% growth

#### Auto:

- Auto segment Revenue was down 8.3% YOY at Rs 6,359 Crs, similar to the drop in volume of 7.7% YoY.
- However, due to strict cost control and efficiency improvements, both fixed and variable expenses were in line with volume of sales.

- In spite of this, the expiry of fiscal benefits at Haridwar Plant impacted the segment margin by around 200bp (partly compensated by IPS benefit of Rs.26cr);
- Bolero Power+ has received good response from customers. With the continued loyalty towards original Bolero, overall Bolero sales have been good. Bolero Power+ contributes to 50% of the total Bolero volume
- TUV300 and KUV100, which had slowed down after a good start, has started showing signs of improvement.
- M&M has robust new product plans for the next four financial years –a new product every year till FY21, beginning FY18.
  - An investment of Rs 1500 Crs is planned in Nashik & Igatpuri, which will qualify as 'Ultra Mega Project' of the Maharashtra government.
  - U321, being developed by Mahindra North American Technical Center, will be produced in the Nashik plant and will be part of the above project. As a result, the capacity in Nashik will go up from 160k to 210k vehicles. U321 is expected to be launched in the next one year.
  - S201, being developed on Tivoli platform, would be launched in H2FY19.
  - The gasoline version of XUV500 is likely to be launched in Q1FY18; depending on the response to this product, the company would launch gasoline version of Scorpio.
  - Apart from these, there would be periodic refreshes to the existing vehicles.
- It is expected that the deadline of 31<sup>st</sup> March, 2017 for the application of new emission norms (BSIV) pertains only to manufacturing (Production of BSIII vehicles beyond 31<sup>st</sup> March, 2017 is not allowed).
- The difference between BSIV and BSIII vehicle is around Rs.15k to 20k for UVs and LCVs; for MHCV, the price impact could be to the tune of 7-8%.
- The inventory level in Auto is comfortable, within the 2-3 days range above the optimal level.
- The price increase in January 2017 was about 0.7%. With this, the cumulative price increase for the financial year has been around 1.7%.
- SsangYong has turned around and has robust product plans for the next four years – Y400 (large SUV) and Q200 (pick-up) would form part of this product launch. The Q4CY16 results for SsangYong is yet to be announced.

### Farm Equipment:

- Farm Equipment segment Revenue was up at Rs 4,281 Crs an increase of 20.2% on YOY basis, aided by volume growth of 21.9% YOY.
- M&M Tractors achieved the highest ever market share for any quarter - 44%, aided by good acceptance of 'Yuvo' & 'Novo' range of tractors.
- The price increase in January 2017 was about 0.7%. With this, the cumulative price increase for the year has been around 1.0%.
- New launches includes refreshes for the Yuvo & Novo range; two new platforms - one each in Mahindra & Swaraj brand in FY18.
- Inventory as at end of December is at comfortable levels, marginally below the optimal level. The retail sales during the quarter was much higher than the billing volume.

**FINANCIALS AT A GLANCE**

**M&M + MVML**

| <i>(In Rupees crores)</i>          | <b>3<sup>rd</sup> Quarter</b> |             |               |
|------------------------------------|-------------------------------|-------------|---------------|
|                                    | <b>FY17</b>                   | <b>FY16</b> | <b>Change</b> |
| Total income from operations (Net) | 10,586.81                     | 10,464.41   | 1.2%          |
| EBITDA                             | 1,449.46                      | 1,451.47    | (0.1%)        |
| EBITDA %                           | 13.7%                         | 13.9%       |               |
| PAT (before EI)                    | 801.06                        | 849.41      | (5.7%)        |
| PAT %                              | 7.6%                          | 8.1%        |               |