

Transcript

Conference Call of Maruti Suzuki India Limited

Event Date / Time : **28th January 2016, 05:30 PM IST**

Presentation Session

Moderator: Good evening ladies and gentlemen. I am Moumita moderator for this conference call. Welcome to the 3Q FY16 results conference call of Maruti Suzuki India Limited. At this moment, all the participant lines are in the listen only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note that this conference is recorded. I would now like to handover the floor to Mr. Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Thanks Moumita. Welcome everyone. On behalf of UBS Securities, we are delighted to host the senior management team from Maruti Suzuki for this earnings call, post the announcement of their Q3 FY16 results earlier today. I will now like to pass on the floor to Mr. Nikhil Vyas from Corporate Planning & Investor Relations at Maruti Suzuki, to introduce the management team and take the proceedings forward. Over to you, Nikhil. Thank you.

Nikhil Vyas: Thank you, Sonal. A very good evening to all of the participants. May I introduce to you the management team from Maruti Suzuki. Today we have with us our CFO Mr. Ajay Seth, Vice President – Finance, Mr. Sanjay Mathur and other team members from finance. From the corporate, we have Vice President – Corporate and Government Affairs, Mr. Rahul Bharti. The concall will begin with the brief statement on the performance and outlook of our business by Mr. Seth, 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 our CFO Mr. Seth. Over to you sir.

Ajay Seth: Thanks Nikhil. Good evening ladies and gentlemen. And welcome once again to Maruti Suzuki's conference call. In the third quarter, the domestic passenger vehicle industry witnessed an uptick on sales. Passenger vehicle sales grew by 15% during the quarter, against the growth of 6% during the first two quarters of the current financial year. This growth was led by strong festive season sales, that extended from October to November and introduction of exciting new models that created a strong customer pull. However, the older models continued to witness sales pressure.

Maruti Suzuki outperformed the industry and posted a growth of over 16% during the quarter. Our sales growth was aided by factors like strong demand for the recently introduced Baleno, successful introduction of SHVS technology in Ciaz and Ertiga, support from rural sales had increased the supply of AGS. During the quarter, the industry saw a ban on diesel vehicles to the capacity of 2000 cc and above. Although

there was no direct impact on the company, but we witnessed a noticeable shift in customer preference in favor of petrol engine vehicles. The industry petrol vehicles sales grew at almost double the pace of the diesel sales. Penetration of the petrol vehicle increased from 54% to 56%, while that of diesel decreased from 46% to 44%. This led to increase in the sales promotion expenses on diesel vehicles. Promotions were also used during December, like every year, to liquidate Year 2015 stocks, with an aim to enter the New Year with a lean inventory level.

In the wake of recent Chennai floods, the company announced a massive campaign for its customers, whose vehicles were damaged. The company mobilized nearly 200 expert technicians from its national service network who joined hands with 500 local technicians to speed up repairs and restoration of close to 9,000 damaged vehicles. In a record time, these technicians repaired around 1200 vehicles in the State, bringing ease to our customers. In exports, Sri Lanka was one of our major markets during the year. However, recent increase in the import duties will make it difficult to sell as many cars there. With the export of Baleno to Europe and Japan, we should be able to compensate for this impact.

Coming to financials. During the quarter, the company registered net sales of 147677 million and a profit of 10193, up 20.4% and 27.1% respectively, over the same period last year. With this, we can now take your questions, feedbacks and any other observations that you may have. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, we have our first question from Mr. Raghunandan from Quant Capital. Please go ahead sir.

Raghunandan: Thank you sir for the opportunity. Sir, wanted to understand that on a QoQ basis, some of the cost line items have moved adversely for us. So, how has been the trend in discounts on a QoQ basis sir?

Ajay Seth: If you look at discounts between quarter two of this year and quarter three of this year, they have moved up from 19,500 per car to 22,000. An increase of Rs.2,500 per car. Last year they were at a level of 20,500. So, discounts have been up in this quarter.

