

Transcript

Conference Call of Maruti Suzuki

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Presentation Session

Moderator: Good afternoon, ladies and gentlemen. I'm Honeyla, moderator for the conference call. Welcome to Maruti Suzuki India Ltd Q3 FY17 results conference call. At this moment all participants are in 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 this conference is recorded. I now would like to hand over the floor to Mr. Sonal Gupta. Over to you, sir.

Sonal Gupta: Thanks, Honeyla. Good afternoon everyone. On behalf of UBS Securities I welcome you all to the Q3 FY17 results conference call for Maruti Suzuki India Ltd. We are delighted to have with us today the senior management team from Maruti Suzuki to discuss the results. I'll now pass on the floor to Mr. Nikhil Vyas from Maruti Suzuki to introduce the management team and take the proceedings forward. Over to you, Nikhil.

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

Ajay Seth: Thank you, Nikhil. Good afternoon, ladies and gentlemen and welcome once again to Maruti Suzuki's conference call. In the beginning I would like to mention about the appreciation received by our model Vitara Brezza. The model has received numerous prestigious awards including ICOTY 2017. The ICOTY award as you may know is the Indian Car of the Year and is the combined choice of all leading auto experts in the country. With the success of Vitara Brezza the company was able to increase the market share in UV segment to 28.1%, up from 18% in the corresponding quarter last year. We thank you for your support in our endeavor and keep our ambitions high for our future offerings as well.

Coming to the third quarter of the current financial year, the industry posted a growth of 1.8%. The company could once again outperform the industry and posted a growth of 3.9% during the quarter taking the year till date growth to 9.2%. During the quarter initially there was buoyancy in the market driven by festive season and later a phase of uncertainty post demonetization. Immediately after demonetization there was some impact and bookings dropped initially, however, gradually the trend reversed by the end of the quarter. To overcome the challenging situation we increased our engagement in listening to customers to know their issues and reoriented our sales strategy.

Share of diesel models in the industry continue to decline and came down to 40% in quarter three compared to 44% last year. For Maruti Suzuki the share of diesel model is constant at 30%. Good performance of our models in all the segments have helped us achieve the growth till date. With the recent launch of Ignis, a premium urban hatch, we hope to address the needs of various segments like never before.

As we have maintained in the past the outlook for export sales remains flat for the company and we are on course to achieve our target of 124,000 units. In financials the company registered net sales of Rs. 166,236 million at a profit of Rs. 17,445 million, up by 12.4% and 47.5% respectively over the same period last year. Increase in share of the company's higher segment models, lower sales promotion and marketing expense, cost reduction efforts and higher non-operating income contributed to increase in profits. This was partially offset by increase in commodity prices and adverse foreign exchange movement during the quarter.

We are also happy to share that the commercial production from SMG Gujarat will start in the current quarter and help us enhance our supplier situation. We will keep you posted about the progress on that front. We can now take your questions, feedback and any other observations that you may have. Thank you.

Moderator: Thank you, sir.

Question and Answer Session

Moderator: 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, the first question comes from Mr. Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: Hi, team, congrats for a very strong performance in a tough quarter. My question was on margins. So our presentation states that FOREX has been adverse on raw material, but at the same time it has been favorable for royalty, so can you just help us understand this?

Ajay Seth: So what happens is that normally you take the exchange rate with a quarter lag, so for general raw material, etc., the rates, which prevailed in quarter two would really be applicable for quarter three and therefore it was adverse. Royalty is reinstated at the end of the quarter, so in December, towards December when we reinstated liability of royalty the rates were better, then the rates prevailed on quarter two and, therefore, this difference between quarter two and quarter three.

Ashish Nigam: Okay. Also you can just tell us how were discounts during the quarter?

Ajay Seth: Discounts have, compared to last year discounts have been lower. Last year discounts were at 21,997, this year discounts are at 19,048. However, compared to quarter two discounts have gone up. In quarter two our average discounts were about 16,100.

Ashish Nigam: Yeah. So, this increase, I mean, quarter on quarter, I mean the product mix I can imagine was favorable because of the Baleno and the Brezza where there were no discounts. So the increase was a December phenomenon or something more because of demonetization, just to understand that?

