Reliance Broadband

AUDIO CONFERENCING SERVICE

TRANSCRIPTION REPORT

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Operator:

Thank you for standing by and welcome to the Q3 FY10 earning conference call for Mahindra & Mahindra hosted by Enam Securities.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone. Please be advised this conference is being recorded today.

I would like to hand the conference over to Mr. Sahil Kedia. Over to you sir.

Mr. Sahil Kedia:

Good evening. I would like to welcome all of you on the behalf of Enam Securities to the Q3 post earnings conference call of Mahindra & Mahindra Limited.

We have with us the top management of the company to discuss the results represented by Mr. Phadke who is the President, Legal, Financial Services and Member of the Group Management Board; Dr. Goenka, President of the Automotive Sector and Member of the Group Management ; Mr. Nagwekar, the CEO of the FES sector; Mr. Venkatraman; Mr. Chandrasekar; Ms. Sandhya Sharma; and Mr. Rajen Kavadia. I would like to hand over the call you sir and take it forward from there.

Mr. Phadke:

Thanks all of you for logging in such large numbers at this hour of the day.

You would have obviously gone through and analysed our results, so really I do not want to spend too much time on that except to tell you that there has been growth all around. Basically, the high level of profits Rs. 414 crores versus just Rs. 43 crores of last year have been made possible by significant increase in volumes both at automotive as well as our farm equipment sector; automotive volume domestic are up by about 73%, tractor volumes are up by 39%. Exports in both the sectors again are significantly higher over the corresponding quarter. So this large volume growth, accompanied by lower material cost to sales ratio, you would have seen that the current quarter's material consumption to sales ratio is about 450 basis points lower than what it was in the corresponding quarter. You would have also seen that how staff costs as well as other expenses as a percentage of net sales have gone down significantly. So there has been an all round control on cost, improvement in the volumes and efficiencies, interest costs are very low, and that is what has resulted in this 850% increase in the profit after tax as compared with the corresponding quarter. We have also provided you with an attachment which shows that even if you were to remove the effects of exceptional items like exchange loses, like octroi refund, like sale of the Mahindra Holidays shares by us, mind you all these factors are not relevant for Q3. Our Q3 profits remain what they are Rs. 414 crores, in fact after adjustments it becomes Rs. 424 crores. But in the corresponding quarter of the last year, there were huge exchange loses and which is where we thought that for your benefit we will adjust those exceptional items of the corresponding quarter of last year, and you would have seen that even then our current quarter profit is 159% higher than the corresponding quarter. Again, on a cumulative basis, even after adjusting the special items, current quarter profits are 129% higher.

Coming to the operating margins, they are 14.9% for the Q3 as against just 3% for the corresponding quarter, and they are 15.9% on a cumulative basis as against on adjusted margin of about 9% for the corresponding cumulative period. So, I hope you will appreciate that there is a very significant improvement in all the financial parameters to which we generally we refer for judging whether a company has done financially well or not. Having said that, I am aware that some of you were expecting a still higher level of profit. In a way I would say that is a reflection of the potential you see in our company, but I would like you to appreciate one thing that the type of margins which we achieved in Q2 of the current year, 18% plus, I mean you would have noticed, those of you who are analyzing quarter by quarter for the last few years, that those type of margins happen only rarely by the congruence of all possible successful factors coming together, namely the last quarter had festival months, the volumes were very high, the material costs which increased significantly up to December 2008 have started climbing down and they climbed down was almost at its peak at the end of the last quarter. Now, when you are looking for an economic cycle of any business and a particular cyclical business like ours, then you cannot really be expecting, by you I mean even we, we all cannot be expecting that 18% of the margins in our type of industry are really the sustainable type of margins. I think therefore what we have to look at is are the margins which we have achieved are on a cyclical basis, this 15% type of margin is it good, is it not good, is it comparable with what others in the auto industry are achieving, and apart from the margins, I would say that the financial success of the company at the end of the day is linked with return on capital employed. Operating margin is one plank of it, the other thing is volumes, and the third thing is how far we are able to keep our capital lean. So my request to you is, even as you analyze and make your recommendations, please bear all these things in mind rather than just trying to sequentially compare how our profits are vis-à-vis Q2 of the current year.

Since Dr. Pawan Goenka is here, I would request him to make some introductory comments before we throw the floor open for questions and answers.

Dr. Pawan Goenka:

Thank you for that.

I just want to put the auto sector performance in context and also talk a little bit about what's in store for us as we look forward to current quarter and next year.

For Q3 of this year, one of the most gratifying thing for us was irrespective of year-on-year or quarter-on-quarter growth was that we really are increasing our dominance in the UV market share and if you look at six years ago to where we are today in UVwe have grown from 47% to 63% in market share in the UV. We have also increased our market share in three wheeler, in auto business I guess market share is the single biggest indicator of how we are doing against the industry, and that is the reason that is most gratifying.

We have had again financially also our best ever third quarter in last six years, whether you look at it from OPM, whether you look at it from PBIT, you look at it from top line, bottom line, any angle that you look at, we have had the best third quarter in the last five or six years.

