



“Mahindra & Mahindra Limited
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ANALYST: MR. JAY KALE - ELARA SECURITIES

MANAGEMENT: DR. PAWAN GOENKA - MANAGING DIRECTOR - MAHINDRA & MAHINDRA LIMITED
MR. V S PARTHASARATHY – GROUP CHIEF FINANCIAL OFFICER AND CHIEF INFORMATION OFFICER - MAHINDRA & MAHINDRA LIMITED

Moderator: Good day ladies and gentlemen and welcome to the M&M Q2 FY2019 Results Conference Call hosted by Elara Securities. As a reminder, all participant lines will be in listen-only mode and 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 “*” and then “0” on your touchtone phone. Please also note that this call is being recorded. I would now hand the conference to Mr. Jay Kale of Elara Securities. Please go ahead Sir!

Jay Kale: Thanks Chris. Good evening everyone. On behalf of Elara Securities, we welcome you to the Q2 FY2019 earnings call for Mahindra & Mahindra. From the management side, today we have with us Dr. Pawan Goenka, Managing Director, Mr. V S Parthasarathy, Group Chief Financial Officer And Group Chief Information Officer and other senior management personnel including the IR team. I would now hand over the floor to Parthasarathy Sir for opening remarks followed by Q&A. Thank you and over to you Sir!.

V S Parthasarathy: Thank you. On behalf of M&M I extend a very warm welcome to everyone on this call. I will share some key economic development along with financials for Q2. After my comment Dr. Goenka will share overall performance and insights in detail. Let me first briefly talk about some of the macroeconomic updates. Globally there has been a marginal cut in the global growth forecast. IMF has now revised it to 3.7% in 2018 and 2019. US is expected to grow at 2.9% in 2018 and 2.5% in 2019. China’s economy is slowing down; it grew by 6.5% in Q3 calendar year and IMF has revised its growth forecast in 2019 to 6.2%.

US Fed increased rates by 25 basis points, but there is more rate hikes expected in 2018 one more and further three more in 2019. Trade disruptions continue and there is increasing uncertainty in global trade. In this global scenario, India’s performance has been mixed, but relatively better. Real GDP growth continued the upward trend and reached the nine quarter high of 8.2% in Q1 FY2019. RBI has retained the FY2019 growth forecast at 7.4% while the IMF estimate is 7.3%. IIP has seen a steady growth in April to August at 5.2% and grew by 4.5% in September 2018. Manufacturing PMI expanded to 52.2 in September 2018 versus 51.7 in August 2018. While cumulative rainfall at the end of the monsoon season was 91% of the LPA, but if you exclude east and north eastern states, the average rainfall has been 96% of the LPA, which covers about 88% of the tractor industry. Consumer inflation eased to a one year low with CPI falling to 3.31% in October versus 3.77% in September 2018. Due to the higher crude and currency effect, current account deficit widened in Q2 FY2019, which might lead to fiscal pressures, especially in election year.

On the back of this let me share financial results for Q2 FY2019. As we look at the quarter financials, there are three aspects for us to take cognizant of. First is the commodity price increase. There has been a steep increase in commodity prices and we were able to take price increases to partially offset the same. Now the commodity increase has seemed to be moderating and over a period of time cost impact

can be passed on, but this quarter and next quarter may see impact of commodity cost in the financial, which will hopefully be offset in over a period of time.

The second aspect is introduction of new products. While introducing new products, there is an introductory, attractive pricing. On the other hand cost mature only with volumes and value engineering over a period of time. So margins are lower at the launch time, but overall IRR is good hence you will see impact of new product launches in this quarter, which will moderate over the period and become attractive.

Thirdly there are launch costs associated with introduction of new products. Launch costs are by way of advertisement to spread the word including through digital. Also there is amortization cost, which kicks in during launch of new products. You will see the impact of all these three factors in the financial results of the quarter.

I am happy to share that Q2 FY2019, we have achieved the highest ever PBIT, PBT and PAT at M&M plus MVML levels. Also it is our highest Q2 revenue for the company our M&M plus MVML put together.

The financial are driven by a growth of 9.4% in the automotive sector, tractor has de-grown 4.7% due to shift in season. Overall net revenue is at 12,790 Crores growth by 6.4%, EBITDA at 1849 Crores is 3.9% lower than previous year. OPM margin is 14.5%, 150 basis points lower versus previous year; however, as explained earlier this is largely due to commodity cost increase and new product launch impact. PBIT at 2199 Crores is higher by 5.7% versus previous year. PBT at 2161 Crores is higher by 6.2%. PBT after EI grew by 13% at 2298 Crores. Tax rate has come down and PAT before EI is 1642 Crores, which is a 16.4% growth versus previous year and PAT after EI is 1779 Crores, which up by 26% versus previous year, so very quickly let me give couple of insights. One deferred tax asset creation this quarter has helped the track being better by 121 Crores and exceptional income of 136 Crores has benefited the financials, so these are two things you need to keep in mind. The deferred tax asset is at the PAT level because it is only the tax impact that we are taking and exceptional income is at the PBIT or PBT level 136 Crores, but tax is only 1 Crore, so PAT also similar kind of figure, but good to clarify both these aspects as Dr. Goenka pointed out.

