



“Maruti Suzuki India Limited Q3FY11 Results  
Conference Call”

**January 29, 2011**

**MODERATORS: MR. AJAY SETH – CFO**

**MR. PRADEEP GARG – CGM, FINANCE**

**MR. RAHUL BHARTI – HEAD, CORPORATE PLANNING**



**Moderator:** Ladies and gentlemen thank you for standing by and welcome to the Q3FY11 results conference call of Maruti Suzuki India Limited hosted by Emkay Global Financial Services. At this time, all participant lines are in the listen-only mode. The call will commence with the brief on the company's performance in the quarter followed by Q&A. At which time if you wish to ask a question, please press \* and then 1 on your touchtone telephone keypad and then wait for your name to be announced. I would request participants to restrict themselves to one question during the initial round of Q&A. I would now like to hand the conference over to Mr. Chirag Shah of Emkay Global Financial Services, thank you and over to you.

**Chirag Shah:** Thank you Melissa. Good afternoon everyone. Thank you for joining us today. On behalf of Emkay Global, I welcome the team of Maruti Suzuki India Limited and thank the management for giving us the opportunity to host this call. I would now like to hand over the call to Mr. Vivek Kumar who will take it from here on. Over to you Vivek. Thank you.

**Vivek Kumar:** Thanks Chirag. Ladies and gentlemen welcome to the Q3FY11 results conference call of Maruti Suzuki. May I introduce you to the team from Maruti Suzuki, we have our CFO Mr. Ajay Seth; Chief General Manager, Finance Mr. Pradeep Garg; Head of Corporate Planning, Mr. Rahul Bharti; and team members from Finance. The con-call will begin with a brief statement on the performance and outlook of our business. After which, we will be happy to receive your questions.

May I remind you of the safe harbor, we may be making some forward looking statements. They have to be understood in conjunction with the uncertainty and the risk that the company faces and I may also like to inform you that the call is being recorded and the transcript will be available at our website. I would now like to invite Mr. Seth. Over to you sir.

**Ajay Seth:** Thank you Vivek. Good afternoon ladies and gentlemen. I would like to first briefly take you through our business and financial performance for the quarter ended 31<sup>st</sup> December 2010. This quarter, Maruti Suzuki had its highest ever sales and grew by 36.8% in unit volumes in the domestic market. This growth in the domestic market was driven by a strong festive season and good consumer demand throughout the quarter. In the month of December, the company witnessed highest ever retails of more than 138,000 units.

Competition actively intensified with some more launches and advertisements; however, Maruti Suzuki had a fresh product portfolio with good styling, contemporary technology, best performance, and lowest total cost of ownership. With this, we were able to protect our market share at 45.5% in the overall passenger vehicle market in the first nine months of this financial year. This is within 1% of our average market share for the past 7 years. If you look at the third quarter, our market share was 47.7%, about 1.5% above our average market share for the past 7 years.

In exports with economic slowdown and absence of any scrappage incentive, the demand from the European markets continued to be dull. Our efforts to develop non-European markets paid

off well in the third quarter. They contributed 70% of the total exports, up from 20% last year. Our total export volumes declined by 20% in this quarter. In the quarter, we faced challenges on the rising commodity prices, unfavorable currency movements both in imports and exports. Since we had a significant unhedged position, the impact showed on our quarterly profits.

Our human talent is one of our biggest sources of competitive advantage and we would like to take care of our human resources. We restructured the employee remuneration package in line with market trends and the annual increase was paid out in this quarter. The total increase in employee cost to net sales is 75 basis points, out of which the recurring impact is about 20 basis points on an annualized basis and the rest is of one-time nature. With this, the company registered quarterly net sales of Rs. 92,767 million, a growth of 26.5% over the same period last year. Our net profits after tax stood at Rs. 5,652 million, a decline of 17.8% over the same period last year.

I would now share our thoughts on our outlook for the rest of the year. We expect the demand momentum to broadly continue in the fourth quarter; however, we will have to carefully watch out the factors like rising fuel prices, interest rates, credit availability, and higher commodity prices. In case the growth momentum continues into the next year, we are prepared. Our engineers have worked on innovation and productivity improvement projects and we are now capable to produce at a rate of 1.4 million per annum starting first half of the next financial year. In the second half, we expect some capacity increase from the Manesar second plant. In exports, we will keep our focus on non-European markets, but we will see some de-growth on account of Europe. On the cost front, commodity prices are rising steeply and are a matter of concern along with foreign exchange fluctuations. We will keep our efforts on localization, cost reduction, and innovation to protect and enhance our profit margins. The company is making significant efforts in enhancing scalability, quality, cost technology, and service to delight our customers and in turn delight our investors. I would now like to invite any questions or suggestions you may have. Thank you.