The market growth that we have seen for M&M comes from the fact that all our core products, that is, Xylo, Bolero, and Scorpio are very strong right now in the market. We have had absolutely no cannibalization that we were afraid of at the beginning of the year and the three products are doing very well. In the pickup segment, we continue to have absolute, almost a monopoly with 80% market share, and the new product that we have launched, which we launched about middle of the quarter, we will start seeing volumes coming in this quarter. So, Gio that we launched in November, the Maximo that we will start selling at the end of this month like about 10 days from now, and the truck that we will start selling in March, will start giving us the volume dividends from this quarter and going into the next year, and therefore for the auto business, in the domestic market, I am very sort of positive in terms of the volume growth that we would see based on the product portfolio that we have recently put in place plus what will come in the next 12 months.

On the international side, the exports we have seen very consistent growth for the last three quarter now. Our export had gone down to as low as 1100 vehicles in the first quarter of this year, then it raised to 1860, and in the third quarter, it went to 3300, and I continue to see the same kind of growth happening in the export numbers because now we see a sort of upside in overseas markets also.

We have a very good control on working capital. Our working capital is significantly negative. We have reasonable control on material cost, there was some increase in material cost, part of which we were able to pass on, part of which we had to absorb, and that's one of the reasons why OPM is somewhat lower than what it was in Q2, but other than that, I think everything else we have full control on whether it is debtors, creditors, working capital, inventory, and any of these elements. So that's about it.

Mr. Phadke:

Gautam Nagwekar who is our CEO of our Farm Equipment Sector, he will make introductory comments on the farm equipment sector.

Mr. Gautam Nagwekar:

Good evening.

As you would have seen the tractor industry has registered robust growth in the third quarter and even on a YTD basis. In the third quarter, the industry has grown by 37% whereas M&M has grown by about 39% and hence we have been able to move our market share from 41.2% to 41.5% in the last quarter. I think despite the drought in many parts of the country, the tractor industry has been able to register this growth because of the focus that the government has had on rural economy, especially on infrastructure projects. Also a lot of money, the MSPs that were increased last year, have put a lot of money in the hands of the farmers and these are primary reasons why the tractor industry has registered this kind of a growth.

We expect that this growth will not last beyond this quarter, Q4 looks to be good, but next year we will have to see, and we have to watch out whether the drought will have any impact on the Q1 performance, but I think with all the government focus we expect the industry growth to be quite robust in the next coming year as well.

That's all I have to say, if there are specific questions, we will take them later on.

Mr. Phadke:

We can now start the questions, so Sahil why don't you start the questions now.

Mr. Sahil Kedia:

Can we start the questions Operator please?

Operator:

Okay fine sir. At this time, if you wish you ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press # or the Pound Key.

First in line, we are having a question from Mr. Kapil Singh from Nomura Securities. Please go ahead sir.

Mr. Kapil Singh:

Good evening sir. I would like to know what is the price increase that we have done on an average in both auto as well as farm equipment segment? And second question is that after the price increase, where do we see the margins as of today?

Dr. Pawan Goenka:

On the auto side, from October 09 till now, we have taken on an average between 1 - 2% price increases on various models, which is compensating roughly half of the commodity price increases.

Mr. Gautam Nagwekar:

We haven't taken any price increase in Q3, but we have taken one now which will get implemented in this quarter and that will be in the range of 1.5 to 2%.

Dr. Pawan Goenka:

And again the price increases that we have taken are absolutely in line with what anybody else has done in the industry.

Mr. Kapil Singh:

Fine, and where do we see the margins after the price increase in the tractors division?

Mr. Phadke:

First of all, we don't talk about future margins, but I think from what Gautam has indicated, we have been able to pass on significant portion of our input cost increases through our selling price.

Mr. Kapil Singh:

Which we were not able to do in the third quarter.

Mr. Gautam Nagwekar

In the third quarter, we had consciously decided not to take a price increase. We were able to absorb that, and basically we have taken it now.

Mr. Kapil Singh

Okay thanks, that answers my question. Thank you.

Operator:

Thank you Mr. Kapil. Next in line, we are having a question from Mr. Pramod Kumar from B&K Securities. .Please go ahead sir.

Mr. Pramod Kumar:

Good evening sir. Thanks a lot for taking my question. I had one query on our non-tractor business in the farm equipment side. If you can just throw some light as to how that business has performed during the quarter in terms of quarter-on-quarter basis how the movement has been, that would be really great?

Mr. Gautam Nagwekar :

I think you are referring to our Powerol business which is part of the farm equipment sector. Now the Powerol business has seen a slow down this year largely because of the slow down in the expansion of towers that are being put up by the telecom sector. In terms of revenues, there is a dip quarter-on-quarter about 10% and we hope that this quarter will be much better than the Q3.

Mr. Pramod Kumar:

Sir, but we have been driving to make it more retail oriented with setting up of Powerol shops?

Mr. Gautam Nagwekar :

Which we have done, but it cannot compensate for the drop in volumes that we sell to the telecom sector.

Mr. Pramod Kumar:

Sir, what is our revenue right now for third quarter on Powerol side?

Mr. Gautam Nagwekar :

It is about Rs. 200 crores for the quarter.

Mr. Pramod Kumar:

This question is to Pawan sir. Sir, this is with regard to US foray. Because as we are getting closer to the launch in terms of, we are just awaiting the regulatory approval, if you can just throw some more light on the potential which is there and what can we expect in the first year of operations from launch of Scorpio in the US market, or Scorpio Pickup rather?