Raghunandan: Sir, the presentation also mentions there are two things, one on the depletion of inventory. Second, a provision based on the new Bonus Act, if you can throw light on the same. And also regarding the Sri Lanka import duty, what is the extent of the increase there sir? Thank you.

Ajay Seth: To answer the provision, under the provision of the Bonus Act, now the limits have been increased from a retrospective effect. And that is from April 2014. So, there was a requirement of making a provision on the increased limit and coverage for twenty one months. And that is what we have done. Therefore that

gets reflected in the employee cost. On the second question that you asked me on the recent depletion of inventory. Typically what happens is that, on an average we carry a factory stock of about 20,000-25,000 cars at the end of the quarter. But, because we had very high retail sales this quarter, our factory stock was close to about 4,000 units. Now, normally a part of conversion cost gets uploaded on the inventory cost. So, in the quarter two you would have seen that a significant amount of conversion cost would have got uploaded on the inventory that we were carrying at the end of quarter two, which gets reflected as part of net material cost. The material cost goes down by that amount. Whereas in this quarter, the amount was negligible, because there was hardly any inventory, therefore there is a gap between the two quarters, quarter two and quarter three on account of depletion of inventory in the factory. And therefore what got loaded in quarter two in the inventory as conversion cost and what got loaded in quarter three is not same and almost 100 basis points impact can be seen. Close to about 80 to 100 basis points is visible between these two quarters on account of this depletion of inventory.

Raghunandan: Sure sir. On the bonus, what is the quantum sir?

Ajay Seth: Bonus, quantum would be about 15 basis points on twenty one month's provision that we have made.

Raghunandan: And going ahead, how would that be accruing sir?

Ajay Seth: This is a provision for twenty one months. And now we are required to make only requisite provision that is required, so the amount will be much less.

Raghunandan: Sure sir. Thank you very much sir. I will come back in the queue for more questions.

Moderator: Thank you sir. Sir, we have the next question from Mr. Pramod Kumar from Goldman Sachs. Please go ahead sir.

Pramod Kumar: Thanks a lot for the opportunity sir. My first question goes back to the depletion of inventory. Sir, it is a fairly regular phenomenon in this quarter. The extent may have been higher. And I just wanted to understand, in 4Q how should one look at it, as in, in a way because even if I leave the second quarter impact, where it was a positive and now it is a negative. How should one look at it from 4Q perspective? Will it be again a cyclical reversal, in a way this negative impact should go away to a great extent?

Ajay Seth: Pramod, I had mentioned that typically we carry a factory stock of about 20,000 to 25,000 units in general. But, it depends on a situation of wholesale and retails at a given point in time. So, it is very difficult to predict what the stock levels would be at the end of the quarter. This is in general that we carry these kinds of stocks. But we can't go lower than where we are today in the quarter three. It has to be better than quarter three. Therefore any increase in inventory from these levels, will therefore help us in some conversion cost absorption in the material cost, which I think was an exception situation in quarter three, where the stocks were, as low as about 4000 units, I think which we have never witnessed before. Quarter two had 39,000 units as stock and quarter three has 4000 units stock. So, the point that I was

trying to make is that average, we normally carry a stock of 20,000 to 25,000 units in the factory.

Pramod Kumar: But sir, ideally some part of this also should get offset by the other expenditure also moving in that order, right?

Ajay Seth: I agree with you. But in the third quarter, in manufacturing and administration expenses; we had a significant expenditure incurred on the overhauling of Gurgaon plant. So, we have been talking in the past that Gurgaon plant needs a lot of maintenance and overhauling. Almost 70 crores of additional expenditure has been incurred on the Gujarat plant.

Pramod Kumar: Is it going to be recurring?

Ajay Seth: It will keep coming on and off. You should be prepared to accept that the maintenance cost of Gurgaon plant still have to go up from where they were earlier, because it is a very old plant and refurbishing is required in the plant. So, that expenditure will go up. Second, of course is the one off this time, because we have to make a retrospective provision for bonus, so therefore you will find some shade of cost going up there as well.

