"Mahindra & Mahindra Limited Q3 FY15 Earning Conference Call"

February 13, 2015

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mahindra & Mahindra Q3 FY15 Earning Conference Call hosted by HSBC Securities Limited. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Yogesh Aggarwal from HSBC Securities. Thank you and over to you Mr. Aggarwal.

Yogesh Aggarwal: Thanks Karuna. Hello everyone, thanks for joining the M&M 3Q FY15 earnings call. We have with us the M&M management, to start with, Dr. Pawan Goenka – Executive Director, President - Automotive and Farm Equipment Sectors and Member of the Group Executive Board. Also, we have Mr. V. S. Parthasarathy – CFO and Group CIO and EVP Group M&A and Member of the Group Executive Board. Mr. K Chandrasekar – EVP Corporate Finance and Investor Relations and other Senior Management Personnel from M&M including the IR team. I will hand over to K. Chandrasekar to take the proceedings forward.

K. Chandrasekar: Good afternoon. Welcome Ladies and Gentlemen to Mahindra & Mahindra's third quarter earnings call. We are meeting at a point when the environment is quite mixed and I am sure you will be keen to hear from Dr. Pawan Goenka and Mr. Parthasarathy. Without much further ado I hand over the mike to Mr. Parthasarathy to begin the concall.

V. S. Parthasarathy: Thank you Chandra. I extend a very warm welcome to all. In addition to what you already heard, to all those who are currently attending this call. I will now take a short time to walk you through the economic environment and the Q3 Financials. Pawan will talk to you more in detail about AFS performance and various numbers, so I am not going to talk about it. Let me start with the economy and some key indicators.

In Q3, we have had some mix signals and it continued in the recent months. YoY IIP growth ranging from a -4.2% to 3.8% during November and December against 0.4% in July and August, so it has been a mix bag as far as IIP is concerned. The recent numbers which came in doesn't show much positive light either. On the positive side price pressures have eased considerably with the headline CPI inflation lowering to 5% YoY in December and WIP inflation is at five year low of 0.11% YoY. India's current account deficit went up slightly to 2.1% in Q2 FY15 against a low of 1.7% of GDP in the first quarter of the fiscal year, however, overall at 2% I think it is an excellent sense of control and discipline which is being brought in the current account deficit.

Further to it, the government has taken some very good recent actions which are in the process of coming to fruition getting the consensus of GST implementation is a great step forward and indicating their willingness to reforms is an important milestone achieved and initiating reforms on the fuel price front have created an environment of policy actions. This will support the infrastructure and industrial growth in the medium term. Finance budget 2015 will be a crucial event which will give direction going forward and after the RBI's action in January, inaction in the current month, the budget will be looked with lot of keenness and I think RBI will also take further cues from the budget.

Coming to financials, I always talk about M&M including MVML for the reasons as stated repeatedly, which is, it gives a comprehensive picture. The top line was 9,260 crores, down 9.7% as compared to Q3 previous year, EBITDA lower by 24.8%, however there is a growth at PAT level of 5.7% compared to the previous year. PAT including investment harvesting at 967 crores is a growth of 6% versus the previous year. In spite of the cost pressure on account of higher selling expenses, additional charge of depreciation and salary and wage hike OPM stands as a very strong 11.7% versus 14% in Q3 of previous year.

I have talked about it in the Board earlier and the press meet that if I look at this current quarter where tractors industry was down 26% and auto volumes were down 12%, I can go in memory and look at Q3 FY09 which was after the global crises where tractors actually that time was down about 15.6% or 16% and auto was down by about 22%. In such a situation, most players in the industry did not do well, M&M still managed their profit but it was a profit of 2 crores in that quarter. So, a similar kind of industry and M&M volume drop in this quarter, 26% again in tractors and 12% in auto, still to have a profit of 967 crores shows both resilience and our ability to garner both cash and profits from the operating activity of auto and farm equipment sector and also the investment activities comes to the force very-very strongly.

Segment revenue, let me quickly take you through the financial for Q3, revenue down 5.8% in auto segment, 5818 crores; volume degrowth of 12.4% which I talked to you; model mix and selling price increase is the reason why the revenue growth is shallower than the volume growth. In FES, revenue down by 15.3% against a 26% domestic degrowth and overall lower growth of 24%. And auto segment results down by 21% and FES segment down by 31% mainly on account of volume degrowth. ROC at around 18.9% signifying the company's continued efficient management of capital. Debt equity is 0.23 and net debt equity is almost close to zero. Company has comfortable cash surplus of 3,700 crores.

Key subsidiary, TML showed a growth of 17% and you also would have heard this, that we had both a bonus issue and a share split. MMFSL had a profit of 156 crores, MHRIL and MLDL showed year-on-year growth profit at 24 crores and 33 crores respectively.

With that I will stop and pass the baton to Dr. Pawan Goenka for more inputs on AFS.