Dr. Pawan Goenka:

As you said, we are getting close to the launch now. We are just waiting for the final approval which I am hoping will happen before the end of this financial year. We have not yet talked about the volume that we are expecting from US during the first year of launch and I would not want to talk about that right now, it depends on lots of factors, the market is fairly large from our size point of view, though it has shrunk over the last three years, very large even now, and we have a certain plan in mind, but I would not want to officially talk about a volume target.

Mr. Pramod Kumar:

Okay, and sir, how big is the diesel entry level pickup market in the US because the data which comes out does not give the fuel wise classification and everything, just to get a potential as to?

Dr. Pawan Goenka:

Current compact pickup market which is what our pickups will be in US, does not have any diesel at all. It is all petrol driven and we would be almost the first unless somebody comes between now and when we launch, we will be the first diesel compact pickup launch in USA, and frankly we are counting on that as being our primary differentiator because what that does is that it gives us a fuel efficiency benefit of the order of 25-30%

compared to other pickups being sold in US today. And fuel efficiency in US is becoming as important as it is in rest of the world which has not been the case traditionally, and therefore we expect that our diesel engine and with the kind of fuel efficiency we have on our engine, we would have a significant or distinct marketing advantage or competitive advantage in that market.

Mr. Pramod Kumar:

Okay, and the Chicken tax issue still remains, right?

Dr. Pawan Goenka:

Chicken tax issues remains clearly. So as long as we are manufacturing the product in India, we will have to pay Chicken tax, though after about six months of launch we will take a call if we have enough volumes to justify assembly in US.

Mr. Pramod Kumar:

Okay, and sir on the Maximo side, just one question, what is the capacity which you are creating for Maximo sir?

Dr. Pawan Goenka:

Capacity will be whatever the demand is. In one of the benefits of the Chakan plant is the way we have configured the plant and a lot of effort has gone into doing it that way, we have tremendous flexibility in sort of aligning the demand and capacity, and therefore everything is going through the same paint shop, we have different body shops and so on and so froth, and therefore I don’t anticipate any constraint on Maximo because of capacity.

Mr. Pramod Kumar:

Okay, thanks a lot and best of luck for the future sir.

Operator:

Thank you Mr. Pramod. Next in line, we are having a question from Mr. Binay Singh from Morgan Stanley, please go ahead sir.

Mr. Binay Singh:

Good evening sir. Thank you for taking my question. Just on the tax rate, if you could tell us the reason for the tax rate going up, I believe it must be because of your Rudrapur plant and what percentage of tractors come from there and what is your outlook on tax rate?

Mr. Phadke:

Since you have asked this question, which has been asked to us earlier also by some other analysts, let me deal with it in slight detail. When you talk about the tax rate, first of all, I propose to you that you look at the cumulative period rather than the quarter, because as we proceed in any given financial year and the profit estimates increase, any technical extra tax liability of the earlier quarters also gets provided in the current quarter, so the cumulative picture will give you the reality check on what is our tax rate and if you look at it, then the cumulative tax rate for the 9-month period is 27%.

Now why this 27 and why not lower? So there are again two to three factors which I would like all of you to understand. One is that this 27% overall tax rate consists of two elements; one is the current tax which is what we actually pay out to the government, and second is deferred tax. So included in this 27% is an element of around 4% towards deferred tax, so therefore our real tax outgo per se, cash outflow, is only 23% of the profit before tax. Now, again if you compare with a quarter which had very less book profit, even 23% sometimes seem high, there the thing works out like this that all these incentives whether they are backward area incentive, whether they are dividend being exempt from tax, whether there is a weighted deduction on R&D, all these get exhausted when you reach a certain quantum of profit. So beyond that when you make any further profit, it is all subject to the marginal rate of 33% or 34% in fact. So, let’s say that in this quarter we significantly crossed that threshold beyond which the incentives do not give us any further relief and marginal rate applies. So as you make more and more profits, that I wish we keep making more and more profits, the tax rate on an average will increase. So I think look at 27%, look at 23% which is current tax and 4% is a non-cash charge which we have to make because of the accounting standard on deferred taxation, and you would appreciate that 23% versus 34% maximum tax rate is a quite efficient management.

Mr. Binay Singh:

And sir what portion of our tractors as such come from Rudrapur?

Mr. Gautam Nagwekar :

About 45%.

Mr. Binay Singh:

One last question, you just mentioned that tractor side, you see a very robust volume growth next year, would that mean another year of double digit growth or so?

Mr. Gautam Nagwekar :

May not be double digit, but with a high single digit.

Mr. Binay Singh:

Okay, thanks a lot.

Operator:

Thank you Mr. Vinay. Next in line, we are having a question from Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead sir.

Mr. Jinesh Gandhi:

Hello sir. Thanks for taking my question. My question is our RM cost, we have already seen some amount of cost push in our raw material side, going forward, what kind of cost escalation do we see, in terms of our RM contracts we are booked till what period?

Dr. Pawan Goenka:

We have booking only for sheet metal for the rest of this financial year, and beyond that we have no hedging because these days with the way the fluctuation happens in the raw material cost, it is difficult to know whether hedging is good or not good, and even the manufacturers are reluctant to hedge for the same reason because there is too much risk in hedging, so other than sheet metal we don’t have any hedging.