Pramod Kumar: I also wanted to touch upon how does Baleno play into the gross margin thing, because this is a fairly high content car and very aggressively priced and we have seen that in the response as well. So, is that in a way strategic choice? I am just saying whether in terms of pursuing the NEXA franchise and also to move up, in the up-market price bracket? So, is it in a way coming at the penalty of margins? I just wanted to understand, because Baleno is also packed in this quarter, in terms that you had a full quarter impact of Baleno volume.

Ajay Seth: We never said that NEXA had a role or impact in the margin reduction. We don't talk about margins on specific models. We have always said that we look at blended margins and that is what is important for us.

Pramod Kumar: Okay. Sir, my second question pertains to the general demand, because what we understand from the Channel checks is that there is a fair bit of a shortage right now on certain models, like even Swift for that matter and also on some of the entry level models, because probably you also touched upon the Gurgaon overhauling to keep up the capacities higher and probably increase the capacities of Gurgaon. So, I am just trying to understand, in this kind of a scenario, where probably you may not be able to supply enough to the market in a hurry, how should one look at discount or how have discounts trended after the end of the December quarter?

Ajay Seth: Discounts, as we said, is a function of market, that is how they behave. And as long as have to create a push in the market, the discounts will tend to be higher and if we see there is a real pull in the market or a demand again takes off then they will come off. We also mentioned that, in the beginning that there is also small diesel stress, because diesel sale is declining and therefore the discounts. Directionally, I think they should remain at these levels where they are at the moment.

Pramod Kumar: Right sir. Thanks a lot and best of luck. Thank you.

Moderator: Thank you sir. Our next question comes from Mr. Binay Singh from Morgan Stanley. Please go ahead sir.

Binay Singh: Thanks for the opportunity. My first question is basically, if you can tell us again about your forex exposure at current level, what kind of Yen rate will you be using now? And linked to that, we know that Maruti has been on a localization path. How do you see your forex exposure a year or two down the line, if my understanding is correct, you will not pay royalty in Yen on the new SUV? So, if you could talk about the current exposure and directionally, where do you see that going?

Ajay Seth: We have exposure on Yen, Euro and Dollar-Rupee. On Yen, for the fourth quarter, we are covered. So, either we have a natural hedge or we have taken covers. So, we are kind of fully protected for the fourth quarter. On our Dollar-Rupee also, we have a natural hedge, because of exports. So, we are fully protected. For, Euro, we have a policy of covering one-third of our exposure. But I think, having said that, I think the important point to note is that we also have a fair amount of exposure on the indirect side. And that is where I think we will have some open exposure with a variety of vendors who import components or parts for components. So, that is one area which will move favorably or unfavorably depending on how the currency moves. So, while we are more or less covered with various natural hedges or covers that we have taken, but we would be open with exposures on the vendor side.

Binay Singh: Sir, just to put numbers, your Yen exposure, will it be around 22% of your top line, 6% royalty, 15% direct plus indirect exposure?

Ajay Seth: Yeah, as you said, we will be between 21% and 22%.

Binay Singh: And how do you see that going like a year or two down the line? Are we done with localization, because we understand that even the extent of localization that you can do is capped?

Ajay Seth: I think the number now is going to only change when we have significant localization in electronics and that is going to take some time. So, you may not see now much change in these numbers for a few years, till we kind of crack the electronics. That is an area we are working on. But, it will take some time. Net-net, I don't see that this number will now go down significantly.

Binay Singh: And sir, second, we understand that with customers moving to petrol, the discounts in diesel have gone up. As Maruti is a strong franchise in petrol, have you seen discounts in petrol going down or discounts in diesel have gone up and petrol there is no change?

