# "Dr. Pawan Goenka's Interactive Session with Senior Auto Analysts"

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## Venue: Media Cube, Mahindra Towers, Worli

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**K. Chandrasekar:** Good afternoon gentleman. Welcome to this interactive discussion with Pawan. As you know, we periodically hold these meetings with Pawan to give you an insight into what we are planning or to answer some of your questions which you have been always asking us as Investor Relations (IR). So, here is a chance to interact with Dr. Pawan Goenka and on his right is Mr. Bharat Moossaddee – CFO Auto Sector and Mr. P. C. Vaidya from Farm Equipment Sector and Nikhil Madgavkar again from Farm Equipment Sector.

So, initially Pawan will make a brief speech of some outlook on the business and other things followed by a question-and-answer session after which we will close. Thank you very much. Pawan, without much ado.

**Pawan Goenka:** Okay. Thank you Chandra. This is not our quarterly sort of performance interaction and therefore I am not going to focus too much on performance, unless it comes up in our interaction later on and I would talk more about what is happening now and how do we see the future and then of course want to keep it brief so that there will be more time for interaction.

So, clearly Mahindra both in the automotive and tractor business has been under a little bit of stress in the last year, year and a half for different reasons in different businesses and we will talk more about that as we move on.

But, if I look at sort of positive side on our performance so far, the primary thing that we are encouraged by is that the gross margin has not been compromised and if anything our gross margin in FY15 has been slightly higher than FY14, that means there is no pricing pressure that is coming on us in any major way both in the tractor as well as automotive.

Other thing that you would notice is that this is again from published results and I am just giving a very macro view on it. Other thing that you would notice is that our expenses are under control, total expenses if I look at FY15 compared to FY14 is 9% up which is almost like a given because the personal cost will go up no matter what we do and many of the fixed cost will go up no matter what we do and if we are not able to offset that with volume increase then it is going to hit on your percentage margin. So, that has not sort of gone out of control by any means. And third thing is inventories which I had mentioned at the time of Q3 performance review that our inventories are well under control at the end of Q2 because of drop in volumes the inventory had become higher but at the end of Q3 we are pretty much under control on inventory. So, this is what I call health of the business in some sense, gross margin, expenses and inventory are under control.

What has not worked well for us clearly is the volumes both in the automotive and tractor side for different reasons. Tractor is industry phenomena, the industry has been unexpectedly slowed down and Q3 and the first two months of Q4 have been below even the worst most pessimistic expectation that anybody would have had for the tractor industry and that is what has caused the volume drop for Mahindra and Mahindra has pretty much kept the pace with the industry in that. And on automotive side, as we have been talking about for last several quarters now that we do have that gap in our portfolio of not having the UV-1 products and that is the reason why we have lost some market share in the UVs segment and therefore our volume is down about 6%, 7% compared to industry being up about 5% or so.

So, that is more of our performance within industry where as tractor is more of industry performance and we are in line with the industry. And what we look forward in FY16 is an improvement in volume while maintaining our other controls that I mentioned, gross margin, the expenses and the inventories are under control.

So, let me just focus a little bit on that before I open it up for interaction. On the volume side, on tractor we are not expecting industry to go into a double-digit growth next year because the fundamentals that would cause the growth, we do not see a very positive situation right now to get a turnaround from -20% to -25% in this quarter to a positive 10% - 15% next year and we are expecting that the industry growth will be in single-digit maybe 5%, 7% at best and that too in the second half of the year.

The first half of the year will continue to be under stress because of the current farm prices or the farm income on being low and the unseasonal rains that have happened have actually put even more pressure on the agriculture situation and therefore we think the first half will be continuing struggle, hopefully not as bad as third quarter and fourth quarter of this year but it will probably be negative growth territory for the first half. But second half, subject to good monsoon and this time monsoon is important, normally we make a statement that monsoon is not important, but this time is very important; subject to a good monsoon we should see a very good growth in third quarter and fourth quarter because the base will be very low, we are starting from very low base in third quarter and fourth quarter this year. And Mahindra will expect to be in line with the industry, of course we always hope to be doing marginally better than the industry but I would not expect suddenly a jump in our market share from 40% to 45%, marginally better will be all that we will expect to get in Mahindra, but that should be fine.

So, if we get 5% to 7% growth in industry and if we do marginally better than the industry and pick up 0.5% point or 1% point market share that will be a good performance for us in interactive business and would lead to a good financial situation because the pressure on pricing will not be there, next year also just like it was not there in FY15 because commodity prices are expected to remain very benign and because we do not expect interest rate at least to go up or go down. If you had talked to me about two weeks ago I would have said with more certainty that they will go down. Right now with the inflation coming up slightly higher they may not go down immediately but we do not see a pressure coming from interest rates and therefore none of the factors that affect financial performance will be negative for us. So, if we get the 7% to 8% volume growth we should be alright.

Talking about automotive, we are a little bit more optimistic on the industry. We think that the growth, which this year will be of the order of 5% to 7% overall in the industry, some higher, some lower but overall 5% to 7% will probably be more like 10% next year. And the reason for that is that all the factors that drive demand in automotive side are positive right now, and with opening of infrastructure projects and mining we think that there will be a strong pull for automotive demand and therefore our industry growth should be 10%.

Within that if you were to look at Mahindra and I separate out commercial vehicle and passenger vehicle. On the commercial vehicle side, on the lower commercial vehicle, light commercial vehicle we have a very strong portfolio and we have done extremely well in our pick up segment and we expect to continue with that. So, we should therefore be able to take advantage of the LCV growth.

On the HCV, the growth this year had been very good as you know, as much as 40% growth for the HCV segment and Mahindra has grown slightly better in the industry, though on a very small base and we would expect to see the same growth momentum continue, maybe not 50% growth but a good double-digit growth maybe 20% or so in the HCV segment and a pickup in market share for us within that and they have outperformed the industry in the HCV segment.

On the passenger vehicle segment it all depends on successful launch of our new products. So, our current Bolero, Scorpio, and XUV are doing very well. But to be able to retain our market share and participate in the growth the new product launches that we have talked about in the past have to performance equally well.

