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We are here for the long haul, no rush for M&A: M&M

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President Automotive Sector

M&M

At a time when the overall passenger-vehicle industry seemed to be struggling to post growth and manufacturers are forced to cut production, [Mahindra & Mahindra](#) is the only company that is sitting pretty thanks to its XUV leading the ranks in 2012 as SUV of the Year. In an interview on CNBC-TV18, Pawan Goenka, president, M&M shared the details about the future prospects of the company.

Goenka also said that the breakeven would depend on industry's performance in the quarters ahead. "It looks like even the fourth quarter will be a struggle. We do need to sell 700-800 trucks a month to breakeven," he said.

Further, the auto-maker is ready to launch new petrol SUV in six to eight months. The company is working towards launching a petrol variant of XUV 500 for export markets, he added.

Below is an edited transcript of Pawan Goenka's interview on CNBC-TV18.

Q: What made you acquire Navistar group's stake in Mahindra Navistar Automotives?

A: Such decisions are never made based on what is happening today. They are always based on how the industry is going forward. It's a 5-15 year bet and not a six month bet that we are taking. We have full confidence that even though the commercial vehicle industry is down right now, it is going to come back because it has to come back and there are no two ways around it.

Whether it will happen in three months, six months, one year that I don't know, but it will come back. Therefore, for Mahindra to not put complete focus on commercial vehicles was never an option. We are here for the long run and will continue to be here.

We acquired Navistar's stake because right now Navistar has decided to rationalise various investments, prioritise the investments they have. They have decided that for them this is not the right time to continue to support this joint venture (JV) because it is losing money. Therefore they thought it was best if they opted out and Mahindra continued the business on its own. They are fully supportive of the business and guaranteed full support.

Q: In 2005 when the joint venture was formed, so as you said that the company is yet to break even. Now with the fact that it has become a 100 percent subsidiary of Mahindra and Mahindra (M&M), what is the road plan going forward? When do you think the company would turnaround, breakeven?

A: Breakeven depends a lot on how the industry behaves in the next year. We were hoping that the fourth quarters of this financial year would be a better year for the commercial vehicle industry, but right now it doesn't look that way.

It looks like even the fourth quarter will be in struggle. We do need to sell, an order of 700-800 trucks a month to breakeven. We are far from it right now. It can happen quickly if the industry turns around because our products are liked reasonably well by customers, So I don't see why we cannot sell 700-800 trucks. But in the current state of industry, it is difficult.

The plan forward will involve the joint venture, Mahindra Navistar Automotives Ltd (MNAL), to continue to be a totally independent company with its own dealerships, technology, R&D, and sales force. The only thing change is that instead of having two two owners, it has one owner. Of course, the Mahindra management will be somewhat different than joint management by two companies.

Q: By when do we see the board being composed solely of Mahindra officials?

A: That will happen very soon. We have just declared today intent to make the change. It will probably be, one and half to two months before the change actually happens, when we complete all the paper work, get all the approvals and so on so forth. As soon as the change happens, as soon as we give the money immediately the board will get reconstituted to 100 percent Mahindra board.

Q: It was also a case of Navistar wanting to move out. They wanted to focus more on their core companies. In that sense will you be in a position to infuse more capital into this now 100 percent subsidiary company?

A: Absolutely. We have to because right now the company is losing money. We have to support the company for year, two years before it starts producing cash. Until that point Mahindra is fully committed to make the investment that is necessary to fund the losses as well as fund the capex. This is to go from here to where we want to be two years from now.

Q: Can you give us an indication, how much you would be investing in the short run into the company?

A: That is very hard to calculate right now. It depends to a large extent on the losses that the company would have which I obviously wouldn't want to talk about. In terms of new capex we probably will invest Rs 200-300 crore over the next three years. This is to bring out the different variants of the current truck, also to develop the Bharat Stage IV (BS-IV) version. This we don't have right now and some other engine options that we are working on with Navistar to bring into this truck.

Q: How challenging is it now for you personally because you are looking into so many businesses. There were at least indications, rumors that you might increase your stake in Mahindra Reva going forward. What will you do with these companies which are yet to breakeven? What will be the strategy now?

A: Each of these companies have a certain strategic place in our portfolio of automotive offerings. As for Mahindra Group, we always invest for future while we have a core giving us the strength to invest in the future. So, one thought could be okay you are making lot of money in automotive division and tractor. Just sit on the cash and do nothing with it. Other thing will be that we have the opportunity right now to invest in some new opportunities, lets invest in them. We will lose money in the initial years but these are the ones that will give us the growth in the future.