Pawan Goenka: So, let me give you a little bit of an industry overview first, before I get into the performance of Mahindra in these industries. The challenge last quarter has been primarily on the agriculture side and the farm side and it is really driven by and the fact the farm income has dipped significantly in this quarter for several factors coming in together. First is the food grain output products from Kharif crop was 7% lower than last year, second was mandi prices which are estimated were 10% to 15% lower than last year, the rabi sowing itself has been down 5% below last year and also unseasonable rains have had patches of major concerns coming in, in the specific areas of the country and together all of this has lead to one of the worst degrowth in any quarter that we have seen since 2005, worst quarter that we have seen in terms of degrowth of 21% degrowth in the market. We do expect that there will be some sort of leveling but our expectation is that this quarter also the industry will have a degrowth maybe 10% to 12% and it will be probably second quarter of FY16 that we will start seeing the industry to come back and that will depend on the monsoon that we see in June -July of FY16 of this monsoon season.

If I was to look at the overall for the auto industry, auto industry has had reasonable performance during the quarter but not a uniform performance during the quarter. What I mean by that is that there are certain segments in industry that have done very well, in fact they have good news for the industry is that medium and heavy trucks have now grown for eight months in a row growing about 32% or 35% for nine months and a very huge growth of 81% in this quarter for the medium and heavy commercial vehicle segment which is good news because that is always a lead indicator. The personal car segment has done well at about 6%-7% growth, the UV segment has a degrowth in this quarter and partly it could be because of the diesel petrol price parity as you know that the gap is narrowing and as that narrows perhaps there is a shift towards petrol that is happening and therefore you are now beginning to see that all new launches always have a good petrol and diesel option that is launched.

For FY16, we do expect that there will be a growth happening, just going back to FY15 we also see that the growth that is happening in the industry is not happening for all players, in fact some players about half the players have grown in these nine months and half of them have de-grown. So, a very uneven growth that we are seeing both in terms of segment as well as in terms of OEMs.

For Mahindra's performance during this quarter as you have seen that our volumes have de-grown about 26%, accumulative market share remains at about same level that it was last year 40.9% which was marginally down from last year and we do expect to catch up on the market share end this year at about the level that we were at last year.

Exports have been up about 50% and in fact we do hope that this will be a best export year ever in the tractor segment. Our star continues to be MUSA which has touched a market share of 10% this year and very good retail growth that we have seen in MUSA. And also in some of the other businesses in the tractor vertical or the agri vertical that we have, we are seeing steady growth, of course this is very small but a steady growth that we are seeing. On the Agri side, we expect to end the year at about 500 crores which will probably be a growth of 20%-25% and we expect to end the year on the implement side what we call Applitrac at about 300 crores which again will be a good growth from last year.

On the manufacturing side, we have managed to control our inventory very well, in fact one of the big focus during this quarter of slowing down of investment was to ensure that our inventories both at the factory level and the Dealer level don't go out of hand and I am very pleased that both the inventories were well under control in both the divisions that we have, the Mahindra division and the Swaraj division of our company.

The quarter was very benign in terms of commodity price increases both for auto and tractor, the total material cost that we have seen YTD comes to about 1% for nine months' time and we were able to pass on again both in auto and tractor, all the material cost increase in selling price. And therefore you would see that our margin is controlled, we have maintained our margin at the gross level in terms of material cost contribution, again both for auto and tractor.

I said going forward we do expect that the current slowdown will continue not perhaps at the level of 21% but more like at a level of 10%-12% in this current quarter may at best we keep in the first quarter of next year and hope to start seeing some improvements from second quarter of next year. We have talked about our new product launches in the past, I will just repeat that the Arjun Novo that we had launched before Diwali that is doing well, doing very well, we will be launching a new tractor called Dhruv in the calendar year 2016 towards the end and one more new platform in calendar year 2017 and we have offerings coming from Swaraj Division because Swaraj Division right now is not present in 50 plus horsepower segment and we will have two products, one tactical product and one strategic product that will come up in Swaraj Division in 50 plus segment in the next 12 months or so.

On the Agri side, one of the very important developments that has happened for us in the last few months are the two JVs that we have set up, the UNIVEG JV which is with Univeg which is a large Belgium company in foods and vegetable and that has started functioning and the JV with HZPC on seed potatoes both of these are very important growth areas for us in agriculture business.

Going to automotive sector, I mentioned earlier that cars were up 7%, UVs were down 6%, HCVs for the quarter were up by 81% and less than 3.5 ton CVs continued to see degrowth that we have been seeing now for seven quarters. For Mahindra the brightest spot in the segment is auto segment was our growth in terms of market share and the pickup segment where we have had continued significant growth over the last 18 months and in this quarter we enjoyed a market share of 73.6% with the products that we have in this segment. And on the UV side our market share is stabilizing at about 38% and that’s where we are for this year and as I have said in the past that once we have the new products being launched you would expect to start seeing a slow increase in our market share. Some of the highlights for us was Bolero crossing 1 lakhs sales in CY2015, the third in a row that we have crossed a lakh and Bolero is the only UV in the top 10 selling vehicles in India. We have had very good volume for pickup, highest ever for Q3, we have had highest Q3 volume in three years for Scorpio, the new Scorpio is doing well, and we sold about 5000 vehicles in the month of January. We picked up market share in pickup I said and export did de-grow in third quarter about 23% but for the nine months we have seen a degrowth of about 6%.

On the truck side, YTD we have a market share now of 2.7% which is an increase of 0.5% point from last year which was at 2.2% and with the increase in industry volume and our small increase in market share we have seen a good volume growth in the segment. However, I must add that the discounting in the industry is still at a very high level and therefore overall P&L for the truck business which of course is part of M&M now is still sort of recovering, we need to see how the discounting goes down before the P&L improves.