**Moderator:** Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Hitesh Goyal from Kotak Securities. Please go ahead.

**Hitesh Goyal:** Can you just detail out your capacity expansion plan again and could you also tell us what is this one-time impact on the staff cost. Are you referring to the bonus payments that were done during this quarter?

**Rahul Bharti:** I will take your first question first. Our capacity, beginning next financial year, would be 1.4 million cars per annum and our second plant at Manesar will come up sometime in H2 of next financial year which will increase the capacity by about another 250,000 cars per annum. So we believe that if the industry grows anywhere from 15 to 20%, then we should be in line with market demand. The second is, we restructured the salaries, the compensation structure, and the entire year payout was done in Q3, the increase. The recurring annualized impact as Mr. Seth mentioned is 20 basis points, but one-time nature which is visible in this quarterly results is about 55 basis points.

- Hitesh Goyal:** So what is the level of salary, as a percent of sales what is the normalized figure to look at?
- Ajay Seth:** We should remain in the vicinity of 2 to 2.2% depending on the number of people which are added on based on capacity etc., but our focus is that we should not go beyond this bracket. We are at 2.5% in the current quarter and if you were to eliminate the 0.5% impact as Rahul just mentioned, we will be at 2% as of now, but we will remain in the band of between 2 and 2.2%.
- Hitesh Goyal:** And last question is on royalty, why has the royalty cost gone down if there is an impact on yen on the royalty and how does this royalty move going forward. Can you just detail that out?
- Ajay Seth:** We had earlier also mentioned that royalty is a combination of, one, exchange rate and two, of the product mix. If you see the export volumes in this quarter have fallen, the royalty payout in exports is higher compared to the domestic models and also the proportion of non-royalty paying models of exports have also gone up. So it would be in that proportion and this band that we talked about between 5-5.5% would be the right band to look at.
- Hitesh Goyal:** Okay sir, thank you very much.
- Moderator:** Thank you. The next question is from the line of Abhijeet Naik from CLSA. Please go ahead.
- Abhijeet Naik:** My question is on the demand environment in the car industry, I know you track things like footfalls in the dealerships and what is the conversion from enquiries to sales and things like that. From December to January, are you seeing any signs of slowdown or any incremental softening of these parameters on the ground which might give you some cause to worry?
- Rahul Bharti:** Fortunately no. We can see excellent demand momentum as of now on the ground, whatever feedback we are getting from our dealer sales executives. The only concerns are slightly of a longer term, which are liquidity, availability of credit, cost of retail credit, and fuel prices, those kinds.
- Abhijeet Naik:** Your slide mentioned the credit availability as a risk, is that risk on a going forward basis or are you seeing some signs of any reluctance by lenders to the auto loan sale in January or December, are you seeing something current happening or this is a futuristic risk?
- Rahul Bharti:** This is a medium term risk. As we are studying from reports and what the figures that we are getting from economists, on the ground from our sales channel we have not observed any such weakness.
- Abhijeet Naik:** Okay thanks a lot.
- Moderator:** Thank you. The next question is from the line of Srinivas Rao from Deutsche Bank. Please go ahead.
- Srinivas Rao:** Just wanted to ask two questions. One, could you throw some light on your model launches this year. We understand that the Kizashi is slated in February and if you could throw light on the

new swift and second if you could just give the housekeeping question on the scrap sales for the quarter?

**Rahul Bharti:** At any point of time, we maintain product roadmap and which in fact runs into more than 5 years and our effort is to delight customers. Kizashi is something that is in the public domain. Apart from that, the other models will be announced when they come and it would not just be new models, it will be refreshment on existing product portfolio. And we will just get back to you on the scrap figure.

**Ajay Seth:** The scrap sales in this quarter are 68.5 crores.

**Srinivas Rao:** Thank you sir. That helps.

**Moderator:** Thank you. The next question is from the line of Dipen Sanghvi from Enam Asset Management. Please go ahead.