So, these are the two sort of core segments. Now if I were to talk about the other segments that we are in or other business verticals, so let me just take very quickly on Applitrac i.e. the mechanization. Very small business but has had a good growth this year about 25% leading up to about 300 crores of revenue for this year and we do expect to continue to have double-digit growth in mechanization for next year also. And if anything, mechanization will get lot more sort of significance in India and in our portfolio as time goes on.

On the Agri side we should expect to finish at about 600 crores this year including all businesses some are not in M&M like EPC, about 600 crores, a growth of more than 30%. And we do expect to see a similar growth to continue in next year in agriculture business also.

On the two wheeler side, very difficult year this year as you know that our volumes did not go up to the level that we are expecting. Now, we think that we have a good portfolio of the Centuro and Gusto, both products are now well accepted but we need to see a ramp up happening there and it is going to be a very critical year for us in FY16 to get two wheeler into a reasonable volume level and reasonable volume level I will define as 30,000 to 35,000 vehicles sold a month. So, if we get consistently to that level then we would be alright on the two wheeler side. On two wheeler side we also have to reduce our material cost, that is increase our gross margin from where we are. I think in all the other businesses we are okay with gross margin, two wheeler is the only business where we have to work on gross margin and improve gross margin.

On the truck side, very positive momentum that we have seen in the last several months now, it should continue. We have a good product, well accepted for those who have brought the product. The concern still remains on the industry of the discounting and that happens and that is what will be important thing in FY16 in terms of financial performance on whether the discounting goes down to a more reasonable level than where we are today.

SYMC I think you all are aware that Tivoli, the new product we launched mid-January is doing exceedingly well, much more than what we thought it will do. We have sold like 5,500 vehicles in first six weeks of launch and we still have back order of more than 5,000 vehicles. The Europe launch has not yet happened, it will happen about 1st of May or 1st of June and we have not yet launched diesel. So there is a lot more to come in that product than what we have done today, so that is a successful launch for us.

And the financial performance of last year because of the interest rate, because of Russian market has been under stress and Russia still continues to be a problem. The exchange rate now is pretty good, in fact 11.32 it has happened, so that is sort of good for us. And other factors are doing fine.

So that is overall overview that I want to give. We can now get into interaction.

**Kapil Singh:** Sir this is Kapil from Nomura. I just wanted to check, you have not talked about existing products like Bolero and XUV? What kind of growth do you expect over there?

**Pawan Goenka:** Okay. So, we have basically about six products that we sell on the passenger side of SUV. The three are very strong for us, Bolero, Scorpio and XUV and Xylo and Quanto are sort of very low volume products right now. So, we do expect to see a similar kind of you know, we do not expect to see a very big volume growth in these because these are sort of segments that are not growing, what is growing is our smaller compact segment and volume growth will come from the compact segment, the new launches that we will do. But we will most likely be sort of maintaining the volumes in these three products, maybe marginal growth to 5% but more or less maintaining volumes.

**Kapil Singh:** And that is a function of the fact that we do not expect the industry to grow in those segments?

**Pawan Goenka:** That's right, That is correct.

**Kapil Singh:** For next year?

**Pawan Goenka:** Yes. Nobody is launching new products in these segments either, so therefore the industry growth will not happen from new product launches. And the old products will continue at about the same level as we have to be.

**Kapil Singh:** And sir the second question is on overall automotive growth, we have talked about around 10% kind of growth, this year quite a few factors are in favour, oil prices, interest rates, improving growth. So, is this a more conservative end of your guidance?

**Pawan Goenka:** See, we have been wrong so often in giving an optimistic forecast that we tend to become conservative. The industry forecast coming from SIAM is about what I have told you. We expect to see somewhat higher growth in the commercial vehicle segment than 10% and just about 10% in the passenger vehicle segment. See, two-three years ago we saw some phenomenal growth of 20% - 25% happening in automotive segment, given that the segment has been subdued for last almost two years now, it is possible that we have surprise and we do not mind seeing a surprise like that. But to predict and plan our business anything more than 10% will probably be too optimistic and aggressive right now. So, we are planning a business cycle on a 10% growth but we are preparing for a better growth. So, if better growth happens it will not be that we will be caught by surprise in the sense that we cannot cope up with the growth. We will have the ability to produce more vehicles if the demand growth is higher than what this is. But see, in case of Mahindra we have to do two things, one is the growth of the industry and we also have to make up for the loss that we had in this year. So, if you talk of Mahindra growth, if we were to kind of go back to where we were two years ago, we have to outperform the industry.

**Sahil Kedia:** Sir Sahil from Barclays. One question, bulk of your UV volumes or large part of it, all of it is largely diesel engine, the new compact SUVs that you have spoken about, that market is primarily controlled. So, how are you gearing yourself up for that market considering that it is not something that we are well associated with?

**Pawan Goenka:** Let me sort of answer this question a little bit broader than just what you have asked. There is no doubt that the way the fuel prices are going in India now, diesel and petrol difference becoming narrower and will continue to become narrower in my view, it will now even remain at 17% - 18% that we have today, there will be a more shift from diesel to petrol. The shift will probably be higher in the smaller vehicles and lower in the larger SUVs and therefore I would expect that the compact SUVs will become predominantly or, I would not say predominantly but I would say majority higher market share or penetration coming from petrol and lower from diesel. Whereas the larger vehicles like Scorpio and XUV probably will remain predominantly diesel, that is kind of what our expectation is. And therefore when we launch the compact SUV or anything else that we do in future we will always come with an equally good petrol option, so we cannot rely on diesel being as a primary fuel for compact vehicles. And when we launch our first compact vehicle, it will be launched with a gasoline as well as a diesel engine, gasoline engine is a new engine that we have developed, which we had talked about in the past and is absolutely modern engine with the latest technology because it will be new engine coming in the market. And when we launch the future products they will also come with a gasoline engine, gasoline has to become a mainstream part of our portfolio now, it cannot remain sort of niche offering.