For Ssangyong, we announced our results for the calendar year 2014 two days ago after Board meeting in Seoul, Korea. We saw a loss of KRW 50 billion which is approximately $45 million for the calendar year 2014 and a volume degrowth of about 3% during this year. There are three primary reasons that we had both for volumes and for financial performance, one is the degrowth in Russia, Russia was a very significant market for Ssangyong and has a steep drop in volume in Russia in 2014 and that will continue in 2015. A little bit of appreciating of Korean currency about 7%-8% compared to 2013 and the big sort of hit on the P&L was the effect of wages which according to Supreme Court ruling went up significantly during this quarter not just for Ssangyong but for most manufacturers. The good news for Ssangyong is the launch of Tivoli which was launched on January 2015 this year, Tivoli is doing very well, we already have booking of 8,800 vehicles in four weeks' time and exceeding the capacity that we have for this vehicle, and therefore there is a waiting list for Tivoli.

Mahindra Reva e2o is beginning to see some sales momentum growth but the big thing is waiting for what happens in the budget and if we get incentive for electric vehicle then we would expect a sharp increase in volume for electric vehicles.

And if I just to sort of summarize what will be our expectation from Union Budget for our business, the primary thing that we are looking for is GST rollout sort of time table and 1st April 2016 is something that we are hoping that will be announced as a formal time table for GST. Make in India is something that is being talked about now in all forum and we hope that there will be strong policy announcements that will promote Make in India. And excise duty of automobiles, we do not expect any overall reduction but we do expect some rationalization of various levels of duties that we have going up as high as 30% that is the famous SUV tax. Commitment for EV, something that is on the cards for quite some time now and we hope that it happens this year and then an encouragement for R&D because we believe R&D is an integral part of Make in India and export incentive because in many cases India is becoming non-competitive in export. So these will be sort of our overall expectations from the budget.

And final thing that I just want to talk about is our product offerings for next year. I have been talking about that for several quarters now that calendar year 2015 will be a year of product launches for us. We have a timetable that in each of the three quarter Q1, Q2 and Q3 of FY16 we will have one brand new platform, the three platforms that I had talked about will be launched, one in each of these quarters, one major refresh and one variant, just one variant that we will be launching in each quarter of FY16 Q1, Q2, Q3.

So with that I complete my opening remarks and open it up for questions.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have our first question from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: I just wanted a follow-up on the new launch plan. You said Q1, Q2, Q3 one new platform each and major refresh and one variant also during the same quarter?

Pawan Goenka: Yes.

Kapil Singh: Okay. So from next quarter onwards we should have good momentum from new products?

Pawan Goenka: That's right.

Kapil Singh: And sir on the farm segment, we have seen pretty sharp declines but your guidance indicates that it is sort of things are starting to improve. So, because 10% to 12% decline in this quarter would mean flattish kind of volumes in the coming months. So, is that the right way of understanding that the peak of stress is behind us in the segment?

Pawan Goenka: Yes. So it will be very interesting to understand how you conclude that.

Kapil Singh: Yes, because January numbers are already out like if I take a 10% to 12% decline then I am looking at flattish volumes for the coming two months.

Pawan Goenka: So, 10% to 12% decline would mean just a small decrease in February and March……

Kapil Singh: Correct, that's what I am trying to say.

Pawan Goenka: 10% to 12% and if you say 12% that means in three months it would be 36% and we already have 26%, only 10% is left. So, you are right in that sense that we would expect to see about at least 4% to 5% decline in February and March.

Pawan Goenka: And then I said that the quarter after that should be flattish and quarter two we should start seeing an increase.

Kapil Singh: So sir, are the numbers that we have seen in the last few months also representing some inventory correction or things on the ground have generally improved for you to…

Pawan Goenka: I think overall at the industry level there is some inventory correction. Of course we do not have official visibility to inventory of our other companies but as I said that we have done a very significant inventory correction during this quarter and the reports that we have is that there were inventory corrections done by others also. And therefore to some extent the retail has been better than billing, I don't know the precise number but if you have to look at retail to retail the drop will be 21% or 15% or 12% I don't know that but certainly retail has been better than the billing and we are expecting that in this quarter retail billing will match and therefore we will not have the kind of degrowth that you saw in quarter three.

Kapil Singh: Right. And my final question is that we have sort of fully passed on the cost increases in the tractor segment as well, so is the decline in margins that we have seen in the farm segment largely related to operating leverage and therefore once the growth comes back we should expect margins to go back to similar levels whenever that happens.

Pawan Goenka: There are two factors, most of the decline that you have seen is because of operating leverage, so you are right in that regard. In fact, if you were to look at specific breakup of cost that appear in our P&L statement you would find that other than expenses other kind of cost of control in fact our gross margin overall has gone up marginally that means our material cost to sales price ratio has improved a little bit. Where we have had a hit is in personal cost as of percentage, not in terms of average number but as a percentage because of lower revenue. But, there is also a factor that goes beyond operating leverage right now and partly because of slower industry, the cost of acquiring a customer is somewhat higher than what has been the traditional practice. Now, cost of acquiring a customer in simple words means more incentives than they normally would give and that hopefully will also disappear once the volumes grow because then the industry is healthy then you do not see so much discount.