**Dipen Sanghvi:** Can you give the export revenues for quarter 3 and 9 months?

**Pradeep Garg:** Export revenues this quarter are 838 crores and for the 9 months, it is 2949 crores.

**Dipen Sanghvi:** Alright and what kind of realization decline are you seeing because of change in euro rate as well as the non-European export realization being lower than European export, can you throw some light on that?

**Ajay Seth:** I think that has been significant because a) the Euro last year was at its peak at this point in time and also the proportion of Europe was large. So there is both an impact on the account of mix and exchange of 100 basis points each.

**Dipen Sanghvi:** And this one-time staff cost of 51 crores were relating to?

**Ajay Seth:** This is the compensation review that we do. Based on which, this has been done during this period, but if you were to annualize it, then the annualized cost would be about 20 basis point.

**Dipen Sanghvi:** Alright, thanks a lot sir. I will come back if I have more questions.

**Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

**Sonal Gupta:** Couple of housekeeping questions. Could you tell us how much is your rural demand as a percentage of sales in this quarter?

**Rahul Bharti:** It has exceeded 20% now.

**Sonal Gupta:** It is about 20% or much higher than that?

- Rahul Bharti:** It is just about 20%.
- Sonaal Gupta:** And on the average discounts for this quarter, what has been the number?
- Ajay Seth:** Average discount in this quarter is roughly about Rs. 10,700 per vehicle.
- Sonal Gupta:** In a sense this is sort of year end plus festive season, so do we see the discounts normalizing back to the levels that you have seen in the previous quarters?
- Ajay Seth:** That is right. In the coming quarters, we will see that the discounts which we have to slightly hike up in this quarter will normalize.
- Sonal Gupta:** And my last question is really on the export profitability side if we could get any sense on that, I understand that you are hedged for this quarter and the next quarter, but beyond that how do you see that and are you taking some price increases on the export front as well like you are taking on the domestic side?
- Ajay Seth:** We are at the moment taking requisite action both on terms of our hedge strategy for next year in Europe that is one and second is also in terms of wherever we find that we need to do any corrections in prices, so both actions are being simultaneously taken and we are in the process of concluding our budget exercise now. I think in a month's time, we will have total clarity on the entire picture on export side as well as on the domestic side.
- Sonal Gupta:** Okay sir, thank you.
- Moderator:** Thank you. The next question is from the line of Saurabh Das from Sundaram Mutual Fund. Please go ahead.
- Saurabh Das:** You just mentioned the average discount per car in the quarter if you can just give me the discounts for the previous quarter?
- Ajay Seth:** Previous was almost Rs. 2000 lower than the current quarter.
- Saurabh Das:** And in this particular quarter, we have taken price hikes in the range of 0.7 to even 2.4% on the CNG side. So is this price hike reasonably good enough to cover for the inflationary pressures on the commodities which we are experienced on a sequential basis?
- Ajay Seth:** As we are seeing it as of now, we do not think that it will be adequate because pressures on commodities are very huge and also the fact that yen continues to play spoil sport. Yen has large bearing on us. So we are measuring the impacts of each one of them to see what more we need to do on cost and productivity side.
- Saurabh Das:** And just in terms of a specific particular segment which is the DZire segment, given that the kind of response we get to hear on Etios which seems to be in the similar segment. Have we seen any

kind of lowering of the waiting period on DZire a) because our production has increased and b) because Etios is also getting a good response?

**Rahul Bharti:** We are monitoring that very carefully and there is absolutely no weakness. We are monitoring the enquiries, the waitlist, and the customer interest. There is absolutely no change. The DZire waitlist is of more than 2 months despite increased availability.

**Saurabh Das:** Okay that is encouraging and my final question is on the exports, we just mentioned that we are deciding on the hedge strategy and the pricing actions. So do we conclude that so far there have been no increase on the exports realization, we have not taken any pricing action on exports?

**Ajay Seth:** No, we have not taken any pricing action as of now. There could be some minor corrections here and there, but no concrete action has been taken so far.

**Saurabh Das:** Okay and what is the status on hedging?

**Ajay Seth:** We are now totally open on the yen side. We are not hedging yen at the moment. Our internal belief is that yen from these levels should depreciate against dollar and therefore we are keeping it open, but on euro, we have taken a view of hedging in the first 6 months exposure of next year.

**Saurabh Das:** Which is close to 100% of our 6 months?

**Ajay Seth:** That is right.

**Saurabh Das:** Thanks and all the very best sir.

**Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.

**Jinesh Gandhi:** My question is on your raw material cost increases, I am not sure you have discussed this, but in this quarter can you break up your cost increase between actual commodity price increase and forex impact?