Auto sector revenue at 8446 Crores is higher by 8.5% versus Q2 last year and segment result has 664 Crores is a drop of 19.5% versus last year because of the already mentioned factors. FES at 4000 Crores is higher by 1.8% in revenue and at 813 Crores profit is the PBIT margin of 20.6%, 3.4% lower than last year. Financial metric debt equity ratio continues to be very low at 0.1% and net level is negative.

Let me move to consolidated financial. At a consolidated financial our net revenue is 26,000 Crores in this quarter growth of 15%, there are a few one off items in the results of both Q2 FY2019 and Q2 FY2018 excluding these items PAT and after NCI grew by 8.8%. A few highlights for our key sectors

as below. Financial sector doubled the PAT at 381 Crores from previous year, Tech Mahindra continued its digital journey and posted its 1064 Crores profit at 27% Y-o-Y growth, profit of Mahindra Lifespaces has tripled at 41 Crores and Mahindra logistics at 19 Crores showed a growth of 36% over previous years. I will talk about one-off items, but let me just stop here. I request Dr. Goenka for his comments and insights and in Q&A when you ask the question I will explain the one-off item.

Pawan Goenka:

Thank you Partha. Good evening everyone. I do not want to get too much into numbers. I will try and give you a more qualitative feel on how the quarter has gone. I will start off with the five indicators that I had said at the beginning of the year that we need to look out for oil prices, commodity prices, monsoon, interest rate and exchange rate and as you all know very well that all these five have probably gone adverse to what we thought it would be taken of the year. Oil prices now are back to a comfort level. The monsoon 91% looks low, but actually it is not so bad because the Kharif sowing was good, Kharif output is expected to be slightly better than last year.

The interest rate though increased at 50 basis points has not impacted the retail financing, rate has more or less remained like what it has been at the beginning of the year. Commodity prices really has been significantly higher, but again the consumers have not faced the full brunt of it because most companies have absorbed at least partially the increase in market rate, so overall this five indicators, which I said will impact our industry growth both auto and tractor have not been as favourable as we thought at the beginning of the year. The first quarter actually was very good and most of the change in direction of these has happened in second quarter and therefore you can clearly see that in Q2 almost all segments of the industry have done worse than Q1; that does not mean they have done bad, comparing Q1 to Q2 and we have done worse than Q1. Part of it is also because of the shift of festive season, which affects tractors in a big way and affects passenger vehicles and the small commercial vehicles also in a very significant manner. So if I have to look at tractor industry I am comparing now Q1 to Q2 just to show what kind of change has happened in one quarter. Tractor industry growth has gone from 24% to minus 2.6%, passenger vehicles have gone from 20% to minus 3.6%, LCVs have gone from 72% to 59% though 59 one cannot complain about, LCV 2 to 3.5 tonne has gone from 20 to 14 and MHCV have gone from 97 to 29, so good numbers, but yes less than Q1.

Mahindra performance you are aware that I would not repeat the numbers, but in some segments we are slightly better than industry, in some segments we are slightly worse than industry. What has worked well overall that the rural sentiment driving rural growth continues to be strong. In this quarter, for the first time, the way we define rural and everybody has their own definition the way we define rural, we have sold more vehicles in rural India than in urban India going to 51% rural from what was last year 51% urban and again this is a clear outcome of five good harvest in a row. Food grain production being 9.2% higher than long-term average, horticulture being 8.5% higher than long-term average, MSP is going up, rural investment continuing and finance being easily available. We do not see any liquidity or liability issue or pricing issue in finance, so overall going well.

For smaller businesses or I should say upcoming businesses before I go to that just wanted to talk about the new product launches that will happen and also how we are re-forecasting or changing forecast for the industry growth for the year. The new launch that we have Marazzo of course has happened as planned in first half of September. We have Alturas G4 happening on November 24, 2018 again as said that we will do before the end of the year and S201 will happen in the fourth quarter of FY2019. We have the launch of the Treo Electric Three Wheeler that will happen tomorrow in Bengaluru and we also have the launch of Jawa bike tomorrow that will happen here in Mumbai.

The electric KUV will happen in the middle of next year and Furio ICV, which we have showcased about August I think, will be launched again in the fourth quarter of FY2019 or first quarter of next calendar year. On the electric vehicle side we have seen a growth of about 30% from last year in the first half though I must admit the 30% is less than what I would have expected to see because 30% is on a very small base that we had, but good thing for Mahindra is that we now have the EESL phase 2 order that has come formally last month and we have started supplying in the phase 2. We can talk more about it if there are questions.