V. S. Parthasarathy: Simplistically, another way to put it is that if you are saying that for example this quarter I had a 12% revenue degrowth, say I didn't have that and it was at same level of previous year the margin at an OPM level will also have been similar. So, it is the cost remaining more or less fixed but because the top line down. So, in a sense for this quarter it is true, also equally true is that material cost and the cost increases on that material cost have been very benign environment, as long as both these axioms are true then margin should go back once the revenue comes in.

Kapil Singh: Sir, could it be higher because your agri business is growing at a much faster pace, so that would have a positive impact on margins as well, right?

Pawan Goenka: Yes, right now in terms of materiality of that growth in our overall revenue and overall topics is not at large. So, even if agri is growing faster than tractors it does not really have much of material impact right now, after two or three years agri will start playing a very important part as a segment but right now it is too small.

K. Chandrasekar: Yes. Kapil I have a answer to this in Hindi as "Aapke muh me Ghee Shakkar".

Moderator: Thank you. We have our next question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: My question pertains to a couple of data points, one is what would be Powerol revenues in this quarter and secondly what kind of price changes we have done in this quarter for both auto and tractors? And lastly in terms of CAPEX and investment what is your guidance for FY15 and 16?

Pawan Goenka: Okay. Powerol revenue, latest revenue was about I won't give you for the quarter, for the nine months it is 644 crores which is a growth of 15% from last year. I can also tell you in Powerol that this year we have seen a good growth in telecom sales, telecom towers which has been de-growing for some time and this is because of the 4G, so this is a good spurt that we saw in the same Powerol. So Powerol is sort of back on growth path for us, you will recall that powerol was struggling in last couple of years.

Pawan Goenka: Price increase cumulative has been about 1% in both auto and tractor, 2.2% roughly in tractor for nine months and 1% in auto and that more or less takes care of this merger and price increases because they have been benign. The commodity prices about 1% for both auto and tractor.

Jinesh Gandhi: Sir, for the quarter how much would it be if you would be able to share that?

V. S. Parthasarathy: In this quarter there was no increase. The last question you asked was about CAPEX and we had given you a figure of 7500 crores for CAPEX over a three year period, I think that's the same figure that we are tracking right now.

Pawan Goenka: More important thing is that there is no change in what we are doing in terms of product development or in terms of capacity and we continue to have our plans to invest both in product development capacity as we have had in the last couple of years, no change in that plan yet.

V. S. Parthasarathy: And the figures also remain the same.

Jinesh Gandhi: And the additional 1500 crores for investment?

V. S. Parthasarathy: 2500 crores for 3 years.

Moderator: Thank you. We have the next question from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Sir, just a clarification on product launches, so if I understood correct you are saying there could be three new products coming in terms of complete new ground of products because earlier the thought process was that one urban, one rural compact UV, one full-fledged UV and two refreshes over next 24 months. So, I was under the impression that we were caring, now it seems there is a much bigger pipeline of product that seems to be coming from M&M. Also, a related question is, can you also share your thoughts on what kind of engine options we can expect in the initial phase be it petrol, be it diesel how it's looking?

Pawan Goenka: So, let me take a little bit longer time on answering this question because perhaps many of you will have in your minds, this is the first time you are sharing this information and there are probably lot many questions you have. So, what we have said in the past is that we will have three brand new platforms and that we will be launching in this year and many refreshes and variants and I had not given a timeline of when that will happen and I had described earlier what these three platforms are. I had said that one is a commercial vehicle, small commercial vehicle to be precise and two are what one would call a compact UV, that's what I had said last time so that same thing remains that 3 platforms that we had talked about is Q1, Q2, Q3 launch. These 3 new platforms are code named in case you see spy pictures and all that in a newspaper are codenamed P601, S101, and U301, I cannot tell you what is order of the launches obviously but there are three that are being launched in the three quarters Q1, Q2 and Q3 of FY16. The refreshes, I cannot tell you which products are getting refreshed but we have refreshes of many of our existing products and the three refreshes again in Q1, Q2, Q3 will happen and the refreshes are major changes to the product which normally makes a significant difference in volume because it gives newness to those products. The variants are products coming out of existing products so they are not refreshes, they are sometime actually bigger than refreshes because there are new applications or new types of applications coming out of existing platform, so there are three variants that we are talking about which will be coming out of existing platforms but they are not cosmetic changes, they are different sub-segment in the product and therefore are major contributors to potential volume growth. So, there are nine products, three new, three are different and three variants in Q1, Q2, Q3 of next year, we'll keep our marketing team very busy and keep the media also very busy writing about these products and stuffs. Does that answer all your questions on the product?

Chirag Shah: Yes sir.

Pawan Goenka: I cannot be very specific about it but what I can tell you is that we in the smaller UV we will have a petrol engine option, it is a brand new engine that we have developed and if you are following the launch of Tivoli, Tivoli has a 1.6 litre petrol engine that we have launched right now and we have 1.6 litre diesel engine that we'll launch in Tivoli on June 1st, it has already been announced formally. What we will be launching will be a 1.2 litre version of these two petrol and diesel in one of our products, in fact the 1.2 started work earlier and 1.6 came later. So, 1.2 is what will be the Mahindra version that will be launched with these two products, one petrol and one diesel in one of these three products that I have talked about, then we will have quite smaller engine going into the SCV segment which is also a brand new engine and we will have a carryover engine going into one of the products. So, that is the engine offering that we would have.