**Ajay Seth:** The commodity price increases in this quarter if you want to compare it, are you trying to compare it sequentially or half year?

**Jinesh Gandhi:** Sequentially.

**Ajay Seth:** Commodity price increases, we have been more or less able to negate with our cost reduction programs. So the impact on that account is very small. Large impact is on account of exchange rate and on account of the discounts. So discounts in this quarter as we said are much higher than last quarter. So that has got an impact of about 60 basis points and exchange rate will have an impact of about 25 basis points in this quarter.

**Jinesh Gandhi:** So primarily discount-related impact should normalize, but forex related is unknown?

- Ajay Seth:** Yes it is an unknown thing. As we go along, we will get to know where we stand.
- Jinesh Gandhi:** And secondly your other expenditure has declined quite substantially on both year-on-year and sequential basis, what would be the major driver for this savings?
- Pradeep Garg:** That is because I think selling distribution expenses, there has been some reduction in our marketing expense as well as in our transportation expense.
- Jinesh Gandhi:** So should one expect that to be sustainable as such or there would be some seasonality in that?
- Ajay Seth:** I think you have to also relate this with the sales. What happens is that the ocean freight in case of exports gets built in here and on the top-line, it gets added on to the sales price. Since the export sales have dropped in this quarter, therefore the extent of ocean freight you will see that drop both on a sequential basis and last year versus this year basis.
- Jinesh Gandhi:** And a clarification on the staff cost, you mentioned this is due to annual review. So this is one-off for the quarter, but not on full year basis?
- Ajay Seth:** This review is on the full year, but what has happened is because of arrears, the whole impact has come in this quarter.
- Jinesh Gandhi:** So for the quarter, it is one-off, but for full year one should be taking it as a normal increase.
- Ajay Seth:** That is right.
- Jinesh Gandhi:** Okay sir, thanks a lot and I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Pramod Kumar from JM Financial. Please go ahead.
- Pramod Kumar:** On other expenditure as you were saying S&D expenses have come down, but on a quarter-on-quarter basis, is there any currency impact on which is leading to that reduction in other expenditure apart from the S&D reduction?
- Ajay Seth:** Not really. I think we have had exchange gain which is small at this quarter which is about 20 crores.
- Pramod Kumar:** But on a quarter-on-quarter basis because 20 crores is this year gain and what was the gain or loss in the second quarter on the currency front?
- Pradeep Garg:** Second quarter there was a gain of 10 crores and the other thing is that this is not part of other expenditure. It gets into other operating income.
- Pramod Kumar:** Okay great and sir in terms of your pricing scenario in the market, basically because January price increases have been pretty good, but generally how do you see it going forward because



Swift as a portfolio has been-, we have seen price increases which are pretty good there and competition is setting in there and even Alto will start facing some competition with the launch of Hyundai product closer to Diwali. So how do you see the pricing scenario going forward whether you still see that you will be able to pass on bulk of the commodity inflation and if not, then you talked about cost cutting initiatives, so is there further more scope considering that you have already done quite a lot on that front. So if you can share some view on that sir?

**Ajay Seth:** We will continue to focus on cost that goes without saying, I think cost and productivity will be the drivers for us moving forward. We in principle avoid any price increase and we try to contain that. If you see this quarter, we have been able to contain the commodity increase to our cost reduction programs, but we will have to ascertain the situation after few months when the commodity prices settled down and we get to know where they heading to and how much is achievable on account of cost reduction and productivity program. So it is early days, but again we will first endeavor to adjust any increase in commodity prices with the cost reduction program and productivity gains that we can achieve and if there is necessity, then we will review it.

**Pramod Kumar:** Okay sir fine and thanks a lot and best of the luck for the future sir.

**Moderator:** Thank you. The next question is from the line of Aditya Makharia from JP Morgan. Please go ahead.

**Aditya Makharia:** Sir just wanted to ask you the gap between diesel and petrol is really increasing, it seems like the government will raise petrol prices probably and diesel will be capped out. We are seeing competition launch products like the Beat is also going to come into diesel. Are you planning to expand your product beyond the Swift family on discount?

