“Mahindra & Mahindra Limited Q1 FY18 Earnings Conference Call”

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Moderator: Good Day, ladies and gentlemen, and a very warm welcome to Mahindra & Mahindra Limited Q1 FY18 Earnings Conference Call hosted by BNP Paribas. 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. Kumar Rakesh from BNP Paribas. Thank you and over to you, sir.

Rakesh Kumar Thank you, Ali. Good Evening, everyone. On behalf of BNP Paribas, I welcome you all for 1Q FY18 Post Results Conference Call of Mahindra & Mahindra. I also take this opportunity to welcome the management team from M&M. We are joined today by Dr. Pawan Goenka -- Managing Director, M&M; Mr. V.S. Parthasarathy -- Group CFO and Group CIO, M&M; and other senior management personnel from M&M including IR Team.

I will now hand over the call to "Mr. Parthasarathy for his Opening Remarks." Partha, please go ahead.

V.S. **Parthasarathy:** Thank you and a very warm welcome to all the people on the call for the Q1 FY18 Earnings Call.

First, I shall share some updates on key economic indicators along with a financial snapshot for the Q1 both on a standalone and consolidated basis. After my comments, depending on where we are at that time, we will start the "Question and Answers." Dr. Goenka is still in the AGM. So as and when he joins, we will request for a break so that then he can give his comments and we will continue the "Question and Answer." This is a small deviation from what we do earlier. It is because that we do not want the M.D. to leave the AGM when it is still in progress. It is towards the end but it might take another 10-15 minutes.

Second thing is before I start about the quarter and about the economy, we are very happy to announce a couple of new initiatives aimed to improve investor convenience. First of all, we have launched our "First Integrated Report" today which provides our performance on both financial and non-financial parameter. If we can say, it is a report which is triple bottom line focus, people, planet and profit, but the Integrated Report actually breaks it into six portions and you will see the coverage and all the six portions whether it be manufacturing capital or natural capital or human, financial, intellectual and social and relationship capital.

So on all these parameters, you will see where M&M is and I would urge you to have a look at it, give us feedback. This is the first time that we have done this. It is a pioneering one, not legally required, not statutorily required, but we have taken the initiative and the team led by IR and sustainability have prodded to you over just two or three months amidst major changes whether in accounting in terms of IND AS or GST which was there. So that is one big initiative. The Board appreciated it a lot. I would like you to see it and give your feedback.

Second is, we also launched our "Second Annual Review" today in a digital form. This is an interactive website in which you can hear our senior leaders reviewing our performance and downloadable reports. It also has a way of interacting in the sense that you could choose the parameters you want to see and it will provide you details in that manner and that is where the interactiveness comes. The IR team will send you a mail to give details of how to access this website and so on. Again, my request to you is, please see and provide us feedback. Sometimes, the annual report runs as somebody said into thousands of pages. They said four thousand pages. It may be little long to read but a synopsis of this as provided by Mr. Anand Mahindra. Dr. Goenka and me are available for you to look at. Between these two reports, you will get a reasonable amount of insights into the company on both financial and non-financial parameters. So I will finish that portion and then come back to the main topic which is Q1 and how the economy looks around end of June or around July.

First of all, there are green shoots of global economy. Recovery is becoming healthier. The pace of growth is uneven. There is growth in US, UK and Japan in the first half of 2017 were slower while the euro area and China showed resilience and grew at a reasonable clip. Crude oil prices plunged to a 7-month low of 46/barrel in June and production increased in US, Libya and Nigeria. Currently, we again see the rate going back towards the 50/barrel. So it is in a range bound and not going high. CSO estimated GDP at 7.1 in fiscal 2017. IMF who pegs it as 7.2, IMF has called for accelerated economic reforms for India to achieve higher growth. I suppose GST is a big step in this direction by Government of India.

Monsoon is progressing fairly well. Cumulative rainfall is 5% above normal. Up to last week the status of 1%. Also, the distribution of the rainfall has been reasonably good so far. Retail inflation dipped to an all-time low; 1.5% in June on the back of sliding food prices which is well below the Central Bank's target of 4% and RBI has responded recently by reducing the rate by 25 bps. As I made a comment and it has come in some of the papers that it is now watch-and-wait…. watch how the 25 bps is being received and wait for it that to percolate down to retail level, and I am sure RBI and the others will look at the percolation of this rate downwards. GST implementation for your company has been very smooth and we overall see a positive impact on the economy in the medium-to-long-term and see the "One Nation, One Tax" paying dividend in terms of improvement in productivity and supply chain efficiency. However, in the short time, we may see some transition issue. I will talk about the impact on M&M in the quarterly results.

Manufacturing growth has continued to be sluggish and causes concern. With May'17 IIP growth at only 1.7%, which is the lowest in last 18-months. We hope that with demonetization behind us and GST-enabled economy will show some growth momentum in this area in the coming quarter.