Ajay Seth: No, it's a combination. I think always discount tends to be higher in December because you have a pull towards, both wholesale and retail sales in December so, therefore, there are various schemes that you announce during the end of the year, so discounts – as I mentioned to you even last year discounts were pretty high in this quarter, 21,000, but discounts tends to be high in the third quarter because of the year end phenomenon.

Ashish Nigam: Okay. Just lastly, the royalty rate for the quarter and on a related note is the royalty on the Ignis in Rupee or in Yen?

Ajay Seth: Royalty rates for the quarter were at 5.5%.

- Ashish Nigam:** And the royalty on the Ignis is it in Rupees or in Yen?
- Ajay Seth:** The royalty in Ignis will be based on the formula that we had mentioned earlier.
- Ashish Nigam:** Okay. Thanks a lot.
- Moderator:** Thank you, sir. The next question comes from Mr. Pramod Kumar from Goldman Sachs. Please go ahead.
- Pramod Kumar:** Yeah. Thank you for the opportunity, sir. And continuing with the FOREX discussion I just want to understand what else has been at play? You said that FOREX had an adverse effect on the raw material side and do you see that kind of reversing as the quarter rolls forward and also on the commodity inflation side as to how has been the quarter and how much inflation have we seen in this quarter itself and what is the outlook on the commodity side?
- Ajay Seth:** Commodities have been climbing up; I think especially there has been increase in the steel prices over last year. The first quarter also we saw some increase in steel but it's more evident in the second half; so first half was not as much as we see now in the second half. Steel has been going up, some of the other metals have also started climbing up, especially commodities like zinc, etc., have seen an uptake, some precious metals have also started seeing uptake. So there is an increasing trend in commodities; however, whether they will remain here or they will go up, we will have to closely watch because some of these positions were building up with a stance of where, you know, what US unfolds over a period and, therefore, people were taking positions. So we will get to know in the next couple of months, the direction of commodities.
- But generally commodities are now not static as they were last year, they are actually looking up and we have seen this impact this year. I think the commodity impact from last year to this year would be about 110 basis points roughly and FOREX of last year was very moderate, so Yen last year was average 0.54 or thereabout and has since been climbing and if you were to look at quarter two it went up to 0.65 and now it has cooled down a little bit, close to 0.60, but I think impact of exchange also has been significant between last year and this year, which we will see in our variation on account of material cost to net sales, which is offset largely with the cost reduction programs.
- Pramod Kumar:** Just, sorry to interrupt, but what is the quarter on quarter jump in commodity, you have said it is 110 points on a YoY basis, but what would be on a QoQ basis here?
- Ajay Seth:** On a QoQ basis, again, it would be about a similar number, about 1.1%.
- Pramod Kumar:** And how much of this have you recovered with the price increase taken in January? So I'm just trying to understand will you be able to pass through the entire burden to the customer and some bit of value engineering as well
- Ajay Seth:** Where is the price increase? We haven't talked about any price increase yet.
- Pramod Kumar:** Okay. So there is no price increase as of now beyond the registration and other regulatory-related charges at this point of time?
- Ajay Seth:** Not at the moment, no.
- Pramod Kumar:** Not at the moment. But that's a bit puzzling because demand has been strong, as you said, as chairman sir mentioned in the media that inventory is down to 34,000 at the end of December at the channel level and I believe planned level inventory is also not much, so I'm just wondering, what is the thinking behind holding on to the price increase, normally you are done with the price increase in the start of January?

Rahul Bharti: Pramod, there are a number of factors that we have to see when we look at the pricing. So even on demand we have to take a larger perspective, we have to look at competition, we have to look at the fact that more capacity may come in very soon, so it's a combined call on several factors.

Pramod Kumar: Okay. And just coming back to the raw material movement, because you had a mixed improvement on a sequential basis where Baleno and Brezza did very well and, of course, discounting normally will reduce in the March quarter, does it mean that FOREX can kind of give you some cushion, which in a way offsets the commodity pressure?

Ajay Seth: FOREX, did you say FOREX can be a cushion?

Pramod Kumar: Yeah, can FOREX incrementally as - assuming that Yen doesn't strengthen dramatically from the current levels.

Ajay Seth: So to the extent Yen depreciates against the dollar and rates improve definitely, it will give us some cushion moving forward. If it continues to be where it is now, 114-115 levels, and rupee stays stable, then yes there will some cushion, which will be available moving forward.