Now in terms of what do we expect to see in the future, we have had up to now this year, what I would consider low to moderate increase in raw material prices, not too much out of line from what one would see in a typical year of raw material cost increases, but that is in line with inflation. Right now, we see some pressure coming on raw material increases in some commodities, and therefore Q4 increase may be slightly on the higher side compared to what we have seen rest of this year, but not something that I would be overly alarmed with. Now, when we look at next year, next year again we are expecting that overall increase should be in line with what one would normally see in a typical year of raw material. So, if there is any sudden spurt in demand or if there is a sudden sort of diminishing of supply which is unplanned for, I think that while there is a raw material pressure, it will not be undue pressure this quarter and next year.

Mr. Jinesh Gandhi:

Okay, so effectively the price increases which you have taken of about 1-2% across both auto and tractor segment should take care of the cost increase for the fourth quarter.

Dr. Pawan Goenka:

Typically, in auto and I think tractor is slightly different and Gautam will comment on that, but typically in auto, the price increases are less than raw material price increases and it is compensated partly by efficiency improvement that we try and do in other costs and also the fact that volumes are growing and with volumes growing you have better utilization of the fixed assets and therefore our fix cost per vehicle comes down, and therefore that's for the balancing factor that we can try and do, but in the auto industry right now, because of competitive situation that we have in the industry, almost nobody will pass on the 100% increase in raw material cost to the customer, but we do try and manage our bottom line profitability.

Mr. Jinesh Gandhi:

Okay, and on the tractor again would Mr. Gautam comment?

Mr. Goutam Nagwekar:

On the tractor side, our endeavor is to pass on as much of the material cost increase as possible, but in addition to that, we also try and drive efficiency and have a host of other cost reduction measures in place which are able to protect our bottom line.

Mr. Jinesh Gandhi:

Okay, got the point. The second question is on depreciation. Depreciation we have seen sequentially has gone up to about Rs. 98 crores, was there any commissioning of new capacity or something capitalization which has resulted in that or…?

Dr. Pawan Goenka:

You are comparing Q3 to Q3 or Q3 to Q2?

Mr. Jinesh Gandhi:

Q3 to Q2?

Dr. Pawan Goenka:

In the auto sector, the Gio which we launched in November would have brought in capitalization of all the assets that we have put in for Gio including our product development cost, I don't have the number in front of me, but that is going to add to the overall depreciation.

I just want to go back to the Maximo question that was asked earlier. Just to point that Maximo segment is a very high volume segment where the current volumes are about 10,000 vehicles per month which is primarily, I am sure you are aware, is single product segment, and therefore the volume potential in that segment is significantly high, if a new product clicks well with the customers.

Mr. Jinesh Gandhi:

Right. And if one looks at our segmental margins, especially on the auto business side, we have seen sequential decline of 430 basis points, so to some extent it is also obviously because of RM cost increase, but is it entirely because of RM cost increase or..?

Dr. Pawan Goenka:

430 is somewhat deceiving because in the Q2 we had a significant amount of octroi refund, that has happened in Q2, Rs. 72 crores worth of octroi refund that has happened in Q2, I think accounts for more than half of that reduction, so out of 430 basis, I think 230 or 240 is because of Rs. 72 crores and the remaining that you have 150 basis points or 160 basis points remaining, out of which there is some element of stock correction, which then accounts for some 50 basis points, so that's the stock correction, and then the remaining there is left is raw material.

Mr. Jinesh Gandhi:

By stock correction you mean primarily usage of high cost inventory is it?

Dr. Pawan Goenka:

No, our stock has gone down compared to what we had opening of the quarter, so when the stock goes down, then there is a loss in OPM, lost in profitability.

Mr. Jinesh Gandhi:

Right, got the point. Thanks sir. I will come back in queue.

Operator:

Thank you sir. Next in line, we are having a question from Mr. Chirag Shah from Emkay Global. Please go ahead sir.

Mr. Chirag Shah:

Good evening everybody. Just carrying on this inventory reduction question, if I observe in Q2, the previous quarter, you had some Rs. 200 crores of inventory accretion, increase in stock, and is it that this increase in stock is largely of raw materials side or it was also product, if you just help us understand? Why I am asking is that if I observe your RM to sales, 4.5% benefit you got in last quarter which could be slightly deceiving because of this particular inventory accretion.

Dr. Pawan Goenka:

In Q2, yes that will be the case. What happens typically is that just before the festive season, we have to increase the stock because the capacity in the plant will not be enough to take care of the spurt of demand that we have in festive season. So, before Dusserra and Diwali, you will always see an increase in stock which gets consumed during Dusserra and Diwali, so then at the end of third quarter we come down to very low stock, and that's one of the reasons why Q2 profit margin or margin is looking a little higher than Q3, there are two factors that are very important, one is octroi that I mentioned and second is the stock correction which was on the positive side in Q2 and negative side in Q3.

Mr. Chirag Shah:

Sir, it was largely of finished goods rather than building inventory ….

Dr. Pawan Goenka:

Largely finished goods, because raw material we always maintain on the basis of the planning that we have for finished goods. Raw material you will not see too much variation happening, of course, the absolute number may go up because as our volume increases, number of days is kept ….. raw material will be in proportion to the overall revenue.