**Rahul Bharti:** Not as of now.

**Aditya Makharia:** And what would be the level of diesel within Swift, has it gone up quarter-to-quarter?

**Rahul Bharti:** It stands at the same level around 70%.

**Aditya Makharia:** Okay fine, thanks.

**Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

**Binay:** How are the CNG variants doing? in terms of what is the response? what is it as a percentage of sale currently? which are the states where you have launched?

**Rahul Bharti:** We are launching CNG only in places where the fuel is available and where the right nozzle dispenser at the stations are available. So it is primarily Delhi NCR, Bombay, and Gujarat and maybe some cities in Andhra etc. Wherever we are launching, we are finding about a 20% penetration which we think is quite good to start with.

- Binay:** And how will be the profitability on these vehicles versus the rest of the portfolio like CNG Alto versus a normal Alto?
- Ajay Seth:** Please remember that we look at a blended margin approach. There would be different products giving you different margins at a given point in time and what is important for us is to also look at what the market can expect as a price and then price it. So very little we can say about individual products or margins.
- Binay:** Okay thanks a lot sir.
- Moderator:** Thank you. The next question is from the line of Vishal Parag from SBI Mutual Fund. Please go ahead.
- Vishal Parag:** Sir you are talking of raw material cost hike going ahead as a significant threat, so how much of this do you think you will be able to pass on and how much you will be able to do through cost rationalization measures and how much will impact your margins going ahead?
- Ajay Seth:** We should first watch in terms of where the commodities settle down. We have our own annual plan of cost reduction and productivity. So we are working on that to achieve our annual target and once we get the results of both, then we will see where we stand and take a prepared call as required.
- Vishal Parag:** Any broad sense of the likely cost hike going ahead?
- Ajay Seth:** We are not contemplating any cost hike at this point in time. The initial target is to make sure that we are able to absorb all the increases to our own cost reduction and productivity programs.
- Vishal Parag:** And on the export side, in terms of the way the currency has moved, what kind of change in euro realizations do you see in fourth quarter and going ahead compared to this quarter and 9 months?
- Ajay Seth:** Sequentially there will not be any change. If there is any change, it will be very minor because we are more or less hedged in these 3 quarters Q2, Q3, and Q4 and more or less with the same way. So there would not be any significant change on account of currency on export side sequentially, but if you were to compare with last year, yes there will be a large change.
- Vishal Parag:** Discounts you were talking about. You had high discounts in the quarter three, but how do you see the scenario going ahead in terms of increasing and the ability to take price hikes?
- Ajay Seth:** So again, discount is what the market situation is at that point in time. It is a play of the market demand at a given point in time. We believe that our market demand is robust. We should see a moderate discount in the fourth quarter. But it is difficult to predict what happens next year given these some macro factors. If there is a fuel hike, hike which has already happened, interest rates going up, so those are things that are bothering us at this point in time. These will directly and indirectly affect the market and discounts.

- Vishal Parag:** Okay sir, thank you very much.
- Moderator:** Thank you. The next question is from the line of Jamshed from Citi Group. Please go ahead.
- Jamshed:** This is Jamshed here. Could you quantify how the adverse mix has impacted your margins on a year-on-year basis that is the first question and the related question to this is, how do you expect your mix to change with your enhanced capacities? My second question is, you mentioned in one of your starting statements that you all expected demand to grow at about 15 to 20% next year which is why you all have actually accelerated your capacity expansion plan, but when you juxtapose this against your general sense of concern on the macro in terms of interest rates, fuel costs, etc. how do you really think about it. You think that demand will be stronger than what you all expect which is why you have enhanced capacities?
- Rahul Bharti:** We have enhanced capacities because there are long-term project those are engineering projects and have lead times attached to that and in any case productivity stretch helps you generate more from the same investment. So, 1.4 million that we have done is purely out of productivity stretch. The second plant of Manesar in any case we needed for a long-term expansion. We have not made any call about the industry growing 15 to 20%. It is just that we are prepared to deliver a growth of that kind. The industry has talked about a growth of 11 to 15%, but as of now we have not taken a call. We still would like to watch the macroeconomic factors and would like to go with cautious optimism.
- Jamshed:** And when will your Manesar 250,000 come?
- Rahul Bharti:** H2.
- Jamshed:** And on the negative impact of adverse mix, could you quantify that please?
- Ajay Seth:** The 100 basis points impact in this quarter on account of adverse mix compared to last year.
- Jamshed:** 100 basis points year-on-year and once your capacities are enhanced, do you see this changing?
- Ajay Seth:** We are trying to make them flexible. So they are as flexible as possible and independent of products.
- Jamshed:** I guess my question is will you see a waiting period come down on the Swift and DZire?
- Rahul Bharti:** We are trying our best.
- Jamshed:** Okay fine, thank you very much.
- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