Pramod Kumar: Okay. Sir, my final question pertains to demand environment because we're seeing a bit of, what do you say, difference in the way the two-wheeler segment is reacting and the car segment is reacting and if I'm not wrong based on the media reports or statements given by Maruti executives in the media, even rural demand has kind of come back for you, but in two-wheelers the industry captains are still talking about demand normalization only by March. So I just want to understand what are you reading, what's your reading on the rural demand, especially was it more of a pent up demand coming back or is it even in January you're continuing to see rural demand being fairly resilient?

Rahul Bharti: For us rural recovery is almost similar to urban, so we don't see any change in the two segments.

Pramod Kumar: Okay. And, Rahul san, continuing with that, does that in a way also gets affected by part of the spread of the government employees, because government segment has been fairly robust for everyone, does the rural resilience kind of also include some bit of the presence of the government employee outside of the top 100 cities, so is that also a factor?

Rahul Bharti: Government employees in the rural areas are included in rural sales and you're right the government employee segment has seen a good growth in sales, so whether that's a factor or not it's difficult to say.

Pramod Kumar: And just to quantify how much would be rural as a percent of the portfolio now and how much would be government employees as a percentage of your sales at this point of time?

Rahul Bharti: Since the growth of the smaller towns and cities, it has become an integrated market and we are seeing a kind of convergence in the habits of the rural buying behavior and, say, middle town behavior so we no longer differentiate on rural and urban in terms of quantitative parameters and government sales constitutes about 20% of our sales.

Pramod Kumar: Thanks a lot and best of luck.

Moderator: Thank you, sir. The next question comes from Mr. Aryn Pirani from Deutsche Bank. Please go ahead.

Amyr Pirani: Good afternoon, sir. Thanks for the opportunity. Sir, my first question is on the Gujarat capacity. Since this first line is going to be around 250,000 capacity, just wanted to clarify is this the entire capacity, which will be available to us in FY18 or will we achieve this capacity, you know, as an exit rate by the end of next year?

Rahul Bharti: The second is true. This is the stable level capacity and there is a ramp up involved, the ramp up may take something like six months.

Amyr Pirani: Okay. Fair enough. That's helpful. Secondly, just on the demonetization and the recovery that we have seen, so just wanted to get a sense so are you trying to say that there was a significant fall in enquires and then we have recovered from there or now are you starting to see a growth on a YoY basis also in terms of enquiries and new bookings?

Rahul Bharti: See, November clearly there was a decline in most parameters because, immediately there is a sense of uncertainty, there's a sense of confusion, people do not have cash, so that was expected. December habitually has been a high month over the years for several reasons, so it is difficult to draw any conclusion from December and we are in January and the January monthly results are yet to be out, but we are optimistic that India will come back, so we need some more time to elapse and some more data before we can give out some figures.

Amyr Pirani: Fair enough. And could you just give out the export revenue number for the quarter?

Rahul Bharti: We will give it to you in some time.

Amyr Pirani: Okay.

Moderator: Thank you, sir. The next question comes from Mr. Yogesh Agrawal from HSBC. Please go ahead.

Yogesh Agrawal: Yeah. Hi. Just two questions. Can you talk a little bit about True Value performance since demonetization, has it been helpful because unorganized sector has moved to True Value helping new car sales or has it been tough, so any views on that?

Rahul Bharti: See, there are some things distinct about True Value. One, the rates of interest at which they get finance are slightly higher, therefore, finance penetration is also lower, so to some extent it is more exposed to demonetization than the usual new car sales. Secondly, some part of the value chain, we have brokers also and brokers are essentially traders, so to some extent the impact – we did see some impact in November, but gradually I think True Values sales are coming back

Yogesh Agrawal: Okay. And, sir, just on the commodities impact, you mentioned 110 basis point sequential impact, so if the commodity prices remain where they are, is there a similar impact, which is still pending for fourth quarter, just stand-alone commodities?

Ajay Seth: So if there is any further increase there will be adjustments that we will have to give on commodities, which are being finalized, there could be some impact because some of the commodities have actually looked up, so there could be some small impact that you can see, but I think the bulk of the impact on account of steel has been captured, which is visible in the third quarter, but there could be a small impact that you can see further because commodities haven't got stable, they have been fluctuating.

Yogesh Agrawal: Okay. But the bulk has come already in the third quarter?

Ajay Seth: Yeah, that's right. Steel impact has come in third quarter.