Now, let me talk about "Financials for Q1 F18." I said that I will talk about the impact of GST. In the last quarter, due to ambiguity during transition phase, fresh buying was on hold, higher discounts and incentives were required to be given to enable retail during this time. But these were part of the normal financial as we say for the quarter ended June. However, tax amount of stock is currently provided for in the financials.

What we are trying to suggest is that there is dealer stock for which there may be some compensation we may have to give and there is some stock with us where we may lose some money because of the transition from the old rates to the new rates. This amount we have quantified at Rs.144 crores at PBT level and this is provided for in the results that you see. So there is a one-time impact of Rs.144 crores in the results in this quarter, that is PBT. At PAT level, the figure is Rs.94 crores. Now all financials that I will share with you is without taking this Rs.144 crores. So you will have to add that Rs.144 crores, but we have given in our results with GST and without GST in the press release to make that comparison possible. We however are hoping that some of these may be reversed in the coming quarters if the government hears the representation from SIAM and give some relief to the dealers or to M&M, in which case, the impact may be lower than the Rs.144 crores. But we have taken full and not carried forward any provision for future. This is the broad input.

So coming to the Results: Domestic Tractor volumes were higher by 13.2%, and Domestic Auto volumes were higher by1.2%. Both these figures are better than the industry growth of 8.5% and (-2%) respectively. Tractor exports were higher by 13.9%; however, Auto exports were lower by 56% mainly due to the challenging economic environment in the respective countries. Net revenue at Rs.11,238 crores was higher by 6.8% Versus Q1 F17, and this is highest ever revenue for M&M plus MVML in any quarter. EBITDA at Rs.1,598 crores is 6.7% higher than Q1 previous year and OPM at 14.2% was the same as compared to last year. So even in a challenging quarter with additional incentives, etc., whatever has to be given, in spite of that, the OPM on an overall basis was maintained. PBT before EI at Rs.1,298 crores is higher by 5.8% versus the previous year's figures.

There is one aspect which I want to take a little time to explain: Versus last year tax rate, current year taxes rates will be higher by 3.5% roughly and let me explain why. You realize that in the new tax proposals which was approved by government, investment incentive which was there, what was called as 32AC that benefit was at every investment you made in plant and machinery, you got 15% credit in the tax and that is not available from F18 onwards. This is an impact of roughly 1% on the taxable income.

The other one is in terms of R&D benefit. R&D expenditure we incurred gets 200% benefit till last year. This has been reduced to 150% from the F18 financials; this has a 2.5% impact on the taxable rate. So last year, what was taxable rate roughly around 29, the taxable rate is increased by 3.5% to 32.5% this year. This is broadly thing and all of you who are taking tax rates may want to look at this calculation and my team will be happy to kind of take you through the logic, detail, etc., because I feel that we have not communicated well with analysts on this matter and we would like to take lead role, and I would request Sriram to kind of engage with you so that any clarifications required, we can provide.

Considering this higher tax rate, at a PAT before EI, we are Rs.862 crores this year Vs Rs.870 crores last year, marginal decrease, but we can say about the same vicinity as last year. In Q1 F17, we had an exceptional item of Rs.91 crores because of Agri division transfer to 100% owned sub at that point of time. We do not have any EI this year. To that extent, you will see a difference in EI PAT.

Coming to Auto segment, I am happy that the volume being lower, but the revenue was higher by 1.7%. Domestic volumes as I said were higher by 1.2% and exports was lower, but overall revenue was Rs.6,600 crores higher by 1.7%. PBIT was higher by1.7% also at Rs.519 crores. So in spite of all the issues that we talk about and I made this point even in the full year that margins in Auto has been maintained and continue to be maintained. So at a PBIT level, our revenue growth and profit growth match.

In FES, our volumes are higher by 13.2% versus the industry growth of 8.5%. Revenue consequently was higher by 14.8% at Rs.4,369 crores versus previous year. Segment results at Rs.825 crores is higher by 9.2% versus previous year. This is the highest ever revenue and segment profit reported by FES in any quarter. So FES are now raising the bar and gaining new milestones and new heights. Financial Metrics: I continue to say that debt-equity remains at 0.15 and net is almost close to zero.

Coming to Consolidated Results: All our listed companies continue to be profitable and highlight in the quarter is Tech Mahindra, which sequentially showed 30% growth which is how Tech Mahindra is constituted. All other companies, MMFSL, MLDL and MHRL may profit, some of which comparable are higher than the previous year. You will see that in the segment results which we post out.

So now, I will stop here we will start with "Question and Answer" and as and when Pawan Goenka comes, I will request for a small short stop so that he can then make his statement.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Firstly, I wanted to check, you mentioned that there was some additional discounting done to clear off the stock ahead of GST. Any sense you can give your own thoughts on how much that additional discount may have been?