Chirag Shah: Yes. And just a clarification, so UV we are seeing two platform for the UVs are coming, right? And these refreshes and variants would also include commercial vehicles?

Pawan Goenka: That is correct.

Chirag Shah: Yes. And just if I can squeeze in one more question, a housekeeping one. Your farm equipment realizations have really gone up significantly YoY basis and similarly your other expenses have gone up significantly, is there anything one off on a lumpy impact that we have seen in the quarter on both sides?

Pawan Goenka: So, the reason for increase in realization could be one of course is the price increase that has happened during the year but the other reason is also Arjun Novo which is a higher price point than Arjun which it replaced, so there will be some impact it will have on overall average. In terms of expenses, there is no one time other than the fact that I had mentioned earlier that because of the volumes being lower there is a increase in the incentives that has been given to the customer and that in case it comes up in expenses and therefore you would see a higher expense.

Chirag Shah: This incentives are not discounts right sir, these are like more of promotion because if discounts it would be a part of your ASP, it would be reduced from your revenue itself?

Pawan Goenka: So, accounting will happen depending on the nature of the discount, so you can call it incentive, you can call it customer acquisition cost, you can call it discounts but it finally comes on the same thing, lowering the cost of buying for the customer and where it goes, whether it goes into the revenue or goes into the expense depends on how it is being treated in the way we give out the discount.

V. S. Parthasarathy: Yes. So, then you talked about realization, I suppose you are kind of just dividing the revenue by the number of units and as the units go down but other incomes like Powerol actually went up for this and you used the total income and divide and agri income also has grown by sheer aggregation seems to have gone in but year-on-year I do not see very significant increase. Second point is that other expenses year-on-year according to me, and I told you for M&M I see it has gone up by 18 crores. Like Pawan pointed out the expenses may have gone up more than 18 crores in variable expenses so in a sense it has gone down in fixed cost, so that is the broad thing. Quarter-on-quarter I don't recommend that you look and I certainly am not looking at it very seriously.

Moderator: Thank you. Our next question is from the line of Sahil Kedia from Barclays. Please go ahead.

Sahil Kedia: I have one question sir that this has been a tough operating environment and yet you seem to have managed your cost and inventory, can you just talk a little bit more about how you have managed inventory especially on the tractor side and overall have you put into place certain cost reduction measures if you can help us elaborate some of that just to give us an understanding of how you have maintained your profitability in such a tough environment, that will be useful sir?

Pawan Goenka: Basically what it takes you know it is very tempting when volumes are going down to have artificial sales by increasing inventory both at company and at the dealer end and if the industry or a company starts doing that, then it leads to a very long-term damage which takes years to come out of. You will recall the 2002 debacle if you are old enough, 2002 debacle that happened in tractor industry when industry pumped in inventory into the dealer network and that took several years for industry to recover. But this time Mahindra and I believe the whole industry has been fairly disciplined about not increasing inventory disproportionately and in spite of the degrowth when it is tempting to get the artificial volume by increasing inventory we have been very careful in not increasing that. Yes, it had fallen a little bit out of shape just before the festive season because the demand dropped all of a sudden and we are not prepared for it and therefore they need to go up a little bit because we are not able to react immediately but we took our time in this quarter and very carefully and painstakingly I should say reduce inventory both at the dealer end and factory end.

As far as the cost control is concerned, again it comes down to discipline, we have to be always careful in a slowdown that we do not cut the wrong cost because if you cut the wrong cost it is going to come back and hurt you in future. So, we have not cut any cost in product development, again both in auto and tractor and every program that we had in place two years ago or one year ago is still in place, if anything we have added more programs and not subtracted. At the same time when there is slowdown, then you start looking at cost that can be avoided without causing any sort of negative impact on the business and we have been very careful about trying to avoid those costs and I think all of that adds up to reasonably good financial performance that we have seen in this quarter in spite of having a very difficult year for volumes.

Sahil Kedia: Sir, just if you can help us understand what is the current inventory level that would be very useful across auto and tractors?

Pawan Goenka: So, I will not give you precise numbers but the dealer inventory is roughly at about one month level both for auto and tractor which is roughly where we want to be ideally, we would take a few days up or down. And our plant inventory is fully under control, plant inventory typically we have 10-12 days of plant inventory and that's where we are.

Sahil Kedia: Okay sir. Sir one last question if I may, is there a different shift that you are seeing in the HP wise trends, anything that is interesting?

Pawan Goenka: Not anything significant that we have seen during the last couple of quarters, there has always been a casual shift towards higher HP but not a steep shift, just a very small shift. If anything, there is a shift back from (+50) horsepower to below 50 horsepower and the reason for that very simply is that the emission requirement in (+50) horsepower is more stringent therefore the cost impact when you go from 49.9 to 50.1 is very high just because of emission. And therefore the customer is thinking twice before crossing that magic line of 50 horsepower. So, the big growth has been in the 40-50 horsepower because it has gotten growth coming down from (+50) and coming up from (+40).

Moderator: Thank you. We have the next question from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

Amyn Pirani: Sir, you mentioned that on the tractor side this year we had a combination of factors from a bad monsoon to a lower mandi prices and everything, at the same time just wanted your view on the fact that at least this time around the government did not raise MSPs as much as the last few years, and probably this would remain the trend going forward. But, at the same time they have been talking about improving realizations from the farmers by cutting down on the middle men and improving the pricing mechanism. Do you feel that is happening on the ground and could that make an impact or you would need MSP hikes going forward as well to improve farmer profitability?