- Yogesh Agrawal:** Oh, that's great. Okay. That's all for me. Thank you, sir.
- Moderator:** Thank you, sir. The next question comes from Mr. Jinesh Gandhi from MOSL Securities. Please go ahead.
- Jinesh Gandhi:** Hi, sir. Just to clarify this commodity 110 basis point increases, which you indicated is reflected in 3Q?
- Ajay Seth:** Yeah, that's right.
- Jinesh Gandhi:** Okay. Sir, coming to the waiting period for Baleno, Brezza and Ignis, how it would be and what's the order backlog for Ignis now?
- Nikhil Vyas:** Baleno is about 24 weeks, Brezza is around 18 weeks and Ignis is about 8 to 10 weeks.
- Jinesh Gandhi:** Okay And in this quarter we saw other income reducing quite substantially on quarter on quarter basis, is there any impact of, is there any one-off in that or...?
- Ajay Seth:** No, no. Last quarter and second quarter I think there was a lot of fair value gains since the interest rate had fallen significantly between the two quarters and therefore there was a huge amount of capital gain that accrued, I think almost close to about 400 crores of capital gains had accrued, whereas in this quarter there are some capital gains, but not as significant as the second quarter. In a normalized situation we would be accruing about 150 crores of income a month as a non-operating income on the investments that we hold. So if there is anything on top of it is the fair value gain on account of interest rate movement that you see during quarters. The last quarter was very steep. This quarter also there has been some movement, but not as steep as quarter two.
- Jinesh Gandhi:** Right. Understood. And, sir, last question pertains to the CAPEX plans, what's our CAPEX plan for FY17 and how much we have already spent?
- Ajay Seth:** CAPEX plan this year is about 3500 crores and we are on the course of spending this money, bulk of it has already been spent and I think we're left with a small portion that will be spent during the course of the year.
- Jinesh Gandhi:** Okay. And for FY18 have we finalized the plan?
- Ajay Seth:** Yeah, the budget is being prepared now.
- Jinesh Gandhi:** Okay. And on the Gujarat phase two has work started at our end....planning?
- Rahul Bharti:** It lies with Suzuki Motor Gujarat. They have announced their plans, so work will also start accordingly.
- Jinesh Gandhi:** Okay. Any timeline, which they have indicated?
- Ajay Seth:** I think the dates are being worked out, so we can't give you any date as of now. We will come back to you on that as we hear from the them.
- Jinesh Gandhi:** Okay, sir. Thanks and all the best.
- Moderator:** Thank you, sir. The next question comes from Mr. Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Congratulations on a good set of numbers, sir. In light of demonetization can you please share 3Q performance for first time replacement, additional car buyers and secondly for private and commercial buyers?

Rahul Bharti: See, what we have seen is that there has been some increase in the first-time buyer and to some extent the trading, the small-time businessman that segment of consumers have been affected and some increase in government employee purchases.

Raghu Nandan: ...and sir, how is the trend with private and commercial or taxi buyers?

Rahul Bharti: See, there are some models, which are bought for commercial purposes, but they may not be taxi. For example, if there is a shopkeeper who runs a small shop, he might need to carry both his family and some items for his business. So that segment was affected to some extent. We have not seen any conscious reduction in taxi segment.

Raghu Nandan: Sure sir. Can you please share the monthly production capacity for IGNIS?

Rahul Bharti: We don't have any such figure, production is generally fungible, so it is model agnostic.

Raghu Nandan: And sir, like, the CAPEX of 3500 crore, can you give a broad breakup?

Ajay Seth: See, it is largely divided between new model introduction, R&D spend and marketing infrastructure that we have talked about earlier. It is between these three categories. A large portion of it will be on the new model introduction and then between marketing, R&D, and the annual maintenance CAPEX.

Raghu Nandan: Understood Sir. Is there a thought process to bring out hybrid versions of petrol vehicles or RS versions of the existing models?

Rahul Bharti: See, hybridization is one phenomenon that Maruti would like to push forward in India, but which models, with what configuration, those decisions we have to take.

Raghu Nandan: And lastly, there is a media interview by management where Mr. Bhargava mentioned that taxis would overtake private car sales, so would taxi purchases offset the fall in private car sales? How are you looking at the shared mobility progress?