- Kapil Singh:** First question is on the impact of yen which we compensate to vendors, have we fully compensated vendors for the impact in Q2FY11 and do we see any further impact given where the yen prices are?
- Ajay Seth:** Yes this is compensated each quarter. So in this quarter also they have been compensated. The impact comes with a lag of quarter. So therefore the rates of quarter 2 would be applicable in this quarter and that is what we have compensated them. There would be some impact in the next quarter, but the large impact has been absorbed in this quarter because there was a significant adverse movement between Q1 and Q2, but moving forward also there would be small impact, but it will not be as large as it was in this quarter.
- Kapil Singh:** Okay and secondly on wage negotiations, could you give us some idea where do we stand on wage agreements which are the ones which are due and which are the ones which are completed?
- Ajay Seth:** The wage agreements have already been done and are applicable till the year 2012, after which they will come for fresh negotiations. So we will have another year and a half before it will come up for fresh negotiations.
- Kapil Singh:** Okay sir, thank you so much.
- Moderator:** Thank you. The next question is from the line of Pramod Amte from RBS. Please go ahead.
- Pramod Amte:** Sir with the increased capacity to 1.4 million, how is it distributed amongst the plants?
- Rahul Bharti:** Broadly 1 million in Gurgaon and 0.4 in Manesar.
- Pramod Amte:** Thanks.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Brocha. Please go ahead.
- Kunal Bhatia:** Just wanted to know what will be the current level of localization in case of our company?
- Ajay Seth:** On direct localization, we will be close to 90%, but there would also be some import content that our vendors would have, which we call indirect imports. So if we were to put the two numbers together, we would be about 23% import content direct-indirect put together.
- Kunal Bhatia:** And you did mention in your initial remarks that you are looking out for increasing the localization level. So if you could say broadly on a long-term horizon, what is our target?
- Rahul Bharti:** The indirect import which is vendor imports we are trying to bring down by at least 5% in the next few years and the project takes some time for localization. The direct imports, while we are in the process of localizing components, when a new model is launched it is generally with a slightly higher import content. So by and large, the blended ratio stays at that level. So it is very difficult to bring that down.

- Kunal Bhatia:** Sir, thank you so much.
- Moderator:** Thank you. The next question is from the line of Shiv Chinani from Reliance Mutual Fund. Please go ahead.
- Shiv Chinani:** Sir just couple of questions. First of all you said that euro is now 30% of the exports. So is the 70% now in dollar denominated or how is it?
- Ajay Seth:** The rest of the exposure is dollar denominated.
- Shiv Chinani:** And do we have any hedge right now on that dollar part, what is the strategy there?
- Ajay Seth:** Since we have substantial imports on the other side, so more or less we try and keep open hedge position.
- Shiv Chinani:** Would you follow the same strategy of having a dollar, yen hedge on that just like you had a euro, yen hedge?
- Ajay Seth:** I respond to all the questions earlier. I mentioned that our strategy this year would be to keep the yen exposure open because we believe that yen from these levels should improve or depreciate against dollar and we are covering euro. We have anyway taken some covers when euro was strong and we would again with euro becoming strong again, we will take a call, but we are close to a 6-month hedge position on euro for the next year.
- Shiv Chinani:** Sure, thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Vishal Shah from Allard Partner. Please go ahead.
- Vishal Shah:** I wanted to know for the 9-month period FY11, what are the one-time expenses which are actually pertaining to the last year or say in quarter 1, there was some element or so for the 9 month period, what are the exceptional cost items?
- Ajay Seth:** There is no exceptional cost item except for the employee cost that we have mentioned which has been paid for the full year, but the impact has come in this quarter.
- Vishal Shah:** But for the year FY11, 9 months that is a normalized item and there was some element of royalty of previous year which was actually reflected in the 9 months of that?
- Ajay Seth:** That is right.
- Vishal Shah:** So what is the amount?
- Pradeep Garg:** In the first quarter, we had an impact of 65 crores which was pertaining to the royalty of the previous year.