Ajay Seth: Discounts vary from model to model and also from State to State. Some States will have higher discounts and some States will have lower discounts. So, it is a variety of factors. Of course diesel you will find slightly higher discounts compared to where we were, let's say one year ago or two years ago. On petrol, it will depend on, one, on a specific period, between year-end, festive season on or off, etc. Second, it will also depend on the model. So, on certain models it will be offered. Baleno we will have no discounts. But, there will be other models, where we will have to give schemes at times and push sales.

Binay Singh: The general understanding that the street always had was that Maruti is a very strong petrol franchise. So, if customers are moving to petrol, then on a relative basis discounts in petrol should come down. But, when we look at the blended discount number going up as a percentage of sales also, it seems that on a blended basis also the company doesn't really benefit from the customer moving to petrol side.

Ajay Seth: Directionally what you are saying is correct, but it will take some while before this shift happens. I was saying that when the demand really takes off, you might see the discounts tapering. But typically for example, in December you have a huge push of sales, because we have December inventory to be cleared in 2015 itself, so there will be variety of schemes that will be offered. So broadly in a longer period, yes, when the demand takes off, there could be some correction on the levels of discounts that we will have. But it will take some more time.

Binay Singh: Right. Thank you sir. Thanks sir.

Moderator: Thank you sir. Sir, we have our next question from Mr. Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Sir, good evening. My question relates to, big picture, if I look at margins, last two quarters, we had been running at around 16½ and this quarter we are at around 14½. So, it is a big change that we see in the margins despite not much impact coming from the commodities or mix, as you say. So, some of the things that you talked about, like 70 crores impact on account of higher other expenditure and some higher discounting, I just feel that, is there something else that is missing here? Because, it is a 200 basis points QoQ decline, so how do you look at it going forward? And are there any other one off that we may have not looked at here?

Ajay Seth: So, I think we have mentioned areas where we have had our margins going down. One, of course is the manufacturing and administration overheads. Second, we mentioned is advertisement cost. Third, of course I mentioned to you, mentioned in the beginning of the call that there is a little bit of aberration because of the inventory correction that happened in this quarter.

Kapil Singh: Okay. So, going ahead how should we look at this?

Ajay Seth: I don't think it will be such low levels. This was an exception, because we wanted to clear the 2015 stock and therefore there was a push to the retail sales and so our factory stocks were completely exhausted. But I think, on an average, we normally maintain an inventory between 20000 and 25000 units.

Kapil Singh: Okay. And sir, your tax rate is also bit on higher side. And so, going ahead when the other income normalizes, are you looking at other income getting billed in the P&L from the next year with the change in the accounting norms? And how should we look at tax rates?

Ajay Seth: Kapil, tax rate is a little bit high because our other income is all getting postponed. So, our tax rate is 29% today. However, next year when we move to IFRS based accounting, I think we will get back to the tax rate of about 24% or thereabout. Because, then we will start recognizing income based on the fair value.

And then two corrections will happen. One, tax rate will get corrected. And the second is that, other income which is now not getting reflected in the books, will also start getting reflected.

Kapil Singh: Right. And sir, lastly, if I can just squeeze in one more, in terms of production, what is the maximum production possible in financial year 2016-2017, supposing there is demand?

Rahul Bharti: Maybe between 1.5 to 1.6 million, they should be able to give, with some short term measures.

Kapil Singh: Yeah, but my question was that supposing industry growth is more than 15%, let's say it is 20%, are we prepared for that?

Rahul Bharti: There is always some stretch possible in the short term. So, that will have to see from quarter to quarter. And we will also be doing some kind of balancing of production because the earlier quarter in a financial year is lean. The third and the fourth quarters are more demanding. So, we may carry some inventory of H1 to H2, like that. But, by and large we should be able to meet.

Kapil Singh: Thank you.

Moderator: Thank you sir. Sir, we have the next question from Mr. Jinesh Gandhi from Motilal Oswal. Please go ahead sir.

Jinesh Gandhi: Hi sir. Continuing on this capacity question, so in short term, through short term measures we should be able to meet about 1.7-1.75 kind of demand in case of demand improving to that level?