Exports surprisingly are doing very well. We have had good growth in first quarter as well as second quarter. I would not go through the numbers unless there is a question on it. There is always the question on inventory. Before at the end of September 30, 2018 that is end of Q2 inventory was high, always is, just before the beginning of the festive season. On the tractor after Diwali we have more or less come to where we want to be in terms of inventory and in terms of auto the retails have been somewhat subdued for everyone in the industry not just for Mahindra but for everybody and as a result with probably four to five days more dealer inventory then we would like to see in the auto segment.

Material cost increase is more than what we had anticipated. We have passed on approximately half of the increase in selling price and half of it either has been absorbed or has been offset by other things that we have done for cost reduction such as value engineering. I will stop here. There are many other smaller businesses that we have interest in, but I want to give enough time for Q&A, so I will stop here and answer questions on any subject.

Moderator: Thank you Sir. Ladies and gentlemen, we will now start the Q&A session. First question is from Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Thank You for taking my question. Sir, can you just give us some sense on the tractor outlook you had given 12% to 14% kind of outlook for this year, is there a change to that and I missed number on tractor inventory level, so if you can share that as well?

Pawan Goenka: On the tractor side, last quarter we had said 12% to 14%, it still remains 12% to 14%, the difference is last quarter I said biased towards 14, today I will say biased towards 12 because the festive season has been somewhat lower than what we did, not bad, but somewhat lower than what we thought it was.

- Hitesh Goel:** The second question was around the inventory?
- Pawan Goenka:** Inventory as I said in the tractor inventory is where we want to be at the end of the Diwali and on auto inventory is probably 4 to 5 days more than where we want to be post Diwali.
- Hitesh Goel:** So, tractor inventory would be around 30 days, can you give us the exact number?
- Pawan Goenka:** We do not give number and therefore I do not want to give a number, but all I am saying is that we are where we want to be on the tractor side.
- Hitesh Goel:** Sir, my second question is on auto segment, so in SUV sales Marazzo has gone through a decent pick up after the launch, but we are seeing other models not doing that well, so can you shed some light on what is happening on the portfolio on the SUV side?
- Pawan Goenka:** As we have said during the briefing that overall retail and obviously billing follow the retail has not been as robust as we thought it would be during the festive season, the products that were doing good for us, which is Bolero and Scorpio continued to do well, Marazzo has added to the volume, but the other volumes have probably gone up somewhat from where they should have been, so overall we are at marginal increase from last year. The product TUV and KUV are still at a very low volume so that has not changed much.
- Hitesh Goel:** So, would you say that Marazzo is a kind of cannibalizing XUV500 to some extent?
- Pawan Goenka:** No, I would not say that. I think what I would say is that the overall industry is down, so if Marazzo was not there we probably would have seen a volume degrowth. I would still maintain that Marazzo is not doing too much of cannibalization, I had mentioned at that time a number of 15% to 20% cannibalization I think still I would maintain the same number, so the reason the overall volume has not gone up is because the industry growth has been subdued and not because Marazzo has cannibalized fully other products.
- Moderator:** Thank you very much. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.
- Ronak Sarda:** Sir, thanks for the opportunity. First question is on Marazzo, if you can share the latest booking numbers?
- Pawan Goenka:** As of two days ago we had bookings of I think about 13500 vehicles. We have already delivered to the dealers little over 9000 and we have retailed to the customers about 6800 or thereabouts and we have reached full production right away, so our ramp up in production has been fairly very sharp and we have reached the full production that we had designed the line for. Currently we are getting new demand

at 130, 140, 150 a day, which is matching with the current production therefore the waiting period, which is right now about 6 to 8 weeks will probably remain 6 to 8 weeks.

Ronak Sarda: Thank You for the detailed answer. Sir, just adding to this we have not launched a petrol variant on this, so similarly for the S201 what is the focus now, will we be launching because it is very near to the BS-VI launch to be around 12 months before BS-VI plays well, so what is the plan there, will there be a petrol and diesel variant launch together?

Pawan Goenka: S201 will be launched with diesel and petrol together and in Marazzo the petrol will come later probably around BS-VI may be little bit later. I just want to add that for the vehicle of size of Marazzo the demand is still continue to be predominately diesel.

Moderator: Thank you Sir. Next question is from Kapil Singh of Nomura Securities.

Kapil Singh: I wanted to check your rural growth outlook for next year and why do you think this sudden slowdown has come in because of all the factors that you talked about there has been no dramatic change, so we are a bit surprised by the extent of slow down and the concern is that if everything is going down, will rural growth also slow down next year and particularly tractor, so some thoughts on that?