V.S. Parthasarathy: Good question, Kapil and thank you. One of our things was that we have estimated everything going forward, what is the debit that we do and that figure I have already told you and which is Rs.144 crores. Anyway, we gave some incentive and sometimes it is better to give a little stronger incentive on something so that it moves the stock out so that you do not want to give a higher compensation and transition. So it is not easy for us to curve it out. There are two impacts which happened in the quarter -- One impact is that some sales got postponed because customers were saying, "Okay, there is a bonanza in July when the new prices which we actually announced which will be lower." So the kind of may have waited and watched maybe the policy. The second is a little bit of additional discount that we gave. I would like to leave and say that, "Listen; therefore you give a small upside in headroom in the next quarter." But we have not been able to quantify it meaningfully to give any guidance on this front. So I just say, leave it to that, this seems to be conservative if at all margin going for.

Kapil Singh: Secondly, I wanted to check with GST we have reduced prices and there may be some slowdown as well initially at least on the economic front. So what is the interplay of that that you are seeing in both UVs as well as Tractor segment demand?

V.S. Parthasarathy: So let me answer this question in two fold and Nikhil and Rajeev help me -- First is it is important to understand what the impact of the price changes. So let us say, Tractors first. In Tractors, by and large, prices did not change. A given state may have seen a little bit of benefit or a little bit of it, but by and large, the prices have been flat across. So it is now a national price. So if there was a high state, there may be a marginal benefit, but hardly anything. So for all practical purpose, you can say Tractor price is exactly same. So there is no change from a customer point of view. So what has been an embedded tax plus sales tax has now become GST broadly. So no benefit, no hit to the customer. Coming to Auto, except for one product which I will deal separately, by and large, there have been some benefits which have been given in terms of price changes in the market. So all that price has been changed and it has been favourable as far as customer is concerned. So there is a price drop and this price drops have ranged from X to Y. So that is the second part. The third part is there is one product which is basically Intelli hybrid in Scorpio where the rates went up significantly. We have taken a marginal price increase, not covering the whole of the change but a small price increase to kind of do, and therefore to that extent, there may be impact in the market. On Spare Parts Auto is by and large been similar. Tractors, there has been some impact of price increase we had to take because in some cases the GST is 28% and there may be 10% price impact on that. So given that, I would say from a demand point of view if anything or from a pricing point of view, it would have been a little better from the customer, and therefore it should positively impact and not negatively. So that is my broad answer to your question. In terms of specific price changes which has happened, it is in public domain, but we will be happy to clarify what kind of range is price changed.

So now that this question is over. I want to pause. Dr. Goenka has joined us. So like I told you when he joins, we will stop and then have his remarks and then carry on with the question-and-answer. Pawan, just for your info, I made my statement, one question was that and that is all.

Dr. Pawan Goenka: My apologies for being late. We had an unusually long AGM today with 34 shareholders spending each for five minutes, so you can imagine. So therefore I am late. I was tempted to leave in the middle but I do not think that would have been nice. So I thought you will all understand that. Excuse me for that.

So Parthasarathy has covered sort of I believe macroeconomic situation and how we have done in financial performance. I just want to give you a very quick overview of the performance of the company and then after that get into Q&A.

Basically, the quarter that went by has been a very eventful quarter starting with the BS-III ban bombshell that we had and ending with GST transition. There will be lot of questions, I already heard one and we will answer any question that you may have.

For us the highlight for the quarter has been a market share in Tractors where we had the highest ever market share of 45.8% outperforming industry by almost 5 or 6 percentage points in terms of volume growth and this was in back of new product launches that we have had in the last couple of years. We think that the Tractor industry will grow at a pace which we have been talking about in the past which is 10%-12% perhaps with a bias on the higher side.

On the Passenger Vehicles side, the growth has been small for the industry, only about 4.4%. Commercial Vehicles side, split between the Small Commercial Vehicles which has grown very well and Heavy Commercial Vehicles which have degrown very heavily and that is primarily because of the pre-buying that it happened pre-31st March. For Mahindra, both Small Commercial Vehicles and Heavy Commercial Vehicles have been very good performance in the quarter. We have the highest ever first quarter market share in a small commercial vehicle of 52% almost that means 52% of volume for vehicles up to 3.5 tons, and in the heavy commercial vehicle, we have grown a market share from 3.6% to 4.8%. It is still very small, but significantly better performance than the industry in terms of our volume growth, and we think we will continue with that growth in the forthcoming quarters.

On the UV side, we did lose market share but Scorpio and Bolero continue to do very well for us, and the TUV and KUV are on recovery path. In the month of July, we are at 21% growth in UVs. So hopefully, we are seeing a turnaround happening on UVs also.

On the Export side, the Tractor Export went up by 14%, significantly higher than industry growth export which was I think about 3% or 4%. On Auto side, we had significant drop in export almost half of last year first quarter, and this is primarily because of our major export markets which are neighboring countries, Sri Lanka and Nepal, have had significant volume downturn because of various reasons, some because of liquidity crisis and some because of our regulation changes in terms of import duty and vehicle regulation. We do expect recovery on export in the second half.