Rahul Bharti: We will have to see, as of now 1.6 looks possible. We will have to see when it comes to that level.

Jinesh Gandhi: Okay. And what would be our CVT capacity now, considering we have already started phase one?

Rahul Bharti: What capacity?

Jinesh Gandhi: CVT, AMT.

Rahul Bharti: AMT?

Jinesh Gandhi: Yeah.

Rahul Bharti: AMT has gone up. We can do 10,000 a month. Now we are aggressively marketing this technology, because we have capacity available with us.

Jinesh Gandhi: Right. And this is the ultimate capacity or there will be further addition to this?

Rahul Bharti: If required, we can stretch it. But, as of now the capacity is more than what the market needs.

Jinesh Gandhi: Right. And can you give us update on the Gujarat plant? It is expected to come by March 2017 or there would be any changes to that?

Ajay Seth: Gujarat plant, I think we are going as per plan. We would try and see how much we can pre-pone. It is difficult to say now. But, the intention would be to bring it as early as possible, but not later than March. So, I would say it is as per plan exactly as of now.

Jinesh Gandhi: Okay. And in phase one it would be 250,000?

Ajay Seth: The first plant will be with the capacity of 250,000.

Jinesh Gandhi: Right. And sir, in this quarter we saw, our overall RM cost to be slightly higher because of this inventory related issue. But, were there any commodity price benefits which were there in this quarter, which got masked.

Ajay Seth: There was a 50 basis points commodity benefit that we got. But, that got offset because we had higher discounts in this quarter.

Jinesh Gandhi: Right. And the way the current commodity prices are, there would be further benefit coming in, in the next few quarter?

Ajay Seth: I don't think we will get any big benefit. There could be some marginal benefits. I think most of it is now factored in.

Jinesh Gandhi: Okay, understood. How much diesel share for Maruti?

Ajay Seth: 31%.

Jinesh Gandhi: 31%. And can you throw light on how were your growth in rural versus urban? And how is rural as a percentage of our sales?

Rahul Bharti: So, rural we grew by about 15% in quarter three. And year till date, it is about 12%.

Jinesh Gandhi: Okay. And how that would be for the urban markets?

Rahul Bharti: You have the share so you can derive.

Jinesh Gandhi: Okay, sure. And rural is what, still about 30% of our sales or would be slightly higher than that?

Rahul Bharti: It will be a little more than 30.

Jinesh Gandhi: Okay, understood. And lastly, can you update us on your CAPEX plans for this year and the next year?

Ajay Seth: This year, I think we will end up spending close to 3000 crores. Next year, we are in the process of now formulating the budget and getting approval of the budget. We will get back to you on that soon.

Jinesh Gandhi: Okay. And this 30 billion, how much would be R&D development in this?

Ajay Seth: We would not have the break up right now; we will get back to you on the break up at a later time.

Jinesh Gandhi: Okay sir. Thanks and all the best.

Moderator: Thank you sir. Sir, we have the next question from Mr. Hitesh Goel from Kotak Securities. Please go ahead sir.

Hitesh Goel: Thanks for taking my question sir. Sir, regarding the inventory depletion thing, I just calculated that in 1Q FY16, your total wholesale volume was 341,000. Even if factory inventory is 35000, you will get to a figure of 376,000. That is the total volume on which you would have realized the RM cost. In this quarter, even if there is 4000 inventory, 374000 plus 4000 is 378000. So, can you please explain how the gross margin can change by 100 bps because of this, because the volumes are similar?

Ajay Seth: In quarter two, I had a finished stock of close to 40000 units. Now, on these 40000 units, there are no conversion cost, the inventory gets higher by that amount and therefore gets reduced from the material cost. Now, compared to that I had only an inventory of 4000 in this quarter.

Hitesh Goel: Here conversion cost is fixed cost on the vendor end and that is what is getting amortized, because of the volumes, right?