Mr. Chirag Shah:

Fair enough, I understand that. The second question was on segmental margins. Again, if I observe your segmental margins as a trend, if I go back into history say FY06, I have observed that your segmental margins on Q-on-Q basis are very volatile, so is that largely due to octroi entry or is there something else which I should look at? If you can just explain us how should one look and analyze this segmental margins, because since FY06 if I analyze your segmental margins, especially automotive business, they have been very volatile, in one quarter it could be at 15% and the sequential quarter it could then go down to 10% despite your sequential volumes being higher?

Mr. Phadke:

Okay, let me attempt this on behalf of both the sectors. Yes, certainly there is an exceptional item like octroi refund or forex difference and forex loss or gain, that will come out in the annexure which we give to our press release, so to that extent you can readily understand why the margins are different. So I think the more fundamental point which I have said in the past, I will say it again, is that don't look at margins on a quarter by quarter basis as if per quarter margins is sacrosanct. It is just a business cycle I would say, at the most you can break the business cycle as per the accounting year because that is reporting year, but within the accounting year as Pawan just now explained, there will be sometime stock build ups to meet the festive demand, for any other strategic pile up we want to do, some new product introduction, it will happen, and the next quarter, it will get drawn down. So I think wherever if you can see the cumulative period rather than standalone quarter that will give you a fairer picture of where the margins are because over the cumulative period, the stock build ups or build downs will get automatically adjusted, so I would urge you always to let us say in this results also look at the cumulative nine-month period rather than what has happened in Q3, because in Q3 we had the drawn down from the Q2 stocks which had its own effect on the margins, we had the effect of election from further firming up of the raw material prices, but I suppose longer the period you take, the less will be the volatility.

Mr. Chirag Shah:

If you can also indicate the extraordinary items that you classify and help us understand on segmental basis which segment it pertains, it would be helpful henceforth to understand the segmental margins?

Mr. Phadke:

I think octroi refund is clearly is only for auto sector. For the time being at least there is no octroi refund in the foreseeable future.

Mr. Chirag Shah:

Okay, and sir last question, if you can help us understand any assets are likely to be capitalized in fourth quarter and how much of capex would happen impact on depreciation, just to understand how things would look up in this year and next year?

Dr. Pawan Goenka:

We would have a new product that will start selling this quarter, which is the Maximo product, so all the investment that we have made in Maximo product will get capitalized this year, that includes the Chakan investment as well as the product investment.

Mr. Chirag Shah:

Okay, and what would be your capex outlook for the next year, purely that could be capitalized, I am not looking at loans and advances, has anything been on the verge of finalization in terms of capex?

Mr. Phadke:

Our capex plans essentially we are having major projects, so rather than breaking them down year wise, we always give for a three-year period or a four-year period what is our capex plan. Now, our capex plan as of now for the four-year period which includes the current financial year as well as the next three financial years, is in the region of about Rs. 7000 crores, which includes the capex which M&M is going to incur within M&M as well as the capex which will be incurred at Chakan, so Rs. 7000 crores over a four year period.

Mr. Chirag Shah:

Yeah, thank you very much.

Moderator:

Thank you Mr. Chirag. Next in line, we are having a question from Ms. Sai Anjali Nair from capital market .Please go ahead Ma'am.

Ms. Anjali Nair:

Hello, I just wanted to confirm regarding the capex which you say which is for four years, that is, from FY10 to FY13 is it?

Mr. Phadke:

That's right.

Ms. Anjali Nair:

Okay, and also to get a better idea with emission norms, once its implemented, what kind of incremental cost hike will take place in the vehicles?

Dr. Pawan Goenka:

It will be dependent on petrol versus diesel and various manufacturers have different solutions. It will be not right for me to tell you what the Mahindra numbers will be because that's competitive information and we will bring it out when we launch the product, but just to give you an indication, we have a BS-IV version of the Scorpio that is available where the price of the BS-IV version is Rs. 10,000 higher than the BS-III version, but we have said very clearly that this does not necessarily reflect the actual cost because this was done much ahead of the emission norms and when emission norms are implemented, then we will take a call on what the correct pricing to mention.

Ms. Anjali Nair:

Okay, but is it possible to generally see on industry terms like what kind of incremental cost?

Dr. Pawan Goenka:

At the industry level, companies will not share that information with others because every company clearly is trying very hard to have minimum possible impact or minimum possible increase in cost and nobody would want to share that cost with their competition, so I have no idea what the cost of others are, and therefore I don't want to share what our costs are.

Ms. Anjali Nair:

Okay, but is this by any chance impacting the sales, is it showing up in sales because the emission norms coming up?

Dr. Pawan Goenka:

In the passenger vehicles and light commercial vehicles, it is unlikely that you will have any advance buying, is that what you are asking?

Ms. Anjali Nair:

Yes, I would like to know.

Dr. Pawan Goenka:

It is very unlikely that you will have any advanced buying because the impact is going to be of the order of 1 - 3%, again depending on the product, the petrol, diesel, all of these, it will not be 10%, that is what I am trying to tell you; the Rs. 10000 that I told you on a Scorpio is just to give you an idea of order of magnitude, and therefore in the automotive, passenger vehicle side and light commercial vehicle side, I don't expect too much advanced purchase to happen; however, on the commercial vehicle medium and heavy trucks side, as has been seen globally, there is a significant level of advance purchase that happens just ahead of the emission norms because the price increase in those vehicles can be very significant, and therefore if there is an advance purchase it will be in the medium and heavy commercial vehicle segment which will, if that happens, that will be in February-March timeframe. But as you are also aware that right now there is some uncertainty on when the emission norms will get implemented because there is a problem of availability of fuel and the industry is in dialogue with the Government of India to see whether the norms can be postponed by three months or six months.