**Sahil Kedia:** Different question sir on the farm equipment side…

**Pawan Goenka:** Any other question concern that you have on diesel/petrol, if anybody has on diesel/petrol let's finish that first before I go to second question.

**Pramod Kumar:** When we move to petrol, the industry benchmarks are totally different, as in what they are used to so far both in terms of the displacement sizes and fuel economy and the efficiency of generations of engine sales.

**Pramod Kumar:** This is Pramod from Goldman Sachs. In petrol, your industry competition is going to be far more serious, I would say far more intense than what you have seen in the diesel side. So, what are the areas where you would like to probably differentiate or any benchmarking you have done in terms of quartile as to where you would like to be either on, because fuel economy increasingly will become more relevant in compact SUVs given the additional weight of the product. So, just want to hear your thoughts where you aim to be in terms of quartile in various parts like fuel economy specially and power and torque as well?

**Pawan Goenka:** Okay. So, as I said earlier that the petrol engine that we are launching, see earlier petrol engines that we had done were conversion of diesel to petrol and therefore carried some of the penalty of diesel weight into petro engine. The petrol engine that we are launching now will be a ground up petrol engine development with all the latest technology and tools used working with AVL as we have done in the past. And therefore engine itself will be comparable to any other engine that is on the market in that segment. This offering will also take advantage of the current excise regulation and therefore we would be launching the engine to be in the lowest excise bracket that is below 1.2 litre and sub 4 metre and therefore we are going to have the pricing advantage just like anybody else today with the 1.2 litre engine and below 4 metre has..

In terms of the parameters, the functional parameters, every manufacturer will have a functional area that we would like to excel in. We are not going to be a hatch back player, we will continue to be a SUV player, a compact SUV player and therefore our product will be differentiated in the design, style offerings that we would have what will make it SUV, that is what it will be. And therefore, we would expect with the best SUV in that size to be in India, not the best hatch back in that side to be India. I cannot give you any more details on what that might mean but we are very conscious of the fact that the market is changing, customer expectations are changing and clearly if we are not in line with those customer expectation we cannot expect the product to succeed and we obviously would have taken care of all of that. .

**Pramod Kumar:** Is it okay given that you did the first twin turbo engine on the 1.5 side diesel, so will you take the same route for the petrol as in something if it is not confidential.

**Pawan Goenka:** Well, of course it is confidential. No, see when we are launching very small vehicle which will be sub 4 metre and 1.2 litre engine, for that how much power we need is what we have to guess. If we overpower the engine than obviously it will not meet many of the other expectation that you may have on fuel efficiency and cost. And therefore we have to take a balanced approach on what technology goes in, what kind of power do we put in. We will have different variants available on engine in terms of power options, fuel options and again take a balanced view. So again, cannot tell you any more than that but we definitely are conscious of the fact that the customer expectations and the competitive landscape has changed quite significantly in the last four five years and we would clearly be launching our products with that in mind.

Anybody else on diesel/petrol before I go back to him? Okay, you had your second question.

**Sahil Kedia:** Sir on the tractor side, you have seen obviously a big drop, is there any particular region that you are seeing just being more? Point number two. Point number two, we have recently obviously launched the new platform, how has that done for us? I know it is probably not the right time…

**Pawan Goenka:** You are talking of the tractor?

**Sahil Kedia:** Yes.

**Pawan Goenka:** Okay.

**Sahil Kedia:** How is that done for us?

**Pawan Goenka:** I did not follow, you haven't seen the new platforms meaning?

**Sahil Kedia:** Arjun, how is it doing?

**Pawan Goenka:** How is it doing? Okay, sure. So industry drop as I said earlier in the opening that it took us by surprise, nobody had expected industry to drop, first half was more or less even which was less than expectation, we were expecting 5% to 7% growth. In fact, in the beginning of the year we were talking more like 8% to 10% growth. So, we were surprised itself by having a flat industry in the first half and second half degrowth was totally unexpected as much as 20% in the third quarter and close to 30% in the fourth quarter. Now the reasons are several. Clearly, it relates to the affordability of a farmer and desirability of farmer to buy a tractor, that is what it comes down to. And that affordability has been compromised because everything happened together, with the poor monsoon that we had last year, the yield came down by about 3% to 4% in the Kharif crop, the administered prices were not increased as they normally are and therefore did not keep pace with the input cost and therefore profit per acre came down and the mandi prices in fact even collapsed even more, they were 10% to 15% lower. So, overall the farmer income was compromised significantly. We thought that will be okay because going into the Rabi crop there was a very good scenario because we had late rains, but Rabi crop also was compromised and right now we are expecting Rabi crop to be also 3% below last year. And so if you put it all together that is what has caused a situation where farmer is not able to justify replacing a current tractor or buying a new tractor or getting in to a tractor and any such purchase getting postponed till after we think the Kharif crop output is more.

On the Arjun Novo side I think we are doing very well, the product has performed extremely well. We have increased our market share in the 50 horsepower plus segment and volume also has grown in that segment for us and therefore we are quite happy with the performance by Arjun Novo.

**Amyn Pirani:** Sir, this is Amyn from Deutsche Bank. Sir just following up on the tractor demand growth, what are the risks or are you seeing any risks emerge which could lead to the downturn like elongating to more than a year or two years because a lot of the factors that were supporting tractor demand over the last four to five years like we mentioned are not present and are unlikely to come back in terms of NREGA or support prices.

