

# ‘WE WILL GROW FASTER THAN SECTOR’

*At a time when the auto industry is worried, Mahindra & Mahindra (M&M) is out with impressive numbers for the fourth quarter of financial year 2009 (Q4FY09)—its gross revenues and other income rose 13.8 per cent year-on-year (y-o-y) at Rs 4,171.6 crore and the net profit after tax grew 33.8 per cent y-o-y after amortisation of foreign currency loans. M&M president (automotive sector) Pawan Goenka discusses the company's robust performance and its plans for the future in conversation with Tejas Vahalia*

**In Q3FY09, M&M's topline took a clear hit. However, it performed well in the first two months of Q4FY09 though the auto industry was not doing well. What helped M&M defy the market trend?**

We launched Xylo in the beginning of Q4FY09. Then we launched the new Scorpio in the first week of March. These two products not only did well themselves, but also created excitement about our other products in the range. All our four utility vehicles (UV)—Xylo, Scorpio, Bolero and Pik Up—did extremely well. That helped us outperform the market. We currently command a market share of over 60 per cent in the UV segment.

**What's your take on credit availability for customers in the coming year?**

Liquidity was a problem in Q3FY09. Availability of finance became difficult for even creditworthy buyers. Since banks were unable to recover loans in many cases, the Reserve Bank of India issued stricter guidelines for auto loans. This hit the auto industry's growth. Going forward, I expect credit availability to be easier since the government has pumped money into the economy through its stimulus measures. Interest rates could head downwards due to benign inflation. In fact, liquidity improved significantly in Q4FY09.

**You have merged the business of your subsidiary Punjab Tractors (PTL) with the parent company. There has been a stake sale in Swaraj Mazda. Are you looking at consolidating your tractor business?**

By merging PTL with M&M's tractor

business, we have created a tractor operation which has a market share of more than 40 per cent. We are dominant in the tractor segment and our distance from the second-best player has almost doubled [after the merger]. With the merger, we have a sustainable presence across a wider market. PTL was a strong player in some markets and M&M in some others.

**Tell us about the new Chakan facility.**

The Chakan facility is one of our most ambitious expansion plans. The plant is coming up on 700 acres of land, which is more than the combined area on which all our current plants have been set up. The operation of the plant is scheduled to start in October. The project is running exactly as per plan. The facility would have a capacity of 300,000 vehicles. We would start on a lower scale and ramp up the capacity to the optimum level over a period of time. All new products will be manufactured at the new facility. The current models would continue to be manufactured at our current facilities. We have a couple of new products lined up. We will launch a four-wheeler sub-1-tonne load carrier. This would be the first product to roll out from the facility and is scheduled to be launched in October or November this year. Then we are planning medium-to-heavy-duty trucks. Its production will start between December and January. The

third product would be a premium sports utility vehicle. Its launch is planned for November-December 2010.

**What's your take on commodity prices considering that an auto company is a big consumer of metals?**

Commodity prices are a big concern for us. Last year, our profitability was hit due to high commodity prices along with lower demand for vehicles. In some segments, even the excise duty went up. All auto companies suffered on this account. It is not possible to pass on the increased costs to the consumers in a four-wheeler business. Right now we are comfortable with commodity prices. But if they start rising again, we will be in [trouble]. The current scenario on the commodities front is not alarming, but we see some signs of commodity prices increasing.

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**The contribution of exports towards net earnings is increasing for auto firms like Maruti and Hyundai. Exports accounted for around 10 per cent of Maruti's sales in FY09 compared to 6.5 per cent in FY08. More than half of Hyundai India's sales in 2008-09 in terms of volumes were due to exports. Is there such an opportunity in your prime domain, the UV segment?**

We are trying to increase our exports and are proactively [focusing on] the US market. The US launch of our products



will add significantly more volumes and lead to our export volumes [increasing to] 7-10 per cent as is the case with some other auto players. To start with, we are launching the Scorpio Pik UP single cabin and double cabin in the US.

India has emerged as a global hub for the manufacture of small cars. We believe the small car story can be replicated in the UV segment as well. The multi-utility vehicle (MUV) segment has its roots in India. They have actually been designed and developed in India. The government should provide incentives to make India a hub for MUV manufacture.

Logan sales declined from 25,891 units in FY08 to 15,423 units in FY09, according to data provided by the Society of Indian Automobile Manufacturers (SIAM). Are there any plans of revamping the model?

When you launch a brand new product, the volumes are always good in the first year, particularly in case of B and C segment cars. [In subsequent years], the number settles down to a range that we now have in the case of Logan. Except for one or two models, C segment vehicles sell in the range of 800 to 1,000 units per month and Logan is right up there. We are looking at what else we can do in the C segment space in terms of introducing or revamping products.

You have entered the two-wheeler segment with the Kinetic Mahindra brand. What are your expectations from the business and future plans?

We have just begun our two-wheeler business. We have acquired the assets of Kinetic. The non-functional plant has been restarted and the process of ramping it up is in progress. Once things stabilise, we will introduce products. We plan to become a significant player in the segment.

What kind of growth can be expected from M&M in the coming year and in which areas? Will the auto sector, which was sluggish in FY09, recover in FY10?

Because we are getting into new segments through our various new launches, I assume that our growth in percentage terms will be higher than that of the industry. However, it would be difficult for me to mention a specific growth figure because there is so much uncertainty in the industry. There are many factors that could influence growth. ||

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