Pawan Goenka: So, I want to moderate the word slowdown. It is not a slowdown, it is a lower growth than we had talked about affecting everybody in the industry not just Mahindra and if you look at the growth numbers, the growth numbers in an absolute term except for passenger vehicle remains very good. The commercial vehicles as I said have grown as much as 40% in Q2 for the small commercial vehicle as much as 15% for pickup segment and as much as 30% for medium and heavy commercial vehicle. The only reason we are looking at Q2 being not very good is because Q1 was fairly good, not seen for a long time in the industry and therefore we should not recalibrate that everything has to become like what it was for the industry because it was an exceptional quarter. We also have to keep in mind that there was a shift in festive season as we had said in the beginning of the quarter also and therefore both Navratri and festive season being in this quarter Q3 there is a natural shift of demand that will happen for tractor in a very big way, for passenger vehicles in a medium way and for commercial vehicles in a medium way the shift will happen, so if I was to add the sales that has happened in the festive season of course that will not be announced right now. The negative of Q2 on tractor has been wiped out and we are right now running YTD October at a growth of about 12.5% , we should keep in mind that 12.5% growth for tractor third year in a row is not at all a slowdown, do not think of Q2 has been slow down. The only segment where perhaps there is a slowdown is in the passenger car or passenger vehicle segment, which is also growing at about 5.5% to 6%, which was may be 7% to 8% last year growing at about 6.1% precise in passenger vehicle and last year was probably about 7% or 8%, so we are growing at the rate of last year only because Q1 was very good, there is a feeling of slow down. Now the tractors as you mentioned that everything is looking good, I just want to again point out the five factors that I have mentioned beginning of my briefing. All five have gone south of what we thought it would be when we

started the year, so whether that is the commodity prices, whether that is oil prices and therefore fuel prices, interest rate though not seen so much by the consumer yet, monsoon sentimentally being 91% when the beginning of the monsoon season was set to be 100% or 98%, 99%, all of these things have some psychological and some real impact and therefore Q2 growth for us was not as good as we thought it might be, but I do not see a slowdown in any definition and festive season again being subdued is relative to what the expectation was. If I compare festive season like to like that is beginning of Navaratri to the end of Diwali October 10, 2018 to November 9, 2018 or November 10, 2018, there is a growth compared to last year and here right now we would not have full industry data available, so I cannot compare how the industry has done, but there is a growth compared to last year in this season. The rural sentiment I would say is positive because as I said earlier that we have 51% of our sales from 49% last year and therefore urban probably is more or less stagnant in terms of passenger vehicle sales though we do not have exact data of urban rural divide and rural has probably grown at about 9% to 10% out of the 6% growth that we see. So I just wanted to put that in perspective to in some sense challenge the thinking that there is a slowdown that we are seeing. I think you can ask a second question if you do not agree with me.

Kapil Singh: Thanks for the detailed explanation. I also wanted to check on Jawa motorcycles, what kind of capacity and dealership network are you prepared with for the first year?

Pawan Goenka: We will be announcing all of that tomorrow and therefore I do not want to preempt the launch tomorrow, but what I can say is that capacity will never be a constraint we have the whole Pitampura plant that was set up for Mahindra two-wheeler limited that will be available for Jawa and therefore capacity will not be a constraint and whatever demand happens, so we will be able to do it, we obviously have an initial estimate of what the demands will be.

Moderator: Thank you Sir. The next question is from Aryn Pirani of Deutsche Bank. Please go ahead.

Aryn Pirani: Thanks for the opportunity. Sir, my question was on credit availability given what we have been hearing on the liquidity squeeze for certain NBFCs is there a risk that there could be some credit availability issues at least for a segment of your buyers especially in tractors and commercial vehicles, have you seen that or do you think that there could be a risk of something like this happening?

Pawan Goenka: So far we have not seen any sign of loss of sales because of availability of credit to our end customer. The good NBFCs and the good banks do not have any liquidity problem and therefore they are supplying funds and making up for perhaps pull back that might be happening from smaller and some NBFCs that may be in some liquidity trouble and some banks that are being more careful, are being compensated by the good NBFCs and good banks so on the ground there is no liquidity crunch that we see and on the ground there is no increase in finance rate that we see, but from what I am hearing is if there is no sort of change that happens over the next three to four months perhaps starting January,

February there could be an increase in interest rate, which I hope will get compensated if that happens by virtue of reduction that is happening in petrol and diesel prices to make an increase in interest rate.

V. S. Parthasarathy: Just to add to what Pawan says that it is not as if there is no stress in the financial system, there are like you said, that not very great number of NBFCs are finding that they have to focus on repayment and therefore curtailing and holding their cash and certain public sector banks are watching their NPAs and therefore their ability to lend has come down, but what we can very happily say that it has not impacted auto and tractor industry because of some, that this is a retail area and because also proactive planning by the two sectors.

Pawan Goenka: Having Mahindra finance as our primary lender for our customers also because Mahindra finance is in a situation where they have funds available to increase their volume and they in fact have had a volume increase and market share increase from their major customers.

Moderator: Thank you very much Sir. The next question is from Pramod Amthe of CGS-CIMB. Please go ahead.

Pramod Amthe: With regard to the M&HCV segment where you started the year with good performance there seems to be some fizzling out in October, do you see any product corrective actions required to go ahead or you just the industry phenomena slowing down?

Pawan Goenka: October was an exceptional month in a sense that for Mahindra we have outperformed the industry for each of the six months before October. In October we were somewhat down in terms of our volume, but if I look at retail in October we have retailed quite well. In October the billing was down, all the same what I do want to point out that YTD September and I do not have the YTD October number with me right now, but YTD September the industry has grown 47.3% and we have grown 63% and in the process I think our market share has gone up by 0.6% to 0.7%, so I would have to right now take October as an exception in terms of our volume not growing in line with the industry and we will be watching November and December and the outlook for us is November, December we should be back to growing slightly higher than the industry, but again I just wanted to point out that is only one month, for six months we have significantly outperformed the industry. I do want to add one thing that there is an effect of axle loading norms that have changed in a sense that it is significantly redefining industry dynamics what has happened as a result of that those customers who are buying a 37 tonne truck are now buying 31 tonne truck, those who are buying 45 tonne truck are now buying 37 tonne truck and therefore there is an inventory mismatch that I think every player must be facing and there is also a change in preference that the customers may have for one make to the other make because customer may have had a preference of 31 tonne, which make A and 37 tonne, which make B, so all these things will churn over the next two, three months and come to a new steady state. Right now we do not know what is the new status is, churn will happen in the next two to three months.

Moderator: Thank you Sir. Next question is from Gunjan Prithyani of JP Morgan.

- Gunjan Prithyani:** Sir, thanks for taking my questions. My first question is on the auto segment margin, you did mention in your introductory comments that the introductory pricing and the launch cost impacted the margin would it be possible for you to give some sense on what would be the amount of launch cost, which would have been booked in this quarter and also the profitability for the truck business are we at the breakeven level?
- Pawan Goenka:** Partha will answer that, but before that I just want to add one more thing to the previous question. We had just launched in the month of November Blazo X, which is higher fuel efficiency than the model that we had before and started the campaign for that and I am very similarly positive that will also have positive impact on our market share and volume growth.
- V. S. Parthasarathy:** On the auto margins the first of the impact that I talked about was material cost and Pawan did mention very specifically in his comment that about 2.5% is the kind of cost increase that we have seen and we have been able to pass half of it, so in a sense the balance is what is the impact in the quarter so that is one kind of impact. The second one, which I talked about was that the new product launch Marazzo will have two kind of impact its cost is not matured and pricing is introductory and that has an impact we could say that about 0.5% impact, which should over a period of time vanish. The third is launch expense I would say a similar kind of 0.6% or 0.7% of revenue is kind of launch expenses, but I want to kind of give a caveat, please also remember next quarter we have launches, so more from a modeling point of view, but these are the three impacts for this quarter on account of the new product launch.
- Pawan Goenka:** The impact of the launch I think it is about 70 basis points.
- V. S. Parthasarathy:** That is what I said 50 to 70 basis points.
- Pawan Goenka:** I also want to caution that we would have a similar new product launch this quarter, similar new product launch next quarter also, next two quarter we will have this one time high launch impact.
- Gunjan Prithyani:** And truck business if you can share where are we right now in terms of the profitability?
- V. S. Parthasarathy:** We had mentioned in the beginning of the year that we expect to be EBITDA positive in the truck business this year we are still at the same level that we should be remained positive this year.
- Moderator:** Thank you Sir. Next question is from Sonal Gupta of UBS Securities.
- Sonal Gupta:** Good evening Sir. Thanks for taking my question. Sir, just wanted to understand a couple of things, on the auto side we continue to see weakness in terms of your volumes even if just for the Marazzo launch we are clearly seeing probably there is again more erosion in some of your core models, anything what are we doing to address that and how do we expect to tackle that situation because overall year-on-year

we are down like September, October put together about 10% on the SUV side and that is despite the significant contribution from Marazzo?

Pawan Goenka: I think going back to the question that was asked earlier and same response that overall the UV segment has not done well in these two months. If you look at UV in September, October the industry growth in September, October in UV and therefore without Marazzo we would have had volume degrowth and with Marazzo we are just about a small increase. I will give you precise number in a minute. So it is a phenomena because of UV industry growth and for the first time in several quarters that UVs are growing at a slower rate than passenger vehicle once the UVs pick up and which I think they are good with some new product launches that are happening, ours two more launches which is Alturas G4, which is of course not a very high volume product because of being a premium segment and also the S201, which is a high volume product plus also one or two products announced by other car makers, other SUV makers, they will help to increase the UV volume growth. There is nothing else specific that I can talk about, so the UV segment in September, October together has de-grown by about 3% and that is the reason why you are seeing that the volumes have not picked up.

V. S. Parthasarathy: Just kind of in between before Pawan comes adding on it I just wanted to emphasize that while PV and personal vehicles the point has been taken, but I hope you are looking at the other preserves, which are presented in the press meet that vans and cars we have grown 27.2%, LCV by 22.8%, greater than 3.5T LCV, 20.6% M&HCV at 48% and three-wheelers at 30.5%, I am just kind of not wanting to lose this portion of the growth even as we see some bit of sluggishness in the PV side.

Moderator: Thank you. Next question is from Jatin Chawla of Credit Suisse. Please go ahead.

Jatin Chawla: Good evening Sir. Just wanted some colour on Ssangyong's performance in the quarter?

Pawan Goenka: For the nine months of this calendar year as they follow calendar year the volume and profit and revenue has been roughly the same as it was last year more specifically the domestic volume is down by about 2% overall volume is down about 4% and the total profit if I leave out the first quarter same as last year quarter. We expect Q4 to be a profitable quarter after I think about four quarters we are coming back to profit this quarter in Q4 that is October-December quarter and the market basically Korean domestic market has been at very, very marginal growth and Ssangyong is in roughly about the same place.

Jatin Chawla: Thanks. The second question would be on in terms of compliance with crash norms on the UV side, which are the products, which are not yet compliant?

Pawan Goenka: All the products that need to be compliant are compliant now and all the products that needs to become compliant next year will become compliant next year, so I think there is only one very low volume product that I do not want to name, is the only product that will be phasing out because of safety norms. There will be one or two again smaller volume product that will phase out with the BS-VI norms, but

all the major volume products will continue be on BS-VI. There may be one or two-month gap that will happen because of the ruling of Supreme Court, but other than that we should not have issue.

Moderator: Thank you Sir. Next question is from Gurpreet Arora of Quest Investment. Please go ahead.

Gurpreet Arora: Thank you for the opportunity. Two quick questions, with respect to tractors, BS-IV emission norms kick in from October 2020 what sort of preparedness do we have and what sort cost increases are we envisaging and second is on Roxor if you can share the performance volume number of Roxor and any update on the lawsuit, which is going on? Thank you.

Pawan Goenka: The emission norms that are supposed to come in October or April 2020. I do not have that number yet. I am sure you know that this is only for 50 horse power plus, which means only about 7% or 8% of the total industry that will be coming under the higher emission norms, it is supposed to happen either in October 2020 or in April 2021 is still being debated and as of now we do not have a full handle on what the cost impact would be and the second question was on Roxor. So, Roxor we have not released precise numbers of billing, retail and get shipment from India, but we have done quite well from March and we expect by end of this financial year we will probably sell somewhere between 4, 4.5 may be 5 in that range is the number that we will be selling by the end of this financial year.

Moderator: Thank you Sir. Next question is from Jamshed Dadabhoy of Citigroup. Please go ahead.

Jamshed Dadabhoy: Sir, just wanted to clarify on the breakup that you gave on the UV side in terms of cost pressures, so basically material costs are up 2.5% or 250 basis points?

Pawan Goenka: That's impact on the margin because of material cost increase.

Jamshed Dadabhoy: Got it, of which you passed through half and is there any plan to take another price hike?

Pawan Goenka: Roughly half passed on through price hike.

V. S. Parthasarathy: He got that. He is saying is there any plants for price hike in the second half?

Pawan Goenka: That I would not able to able to say today that decision is made in a very dynamic situation.

V. S. Parthasarathy: There is also a commodity, which we have to watch. We are getting mixed signals right now that itself may prove positive and we may be able to set up and the third point we should not forget that the VAV, which we do, which now is currently borne by the sudden increase in commodity price increase, we will also be over a period of time come, but on a short term basis this is the pinpoint.

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

- Jai:** This is Jai here from Edelweiss. Thank you for the opportunity Sir. Just very quickly could you please help us with the breakup of the exceptional items for this quarter? Thank you.
- V. S. Parthasarathy:** Just one clarification are you talking about standalone, M&M plus MVML?
- Jai:** Yes.
- V. S. Parthasarathy:** So, exceptional item is what we have kind of divested some investments net of other impacts that we give including impairment is 136 Crores positive for this quarter that is the exceptional item for this year, same time last year there is no exceptional item, so this is on the exceptional item worked after Goenka is pointing out that I mentioned two things one is exceptional item, which you have asked, but let me also go and say there is another innocent one-off item, which is deferred tax asset in tax there is a benefit to the extent of 121 Crores because of the deferred tax asset creation. We carry forward losses capital side, which we created an asset, which is benefiting P&L by 121 Crores on the tax line. This is standalone. Your question was towards standalone right.
- Moderator:** Thank you very much. Next question is from Sumanta Khan of ICICI Prudential. Please go ahead.
- Sumanta Khan:** Good evening, thanks a lot for the opportunity. Just wanted to know this quarter three-wheeler sales were slightly on the higher side a bit different from the usual run rate anything one off or anything that we do not know available in the public domain happening in the segment for you?
- Pawan Goenka:** I would not say one-off, but you know that we have electric three-wheeler product, which we have launched and that picked up quite well and this becomes additional volume for us.
- Sumanta Khan:** How much did you say is the additional volume?
- Pawan Goenka:** 800 to 1000 we are selling. We are probably the largest market share of electric three-wheeler today in the market.
- Sumanta Khan:** In exports, can you talk a bit about what is the expectation for the rest of the year?
- Pawan Goenka:** You are talking auto, tractor or both?
- Sumanta Khan:** Both at this moment of time.
- Pawan Goenka:** So, export is a pretty positive story for us in fact in the first quarter we had a growth of almost 70% to 80%, in the Q2 we had a growth of 19%, overall we had a growth of 50% on the auto side and this growth is coming from basically around all our geographies, 36% growth in south Asia, 35% growth South Africa, 70% growth in many other smaller markets that we have and coming from all over so it

is a very positive story for us. For tractor export growth is marginal, overall we have a growth of 2.2% in the half and about 4% for the quarter, but the numbers last year we had good growth in export in tractor, last year we had a poor growth in auto, so if I look at two-year period then I think auto and tractor are above average and I should also add that W109, which is the Scorpio pickup that we do not sell in the domestic market we sell only in export market we had launched a refreshed version of that with increased power and that product is doing very well in all the markets where we are selling that product. We had also started a CKD plant in South Africa and this product the Scorpio pickup is made in that plant now and that plant is running at the capacity that we have for the plant, so that product and the KUV, which has not done as well in domestic market actually is doing quite well for us in the export market, so these two products the Scorpio pickup and the KUV are driving our export performance. Soon we will launch the Marazzo, we will also launch the S201 in the export market so Marazzo will be launched only after we come to a point where we have spare capacity for export, right now we cannot and S201 we will launch at least in one market immediately and after that we will wait for the demand in capacity difference that we have the domestic demand before we launch in export.

- Moderator:** Thank you Sir. Next question is from Shyam Sundar of Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar:** Thanks a lot for the opportunity Sir. You have talked about slightly slower tractor growth more towards the lower end of the guidance, what industry factors that are causing us to may be shift to the lower end of tractor guidance, any colour in that?
- Pawan Goenka:** So, guidance is the direct outcome of the performance of volumes, volume in four-and-a-half months, YTD October the growth is 12.5% and we do not see a growth much higher than that in the remaining five months, in November, December, January, February and March and therefore we are saying that about 12.5%, which is where we are at end of October is where we will be probably end of the year. We will see a higher percentage growth in the month of November because of Diwali and somewhat lower then again in December, January terms because we have a higher base for Q4, so overall for the remaining five months November to March we see growth similar to what we have in the first seven months and they have probably should end at about that level and that is the reason we are saying because we were expecting better volume in these four months, July, August, September and October than what we actually have and hence we have gone from being back towards higher range to lower number in the range.
- Shyam Sundar:** But on ground sentiments still pretty positive right?
- Pawan Goenka:** So, Diwali the festive season that is starting from Navaratri to Diwali has been positive for some reason this year Navaratri season, which of course is different thing in different parts of the country was subdued. The Diwali itself did very well, but Dussehra season or Navaratri season was subdued so overall if I add Navaratri and Diwali there is a growth, but not as high as what we had planned.

Shyam Sundar: The fuel price is softening do we see passenger vehicle buying sentiments reviving, according to you what are the factors that can help improve the customer buying sentiments or do we expect the rest of the year to remain subdued as well and given that you also indicated the interest rates are up, so are there any factors from your perspective for the passenger vehicle industry to revise more in the UV segment?

Pawan Goenka: So, as I said earlier that few of the factors that had reached sort of levels, which were not comfortable levels, the fuel prices, which has driven of course the crude prices, the commodity increase, and to some extent the interest rate though as I said early the interest rate have not yet reached the customer, each of these have now taken a turn for the better in the last two weeks and therefore I would expect that it will be a positive impact from the macroeconomic side positive impact for the remaining four, five months. Yet repeating what I said earlier that beginning of the year or beginning of this quarter, beginning of two to three months ago we had talked about the growth in passenger vehicle being in double digit that is 10% to 11% for the first time in many, many quarters or many years that was based on very, very unexceptional good Q1, now we are saying that 10% is very unlikely for the passenger vehicle segment, we would probably will end up at 7% to 8% for the passenger vehicle and UV and passenger car should be about the same.

Moderator: Thank you very much Sir. Last question is from Rakesh Kumar from BNP Paribas. Please go ahead.

Rakesh Kumar: Good evening. Thank you for the opportunity. My first question was about tractor, Dr. Goenka, tractor industry have you really seen a cyclical more typically of around two odd years, but over the last two to three years we have seen that cyclical being broken, so what do you attribute the reason for that, has there been a new used cases in the industry, which we are seeing has stated driving demand or is there something, which has changed over the last one year in the agriculture industry itself, which is continuing such a strong double digit growth for a prolonged period of time, it would be very helpful if you can also help us with some number if you have on the demography of the people who are using the tractors?

Pawan Goenka: Well, I wish we know exactly what happened, I can only talk what has happened, so typically one would expect the industry to go into two year time of cycle less than three years and very simple explanation that I can give for that is that down cycle this time was also longer than normal, before we started growing at the third year of good growth before that we had two or three years of negative growth in a row and I think it is only last year that we have got back to the volume of five years ago, so if I was to look at a CAGR over a six year period I do not have the data in front of me, but if I have to look at CAGR of about six year above we still had the modest growth, now the question that you may ask is okay, we had three years of good growth than what we have reported good growth in the next financial year and I would really not be able put any guess in front of you today, may be when we are talking this time in the fourth quarter end of January may be we will have some view on the next year, but right now I do not have a view on next year. So I would say that if you look at CAGR of five to six years

and in the five to six years CAGR we are roughly where we have as a long-term average for tractor industry. Before we wrap up I just want to go back to one comment that I made earlier in the passing and I just wanted to clarify so that nobody misunderstands what I said. I have mentioned about BS-VI because of the Supreme Court judgement's impact, so I just want to clarify what that might be. As you know very well that the Government of India notification was that we have to stop manufacturing as of March 31, 2019 and in the notification that given us three months to sell post March 31, 2019. Honourable Supreme Court has decided that the last date for selling is March 31, 2019, which means that we have to stop making BS-IV I would say roughly three months before that, that means may be somewhere in early January, middle January will be the last date for making BS-VI, which also means that we have to start making BS-VI about three months earlier and right now all our plan were as per March 31, 2019 being the last day for manufacturing and now we are revisiting those plans to see whether we can prepone about three months, which given that only 15 months to that is not a easy task that does not mean that it cannot be done or it will not be done, right now engineering teams are working on it. I do not know right now whether we will end up with some models not being ready in middle of January, but we will obviously try very hard that all the high volume models are ready by middle of January, also it is very important that the fuel is ready from January 1, 2019 because for three month both BS-IV and BS-VI will have to coexist in the market as BS-IV ramps down and BS-VI ramps up and if for some reason the fuel is not available on January 1, 2019 then there will be a major issue because then we have to manufacture BS-VI vehicles and store them in our plant and there is nowhere we can store three months supply in the plant, so that point has been made by the industry, has been noted and I hope that the fuel becomes available by January 1, 2019, the BS-VI. I just wanted to clarify that point.

Sriram Ramachandran: There is one question I got from a few people - on consolidated there is EA in one off item some clarity on that.

V. S. Parthasarathy: I was hoping somebody would ask that because I said that I will make that point. So first let me say last year, in your tax line there is 1000 Crores roughly, I think absolute figure is 985 Crores, so that is because of merger of two-wheelers, we got a onetime benefit, so it is lying in the previous year so we want to make Apple to Apple comparison last year take that 985 Crores or make the profit lower by 985 Crores at a PAT level and this year also we have couple of exceptional items and that I want to take you, one is the 454 Crores, which is arising out of reduction in gross application to acquire non controlling interest so whatever we had estimated earlier now we do not have to pay as much and the benefit we are getting is 454 Crores and I have also talked about the tax impact that deferred tax capital asset that we created 121, so this year there is 121 plus 454 Crores benefit and the previous year there is 1000 Crores benefit, so if you knock off net-net 500 Crores is the delta because of that, if you add that why I put a figure that before you do these items there is a growth of 8.8% and the figures are 1075 this quarter as against 988 last quarter, which is 8.8% growth, but even if somebody has to ask offline questions from the consolidated happy to answer. Thank you.

Jay Kale: Thank you Sir for your time and thanks for giving us this opportunity. Thank you all participants for participating in the call.

Moderator: Thank you very much. Ladies and gentlemen you may now disconnect your lines.