Ajay Seth: No, no, it is not getting amortized. Conversion cost on our inventory is getting straightaway getting reduced from the material cost. Whatever conversion cost I had, it is the movement of inventory, nothing to do with what the wholesale or retail numbers were. That is a first. If I had X amount of inventory in a particular period, so therefore I took a benefit of conversion cost for that inventory. We had 40000 inventory; We took a benefit of ~200 crores or whatever the number was for that inventory. Whereas in quarter three, it has become 4000, my benefit got reduced. and the gap between the two periods is about 1% just to give you an example to make it clear, if my inventory in this period was same as the last period, my material cost in net sales would have been lower by the same amount, around 1% or so.

Hitesh Goel: No, no, I got that sir. So, second quarter and third quarter I can see that there is a decline in wholesales plus factory inventory. But, I was talking about 1Q FY16. In 1Q FY16, if you look at 1Q FY16 versus 2Q FY16, your volumes would have changed by the same amount, even if I include the inventory. Because if I assume say, 35000 units of factory inventory 1Q FY16 versus 2Q FY16, where we are seeing 40000 inventories, your volumes would have changed by 17000, total, factory inventory plus wholesale volumes. So, your margins, gross margins only changed by 60 basis points. Whereas the same case has happened in the second Q and third Q, where the volume change is 14000, factory inventory, but the impact on margins is significant, 100 bps.

Ajay Seth: Hitesh, one minute. Conversion cost will also, will vary. It will depend on what models you are making in that inventory. So, if it is the bigger cars, the conversion cost will be much higher. If it is an Alto or a smaller car, the conversion cost would be half of what the normal conversion cost is. So, just to take numbers and calculate it from there would not give you a meaningful number.

Hitesh Goel: Okay. Sir basically Baleno's gross margin is infinitely lower, because of which this has happened. As the volumes increase, the gross margins will increase.

Ajay Seth: No, that is not a correct statement to make at all. I am only saying conversion cost in a model will vary depending on what type of model you are making. It does not mean that the gross margins could be higher or lower. Gross margins would still be higher. But, conversion cost will vary. If it is a Ciaz there will be different conversion cost. And Alto will have a different conversion cost. You should really see what is the mix of cars in that particular inventory and therefore what is the conversion cost.

Hitesh Goel: Okay, basically you are saying if it normalized....sorry.

Ajay Seth: It is a bit complicated. But, all I am saying is, we are giving you a reason that is because conversion cost absorption in quarter two was much higher compared to quarter three. And again in quarter four, if the inventory levels are 25000, you will see again a drop in the material cost.

Hitesh Goel: Okay sir. Thank you very much.

Moderator: Thank you sir. Our next question comes from Mr. Akshay Saxena from Credit Suisse. Please go ahead sir.

Jatin: Hi, good evening sir. This is Jatin. Just wanted to get a clarity on the employee cost number. You mentioned the impact was 15 bps or 50 bps.

Ajay Seth: Fifteen, 15.

Jatin: Then your employee cost has gone up significantly on a quarter on quarter basis, because 15 bps would mean about 25 crores?

Ajay Seth: What had happened is, in the last quarter, the second quarter, we had certain provisions which we had made in the earlier part of the year, which are no longer required and which were written back in the employee cost itself. So, therefore that had a significant impact on the second quarter numbers. So therefore, you will see that the ratio is going up by about 40 basis points now. But, it is largely because of the second quarter where we had some provisions that we had earlier made in the employee cost and it is no longer required, which were written back in the second quarter.

Jatin: And just to kind of continue the discussion with what has been happening a little bit on the Baleno side, not specifically asking on that product, but generally as a concept, would a completely new platform, at least initially have slightly

lower margins than the existing platform with huge volumes, would that be a fair statement to make?

Rahul Bharti: There are two processes at play. One is, a new model doesn't get discounts. The second is, the startup costs are higher with the new platform, the learning curve is lesser, there are fixed investments, there are pre-operatives. So, it is a play between these two factors, one positive and one negative. And it also depends on the market pricing. But what our objective always is that over the life of the model, we should make a healthy margin on the model investments.

