

Mahindra & Mahindra Limited

IR Flash – Q3F20 – Earnings Call

Date & Time	February 11, 2020; 2:00 pm IST
Event	Earnings Call – Q3FY20
Participants from M&M	<ul style="list-style-type: none"> ➤ Dr. Pawan Goenka - Managing Director; ➤ Mr. V.S. Parthasarathy - Group CFO, Group CIO ➤ Senior Management of the company including the IR team
Results Pack/Conference Call Audio	Available on: https://www.mahindra.com/investors/reports-and-filings under Investor Relations/2019-2020/Earnings Update
<p>Certain statements in this document with regard to our future growth prospects are forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements.</p>	

Key Highlights:

- The company achieved the highest OPM (14.8%) in the last 5 quarters, despite drop in volumes
- Good fiscal prudence and discipline helped the company generate good cashflows
- For Q3F20, for a major listed subsidiary of M&M, there has been a substantial fall in market price which led to recognition of an impairment charge in the current quarter for that subsidiary. This is a non-cash charge
- The operational performance of the company was robust and saw expansion in both profit (after adjusting for exceptional items and one-offs) and profitability at an EBITDA level

FES Highlights (M&M + MVML):

- Revenue at INR 4,278 crs is lower by 7.7% Vs Q3FY19 (INR 4,634 crs)
- Segment Result at INR 831 crs is lower by 6.4% Vs Q3FY19 (INR 888 crs)
- OPM for FES came in at 19.9%, which is 80 bps lower compared to Q3F19 (20.7%)
- Dealer inventory is at normal levels
- Industry could see a growth of 5-7% in Q4FY20 leading to a 7% degrowth in FY20. Industry growth in FY21 would be in the range of 5% (± 2%)
- Company has initiated work on K2; it's the most ambitious product development platform for tractor yet. It has been designed to build products across 4 different HP ranges. New products on K2 would be launched mid-2021 onwards
- FES witnessed balance-sheet improvement in Q3FY20 and highest ever quarterly FCF generation in 5 years

Auto Highlights (M&M +MVML):

- Revenue at INR 7,424 cr is lower by 6.2% Vs Q3FY19 (INR 7,915 crs)
- Segment Result at INR 542 cr is higher by 17.6% Vs Q3FY19 (INR 461 crs)
- Auto segment OPM came in at 13.7% vs 11.2% last year. This was achieved through robust cost focus, material cost management and favourable model mix
- Dealer inventory is below normal levels
- In FY21, PV industry could grow at 2-4%, CV industry (incl. MHCV) could grow at 4-6% leading to an overall industry growth of around 3-5%
- Transition to BS6 is on track

- New Products launch timeline:
 - eKUV100- Q1FY21
 - New Thar- Q1FY21
 - Atom- Q2FY21
 - W601 (which would be a crossover SUV)- Q4FY21
 - Z101- Q1FY22
 - eXUV300- Q2FY22
- 3W is currently taking the lead in terms of electric adoption in the market. Mahindra Electric is expected to become EBTDA positive from FY21

Others:

- Ssangyong
 - 3-year business plan has been approved by the SYMC board to achieve breakeven in CY2022 through material cost reduction of 3-4% (90 bn krw per year), synergy with M&M for new product development, increase in volumes through new export markets like Russia and Vietnam, personnel cost reduction through negotiation of compensation with labour union and increase in operational efficiency
 - The approximate funding requirement over a period of 3 years is 450-500 bn krw, of which ~50% is needed for loan repayment and the rest is needed for new product development
 - The source of funding would be a combination of external borrowing, investment from third parties and/ or Investment from the parent company
- Ford Alliance/JV
 - CCI approval has been received and the process of formation of JV is expected by end of May2020
 - Connected Vehicle solution would be launched soon – Ford to launch in February 2020 and M&M to launch it by April2020
 - C-SUV development is on track and would result in saving of Rs 1000 crore
 - B-SUV development is in planning stage and would result in similar saving.
 - M&M would leverage Ford India’s manufacturing unit capacity resulting in savings of about Rs 400 crore.
 - M&M’s G12 engine would be supplied for Ford vehicles from Q1FY21
- Capital Expenditure and Investments
 - From the earlier stated position of Rs 18,000 cr of capex + investments over FY20-22, the company would try to bring it down to Rs 15,000 cr
 - The planned capex + investments for FY20-22 shall not exceed Rs 17,000 crores, under any circumstances, owing to savings from the Ford alliance. This is inclusive of required funding, if any, for Ssangyong
- MAgNA (Mahindra USA)- Dealer inventory was reduced by 20% and plant inventory was reduced by 40% in the last 12 months. Work is in progress to reduce inventory further. MAgNA is expected to achieve profitability in CY2021

Financials at a glance (Figures in INR crs)			
(M&M + MVML)	Q3F20	Q3F19	Change
Net Sales & Operating Income	12,120	12,893	-6.0%
EBITDA	1,789	1,703	5.0%
OPM	14.8%	13.2%	155bps
As Reported:			
PBT (before EI)	1,383	1,505	-8.1%
PAT (before EI)	981	1,476	-33.8%
PBT (after EI)	782	1,425	-45.1%
PAT (after EI)	380	1,396	-72.8%
Adjusted for one-offs & EI:			
PBT (before one-offs & EI)	1,323	1,301	1.7%
PAT (before one-offs & EI)	934	877	6.5%