**Pawan Goenka:** Okay. So, see tractor industry has always had period of up and down. Though I must admit that the 12% degrowth that we will see this year is perhaps the highest degrowth that we have seen in at least decade if not more. But if I take a look at five years, it is not bad at all and we had some phenomenal growth happening in FY13 which probably has led to a flat FY14 and degrowth in FY15 so that also is a contributing factor. The analysis that we have done in terms of the fundamental growth drivers, not taking into account the sort of month to month or quarter to quarter variation that we see, we think that till about 2023 the demand pattern should remain the same. This is based on several factors that we have considered on penetration of tractors looking at kilowatt per hectare or number of tractors per hectare comparing with other countries on tractor demand. The factor that also has contributed and that I hope will get corrected is the haulage demand has come down and a significant portion, 35%-40% of the tractor sales, though that number is not exactly known but that is a guess, 35% - 40% of tractor sales happens because of haulage demand and haulage demand has come down because of infrastructure and mining bans that we have had in the past. So, I am expecting that with the opening up that is happening now as a result of the last budget that demand will come back. So, that demand growth will also then help to get us back on track and therefore in several quarters there is pessimism that perhaps the best days of tractor industry are over. I do not subscribe to that yet, I am saying yet because this is a one year phenomena where we can clearly identify why degrowth has happened. I do not see fundamental need for demand growth to become lower, the fundamental need still is there so the other factors that have driven the demand down if they correct themselves than fundamental demand is there. So, at least for next 10 years I would expect to see a similar level of 8% CAGR over a longer term of any if we take a five year timeframe it is 8% CAGR.

**Amyn Pirani:** Thank you sir. Just one more question on Ssangyong, since the time you have acquired it you have not had to put in any money from the parent and the subsidiary has taken care of itself in terms of cash flows. But given the prolonged slowdown in Russian volumes plus the CAPEX plans that you have in terms of product development CAPEX, do you feel that that could change for at least the next one or two years?

**Pawan Goenka:** We do not see a situation where Mahindra has to invest more, there will be a need for funding CAPEX and funding cash flow basically but we do not see a need for Mahindra to put in more money unless we decide to increase our stake.

**Yashesh Mukhi:** Hi, this is Yashesh from Morgan Stanley, I have a couple of questions. The first one is, we are planning a compact SUV which will be to take advantage of the current excise regulation, how do you see or what do you think is the impact of GST once it is implemented on specifically the compact SUVs and the overall business?

**Pawan Goenka:** GST?

**Yashesh Mukhi:** Yes.

**Pawan Goenka:** So, GST impact will not be specific to compact SUV, I think it will be same impact on all range of vehicles. Basically our expectation is that with GST the taxation hit on product pricing will come down by 3% to 4%. So, therefore assuming that all of the taxation benefit is passed on to the customer and there will be a 3% to 4% lowering of price that you will see. On the other hand the bigger advantage perhaps may also be that it will allow our business to be structured more efficiently. What I mean by that is, today we take many actions in terms of where we locate a supplier, where we locate a plant, where we locate a warehouse based on what is most tax efficient, and not what is most cost efficient. And once GST comes in then that gets simplified significantly and then we will be taking action that will allow a business to be run more efficiently. For example, today we have stock yards in every state because that allows us to do stock transfer and not have to pay the CST of 2%. We do not need that in GST regime and we may do more direct billing and that way avoid extra handling that incurs cost to avoid 2% tax. So there will be many such things that we will be able to do under GST regime that will allow us to run our business more efficiently and at the same time save the 3% to 4% embedded taxes that we have because of GST.

**Yashesh Mukhi:** And sir second question is…

**Pawan Goenka:** Also, I should say that right now we do not know what GST rate will be and that obviously will have an impact on what the pricing is. Today we are paying 12.5% VAT and we are paying on the smaller vehicle 12.5% excise duty, so that combines about 25%. We do not know what the VAT rate will be and to a little bit 20% - 22% something like that, so we will have to wait and see.

**Yashesh Mukhi:** Thank you. And my second question is, sir can you share what kind of investments you made in the new compact UV platforms and the kind of breakeven volumes we would be looking at once these are launched?

**Pawan Goenka:** Yes. So if we go back to our investment in any new platform, 12-13 years ago we had talked about a 550 crores investment in Scorpio and if you look at that investment now after about 10 years and you build in inflation in that, that 550 crores becomes about 1000 crores and that is roughly where we are in terms of investment and new platform. So, any new ground up platform including engine and transmission development will cost us of the order of 1000 crores anything where we have carry over transmission or engine will be lower. So, I am not going to give you a precise number on that platform, but giving you an order that will be about 1000 crores for each new platform. Now clearly in a compact SUV where the price is lower and therefore even if the percentage margin is same, the absolute profit is lower, you will need higher volume to get the proper return. So, if the Scorpio we could breakeven at X for S101 it will have to be X plus something. So, it is a higher volume game, you cannot do well on a compact SUV, financially well on a compact SUV on a volume of 3000 a month, 3000 a month is fine for XUV500 but not fine for a compact SUV. Again, I cannot give you a precise number on what that will be but it will have to be higher than 3000 a month to be able to breakeven.

**Vijay Chugh:** Thank you Dr. Goenka, Vijay from BNP. My first question was, considering that inflation is a very big priority for the government and they have set off some inflation targets along with RBI. Do you see a structural shift towards allocations towards rural sector, MSP? So, are we likely to see much more challenges there in terms of growth because we have not seen any specific consumer buoyancy measures in the budget which used to be in the past. So, should we anticipate what is your take on one government versus the other?

**Pawan Goenka:** It is a very difficult question to answer, not difficult question to answer but a question that I will probably find it difficult to answer in this forum. I think there are differences and you probably need to read between the lines and not just what is said and to pick up those differences. What I can say is that no government can ignore or be less than supportive of rural growth or agriculture growth because still 50% of population is supported by rural economy. But there are shifts happening in rural economy by itself even without the government intervention of positive or negative. The shift that we see and I was surprised to see this data that the dependence on agriculture of rural population is becoming less and less, so I think it is something like 60% household only have agriculture as their primary source of income in rural economy. And also what we are beginning to see is that the priority of the spend also is changing and there is more and more of comfort goods that the rural households want to have than what they did maybe five, 10 or 15 years ago. So that little shift that is happening natural shift as prosperity comes in the rural areas, you will see that shift happening. I am not answering your question, I am sort of going little tangential on purpose, I will leave it at that.

**Vijay Chugh:** Okay, that's fine. My second question is, you answered this here, just want to take that question further, you said year 2023 is still when you expect growth to be maintained but thereafter are we likely to steep fall in growth rates for tractor or ……..