Rahul Bharti: See, shared mobility is a good concept that we would like to welcome in India. It has several advantages and we are partnering with some of these aggregator companies for e.g. we are training their drivers, etc. As of now we don't see that this might have an impact on personal car ownership. So, I think, there is a lot of space for both segments to grow in India.

Raghu Nandan: Thank you sir. This was very helpful.

Moderator: Thank you sir. Sir, the next question comes from Mr. Govind Chellappa from Jefferies. Please go ahead.

Govind Chellappa: Yeah hi. I have few questions. The first, I would like to understand your royalty accounting. If I recall right, you pay royalty twice a year, on mid-November and mid-May. And there had been a significant move in JPY between September 30th and November 15th assuming that is when you pay. So whatever gains or losses that you actually accrue because of the difference in timing of payment versus when you would actually account in for the payable; would that be accounted in the other expenses?

Pradeep Garg: It depends on the September end liability rate versus rate prevailing on payment date and a combination of hedges that we carry.

Ajay Seth: When you make payment of royalty, then any hedge that you have taken on will get adjusted in the other expenses or income as the case may be depending on either you have made a profit on that or loss on that.

Govind Chellappa: Okay. And is the hedged portion usually very high?

Ajay Seth: It is. So when you are closer to your royalty, you are almost fully hedged for your royalty. Therefore the answer to your question is that most of the hedges for royalty are taken by that time. So, as we have always said, that we work on the principle of 1/3rd exposure cover, so all these would have got covered in that duration of time. So when you reach November, you are actually fully hedged for your exposure.

Govind Chellappa: Okay. Second, I wanted to understand, for your sales, typically what proportion of the sales is salaried employees.

Rahul Bharti: About mid-40s.

Govind Chellappa: And will this be very different from rest of the market?

Rahul Bharti: Can't be sure, but I think for premium cars, more businessmen would own such cars.

Govind Chellappa: And last question, was there any big change in the proportion of cars that were financed in the third quarter, compared to usual run rate you see, and was there a big change in the LTV?

Rahul Bharti: We pursued with several banks if they can increase the LTV, but they have done it in a highly calibrated manner for customers of deserving credit profiles.

Govind Chellappa: Okay, so would the average LTV have gone up?

Rahul Bharti: To some extent, yes. I mean, some cases where the credit profile of some consumer segments was excellent, it went up to theoretically 100%.

Govind Chellappa: Okay, thank you.

Moderator: Next question comes from Mr. Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: Sir, hi sir. Sir, just wanted to get if you have a number on financing mix, how has it changed between Q2 and Q3 or where is it currently? Is there any significant change post demonetization?

Rahul Bharti: See, let us understand, the number of cars sold on finance in Maruti is approximately 80%. Now, the balance 20% means that people are buying via other formal banking channels; it does not necessarily mean cash. There is a very small percentage which happens on cash. So there has not been any significant change in this.

Kapil Singh: Okay. And secondly wanted to check government employee mix, you said it is 20%. How much was it last year?

Rahul Bharti: About 17%.

Kapil Singh: Okay. So we are seeing a benefit of the pay commission flowing through. And my last question is on Gujarat plant...

Rahul Bharti: And some reach out efforts.

Kapil Singh: Yeah, absolutely, I mean, definitely. In terms of footfalls are we now back to the levels that we were seeing before demonetization, in terms of growth rates or absolute numbers?

Rahul Bharti: It is slightly premature to share this, because November and December both were months that we cannot extrapolate. So, let us complete January or may be the fourth quarter, we will have a better idea. But we have the optimism that things will be better.

Kapil Singh: Okay. Any guidance you have on Gujarat plant, what kind of impact it would have on costs or which line items you see at least initially and then when it is running at full utilization, should we expect it to be more profitable because it is a new plant and better operating leverage or how do you think about it?

Ajay Seth: Kapil, we are now compiling all the information, because we are working on the budget for the next year, and we are compiling all the information on our plants and Gujarat as well; in terms of how over the next one year, in future costs may shape up. We are yet to get full results. So we will come back to you once we have compiled full information and I think we will make proper communication to you in terms of Gujarat plant and its impact moving forward.

Kapil Singh: Okay sir, thanks. That will be all from my side. Thank you.

Rahul Bharti: Thank you.

Moderator: The next question comes from Mr. Deepak Jain from IDFC Securities. Please go ahead.

Deepak Jain: Quick things, one, in terms of A&P, how have they moved in this quarter, because I think you mentioned that they have come out on a YOY basis, so is it basically the discounting that is coming off or has actual advertisement expenses come off on a YOY basis? That was one. The second question I had was on the IGNIS; the price point is pretty similar to Swift, so by whatever bookings you have received till now, is the customers typically a Swift customer who is shifting to the IGNIS or would it be a different customer?

Ajay Seth: So, spend on advertisement this quarter compared to last year same quarter has been lower. Not so much, marginally lower. Although discounts, as we mentioned earlier, discounts have been lower by about Rs.3000 per car, and advertisement spend also is lower by about 25 crores in this quarter compared to last year. So, I think, there is a reduction both in the spend on sales promotion and advertisement spend.

Deepak Jain: Okay. So that has to do more with the timing of the product launches and things like that or...

Ajay Seth: Yeah, it largely depends on the timing of product launches, and special campaigns that we run, which may vary in terms of quarters, sometimes it is in a particular quarter, and sometimes it gets into fourth quarter and so on. So it is basically timing issue. I think, as we have mentioned earlier that our spend on marketing will continue to be high because we are purposely kind of making our presence felt in all products, brand etc., and last couple of years we have had very focused concentration on marketing spend and the activities that we have carried out, which also shows good results in terms of market share gain etc.

Deepak Jain: So as a percentage of sales how much would that be roughly?

Ajay Seth: We are about 2.6 now, and it could marginally be higher moving forward.

Deepak Jain: Second question I had was on the IGNIS, you know, from the initial bookings that you have received, who have been the customers for IGNIS, is it the same person who was probably planning to buy a Swift or is it a completely different customer set. I know it is initial days, but from whatever bookings you have received and the customer profiles that you are looking at right now.

Rahul Bharti: Okay. See, we have mentioned in the IGNIS communication, it is none of a kind. And they are being sold through different channel. Swift is positioned on performance with style and IGNIS is style with performance. For Ignis, we are looking at the millennials as the new consumer segment, as the target audience, they are about 18 to 25 years of age, the ambitious Indian who desires to make a difference and who really value experience as a driver in their life, they want to be distinct, they are early adopters of technology, and they believe in co creating brands or products.

Deepak Jain: So, that's the part that you were trying to market, has that actually, I mean, by what you have seen is that what the target customer have been achieving, I mean, have you got those target customers or is it..

Rahul Bharti: We have got it.

Deepak Jain: Okay, thank you so much.

Moderator: Thank you sir. The next question comes from Mr. Sonal Gupta, please go ahead.

Sonal Gupta: Sir, just one question, just to understand the model-related CAPEX even for the Gujarat plant will remain with us, right?

Ajay Seth: So I mentioned to you that bulk of the CAPEX is actually model-related and then there are other CAPEX. So about 1800 crores, out of the 3500 crores that we mentioned would be relating to models... that's the question you asked?or was it something else.

Sonal Gupta: No, what I was trying to clarify is for the Gujarat plant, which would be done by Suzuki, there also the model-related CAPEX will be still done by us?

Ajay Seth: No, the models that will be made out here will be done by us, the models that will be made out of Gujarat, will be done by them. So these are specifically the models that we have been making or will be making. So it is very clear that all CAPEX related to Gujarat with respect to various elements would be done by Gujarat, because that plant would be responsible for their portion of CAPEX.

Sonal Gupta: So all the CAPEX, even for the model introductions, which is fairly common...

Ajay Seth: Actually all CAPEX related to models and any other investment would be done by them.

Sonal Gupta: So, as Gujarat sort of keeps on expanding going forward, then our CAPEX should not really go up going forward, right? Because we will just be doing maintenance and whatever, the existing levels...

Ajay Seth: There will be more models made out of the current plants. We will be doing more changes, new model introductions here as well. So there will be obviously a combination of new models introduced here and new models introduced there. So we will have our share of CAPEX on the new models plus, I think...you should clearly remember that we have mentioned, we will be sprucing up our marketing infrastructure. So there will be a fair amount of CAPEX there. And third is, both our plants

now, Manesar and Gurgaon have become very old, especially Gurgaon is over 30 years and Manesar also now, over 12 years, so we will have a fair amount of annual maintenance CAPEX to be incurred there as well.

Sonal Gupta: Right sir, got you. And just on the royalty, I mean, sir just to clarify. The 5-1/2%, if the currency stays here, is that the rate that we can expect going forward as well, in Q4.

Rahul Bharti: Yes, that's right. I think if there is no movement in currency and model mix also doesn't move, you should see this rate to be stable rate.

Sonal Gupta: Okay sir. Great, thank you so much for clarifying.

Moderator: Sir, the next question comes from Mr. Jinesh Gandhi from MOSL Securities, please go ahead sir.

Jinesh Gandhi: Hello? Yes, my question pertains to the staff cost increase, which has happened in this quarter. Is there anything seasonal in this or this is more sustainable number?

Ajay Seth: Are you comparing it with the second quarter or what are you comparing it with?

Jinesh Gandhi: Both YOY and QOQ, there is almost 23% to 25% kind of increase.

Ajay Seth: So YOY increase is largely the normal increments etc. that is given to the employees and the increase in number of manpower and also the other staff welfare-related expenses in terms of expenditure associated with the employees. So, I think, it is on that count. Q2 to Q3 you may find little bit of added increase because there is...write back we had of about 100 crores in Q2 on account of certain excess provision that we had, so to that extent there could be a one off in Q2 which is now kind of regularized in Q3. So Q3 is normal 3.5, 3.6 to 3.7, that's the one you see as employee cost.

Jinesh Gandhi: Okay, 2Q had...

Ajay Seth: Yeah 2Q had one, one off of about 100 crores.

Jinesh Gandhi: Right. And sir you indicated about higher maintenance CAPEX for both our existing plants. Would you be able to indicate what would be the maintenance CAPEX of these 3500 crores?

Ajay Seth: No, this year, I think, the maintenance CAPEX would be about 700, 800 crores. My point was that moving forward the maintenance CAPEX is going to go up, because we may now require to do a lot of refurbishing of a lot of old machineries that we have, so to that extent the CAPEX in next few years may go up.

Jinesh Gandhi: Okay. And when you are indicating CAPEX for model introduction from Gujarat plant will be done by Suzuki that primarily you are referring to tools and dies and such things, which should be invested at plant level.

Ajay Seth: Everything to do with model introduction. It starts with tools and dies and it is also the entire line expenditure etc. that you incur, the machining, etc., all will be done by them.

Jinesh Gandhi: Okay, understood. Okay sir, thanks and all the best.

Moderator: Thank you sir. Sir the next question comes from Ms. Deepika from JP Morgan. Please go ahead.

Deepika: Thanks for the opportunity. Given that IGNIS has already received a good response and you all already have an order backlog, which particular models you think you all will be scaling back given the capacity constraints at this point?

Rahul Bharti: Sorry, didn't get your question please?

Deepika: So, given that for IGNIS you already have an order backlog, which other models you may be scaling back a little bit because you have capacity constraints until Gujarat comes up?

Rahul Bharti: See, Gujarat is almost round the corner. So, commercial production will start this quarter. We don't want to scale back any of our models.

Deepika: Okay. And secondly in this quarter itself Q-on-Q if you compare, the realizations have gone up irrespective of the slightly higher discounting. What I wanted to understand is that going into the next quarter; would you see realizations continue to improve quarter-on-quarter because of IGNIS launch as well?

Ajay Seth: No, I think you have seen full impact of the mix now, because we had launched Brezza and Baleno this year and end of last year respectively. So the impact is now being captured fully. So, mix is going to remain pretty much the same as now, fourth quarter. There could be marginal change in realization, but not as steep as you have seen during the first three quarters.

Deepika: Okay. And sir my last question is, if you could talk little bit about the new model pipeline for the next year?

Rahul Bharti: We always like to surprise our customers and our investors and analysts positively. But broadly what we have committed to India is, at least one new model every year and refreshment of the existing portfolio also. So let's hope we have lots of positive surprises in the future.

Deepika: Okay, thank you so much.

Moderator: Thank you ma'am and that will be the last question for the day. I now would like to hand over the floor to Mr. Sonal Gupta for closing comments. Please go ahead sir.

Sonal Gupta: On behalf of UBS Securities, I would like to thank the senior Rahul Bharti team from Maruti Suzuki for taking the time out to discuss the results and answer all our questions. Thanks and thanks everyone. Have a good evening. Thank you.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.