Ms. Anjali Nair:

Okay, but I just had a doubt because I have been reading about this also, but you are already bringing out vehicles like with BS-IV, like you said the Scorpio is already with BS-IV, so why is, could you elaborate?

Dr. Pawan Goenka:

It is getting a little technical, but I can elaborate if you are interested. See when we have the BS-IV solution right now, the BS-IV solution right now is done in a way to accommodate a BS-II fuel because we know that this vehicle could run into BS-II fuel, but when we had planned the BS-IV solution from April 1st, that time the vehicles are getting re-calibrated knowing that we will not have BS-II fuel and therefore you try and get lower cost, say right now we are putting some extra cost because we have to accommodate BS-II fuel, so then at that point of time, we will fine tune it knowing that BS-II fuel is not there, and therefore all the vehicles that have been planned, Scorpio happens to be one example, one vehicle that we have done right now, but all the other development that has happened for us and for any other manufacturer has been done knowing that the fuel will be BS-III and BS-IV.

Ms. Anjali Nair:

Okay fine. Thank you for your time sir.

Moderator:

Thank you Ms. Anjali. Next in line, we are having a question from Mr. Pramod Amthe from RBS. Please go ahead sir.

Mr. Pramod:

Hello, this is with regard to your forex impact in the quarter, can you quantify what instrument you retained, what it pertains to?

Mr. Chandrasekar:

In the current quarter, we have booked around Rs. 16 crores. This relates to the cancellations and other items which were valuations of which, impact which was brought into DIE most of it is so incremental was Rs. 16 crores is what I understand.

Mr. Venkatraman:

Rs. 16 crores is during the quarter and it is due to absolutely normal things.

Mr. Phadke:

Pramod, this type of 10 – 15 crores losses were always there. We are only pointing it in the line item because last year our corresponding figure was Rs. 166 crores, which was a very abnormality.

Mr. Pramod:

The reason why I am asking is you have large contracts on the currency front based on your export plans and even if they change by a quarter, they do have either it is because you are waiting for the permissions for a product or something, is it going to be much more significant as we go forward or that is where, I wanted to look at?

Mr. Chandrasekar:

Pramod, yes, you are right, we have taken some hedges for the future, in the sense, not too long out from today but we do have some outstanding contracts, roughly in the region of around 625 million, but those are, if I look at it for the estimated exports also, they are much below, we don’t take 100% covers anytime nor do we take at the zero level, so they are somewhere in between and this impact what we are talking about in terms of suppose there was under performance, we don’t think it will be the size what we saw in the past.

Mr. Pramod:

And second is, this is to Dr. Pawan Goenka. Sir, you have two great products on the LCV, one is Gio and second is Maximo, but considering the time gap between the two new product launches, do you see one of them facing a tougher times or how do you plan to take up these two products considering the potential available there?

Dr. Pawan Goenka:

Very interesting question. See, the same concern was raised when we had launched Xylo with a view we had Bolero on one end and Scorpio on the other end, we had Xylo in the middle, and is there enough space to have three products like this and will we be able to distinguish between these three products and really create an identity for each one of them, and I think the way these three products were marketed, that has happened very well, and today there is no sort of cross shopping between Bolero, Xylo, and Scorpio. The same attempt is being made here, it is not just an attempt, we have very clear value sort of definition that we have for Gio and for Maximo. They are catering to different segments of the market almost, and therefore we are quite confident we will be able to create different value statement for Gio and Maximo, and hence be able to create a place for both the products. Now the benefit that we have with Gio is creating a new segment completely, the segment does not exist today in India, which is that of 0.5 tonne four-wheeler, and this is the first 0.5 tonne four wheeler launched not just in India, I think almost anywhere that I am aware of, and therefore that product really is aimed at the current three wheeler owners to step up to a four wheeler without having to go all the way up to Rs. 3 lakh price positioning because Gio is at about Rs. 1.6 lakhs, Rs. 1.62 to be precise, and therefore for three wheeler guys who want the status of four wheeler, Gio is the right product, but on the other hand, if you want a product which has a higher capacity engine and can carry more load and be more of an intercity product because Gio is not meant to be intercity, it is more of a intra-city product, then Maximo is the product for you. Maximo is coming into a segment as I said earlier which is very high growth segment where there is a single player almost in the industry and therefore Maximo is directly pitched against that and taking volume away from existing volume where Gio is creating new volumes. So we are quite confident that we will be able to create a very different positioning of these two products which we have already started and not have confusion in the mind of the consumer as to which product is right for that person.

Mr. Pramod:

Okay, and just on the balance sheet, sir what is debt and cash levels now?

Mr. Chandrasekar:

Debt and cash level, cash we have around Rs. 2000 crores, it is roughly around Rs. 2200 crores, and in terms of debt, we have around Rs. 3000 crores, and Mr. Phadke has mentioned this, our debt equity ratio is at around 0.39, a little shade below 0.4.

Mr. Phadke:

And debt of course includes the 190 million of foreign currency convertible bonds which sort of we hope or rather expect that they will convert.