Inventory: I think we ended the quarter very well, partly thanks to GST because we were focusing on minimizing a dealer stock so that we do not have transition losses. If I look at Tractor, the dealer inventory was similar to last year, company inventory has higher, but that is only because we were holding stock in the company and not sending it to dealership. On the Auto side, we had about the lowest dealer stock ever by lower…five years lower than last year and company stock also was four days lower than last year first quarter. Material cost went up about 1%-2% in a quarter. The selling price increased for auto was roughly passing on the material cost increase. For Tractor, we have not taken any price increase in this quarter. So that pretty much gives an overview of our performance. On SYMC and Electric, I am not covering it, but if there are questions on SYMC and Electric, we will get into that.

V.S. Parthasarathy: Thank you, Pawan and now we can go back to our question-and-answer.

Moderator: We take the next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Sir, can you give us a sense on what has been actual price decrease on Scorpio, Bolero basically on the UV portfolio post-GST?

Dr. Pawan Goenka: Scorpio, I think Parthasarathy has covered that in detail, but this Scorpio actually had a small price increase because Scorpio is hybrid primarily, and as you know that in hybrid, there is a significant increase in GST compared to excise plus VAT that we had earlier. So we have taken a small price increase, nowhere near the change in the taxation. On everything else, there is a price reduction ranging from roughly 2% to 7%, I think in some of the commercial vehicles, it may be 0% or 1% also, but majority of the vehicles will fall between 2% and 7%, we have published a full table which is available and basically we have simply calculated the change in excise. You have to keep in mind that it is very difficult to draw a one-to-one comparison because in the previous regime, with VAT rates being different in different states varying from 12.5%, VAT highest 14.5%, we have tried to keep almost very close to "One Nation, One Price" post GST and therefore the states that had 12.5% VAT might even see a small price increase in one or two instances and the state had 14.5% VAT would see a larger price reduction.

Hitesh Goel: My second question is if I look at the consolidated auto EBIT and started from standalone EBIT, M&M and MVML basically, mostly that is sanguine, we are seeing an EBIT loss in SsangYong Motors. So can you just give us a sense on the SsangYong performance on this quarter?

V.S. Parthasarathy: Because you have assumed it is SsangYong I will kind of first explain. Last year SsangYong from a consolidation point of view was about Rs.(-30) crores in rupees term and that remains the same. So SsangYong for my consolidation purpose year-on-year is same, is not changed. But your question more was that why is year-on-year I am seeing a larger dip in the auto segment as opposed to auto. First are you had to say that the figures I said which is 1.7% growth in M&M plus MVML was pre-GST. But when you do consolidation, you take the Rs.144 crores proportionate impact of auto into that figure. But there are two things that Mahindra Reva, we are in that investment phase and there that loss maybe a little higher and there are some other new initiatives which also is a higher loss and those are the two reasons why SsangYong is by and large okay in terms of performance.

Hitesh Goel: Can you give us the breakup in Automotive and Tractors how this Rs.144 crores is split?

V.S. Parthasarathy: You can anyway find out but the key thing is Rs.80-odd crores in FES and about Rs.60 crores in AS.

Dr. Pawan Goenka: Maybe a little bit more granular about it so that helps you understand. In Tractors, we have a straight loss of 7-8% on every tractor that was in stock because whatever we added embedded exercise, we are not getting that benefit. On auto, the loss varied from zero to as much as 6%. This was the cess that we were paying earlier which was between zero and 4% and in some cases CST that we were paying which was 2%. That is the reason you see a lower transition loss in auto compared to tractor because in tractor we are losing on every tractor, in auto that is not. I should also say that tomorrow there is a GST council meeting and we are still hoping that this matter is not over and maybe it will come for consideration.

Moderator: Thank you. The next question is from the line of Raghunandhan from Emkay Global. Please go ahead.

Raghunandhan: My first question was on the GST impact on Tractor segment in terms of working capital, in terms of the taxes on components, do you expect the GST council to revise it to 18% and also the way the sale of tractors have been? I understand that the purchases done by the customer first and then the registration happens at a later date which poses some issues under the GST regime. So your comments on that would be helpful?

V.S. Parthasarathy: I will start off and then Pawan can supplement to this. First and foremost is that you said what the rate if anything is. I told you that the Tractors by and large the pricing has remained same because from a tax point of view, embedded plus local taxes or VAT is equal to the new 12% that we have put. So prices of tractors remain by and large same. So from a tractor demand perspective, the prices should not change the nature of the game. What more impact is the current thing in terms of prices of crops, MSP, and monsoon and so on. So that are the bigger impacts of it, the price is not. In case of spare parts, I did tell you that the price has gone up today to 28% in terms of GST on some components and therefore 10% increase may happen on some spare parts prices. We are concerned about it and this is one of the representations which Pawan was talking about maybe considered favourably in the coming weeks in GST and if that happens, we should be able to consider. But overall on the demand, I do not see too much of this having an impact because Tractor prices have not changed.

Dr. Pawan Goenka: I do not know whether we have captured your question correctly. Has this answered your question or…?