Pawan Goenka: It is a very good question and a very difficult question to answer in an analyst call because some of it depends on how you look at situation on the ground and philosophies that you want to adopt for long-term growth. I firmly believe that this long-term growth has to be dependent on natural process of income and not an artificial process of income and therefore market forces have to be allowed in the long run to play their role in determining what is the right optimum level of price whether it is input cost or output price. The interventions that are required are required to make some corrections for short-term and interventions would never be permanent fixtures in anything, this is a general philosophy that I am talking about. So, I would say that this is my personal belief that the market forces will determine prices. What that means, therefore, is that farmers have to have good income, the input costs have to go down. For input costs to go down it is not just a question of per kg cost coming up but it is also a question of optimum use of inputs, for example fertilizer input, crop care input, the nutrient input, and the seed input perhaps there is not enough knowledge that is available with the farmers especially smaller farmers to have the optimum uses and therefore input costs are higher than what they need to be.

The second one that again has to be what we talked about the improvement distribution cost in the industry which also is to improve, I cannot tell you that in the last three to six months we have seen very specific data point that say that, yes, there is an improvement but that has to be long-term direction that one has to take.

Amyn Pirani: That is very helpful. And sir just one question on your compact UVs, I don't know if you will answer that but it seems that the Tivoli and your other products would have gone through some amount of joint development at the engine side, would it be fair to say that the design cues that we have seen on the Tivoli which has got very good reviews would have some reflection on your own Mahindra launches as well?

Pawan Goenka: The products that we will be launching in this cycle were already designed. Tivoli design and these product designs happened about the same time so there will not be any influence on these designs.

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

Sonal Gupta: Sir, just two questions, one is on the medium and heavy commercial vehicle side, I know you are growing well but on a very small base and I mean from a long-term viability standpoint I mean how critical is it for you to sort of gain market share at this point when the market is just starting to recover because you have already been in the market for last three-four years, I mean any thoughts there as to because in that case you would probably need to be more aggressive right now or do you think that I mean the path that you think is that you will gradually gain market share to 8% to 10%, I guess that's what you require to be viable in this business. And the second thing I just wanted to check was, what has been the impact of the rural slowdown on the UV side and on the LCV side, if you could shed some light on that.

Pawan Goenka: So, the first one is easier to answer, second one is more difficult. Our market share right now in YTD nine months is about 2.7% in the heavy commercial vehicle segment. I am talking only heavy commercial not medium and heavy because we are from 25 ton up so our market share is 2.7% which is a growth from last year of about 0.5% but 2.7% is still very small market share. For us to become a meaningful player as we have been telling in the past is that we need to reach 7% to 8% in market share and that has to be our mid-term target to reach 7%-8% market share we do think that we have the products to make it happen but of course the industry is very competitive and we need to work hard to get to the 7%-8% market share. And I have also mentioned in the past, which didn't come up today that another problem that the industry is facing right now is very heavy discounting. Unfortunately, in spite of the volume increase the discounting has not reduced. We still have a very high level of discounts happening in the market place and that is simply because still most of the players have excess capacity and therefore discounting continues and I would hope that with a little bit more increase in volume the discounting also will come down to normal level that is when the financial results for the heavy commercial vehicle industry would be sustainable. The second part was about rural demand shift – it is very difficult pin point because too many factors come into this thing. We have not seen a significant slow-down in rural demand no way near what you see in tractor side. So, you cannot draw a parallel between tractor demand and rural auto demand. There are many factors again that play into it but overall like Bolero a good example of rural demand because most of it its sales is in the rural areas. We have still sold 1 lakh Boleros in CY-14 third year in a row and Bolero is the only UV that is in the Top 10 brands that are sold in India last year. So, the logic would have it that if rural economy is going down then there will be a slow-down to rural demand but so far we have not seen our major sort of results of that.

Moderator: Thank you. We will move on to the next question that is from the line of Pramod Amthe from CIMB. Mr. Amthe. Please go ahead.

Pramod Amthe: This is with regards to Ssangyong specifically since there have been sales correction as you rightly said about the Russia and the currency what is the outlook for the volume and return to profitability and also are you evaluating what types of investments are required?

Pawan Goenka: I am right now not sure if we have announced the volume target in the media. I just want to be careful and check whether we have announced. If we have announced I will tell you the number. What is the second question, one was on volume?

Pramod Amthe: Considering the prolonged losses what is the timeline for turning it around and strategy for the same? And second would you be reevaluating the investment horizon for Ssangyong?