Mr. Chandrasekar:

Yes, they are the tipping point.

Dr. Pawan Goenka:

Once that goes out, what is the debt equity ratio?

Mr. Chandrasekar:

Rs. 1000 crores less, that ratio will become straight away, below 0.2.

Mr. Pramod:

Thanks and all the best.

Operator:

Thank you Mr. Pramod. Next in line, we are having a question from Mr. Jairam Nathan from Kotak. Please go ahead sir.

Mr. Jairam Nathan:

Thanks for taking my questions. I don't know if this was already answered, but why did your excise rate come down this quarter?

Mr. Phadke:

Excise rate has not come down in this quarter. What may look as if the excise incidence as a percentage of net sales is lower in the current quarter as compared with corresponding quarter of last year, that is because of the excise rate reductions which have happened in the intervening six months.

Dr. Pawan Goenka:

No it is not just that, it is also dependent on the product mix, I don't have the calculation in front of me, but there is significant difference between tractor, between the commercial vehicles, and between SUVs. Tractors have zero excise, the commercial vehicles have 8% excise, and SUV unfortunately have 22% excise, and therefore depending on what the product mix is the excise ratio may look different from quarter to quarter.

Mr. Phadke:

In February 2009, there has been 2% reduction, the in July 2009, there is Rs. 5000 per ….

Dr. Pawan Goenka:

If you are comparing Q2 and Q3, there is no change.

Mr. Phadke:

These types of deductions were not available in last year's Q3, they are available for the full quarter in the current Q3.

Dr. Pawan Goenka:

Sorry just one thing, also the products made in Haridwar are excise free even for commercial vehicle and passenger vehicle, so that also makes a different on the effective excise rate if you take a weighted average.

Mr. Jairam Nathan:

Okay, and you mentioned your expected growth rates for tractors next year, anything on the auto side, any first takes?

Dr. Pawan Goenka:

Well, whatever I say will probably be proven wrong at the end of the year, but I would be very surprised if the growth in FY11 is not in double digit, now I am saying this on the assumption that there are no significant sort of deterrents that come in the way. So if the economy plays out in the natural way, the commodity prices increase in the natural way, the interest rates go in the natural way, and not something unusual, then I would expect 10, 12, 13% kind of . So if there is no significant road block that comes, then 12-13% is what I would expect, which is in line with what we have been getting historically for the last four or five years except for last year.

Mr. Jairam Nathan:

Okay, that's all I had, thank you.

Moderator:

Thank you sir. Next in line, we are having a question from Mr. Srinivas from Deutsche Bank. Please go ahead sir.

Mr. Srinivas:

Thank you so much. This is Srinivas from Deutsche Bank. Sir, one question, just wanted to ask on the Punjab Tractors which has been now amalgamated. In the past, you have alluded to the gains which you have made on account of efficiency, so could you just let us know what is the level of per tractor gains you have made, just some numbers given in the past, and have those gains tapered off now, now it has been fully integrated. That is my first question. My second question is on a slightly longer term. If I look at Mahindra's margins overall, at the level of EBIT which you reflect, the margins have dramatically have moved up this year, starting first quarter, this quarter obviously it has come down a bit but still above probably your historical average, so where can we see on a steady longer term basis, let's us average of next six quarters, would your margins still remain above what we have seen in the past?

Mr. Phadke:

I don't think really we can predict what happens in three quarters, but one of the exercises which I got did sometime back shows that on a five-year basis or on a seven-year basis, the margins turned out to be around 10%.

Mr. Srinivas:

That's right. So, can we expect that the next two years to be at that level or because it fluctuates?

Mr. Phadke:

Tell me who will be able to promise today, because there are so many uncertainties in the situations; one is how the excise duty rates will move, second how the oil prices will move, how the forex rates will move, so all that I can say is that both the sectors are striving to ensure that quarter by quarter they will have a double digit margin, but beyond that I don't think we can say that, yes, we will have those margins.

Mr. Srinivas:

Sorry, but I just want to rephrase it. There has been a fair amount of changes in the company over the last almost 12 months both in the auto side and UV side, the kind of efficiency gains you have made both on probably tractors and autos, so new plant is coming up, you have now practically a new product line, so just from that perspective, do we expect the margins will revert to a mean level, I mean has there been some really structural productivity gains, that's all I am trying to understand.

Dr. Pawan Goenka:

It is not a very simple question to answer without getting you details that we will not want to talk about openly, but let me just tell you two things, without again getting into too much detail; one is earlier there was a question about the benefit of the Punjab Tractors and the Mahindra Tractor business, and I take liberty, Gautam has also said it earlier, that really we have not fully leveraged yet the synergy that can come by these two businesses becoming one business. Right now the focus has been on making the old Punjab Tractor business efficient, which I think we have done quite well, and Punjab Tractor now is as efficient as Mahindra division was, and now the focus will be on really taking advantage of the synergy between the two businesses. Similarly, now as you are aware, that from 1st of April, the automotive business and the tractor business also will kind of come under one umbrella, though not merge but come under one umbrella, and therefore it will give us tremendous benefit of synergy between those two businesses, and attempt is to get the synergy in the operations while we keep complete focus on the front-end and not confuse a customer by thinking of these as one business and therefore whether it is in sourcing, whether it is in product development, whether in the way we run our plants, whether in the way we have common services, there is tremendous potential for synergy. Now that sounds okay in a theoretical term, but there also are some specific things that are happening which will require cost increments for us. One of the things that you talked about earlier was the new plant. Now new plant when we put the new plant in place, there is significant investment that has gone into the plant and therefore the depreciation will be there that is coming in next year from that plant and the plant volume will ramp up over time, the volume ramp up will not happen overnight, and therefore there will be some balancing that will happen because of that. So what I am saying is on one hand, we have significant opportunity for synergy between Swaraj and Mahindra tractor business and between the tractor business and the automotive business that will start leveraging from 1st of April. On the other hand, we have the extra depreciation burden that will come from the Chakan plant. Now which one of these becomes bigger, we will have to see; of course, Mr. Phadke and I and Gautam, all of us would like to see the synergic part becoming bigger than the depreciation part, but let's see how the next year progresses.