Raghunandhan: Yes sir. Basically, I was talking about the inverted duty structure where on the raw materials we are paying 28% and on the finished products we are paying 12%. So how would that work in terms of claiming a refund of working capital…do you see higher working capital getting involved and what would be the time for refund of those taxes?

Dr. Pawan Goenka: Let me make two points; one is that the revenue secretary has said in one of the interactions that we had with him three GST implementations that they will try and work on a process so that the refund happens in a reasonable timeframe and it does not stretch for months. We hope that will happen. That is important. But I should also say that Mahindra has peculiar advantage in this case because we have in most of the states where we make tractors, we also make automotive products. Since there GST norms are, everything is pooled at the state level. Therefore, in most of the states we will not have an unclaimed credit or credit that we have to wait for. It is only one or two places where the credit available on automotive will not be sufficient to offset the inverted duty impact on tractors.

V.S. Parthasarathy: If that is the question, there is also a corollary; he was also talking about inventory. So the inventory cost does it go up?

Dr. Pawan Goenka: Right now we are still doing those calculations on a per tractor basis there could be a small increase in the holding cost because we pay GST as it leaves the state and GST is 12% as opposed to having paid 8% of excise duty earlier in the earlier regime. So that extent of 3% or 4% will go up. But at the same time, in the current regime we wait for refund from the state on the VAT refund that we wait for which sometimes take years to come back. That will become zero in the GST regime. So net-net, I do not think we will have any negative impact on working capital at least for the OEMs.

Raghunandhan: Any price increases in the first quarter in the Auto segment…can you quantify that?

Dr. Pawan Goenka: In the Auto segment, we have taken 1.1% price increase in the first quarter.

Moderator: Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: My questions are basically on the consolidated basis. Could you give us an idea about how businesses like Two-Wheelers because the losses still remain quite high in this quarter also, what is the outlook on that and in SsangYong also, how is the company doing because there are media reports that SsangYong has gone into losses?

Dr. Pawan Goenka: Let me explain both. On the Two-Wheelers, as you know that in last October, we had sort of changed our strategy where we had slowed down the 110 CC commuter bike and a scooter business and have talked about this new company that we have set up called CLPL which will be making BSA Bikes and Jawa Bikes. So the restructuring of the current business is going as per the plan. We have a demerger that is planned of the Mahindra Two-Wheeler into Mahindra & Mahindra, we are in the final stages of that process being completed and before the end of this quarter we expect that process to be over of demerger of MTWL into Mahindra & Mahindra. The losses that we are incurring on that business are coming down to a quite low level this financial year; we expect the losses to be less than Rs.100 crores in the Two-Wheeler business. As far as SsangYong is concerned, SsangYong you have to look at the financial result a little bit differently because last year there was a one-time item of licensing fee, that was given by Mahindra to SsangYong for the Tivoli platform that Mahindra has licensed from SsangYong. This year there is no one-time element. So if you leave that out, the financial result is slightly better in first half of this year than it was in the last year first half. As far as volume is concerned, SsangYong is doing extremely well in domestic market, in fact, we today have the highest ever market share in the last 12-13-years, highest ever volume in the last 13-years, highest ever SUV market share in the last 13-years. So our domestic market is growing very well. On the exports side, there is a degrowth and that has happened because of many other markets that SsangYong represent in are markets that are slowing down. The big news or good news for SsangYong is the launch of G4 Rexton, this was the product that they started selling in the month of May and is still in the ramp-up phase, we have just introduced the 7-seater person just this week in Korea and in the month of September, at Frankfurt Motor Show launching for Europe the G4 Rexton. So G4 Rexton is going to drive the growth for Rexton just like Tivoli did two years ago, G4 Rexton will do it this year. Other than exports slowing down in many markets, everything else is on track.

V.S. Parthasarathy: So let me just add some comments to Pawan's more from the other sectors. Just to give figures to what Pawan said on Two-Wheelers, last year Q1 we had a loss in results of Rs.165 crores, this year it is Rs.70 crores. So you are going to have a swing of about Rs.90 crores year-on-year and this is about 60% better or whatever, how do you do better is a calculation, methodology maybe okay but the difference is it is a positive swing of Rs.90 crores. Coming to Financial Services, this is done on the basis of IND AS as opposed to what you see Financial sector results, you can see there also, this year the Q1 profit is Rs.341 crores as opposed to the previous year of Rs.264 crores. Real Estate and Hospitality both show results; Real Estate Rs.21 crores versus Rs.18 crores last year, but Hospitality is a much bigger swing; Rs.39 crores versus last year's Rs.11 crores. So all the other business and there is some one category called 'Others' which is all the things which are not fitting here, there in fact we have gone from (-5) to Rs.(+77) crores and overall at a segment level this year the profits are Rs.1459 crores opposed to Rs.1346 crores which is a growth of 8.5%.

Binay Singh: The EBIT has grown up but the net income is almost the same which is where like if you look at financial year…?

V.S. Parthasarathy: Two things I told actually which is what I requested earlier – First is when you look at the consolidated, the share of NCI as it called Non-Controlling Interest, so people who are in profitable companies take a share of the profits, but some of the investment-based company we may be holding a higher share or maybe holding all the share. So that creates one impact. Hopefully once all of these are settled, this should not show as QoQ difference orYoY difference on the quarter. The second and the bigger reason is the same tax issue that I told you in M&M plus MVML which is an increase of 3.5%, applies to even the Group. So till this one-time correction does not happen or the headline tax does not come down, you will see that PBT level will make profit and growth but tax and NCI level on a consolidated we see something going away. It is not performance; it is the tax rates have gone up.

Binay Singh: Have the inventory normalized because July most of have been inventor addition?

Dr. Pawan Goenka: I think at the end of July, we are roughly where we want to be in term of inventory, at the end of June we were lower.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Pawan, my first question pertains to the Tractor business. The growth for the industry has been lower than last year.. But I just want to understand how's the regional breakdown of the growth is or are there some states which are still not participating in the growth? Also related to that what is your outlook on the rural demand going into the first few seasons? The second pertains to the launch pipeline, Pawan, as in if you can just make us understand the launches primarily the new MPV, the KUV facelift , TUV 300, the Compact SUV from next year, are they on schedule? Also, any plans of bringing in G4 Rexton into India?

Dr. Pawan Goenka: First of all, last year we had a growth after two years of degrowth. So there was lot of pent-up demand and that is the reason I think the number was 20% growth last year which was very high and we had said going into this year that even though we will have good year, because of good monsoon and other positive things, do not expect another 20% growth here and we had 10-12% growth is what we expect for the industry for this year and that is where we are today, we expect to see kind of 10-12% growth for the industry this year. In Tractors, the growth is always very different from state-to-state. This year if I look at the number, there is the lowest growth which is a degrowth of 50% in the State of Andhra Pradesh and highest growth state is among the major markets i.e Telangana right next door with a growth of 31%. So it depends on lots of different factors and very difficult for us to pin point -- depends on rain, depends on local economic conditions and in fact if you go break down from the state the growth will be very different at district level also. So in Tractors, we also need to do micro marketing at a district level because every district behaves differently. Now, coming to rural growth, I think all the macro signs are positive. You know that better than I do that whether you look at monsoon that has happened, whether you look at reservoir level, whether you look at being reasonable, the MSP that has been announced for some of the crops, everything is pointing in the direction of us in a good year in terms of rural economy. We are counting on higher output and higher revenue for the farmers and therefore not only having a good kharif season but also going into a good rabi season, there is a little bit of last few days some disparity in rain that has set in, but I think it is going to balance out, sometimes too much is made of weekly rain forecast and I do not think the farmers today depend every week on rains, they have reasonable good practices. So I would not worry at all about the last one week of some areas not getting rain. Auto launch, we have already announced in the last quarter and nothing new there to announce. Just to recap, we have a major launch this financial year of the U321 product which is a MPV, that product has been developed entirely at our Detroit technical center and right now we are in the phase of manufacturing set up and try outs. The next big launch is the S201 which is the Tivoli-based platform that we are developing here with the help of SsangYong. That launch will be in the next financial year and in between we have several minor and major refreshes when we never talk about refreshes in terms of which products we will be refreshing and what the timelines are.

Pramod Kumar: G4 Rexton, Pawan, is it coming to India?

Dr. Pawan Goenka: We are still looking at whether it is affordable for India because it is a very expensive product and if the price is not at a level where there is some kind of volume of getting 300-400 a month, it does not make economic sense to bring it here. So while there are a few people who are waiting for the product but we need to have more than a few people wanting to buy it and that work is going on. I think within the next two months, it should reach a conclusion on whether it makes economic sense to do the product in India or not.

Pramod Kumar: Your thoughts on Jeep Compass and what it could do to the segment because it is like right in middle of some of the more popular models in the market and probably has overlap with XUV 500 as well?

Dr. Pawan Goenka: Obviously, I do not want to compare of a product or a pricing to competitor offering. There is always a new emerging product that comes in the market, there is always something that existing products have to do to sort of blunt the effect of new product. We are working on things and we hope that we would have enough sorts of actions in our side that we will not be adversely affected. Just for your understanding, the price difference between XUV and Compass, if I was to look at the XUV price, XUV is from 12.2 minimum to 17.1 maximum and Compass is 15.4 minimum to 20.6 maximum. So there is a 3 lakh price difference minimum to minimum, maximum to maximum.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: A couple of questions from my side; first is just a clarification; this Rs.144 crore is just compensation to dealers for input tax credit straight and not higher incentives?

Dr. Pawan Goenka: Not higher incentives. As Parthasarathy said earlier that the incentives is very difficult to separate that out as incentive because of GST or would have happened otherwise. Therefore, we are treating that as part of doing business and not putting the blame on GST for that, and not including that in the GST impact. The GST impact basically is all the compensation that we are giving to the dealer for the transition loss they will have on the stock they already have in their showrooms.

Jinesh Gandhi: Secondly, on FES business side, the PBIT margin after adjusting for GST related compensation, margins are down about 100 basis points YoY. Anything specific there?

Dr. Pawan Goenka: Basically it comes down to the decision that we make on price increases and what kind of volume, market share, price, and profitability, all of these are decisions. In this case, we have not taken a price increase in Tractors in this quarter and there is a commodity price increase and therefore that has directly had an impact on the margin and we thought that it is better to give up 1% point of margin about 80 basis points of margin and gain significant in terms of market share and 45.8% market share is a very good market share. That is a trade-off that we have done.

V.S. Parthasarathy: One more thing I wanted to add, Pawan. Price is one reason, the other reason is also that this quarter the reduced stocks and that impacts the P&L adversely, so L&O is called Labour and Overheads Loading is also about we could say about half and half is what…

Dr. Pawan Goenka: As compared to beginning of the quarter to end of the quarter, I think it is 5,000.

V.S. Parthasarathy: We are comparing year-on-year. So we have to compare about 4,000 tractors.

Jinesh Gandhi: Can you indicate what kind of volumes would Hybrid Scorpio be doing?

Dr. Pawan Goenka: Roughly 75% of Scorpio volume is Hybrid Scorpio, so out of 4,000 roughly 3,000 will be Hybrid Scorpio.

Jinesh Gandhi: So there we are willing to take a hit on the margins?

Dr. Pawan Goenka: Yes, we are but we will soon be launching a non-Hybrid Scorpio also.

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

Sonal Gupta: This is Sonal Gupta here. We are seeing second year of good monsoon and rural buoyancy and we are seeing improvement in tractor demand clearly last year as well as this year we are looking at bullishly. But what sort of improvement do you see on the UV s ide with the rural demand sort of improving?

Dr. Pawan Goenka: On the UV side, the volume growth for the industry has been excellent for the last three years. Rural or no rural, UV seems to be the fancy of the customer these days and even last month in spite of 21% growth in our volume we had a slight loss in market share because the UV industry grew by some 50% or 40%, a huge number like that. That is primarily because all the people who were earlier launching Hatchback and Sedan are now focusing on launching UVs and therefore you would see more and more UV launches than any other segments in the market and therefore the UV growth is much higher. So UV is not really depending so much right now, it is no more that UV is more of rural play than urban play because most of the UVs that we are classifying as UVs now are really cross-over and many of them are very close to being a passenger car. As far as Mahindra is concerned, as we have discussed several times, that we have lost the market share primarily because of the universe of UV that is expanding very rapidly and also because there are many-many more competitors than there were three-four years ago in the UV segment. We are clearly working on getting some of the market share back. We have said it very clearly that to get to that old kind of market share is out of question and if we can get to low-30s consistently that will be a good market share to target and we are working on that through new launches that we have planned and I just talk about and also are doing certain changes that are in our current products in terms of product as well as positioning auto products.

Sonal Gupta: Why I was asking this question was because I think almost like 50% of your UV sales would be coming from the rural side, right. So while for the industry the new launches it has been growing, do we see some revival for likes of Bolero and Scorpio with this rural demand picking up?

Dr. Pawan Goenka: I think Bolero and Scorpio are two products that do not need revival, these two products are doing very well, in fact, 4,300 Scorpio we sold last month which is amongst one of the higher volumes and Bolero had slowed down last year but after we launched the Bolero Power+, Bolero is coming back very rapidly and we are roughly at about sort of 6,000 average of Bolero, Bolero Power+, we are doing in fact more than 6,000, or 6,500 average. If I look at TUV 300, slowly growing and last quarter we did 2,200 thereabouts per month average. So these three products together are giving us about 14,000 to 15,000 volume which is the strong part of our portfolio where we need to get more volume, are in the crossover segments, these are all the chassis segments – Bolero, Scorpio, TUV, we have no concern, we are doing very well, rural or urban, it is in the crossover segment where we need to get a little bit more volume and that is what we are going to do right now. Our rural and urban divide is roughly 50:50. So any sort of view that Mahindra is primarily dependent on rural is not right, today we sell 50% of vehicles in urban, what we define urban and 50% is of rural.

Sonal Gupta: I wanted to clarify again on the tax rate hit. You said 250 basis points because of the R&D benefit coming down from 200% to 150%. That seems like a very high number because let us assume like if you have 5% R&D spending and you got 200% credit, so you used to get like in additional of 5% on that 30%, so about 150-175 basis points versus that you are saying that it is coming down by 50%. So 250% looks like a very big number for that.

V.S. Parthasarathy: This is the calculation that we could do. But just to give a perspective, the R&D expense is what they determine and the impact and we are seeing an impact on the R&D, 100% anyway we get, right, so it is the balance 100, now it becomes 50, that means it has halved in terms of benefit. So let us say my taxable income was going down by 5% from 34 by 5% because of R&D, because it is half, I am only getting 2.5% this year and we can kind of do that mathematics with you offline. That is what I offered upfront that we will have Sriram reach out to you. So that is the calculation and that impact is about 2.5%. I do not want to go into how much we spend on R&D and that is the harder one. But that impact is about 2.3% to 2.5% which is what I said, it is about 2.5%.

Sonal Gupta: I think we have reclassified since Q4 some businesses into others from FES. So could you just clarify what all has gone into others?

V.S. Parthasarathy: First and foremost, what is now in others I will tell you; The Powerol business, the Construction Equipment business are the things which have gone to others from what earlier where it was classified was Farm Equipment sector. So that is what has come newly into. What was and continues to be are our spares sales to outside M&M Group, any spares, we call it SBU, any sales of non-M&M in fact is what goes into that area. So these are the three things which are there in the market broadly and then operating which is not forming part of it. But this is probably 98% of the top line and bottom line.

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

Amyn Pirani: Just one outlook from you. While GST is generally positive for most segments, and the two areas it is definitely a negative at least as of now, one is the Used Car or the Organized Used Car business because of the GST that has been imposed on that business and one is the Hybrid. Both these businesses are something that you have been focusing on, investing on and the Used Car business is also a very important driver of upgrade demand. So do you think there could be any impact on upgrade demand as a whole and Used Car business say in the medium term because of this?

Dr. Pawan Goenka: Hybrid is a very clear direction that has been given by the Government of India or by GST Council that the focus is on electric vehicles and not on hybrid. That decision is going to slow down launches and demand for hybrid in India. If we have to pass on the full cost of hybrid in terms of pricing, we will not sell any hybrids at all. So therefore, hybrid will definitely slow down unless there is a rethink on that and right now it is very unlikely there will be a rethink on hybrid though industry I must say is still representing to the Government of India to at least do something in between and not go from one to zero but do something in between so that hybrid do sustain and we do believe that in the longer run we have to have both hybrid and electric vehicle in our portfolios in India and therefore something should be done on hybrid. But right now, unless something is done, hybrid will definitely see a slowdown in India. As far as used car is concerned, that is a very big concern. Hybrid concern is limited to one or two models but used car as you have pointed out is a big concern, because effectively what has been done and I would not repeat what has been done, I presume all of you are well aware of it, effectively what has been done makes organized trade of used car unattractive. So it hurts in two ways – one is our belief is that the trade will become more and more unorganized where the GST earning is zero because there is no GST on peer-to-peer selling of used cars. So it may in fact lead to a revenue loss for the government. Second is that trading of used car is a very big enabler of selling new cars. Therefore it becomes very imperative that the organized trade does not become unattractive for used car. So my belief is that we will be able to convince the GST Council that this is something that should be fought and not good either for the tax collection or for moving more and more towards organized industry which is what the objective should be and India the used car industry is heavily unorganized and far-far away from other developed markets and we would really need to see the industry becomes more organized. My summary is that used car I am hoping that there will be a rethink and it will come back to roughly where it used to be in the pre-GST regime.

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

Chirag Shah: Just on the commodity side, what is the kind of pressure that you are witnessing or most of the pressure is there because we are reading that steelmakers again are looking to raise prices by Rs.1000 to 1500/ton?

Dr. Pawan Goenka: On the commodity price, there is nothing that is a major concern for us, if you look at over the last three-four-five years, there have always been like a swing in commodity price that is happening and we are reasonably well prepared for it in a given year, the price will go up 3%, 4% in a good year, 2% in a bad year. We are able to sort of neutralize some of that by other cost reduction and pass on the rest of it. As you would have seen from our P&L for the last three-four years, that commodity prices do not have an adverse impact on our profitability. So if a volumes keep growing, then we would be able to take care of commodity prices.

Chirag Shah: Sir, just a small follow-up on this used car business, we have Mahindra Choice, a very brilliant business that we are doing, are you seeing any impact in the initial phase because of this GST or it is too early days over there because …?

Dr. Pawan Goenka: Too early. Obviously, like I said just now that what has been done in the GST rate is not very conducive for organized sector in used car and the industry will find ways and means to work with it I am sure. But right now it is too early for us to say whether there is a reduction or a significant impact that these companies which are primarily dealing in used car. Just want to point out that for Mahindra Choice, we use used car and choose one of many business verticals that they have and I think used cars within 35-40% of their total business volume, 60% volume comes from other things.

V.S. Parthasarathy: One comment overall -- Just do look at the two things that I said – “Integrated Digital Report” and our “Annual Report” -- in digital form and the interactive form and give us feedback. Thank you.

Moderator: Thank you. I now hand the conference over to Mr. Kumar Rakesh for his closing comments.

Kumar Rakesh: On behalf of BNP Paribas, I would like to thank the management team for taking their time out to answer all the questions in detail. We just had the AGM as well and it must have been a long day. Thank you all for your participation.

Moderator: Thank you. Ladies and gentlemen, on behalf of BNP Paribas, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.