I will add one more, construction equipment. So, we have at least four initiatives which have mobility related connotations. The truck, the electric vehicle, SsangYong and the construction equipment where we are in fact losing money, but all of this is in context of where we will be two to five years from now. So, if one looks at SsangYong for example, it's a USD 3 billion company today. A USD 3 billion company, if it was to make at some point of time let's say five percent profit, that is more than sufficient to pay for any investment that we have made.

Q: Are you hoping, what Jaguar Land Rover (JLR) has done for [Tata Motors](#), SsangYong will do for Mahindra?

A: I don't want to compare. However, certainly when we have made investment of that magnitude, we have made the investment with a view that, that investment will pay us back directly. This will be in terms of tangible return that we get from that investment. And the intangible return that we get in terms of the synergy between Mahindra and SsangYong. So, the latter part has already started by various things that we have talked about in the past, on what is happening because of synergy between SsangYong and Mahindra.

Coming to truck, the truck industry traditionally has been a very high profit industry. It is only in the last couple of years that it has become somewhat constrained. This is because of two reasons, the industry has slowed down and there are many new players that have come in. The six or seven players that have come in, there is no way that all of them can be successful. I am sure that each one of the six or seven players think they are going to be the ones who will be successful, we sure think so.

Q: Is it true that the commercial vehicle industry cannot absorb so many new players entering, like in the car industry?

A: I don't think so, because it is a situation where there are two very strong players and those two strong players will not just sit there and watch others come in and take away market share. Only the fittest will survive. You will require the product, infrastructure to sell and service the product, you need the brand and the confidence of the customer. None of these things are easy to get. In fact many are realising now that it's much harder than they thought. So, only few will succeed out of the new players and we hope that we will be one of those.

Q: Ratan Tata in his annual general meeting (AGM) address mentioned the competition to Tata from some of the newer players especially Navistar. It is been a remarkable year for Mahindra's core automotive business. If in January 2012, someone were to tell you that you would end 2012 like this would you have believed it?

A: We certainly expected good growth this year on the launch of the XUV and the Quanto but we didn't expect this kind of growth in the utility vehicle (UV) segment. So, the growth volumes was not beyond expectation as compared to the growth in the UV segment which was beyond expectation.

New products in the segment which have done extremely well to drive growth in the UV segment and the pricing of diesel contributed to the growth of the UV segment at 55 percent and has been unexpected.

Q: Your exposure is in diesel. Earlier many felt that diesel vehicles do not deserve the kind of subsidy that is meant for commercial vehicles, so let's impose a tax. Now people are talking about pollution. Diesel vehicles are more polluting. Will the government act upon the issue because there is a strong anti-diesel lobby that is at work?

A: It is a strong anti-diesel lobby, rather than strong I would say vocal anti-diesel lobby. If you really look at people who are lobbying against the diesel vehicles, it always comes back to same set of people who are lobbying against diesel vehicles. I will not name them.

There are same set of people who come back and lobby against diesel vehicles and have used different reasons why diesel should be made unaffordable at different times depending on what happens to be the flavour of that month.

So, at some point of time they said that diesel is dirty, very soon that argument became non-explainable, there is no way you could claim diesel is dirty. I don't think diesel should be subsidised as there is no justification for slowing down the growth of diesel which is a CO₂-friendly fuel among other benefits. The BS-IV vehicle-models are 80-90 percent cleaner in terms of particulate matter than compared to BS-II vehicle-models.

So, it is very difficult to justify the imposition of a tax on diesel vehicles. I am all for an increase in diesel fuel prices. I fully support the The Rs 5-increase in diesel. I think another Rs 5-7 increase will bring about diesel-petrol parity. After all, the prices of both fuels could go up or down on global crude oil prices. So, I think a mountain is being made out of a mole hill.

Q: What are you doing about the lobby? Can you give us some plans like the petrol plans? How are you de-risking your business model?

A: Right now in India to have a petrol SUV will take us nowhere. There are no takers for petrol SUV.

Q: Ford is in fact coming out with Ecosport, will that have a petrol engine?

A: That will have petrol, but if you look at the growth of SUVs today, its purely driven by diesel vehicles. So, we will have to see how a petrol SUV compares because there is no petrol SUV in the normal price-range.

We do export petrol SUVs. So if there is a situation where the diesel SUV becomes unaffordable, we can always launch the petrol SUV not next day, but within six to nine months of something like this happening.