Mr. Phadke:

I think since this question is important, I would like to slightly extend over what Pawan has said that beyond auto and farm equipment sector, actually in our group, there are several business which can lead to synergies being exploited at a group level, and we have several mechanisms of doing that. So whether it is Systech, whether it is Mahindra Finance, whether it is two wheelers, so actually we can have inter-linkages between so many businesses within themselves as well as at the corporate level that there is a huge scope, and I mean let me assure all of you that one of the mechanisms of exploiting the synergies is that we discuss synergy exploitation and best practice imbibement in our highest forum like management board or executive board, so I think synergy is one thing where I don't see any end to exploiting it fully. It is a WIP, and even in financial synergies, I mean if you look at the corporate treasury team, when they want to access funds or whether they want to deploy the funds, they will check with which company and which sector require what type of funds and ensure that procurement or deployment of finance happens at the most efficient rate. So I think it is an important question but rest assured that we are trying our best to maximize this.

Mr. Srinivas:

Thank you so much. I just have one last question about the Chakan plant. When do you we expect the Maximo to go on sale as in production and sale, any particular?

Dr. Pawan Goenka:

The production of Maximo started on 14th of December and the sale will start in the next 10 days.

Mr. Srinivas:

And NaviStar, any guidelines on when do we expect?

Dr. Pawan Goenka:

On Mahindra NaviStar, the sale will start sometime in March.

Mr. Srinivas:

Thank you so much sir. This is very helpful.

Mr. Chandrasekar:

The last question please. We are at about an hour's time so, we have spent an hour, so can we have the last question please?

Dr. Pawan Goenka:

And then I have one question.

Moderator:

Okay fine sir. I will take up the last question, that is Ms. Vaishali Jajoo from Angel Broking. You can go ahead.

Ms. Vaishali Jajoo:

Good evening everybody. This is just an extension to the raw material cost previously explained, if you can just give me a brief about your contracting with the suppliers, how it is placed and how it will be moving in the next couple of quarters?

Dr. Pawan Goenka:

I think we have answered that question. Basically, I said that the only contract that we have right now is on sheet metal. For other raw material, we do not have any contracts.

Ms. Vaishali Jajoo:

Sir is that on spot basis?

Dr. Pawan Goenka:

It is not spot because typically auto companies will not pay spot price. We will have a negotiated price that I am assured is always better than a spot price, but it is not a contract.

Ms. Vaishali Jajoo:

Okay, thank you sir.

Dr. Pawan Goenka:

Then, I have a question for all the analysts, if I could ask? Everybody does not have to answer, whoever wants to that I would like to see. My question really is that internally we were very pleased with the results that we had, and I thought that the kind of volume and the profit that we had was very good and we were feeling very good about it, but I thought that the indication I got was that analysts were not very happy, they were expecting higher profits, I just wanted to understand from one or two of you on why analysts were expecting higher profits?

Mr. Chandrasekar ;

Or why the stock prices went down?

Dr. Pawan Goenka:

That's the actual question I want to ask. If one or two can try answer that question to us, for me non-financial guy, I am sure Uday Phadke knows and Chandra knows, but for us non-finance guys.

Mr. Chandrasekar ;

This is a reverse earnings call.

Dr. Pawan Goenka:

Anybody wants to try and answer that question?

Mr. Sahil:

Sir, Sahil here. I think Mr. Phadke answered it himself.

Dr. Pawan Goenka:

I don't want Mr. Phadke's answer, I want answer from analysts.

Mr. Phadke:

Sahil, you can answer it if you want.

Mr. Sahil:

I am giving the answers for some of us who were there on the call, I think it was as Mr. Phadke mentioned, I think, we expected the earnings for the company to be ahead of what, in line with, marginally lower than Q2 levels, so we were actually expecting it, this is in a way kudos to the company in terms of their profile that your margins etc., have been typically very good, so we were actually expecting better things continuing, so that's the only thing, there is nothing per se on the business front, I think we just may be over estimated the numbers that's all sir.

Dr. Pawan Goenka:

Okay, anybody else has a different take on it. Fine, that's it.

Mr. Chandrasekar ;

Thank you very much all of you on behalf of Mahindra & Mahindra senior management. Thank you for listening in and Sahil would you round it up.

Mr. Sahil:

I would like to thank everyone both on the company's side and the participants for joining at this late hour. Thank you so much.

Operator:

That does conclude our conference for today ,thank you for participanting on reliance Conferencing Bridge. You may all disconnect now