Jatin: Right. And one last question, on the repairs and maintenance side, broadly on an annual basis, could you give us a ballpark number as to what could be the impact going forward on a recurring basis, because clearly like you said, the impact will come in some quarters and not in some other quarters. But, broadly on an annual basis, what is the additional expenditure that you see going forward?

Ajay Seth: One thing that you must know is that a single quarter can always be an aberration, because there could be some expenses that get bundled up in that quarter, as we have seen it in this quarter. So always it is good to see a nine months average, because that gives you a much more, much accurate picture, because that averages out anything else. So, you should look at that. Second is that we have always maintained that our Gurgaon plant needs overhauling and therefore the expenditure will go up. I think, the only thing that we can do on major overhauling are, in the month of December or in the month of June, when we have shut down. So, this overhauling has already been done. So, whatever happens now will happen in the month of June. So, you will see in certain quarters, this expenditure going up, because of this nature of older plants and overhauling requirement of the plant. We are also working on a roadmap of what will be the total cost of such renewals.

Jatin: Okay. And anything on the depreciation side, because there also we have seen significant pick up compared to the run rate in the first half?

Ajay Seth: When you are adding new models, there are dies which are added on. So, the new models have been added on in the last period, like the Baleno and the S-Cross, where the die cost is required to be amortized over forty eight months. So, and it is a quite concrete chunk in terms of amount. So, as soon as we are adding new models, you will obviously see depreciation accelerating.

Jatin: Okay, thank you.

Moderator: Thank you sir. Sir, our next question comes from Mr. Ameen Pirani from Deutsche Bank. Please go ahead sir.

Ameen Pirani: Hi sir. Thanks for the opportunity. Just some housekeeping questions. Can you share the royalty and the export number for this quarter?

Ajay Seth: Just one second.

Sanjay Mathur: Export sale is 1245 crores during this quarter. Royalty is 884 crores.

Ameen: Thank you. And just one thing, you had mentioned that on the Yen side, you are covered for 4Q. So, just wanted some clarity, so when you say that you are covered at the current rate, which is around 118 or are you covered at a higher rate, which was prevalent last quarter, something like 120 or 122?

Ajay Seth: So, on the Yen, most of our covers in quarter four are coming out of our natural hedge, because we are going to be exporting Baleno to Japan. And those are going to be Yen denominated. So, we will largely be having a natural hedge, barring that whatever covers we would be carrying, would be at the rate higher than what the current market rate is.

Ameen: Okay sir. And any guidance on how much are you covered for the next quarter or the next year?

Ajay Seth: We have now started looking to cover next quarter. So, we have just started making small covers. But, I think over the next one month we will be covered one-third exposure as we do normally.

Ameen: Okay sir. That was helpful. Thank you.

Moderator: Thank you sir. Sir, we have the next question from Mr. Ambrish from JM Financial. Please go ahead sir.

Ambrish: Thanks for the opportunity. But, all my questions have been answered. Thanks.

Moderator: Thank you sir. Sir, we have the next question from Mr. Chirag Shah from Edelweiss. Please go ahead sir.

Chirag Shah: Thanks for the opportunity. Sir, I had a question on the Baleno pricing. We have seen that the price hike is around Rs.5,000 to Rs.12,000 and still the cannibalization risk which Swift and Dzire faced, how should one look at the long term strategy over there? Are you okay cannibalizing this Swift and Dzire models with Baleno, while incrementally it is adding to the volumes? And a related question is, given the content you are offering in Baleno, given the paint quality that is being offered for example, and the pricing. What is the component sharing between the two that makes you confident that the profitability is not under question, Baleno versus Swift or Dzire?

Vivek Kumar: Chirag, we will take your first question first, on the pricing of Baleno. So, basically what we are seeing in Swift is that most of the enquiries and sales are for the mid variant, while in the Baleno we have seen that over 50% of the bookings and sale are for the top end variants. So, while the pricing may look very narrow to you, but actually the difference is quite wide when the customer is buying. So, there is limited cannibalization. I will not rule out any cannibalization, but yes, there is limited cannibalization.