**Pawan Goenka:** No. So, the 7% - 8% CAGR that we normally talk about on a five year kind of time horizon, roughly half of it comes from replacement demand, half of it comes from new demand. So, in 2023 we think we will reach saturation level, that means there will be no new demand being generated, it will all be replacement demand. So, therefore what today is 7% - 8% CAGR will probably come down to 3.5% - 4% CAGR again on a sustained basis, there will be years of 10%, there be years of -5% but we will probably see 3.5% - 4% CAGR after 2023.

**Vijay Chugh:** So we are talking of increased volatility thereafter because it is all…

**Pawan Goenka:** No, it is all replacement demand.

**Vijay Chugh:** Right. And just one final question on the GST part…

**Pawan Goenka:** So, you will be able to therefore correlate, like if we are a dip in a given year then you will see a dip again, some eight years later because the replacement at that time will lower.

**Vijay Chugh:** And just my final question on GST, currently farm equipment is exempted from taxes, do you see that exemption going away when GST sort of comes into play?

**Pawan Goenka:** So, let me first say that it is a misnomer that farm equipment is exempted from taxes, in fact the industry very much wanted the excise to be imposed on tractors, the misnomer is that we still have to pay excise on input and therefore about 8% is what one would consider neutral excise rate. So, if tractors are levied 8% excise duty then there is no increase in the customer price because right now we have 8% of MODVAT that we are not able to avail on component, 8% on sales value. So, therefore it's a misnomer there is no excise, we do not know right now on GST whether the tractors will attract the same excise or same GST rate as automotive or not, if it is same then clearly it will be an extra burden come in or if it is like they will probably have three rate structure, if it is in lower rate then it will be the same. So, right now on tractor we are paying 5% VAT and roughly 8% excise because of component, so we are paying about 5% plus 8% compounded about 14% probably. So it will depend on whether GST rate is higher or lower than 14%.

**Ashish Nigam:** This is Ashish Nigam from Axis capital. Sir when you talking about standard GST rate for different types of vehicles, how should we read this given that there is a 18% excise differential between a small car and an SUV? So, is that an opportunity for SUV makers or is it a threat to small car makers, how should we see it?

**Pawan Goenka:** Don't know that and there is no indication given right now on what it will be like, I have not heard anything that says there will be differential excise on different products but we do not have any formal knowledge of this, we will therefore wait and see.

**Govind Chellappa:** Hi, this is Govind from Jeffries, I have a couple of questions. First, we have seen Sonalika gain about 300 basis points market share this year and part of the reason seems to be their tie up with L&T Finance where they have basically underwritten the entire loan and it will delinquency support. Is that a threat that you see because we have seen credit cycles go quite volatile in the past. Second related question, how are delinquencies in the tractor portfolio across various banks that you interact with? Third is a generic question, now what is Make in India, I mean has that made any difference to you?

**Pawan Goenka:** Okay. So, the last one I can talk on for about one hour, but I will do that in one minute. The first one, undoubtedly Sonalika has done very well and they have had the best performance in the industry in terms of growth, and they have taken market share at the cost of others. I am not aware or I cannot say whether that growth is because of L&T Finance, if it is it is, I just do not know that. Of course there are many factors, I cannot imagine that this growth will happen only because of one factor, there has to be many factors that contribute to it, and we have a hypothesis on it which will not be right for me to talk about.

We have Mahindra Finance which is probably the strongest finance weapon that any tractor company has and therefore I will not think that anybody will have an advantage over us in terms of financing and Mahindra Finance has very good penetration in rural area and that is their strength on the number of branches that they have and penetration that they have in rural area, and therefore on tractor side financing is not at all an issue for us, there farmers are able to get financing through Mahindra Finance or otherwise very easily. So, that is not an issue at all.

As far as delinquency is concerned, I do not see a major concern on delinquency, there is a perhaps a little bit more pressure but nothing that one will get alarmed with, this kind of cyclic variation happens all the time. So, if one was to put range of where we are comfortable, we are not outside the range right now.

On Make in India, it is a very interesting topic and if there was anything that I was a little disappointed with in the budget which I have said on my TV interaction also is that I would have expected to see a little bit more support for Make in India in this budget. And Make in India is not just about making it easier to do business, that is just one aspect of Make in India, there is a lot more that has to happen to truly become manufacturing nation. And I would say Make in India without technology development in India will be incomplete and therefore if you want Make in India to succeed in a long run there is to be equal focus on R&D and technology, IPR and technology development within India as it has to be on manufacturing. So, that is one very important point that I want to make and I think there is not enough focus yet on the technology side, I did not see that in the budget at all on anything that is being done to encourage R&D and technology development in India.

Second thing on Make in India is, Make in India without export from India for consumption outside India cannot succeed, it cannot simply be Make in India for consumption in India because then we are limited to the growth that will happen in consumption in India and that cannot take manufacturing GDP to grow beyond the overall GDP. So, there has to be a strong push on export from India for Make in India to happen and that cannot happen unless cost of manufacturing in India comes down to the level of other low cost countries where we clearly have gone beyond because of our higher land cost or higher infrastructure cost, and higher logistic cost, higher labor cost also in many cases, we have gone beyond where we can be competitive to other low cost country. So that focus has to come on how do we make manufacturing in India lower cost than what it is today. And that we have been talking about labor reform for quite some time that is required for us to be able to get some flexibility in having right size of man power in our factories. So, that is very important.

Third is attracting foreign capital, foreign investment for Make in India. I think for that there is a lot of focus, lot of thrust that is going on right now in the right direction and needs to continue should continue. But at the same time there has to be more thrust coming into manufacturing of or investment of Indian companies for manufacturing in India and making it little bit more affordable if I could use the word affordable to 'Make in India' than what it is today.

**Aditya Makharia:** Hi, this is Aditya from JP Morgan. Could you just shed some light on our new launches on the automotive side?

**Pawan Goenka:** Well, I cannot say anything more than what I have said before, so I am just going to repeat that that starting first quarter of new financial year FY16 we will have one brand new product launch that is new platform every quarter for the first three quarters and one major refresh happening every quarter and one major variant coming every quarter. So, you should expect to see roughly three launches – refresh, new platform, and variant coming every quarter for the next three quarters. And as I said earlier that two of the three new product launches that you will see will be in the compact UV category and one will be in the light commercial vehicle category.

**Aditya Makharia:** Right. And on the agri side you mentioned that the input prices are going up, so if you can just give us a little bit…

**Pawan Goenka:** Where I said input prices I meant the input for the farmers, not the input cost for tractor manufacturers.

**Aditya Makharia:** No, of course for the farmer, so I mean…

**Pawan Goenka:** So, input cost going up is coming from the cost of seeds, the cost of labor and the cost of fertilizer, nutrients, all of the things that go in to getting the produce out. So, that cost had been going up at the rate of inflation or higher and the output price is not keeping up pace with that increase.

**Aditya Makharia:** Okay. So that seems to be in a way a little bit of structural issue in the sense that the prices for farm produce has gone down quite a lot so I mean what would be a way out?

**Pawan Goenka:** Yes, so I think the way out is not to increase the produce prices, this is my personal view. In the longer term you cannot keep increasing produce prices because that will lead to inflation again. The longer term has to be by increasing efficiency in agriculture and when I say efficiency in agriculture I mean how do you get more output per acre that is productivity, as we know very well the yield in India is far lower than what one would consider average yield except in one or two crops in one or two states. And the second thing is that the use of inputs also has to be optimized. Today there is a tendency to overuse fertilizer, overuse nutrients for lack of knowledge, significant overuse of water, and overuse of electricity. So, if we were to get good agronomy practices in agriculture, not only will the yield go up but the cost per kilogram or per acre of plantation will also come down. So, if you are able to reduce costs and increase yield then we do not need to have higher produce prices to get good farm income. So, the focus has to be not so much on increasing produce prices but has to be more on reducing input cost and increasing yield. And I should add that this cannot happen overnight, there has to be a constant effort to make that happen, but that is what one has to do in long run otherwise we will be in a sort of catch 22 situation.

**Raghunandhan NL:** Raghu here from Quant Capital. Sir can you throw some light on the trends in region wise for the tractors and how are you seeing that?

**Pawan Goenka:** Region wise trends in sale for tractor, okay. I won't probably have all the detail information with me, all I can say right now is that there is a wide variation that you see state-to-state in tractor growth but I do not have the details with me right now, we do not even give out details, we will not certainly give out our numbers. To the extent we are able to share the information, maybe we will share with you offline. We will not share our sales region wise but we might be able to share with you the industry region wise.

**Raghunandhan NL:** And sir on the LCVs, they were going to a downturn because of overcapacity and aggressive financing last year. So how do you think the demand would pan out next year?

**Pawan Goenka:** So, LCV this year has been pretty bad in all segments, including pick-up segment, pick up segment which had grown very well in FY14 had degrown in FY15, though Mahindra had grown and have increased market share but industry has degrown. I think the most critical sub-segment for growth next year will continue to be the sub-1 ton LCV segment where we still see fairly high level of demand degrowth compared to what we have seen in any other segment. I think pickup will probably come back to positive territory, but the sub-1 ton may continue to remain under pressure. There are talks about some new products coming into that segment, new manufacturers coming into that segment, if that happens and they bring in some very attractive products that might drive demand but otherwise that segment will remain under stress.

Yes. Just want to go back to a question on agri, what can be done, I had talked about the input improvement. Just to give you example of what we have done which gives us encouragement that what I said is doable and is not very difficult to do because there are a lot of low hanging fruits right now in terms of how we can increase the productivity and reduce cost. As you know that we are a very big player in grapes and if you were to talk to the farmers in Nasik-Sangli belt where we have been doing a lot of work for past several years, each one of them has increased their yield by at least 30%, just imagine that getting 30% more output will clearly go into your sort of income. And in each case we have been able to reduce input cost by about 10% on a per unit output. So if you look at both of these factors just in one crop in one region that we have been able to do, if the same thing can be taken on a larger scale throughout the country on all the crops then we can get a fairly significant improvement in this. In fact if you were to take the best performance for any crop in a given district and were somehow able to implement this throughout India, we would have 25% - 30% growth in agriculture output. Easier said than done but can be done.

**Hitesh Goel:** Hitesh from Kotak. Sir, just wanted to get a sense on your saturation point on tractor for FY23. My sense is that tractor population would be around 5 million units and if you are saying that the next seven eight years they are growing by 7% - 8% and 50% replacement demand, are we saying that 7 million - 8 million will be kind of saturation population for tractors because if I recall you had given in your presentation that around 15 million agriculture households are there which have higher than 5 acres of land which I think at current financing they would be able to afford. So, is the rental market quite active, can you just dwell on these points?

**Pawan Goenka:** Two things. First of all, the number of households with (+5) acres land holding, I do not think that each one of them will own a tractor when we get to saturation point. We would definitely see lot more penetration of hiring in tractors than what it is today. Today the hiring is not done in any organized manner, it is an unorganized sector, more informal hiring where I will rent out a tractor for my neighbor. But I think that in the next four to five years you will see lot more structured hiring that will happen of tractors. Government of India also is putting a lot of trust on what they are calling custom hiring both for tractors as well as implements because the equipment is used only for a short period and therefore if it can be shared, clearly it becomes lot better value for the user. The problem is that everybody wants it in the same one week and therefore how do you do it when everybody wants it in the same one week. But all the same, we think that there will be lot more hiring that will happen and therefore you do not need to get to that 15 million figure before you, it will be nice for us from a business viewpoint but I do not think that will happen, it think it will saturate out at 7 million - 8 million.

**Hitesh Goel:** On the same thing there are a lot of channels checks on this, we are not seeing rental rates going up, so if that was the case the tractor rental rates should also go up. So what is your sense on that?

**Pawan Goenka:** What do you mean by rental base?

**Hitesh Goel:** The tractor rental per hour, if the renting is becoming very active I believe it should lead to higher rental rates?

**Pawan Goenka:** I think it is very early, there is almost zero organized rental that is happening in tractor today insignificant. When you get to organized rental, when you start getting Uber, Ola kind of players in the tractor industry who will then make rental much easier, convenient, then I think you will see that going up.

**Pramod Amthe:** This is Pramod from CIMB. Two three questions, one with regard to small platform on the SUVs. I think what counts is you have been able to create a decent vibe or the expectations on the product but looking at the Ford experience don't you think you need to work out substantially in terms of delivering volumes or doing a substantial work on supply chain to meet the customer expectations and maintain because we have seen either in the case of Scorpio or the XUV the ramp up times have been pretty long than the customer experience.

**Pawan Goenka:** You said Ford experience right?

**Pramod Amthe:** Yes, the Ford Eco Sport.

**Pawan Goenka:** Okay. See the thing is that when you have a successful new product launch, in the beginning the demand will go far beyond the supply and if we were to make capacity equal to the demand in the first three months we will have over capacity. There is no product in the recent times that has had that kind of demand after say first four to six month of launch and therefore we have to assess what will be a sustainable demand and only go up to that level. So, even if we have a waiting list, and we'll love to have a waiting list, even if we have it we have to just keep the waiting list because there is no way we can justify in bringing our output to the level to cater to the initial successful demand and everybody is doing that. So we cannot fall prey to false sort of thinking that if I am getting an order of 10,000 per month in the first three months then I should take my capacity to 10,000. So we will do it on the basis of what we see a sustainable demand and we will hopefully have a waiting list in the first few months.

**Pramod Amthe:** Do you think that you would have much more flexible supply chain this time as compared to historical times?

**Pawan Goenka:** No, so see with every launch our ability to ramp up becomes better than what it was it the previous one, so XUV obviously you would not have access to that detailed information, I can tell you that XUV ramp up was at least twice as steep as it was in the previous product that we had launched and the next products that we will launch especially sub-compact being a higher volume offering clearly our ramp up is faster than what it was in XUV. So, that is being taken care off. But if you are saying that will we ramp up to the level of initial demand, the answer is no because then we will have excess capacity for sure.

**Pramod Amthe:** Follow-up question to the same is, with the entry of Maruti and Hyundai in the rural markets, how are the customers' experiences changing with the rural distribution of the market and how is Mahindra gearing up towards handling the customer satisfaction and leadership there?

**Pawan Goenka:** Well, let me say that rural penetration has always been Mahindra's strength, we do not talk about it because that to us is given and so we have far wider reach in rural segment than what most people would know without looking at the data. Given that we are still penetrating more and more, we have done a very micro level dissection of the districts, tehsils in the rural area, we have a certain penetration today, and we have an aggressive plan to penetrate even more. But again it becomes a question of what is the right level because you have to have a minimum volume before you can set up a dealership in a tehsil. So we are doing all of that work. We do not see that we have any sort of disadvantage of any kind in terms of rural penetration. Clearly, when there are more manufacturers for focusing in rural area there will be more competition, but the same time the demand is also going up in rural area. So, in terms of our demand in rural area in absolute terms there is no slowdown. In terms of competition, yes there is more because the other players who now are looking at rural segment more aggressively.

**Chirag Shah:** Sir, Chirag from Edelweiss. Follow-up question on product ramp up, wanted to understand about your platform sharing because traditionally we used to have more number of platforms versus some of your peers shifting to monocoque compact UV can we expect more launches from the same platform and hence you can really ramp it up faster or how are you still following the old model or approach?

**Pawan Goenka:** So, three products that we will be launching will be the first sort of product coming out in that platform, but with time each of these platforms would be used for more products coming out with the same platform. So when you see the future offerings in FY17, '18, '19 you will see these platforms being leveraged more and more.

**Chirag Shah:** Similarly if you can just add up on the dealership in terms of how your spread is especially for automotive in terms of number and how you are looking at it ahead? And for Scorpio and XUV if you can share some flavor in terms of your mix in urban and rural, in top 10 cities?

**Pawan Goenka:** I am sorry I wound not have those details with me, I think our total number of dealership is around 500. Some of these are selling only personal products, some of them are selling only commercial, and some of them are selling both. All I can say is that our coverage is good, so there is no situation where the reach is not there, whether it for Scorpio, XUV or for any other LCV product our coverage is very good on the automotive product, I am not saying the same thing for trucks, for trucks we still need to increase our coverage. But for the AD product as we call it internally for our coverage is very good, not an issue.

**Chirag Shah:** Can you share some light on your LCV product that you would like to share with us, on the new LCV that you are trying to launch, is it in the existing portfolio or more of a pickup or sub-1 ton kind of a product?

**Pawan Goenka:** See, it is in sub-1 ton.

**Chirag Shah:** And when can we expect it in the near future?

**Pawan Goenka:** One of the three product, so either Q1, Q2, or Q3.

**Ambrish Mishra:** Sir this is Ambrish from JM Financial. Sir, just wanted to have on the tractor FY16 the company has been talking about anywhere between 5% to 7% growth. Other than monsoon what are the variables which really makes you confident about this growth?

**Pawan Goenka:** So it will also depend to come extent on interest rates, that is going to be important for selling price or for EMI. I think the other big factor will be the infrastructure and mining, if that opening up happens when I am saying 5% to 7% I am expecting that we will see a return to the best days in terms of interest in mining because a lot of the haulage demand comes from there, so that is the other factor that is important. So monsoon, haulage, and interest rates.

**Ambrish Mishra:** And sir also maybe I am not really sure about whether this is really happening but NPA provisioning norms for NBFCs is likely to change, how do you see that impact from 180 days to 90 days, do you think it can have a material impact on tractor financing and hence on the demand?

**Pradip Vaidya:** Well yes, I mean these NPA norms changing from 180 days to 90 days will have some marginal demand but not significant on the tractor demand. That will not be a factor which will have a significant impact on tractor demand so far.

**Ambrish Mishra:** Sir can we let's say share some information as to how much outstanding is let's say more than 90 days in our tractor financing portfolio?

**Pawan Goenka:** I am sure we have it but that is not something that we will share.

**Ambrish Mishra:** And sir just last question on UV1, do you think probably not really being the first mover and coming at a time when you have other large competitors coming in very close to us, pricing would be a challenge for us as to how we price a product and that will be a critical role in how successful the product is?

**Pawan Goenka:** Well, right pricing is important at all times from the time we launched the Scorpio when we had no competition to the time that we launch our first sub-compact when we have lot of competition, right pricing is very important and that is a decision that we make very close to the launch and a difficult decision because you want to neither go too low or too high in pricing. What I can tell you right now is that we are comfortable. We are comfortable in the sense of where we are in our material cost and where we see the competitive pricing that needs to be, we are not under any major sort of pressure on how do we manage the right pricing as well as right profit margin.

**Basudeb Banerjee:** Sir this is Basudeb from Antique. As you started the session saying that your gross margins have been pretty steady, and under this weak tractor demand scenario how has the cost of acquisition for the tractor customers from your side in last one year?

**Pawan Goenka:** So, there is a marginal increase in cost of acquisition, not an alarming increase but marginal increase both on the tractor side as well as on the automotive side. And the reason for that increase very simply is that whenever the volumes are under pressure customers know that they can probably get a good deal by shopping around. So, there is a little bit more of negotiation that the customers are doing today and given that both automotive and tractor business are high fixed cost business and therefore we are keen to increase our volume, there will always be tendency to give a little bit more of support to acquire customer. So, there is some increase. Whether it is here to stay or whether it will go away is hard to define, but at the same time you should also know that when that becomes a common phenomenon it gets adjusted in pricing. So price and acquisition cost kind of go hand in hand, and what we look at internally though what gets published is as per the requirement gross margin but what we look at internally is the gross margin after customer acquisition cost and that is what we track because that is the important figure because you can always increase price and give more discount or keep low price and give low discount.

**Basudeb Banerjee:** Second thing is sir like as per your experience which segment is more prone to rural utilization, whether it is the pickups or the sub-1 ton or LCVs? Because if we see this rural slow down continuing unseasonal rainfall happening incrementally and as you said till first half of FY16 you don't expect rural production to improve. So, shall we see pick up segment to remain impacted in coming three quarters along with LCVs or you will see pickups to remain insulated from that?

**Pawan Goenka:** I do not know if there is any difference in pick up or sub-1 ton in the rural, I am not aware of any sharp difference between pickup and sub-1 ton in the rural uses. So, it is probably about the same. And in fact the reason pickup had gone slow this year is because of the lower utilization happening in the rural area otherwise pickups should have done well, so both are equally affected.

So, just some closing comments based on the interaction that has happened. Again, I think the important thing to track for us and for you also will be in my opinion the following at the industry level and M&M level. One of course on the tractor side the industry turnaround is the key factor, I won't expect to see a huge difference in the market share of any company, there may be acceptance like what we have seen where one company has outperformed the market, there will be exceptions and it often is a different company doing it at different years. But more or less I think the market share should remain steady, the important thing is how the industry turns around.

As far as M&M is concerned between our Mahindra and Swaraj division, we are very well covered in terms of product offerings from the 15 horsepower Yuvraj Tractor all the way up to 60 horsepower with Arjun and we have good products that we have in each of these segments and in Swaraj will be launching more products this year in the (+50) segment that we are not present in. And therefore I do not see any competitive pressure coming on us on the tractor, the pressure that will come on us will be only in terms of industry growth, I do not see any pricing pressure coming on us, I do not see any cost pressure coming on us. The only thing that we are watching for is how the industry performs and I think that is the only important thing that will determine our performance in the tractor industry.

On the automotive side, I am pretty sure that the industry growth that I have talked about should happen. Give or take a few percentage point up or down, but should happen, I do not think that we are going to see a degrowth of the industry in the automotive side this year, the UV segment should grow, the passenger car segment will grow, the truck segment will definitely grow, the pickup in LCV I think will grow but that is the only one where there is a question mark on how well that will do. The important thing to watch for us this year will be in the next 12 to 14 months we will probably have more product launches than we have had in any 12 to 14 month period and many of these are very important key products for us that we have been talking about for quite some time. So, important thing to watch is how well these products do, that will depend on how we are able to price it, how well they perform in the field when we launch them and how well they meet the customer expectation in terms of product offering. So that is the key thing for us.

The other business, ancillary business, agri business, I am very comfortable and confident that it will continue to grow the way it is growing and will at some point of time become a major discussion point in these analyst meets, not a foot note but a major discussion point. Same thing is true for our mechanization business which is growing at a pretty good pace and we have very aggressive plans to grow in that business both organically and inorganically. So those things would be fine.

Very important year for the two wheeler and the truck business. The truck business is now turning around in terms of volume and everything the volume growth is here to stay and we think that we will participate more than proportionately in that volume growth during this year. We have done a lot of things in the last 12 months which has not shown up in results because the industry had been subdued, but I think once the industry takes up and then you will see the benefit of things that we have done in these segments. The only thing to watch for in the truck segment is how the discounting pans out, discounting has to come down for any player to make reasonable profit in this industry, right now it is still out of control. So, that is the only important thing to watch for.

Two wheeler on the other hand is all internal, there is no industry issue that we see. Yes, motor cycles are growing at a lesser pace than scooters, that will probably continue at the same pace but we have a strong motor cycle product and a strong scooter product and the PMTC acquisition that we have done I do not think we will launch future product this year by us. So, when I say this year I mean financial year, but that also will start coming into play, but it is a very critical year for us because we need to get to that critical volume of 30,000 - 35,000 vehicles being sold per month. So thing to watch for from your view point is are we reaching 30,000 - 35,000 volume per month without that in this industry one cannot really get a financial performance without getting to 0.5 million volume going up to 1 million, I am on record saying that we need 1 million volume and that is what we need. But this year therefore it is important for us to get 30,000 - 35,000, that is sort of my overview of how I see and the key control or measurement points for the business that I will be looking at and that is what you should be looking at also.

**K. Chandrasekar:** Thanks Pawan. Thank you very much for attending this interaction. I am sure that you would have got some insights and you would have benefitted from this. Thank you very much. We will continue to host such meetings in future also and once again thank you very much for coming. Thank you.