Pawan Goenka: As we have said in the past that in any automotive investment the staying power has to be long because it takes time for turn around to happen for a company. Ssangyong had a very good volume turnaround. Last year, it was a bit of challenge because of the reasons that we talked about has had a very good volume turnaround and also had a very good financial turnaround till we were hit by the increase in wages which was a result of a new regulation in the Ssangyong. We continue to remain very positive on this investment because of the way our new products are coming out. Tivoli launch has been very positive for us, I think I had mentioned in this call earlier that we already have thousand bookings on Tivoli and this is when we have not even launched the diesel version and it is only petrol so far and we will be launching diesel on 1st of June and we would be launching in overseas markets about May or June of this year. So, Tivoli is a very-very positive outcome that we had and therefore overall we would expect Ssangyong to perform well. In terms of when it will become breakeven that we never talk about and therefore I cannot give you that indication. In terms of investment cycle there is no change we have announced that we will invest 1 trillion Won over a four year period which is 2014, 2015, 2016, and 2017 calendar year and be on track of the 1 trillion Won for quick calculation it is about 900 odd million US dollars. We are on track for doing that and this is for investment we have made in Tivoli, what investment we have made in our new product called Y400 and what investment we will make in a product called C300 which will be following Y400 and in addition to that the investment in capacity and the regular investment that we have to do for maintenance of product and plant so that is not changing and therefore there is really no change in our sort of strategy for Ssangyong. The only thing that has happened clearly is a setback for us in terms of Russia which is a very important market for Ssangyong and Russia is certainly in slowdown phase right now and we are hoping that we will be able to offset loss in Russia from gain in China and gain in Western Europe. Just to come back the volume projection that we have announced already for CY 2015 that is current year starting January 1st is 160,000 which is increase from 143,000, so a 17,000 increase i.e above 11%-12%.

Moderator: Thank you. We have next question from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: My question was on GST, do you think it could be favorable for you given the uneven tax in SUVs? I know it is early on this but do you have any working on this?

Pawan Goenka: We have and done reams and reams of working on it. Just one, a small correction I want to make to an earlier question where I had answered that we have taken no price increase in factor in Q3 I said overall it was 1.2% so out of the total increase of 2.3% half of that is in Q3 about 1.2%. Okay, question was on GST, of course we have evaluated all scenarios in GST and it is a very dynamic situation because we keep saying new things coming up the latest being non-modvatable 1% inter-state tax that will apply. We hope that does not happen because that almost takes away the beauty of GST because GST was that you do not plan your procurement based on taxes but based on efficiency of doing business but I hope that doesn't happen. But other than that the GST has it currently in place I think it is very favourable for our businesses both auto and tractor because it takes away some artificial embedded taxes that hurt us in terms of getting the right cost positioning, price positioning and more importantly for us in terms of not planning our business for efficiency of our business but planning the business efficiency of taxes.

V. S. Parthasarathy: There is only one thing I want to add and this often I have said that what is being currently passed in Parliament is an ability to set up an Empowered Committe to decide on the legislation so the rates, whatever has been thought is a two years' back referendum rates so what gets agreed in this maybe substantially similar or could be different so till the fine print is clearly known, to comment upfront on this will be difficult but Pawan's point if it was the same thing that has been taught two years back, then it should do and more importantly it should make the logistics based on efficiency rather than based on tax.

Ashish Nigam: No, sir. I was hearing a differential GST rate for different types of vehicles that was my question here.

Pawan Goenka: We have not heard anything like that.

Ashish Nigam: Okay. Also just a follow-up on the new engine options this 1.2 litre engines are the smallest that you put out so is this primarily to make us eligible for the low excise or is there some other rationale behind it?

Pawan Goenka: No, there are many factors that go in. The lower excise of course is a reason to many 1197 and not 1203 and therefore so we would not have made a requirement of 1.5 become 1.2 but we would make a requirement of 1.2 something to below 1.2 for excise purposes but not just excise reasons, it is a general tendency globally now to have smaller engines with higher what we call power per unit so that means the power still remains high with the technology that is coming in the displacement becomes lower which then leads to a better fuel efficiency than you would get for the same power with the higher engine so it is more of a technical reason of why they are moving towards sub-1.2 litre engine and so but in India there is 1.2 litre cut-off and 1.5 litre cut-off so you will see that there will be a tendency of auto makers to launch especially petrol engine below 1.2 litre and diesel engine below 1.5 litre.

Ashish Nigam: Okay. But our diesel will be 1.2 only?

Pawan Goenka: The diesel that we will launch this year will be 1.2.

Ashish Nigam: Okay, just a last question if I can, could you just share capacity utilization for tractors?

Pawan Goenka: No.

Ashish Nigam: Any percentage you can share sir?

Pawan Goenka: I would not want to give a percentage because again percentage depends on manning and therefore it will have no meaning but you know Zaheerabad plant which was required to go beyond what we had two years ago and we are right now lower than what the overall volume was two years ago. Just one thing I want to add here, one of the things that earlier there was a question on cost control how will we manage the cost control. One of the things that we did in cost control also was not shy away from having no production day. And by having no production days even though it kind of gets a headline that Mahindra shuts down plant for so many days but the fact is that having no production day just helps us to match our production capacity whenever our plant is running and helps to save cost.

V. S. Parthasarathy: Yes and this is also back to the earlier point Pawan made about discipline.

Moderator: Thank you. We have next question from the line of Sumeet Jain from Goldman Sachs. Please go ahead.

Pramod Kumar: Yes, good evening sir this is Pramod. I had a couple of questions on my side first one was on the tractor side. Once the cyclical slowdown has done what would be your annualized CAGR growth what you would expect for the industry because we have done 13% CAGR as an industry for almost last 11 years now and part of this MSP hike and rollouts on the rural side have started to normalize and the base has built up quite well so what would be your view of medium-term CAGR growth for the industry?