- Vishal Shah:** So that is actually a part of other expense and for the 9 months period again on year-on-year basis, what is the RM inflation as well as the exchange rate impact, not sequentially but year-on-year for the whole of 9 months?
- Ajay Seth:** Cumulative if you were to look at the impact of exchange and mix, 1.2% is the impact on account of exchange rate and 1% is the impact on account of mix.
- Vishal Shah:** 1% of sales is RM and 1.2 would be the exchange rate?
- Ajay Seth:** That is right.
- Vishal Shah:** And year-to-date, what kind of pricing actions have been taken net of discount?
- Ajay Seth:** We have moved our prices between last year to now by about 1.5% which is a basic price. So actual impact would be higher if you would include the excise duty and the sales tax impact on this, but we have been able to improve our realizations by 1.5% without pricing actions.
- Vishal Shah:** The January hike would be on top of this?
- Ajay Seth:** That is right.
- Vishal Shah:** And you gave the export figures for Q3 and 9 months this year, I wanted the figures for the last year Q3 and 9 months?
- Ajay Seth:** Last year Q3 figures were 1314 crores and 9 months was 3580 crores.
- Vishal Shah:** One last question. This is more sort of a from long-term perspective, 3 years, 5 years point of view historically whatever profitability of margins you have seen other than the royalty impact excluding that, do you think structurally margins for the industry as a whole should be much lower than what was the case say last 5 years kind of thing?
- Ajay Seth:** Yes, there will be some pressure on margins given the intensity of inflation and cost increases that you are seeing for the last one year, also with the kind of competition that you are witnessing, so there will certainly be some downward pressure on margins. Also I think coupled with it; it would be how the exchange markets move and if they continue to move in where they have been moving in the past, there could be even more severe pressures. So one will have to look at each of these things in isolation and see where you are headed to, but the overall sensing is that margins are looking under pressure in the near terms.
- Vishal Shah:** Okay fine, thanks a lot.
- Moderator:** The next question is from the line of Sandeep Chopra from Global Investment House. Please go ahead.

- Sandeep Chopra:** For the yen policy, could you just throw some light that what has gone into this thinking or decision of keeping the yen position open and how it will be different from our other stance and more importantly wouldn't it be prudent to rather take partial hedge and keep the partial position open and taking a call on currency in such an uncertain global environment, looks like a much more riskier thing to do?
- Ajay Seth:** We do a lot of research on yen because for us yen is the major currency and we also have the comfort of getting input from our parent Suzuki Motor Corporation because yen appreciation is worse for them in terms of their exports. We have had detailed discussions both internally with the economists and the experts who deal with us and also with Suzuki. It seems that both have similar views and at this point in time the best strategy would be to keep your yen positions open and wait for the right opportunity when the yen corrects to hedge therefore we are going by that.
- Sandeep Chopra:** That is it, thanks.
- Moderator:** Thank you. The next question is from the line of Jatin Chawla from IIFL. Please go ahead.
- Jatin Chawla:** The question was on employee cost. Are they reviewed normally in 3Q or this pressure point that is suddenly coming up for the industry because a few days back, you had M&M which had to give a big hike. So just wanted your comments on that?
- Ajay Seth:** No, it is not that it is reviewed in Q3, but it came in Q3. This exercise was going on for sometime, but to conclude it I think it takes sometime before you can do your entire exercise and therefore it so happened that it came in Q3, but it is not that every year the same will come in Q3.
- Jatin Chawla:** And what was the percentage of vehicles financed in 3Q and on a Y-o-Y basis, how much has that increased?
- Rahul Bharti:** It was about 66% and it is slightly lower than last year.
- Jatin Chawla:** And a small clarification on your royalty number for 2Q because I think the presentation that we received in 2Q mentioned that at 5.3 and the presentation this quarter mentioned is that number is 5.5. So just wanted to clarify which is the correct number?
- Ajay Seth:** Both the numbers are correct. What we have done is we have regrouped the numbers. There is a Cess on royalty which was being shown in other expenses. So that Cess on royalty has been regrouped with royalty because we thought that is the right way to present it and so now both the numbers are comparative. The 0.2% increase is only on account of the Cess on royalty which was earlier being classified as other expenses.
- Jatin Chawla:** Thank you sir, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Dipen Sanghvi from Enam Asset Management. Please go ahead.