Q: Does that mean you would be ready?

A: We are ready because we are exporting. Today we are exporting petrol Scorpio, we are currently working on a petrol XUV, not ready yet, but will be ready in some time again for export right now. So, for export we do gasoline SUVs and that we can launch in India also though we do not think that is the right product for India because in India SUVs are driven put to heavy-duty use and which diesel is the ideal fuel and not petrol.

Q: After the company announced it will only focus on SUVs a year ago, has your outlook changed since then?

A: Nothing has changed.

Q: So your focus will still be on SUVs?

A: Our focus will still be on SUVs though with every new product-launch in that segment we keep expanding the range of our SUV offerings.

Q: That means there is no truth in the rumours of Mahindra & Mahindra's plans to launch a small car?

A: Absolutely.

Q: When you would show interest in another manufacturer, there would be some logical co-relation, in case of JLR, primarily SUV? You have ambitions to become a global SUV player. SsangYong ofcourse clearly fitted in. In case of Aston Martin it was completely different story. There did not seem any such co-relation. Is the company open to make acquisitions within the automobile space in inorganic areas?

A: There are three things. Number one, we have never said that we have bid for Aston Martin. It was speculated that we have bid, it was speculated that we have lost out, we have never said that we have bid or not. When we have not said we have bid or not, I cannot talk about the justification for why we should have bid.

I will never say that we will never look at anything beyond SUVs or UVs. We have to be open, we have to see what are the opportunities ahead of us. Clearly we want to be more significant player in the global automotive arena, whether that happens by us becoming a deeper and deeper rooted in SUVs or by expanding beyond SUVs, that remains to be seen.

Organically our growth will be based on the SUV segment. Inorganically, we will continue to look at opportunities outside the SUV segment. Aston Martin was never a volume play for us. There were rumours that Mahindra & Mahindra lost out in the race for Aston Martin. How could we be in the race and lost out when we were not even interested?

Q: So you never bid for Aston Martin?

A: I would never answer that question.

Q: But if you don't answer, won't people think you lost out?

A: If it was a wrong thing to do, then we couldn't have lost out. Then you should say we won.

Q: At no point then you considered it a serious proposition?

A: Today, Mahindra is approached on any merger and acquisition (M&A) deal in the automotive space- whether it is the selling of a USD 100-million or USD 5-billion worth company. But we will consider only propositions that prove to be a good fit because to grow beyond what we are we have to grow organically and inorganically.

Q: In case the Aston Martin proposal had come to you?

A: It will come. Any company, not just Aston Martin. that is up for sale will approach us and ask us if we are interested.

Q: You were never really serious about the acquisition?

A: That I will never answer. You will have to wait for my retirement when I write a novel and then I would talk about it.

Q: Which are some of the countries where you see opportunities coming up in terms of acquisitions?

A: It is not a question of country. Today if you look at automotive companies, lots of hands have changed over the last four to five years. Nobody knew that Aston Martin will be on sale about 12 months ago. Similarly, what will be on sale tomorrow we don't know yet. Proposals keep coming to us- some are serious while others are not. I cannot talk about the proposals before us.

Q: There are still proposals lying with you?

A: Yes of course - for outright purchase and investment for a small stake. But the time has to be right and we are in no hurry. We are growing very well and investing for future expansion and we are quite happy ever if there is no M&A.

At the same time we are willing to wait 10-15 years for the right proposal. We are not going to jump into something just because it happens to be in front of us and looks glamorous.

Q: When we last met at the SIAM conference, you said Andhra Pradesh, Madhya Pradesh and Maharashtra are states where you have zeroed on for your new manufacturing plants. Any update on that?

A: I don't think I would have mentioned Andhra Pradesh. The only thing I would have mentioned at that point of time is that Maharashtra is one of the states that we are considering. I wouldn't have probably named other states that we are considering. It is not right for me to do so.

Unfortunately we are in same situation today. It is something that I have gone on record many times to say that the time has run out. In fact today we had a meeting. The project team is worried about, when we will decide where to have the next plant. Unfortunately we are still waiting for the final answer from some of the states.

Q: Why the delay?

A: Delay is just the response that we need to get from some of the states to our proposal and some fine tuning of what we need. Right now I would say we are down to two states, Maharashtra and one more. I would hope that as early as tomorrow if I can do it and we are able to announce. We are waiting for the final proposal from these two states. Then we will be able to make a quick decision on which one we want.