Pawan Goenka: I think tractor if you look CAGR in a five-year-cycle has remained about 7% or so for long time and in spite of this degrowth that we have seen in this year it is only correcting in some sense the very high growth that we have seen in the previous two years. So, if you include this year's degrowth and look at the last four years, that is total five year so though I have not done the calculation probably will come to 7% to 8% growth. So, I would still maintain the same number. I think in this conference call one of the earlier conference calls we had talked about when will we start seeing a degrowth on sort of a constant horizon or a medium-term horizon in the tractor industry and based on our calculation of situation of demand, we think that it will be 2023 when you will start seeing saturation of tractors and therefore a reduction in tractor demand so we are okay for another eight to nine years.

Pramod: And sir, for UV now that you will have a product in both the categories with these upcoming launches what would be your estimate for the industry growth because there has been some pull back on the growth off late for the industry. So what will be your annualized growth rate what you would expect for the industry?

Pawan Goenka: UVs have suffered compared to passenger cars this year because UVs have been predominantly diesel driven vehicles and with diesel prices sort of coming closer to petrol prices. The preference for UV that was probably based on diesel fuel has gone down and then it will shift towards petrol that is the reason why you have seen a larger degrowth of UVs. However, when you look at the new UV that are being launched now and in future they tend to be a smaller UVs they are very few there and there are very few very large UVs is being launched and they tend to have both petrol and diesel option. So, once petrol UVs has been predominantly become prevalent and available easily you would see a lot of the volume that went away because there were and petrol UVs will come back to UVs and hence our medium-term UVs will see a slightly higher growth percentage CAGR compare to passenger cars.

Pramod Kumar: Okay. And so finally on new launches there is a busy pipeline what you have there and naturally you will have higher marketing spend and as you had indicated earlier on the call that the profitability on a low price product can be dilutive in a way so how should one look at your segmental EBIT margins for the next couple of years so, would you expect the impact of all this rollout and stabilizing these launches will have an impact on your next two year margin numbers.

Pawan Goenka: You have to sit in our Board meeting to get answer to that question.

Pramod Kumar: No, in the past you indicated broadly.

Pawan Goenka: Those indications still remain but I obviously cannot talk about our expectation of EBITDA margin going into the future. In fact I had this question one of the physical meeting that I had with some of the analysts that what should the analyst want us to focus on, on margins or absolute profit and the answer that I got was that if you focus on ROC or return on net worth that is a better way. If you improve the net worth by increasing margin or increasing absolute number either way but that is what you want to see so, we are focusing on increasing return on net worth.

Pramod: Then in that case what would be your ROC target in the medium-term for the automotive business?

Pawan Goenka: No, I cannot answer that question.

Moderator: Thank you. We have next question from the line of KN Srinivas from PL India. Please go ahead.

KN Srinivas: Congratulations on a wonderful cost and inventory management in a difficult environment. My only question is, are we going to see much more pain over the next few quarters I am talking of the next two three quarters? Ramesh Iyer and his team from Mahindra Financial Services have portrayed a very gloomy picture, a very difficult environment in rural financing, Mahindra Financial Services is going to focus more on recoveries than even talking of growth. Given that kind of an environment why should both tractor and rural sales be flat? Why can't we see further pain for the next two three quarters? I am sorry maybe I am too short-termist but just to get a feel for the next few quarters.

Pawan Goenka: I do not think that I have said anything different then what Ramesh has said, the tone may have been different but the content is the same. What I have said is that, we will see a degrowth in this quarter of about 10%-11%-12% tractor sale and what I have said is that the first quarter of next quarter will be about flat and I think Ramesh said the same thing that it will be at least six months before we start seeing a growth in tractor industry. As far as availability of financing is concerned while the focus for the financing industry will be on recoveries, but there is no pressure right now on availability of financing for the tractors and therefore financing will not become a reason for degrowth in the tractor industry at least I do not think so. So therefore, the pain that we have talked about is very similar and if the monsoon is good and I have said very specifically that this time I think the growth in the tractor industry will depend on the monsoon. In the past we have said that it will depend on monsoon because of the need for getting higher farm income. If the monsoon is good, then I think we will start seeing growth from third quarter.

V. S. Parthasarathy: Okay, that was I think the last question but I have a comment to make on overall basis before we close. I was hoping that somebody would ask the question but they have not, so let me sum-up by saying that this quarter also saw that our investment is also bearing fruit. MES got merged with Tech Mahindra and the resultant stake that we got gave us a profit of 300 crores in the Q3 results based on 1st April, 2013 prices. We have a further upside, another 700 crores today if we were to value it today but that is a different topic. Similarly, this has been a big quarter in which the deal of the decade got consummated, Mahindra CIE became a reality when the 14 or 16 companies including four listed companies all merged together into a single entity so the current value of all the investments on Mahindra CIE, MES, and CIE Spain are about 3000 crores higher than the cost of carrying in our business so that is very sweet deal which got concluded in this quarter. So, amongst all these challenges these are positives as the results are in terms of our resilience and cost management. Thank you.

Pawan Goenka: Okay, thank you everyone. Thank you for those interesting questions.

Pawan Goenka: Thank you very much.

Moderator: Thank you, sir. Mr. Yogesh Aggarwal would you like to add your closing comments before we conclude?

Yogesh Aggarwal: No, thank you everyone. Thanks to the M&M management.

Moderator: Thank you very much, sir. Ladies and gentlemen on behalf of HSBC Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.