Chirag Shah: Fair point. And on the commonality of parts between the Baleno and Swift?

Rahul Bharti: Not much in common.

Chirag Shah: Not much in common. And, if I can just take one more question on export. Is there any kind of guidance you would like to share in terms of exports of Baleno that you would be looking for in the next year?

Ajay Seth: We are still working on our numbers. We will get back to you on our plans soon.

Chirag Shah: Thank you, sir.

Moderator: Thank you sir. Sir, we have the next question from Mr. Pramod Amte from CIMB. Please go ahead sir.

Pramod Amte: Hi sir. This quarter you also had a lumpy ad expenses towards Nexa and new products. Would you like to quantify how they have been versus your average last year?

Ajay Seth: We have said that marketing expenses will go up, because we are advertising for products. We are also doing a lot of media advertising and TV ads etc. We also are doing events, etc. So, I think overall there has been a focus across on creating awareness of both products and our technology. So, this is an area which we have talked about since the beginning, where the marketing expense, we want to use it as a tool to create awareness for customers. And therefore this expense is likely to remain at these levels.

Pramod Amte: But, was it lumpy in 3Q, which will sustain?

Ajay Seth: Again, look at it from a nine months perspective and don't look at it from a single quarter perspective. Some events happen in a particular quarter. There are more launches in a particular quarter. Sometimes there are more activities in a particular quarter. So, it is always reasonable to look at marketing expense from a yearly perspective, nine months perspective, than just look at it from a quarterly perspective.

Pramod Amte: And I missed out on the ASP discounts for the quarter, could you repeat it?

Ajay Seth: The ASP discounts for the quarter was at 22000.

Pramod Amte: Thanks and all the best.

Moderator: Sir, we will take the last question for the day. It comes from Mr. Nishant Vass from ICICI Securities. Please go ahead sir.

Nishant Vass: Hi sir. Thank you for the opportunity. Sir, my first question is on the NEXA expansion. As it has been stated, possibly it will be close to 300 outlets by FY17, is that correct?

Vivek Kumar: Nishant, we have reached hundred outlets. And by the end of FY17, we will be almost double of it.

Nishant Vass: When would we be looking at giving all our mother dealers at least one NEXA outlet?

Vivek Kumar: More dealers are coming forward. As you can see that we will reach close to two hundred outlets, the opportunity will be shared with more number of dealers.

Nishant Vass: Okay. One dealer said, kind of suggested, that there is an increasing customer movement from competitors like Hyundai to Maruti for your products primarily through NEXA, and Baleno. Does the company track something like that, like win backs?

Rahul Bharti: Yes, we do. The percentage of win back customers in NEXA is much higher than in the existing channel.

Nishant Vyas: Sir, could you put some quantification to it, just to understand it?

Rahul Bharti: Not as of now. But, we have some good movement there.

Nishant Vyas: Sir, one last question. Considering the Brezza is coming from domestically developed R&D and congratulations for that. Could you give us signal as to what would be the R&D as a percentage of sales in the next year or beyond?

Ajay Seth: It will be about 1.5% of our sales at this point in time. And we believe that this will increase slightly. So, you might see 1.5% in net sales becoming 2% at some time. But also remember that the R&D expense qualifies for 200% tax reduction. So, therefore effectively what we are spending is only one-third of what we are incurring.

Nishant Vass: Correct. Okay, great. Thank you.

Moderator: Thank you sir. Now, I hand over the floor to Mr. Sonal Gupta for closing comments. Please go ahead.

Sonal Gupta: Hi. Thanks everyone for joining in. On behalf of UBS Securities, I would once again like to thank the senior management team from Maruti Suzuki for taking their time out to discuss the results in detail. Thank you sir. And thanks everyone for joining in.

Ajay Seth: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today.