- Dipen Sanghvi:** Sir, will it be possible for you to share the 9 months numbers for the subsidiaries, I mean the broader numbers, the top-line, bottom-line this kind of thing?
- Ajay Seth:** Unfortunately I do not have that information now, but we would in any case during annual results be sharing those numbers, bear with us for a while.
- Dipen Sanghvi:** Alright, thank you.
- Moderator:** Thank you. The next question is from the line of Sahil Kedia from Enam Securities. Please go ahead.
- Sahil Kedia:** Just one clarification, the 1.2% exchange rate impact on the 1% kind of mix, is this on Y-o-Y or on the quarter-on-quarter sir?
- Ajay Seth:** Y-o-Y.
- Sahil Kedia:** Alright sir, thank you so much.
- Moderator:** Thank you. The next question is from the line of Mayur Milak from Alchemy Shares & Stock. Please go ahead.
- Mayur Milak:** Sir my clarification was on the forex impact of 20-25bps. Since you have 90% in localization and you said including vendors the total imports are like 23%. So we are just trying to understand that with such a low content on imports, do we actually see such a huge impact of Forex almost like 30 bps on Q-on-Q basis?
- Ajay Seth:** There has been a sharp movement in yen from quarter 2 to quarter 3 as far as indirect imports is concerned and as we had explained we compensate our vendors by a lag of a quarter. So there has been a 7-8% movement in the yen exchange rate vis-à-vis the dollar from quarter 1 to quarter 2. So that is translating to the impact on material cost to net sales.
- Mayur Milak:** Should we see this impact from Q2-Q3 coming in Q4 as well?
- Ajay Seth:** No, as we had explained earlier this was a sharper increase from quarter 1 to quarter 2 and from quarter 2 to quarter 3, the impact will be minimal as far as the yen rise is concerned.
- Mayur Milak:** So is it fair to assume that whatever hike we have taken as of now in January should be sufficient at this point in time to negate the hike in input cost?
- Ajay Seth:** I have answered that question earlier that at the moment the pressures a) on account of yen appreciation, b) on account of euro realization, and also on account of input cost increase is not adequate; however, we will have to see towards the year end where we end up with our cost reduction program and to what extent, we are able to mitigate it. We will have to take a final call in terms of where we stand.



- Mayur Milak:** Alright sir, that will be all. Thank you.
- Moderator:** Thank you. The next question is from the line of Sanket Dhake from Span Capital. Please go ahead.
- Sanket Dhake:** Sorry we missed your royalty figures for the quarter 3?
- Pradeep Garg:** Quarter 3 is about 460 crores.
- Sanket Dhake:** And sir your capacity is coming to 1.4 million, when it will be coming fully?
- Rahul Bharti:** Starting next financial year.
- Sanket Dhake:** When is the Kizashi's launch in India?
- Rahul Bharti:** Sometime next month.
- Sanket Dhake:** Sir the new launch will be again royalty burden for the company, isn't it?
- Rahul Bharti:** Not initially because we are importing it as a CBU.
- Sanket Dhake:** And we just read some news about Suzuki taking home some of the Maruti Suzuki's model, so what is Japan's import of Maruti Suzuki currently?
- Ajay Seth:** We are not importing anything to Japan.
- Rahul Bharti:** As of now nothing as Mr. Seth said, but it is a possibility in the future that is what Nakanishi San, our MD, mentioned in the press.
- Sanket Dhake:** Okay thanks.
- Moderator:** Thank you. The next question is from the line of Ambrish Mishra from Diawa. Please go ahead.
- Ambrish Mishra:** Sir if I read what you said during the call, is it that today as the things stand the entire yen import is at spot rate?
- Ajay Seth:** We are hedged till February end and beyond that we are open.
- Ambrish Mishra:** And finally you also mentioned about the rural mix at about 20%. Can you share the overall mix, between say top 10 cities rural and other factors?
- Rahul Bharti:** Top 10 cities would constitute about 40% of our sales.
- Ambrish Mishra:** And for comparison purpose if you can also give us figure for full year FY10 or?

- Rahul Bharti:** This year, all the cities have been growing consistently-all the geographies. So there was a distinct movement last year. This year it is broadly static but....
- Ambrish Mishra:** I am actually not looking for the growth percentage, but mix.
- Rahul Bharti:** Mix is fairly stable.
- Amrish Mishra:** Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Chirag Shah of Emkay Global for closing comments. Please go ahead sir.
- Chirag Shah:** Thank you Melissa. On behalf of Emkay Global, I would once again like to thank all of you for joining the call today. Have a great weekend.
- Moderator:** Thank you gentlemen of the management. Thank you Mr. Shah. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines.