MARUTI SUZUKI

Way of Life!

Q3FY19 and 9MFY19 Investor Conference Call

January 25, 2019

Moderator: Ladies and gentlemen good day and welcome to the Maruti Suzuki India Limited Q3 FY19 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Vyas. Thank you and over to you, sir.

Nikhil Vyas: Thank you Rayo. Ladies and gentlemen, good afternoon once again. May I introduce you to the management team from Maruti Suzuki. Today we have with us our CFO - Mr. Ajay Seth, Senior Executive Director (Marketing and Sales) - Mr. R.S. Kalsi, Executive Director (Corporate Planning) - Mr. A. K. Tomer, Senior Vice President (Finance) - Mr. Pradeep Garg, Vice President (Corporate Planning) - Mr. Rahul Bharti and Vice President (Finance) - Mr. Sanjay Mathur.

The con-call will begin with a 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 statement that has to be understood in conjunction with the uncertainty and the risks that the company faces. I 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: Thank you Nikhil. Good afternoon ladies and gentlemen. You may be aware that Quarter three have been an unusually tough quarter for the industry. The results of this quarter have to be viewed in the context of particularly weak market conditions. While SIAM had forecasted a passenger vehicle domestic market growth of 8~10% for the year, Industry could grow by 4.4% in the first 3 quarters of the year and declined in the third quarter by 0.8%. The Company grew by 7.2% in the first three quarters and by 0.4% in the third quarter in unit wholesales. In addition, the Company helped dealers retail about 90,000 vehicles in excess of wholesale to keep dealer inventories lean as the festive season sales growth was below expectation.

Volumes were affected not only due to weak domestic market conditions but also due to issues faced by export markets. Automobile business is highly capital and labor intensive and volume plays a critical role especially in a growing market where the business planning is expansion oriented. When the business planning is done assuming some growth, all growth enabling expenditures increase proportionately. If due to reversal in market demand, the volume does not grow, the impact of increased expenditure is visible in financial performance.

Besides weak market conditions, this quarter was also marked by several other adverse factors. The commodity prices and foreign exchange movement were also adverse during the quarter.

During the quarter the Company sold 428,643 units, lower by 0.6%. The Company registered Net Sales of Rs 189,264 million, lower by 0.1% over the same period previous year. The combined effect of decline in volume, higher sales promotion expenses, adverse foreign exchange movement and commodity prices impacted the profits for the quarter. Cost reduction and higher non-operating income could partially off-set the negative impact. Net profit stood at Rs 14,893 million, lower by 17%.

While Q3FY19 was an exceptionally challenging quarter for us, it will be our constant endeavor to enhance sales and improve productivity and efficiency in the future. The company has launched two new models, Ertiga and WagonR to create excitement in the market and bring volume growth. Both these models have been received well in the market. Ertiga has been in waiting list since its launch. The Company also announced price increase across models to pass-on some cost impact. We can now take your questions, feedback and any other observations that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: If you can throw some light on the recurring and the non-recurring nature of expenses related to the Forex side or rather whatever is the Forex related expenses which is pertaining to the previous quarter which you have accounted for in this quarter as part of the royalty payout or as part of the vendor settlement that will be the first question.

Ajay Seth: There is only one exception that I see in this quarter that we had to make certain provisions for leave encashment and retiral benefits because we have done a resettlement and that has an impact on the past services as well so there was a provision made on that account which is about 48 crores. So that's the only item of exception that I see in this quarter.

Pramod Kumar: And Forex related adjustment pertained to previous quarter on account of…

Ajay Seth: No, they were virtually negligible.

Moderator: The next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: This Q-o-Q margins fall of 500 bps can you quantify how much is commodity, how much is currency, what is the discount and how much would be operating deleverage?

Pradeep Garg: If you compare it with Q2 you find that net sales have come down so other expenditure if you see on absolute value it is down by 100 crores as compared to Q2 but as a percentage of net sales you'll find it up by 1.5% due to lower volume. Other than that commodities compared to year-on-year had an impact of about 300 crores and effect of foreign-exchange will be roughly about 0.7% on the margins.

Ashish Nigam: And which of these cost pressures reverse in Q4 or Q1, so firstly what's the price hike we have taken early Jan and does that cover at least part of this 500 bps margin fall?

Ajay Seth: There will be combination of factors next quarter. One of course the price increase that we have taken will help us in Q4. We also are seeing that the commodity trend is now reversing a little bit so we may see some respite in advantage coming out of that. Discounts this quarter were also all-time high so I think we will be at lower discounts compared to where we were in the last quarter. So I think combination of all these factors would definitely help us moving forward in terms of where we are and where we will be.

Ashish Nigam: Yes, this is what I am saying, because you have typically worked in this 14% to 16% margin band, is there a rethink of that band?

Ajay Seth: As we said that this was an exceptional quarter and all the negatives came to us in this quarter. We had impact of foreign exchange, we had impact of commodities, we had also very high sales promotion because the retails were very high and therefore it's clearly visible on the whole sales. We also had—as I mentioned to you—some impact on the employee cost as we had one 1) wage resettlement done and 2) we had one time gratuity and leave encashment where we had made a provision of about 50 crores. So some of these impacts are reversible, some of these impacts will have to be seen in the light of external environment and market conditions.

Ashish Nigam: There is this one line in the presentation which says higher cost in resources and capacities which were earlier planned to enable higher estimated growth what does that mean? Is that the higher fixed cost at SMG or how do we see that?

Ajay Seth: I think the point that we are making here is that if you have planned certain growth and that does not happen your fixed cost does not change so therefore there is the operating leverage disadvantage that you have in that particular quarter.

Moderator: The next question is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

Amyn Pirani: My first question is the housekeeping one. Can you help us with the discount per vehicle number that you share every quarter?

Pradeep Garg: Discounts this quarter were about Rs. 24,300 per vehicle.

Amyn Pirani: Secondly just going back to the earlier question so when you're talking about high resources and higher fixed cost in expectation of higher volumes was it just a Quarter 3 temporary phenomenon or is it like that if volumes do not meaningfully improve those fixed cost pressures will continue to be seen in 4Q and next year as well?

Ajay Seth: As an organization we are very glued to the fact that in case if there are market pressures we need to very closely look at our cost and productivity. So if there is a need where we need to cut cost or improve productivity, we are simultaneously working on that, so if volumes increase it will give you the scale benefit. If for conditions of market it does not go up then we will work on our cost program in any case.

Amyn Pirani: Lastly the clarification, the discounts that you mentioned, the number that you mentioned that number is already netted off when you report net sales, is that understanding right?

Ajay Seth: That's right.

Amyn Pirani: So the other expense line which is also showing an increase in cost pressure that would have what kind of sales and distribution expenses that would have hit you if you can help us understand?

Pradeep Garg: As compared to Quarter 2 the figure is infact down by 100 crores. But you are saying year-on-year then one major reason as we have explained in earlier quarters is the freight expenditure and recovery. There is a 250 crores freight which is coming here and the recovery of which is coming in other operating income. So you have to see it in that context also.

Moderator: The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.

Kapil Singh: I wanted to check what are the demand conditions that you are seeing now compared to Q3. Is there some improvement and also some thoughts on new launch pipeline, discounting conditions as well?

R.S. Kalsi: I think market remains to be under pressure and a few streaks of optimism which we can see as of now is that one is that this being election year so maybe people would be little bit comfortable in terms of spending as MSP had gone up and monsoon had been good. So the benefits of that come over a period of time, that is one thing. Secondly fuel prices, they had peaked around September, gone up to Rs. 83 a liter and now they have started coming down. But at the same time again we see a little northward shift in those prices but still they are lower than what they had peaked at. So that is another line of optimism but overall pressure in the market continues. The good point is that we have launched Ertiga where we have good number of bookings and recently we have launched Wagor R as well which has got a very good response from customers. So with that in mind I think there is mixed kind of a scenario with little bit more towards optimism is what you can say.

Kapil Singh: Are you seeing positive growth right now in the market or it is still subdued?

R.S. Kalsi: Growth is still subdued.

Moderator: The next question is from the line of Raghu Nandan from Emkay Global. Please go ahead.

Raghu Nandan: Actually continuing the same query on the outlook side like for the full-year FY19 how do you see the growth expectation's now? And for FY20 do you think that double-digit growth is possible because there were some media interviews where management had indicated that double-digit growth might be difficult even in the next year?

R.S. Kalsi: Considering the current situation though we don't give any guidance on future numbers. The current scenario is that in the beginning of the year as Mr. Seth has mentioned that growth projection for the industry was around 8% and so far it has been only 4% and we are at (+) 7% so we will grow more than industry for this year. This kind of effect would continue for the fiscal year 18-19. However if we talk about 19-20 it will be little early to talk about it because we are yet to work on our numbers and put them forward for board approvals and all that. So all we can discuss is maybe the macroeconomic parameters in the year 19-20 and maybe try to draw some inferences where maybe you are as informed as we are here.

Raghu Nandan: Anything you can share on the export outlook? Is Indonesia has been a particularly weak market for Maruti.

Rahul Bharti: Yes. Indonesia in particular had stopped imports. They have started giving about some amount of volume licenses and the first such license has been received but exports in the next year maybe almost flat as compared to this year.

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

Jinesh Gandhi: My question pertains to first on staff cost; even if I adjust for this 48 crores of one-off there is almost 21% increase, so is that largely due to the wage renegotiation because considering that Gujarat plant staff cost would not be part of this so is this equation something one needs to look at going forward as well?

Pradeep Garg: Excluding the impact on account for actuarial valuation, the other impacts were on account of normal increments and normal items. Of course there is a variable pay provision which was made in Quarter 4 last year and this quarter we have made a provision corresponding to that and last year the impact had come in Quarter 4 so that is the only other item which in this quarter is additional here.

Jinesh Gandhi: You have indicated price increase in Jan so this would be what 1%-1.5% or lower than that as far as fourth quarter is concerned?

Ajay Seth: So that will be roughly about 70 basis points.

Jinesh Gandhi: Would this cost increase also cover for upcoming safety norms or that will need further price increases?

Ajay Seth: I think we will have to deal with this as and when we keep launching new models and we have a strategy of doing that. So we will unfold that as and when we launch these models.

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

Sonal Gupta: First housekeeping question, what is the royalty rate for this quarter?

Ajay Seth: 5.5%.

Sonal Gupta: And the export revenues are you sharing that?

Ajay Seth: 1158 crores.

Sonal Gupta: Just on the retail and the discounting when you are saying that you have 90,000 more retail in this quarter and given that when you are sharing the discount number, is this on a wholesale basis or is this on the retail? So in which case I'm saying that given the divergence between retail and wholesale have we seen a much larger impact as a result of that?

Ajay Seth: You are right I think because in the books the discounts will get amortized over the wholesale numbers but whereas actually we have done much high retails. So if you look at per vehicle in terms of retail it will be much lower.

Sonal Gupta: So this is on a wholesale basis, right?

Ajay Seth: That's right.

Sonal Gupta: And just could you help me with the number for what is the retail growth that you have seen on a year-on-year basis, for the year to date?

Rahul Bharti: 4.9%.

Sonal Gupta: I understand the discounting etc. but still on a sequential basis we have seen a very sharp increase in raw material cost to sales so even if I adjust for like roughly your discount per vehicle have increased on a quarter-on-quarter basis by Rs 5,500 which will give you like on your ASP roughly 140-150 basis points of increased discounts. But your raw material cost to sales have gone up by almost like (+300) basis points. So are rest of the impacts are on a sequential basis because of commodity and FX or how do we look at it?

Pradeep Garg: Sequential basis the impact is on account of change in base. If you see our net sales in Quarter 2 versus Quarter 3 and other expenditure has in fact come down as compared to Quarter 2 but since the net sales value is down there is an impact of 1.5% on the margins. Other than that its material cost to net sales.

Sonal Gupta: I'm asking about the material cost increase as a percentage of sales.

Pradeep Garg: There clearly it's on account of the discounts which we mentioned this quarter because discounts are also part of material cost to net sales and other impact is on account of commodities.

Moderator: The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: If you can help us understand this incremental 90,000 units that you have sold, across line items what could be the hit on the P&L because definitely your allocation is on lower number of units whereas your sales are actually far higher and if we have to look at a normalized number where your generally wholesale and retail matches what is the kind of reversal that we can see in margins because of this mathematic issue, is it possible to help? Because I think that is what people are trying to understand over here that other things being equal can we assume a 150 bps extraordinary impact because of this mismatch between wholesale and retail or that number could be slightly higher?

Pradeep Garg: What you should look at is what is the nine-month discount versus this quarter discount, if you look at the nine-month discount it's roughly about Rs.19,200. This quarter it's about 24,300 and you can draw your conclusions.

Chirag Shah: But similarly your other expenditure would have been higher because your promotional spends whatever you would have done would be for incremental 90,000 units also to clear the inventory in that front. So across the board what could be the one-off impact that we have seen in this quarter which is nonrecurring?

Ajay Seth: Some of these impacts that you are seeing, one of course is the discount that you saw, second is portion of advertisement which is linked to retail. That obviously will taper down in the subsequent quarter because now you are at a low inventory and your wholesale and retail matches then obviously these costs will come down.

Chirag Shah: And just a clarification, you indicated that higher other operating income is because of grossing up of entries, right? Freight cost is shown as a part of your expense also and as a part of your other operating income because we are seeing a consistent jump in other operating income.

Ajay Seth: That's the reason, yes.

Chirag Shah: So is it possible to quantify what is that grossing up amount which occurs…?

Pradeep Garg: For this quarter it is 250 crores.

Chirag Shah: So commodity cost, with the reversal, when can we start seeing the impact? tBecause there would be some lag effect in your contracts, so we can see the impact in Q4 itself or it could be slightly lagged?

Ajay Seth: We are discussing with suppliers to understand the impact now in Q4. But definitely a lot of commodities have softened but one important thing is in our case is that it always comes with a quarter lag. So we are hopeful that next year we might see relief in commodities but Quarter 4 we are still working out with suppliers to understand what is the quarter lag effect if any and will there be any softening or not.

Chirag Shah: And similarly the worst of the FX impact would have been accounted?

Ajay Seth: Yeah, this is something that you will have to watch on a regular basis. The moment yen-rupee is kind of stable but if there is any further rupee depreciation that can play worst for us.

Moderator: The next question is from the line of Ronak Sarda from Systematix Shares. Please go ahead.

Ronak Sarda: Again a clarification, the dealer support which we talked about on 90,000 units that amount is already part of the discount number, Rs 24,300 per vehicle right or there is some amount separately sitting in other expenses?

Ajay Seth: No, any discount that we have given on is already netted off from net sales.

Ronak Sarda: Second question was on your currency I mean have we accounted for the impact as rupee depreciated till $74-$74.50 so on the indirect import as well is that impact seen in this quarter numbers or you expect some more Forex related impact?

Ajay Seth: the impact of foreign exchange exposure on indirect imports comes with a quarter lag so what you are seeing in this quarter which is October to December would have been the impact of the previous quarter and now the rates that will be prevailing between September to December will apply between January to March. And we take a daily average of the exchange rates to arrive at a blended rate.

Ronak Sarda: Last question on your Ertiga and Wagon R, can you share the waiting period or the booking amount on booking numbers for these two models?

R.S. Kalsi: We have more than 55,000 bookings on Ertiga and waiting is around 28 weeks as of now. And on Wagon R in the first 10 days of launch itself we have got more than 14,000 bookings already.

Ronak Sarda: Any production constraint on Ertiga because I'm assuming demand being soft, the waiting period looks pretty high. What's the ramp-up plan here?

R.S. Kalsi: No there are no production constraints so we will regularly scale up the production. Only thing is there was some void in the marketplace when we were phasing out the old Ertiga so there were some customers during that phase who were waiting and of course new product has been very exciting so response has been very good on that front. We will be able to, scale upthe production numbers as well in due course of time.

Moderator: The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Firstly on the inventory levels, given that the retails sales have been higher than the wholesales, can you share are we meaningfully lower than the typical four week or five week that we manage? How would the inventory levels be at the dealer and now?

R.S. Kalsi: In December we came down to 15 days of inventory and the inventory buildup was primarily on account of lack luster festival season and our sound preparedness for festival season. That's traditionally what we do but this time because of that, the inventory buildup was there which was slightly unusual phenomenon not only for us but for entire industry, I suppose. But January we have started with lower inventories, 15 days.

Gunjan Prithyani: But in a normal case how much would you manage on a normal basis?

R.S. Kalsi: We would expect our dealers to carry an inventory from four weeks to five weeks of our average monthly sales.

Gunjan Prithyani: So this is how we should as we plan our wholesales going ahead depending upon the demand environment, the inventory levels should buildup in the channel?

R.S. Kalsi: Right.

Gunjan Prithyani: The second question is on the commencement of the new line at Gujarat. Now do we anticipate any big cost changes as this happens that starts to reflect from Q4 onwards particularly that the engine plant also has come on stream?

Ajay Seth: We have always said that till such time that we will have all the Gujarat plant with full capacity operational there will always be some fixed cost impact that will come in the quarter or the period till they achieve full capacity utilization. So there will always be some impact although now we have lot of experience after running the first plant and lot of cost optimization has been done there as well in terms of fixed cost. But yes the question that you are asking is right there will be some impact on account of the new plant on the fixed cost.

Gunjan Prithyani: On the product pipeline, now we have had two launches already. Now going into F20 we do have a big regulation change around BS6 and we will have to manage the inventory given the deadline for sales as well at April 20. So how do we approach the new model launches, do we see more launches coming through in FY20 or the focus is going to be around the transition to the new norms?

R.S. Kalsi: As far as new launches are concerned we do not give any future guidance. However as far as BSVI is concerned our strategy is in place. This introduction on various models would be in phased manner and we are very much aware of the fact that registration of these vehicles will stop after April 20. So we are planning our inventory and sales accordingly.

Moderator: The next question is from the line of Sahil Kedia from Merrill Lynch. Please go ahead.

Sahil Kedia: Just to clarify again on the question asked previously, the new capacity or the new line that is coming up and the localization of the Gujarat plant that was supposed to start in Jan, has that started?

Ajay Seth: A lot of work has gone into localization and I think we have achieved levels that we were aiming at. It will take maybe another year or so to have the higher levels.

Sahil Kedia: In terms of your demand trends that we have seen, are you seeing different trends when you look at urban and rural in terms of year to date performance and so on can you help us understand kind of what those markers have been?

R.S. Kalsi: If you want to know about the growth split between urban and rural I would like to say that urbanis growing more or less flat. The sales in the city side are under pressure. However rural markets are growing by 13% compared to flat sales in urban markets. At the same time I would also like to mention this point that dividing line between rural and urban is fast disappearing. The rural customers are becoming as aware of the products, technology, designs as their urban counterparts because of media, Internet. There are high end models, stylish models which are finding lot of acceptability among rural people. So dividing line between rural and urban is gradually becoming blurred.

Sahil Kedia: Your rural contribution is about that 30%-35%.

R.S. Kalsi: Currently it's around 39%.

Moderator: The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy: Could you give us the sales done from SMG this quarter versus the previous quarter?

Ajay Seth: This quarter it was about 58,000 vehicles, 2nd Quarter it was 67,000 units and 36,000 in Q3FY18

Jamshed Dadabhoy: Is it right to assume that the operating deleverage that happens from SMG also sits in now your material cost line?

Ajay Seth: Yes that's right.

Moderator: The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: First question pertains to the revised industry growth given the first nine months has been significantly off the mark compared to what SIAM was envisaging, where do you think the industry growth will settle for FY19?

Rahul Bharti: We are told of a figure of 4.5% from industry circles.

Pramod Kumar: And we expect to continue to outperform the industry?

R.S. Kalsi: Yes definitely.

Pramod Kumar: On the depreciation side, the line item seems to have surged a lot. Though I understand you are not doing a lot of physical CAPEX as such at this point of time apart from the R&D center, what explains this sharp jump on a sequential basis of almost 40 odd crores?

Ajay Seth: We have the implementation of certain plant machinery which happened in this quarter because of this the depreciation has gone up .

Pramod Kumar: Finally on the marketing expenditure per se when comes to ad spend and marketing; I don't know if I missed it because I got dropped, how was that trend in this quarter, in 3Q?

Ajay Seth: Sequentially the spend on marketing went up by about 78 crores.

Pramod Kumar: And lot of this would-be fairly back ended for December to kind of help the retail pick-up?

Ajay Seth: Some of it would be for that cost and most of it would be for the Ertiga launch.

Pramod Kumar: Finally on the consumer sentiment because given that festive season was weak but the demand responded very well with the 15% growth in December in terms of the retail to higher promotions, higher discounts. So how do you see the trend of customer walk-in, the enquiries because if you look at your Ertiga booking number they seem to be very-very encouraging. So I'm just trying to understand how do you see the consumer trend as in, in terms of whether is it just walk-ins which have dropped or is it the conversion of the final closure which is getting deferred, how do you read that situation?

R.S. Kalsi: There is a trend that whenever we launch a new model the bookings certainly increase so we got a good pipeline of bookings, particularly when we had launched the two models in the recent past. So bookings are good. However on the sentiment part the customer sentiment is impacted because the number of small-small factors - slightly hardening of interest rates, fuel prices going up, insurance he has to shell out close to Rs. 14,000-15,000 more for a vehicle. So all these factors put together are leading to a subdued sentiment.

Pramod Kumar: And enquiries sir, what is that rate now as in enquiry walk-ins?

R.S. Kalsi: Enquiries are fine.

Pramod Kumar: So it's just the demand closure which is getting deferred basically?

R.S. Kalsi: Right.

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

Sonal Gupta: Just to understand from a discount perspective, would you say that on year-on-year basis discounts are up quite sharply but your discount increase would be in line with what you've seen trend in the market and therefore to be competitive you had to be at this level because where I'm coming from if the overall market was subdued, would it not have been better in terms of its strategy to reduce the production and limit the amount of inventory rather than pushing inventory at a high discount. I'm just trying to get a sense on that.

Ajay Seth: I think discounts very turbulent across the industry and as Mr. Kalsi mentioned to you that festive season was actually very weak and then there was a huge buildup of the inventories. So, I think everybody's focus was to push the retails and when you are pushing retails you are bound to give higher discounts. In fact the competition discounts were even higher than what we were offering in the market place. So discounts were prevalent all across and they were high. In fact competition was even higher in some models' higher discounts in what we were offering.

R.S. Kalsi: Almost 50% more than what we were offering.

Sonal Gupta: We are still expecting to reach the target of 8% volume for this year?

Ajay Seth: Let's keep watching the market situation very closely. Our endeavor will be to do as much as we can but as Mr. Kalsi mentioned the demand still looks a little subdued. But, let's see in the next couple of months with the inventory levels that we have with our dealers, we will do our best to reach the target.

Moderator: The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Just wanted to understand your raw material cost contracts because earlier question was also asked on this. So if we net off, see a Q-on-Q movement in terms of discounts that explains only 130-140 business points of movement. But, this 160-170 business points impact because of commodity costs and last two quarters there is not much meaningful increase in steel prices. Actually steel price, aluminum price everything has declined. So failing to understand how your commodity costs contracts work basically. Can you just shed some light on that?

Rahul Bharti: Steel is mostly 6 monthly contract. Aluminum is on a monthly basis. But it often happens that in the market steel goes up and our negotiations happen slightly late so the impact of that is felt in subsequent quarters.

Hitesh Goel: Is there any impact because of dealer margins increasing, dealer you have given some extra incentives to dealer to push sales in this quarter which may not occur which is one of in that sense which is not in part of your discount?

Ajay Seth: Let me explain this in totality so that you are all clear in terms of what the impacts are sequentially Q2 to Q3. Sales promotion expense which is 1%. When I'm saying sales promotion they are discount, that's 1%. About 1% is on account of commodities and about 0.5% is on account of unfavorable exchange rate and about 0.3% is the inventory adjustments that happened between Q2 and Q3, the finish goods inventory. The impact of that which comes in the material cost is about 0.3%.

Hitesh Goel: And how the raw material cost ratio is now, we will not see the full impact of that in the fourth quarter now or it will happen only in the first quarter of FY19 because you have six monthly contracts on steel?

Ajay Seth: Fourth quarter we are still working out with the supply chain to understand if what will be the impact on the various commodities. Commodities have started softening except for maybe impact when it comes with the exchange rate on certain commodities like steel and all. But hopefully next year we should see some relief on commodities that's our understanding so far as the commodities have shown some softness. But because of the fact that the commodity compensation is done at a quarter lag so we will have to see what impact will be there in Q4 for commodities with the rates prevalent in quarter 3.

Hitesh Goel: When you are talking about these 15 days of a dealer inventory at the end of December, you are taking December wholesale or retail number to compute this inventory? How is this 15 days computed?

Rahul Bharti: 15 days of our average monthly sales.

Hitesh Goel: This is retail, average retail sales between April to December?

Rahul Bharti: Wholesale.

Moderator: The next question is from the line of Rajan from Heads Wealth Management. Please go ahead.

Rajan: I just want to ask will there be any change in royalty rates going ahead as and when new models are launched?

Ajay Seth: We have said that, all new models as and when they are launched, they will move from the old yen-based basis to rupee formula. So, model that we have no now recently launched Wagon R would also now go into that rupee formula. We already have I think now a sizeable number of models where royalty is INR based. These are Ignis, Dzire, Swift, Brezza, Ertiga and Wagon R. By 2022 we will have all the models moving to the new formula.

Rajan: Any forecast on the rate like how will the royalty rate be like in 2022?

Ajay Seth: That will be a combination of the factors in terms of mix, in terms of various other things. So I think good part of it would be that a significant amount of Forex movement that we see is one reason is also because of the royalty. So I think that will go away and therefore the impact on account of fluctuation in foreign exchange would to that extent be much less.

Moderator: Thank you very much. Due to time constraint, we will take that as a last question. I would now like to hand the conference back to the management team for closing comments.

Rahul Bharti: Thanks to all our investors and analysts. Thank you.

Moderator: Thank you very much. On the behalf of Maruti Suzuki India Limited that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.